

Quarterly Financial Report of

TRANSPORT CANADA

(Unaudited)

For the quarter ended September 30th, 2016

TRANSPORT CANADA

Quarterly Financial Report

For the Quarter Ended September 30, 2016

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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 2016-2017 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 \$277 million, from \$1,697 million as of September 30, 2015 to \$1,420 million as of September 30, 2016, as summarized below:

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

Authorities	2016-2017 ⁽¹⁾	2015-2016 ⁽¹⁾	Variance
Vote 1 – Operating expenditures	573,878	567,866	6,012
Vote 5 – Capital expenditures	149,908	187,157	(37,249)
Vote 10 – Grants and contributions ⁽²⁾	-	667,887	(667,887)
Vote 10 - Grants and contributions – Gateways and corridors ⁽²⁾	258,354	-	258,354
Vote 15 - Grants and contributions – Transportation infrastructure ⁽²⁾	122,252	-	122,252
Vote 20 - Grants and contributions – Other ⁽²⁾	46,690	-	46,690
Budgetary statutory authorities	268,937	273,663	(4,726)
Total Authorities	1,420,019	1,696,573	(276,554)

Notes:

(1) Totals may not add or may not agree with details provided elsewhere due to rounding.

(2) Starting in 2016-2017, the Department of Transport is the subject of a pilot project through which its grants and contributions will appear in separate votes based on a program structure. Therefore, Transport's grants and contributions are divided into three separate votes in 2016–2017 based on the departmental Program Alignment Architecture.

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, 2016 are explained below.

2.1.1 Vote 1 – Operating expenditures (Increase of \$6M)

Planned operating authorities increased by \$6 million from 2015-2016 to 2016-2017 mostly explained by the following factors:

- Increase in planned spending of:
 - \$12 million from the 2016 Federal Infrastructure Initiative to accelerate the remediation of Federal Contaminated Sites;
 - \$5 million for the Ferry Services Contribution Program to support the continued operations of three ferry services in Eastern Canada;
 - \$5 million for the increase in Operating Budget Carry Forward from 2015-2016 to 2016-2017; and
 - \$3 million for the renewal of the Tanker Safety Inspection Program;
- Offset by a decrease in planned spending of:
 - \$10 million for the Port Asset Transfer Program for which the current funding sunsets in 2016-2017; and

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- \$9 million resulting from the transfer of Gordie Howe International Bridge (previously called the Detroit River International Crossing) project to Infrastructure Canada.

2.1.2 Vote 5 – Capital expenditures (decrease of \$37M)

Capital expenditures authorities decreased by \$37 million from 2015-2016 to 2016-2017, largely explained by the following factors:

- Decrease in planned spending of:
 - \$40 million resulting from the transfer of the Gordie Howe International Bridge (previously called the Detroit River International Crossing) project to Infrastructure Canada;
 - \$7 million in core capital funding due to the year-over-year reduction to Capital Budget Carry Forward;
 - \$5 million for the Ferry Services Contribution Program as a result of a reduction to the Capital Budget Carry Forward when compared to the previous year.
- Offset by an increase in planned spending of:
 - \$15 million for Federal Infrastructure Initiatives, including funding for Airports and Ports, unmanned Aerial Vehicles, Safety and Security and Road Safety.

2.1.3 Votes 10, 15 and 20 – Grants and contributions (decrease of \$241M)

Grants and contributions authorities decreased by \$241 million from 2015-2016 to 2016-2017, largely explained by the following factors:

- Decrease in planned spending of:
 - \$247 million for the Asia Pacific Gateways and Corridors Transportation Infrastructure Fund, as the program approaches its maturity date.
- Offset by an increase in planned spending of:
 - \$6 million for Contribution to Support Clean Transportation Initiatives to address climate change and air pollution.

2.1.4 Budgetary statutory authorities (decrease of \$5M)

The budgetary statutory authorities decreased by \$5 million mainly as a result of a decrease of \$8 million in capital and operating requirements associated with the St. Lawrence Seaway offset by an increase of \$2 million in Employee Benefit Program (EBP) and an increase of \$2 million in funding for the Northumberland Strait Crossing Subsidy Payment.

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 2016-2017 represent 32% of the annual planned expenditures, compared to 29% in 2015-2016.

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, 2016 are as follows:

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- **Personnel**

The year-to-date expenditures related to *Personnel* at September 30, 2016 decreased by approximately \$21 million when compared to the 2015-2016 second quarter year-to-date expenditures, largely as a result of prudent staffing measures taken by the department as explained in section 3.

- **Transportation and communications**

The planned expenditures related to *Transportation and communication* for 2016-2017 decreased by approximately \$7 million compared to the 2015-2016 planned expenditures, as a result of planned expenditure restraint measures, including the use of alternatives to travel, such as teleconference and videoconference.

- **Professional and special services**

The planned expenditures related to *Professional and special services* for 2016-2017 increased by approximately \$25 million compared to the 2015-2016 planned expenditures. The increase is largely attributed to an increase in funding related to the assessment, management and remediation of federal contaminated sites and funding to address climate change and pollution.

- **Repair and maintenance**

The planned expenditures related to *Repair and maintenance* for 2016-2017 decreased by approximately \$7 million compared to the 2015-2016 planned expenditures, as a result of a reduction in requirements for repairs and maintenance.

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

The planned expenditures related to *Acquisitions of land, buildings and works* for 2016-2017 decreased by approximately \$25 million compared to the 2015-2016 planned expenditures. The decrease is mainly due to the transfer of the Gordie Howe International Bridge (previously called the Detroit River International Crossing) project to Infrastructure Canada offset by an increase in the Ferry Services Contribution Program and Federal Infrastructure projects.

- **Acquisitions of machinery and equipment**

The planned expenditures related to *Acquisitions of machinery and equipment* for 2016-2017 decreased by approximately \$10 million compared to the 2015-2016 planned expenditures. The decrease is mainly due to a reduction in the Capital Budget Carry Forward from 2015-2016 to 2016-2017.

The year-to-date expenditures related to *Acquisitions of machinery and equipment* at September 30, 2016 decreased by approximately \$5 million when compared to the 2015-2016 second quarter year-to-date expenditures. The decrease is largely attributed to the completion of MV Princess of Acadia Vessel Replacement Project in 2015-2016 and reduced costs associated with Aircrafts parts and accessories.

- **Transfer payments**

The planned expenditures related to *Transfer payments* for 2016-2017 decreased by approximately \$239 million when compared to the planned expenditures for 2015-2016. The causes of the variances are explained in section 2.1.3.

The year-to-date expenditures related to *Transfer payments* at September 30, 2016 increased by approximately \$5 million when compared to the 2015-2016 second quarter year-to-date expenditures. The increase is largely attributed to contributions through the Port Asset Transfer Program as a result of the transfer of the Cornwall Port Facility to the City of Cornwall and the Mohawk Council of Akwesasne, as well as a timing difference in payments for the Gateways and Border Crossings Fund and Airport Capital Assistance Program. Those increases are offset by a reduction of payments for the Asia-Pacific Gateway and Corridor Transportation Infrastructure Fund.

- **Other subsidies and payments**

The planned expenditures related to *Other subsidies and payments* for 2016-2017 decreased by approximately \$9 million when compared to the planned expenditures for 2015-2016. The variance is mainly due to a decrease of \$8 million in the annual statutory payments to the St. Lawrence Seaway Management Corporation as a result of a decrease in asset renewal costs associated with its Modernization Project.

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The year-to-date expenditures related to *Other subsidies and payments* at September 30, 2016 decreased by approximately \$6 million when compared to the 2015-2016 second quarter year-to-date expenditures as a result of a decrease in statutory payments to the St. Lawrence Seaway Management Corporation.

- **Vote netted revenues**

The planned revenues related to *Vote netted revenues* for 2016-2017 decreased by approximately \$2 million when compared to the planned revenues for 2015-2016. The variance is mainly due to a decrease of \$5 million in repayments for deferred airport rent which ended in December 2015 offset by minor increase in various categories.

The year-to-date revenues related to *Vote netted revenues* for 2016-2017 at September 30, 2016 decreased by approximately \$5 million when compared to the 2015-2016 second quarter year-to-date revenues. The variance is mainly due to a decrease in repayments for deferred airport rent which ended in December 2015.

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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.

In the previous year, Transport Canada identified a risk of exceeding its operating budget and took a number of measures to ensure it remained within its delegated appropriations. Through tight controls over hiring and restraint in operating spending, the department is containing and managing the situation. A Staffing Management Board, implemented in October 2015, continues to oversee all staffing with a view to ensuring, through managed attrition, by March 31, 2017, that salary levels are sustainable both financially and operationally.

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

Effective November 4, 2015, the Gordie Howe International Bridge (previously called the Detroit River International Crossing) project was transferred from Transport Canada to Infrastructure Canada. In 2015-2016, expenditures related to the Gordie Howe International Bridge were reflected in Transport Canada's financial reports. In 2016-2017, these expenditures will be included in Infrastructure Canada's financial reports.

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

Approved by:

Original signed by

Michael Keenan,
Deputy Minister
Ottawa, Canada

November 29, 2016

Original signed by

André Lapointe,
Chief Financial Officer
Ottawa, Canada

November 29, 2016

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Statement of Authorities (Unaudited)

<i>(in thousands of dollars)</i>	Fiscal year 2016-2017			Fiscal year 2015-2016		
	Total available for use for the year ending March 31, 2017 ⁽¹⁾	Used during the quarter ended September 30, 2016	Year to date used at quarter-end	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
Vote 1 - Operating expenditures	652,307	132,545	258,972	648,789	164,068	305,448
Vote 1 - Revenue credited to the vote	(78,429)	(20,083)	(32,242)	(80,923)	(23,654)	(37,406)
Vote 5 - Capital expenditures	149,908	11,135	15,358	187,157	15,008	18,591
Vote 10 - Grants and contributions ⁽²⁾	-	-	-	667,887	31,268	51,420
Vote 10 - Grants and contributions – Gateways and corridors ⁽²⁾	258,354	8,632	14,057	-	-	-
Vote 15 - Grants and contributions – Transportation infrastructure ⁽²⁾	122,252	14,364	39,022	-	-	-
Vote 20 - Grants and contributions – Other ⁽²⁾	46,690	1,306	1,309	-	-	-
Budgetary statutory authorities						
Contributions to employee benefit \ plans	73,010	35,208	35,208	71,192	35,596	35,596
Minister of Transport – Salary and motor car allowance	83	26	32	82	41	82
Payments to the Canadian National Railway Company – Victoria Bridge, Montreal	3,300	860	1,576	3,300	876	1,041
Northumberland Strait Crossing Subsidy Payment	65,344	-	63,588	63,789	-	62,335
Refunds of amounts credited to revenues in previous years	-	-	1	-	-	7
Payments in respect of St. Lawrence Seaway Agreements	127,200	8,837	50,839	135,300	20,078	56,678
Total budgetary authorities	1,420,019	192,830	447,720	1,696,573	243,281	493,792

Notes:

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

(2) Starting in 2016-2017, the Department of Transport is the subject of a pilot project through which its grants and contributions will appear in separate votes based on a program structure. Therefore, Transport's grants and contributions are divided into three separate votes in 2016–2017 based on the departmental Program Alignment Architecture.

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Departmental Budgetary Expenditures by Standard Object (Unaudited)

(in thousands of dollars)	Fiscal year 2016-2017			Fiscal year 2015-2016		
	Planned expenditures for the year ending March 31, 2017	Expended during the quarter ended September 30, 2016	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2016	Expended during the quarter ended September 30, 2015	Year to date used at quarter-end
Expenditures:						
Personnel	495,458	139,573	245,593	495,038	152,748	266,489
Transportation and communications	22,669	3,631	7,038	29,687	6,978	14,743
Information	3,437	391	623	3,066	632	1,023
Professional and special services	181,733	19,574	34,266	156,869	32,857	45,933
Rentals	6,920	3,476	4,591	9,846	2,935	3,731
Repair and maintenance	6,729	640	2,012	14,145	2,436	2,925
Utilities, materials and supplies	13,675	2,927	5,106	18,208	4,007	7,635
Acquisition of land, buildings and works	104,970	4,003	4,394	129,470	5,933	6,085
Acquisition of machinery and equipment	32,230	3,420	5,496	42,454	4,811	10,132
Transfer payments	495,940	25,162	119,552	734,976	32,145	114,796
Other subsidies and payments	134,687	10,116	51,290	143,737	21,453	57,706
Total gross budgetary expenditures	1,498,448	212,913	479,961	1,777,496	266,935	531,198
Less revenues netted against expenditures:						
Vote-netted revenues	(78,429)	(20,083)	(32,241)	(80,923)	(23,654)	(37,406)
Total Revenues netted against expenditures:	(78,429)	(20,083)	(32,241)	(80,923)	(23,654)	(37,406)
Total net budgetary expenditures	1,420,019	192,830	447,720	1,696,573	243,281	493,792