

Quarterly Financial Report of

**TRANSPORT CANADA**

(Unaudited)

For the quarter ended September 30<sup>th</sup>, 2018

# TRANSPORT CANADA

Quarterly Financial Report

For the Quarter Ended September 30, 2018

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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 [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.

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## 2. Highlights of fiscal quarter and fiscal year to date (YTD) results

### 2.1 Statement of Authorities

The authorities increased by \$52.9 million since the first quarter of 2018-19 as a result of the operating and capital budget carry forwards that were transferred to the department in the second quarter of 2018-19.

Transport Canada's total authorities available for use increased by approximately \$206.9 million, from \$1,403.5 million as of September 30, 2017 to \$1,610.4 million as of September 30, 2018, as summarized below:

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

Authorities <sup>(1)</sup>	2018-2019 <sup>(2)</sup>	2017-2018 <sup>(2)</sup>	Variance
Vote 1 – Net operating expenditures	739,021	661,843	77,178
Vote 5 – Capital expenditures	163,329	160,353	2,976
Vote 10 – Grants and contributions – Gateways and corridors	-	113,975	(113,975)
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	225,557	235,164	(9,607)
<b>Total Authorities</b>	<b>1,610,392</b>	<b>1,403,521</b>	<b>206,871</b>

#### 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 September 30, 2018 are explained below.

#### 2.1.1 Vote 1 – Operating expenditures (increase of \$77M)

Planned operating authorities increased by \$77 million from 2017-2018 to 2018-2019 mostly explained by the following factors:

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- An increase in funding of:
  - \$19.0 million for Climate Change Adaptation and Mitigation;
  - \$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 (increase of \$3.0M)

Capital expenditures authorities increased by \$3.0 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;
  - \$10.3 million for the Capital Budget Carry Forward for Core Activities;
  - \$5.3 million for the upkeep of assets related to ferry services in Eastern Canada under the Ferry Services Program;
  - \$2.3 million for the Ocean Protection Plan (OPP);
  - \$2.1 million for the Trade and Transportation Corridor Initiative; and
  - \$0.9 million for the Port Asset Transfer Program.
- Offset by a decrease in funding of:
  - \$32.1 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 as a result of significant differences between the previous Program Alignment Architecture presented in 2017-2018 and the new Departmental Results Framework used for 2018-2019, which impacts the distribution of the G&C programs across the three votes. 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;

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- \$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.

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

The planned expenditures for 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.

The year-to-date expenditures for the budgetary statutory authorities decreased by \$6.4 million mainly explained by the reduction of payments to the SLSMC due to a lower cash flow requirements.

### 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 2018-2019 represent 30% of the annual planned expenditures, compared to 33% 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 following the mid-year internal budget reallocations as well as receipt of 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 September 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, Protecting Marine Life and the Operating Budget Carry Forward:
  - **Information:** \$0.6 million
  - **Professional and special services:** \$39.2 million
  - **Acquisitions of machinery and equipment:** \$4.0 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:
  - **Rentals:** \$0.8 million
  - **Utilities, materials and supplies:** \$1.2 million
  - **Transportation and communication:** \$4.8 million
  - **Repair and Maintenance:** \$2.3 million
  - **Acquisition of Land, Buildings and Works:** \$11.1 million

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- **Personnel**

The planned expenditures related to *Personnel* for 2018-2019 increased by approximately \$47.4 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.

- **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 an increase in funding of \$1.7 million for the Northumberland Strait Crossing Subsidy Agreement.

### Year-to-Date Expenditures

- **Personnel**

The year-to-date expenditures related to *Personnel* at September 30, 2018 increased by approximately \$10 million compared to 2017-2018. The increase is mainly driven by the rise in the number of employees because of new departmental initiatives such as the Ocean Protection Plan. Although there was an increase in the number of employees, the second quarter's expenditures decreased compared to the previous year as a result of the payment of retroactive salaries and wages to employees that were made in 2017 following the ratification and signing of new collective agreements.

- **Transportation and communications**

The year-to-date expenditures related to *Transportation and communications* at September 30, 2018 increased by approximately \$3.1 million when compared to 2017-2018. The increase is mainly due to the additional stakeholder engagement to promote the department's new initiatives and programs.

- **Professional and special services**

The year-to-date expenditures related to *Professional and special services* at September 30, 2018 increased by approximately \$5.8 million when compared to 2017-2018. The increase is mainly due to higher management consulting services, translation, scientific services and training as a result of the new departmental initiatives and programs.

- **Acquisitions of machinery and equipment**

The year-to-date expenditures related to *Acquisitions of machinery and equipment* at September 30, 2018 increased by approximately \$5.6 million when compared to 2017-2018. This increase is mainly due to acquisition of parts and accessories for aircraft.

- **Other Subsidies and Payments**

The year-to-date expenditures related to *Other Subsidies and Payments* at September 30, 2018 decreased by approximately \$18 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 and to a timing difference in the settlement of the suspense account for expenditures incurred by the Department related to intergovernmental transactions for which the relevant financial coding has not been obtained.

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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 [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 employees in question to recover the funds through a repayment plan to ensure that they do not experience any undue hardships. 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.

The loss of key personnel represents a risk for most organizations. As highlighted in section 4 below, there have been a number of changes in senior personnel within the last quarter. Transport Canada mitigates that risk through its succession planning strategy, as well as promptly launching staffing processes and having experienced personnel acting in those roles during their vacancy.

### 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.

The following changes in senior personnel occurred during the second quarter:

- On July 27, 2018, following the retirement of Pierre-Marc Mongeau, the Deputy Minister and Associate Deputy Minister announced the appointment of Marie-Claude Petit, Director General, Transportation Infrastructure Programs as the Acting Assistant Deputy Minister (ADM), Programs until October 14, 2018;
- On August 21, 2018, the Deputy Minister and Associate Deputy Minister announced the appointment of Aaron McCrorie, Director General, Civil Aviation as Associate ADM, Safety and Security, effective Sept 4, 2018;
- On August 24, 2018, following Lori MacDonald's new appointment by the Prime Minister as Associate Deputy Minister of Immigration Refugee Citizenship Canada (IRCC), the Deputy Minister and Associate Deputy Minister announced the

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appointment of Aaron McCrorie, Associate ADM Safety and Security as Acting ADM, Safety and Security, and the appointment of Nicole Girard, Director General, Civil Aviation as Acting Associate ADM, Safety and Security, effective August 29, 2018;

- On August 31, 2018, the Prime Minister announced the appointment of Terry Beech as Transport Canada's Parliamentary Secretary ; and
- On September 27, 2018, the Deputy Minister and Associate Deputy Minister announced the appointment of Anuradha Marisetti as ADM, Programs, starting October 15, 2018.

Approved by:

Original signed by

Michael Keenan,  
Deputy Minister  
Ottawa, Canada

November 29, 2018

André Lapointe,  
Chief Financial Officer  
Ottawa, Canada

November 23, 2018

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## Statement of Authorities <sup>(1)</sup> (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 <sup>(2)</sup>	Used during the quarter ended September 30, 2018	Year-to-date used at quarter-end	Total available for use for the year ending March 31, 2018 <sup>(2)</sup>	Used during the quarter ended September 30, 2017 <sup>(3)</sup>	Year-to-date used at quarter-end <sup>(3)</sup>
Vote 1 – Operating expenditures	808,594	166,321	326,675	730,825	172,033	308,948
Vote 1 – Revenue credited to the vote	(69,573)	(22,363)	(33,178)	(68,982)	(20,158)	(30,670)
<b>Vote 1 – Net operating expenditures</b>	<b>739,021</b>	<b>143,958</b>	<b>293,497</b>	<b>661,843</b>	<b>151,875</b>	<b>278,278</b>
Vote 5 – Capital expenditures	163,329	14,583	19,834	160,353	18,073	21,981
Vote 10 – Grants and contributions – Gateways and corridors	-	-	-	113,975	9,616	11,692
Vote 15 – Grants and contributions – Transportation infrastructure	-	-	-	185,062	15,833	25,067
Vote 20 – Grants and contributions – Other	-	-	-	47,124	1,700	1,555
Vote 10 – Grants and contributions – An Efficient Transportation System	413,110	27,026	40,499	-	-	-
Vote 15 – Grants and contributions – A Green and Innovative Transportations System	41,602	918	968	-	-	-
Vote 20 – Grants and contributions – A Safe and Secure Transportation System	27,773	513	514	-	-	-
<b>Budgetary statutory authorities</b>						
Contributions to employee benefit plans	77,000	18,817	37,634	73,114	17,195	34,405
Minister of Transport – Salary and motor car allowance	86	22	43	84	21	42
Railway Company – Victoria Bridge, Montreal	3,300	639	1,230	3,300	639	1,579
Northumberland Strait Crossing Subsidy Payment	67,544	-	66,046	65,845	-	64,942
Payments in respect of St. Lawrence Seaway Agreements	77,627	608	18,208	92,821	3,577	28,577
<b>Total Budgetary statutory authorities</b>	<b>225,557</b>	<b>20,086</b>	<b>123,161</b>	<b>235,164</b>	<b>21,432</b>	<b>129,545</b>
<b>Total budgetary authorities</b>	<b>1,610,392</b>	<b>207,084</b>	<b>478,473</b>	<b>1,403,521</b>	<b>218,529</b>	<b>468,118</b>

### 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.

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

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## Departmental budgetary expenditures by Standard Object (unaudited)

(in thousands of dollars)	Fiscal year 2018-2019			Fiscal year 2017-2018		
	Planned expenditures for the year ending March 31, 2019	Expended during the quarter ended September 30, 2018	Year-to-date used at quarter-end	Planned expenditures for the year ending March 31, 2018 <sup>(4)</sup>	Expended during the quarter ended September 30, 2017 <sup>(4)</sup>	Year-to-date used at quarter-end <sup>(4)</sup>
<b>Expenditures:</b>						
Personnel	580,929	143,989	290,756	533,570	154,462	280,485
Transportation and communications	36,310	7,399	14,093	41,139	6,183	10,946
Information	4,503	555	993	3,902	611	792
Professional and special services	211,915	22,365	38,598	172,687	18,155	32,754
Rentals	12,270	3,892	4,593	13,108	3,335	4,275
Repair and maintenance	13,389	2,357	3,901	15,733	1,490	2,271
Utilities, materials and supplies	19,474	4,185	8,590	20,664	3,944	7,018
Acquisition of land, buildings and works	89,044	8,492	9,636	100,129	11,544	11,576
Acquisition of machinery and equipment	56,776	6,013	11,507	52,788	4,046	5,953
Transfer payments	553,329	29,096	109,257	415,306	27,788	104,835
Other subsidies and payments	102,026	1,104	19,727	103,477	7,129	37,883
<b>Total gross budgetary expenditures</b>	<b>1,679,965</b>	<b>229,447</b>	<b>511,651</b>	<b>1,472,503</b>	<b>238,687</b>	<b>498,788</b>
<b>Less Revenues netted against expenditures:</b>						
Vote-netted revenues	(69,573)	(22,363)	(33,178)	(68,982)	(20,158)	(30,670)
<b>Total Revenues netted against expenditures:</b>	<b>(69,573)</b>	<b>(22,363)</b>	<b>(33,178)</b>	<b>(68,982)</b>	<b>(20,158)</b>	<b>(30,670)</b>
<b>Total net budgetary expenditures</b>	<b>1,610,392</b>	<b>207,084</b>	<b>478,473</b>	<b>1,403,521</b>	<b>218,529</b>	<b>468,118</b>

### Note:

(4) Certain 2017-2018 first and second quarter comparative figures have been modified to provide a consistent presentation with the current quarter's figures.