

Quarterly Financial Report of

TRANSPORT CANADA

(Unaudited)

For the quarter ended June 30th, 2018

TRANSPORT CANADA

Quarterly Financial Report

For the Quarter Ended June 30, 2018

Table of contents

STATEMENT OUTLINING RESULTS, RISKS AND SIGNIFICANT CHANGES IN OPERATIONS, PERSONNEL AND PROGRAM	- 3 -
1. INTRODUCTION	- 3 -
1.1 AUTHORITY, MANDATE AND PROGRAM ACTIVITIES	- 3 -
1.2 BASIS OF PRESENTATION	- 3 -
2. HIGHLIGHTS OF FISCAL QUARTER AND FISCAL YEAR TO DATE (YTD) RESULTS	- 4 -
2.1 STATEMENT OF AUTHORITIES	- 4 -
2.2 STATEMENT OF DEPARTMENTAL BUDGETARY EXPENDITURES BY STANDARD OBJECT	- 6 -
3. RISKS AND UNCERTAINTIES	- 7 -
4. SIGNIFICANT CHANGES IN RELATION TO OPERATIONS, PERSONNEL AND PROGRAMS	- 8 -
STATEMENT OF AUTHORITIES (UNAUDITED)	- 9 -
DEPARTMENTAL BUDGETARY EXPENDITURES BY STANDARD OBJECT (UNAUDITED)	- 11 -

TRANSPORT CANADA

Quarterly Financial Report

For the Quarter Ended June 30, 2018

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 [Directive on Accounting Standards, GC 4400 Departmental Quarterly Financial Report](#).

The quarterly report should be read in conjunction with the Main Estimates.

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 for the 2018-2019 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 money 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 results reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

TRANSPORT CANADA

Quarterly Financial Report

For the Quarter Ended June 30, 2018

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 increased by approximately \$199 million, from \$1,358 million as of June 30, 2017 to \$1,557 million as of June 30, 2018, as summarized below:

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

Authorities ⁽¹⁾	2018-2019 ⁽²⁾	2017-2018 ⁽²⁾	Variance
Vote 1 – Net operating expenditures	712,549	637,575	74,974
Vote 5 – Capital expenditures	136,890	139,092	(2,202)
Vote 10 – Grants and contributions – Gateways and corridors	-	113,976	(113,976)
Vote 15 – Grants and contributions – Transportation infrastructure	-	185,062	(185,062)
Vote 20 – Grants and contributions – Other	-	47,124	(47,124)
Vote 10 – Grants and contributions – An Efficient Transportation System	413,110	-	413,110
Vote 15 – Grants and contributions – A Green and Innovative Transportation System	41,602	-	41,602
Vote 20 – Grants and contributions – A Safe and Secure Transportation System	27,773	-	27,773
Budgetary statutory authorities	225,556	235,164	(9,608)
Total Authorities	1,557,480	1,357,993	199,487

Notes:

- (1) As a result of significant differences between Transport Canada's previous Program Alignment Architecture and its new Departmental Results Framework, financial information for 2017-2018 and 2018-2019 are not presented on the same basis. Grants and contributions authorities for 2017-2018 are presented according to the 2017-2018 appropriation acts approved by Parliament, whereas grants and contributions authorities for 2018-2019 are presented according to planned voted authorities for 2018-2019. The new Departmental Results Framework is explained in section 4.
- (2) Totals may not add or may not agree with details provided elsewhere due to rounding.

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 June 30, 2018 are explained below.

2.1.1 Vote 1 – Operating expenditures (increase of \$75M)

Planned operating authorities increased by \$75 million from 2017-2018 to 2018-2019 mostly explained by the following factors:

- An increase in funding of:
 - \$19.0 million for Climate Change Adaptation and Mitigation;

TRANSPORT CANADA

Quarterly Financial Report

For the Quarter Ended June 30, 2018

- \$18.4 million for the Oceans Protection Plan to improve marine safety and protect Canada's marine environment;
 - \$17.2 million for the implementation of the Trade and Transportation Corridors Initiative to implement strategies and make direct investments in transportation infrastructure;
 - \$16.8 million for salary increases negotiated in newly signed Collective Agreements;
 - \$15.0 million for Transport Canada's Modernization Plan;
 - \$8.8 million for Protecting Marine Life including the protection and recovery of endangered whale populations;
 - \$5.1 million for Federal Contaminated Sites Action Plan III which is a continuation of government efforts to clean up contaminated sites; and
 - \$2.5 million for the renewal of the Tanker Safety Inspection Program.
- Offset by a decrease in funding of:
 - \$17.9 million for sunseting of the Clean Air Renewal, which has been replaced by Clean Air Mitigation and Adaptation; and
 - \$8.5 million for the sunseting of the Federal Infrastructure Initiative - Budget 2016, Federal Contaminated Sites Action Plan.

2.1.2 Vote 5 – Capital expenditures (decrease of \$2.2M)

Capital expenditures authorities decreased by \$2.2 million from 2017-2018 to 2018-2019, largely explained by the following factors:

- An increase in funding of:
 - \$13.9 million for Protecting Marine Life including the protection and recovery of endangered whale populations;
 - \$12.9 million for the upkeep of assets related to ferry services in Eastern Canada under the Ferry Services Program;
 - \$2.0 million for the Ocean Protection Plan (OPP); and
 - \$1.4 million for the Trade and Transportation Corridor Initiative.
- Offset by a decrease in funding of:
 - \$32.4 million due to Budget 2014 and Budget 2016 Federal Infrastructure Initiatives which are sunseting.

2.1.3 Votes 10, 15 and 20 – Grants and contributions (increase of \$136M)

Grants and contributions authorities as a whole increased by \$136 million from 2017-2018 to 2018-2019. The variance by Vote cannot be compared between 2018-2019 and 2017-2018 due to the change in Vote structure. The variance across all three grants and contributions Votes can be explained by the following:

- An increase in funding of:
 - \$99.3 million for the Trade and Transportation Corridor Initiative;
 - \$27.1 million for the Oceans Protection Plan;
 - \$25.2 million for the Ferry Services Contribution Program; and
 - \$17.2 million for the Port Asset Transfer Program.
- Offset by a decrease in funding of:
 - \$16.6 million for the Asia Pacific Gateway and Corridor Initiative Program which is approaching maturity dates;
 - \$7.5 million for the Outaouais Road Development Agreement Program cash flow changes;
 - \$5.4 million for the Support for Clean Transportation Initiatives which is approaching maturity dates; and
 - \$4.1 million for the Gateways and Border Crossings Fund which is approaching maturity dates.

TRANSPORT CANADA

Quarterly Financial Report

For the Quarter Ended June 30, 2018

2.1.4 Budgetary statutory authorities (decrease of \$9.6M)

The budgetary statutory authorities decreased by \$9.6 million mainly as a result of a decrease in capital and operating requirements associated with the St. Lawrence Seaway Management Corporation (SLSMC). The SLSMC is responsible for managing and operating the Seaway, as well as the maintenance, repairs, acquisition and replacement of government-owned Navigation Seaway Assets. Transport Canada is responsible for funding any SLSMC financial requirements net of revenues. The decrease in planned spending is explained by the reduced funding provided by Transport Canada for the SLSMC's Modernization Project as it nears completion.

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 first quarter of 2018-2019 represent 17% of the annual planned expenditures, compared to 18% in 2017-2018.

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. For some categories of operating expenditures, the year-to-date actuals represent a small fraction of the planned expenditures, which is consistent with prior years and other federal government departments. This is mainly due to a timing difference between the date when the goods or services were obtained and when the invoices were received. In addition, there is also a ramp up of operational activities in the last quarter once the mid-year internal budget reallocations are completed as well as the increased funding for new initiatives for which the expenditures will be mostly incurred in the fourth quarter.

The major year-to-year variances as at June 30, 2018 are as follows:

Planned Expenditures

- The 2018-2019 increases in planned expenditures for the Standard Objects listed below are mainly as a result of the increases in funding for the Oceans Protection Plan, the Trade and Transportation Corridors Initiative and Protecting Marine Life:
 - **Information:** \$0.6 million
 - **Professional and special services:** \$33 million
 - **Rentals:** \$0.5 million
 - **Utilities, materials and supplies:** \$0.1 million
 - **Acquisitions of machinery and equipment:** \$4.7 million
- The 2018-2019 decrease in planned expenditures for the Standard Objects listed below are mainly as a result of decreases in the reallocation of planned spending by standard object. The reallocation exercise took into account previous years' trends in actual spending by standard object:
 - **Transportation and communication:** \$3.3 million
 - **Repair and Maintenance:** \$2.4 million
 - **Acquisition of Land, Buildings and Works:** \$7.6 million
- **Personnel**

The planned expenditures related to **Personnel** for 2018-2019 increased by approximately 47.9 million mostly as a result of increases in funding for the Oceans Protection Plan, Collective Agreements, Trade and Transportation Corridors Initiative and Climate Change Mitigation.

TRANSPORT CANADA

Quarterly Financial Report

For the Quarter Ended June 30, 2018

- **Transfer payments**

The planned expenditures related to Transfer payments for 2018-2019 increased by approximately \$138 million when compared to the planned expenditures for 2017-2018. The causes of the variances are explained in section 2.1.3 and by the increase in funding of \$1.7 million for the Northumberland Strait Crossing Subsidy Agreement.

- **Other subsidies and payments**

The planned expenditures related to *Other subsidies and payments* for 2018-2019 decreased by approximately \$11.8 million when compared to the planned expenditures for 2017-2018. The causes of the variances are mainly explained in section 2.1.4.

Year-to-Date Expenditures

- **Personnel**

The year-to-date expenditures related to *Personnel* at June 30, 2018 increased by approximately \$21 million compared to 2017-2018. This increase is mainly driven by the collective agreements and by an approximate increase of 400 employees for the Oceans Protection Plan, the Trade and Transportation Corridors Initiative and the Climate change mitigation.

- **Other Subsidies and Payments**

The year-to-date expenditures related to *Other Subsidies and Payments* at June 30, 2018 decreased by approximately \$12 million when compared to 2017-2018. This decrease is mainly due to a lower cash flow requirement to the St. Lawrence Seaway Management Corporation as their Modernization Project nears completion.

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 [2018-19 Departmental Plan](#).

Certain risks would 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.

Transport Canada implemented the Phoenix pay system on April 7, 2016 as part of the Government of Canada pay transformation initiative. Since its implementation, the new pay system has experienced issues, which Public Services and Procurement Canada (PSPC) is working to resolve as quickly as possible. To mitigate the impact on its employees, Transport Canada has issued emergency salary advances to employees not receiving their basic pay. The pay issues and the workload associated with the signing of new collective agreements have also resulted in a backlog of compensation transactions, most notably acting pay transactions. The pay system issues have also generated salary overpayments. The department works with the employee to recover the funds through a repayment plan to ensure there is no undue hardship for the employee. The impact of the pay system issues on the year-to-date expenditures reflected in the Quarterly Financial Report is not material. Transport Canada will deal with these matters on an expedited basis when the required updates to the Phoenix pay system are implemented.

Transport Canada is currently implementing major initiatives that have risks associated with inter-departmental coordination, cooperation and performance, as well as with the outcome of consultations with key transportation stakeholders and indigenous groups. The Department's Transformation Plan is also designed to improve the Department's financial sustainability and regulatory environment for the future. There are risks and uncertainties associated with implementing needed legislative changes, introducing new cost recovery initiatives and realizing planned savings from identified efficiency opportunities.

TRANSPORT CANADA

Quarterly Financial Report

For the Quarter Ended June 30, 2018

4. Significant changes in relation to operations, personnel and programs

As a result of the new Policy on Results that was approved by the Treasury Board in June 2016, a new Departmental Results Framework has been implemented for the Department in fiscal year 2018-19. The new policy directly supports the government's commitment to deliver and demonstrate progress toward clear results for Canadians. The new approach aims to improve how the government articulates its results, measures performance, allocates and aligns resources to core responsibilities and priorities, and reports on outcomes that matter most to Canadians. By implementing the new approach, both Canadians and parliamentarians will receive clear, transparent, useful information on the results that the Department has achieved and the resources used to do so.

Transport Canada has started implementing the [Oceans Protection Plan \(OPP\)](#) and the [Trade and Transportation Corridors Initiatives](#). These two initiatives, highlighted in previous quarterly financial reports, are part of the department's transformation agenda that will better anticipate and respond to the present and future demands of the transportation sector and support innovation, while ensuring that the department remains on a sustainable financial footing for the long term.

Additional details on these initiatives are presented in the [Departmental Results Report](#).

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

Thao Pham,
Acting as Deputy Minister
Ottawa, Canada

August 14, 2018

André Lapointe,
Chief Financial Officer
Ottawa, Canada

August 13, 2018

TRANSPORT CANADA

Quarterly Financial Report

For the Quarter Ended June 30, 2018

Statement of Authorities ⁽¹⁾ (unaudited)

<i>(in thousands of dollars)</i>	Fiscal year 2018-2019			Fiscal year 2017-2018		
	Total available for use for the year ending March 31, 2019 ⁽²⁾	Used during the quarter ended June 30, 2018	Year-to-date used at quarter-end	Total available for use for the year ending March 31, 2018 ⁽²⁾	Used during the quarter ended June 30, 2017 ⁽³⁾	Year-to-date used at quarter-end ⁽³⁾
Vote 1 – Operating expenditures	782,122	160,354	160,354	706,557	136,914	136,914
Vote 1 – Revenue credited to the vote	(69,573)	(10,815)	(10,815)	(68,982)	(10,512)	(10,512)
Vote 1 – Net operating expenditures	712,549	149,539	149,539	637,575	126,402	126,402
Vote 5 – Capital expenditures	136,890	5,251	5,251	139,092	3,908	3,908
Vote 10 – Grants and contributions – Gateways and corridors	-	-	-	113,976	2,077	2,077
Vote 15 – Grants and contributions – Transportation infrastructure	-	-	-	185,062	9,089	9,089
Vote 20 – Grants and contributions – Other	-	-	-	47,124	-	-
Vote 10 – Grants and contributions – An Efficient Transportation System	413,110	13,473	13,473	-	-	-
Vote 15 – Grants and contributions – A Green and Innovative Transportations System	41,602	50	50	-	-	-
Vote 20 – Grants and contributions – A Safe and Secure Transportation System	27,773	1	1	-	-	-
Budgetary statutory authorities						
Contributions to employee benefit plans	77,000	18,817	18,817	73,114	17,209	17,209
Minister of Transport – Salary and motor car allowance	86	22	22	84	21	21
Railway Company – Victoria Bridge, Montreal	3,300	590	590	3,300	940	940
Northumberland Strait Crossing Subsidy Payment	67,543	66,046	66,046	65,845	64,942	64,942
Payments in respect of St. Lawrence Seaway Agreements	77,627	17,600	17,600	92,821	25,000	25,000
Total Budgetary statutory authorities	225,556	103,075	103,075	235,164	108,112	108,112
Total budgetary authorities	1,557,480	271,389	271,389	1,357,993	249,588	249,588

Notes:

- (1) As a result of significant differences between Transport Canada's previous Program Alignment Architecture and its new Departmental Results Framework, financial information for 2017-18 and 2018-19 are not presented on the same basis. Grants and contributions authorities for 2017-18 are presented according to the 2017-18 appropriation acts approved by Parliament, whereas grants and contributions authorities for 2018-19 are presented according to planned voted authorities for 2018-19. The new Departmental Results Framework is explained in section 4.

TRANSPORT CANADA

Quarterly Financial Report

For the Quarter Ended June 30, 2018

- (2) Includes only Authorities available for use and granted by Parliament at quarter end.
- (3) Certain 2017-2018 first quarter comparative figures have been modified due to timing in recognition of one expenditure account and to provide a consistent presentation with the current quarter's figures.

TRANSPORT CANADA

Quarterly Financial Report

For the Quarter Ended June 30, 2018

Departmental budgetary expenditures by Standard Object (unaudited)

<i>(in thousands of dollars)</i>	Fiscal year 2018-2019			Fiscal year 2017-2018		
	Planned expenditures for the year ending March 31, 2019	Expended during the quarter ended June 30, 2018	Year-to-date used at quarter-end	Planned expenditures for the year ending March 31, 2018 ⁽⁴⁾	Expended during the quarter ended June 30, 2017 ⁽⁴⁾	Year-to-date used at quarter-end ⁽⁴⁾
Expenditures:						
Personnel	580,930	146,767	146,767	532,993	126,020	126,020
Transportation and communications	34,223	6,694	6,694	37,490	4,763	4,763
Information	4,503	438	438	3,902	181	181
Professional and special services	193,136	16,234	16,234	159,934	14,600	14,600
Rentals	12,270	701	701	11,727	939	939
Repair and maintenance	12,581	1,544	1,544	15,000	782	782
Utilities, materials and supplies	18,496	4,405	4,405	18,396	3,074	3,074
Acquisition of land, buildings and works	77,266	1,144	1,144	84,846	32	32
Acquisition of machinery and equipment	48,650	5,494	5,494	43,904	1,907	1,907
Transfer payments	553,328	80,160	80,160	415,306	77,048	77,048
Other subsidies and payments	91,670	18,623	18,623	103,477	30,754	30,754
Total gross budgetary expenditures	1,627,053	282,204	282,204	1,426,975	260,100	260,100
Less Revenues netted against expenditures:						
Vote-netted revenues	(69,573)	(10,815)	(10,815)	(68,982)	(10,512)	(10,512)
Total Revenues netted against expenditures:	(69,573)	(10,815)	(10,815)	(68,982)	(10,512)	(10,512)
Total net budgetary expenditures	1,557,480	271,389	271,389	1,357,993	249,588	249,588

Note:

(4) Certain 2017-2018 first quarter comparative figures have been modified due to timing in recognition of one expenditure account and to provide a consistent presentation with the current quarter's figures.