

Quarterly Financial Report of

TRANSPORT CANADA

(Unaudited)

For the quarter ended June 30, 2012

Transport Canada Quarterly Financial Report

Statement outlining results, risks and significant changes in operations, personnel and program *For the Quarter ended June 30, 2012*

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1. Introduction

This quarterly financial report has been prepared by management as required by [section 65.1 of the *Financial Administration Act*](#) and in the form and manner prescribed by [Treasury Board Accounting Standard 1.3](#). The quarterly report should be read in conjunction with the Main Estimates and Supplementary Estimates (A), as well as *Canada's Economic Action Plan 2012 (Budget 2012)*.

This quarterly report has not been subject to an external audit or review.

1.1 Authority, Mandate and Program Activities

A summary description of Transport Canada's program activities can be found in [Part II of the Main Estimates](#).

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes Transport Canada's spending authorities granted by Parliament and those used by the department consistent with the Main Estimates and Supplementary Estimates (A) for the 2012-2013 fiscal year. This quarterly report has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities.

The authority of Parliament is required before moneys can be spent by the Government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation in the form of statutory spending authority for specific purposes.

When Parliament is dissolved for the purposes of a general election, section 30 of the *Financial Administration Act* authorizes the Governor General, under certain conditions, to issue a special warrant authorizing the Government to withdraw funds from the Consolidated Revenue Fund. A special warrant is deemed to be an appropriation for the fiscal year in which it is issued.

Transport Canada uses the full accrual method of accounting to prepare and present its annual departmental financial statements that are part of the departmental performance reporting process and published in the Departmental Performance Report. However, the spending authorities voted by Parliament remain on an expenditure basis.

As part of the Parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1 preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, after the tabling of the Main Estimates on February 28, 2012. As a result the measures announced in the Budget 2012 could not be reflected in the 2012-13 Main Estimates.

In fiscal year 2012-2013, frozen allotments will be established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in Budget 2012. In future years, the changes to departmental authorities will be implemented through the Annual Reference Level Update, as approved by Treasury Board, and reflected in the subsequent Main Estimates tabled in Parliament.

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2. Highlights of Fiscal Quarter and Fiscal Year to Date (YTD) Results

2.1 Statement of Authorities

The statement attached at the end illustrates authorities used for the quarter as well as authorities used to date for both the current and previous fiscal year. Transport Canada's authorities available for use in 2012-2013 increased by approximately \$535 million when compared to the same quarter of the previous fiscal year, as summarized below:

Description of activity (in million of dollars)	Expenditures	Revenues	Net Expenditures
Vote 1 – Operating expenditures	9	(1)	8
Vote 5 – Capital expenditures	13	-	13
Vote 10 – Grants and contributions	533	-	533
Vote 17 – Forgiveness of Saint John Harbour Bridge Authority's Loans	(23)	-	(23)
Budgetary statutory authorities			
Employee benefit plan	(1)	-	(1)
Grants and contributions	1	-	1
Other statutory payments	4	-	4
Total Variance in authorities	536	(1)	535

Note: Totals may not add and may not agree with details provided elsewhere due to rounding.

2.1.1 Vote 1 –Net operating expenditures (increase of \$9M)

The variance is primarily a result of an increase in planned spending on the assessment, management and remediation of projects to be carried out under the Federal Contaminated Sites Action Plan (\$23 million), funding for the Next Generation of Clean Transportation Initiatives (\$19 million), offset by a reduction in planned spending resulting from the transfer to Shared Services Canada (\$22 million) and sunseting programs such as Health of the Oceans and Port Divestiture Fund (\$12 million).

By standard object, the increase in planned expenditures of \$8.9 million is largely reflected as an increase in planned expenditures of \$16.7 in professional services, offset by a decrease in planned expenditures of \$8.4 million in transportation and communications.

When compared to the previous year's first quarter, expenditures at the first quarter of 2012-2013 show a decrease of \$12.4 million which is primarily a result of a reduction of \$4 million in payments to resolve multiple cases of damage and other claims against the Crown, and decreases of \$2.8 million in transportation and communications, \$2.2 million in personnel costs, and \$1.7 million in professional and special services.

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2.1.2 Vote 5 – Capital expenditures (increase of \$13M)

The variance is primarily explained by an increase in the planned spending for the Ferry Services Contribution Program of \$9.7 million and the Detroit River International Crossing project of \$8.7 million, offset by a transfer of \$6.3 million to Shared Services Canada.

By standard object, the increase in planned expenditures includes an increase of \$23.7 million for the acquisition of machinery and equipment, offset by a decrease in planned expenditures of \$10.9 million for the acquisition of land, buildings and works.

When compared to the previous year's first quarter, Capital expenditures for the first quarter of 2012-2013 have increased by approximately \$1.3 million. The variation is largely related to a number of projects that were able to get underway without delay as tendering for the projects had started in the previous year.

2.1.3 Vote 10 – Grants and contributions (increase of \$533M)

The variance is largely due to increases in planned spending regarding the Gateways and Border Crossings Fund (\$649.8 million), the Regional and Remote Passenger Rail Services (\$16.1 million), the Ferry Services Contribution Program (\$15.5 million) and the Oshawa Harbor Port Consolidation Program (\$4.5 million), offset by decreases in planned spending for the Asia Pacific Gateway and Corridor Transportation Infrastructure Fund (\$134.5 million), the Airports Capital Assistance Program (\$12.5 million) and the Port Divestiture Fund (\$6.6 million).

When comparing the previous year's first quarter expenditures to the first quarter of 2012-2013, the variance is immaterial.

2.1.4 Vote 17 - Forgiveness of Saint John Harbour Bridge Authority's Loans (decrease of \$23M)

There is no planned amount for 2012-2013. The 2011-2012 Vote, amounting to \$22.6 million, to forgive loans relating to the Saint John Harbour Bridge Authority is not recurrent.

2.1.5 Other statutory payments (increase of \$4M)

The variance in the total authorities available for use is related to an increase in planned payments required for the capital portion of the statutory payment to the St. Lawrence Seaway Management Corporation of \$4 million reflecting significantly increased anticipated costs associated with maintaining the federally owned infrastructure.

The variance in year to date used authorities of \$15 million for 2012-2013 when compared to the previous year's year to date used authorities is explained mostly by a decrease in the statutory payment to the St. Lawrence Seaway Management Corporation.

2.2 Statement of Departmental Budgetary Expenditures by Standard Object

Transport Canada's total planned expenditures for 2012-2013 have increased by approximately \$536 million when compared to 2011-2012. Overall, total expenditures for the first quarter of 2012-2013 represent 11% of planned expenditures compared to 16% in 2011-2012.

○ Personnel

There was an increase of approximately \$6.1 million in the first quarter related to *Personnel* when comparing the planned expenditures to the previous year. The variance is largely attributed to an increase in funding of \$7.4 million for the Next Generation of Clean Transportation Initiatives, offset by other immaterial changes.

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2.2 Statement of Departmental Budgetary Expenditures by Standard Object (cont'd)

With respect to 2012-2013 year to date expenditures, the decrease of \$2.6 million, compared to the previous year's year to date expenditures, primarily results from the reduction of costs associated with the transfer of personnel to Shared Services Canada.

- **Transportation and communications**

Transportation and communications year to date expenditures have decreased by \$2.8 million compared to last year's first quarter. The decrease is mainly due to the transfer of telecommunications services to Shared Services Canada.

- **Professional and special services**

Professional and special services in the first quarter of 2012-2013 decreased by \$1.9 million when compared to the same quarter of the previous year. The difference is largely due to a reduction in spending for temporary help services, scientific and research services, and training and educational services.

- **Acquisitions of machinery and equipment**

Acquisitions of machinery and equipment increased by \$1.8 million when comparing year to date expenditures of the current year to the previous year. The increase is attributable to timing differences i.e. funds being spent earlier in the year.

- **Transfer payments**

See section 2.1.3.

- **Forgiveness of Loans (St-John Harbour Bridge Authority)**

Planned expenditures for the *Forgiveness of loans* for the Saint John Harbour Bridge Authority have decreased by \$22.6 million when compared to the previous year. This specific expenditure represents the amount recorded in 2011-2012 Public Accounts as a non-interest bearing loan to the Saint John Harbour Bridge Authority that was conditionally forgiven during the second quarter of 2011-2012. There is no planned amount for 2012-2013 as this expenditure is not recurrent.

- **Other subsidies and payments**

Payments regarding *Other subsidies and payments* decreased by approximately \$19 million when comparing year to date 2012-2013 to the previous year. The difference is largely due to decreases in the statutory payment to the St. Lawrence Seaway Management Corporation of \$15 million reflecting a decrease in costs associated with maintaining the federally owned infrastructure, and \$ 4 million decrease in payments to resolve multiple cases of damage and other claims against the Crown.

3. Risks and Uncertainties

Transport Canada's Report on Plans and Priorities identifies the current risk environment and the department's key risk areas to the achievement of its strategic outcomes. Within this context, specific financial risks relative to the first quarter include the following:

Budget 2010 announced that the operating budgets of departments would be frozen at their 2010-2011 levels for fiscal years 2011-2012 and 2012-2013. There is a risk that Transport Canada's capacity to address emerging financial pressures will decrease as a result of these cost containment measures. Transport Canada has implemented strategies to manage the operating budget freeze within the department, including expenditure restraint in discretionary spending and re-allocation of planned spending from lower to higher priorities.

4. Significant Changes in Relation to Operations, Personnel and Programs

There have been no significant changes in relation to operations, personnel and programs over the last quarter, except as described in section 2.1.

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5. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that will be implemented in order to refocus government and programs; make it easier for Canadians and business to deal with their government; and modernize and reduce the back office.

Transport Canada will achieve Budget 2012 savings of \$62.1 million by fiscal year 2014-15 through efficiency measures and program reductions that align resources to its core mandate, scaling back where the need is reduced; transforming how it works internally; and by consolidating and streamlining. With these changes Transport Canada will advance transformational changes, implement more efficient and lean administrative processes, and focus on core federal roles and priorities.

In the first year of implementation, Transport Canada will achieve savings of approximately \$37 million. Savings will increase to \$47 million in 2013-14 and will result in ongoing savings of \$62.1 million by 2014-15. These savings have yet to be incorporated into the Department's authorities.

Expenditures in the first quarter of 2012-2013 have decreased from the same period for last fiscal quarter partly as a result of Budget 2012 reductions.

Financial risks or uncertainties related to these savings are mitigated through Transport Canada's guiding principles as follows: minimize the impact on employees; ensure that core safety and security functions are not compromised; minimize impact on Canadians; focus on long-term benefits; improve internal processes and identify efficiencies; and focus on core functions which are in line with our mandate and our strategic outcome structure.

Other measures referenced in Budget 2012 include renewed spending of \$5.0 million for Health of the Oceans, \$16.1 million for Regional and Remote Passenger Rail, \$16.3 million for Port Divestiture Fund, \$3.5 million for Major Projects Management Office and new spending of \$5.2 million for Responsible Energy Development.

Approved by:

Original signed by

Yaprak Baltacıoğlu,
Deputy Minister
Ottawa, Canada

August 29, 2012

Original signed by

André Morency,
Chief Financial Officer
Ottawa, Canada

August 29, 2012

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Statement of Authorities (Unaudited)

(in thousands of dollars)	Fiscal year 2012-2013			Fiscal year 2011-2012		
	Total available for use for the year ending March 31, 2013 ^{*,**}	Used during the quarter ended June 30, 2012	Year-to-date used at quarter-end	Total available for use for the year ending March 31, 2012 [*]	Used during the quarter ended June 30, 2011	Year-to-date used at quarter-end
Vote 1 - Net operating expenditures	558,274	112,977	112,977	549,895	125,419	125,419
Vote 5 - Capital expenditures	107,973	3,659	3,659	95,157	2,328	2,328
Vote 10 - Grants and contributions	1,201,818	9,718	9,718	669,077	9,971	9,971
Vote 17 - Forgiveness of Saint John Harbour Bridge Authority's Loans	-	-	-	22,646	-	-
Budgetary statutory authorities						
Employee benefit plan	73,816	18,454	18,454	74,380	18,595	18,595
Grants and contributions	63,629	60,529	60,529	62,275	59,075	59,075
Other statutory payments	83,452	19,620	19,620	79,674	34,318	34,318
Total budgetary authorities	2,088,962	224,957	224,957	1,553,104	249,706	249,706
Non-budgetary authorities	-	-	-	-	-	-
Total authorities	2,088,962	224,957	224,957	1,553,104	249,706	249,706

* Includes only Authorities available for use and granted by Parliament at quarter end.

** Total available for use does not reflect measures announced in Budget 2012.

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Departmental Budgetary Expenditures by Standard Object (Unaudited)

(in thousands of dollars)	Fiscal year 2012-2013			Fiscal year 2011-2012		
	Planned expenditures for the year ending March 31, 2013*	Expended during the quarter ended June 30, 2012	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2012	Expended during the quarter ended June 30, 2011	Year to date used at quarter-end
Expenditures:						
Personnel	493,815	124,978	124,978	487,683	127,568	127,568
Transportation and communications	35,144	4,134	4,134	43,529	6,972	6,972
Information	4,452	249	249	4,715	299	299
Professional and special services	144,924	9,414	9,414	128,241	11,354	11,354
Rentals	4,623	1,288	1,288	4,943	778	778
Repair and maintenance	18,220	833	833	19,737	626	626
Utilities, materials and supplies	14,747	3,060	3,060	18,213	4,072	4,072
Acquisition of land, buildings and works	65,388	286	286	76,250	131	131
Acquisition of machinery and equipment	42,585	3,706	3,706	18,908	1,932	1,932
Transfer payments	1,265,447	70,247	70,247	731,352	69,046	69,046
Forgiveness of Saint John Harbour Bridge Authority's Loans	-	-	-	22,646	-	-
Other subsidies and payments	83,372	20,437	20,437	79,593	39,463	39,463
Total gross budgetary expenditures	2,172,717	238,632	238,632	1,635,810	262,241	262,241
Less revenues netted against expenditures:						
Vote-netted revenues	(83,755)	(13,675)	(13,675)	(82,706)	(12,535)	(12,535)
Total Revenues netted against expenditures:	(83,755)	(13,675)	(13,675)	(82,706)	(12,535)	(12,535)
Total net budgetary expenditures	2,088,962	224,957	224,957	1,553,104	249,706	249,706

* Planned expenditures do not reflect measures announced in Budget 2012