

Quarterly Financial Report of

TRANSPORT CANADA

(Unaudited)

For the quarter ended June 30th, 2020

TRANSPORT CANADA

Quarterly Financial Report

For the Quarter Ended June 30, 2020

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

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 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 Transport Canada consistent with a reduced supply of the Main Estimates and the 2020-21 Supplementary Estimates (A). Due to the Coronavirus pandemic (COVID-19) and limited sessions in the spring for Parliament to study supply, the Standing Orders of the House of Commons were amended to extend the study period into the Fall. Transport Canada is expected to receive full supply for the 2020-21 Main Estimates in December 2020. 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

Transport Canada's total authorities available for use decreased by approximately \$320.8 million, from \$1,855.9 million as of June 30, 2019 to \$1,535.1 million as of June 30, 2020, as summarized below:

A substantial portion of this decrease is attributed to the government's decision to postpone a vote on Main Estimates until December 2020, resulting in Transport Canada receiving only 9/12ths of its Main Estimates authorities, rather than the usual 12/12ths (also called Full Supply). This change from normal procedures was brought about as a result of the COVID-19 and impacts only voted authorities and not statutory authorities.

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

Authorities ⁽³⁾	2020-2021 ^(1 & 2)	2019-2020 ^(1 & 2)	Variance
Vote 1 – Net operating expenditures	549,188	728,441	(179,253)
Vote 5 – Capital expenditures	112,954	136,823	(23,869)
Vote 10 – Grants and contributions – Efficient Transportation System	462,973	605,098	(142,125)
Vote 15 – Grants and contributions – Green and Innovative Transportation System	148,201	132,754	15,447
Vote 20 – Grants and contributions – Safe and Secure Transportation System	30,148	33,798	(3,650)
Budgetary statutory authorities ⁽³⁾	231,669	218,984	12,685
Total Authorities	1,535,133	1,855,898	(320,765)

Notes:

- (1) Totals may not add or may not agree with details provided elsewhere due to rounding.
- (2) Excludes funding from the authorities in the Budget Implementation Votes.
- (3) See Statement of Authorities for more details.

The accompanying Statement of Authorities illustrates the total authorities available for use, the authorities used for the quarter, 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, 2020 are explained below.

2.1.1 Vote 1 – Net Operating Expenditures (Decrease of \$179.3 million)

Planned operating authorities decreased by \$179.3 million from 2019-2020 to 2020-2021, mostly explained by the following factor:

- A decrease in authorities of:
 - \$181.5 million as a result of the delay in the approval of Main Estimates (Full Supply).

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2.1.2 Vote 5 – Capital Expenditures (Decrease of \$23.9 million)

Planned Capital authorities decreased by \$23.9 million from 2019-2020 to 2020-2021, largely explained by the following factors:

- An increase in funding of:
 - \$16.4 million for Eastern Ferries Fleet Procurement; and
 - \$10.3 million for the Oceans Protection Plan.
- Offset by a decrease in funding of:
 - \$37.7 million as a result of the delay in the approval of Main Estimates (Full Supply);
 - \$6.0 million for the Federal Infrastructure Initiatives; and
 - \$5.2 million for the World-Class Tanker Safety System to prevent pollution from ships.

2.1.3 Vote 10 – Grants and Contributions – Efficient Transportation System (Decrease of \$142.1 million)

Grant and contribution authorities for Vote 10 decreased by \$142.1 million from 2019-2020 to 2020-2021, largely explained by the following factors:

- An increase in funding of:
 - \$181.6 million for the National Trade Corridors Fund;
 - \$11.2 million for the Regional and Remote Passenger Rail Program; and
 - \$7.5 million for the Asia-Pacific Gateway and Corridor Transportation Infrastructure Fund.
- Offset by a decrease in funding of:
 - \$163.4 million as a result of the delay in the approval of Main Estimates (Full Supply);
 - \$149.8 million for the Port Asset Transfer Program; and
 - \$26.3 million for the Gateways and Border Crossings Fund.

2.1.4 Vote 15 – Grants and Contributions – Green and Innovative Transportation System (Increase of \$15.4 million)

Grant and contribution authorities for Vote 15 increased by \$15.4 million from 2019-2020 to 2020-2021, largely explained by the following factors:

- An increase in funding of:
 - \$38.6 million for Encouraging Canadians to use the Zero – Emissions Vehicles Program;
 - \$5.6 million for the Program to Protect Canada's Coastlines and Waterways; and
 - \$1.5 million for the Program to Address Disturbances of Vessel Traffic.
- Offset by a decrease in funding of:
 - \$27.5 million in budget reduced for interim supply as a result of the delay in the approval of Main Estimates (Full Supply).

2.1.5 Vote 20 – Grants and Contributions – Safe and Secure Transportation System (Decrease of \$3.7 million)

Grant and contribution authorities for Vote 20 decreased by \$3.7 million from 2019-2020 to 2020-2021, largely explained by the following factors:

- An increase in funding of:
 - \$6.0 million for the Enhanced Road Safety Transfer Payment Program.
- Offset by a decrease in funding of:
 - \$9.7 million as a result of the delay in the approval of Main Estimates (Full Supply).

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2.1.6 Budgetary Statutory Authorities (Increase of \$12.7 million)

The planned expenditures for the budgetary statutory authorities increased by \$12.7 million mainly as a result of an increase in capital and operating requirements associated with the St. Lawrence Seaway Management Corporation (SLSMC) in the amount of \$15.2 million. 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 increase in planned spending was offset by a decrease of \$4.0 million in planned contributions to Employee Benefits Plans and an increase in funding of \$1.4 million for the Northumberland Strait Crossing Subsidy Program.

2.2 Statement of Departmental Budgetary Expenditures by Standard Object

The accompanying Statement of Departmental Budgetary Expenditures by Standard Object illustrates annual planned expenditures, quarter and year-to-date expenditures for the current fiscal year, and comparative figures for the previous fiscal year. Overall, the year-to-date expenditures at the end of the first quarter of 2020-2021 represent 22% of the annual planned expenditures, which is higher than the first quarter (16%) of 2019-2020 due to the reduced supply of the Main Estimates.

Historically, most spending on high-dollar value, major infrastructure grant 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 periods. 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 a result of a timing difference between the date the goods or services were obtained and the invoices received. In addition, there is also a ramp up of operational activities in the last quarter following mid-year internal budget reallocations, and receipt of increased funding for new initiatives, for which the majority of expenditures will be incurred in the fourth quarter.

The major year-to-year variances as at June 30, 2020 are as follows:

Planned Expenditures

- **Personnel**
The planned expenditures related to **Personnel** for 2020-2021 decreased by approximately \$128.8 million primarily due to a decrease in authorities as a result of the delay in the approval of Main Estimates (Full Supply).
- **Transportation and Communications**
The planned expenditures related to **Transportation and Communications** for 2020-2021 decreased by approximately \$21.3 million, mainly as a result of a decrease in authorities as a result of the delay in the approval of Main Estimates (Full Supply).
- **Professional and Special Services**
The planned expenditures related to **Professional and Special Services** for 2020-2021 decreased by approximately \$72.2 million, mainly as a result of a decrease in authorities as a result of the delay in the approval of Main Estimates (Full Supply).
- **Acquisition of machinery and equipment**
The planned expenditures related to **Acquisition of machinery and equipment** for 2020-2021 decreased by \$12.0 million, mainly as a result of a decrease in authorities as a result of the delay in the approval of Main Estimates (Full Supply).
- **Transfer payments**
The planned expenditures related to **Transfer payments** for 2020-2021 decreased by approximately \$128.9 million when compared to the planned expenditures for 2019-2020. The causes of the variances are explained in sections 2.1.3 to 2.1.5.
- **Revenue**
The planned revenue for 2020-2021 decreased by \$76.6 million as a result of the application of interim supply instead of Main Estimates.

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Year-to-Date Expenditures

- **Personnel**

The year-to-date expenditures related to *Personnel* at June 30, 2020 increased by approximately \$31.7 million compared to 2019-2020. The increase is mainly attributable to retroactive salaries and wages paid for earnings related to previous and current fiscal years following the ratification and signing of new collective agreements as well as an increase in the number of employees due to new departmental initiatives such as the creation of a Multimodal Business Transformation Team and an increase of personnel in the Aviation Safety Certification and the Protection of Oceans and Waterways programs.

- **Transportation and communications**

The year-to-date expenditures related to *Transportation and communications* at June 30, 2020 decrease by approximately \$5.4 million when compared to 2019-2020. This decrease is largely explained by a reduction in travel related to meetings, workshops, conferences as well as for operations due to the travel restrictions following the COVID-19 pandemic.

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

The year-to-date expenditures related to *Acquisition of land, buildings and works* at June 30, 2020 increased by approximately \$11.4 million when compared to 2019-2020. This increase is mainly due to the reallocation of the St. Lawrence Seaway expenditures by standard objects and higher cash flow requirements of the St. Lawrence Seaway.

- **Transfer payments**

The year-to-date expenditures related to *Transfer payments* at June 30, 2020 increased by approximately \$10.9 million when compared to 2019-2020, mainly explained by the incentive payments for the new Zero Emission Vehicles program and higher contributions for the National Trade Corridors Fund and the Gateways and Border Crossing Fund.

- **Vote-netted revenues**

The year-to-date revenues related to the *Vote-netted revenues* at June 30, 2020 decreased by approximately \$3.8 million when compared to 2019-2020. This decrease is largely explained by a reduction in the Canadian Aviation Regulations and Marine Safety Regulation sectors due to the restrictions following the COVID-19 pandemic.

3. Risks and Uncertainties

The outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel restrictions, self-imposed quarantine periods and physical distancing requirements, have caused material disruption to businesses globally resulting in an economic slowdown. The duration and impact of the COVID-19 outbreak is unknown at this time.

Transport Canada is closely monitoring the COVID-19 situation and has issued transportation-related measures and guidance. The economic impact to the transportation sector and the public at large will, in turn, impact departmental revenues and expenditures. The department remains committed to its top priority: the safety and security of Canadians and Canada's transportation system, as well as ensuring the continued flow of essential goods and services that Canadians need to remain healthy. Transport Canada is working with the Public Health Agency of Canada, provincial and territorial governments, transportation industry stakeholders, and Indigenous Peoples to reduce the risk of transmission.

Transport Canada maintains a Corporate Risk Profile which identifies and assesses high-level risks that could affect the achievement of departmental 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 Transport Canada's key risk areas is presented in the [2020-2021 Departmental Plan](#).

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Certain risks would have financial impacts should they materialize; for example many factors affecting the timing of transfer payments lie outside of Transport Canada's control and could require funds to be re-profiled to future years. To minimize these impacts, Transport Canada 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 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. However, the number and the value of outstanding acting pay has been diminishing since 2018-2019. The pay system issues have also generated salary overpayments. Transport Canada 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. Transport Canada'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. Transport Canada mitigates this risk through its succession planning strategy, as well as promptly launching staffing processes and having experienced personnel acting in positions that are vacant. As highlighted in section 4 below, there has been a key change in senior personnel within the last quarter.

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

In response to COVID-19, over the weekend of March 14-15, 2020, Transport Canada transitioned to remote work to sustain critical services to Canadians. During the first quarter of fiscal year 2020-2021 over 90% of Transport Canada employees were able to work remotely without invoking business continuity plans. This was possible as a result of digital capacity building within the department over the past two years and a focus on innovation through service design and digital tools to deliver improved and more cost-effective services in support of Canada's transportation system. Looking forward, Transport Canada is focusing on continuing to increase digital capacity, sustaining remote work, developing organizational capacity to effectively manage remote teams, and enabling a safe and gradual transition back to the worksite.

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

- On June 10, 2020, the Prime Minister announced the appointment of Arun Thangaraj as Associate Deputy Minister at Transport Canada, effective July 6, 2020.

Approved by:

Arun Thangaraj for Michael Keenan,
Deputy Minister
Ottawa, Canada

August 27, 2020

Ryan Pilgrim, CPA, CA
Chief Financial Officer
Ottawa, Canada

August 26, 2020

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Statement of Authorities (unaudited)

<i>(in thousands of dollars)</i>	Fiscal year 2020-2021			Fiscal year 2019-2020		
	Total available for use for the year ending March 31, 2021 ⁽¹⁾	Used during the quarter ended June 30, 2020	Year-to-date used at quarter-end	Total available for use for the year ending March 31, 2020 ⁽¹⁾	Used during the quarter ended June 30, 2019	Year-to-date used at quarter-end
Vote 1 – Operating expenditures	549,188	188,672	188,672	805,074	167,530	167,530
Vote 1 – Revenue credited to the vote	-	(6,849)	(6,849)	(76,633)	(10,619)	(10,619)
Vote 1 – Net operating expenditures	549,188	181,823	181,823	728,441	156,911	156,911
Vote 5 – Capital expenditures	112,954	5,952	5,952	136,823	4,231	4,231
Vote 10 – Grants and contributions – Efficient Transportation System	462,973	29,277	29,277	605,098	26,811	26,811
Vote 15 – Grants and contributions – Green and Innovative Transportation System	148,201	11,579	11,579	132,754	5,104	5,104
Vote 20 – Grants and contributions – Safe and Secure Transportation System	30,148	186	186	33,798	42	42
Budgetary statutory authorities						
Contributions to employee benefit plans	84,489	21,093	21,093	88,452	19,885	19,885
Minister of Transport – Salary and motor car allowance	89	22	22	88	22	22
Railway Company – Victoria Bridge, Montreal	3,300	162	162	3,300	-	-
Northumberland Strait Crossing Subsidy Payment	68,699	68,603	68,603	67,273	66,999	66,999
Payments in respect of St. Lawrence Seaway Agreements	75,092	25,600	25,600	59,871	10,600	10,600
Total Budgetary statutory authorities	231,669	115,480	115,480	218,984	97,506	97,506
Total budgetary authorities	1,535,133	344,297	344,297	1,855,898	290,605	290,605

Note:

(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)

(in thousands of dollars)	Fiscal year 2020-2021			Fiscal year 2019-2020		
	Planned expenditures for the year ending March 31, 2021	Expended during the quarter ended June 30, 2020	Year-to-date used at quarter-end	Planned expenditures for the year ending March 31, 2020	Expended during the quarter ended June 30, 2019	Year-to-date used at quarter-end
Expenditures:						
Personnel	512,577	183,159	183,159	641,416	151,494	151,494
Transportation and communications	16,068	1,005	1,005	37,404	6,433	6,433
Information	2,736	427	427	6,606	580	580
Professional and special services	100,488	21,341	21,341	172,715	21,217	21,217
Rentals	5,729	2,829	2,829	11,820	1,628	1,628
Repair and maintenance	6,320	1,254	1,254	12,211	1,160	1,160
Utilities, materials and supplies	8,217	2,184	2,184	16,594	4,198	4,198
Acquisition of land, buildings and works	123,824	21,195	21,195	125,059	9,771	9,771
Acquisition of machinery and equipment	38,317	5,996	5,996	50,299	3,449	3,449
Transfer payments	713,321	109,807	109,807	842,222	98,956	98,956
Other subsidies and payments	7,536	1,949	1,949	16,185	2,338	2,338
Total gross budgetary expenditures	1,535,133	351,146	351,146	1,932,531	301,224	301,224
Less Revenues netted against expenditures:						
Vote-netted revenues	-	(6,849)	(6,849)	(76,633)	(10,619)	(10,619)
Total Revenues netted against expenditures:	-	(6,849)	(6,849)	(76,633)	(10,619)	(10,619)
Total net budgetary expenditures	1,535,133	344,297	344,297	1,855,898	290,605	290,605