

Quarterly Financial Report of

TRANSPORT CANADA

(Unaudited)

For the quarter ended September 30th, 2015

TRANSPORT CANADA

Quarterly Financial Report

For the Quarter Ended September 30, 2015

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Statement outlining results, risks and significant changes in operations, personnel and program

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 the [Treasury Board Accounting Standard 1.3](#). The quarterly report should be read in conjunction with the Main Estimates and Supplementary Estimates (A).

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 is presented 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 2015-2016 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. However, the spending authorities voted by Parliament remain on an expenditure basis.

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

2.1 Statement of Authorities

Transport Canada's total authorities available for use decreased by approximately \$7 million, from \$1,704 million as of September 30, 2014 to \$1,697 million as of September 30, 2015, as summarized below:

Table 1: Significant changes in Authorities (in thousands of dollars):

Authorities	2015-2016	2014-2015	Variance
Vote 1 – Operating expenditures	567,866	543,913	23,953
Vote 5 – Capital expenditures	187,157	164,044	23,113
Vote 10 – Grants and contributions	667,887	757,957	(90,070)
Budgetary statutory authorities	273,663	238,073	35,590
Total Authorities	1,696,573	1,703,987	(7,414)

The Statement of Authorities attached at the end illustrates the total authorities available for use, the authorities used for the quarter and the year-to-date authorities used for the current fiscal year as well as the comparative figures for the previous year. The major year-to-year changes for the quarter ended September 30, 2015 are explained below.

2.1.1 Vote 1 – Operating expenditures (increase of \$24M)

Planned operating authorities increased by \$24 million from 2014-2015 to 2015-2016 mostly explained by the following factors:

- Increase in planned spending in new funding from Budget 2014 and the fiscal framework of:
 - \$18 million for the Port Assets Management Program;
 - \$10 million for the Ferry Services Program; and
 - \$10 million as a result of the ratification of various collective agreements.
- Offset by a decrease of \$13 million as a result of the difference in funding received for the Operating Budget Carry Forward from the second quarter in 2014-2015 compared to the second quarter in 2015-2016.

2.1.2 Vote 5 – Capital expenditures (increase of \$23M)

Capital expenditures authorities increased by \$23 million from 2014-2015 to 2015-2016, largely explained by the following factors:

- Increase in planned spending of:
 - \$58 million to upgrade several federally-owned airports, to retrofit an ecoTECHNOLOGY vehicles facility and for infrastructure funding for the Northern Aerial Surveillance Pilot Project using Unmanned Aerial Vehicles;
 - \$10 million in new funding from Budget 2014 for the Ferry Services Program and
 - \$4 million as a result of the difference in funding received for the Capital Budget Carry Forward from the second quarter in 2014-2015 compared to the second quarter in 2015-2016.
- Offset by decrease in planned spending of:
 - \$42 million for the Gordie Howe International Bridge project mostly as a result of a transfer of funds to the Windsor-Detroit Bridge Authority to deliver a new publicly-owned bridge at this crucial border crossing; and
 - \$7 million for various other projects.

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2.1.3 Vote 10 – Grants and contributions (decrease of \$90M)

Grants and contributions authorities decreased by \$90 million from 2014-2015 to 2015-2016, largely explained by the following factors:

- Decrease in planned spending of:
 - \$95 million for the Asia Pacific Gateways and Corridors Transportation Infrastructure Fund, as the program approaches its maturity date;
 - \$15 million for the transfer to Canada Border Services Agency for the renewal of border facilities and related infrastructure;
 - \$7 million for the Outaouais Road Development Agreement;
 - \$7 million for Contributions to Support the Clean Transportation Initiatives; and
 - \$6 million for the sun-setting of funding for the Oshawa Harbour Port Consolidation project.
- Offset by increase in planned spending in new funding from Budget 2014 of:
 - \$18 million for the Ferry Services Contribution Program;
 - \$13 million for the Gateways and Border Crossings Fund;
 - \$7 million for the Oceans Networks Canada – Smart Oceans Contribution Program; and
 - \$4 million for the Contribution Program for the Centre of Excellence for Marine Transportation of Oil and Liquefied Natural Gas.

2.1.4 Budgetary statutory authorities (increase of \$36M)

The budgetary statutory authorities increased by \$36 million mainly as a result of an increase of \$32 million in capital and operating requirements associated with the St. Lawrence Seaway and an increase of \$3 million for the department's Employee Benefit Plan.

2.2 Statement of Departmental Budgetary Expenditures by Standard Object

The statement of Departmental Budgetary Expenditures by Standard Object attached at the end illustrates the annual planned expenditures, the expenditures for the quarter and the year-to-date expenditures for the current fiscal year as well as the comparative figures for the previous year. Overall, the year-to-date expenditures at the end of the second quarter of 2015-2016 represent 29% of the annual planned expenditures, compared to 28% in 2014-2015.

Historically, most spending on high-dollar value, major infrastructure grants and contribution programs occurs in the fourth quarter. This is due to the fact that the majority of recipients submit their claims for reimbursement in the last quarter following the summer and fall construction period.

The major year-to-year variances as at September 30, 2015 are as follows:

- **Personnel**

The planned expenditures related to **Personnel** for 2015-2016 increased by approximately \$11 million compared to the 2014-2015 planned expenditures primarily due to the ratification of various collective agreements.

The year-to-date expenditures related to **Personnel** at September 30, 2015 increased by approximately \$6 million when compared to the 2014-2015 second quarter year-to-date expenditures. The increase is largely attributed to an increase in the number of new employees throughout the Department, with the most significant increase in oversight activities within Marine Safety, Transportation of Dangerous Goods, Rail Safety and Aviation Safety offset by a decrease in severance pay cash-outs to staff that occurred during the second quarter of 2014-2015.

- **Professional and special services**

The planned expenditures related to **Professional and special services** for 2015-2016 increased by approximately \$17 million compared to the 2014-2015 planned expenditures. The increase is largely attributed to increases in professional services for the

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Ports Assets Management and the Ferry Services Programs as a result of new funding from Budget 2014 offset by less funding received from the Operating Budget Carry Forward when comparing to the second quarter of 2014-2015.

The year-to-date expenditures related to *Professional and special services* at September 30, 2015 increased by approximately \$14 million when compared to the 2014-2015 second quarter year-to-date expenditures. The increase is largely attributed to increases in spending for services related to the Victoria Harbor Rock Bay (\$7 million) and the Port of Gaspé (Sandy Beach) (\$2 million) remediation projects and management consulting services for the replacement of the MV Princess of Acadia vessel (\$2 million).

- **Acquisitions of land, buildings and works**

The planned expenditures related to *Acquisitions of land, buildings and works* for 2015-2016 increased by approximately \$38 million compared to the 2014-2015 planned expenditures. The increase is mainly due to an increase of \$48 million in Infrastructure funding for the upgrade of several federally-owned airports and retrofit of ecoTECHNOLOGY vehicles facility as well as a change of \$10 million in the composition of the Capital Budget Carry Forward (see also Acquisition of machinery and equipment). Offsets include a decrease of \$10 million in funding for the Gordie Howe International Bridge project and a decrease of \$10 million in various other projects.

The year-to-date expenditures related to *Acquisitions of land, buildings and works* at September 30, 2015 decreased by approximately \$6 million when compared to the 2014-2015 second quarter year-to-date expenditures. The decrease is largely attributed to a decrease in expenditures for roads, highways and airport runways.

- **Acquisitions of machinery and equipment**

The planned expenditures related to *Acquisitions of machinery and equipment* for 2015-2016 decreased by approximately \$30 million compared to the 2014-2015. The decrease is mainly due to planned reductions of \$32 million related to the Gordie Howe International Bridge project as well as a change of \$7 million in the composition of the Capital Budget Carry Forward (see also Acquisition of land, buildings and works); offset by an increase of \$10 million in infrastructure funding for the Northern Aerial Surveillance Pilot Project using Unmanned Aerial Vehicles.

The year-to-date expenditures related to *Acquisitions of machinery and equipment* at September 30, 2015 increased by approximately \$5 million when compared to the 2014-2015 second quarter year-to-date expenditures. The increase is largely attributed to year-to-date expenditures for the replacement of the MV Princess of Acadia vessel (\$2 million) and the acquisition of parts and accessories for aircraft (\$3 million).

- **Transfer payments**

The planned expenditures related to *Transfer payments* for 2015-2016 decreased by approximately \$89 million when compared to the planned expenditures for 2014-2015. The causes of the variances are largely explained in section 2.1.3.

The year-to-date expenditures related to *Transfer payments* at September 30, 2015 increased by approximately \$11 million when compared to the 2014-2015 second quarter year-to-date expenditures. It is largely attributed to increases in year-to-date expenditures for the Highway 2 and 41st Avenue Intermodal Access in Edmonton (\$7 million) and to the Tshuettin Rail Transportation to continue passenger rail service between Sept-Îles and Schefferville in Quebec (\$4 million).

- **Other subsidies and payments**

The planned expenditures related to *Other subsidies and payments* for 2015-2016 increased by approximately \$40 million when compared to the planned expenditures for 2014-2015. The variance is mainly due to an increase of \$32 million in the annual statutory payments to the St. Lawrence Seaway Management Corporation as a result of increased asset renewal costs associated with the its modernization project and a reallocation of planned expenditures from other areas.

The year-to-date expenditures related to *Other subsidies and payments* at September 30, 2015 decreased by approximately \$9 million when compared to the 2014-2015 second quarter year-to-date expenditures. The decrease is mainly due to a one-time transition payment of \$15 million made last year for implementing salary payment in arrears by the Government of Canada, offset by a \$6 million larger cashflow requirement to the St. Lawrence Seaway Corporation when compared to the same prior year period.

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3. Risks and Uncertainties

Transport Canada maintains a Corporate Risk Profile which identifies and assesses high-level risks that could affect the achievement of the Department's objectives and priorities. The identification of risks and the development of risk responses contribute to making decisions related to setting departmental priorities, planning, allocating resources, developing policies, managing programs and reporting on performance. Additional information regarding the Department's key risk areas is presented in the [Report on Plans and Priorities](#).

Certain risks could have financial impacts should they materialize, for example many factors affecting the timing of transfer payments lie outside the control of the Department and could require funds to be re-profiled to future years. To minimize these impacts, the Department continuously monitors its program funding and expenditures, including a monthly senior management review of plans and forecasts.

Over the past year, Transport Canada has been proactively staffing to ensure effective delivery of its oversight mandate and has taken a risk-based approach to managing attrition by targeted overstaffing. To manage the resulting risk that the department could exceed its appropriated budget for 2015-2016, a number of temporary mitigation measures have been implemented, including:

- A review of all discretionary spending, including travel;
- A common approach to learning; and
- Establishing a Staffing Management Board to review all staffing actions, consider their impacts and ensure they remain within the department's salary envelope.

From now until the end of the fiscal year, the department will continue to review spending, align spending with priorities and adjust where necessary.

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

The following change in senior personnel was made during the second quarter:

- The appointment of Jean-François Tremblay to the position of Deputy Minister of Transport, Infrastructure and Communities, effective July 20, 2015.

Approved by:

Original signed by

Jean-François Tremblay,
Deputy Minister
Ottawa, Canada

November 24, 2015

Original signed by

André Lapointe,
Chief Financial Officer
Ottawa, Canada

November 23, 2015

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Statement of Authorities (Unaudited)

<i>(in thousands of dollars)</i>	Fiscal year 2015-2016			Fiscal year 2014-2015		
	Total available for use for the year ending March 31, 2016 ⁽¹⁾	Used during the quarter ended September 30, 2015	Year-to-date used at quarter-end	Total available for use for the year ending March 31, 2015 ⁽¹⁾	Used during the quarter ended September 30, 2014	Year-to-date used at quarter-end
Vote 1 – Operating expenditures	648,789	164,068	305,448	630,580	165,868	309,173
Vote 1 – Revenues credited to the vote	(80,923)	(23,654)	(37,406)	(86,667)	(21,278)	(38,611)
Vote 5 – Capital expenditures	187,157	15,008	18,591	164,044	15,251	16,807
Vote 10 – Grants and contributions	667,887	31,268	51,420	757,957	30,471	41,736
Budgetary statutory authorities						
Contributions to employee benefit plans	71,192	35,596	35,596	68,507	28,545	28,545
Minister of Transport – Salary and motor car allowance	82	41	82	80	40	80
Refunds of amounts credited to revenues in previous years	-	-	7	-	10	10
Payments to the Canadian National Railway Company – Victoria Bridge, Montreal	3,300	876	1,041	3,300	327	443
Northumberland Strait Crossing Subsidy Payment	63,789	-	62,335	62,836	-	61,733
Payments in respect of St. Lawrence Seaway Agreements	135,300	20,078	56,678	103,350	22,086	50,686
Total authorities	1,696,573	243,281	493,792	1,703,987	241,320	470,602

⁽¹⁾ Includes only Authorities available for use and granted by Parliament at quarter end.

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Departmental Budgetary Expenditures by Standard Object (Unaudited)

<i>(in thousands of dollars)</i>	Fiscal year 2015-2016			Fiscal year 2014-2015		
	Planned expenditures for the year ending March 31, 2016	Expended during the quarter ended September 30, 2015	Year-to-date expended at quarter-end	Planned expenditures for the year ending March 31, 2015	Expended during the quarter ended September 30, 2014	Year-to-date expended at quarter-end
Expenditures:						
Personnel	495,038	152,748	266,489	483,781	156,364	260,639
Transportation and communications	29,687	6,978	14,743	30,518	6,437	12,338
Information	3,066	632	1,023	3,397	523	878
Professional and special services	156,869	32,857	45,933	139,892	20,366	31,835
Rentals	9,846	2,935	3,731	6,998	3,165	4,220
Repair and maintenance	14,145	2,436	2,925	17,057	2,282	3,765
Utilities, materials and supplies	18,208	4,007	7,635	16,863	3,893	7,281
Acquisition of land, buildings and works	129,470	5,933	6,085	91,883	12,113	12,531
Acquisition of machinery and equipment	42,454	4,811	10,132	72,822	3,470	5,423
Transfer payments	734,976	32,145	114,796	824,093	30,798	103,912
Other subsidies and payments	143,737	21,453	57,706	103,350	23,187	66,391
Total gross budgetary expenditures	1,777,496	266,935	531,198	1,790,654	262,598	509,213
Less revenues netted against expenditures:						
Vote-netted revenues	(80,923)	(23,654)	(37,406)	(86,667)	(21,278)	(38,611)
Total Revenues netted against expenditures:	(80,923)	(23,654)	(37,406)	(86,667)	(21,278)	(38,611)
Total net budgetary expenditures	1,696,573	243,281	493,792	1,703,987	241,320	470,602