

Chapter

2

Transport Canada

Overseeing the National Airports System

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Table of Contents

Main Points	1
Introduction	3
Transport Canada has commercialized the airports in the National Airports System	3
What we found in 2000	5
Events since 2000	5
Focus of the follow-up	5
Observations and Recommendations	6
Impact of the transfer of airports	6
Transport Canada has completed its five-year review of the transfer of the first five airports	6
Transport Canada has almost completed its assessment of the financial impact of the transfer, but it has not kept to its schedule	6
The overall impact of the transfer has yet to be assessed	9
A new role for Transport Canada	9
Transport Canada has clarified its role for the National Airports System	9
Transport Canada has established good relations with the airport authorities	9
The draft legislation on airports was not adopted	9
Lease monitoring	10
The lease monitoring program is firmly in place	10
Transport Canada has found the right balance in how it manages the lease monitoring program	12
Transport Canada has noted a high level of compliance among the airport authorities with their lease provisions	12
Overseeing the financial viability of the airports	12
Transport Canada is overseeing the financial viability of the NAS	12
Transport Canada conducted a study of the financial situation of the regional airports	14
Measuring the performance of the airports	15
Transport Canada does not measure the performance of the airports	15
Accountability	16
Transport Canada has reported to Parliament on the transfer of the airports	16
Conclusion	17
About the Follow-Up	18
Appendix	
Financial results of 10 airport authorities in 2003	19



Transport Canada

Overseeing the National Airports System

Main Points

2.1 Transport Canada has made satisfactory progress in implementing the recommendations of our 2000 audit.

2.2 Transport Canada has almost concluded the National Airports Rent Policy Review, which will allow it to assess the financial impact of the transfer of the airports in the National Airports System (NAS). The review will determine, among other things, the impact that rent charges have on the viability of the airport authorities and air carriers, and on the government's finances. It will also determine whether the current rent policy is fair to the taxpayers, users, and airport authorities.

2.3 The Department has also clarified and assumed its role as owner, landlord, and overseer of the NAS airports, and established good relations with the airport authorities. The Department found a high level of compliance by airport authorities with the provisions of their lease. The authorities are maintaining the airport facilities in as good or better condition than before the transfer. Also, they are exercising due diligence regarding environmental protection and complying with the lease provisions on public interest and governance.

2.4 Moreover, Transport Canada now monitors the financial situation of the airport authorities annually and oversees the long-term viability of the NAS.

2.5 However, Transport Canada has not kept to the schedule it set for the National Airports Rent Policy Review. The review began in 2001 and was to be completed in fall 2002; it is still in progress. Department officials are aware that the delay could have potentially significant financial impacts on some of the airport authorities.

2.6 Transport Canada does not measure the airports' performance, with the exception of financial data. The Department has not yet identified the areas it needs to measure and has no approved framework showing how it would measure performance.

Background and other observations

2.7 In 1992, Transport Canada began to transfer the major Canadian airports. By March 2003, the 26 NAS airports had been transferred: twenty-two to airport authorities, three to territorial governments, and one to a municipality. Transport Canada retained ownership of the airports transferred to airport authorities in order to guarantee the long-term viability of the NAS. The transfer of the airports to the airport authorities, not-for-profit organizations, was set up as a 60-year lease.

2.8 In our October 2000 Report, Chapter 10, we found that Transport Canada did not know the financial impact of the transfer of the NAS airports. It had not defined its role as owner, landlord, and overseer of the airports; did not know whether the airport authorities were complying with the provisions of their lease; and was not systematically overseeing the financial viability of the NAS.

Transport Canada has responded. The Department agrees with our recommendations and has indicated the actions it plans or has under way to address them.

Introduction

Transport Canada has commercialized the airports in the National Airports System

2.9 In the late 1980s, the federal government started commercializing its air transportation assets. For example, in 1988 Transport Canada privatized Air Canada. These measures were part of a general movement by the federal government to commercialize the transportation infrastructures and enterprises that it operated. In 1992 Transport Canada transferred five of Canada's largest airports to local interests.

2.10 At the time, the only guidance on the airport transfers was a series of guiding principles, approved by Cabinet starting in 1987, and the 1992 *Airport Transfer (Miscellaneous Matters) Act*, which addressed some transfer issues. The 1994 National Airports Policy defined the government's objectives and role for the airports and allowed it to establish the National Airports System (NAS) and a framework for creating and operating Canadian airport authorities.

2.11 One of the key objectives of the Policy was “to ensure a safe, secure and viable National Airports System that will serve Canada in the 21st century.” According to the government “local operation and commercialization of the airports will promote cost-efficiency and the provision of services matched to user needs.”

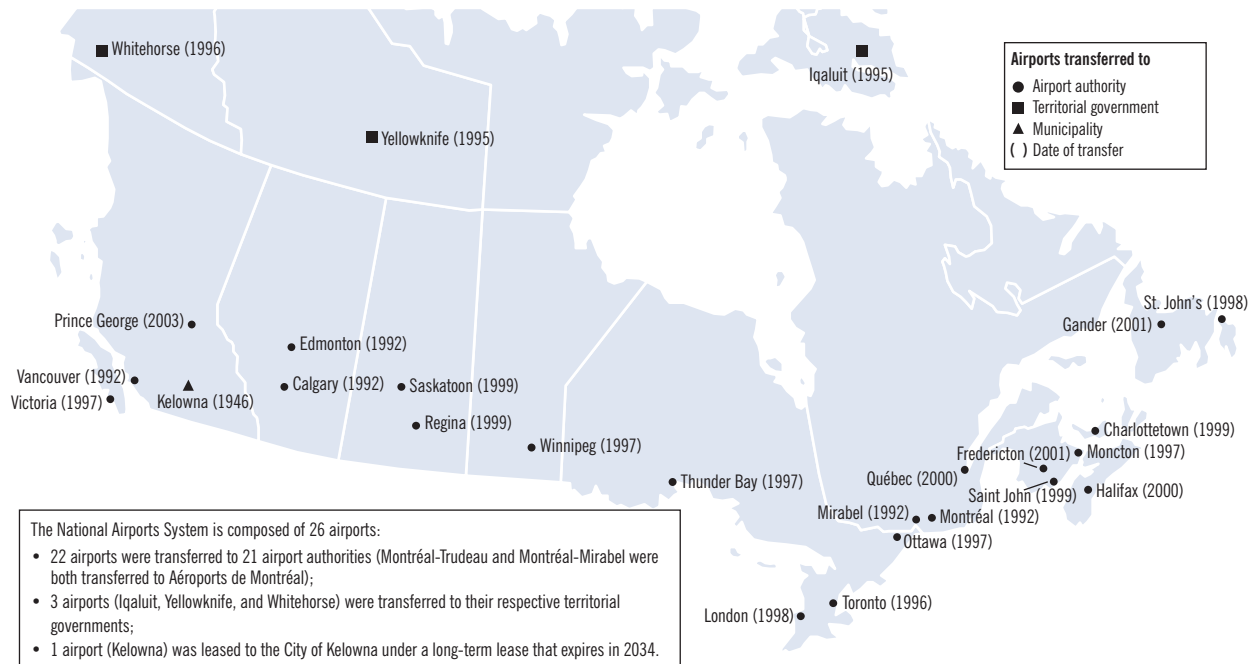
2.12 By the end of March 2003, all 26 NAS airports had been transferred. Twenty-two were transferred to airport authorities, three to territorial governments, and one to a municipality (exhibits 2.1 and 2.2).

2.13 Transport Canada retained ownership of the airports transferred to airport authorities in order to guarantee the long-term viability of the NAS. The transfer to airport authorities, not-for-profit organizations, was set up as a 60-year lease with an option to renew for 20 more years. If the airport authorities and Transport Canada do not reach an agreement by the end of the lease, the airports and all the improvements since their transfer revert back to the federal government, free from any financial obligation.

The National Airports System

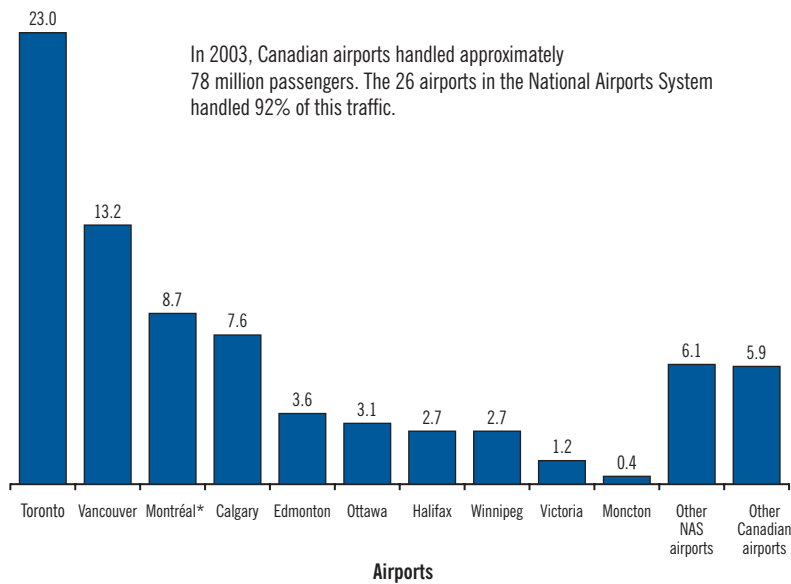
The National Airports System includes the airports that Transport Canada considers “essential to Canada's domestic prosperity and international competitiveness.” They are all the airports that, in 1994, handled at least 200,000 passengers and those that are in the national, provincial, and territorial capitals. In 2003, these 26 airports handled 92 percent of Canada's air passengers.

Exhibit 2.1 Canada's National Airports System



Source: Transport Canada, August 2004

Exhibit 2.2 Air passenger traffic in Canada, 2003 (millions of enplaned and deplaned passengers)



* Includes Montréal-Trudeau and Montréal-Mirabel airports, which are under the jurisdiction of Aéroports de Montréal

Source: Statistics Canada

What we found in 2000

2.14 In our October 2000 Report, Chapter 10, we audited the transfer of the airports in the National Airports System by Transport Canada. We found that the Department

- did not know the financial impact of the transfer. Specifically how the transfer affected taxpayers and the long-term viability of the airport authorities, or whether it was fair and equitable for all airports. The Department had not completed its five-year review of the transfer of the first five airports.
- had not defined its role as owner, landlord, and overseer of the airports.
- did not know whether airport authorities were complying with the provisions of their lease in areas such as facility management, environmental protection, and governance.
- was not systematically overseeing the financial viability of the NAS.
- had not determined how to measure the performance of the airports.
- had not reported to Parliament on the impact of the transfer.

Events since 2000

2.15 In November 2001 the Standing Committee on Public Accounts held a hearing on Chapter 10 of our October 2000 Report and produced *Report 21*, which set out its findings and recommendations. Transport Canada responded to the report in October 2002.

2.16 Transport Canada completed the five-year review of the transfer of the first five airports and undertook two major projects. One was to draft legislation on airports and the other was to review the airports rent policy.

- Bill C-27 proposed an economic and governance framework for airport authorities. The Bill was first read in 2003 but died on the order paper at the end of the parliamentary session. The Department plans to revisit the legislation, discuss it with stakeholders, and table it in Parliament, but it has not yet determined when.
- The National Airports Rent Policy Review is examining whether the current policy is fair to taxpayers, the airport authorities, and users and the impact the policy has on the long-term viability of the airports and air carriers. At the time of our audit, the results of the review had still not been presented to Cabinet.

Focus of the follow-up

2.17 This follow-up examined whether Transport Canada implemented our 2000 recommendations on the transfer of the airports in the National Airports System (see paragraph 2.14 for the six observations). More details on the objective, scope, and criteria can be found in **About the Follow-Up**.

Did you know?

The first Canadian airport to receive its designation as an international airport in 1928: **Winnipeg Airport**

Observations and Recommendations

Impact of the transfer of airports



Construction work at Pierre Elliott Trudeau International Airport in Montréal

Source: Aéroports de Montréal



New terminal at the Greater Moncton International Airport

In 2003, the Moncton Airport had the largest percentage increase in passenger volume of all NAS airports.

Source: Moncton Airport Authority and Statistics Canada

Transport Canada has completed its five-year review of the transfer of the first five airports

2.18 In 2000 we recommended that Transport Canada urgently complete the five-year review that it was to conduct in 1997, at the request of the Treasury Board, and report the results to decision makers and stakeholders. The review was to

- determine the impact of the transfer of the first five airports (Vancouver, Edmonton, Calgary, Montréal-Trudeau, and Montréal-Mirabel), including the financial impact on the federal government and in particular Transport Canada; and
- present recommendations on a framework to govern the long-term relationship between Transport Canada and the NAS airports.

2.19 Transport Canada tabled its final report on the five-year review in 2002, which included all but one of the requirements.

- The Department determined the impact of the transfer, in particular, on service levels and security, and the financial impact on the government.
- It presented recommendations on a governance framework to adopt.
- However, although Transport Canada estimated the impact of the transfer on its budget, it did not include this information in its report.

The review also looked at issues beyond its requirements, most notably, issues on airport authority governance.

2.20 The Department concluded that the NAS was a success and that the five airports were being operated well. It did, however, note that a number of issues had emerged, in particular the need for airport authorities to be more transparent and accountable and to improve their pricing practices.

Transport Canada has almost completed its assessment of the financial impact of the transfer, but it has not kept to its schedule

2.21 In 2000, we found that Transport Canada did not know the financial impact of the transfer of airports in the National Airports System. Specifically how the transfer affected taxpayers and the long-term viability of the airport authorities, or whether it was fair and equitable for all airports.

2.22 Review of the National Airports Rent Policy. One of the main decisions to come out of the five-year review of the transfer of the first five airports was to review the National Airports Rent Policy. The review focusses on the 22 airports transferred to airport authorities and will determine, among other things,

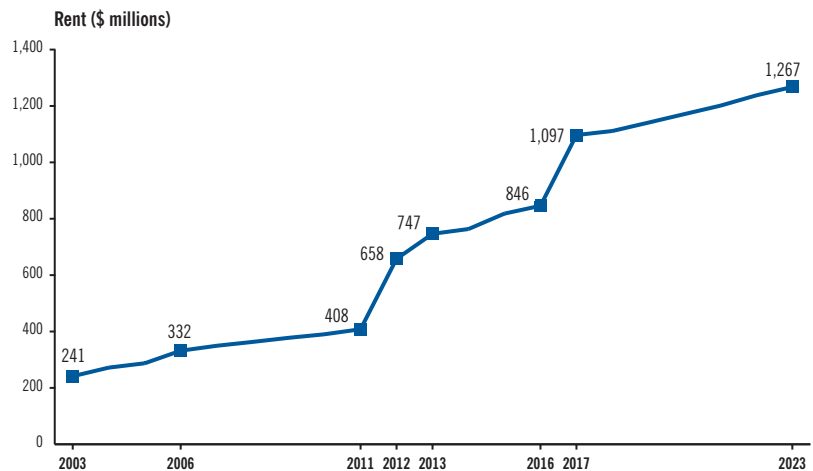
- what impact the policy has on the financial viability of airport authorities and air carriers;
- whether the current policy is fair to taxpayers, airport authorities, and users;

- whether the rents payable over the life of the lease provide fair value to the government for the transfer of the airports; and
- what impact the policy has on the competitiveness of the air transportation system.

The review will determine whether the rent policy needs to be changed.

2.23 The Department is completing its assessment of the impact that rent has on the financial viability of the airport authorities and air carriers, one of the key objectives of the review. Rent is a significant percentage of revenue for many airport authorities. In 2003, the Vancouver, Toronto, Calgary, and Ottawa airport authorities paid Transport Canada 19 to 24 percent of their operating revenues in rent. Also in 2003, all the NAS airports paid \$241 million in rent. According to the current policy, airport authorities will pay over \$1 billion annually in rent starting in 2017 (Exhibit 2.3).

Exhibit 2.3 Rent that airport authorities will pay Transport Canada from 2003 to 2023, under the current rent policy



The significant increase in rent in 2012, 2013, and 2017 is due to a “participation rent,” which is added to the rent paid starting in 2012.

Source: Transport Canada

2.24 If the review leads Transport Canada to recommend reducing the rent, it intends to see that an appropriate share of the savings is passed on to the air carriers. The airport authorities have already informed the Department that they agree in principle.

2.25 Another important objective of the review is to determine whether the current rent policy gives the government fair value for the transfer of the airports. Following recommendations from the rent review advisory committee, the Department has separated calculating the value of the airports from determining how much rent to charge. The Department intends to set rents that are fair to taxpayers, airport authorities, and users.

Investing in airports

According to Transport Canada

- the Department invested around \$1.1 billion in the airports in the National Airports System when it operated them from 1983 to 1992
- airport authorities invested \$6.6 billion from 1999 to 2003

To achieve this goal, it analyzed airport divestitures in the United Kingdom, Australia, New Zealand, and the United States. It also compared the return on investment for its airport leases with the return that regulated industries received— industries like rail transportation, telecommunications, petroleum products transportation, and electricity.

2.26 Appropriate review procedures. We feel that the work under way is satisfactory and that the Department has put in place procedures for reviewing the rent policy that take into account its complexity. Before setting the terms of reference for the review in 2002, the Department consulted with stakeholders and took their feedback into account. However, it has not consulted them since that time. We encourage Transport Canada to consult stakeholders on relevant elements of the options under study and keep them up to date from time to time, especially when deadlines need to be changed.

2.27 Before undertaking any necessary studies, the Department made sure that the objectives of the review could be met. It also took into account the objectives when it analyzed different rent-setting formulas. The Department feels that the formula it chooses must be responsive to market changes in air transportation, easy to administer, and fair to all airport authorities.

2.28 For the review, the Department hired consulting firms to assist with technical analyses and financial projections. The Department used proper procedures to select the firms; it assigned work according to technical expertise and in a way that prevented any conflict of interest.

2.29 The Department created an advisory committee made up of representatives from Transport Canada, the Treasury Board Secretariat, the Privy Council Office, the Department of Finance Canada, and the consulting firms hired for the review. In addition to providing a forum for discussion, the committee gives advice and makes recommendations on the consulting firms' technical studies. It has validated key assumptions made in the studies.

2.30 The Department meets regularly with the central agencies. It shares the results of its technical analyses, explains its positions, and gets the agencies' feedback.

2.31 The Department has not kept to its original schedule. The review, which began in 2001, was scheduled to be finished in fall 2002 and then in fall 2003. At the time of our audit, the results of the review had still not been presented to Cabinet. Transport Canada attributes the delays to the complexity of the review process and to a series of external events— September 11, the war in Iraq, the SARS crisis, bankruptcy of Canada 3000, and Air Canada placed under the protection of the *Companies' Creditors Arrangement Act*. These events had serious consequences for air transportation and created extra work for the review team.

2.32 Department officials are aware that the delays could have potentially significant financial consequences for some airport authorities. For example, the credit bureaus that establish ratings of the airport authorities take into account the lease conditions with Transport Canada.

The overall impact of the transfer has yet to be assessed

2.33 Transport Canada prepared a framework, as early as 1999, for evaluating the National Airports System. The framework described how the Department proposed to assess the overall impact of the transfer of the NAS airports—not only the financial impact but also the consequences on service and security.

2.34 We noted that the framework is of a good quality, clear, and logical. However, the evaluation has been postponed more than once. The Department wants to begin its evaluation once the proposed legislation on airports has been adopted by Parliament and the review of the National Airports Rent Policy has been completed; we consider this an acceptable approach. The Department intends to update the framework so that the next evaluation focusses on the impacts of these initiatives on NAS airports.

A new role for Transport Canada

Transport Canada has clarified its role for the National Airports System

2.35 In our 2000 audit, we were concerned that Transport Canada had yet to clearly define its role and responsibilities as owner, landlord, and overseer of the National Airports System.

2.36 We found that Transport Canada has since clarified the role it intends to play:

- monitoring the operation of the NAS,
- protecting federal property leased to airport authorities, and
- promoting good governance by airport authorities.

This role was defined in the proposed legislation on airports.

2.37 The Department has clearly communicated its role and responsibilities to the airport authorities, and airport executives understand the Department's responsibilities well. Also, Department staff clearly understand Transport Canada's role and responsibilities.

Transport Canada has established good relations with the airport authorities

2.38 In order to carry out its responsibilities properly, especially in overseeing the airport authorities, Transport Canada needed to establish good relations with the airport authorities. The airport executives that we interviewed confirmed that they enjoy good relations with Transport Canada managers and staff.

The draft legislation on airports was not adopted

2.39 The proposed legislation on airports was drafted by Transport Canada in response to its five-year review. The legislation proposed a framework for the economic activities of the airport authorities and for governance. It addressed a number of issues that the five-year review and our 2000 audit had raised (Exhibit 2.4). We found that the legislation included most features of a governance framework.

2.40 The draft legislation had its first reading in 2003 but died on the order paper at the end of the parliamentary session. Although the leases incorporate a number of features of a governance framework (see Exhibit 2.4), other features, such as a process for resolving disagreements about airport fees between airport authorities and air carriers, are still missing. The Department plans to revisit the legislation, discuss it with stakeholders, and table it in Parliament at an undetermined time.

Exhibit 2.4 The proposed 2003 *Canada Airports Act* addressed most of the governance issues that the five-year review and our 2000 audit had raised

Some of the features of a governance framework	Five-year review of the transfer of the first five airports	Our 2000 audit	Proposed 2003 <i>Canada Airports Act</i>	Airport authorities' ground lease
Clear definition of federal roles and responsibilities	●	●	●	●
Consultation, transparency, and access to information on airport authorities	●	●	●	●
Airport authorities' audited financial statements included in their annual reports		●	●	●
Five-year performance reviews of airport authorities conducted by independent consultants	●	●	●	●
Framework for determining airport fees	●	●	●	
Process for resolving disagreements over airport fees	●	●	●	
Framework for subsidiaries of airport authorities	●	●	●	
Disclosure of major contracts not awarded under a public bid		●	●	●

Lease monitoring **The lease monitoring program is firmly in place**

2.41 The ground lease is the main tool that defines the obligations of Transport Canada and the airport authorities. It contains provisions that airport authorities must follow, in areas such as governance and public interest, the environment, safety and security, and facility management.

2.42 The lease stipulates that Transport Canada can audit the airport authorities without restrictions. In 2000, we found that the Department had not exercised this right and did not know to what extent the authorities were complying with key provisions in their lease. Therefore, it was not able to report to Parliament on this matter.

2.43 Since then, the Department has developed a rigorous lease monitoring program that assesses the airport authorities' compliance with their lease provisions.

Good practice

For the past few years, the Greater Toronto Airports Authority and Aéroports de Montréal have been certified ISO 14001, which is an internationally recognized standard for environmental management.

2.44 At the time of our audit, the Department had conducted three annual assessments and was in the process of conducting a fourth for 2004. Ottawa headquarters provides support to the regional offices, especially with interpreting the lease provisions to ensure that they are applied equally across Canada. The regional offices carry out the lease monitoring program. The Department assesses the airport authorities' compliance with each clause of the lease (Exhibit 2.5). The annual assessments mean that concerns raised by each party can be dealt with promptly.

Good practice

To familiarize staff at Transport Canada's headquarters on issues that airport authorities face, the Ottawa Airport Authority offered training on, among other things, governance, how to plan an airport expansion project, and how airlines view airports.

2.45 When we visited the regional offices, staff told us that they were satisfied with support from headquarters. For instance, headquarters developed

- a comprehensive training plan that covers most aspects of lease monitoring—staff were satisfied with the training and found the topics relevant; and
- in collaboration with the regions, a procedures manual and checklists that facilitate monitoring.

2.46 The five regional offices responsible for lease monitoring must produce a report for each airport authority they cover. Monitoring includes reviewing documents, attending public meetings, and visiting the airports. We found that the information collected by the regional offices supports the observations made in the reports. Overall, the files we examined were complete and the documentation was adequate.

Exhibit 2.5 Sample clauses in the ground lease of airport authorities

Governance and public interest

The airport authority shall hold an annual public meeting on the management of the airport and give prior notice of the meeting at least 30 days in advance.

The airport authority shall publish an annual report including its audited financial statements.

The airport authority shall list in its annual report all contracts over \$75,000 that were not awarded under a public bid solicitation process.

Environment

The airport authority shall adopt an Environmental Management Plan and update it as the need arises.

Safety and security

The airport authority shall comply with federal safety and security regulations.

Facilities

The airport authority shall, at a minimum, undertake to ensure adherence to the National Building Code and the National Fire Code during all construction work.

Plans and future infrastructure

The airport authority shall adopt an Airport Master Plan and a Land Use Plan.

Environmental monitoring by airport authorities



Air quality monitoring near Toronto's Pearson International Airport

Source: Greater Toronto Airports Authority



Noise monitoring near Calgary International Airport

In 2002–03, the Calgary Airport Authority hired a consultant to determine whether its operations were in compliance with environmental regulations and its own environmental management system.

Source: Calgary Airport Authority

Overseeing the financial viability of the airports

Transport Canada has found the right balance in how it manages the lease monitoring program

2.47 In our 2000 report, we noted that the Department had adopted a hands-off approach as landlord and overseer of the NAS. Since that time, while recognizing that the management and operation of the airports fall exclusively within the airport authorities' jurisdiction, the Department clearly indicated that it intends to assess the authority's compliance with their lease. The Department has found the right balance between a passive approach and interfering in the airports' activities; it exercises due diligence and tries to minimize the impact its monitoring has on the authorities.

2.48 The Department's approach, however, does not systematically address the risks of non-compliance with the lease. Department employees tend to conduct informal risk analyses. This approach may work when the employees who participate in the lease monitoring are knowledgeable and very experienced, which is generally the case. However, Transport Canada officials are aware of the merits of a more systematic approach to risk management and lease monitoring. The Department is currently working on such an approach, which could help employees, especially those with less experience, identify provisions of the lease that need closer scrutiny.

Transport Canada has noted a high level of compliance among the airport authorities with their lease provisions

2.49 With its lease monitoring program, the Department is now able to assess the extent to which airport authorities comply with the provisions of their lease. The Department noted that the airport authorities comply with all the key provisions. In its national summary report for 2003, Transport Canada concluded that the airport authorities are

- maintaining the airport facilities in as good or better condition than before the transfer;
- exercising due diligence with regard to environmental protection;
- complying with lease provisions on public interest and governance—they are holding annual general meetings, producing annual reports, and preparing five-year performance reviews; and
- aware of safety and security, and comply with all the regulations and standards applicable to their certification.

Transport Canada did not find any situations of non-compliance that would have forced it to serve a default notice on any of the airport authorities.

Transport Canada is overseeing the financial viability of the NAS

2.50 In 2000, we observed that Transport Canada was not systematically overseeing the financial viability of the NAS. The National Airports Policy states that "by retaining legal ownership of NAS airports, the federal government will be able to guarantee the integrity and long-term viability of the vital NAS system." To achieve this goal, the Department must collect and analyze reliable financial data on the NAS airports.

Good practices

- The Vancouver Airport Authority, which owns subsidiaries in areas such as airport management, disclosed financial data and information on its subsidiaries in its 2003 Annual Report.
- The Halifax, Ottawa, Moncton, Victoria, Edmonton, and Toronto airport authorities explained in their 2003 annual reports what the airport improvement fees they collected were used for. The revenue collected from airport improvement fees is meant to fund airport infrastructure construction.
- In their 2003 annual reports, the Edmonton and Ottawa airport authorities disclosed the credit ratings they received from the credit bureaus who analyzed their financial status.

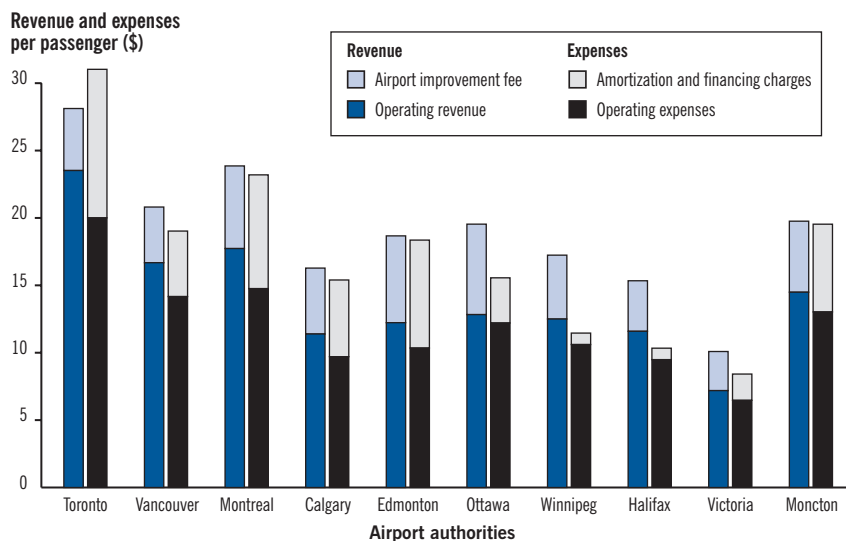
2.51 The Department is now monitoring annually the financial situation of the airport authorities. It receives the authorities’ audited financial statements, as stated in the lease, and analyzes them. Exhibit 2.6 shows the revenue and expenses per passenger for 10 airport authorities for 2003. The appendix is a summary of the financial results of these airport authorities.

2.52 The Department also collects information on the authorities’ subsidiaries. When necessary, it conducts spot checks of any airport authority whose financial situation raises concerns.

2.53 Over the last two years, the Department has overseen the long-term financial viability of the airport authorities, with data collected from the Airports Rent Policy Review. The review allowed the Department to establish financial projections for the next 20 years for the airport authorities. While the Department has paid close attention to the quality of the data used, it has not determined how it will continue to monitor the long-term financial viability of the authorities once the data becomes obsolete.

2.54 Also, Transport Canada has not developed a comprehensive strategy for responding in the event that an airport authority encounters serious financial difficulty. Although the Department would have no liability if this happened, a strategy would help it respond quickly if necessary. The Department recently developed a discussion paper on the subject.

Exhibit 2.6 Revenue and expenses per passenger for 10 airport authorities in 2003



Source: Transport Canada

2.55 Recommendation. Transport Canada should clarify how it will continue overseeing the long-term viability of the NAS once the data from the Airports Rent Policy Review becomes obsolete. In particular, it should determine what data to collect; who will collect it, how often, and how it will be collected; and how the results will be used.

Transport Canada’s response. To determine if policies and frameworks are working as intended and to provide “early warning” indicators of potential financial trouble at an airport, the Department intends to build upon the work it did assessing the long-term viability of the leased NAS airports for the Rent Policy Review. To facilitate this, the existing forecast model would be updated, on an ongoing basis, with current financial and traffic data.

2.56 Recommendation. Transport Canada should develop a comprehensive strategy for responding in the event that an airport authority encounters serious financial difficulty. In particular, the strategy should state who in the Department would assume primary responsibility, when the Department would intervene and the methods it would use, and the legal limits of the intervention.

Transport Canada’s response. Transport Canada concurs. As noted in the Department’s discussion paper, serious financial difficulty can arise from a variety of underlying causes, which may accordingly require different skill sets (finance and accounting, policy, operations, etc.). The Department will develop a variety of case scenarios to ensure it can

- (i) assign primary responsibility in any foreseeable case;
- (ii) marshal the necessary information for decision makers to decide whether to intervene, and if so, how; and
- (iii) identify the legal and financial authorities the Department has or would have to obtain for such a case.

Transport Canada conducted a study of the financial situation of the regional airports

2.57 Transport Canada conducted the Regional and Small Airports Study, following a request by Cabinet to find out how the sale of these airports to local interests had affected their financial situation.

2.58 Since Transport Canada sold the regional airports, it no longer has to guarantee their viability. However, the Department needs a minimum of information on the financial situation of the major regional airports, so it can factor in the potential impacts of the airports’ financial situation on the vitality of the air transportation system, and report to decision makers and Parliament.

2.59 The study, recently completed, has provided up-to-date information on the financial situation of the major regional airports. However, the Department has not considered how it could continue to monitor their financial situation.

2.60 We encourage Transport Canada to determine how it will monitor the financial situation of the major regional airports. Among other things, the Department needs to identify the airports to monitor; determine what data to collect, who will collect it, how it will be collected, and how often; and how the results will be used.

Measuring the performance of the airports



Transportation in Canada, a report tabled annually in Parliament, is used by Transport Canada to present information on the state of transportation in Canada.

Transport Canada does not measure the performance of the airports

2.61 In 2000, we observed that Transport Canada had not determined how to measure the performance of the airports; we recommended that it design a framework to do this.

2.62 Over the past few years, and particularly in its *2000–01 Report on Plans and Priorities*, Transport Canada has made efforts to determine what kind of performance information about the Canadian airports would be useful for departmental decision makers, members of Parliament, airport authorities, and stakeholders. In its draft legislation on airports, the Department included sections on measuring performance, notably the requirement for airport authorities to establish performance indicators.

2.63 However, the Department has not identified the areas of airport performance it needs to measure or how it will use the information. Also, it has not approved a framework to show how it expects to do it. The Department needs to finalize the framework, as soon as possible, so it can let the airport authorities know the areas of performance it wants to measure and the indicators it plans to use, especially if it relies on information from the authorities.

2.64 The only data on airport performance that Transport Canada provides, in its report *Transportation in Canada*, is on finances and passenger volume. For example, *Transportation in Canada* and the Department's performance report do not contain information on the level of service offered to the public by the airports.

2.65 Recommendation. Transport Canada should

- develop a framework identifying the airports whose performance it wants to measure; what it needs to measure; what data it needs to collect, who will collect it, how it will be collected, and how often; how it will use the results; and how it will report on the performance;
- have the framework approved by departmental executives; and
- start, as soon as possible, collecting data, measuring the airports' performance, and reporting on the results.

Transport Canada's response. Transport Canada recognizes the importance of developing and implementing a performance-monitoring framework. This was reflected in early drafts of a proposed legislative framework for airports (2003). To ensure that airport business dynamics and data availability are taken into consideration, this project would be developed in consultation with the relevant airports to identify and prioritize appropriate performance measures. The Department will enhance its data gathering capabilities, as well as determine the best approach to report the results.

Collecting air transportation statistics electronically to reduce time and cost

Statistics on passenger volume are essential for measuring the current performance of the airports and establishing financial projections for the airport authorities. Transport Canada launched its Electronic Collection of Air Transportation Statistics initiative to help air carriers collect data more easily and send them to the Department electronically, to substantially shorten the time it takes to collect the data, and to reduce the cost to industry and the government. The Department expects that, by the end of March 2005, the majority of air carriers serving Canadian airports, including foreign carriers, will participate in this initiative.

Accountability

Transport Canada has reported to Parliament on the transfer of the airports

Where can I find information on the airport authorities?

In our audit, we examined Transport Canada's records on 10 airport authorities. These airport authorities have Web sites that inform visitors about their organization and offer various documents including annual reports. The Victoria Airport Authority, for example, has a Web site where Canadians can easily find information on governance.

2.66 In 2000, we recommended that Transport Canada report to Parliament, on a timely basis, on the impact of the transfer of the NAS airports. Transport Canada has since provided information to Parliament on the transfer in its reports on plans and priorities, performance reports, and *Transportation in Canada*. Specifically, the Department has reported on its five-year review of the transfer of the first five airports and on the key measures it developed as a result of the review—the proposed legislation on airports, the National Airports Rent Policy Review, and the lease monitoring program.

2.67 The Department has also reported to Parliament on the short-term assistance it provided airport authorities in 2003. We expect that once the results of the Airports Rent Policy Review are known, the Department will provide a timely report to Parliament that highlights the financial impact for the government, airport authorities, and users.

2.68 However, in recent years, the public has not found it easy to obtain information on the airport transfers. In 1999, Transport Canada summarized the preliminary findings of its five-year review for its consultations with stakeholders. The Department did not post the summary on its Web site, which would have made it easier for members of Parliament, stakeholders, and Canadians to consult it. Similarly, none of the studies on the Airports Rent Policy Review had been posted on Transport Canada's Web site, as of November 2004, even though the Department does intend to post studies that do not contain confidential information.

2.69 The Department has recently added a number of documents of interest to its Web site: the consultation paper on the five-year review, the terms of reference for the National Airports Rent Policy Review, and the Regional and Small Airports Study.

2.70 We encourage Transport Canada to make it easier for members of Parliament, stakeholders, and Canadians to obtain information on the transfer of the airports and on their performance, notably by posting documents on its Web site.

Conclusion

2.71 Transport Canada has made satisfactory progress in implementing the recommendations of our 2000 audit.

2.72 We found that Transport Canada has done the following:

- Almost concluded the National Airports Rent Policy Review, which will allow it to assess the financial impact of the transfer of the airports in the National Airports System. The review will determine, among other things, the impact that rent charges have on the viability of the airport authorities and air carriers and on the government's finances. It will also determine whether the current rent policy is fair to taxpayers, users, and airport authorities.
- Clarified and assumed its role as owner, landlord, and overseer of the airports, and established good relations with the airport authorities.
- Established a lease monitoring program. The Department found a high level of compliance by airport authorities with the provisions of their lease. The authorities are maintaining the airport facilities in as good or better condition than before the transfer. Also, they are exercising due diligence regarding environmental protection and complying with the lease provisions on public interest and governance.
- Started to monitor the financial situation of the airport authorities annually and oversee the long-term viability of the NAS.
- Reported to Parliament on the transfer of the NAS airports.

2.73 However, Transport Canada has not kept to the schedule it set for the National Airports Rent Policy Review. The review began in 2001 and was to be completed in fall 2002; it is still in progress. Department officials are aware that the delay could have potentially significant financial impacts on some of the airport authorities.

2.74 Also, Transport Canada does not measure the airports' performance, with the exception of financial data. The Department has not yet identified the areas it needs to measure and has no approved framework showing how it would measure performance.

About the Follow-Up

Objective

The objective of the follow-up was to evaluate the extent to which Transport Canada implemented the recommendations of our October 2000 Report, Chapter 10, on the transfer of the airports in the National Airports System. These recommendations are listed in paragraph 2.14.

Scope and approach

We examined the measures that Transport Canada had adopted to

- assess the financial impact of the transfer of the NAS airports;
- oversee the financial viability of the NAS;
- measure the airports' performance;
- report the findings to Parliament; and
- monitor the airport authorities' leases (we examined Transport Canada's files on 10 airport authorities: Victoria, Vancouver, Edmonton, Calgary, Winnipeg, Toronto, Ottawa, Montréal, Moncton, and Halifax).

We did not examine issues of airport safety and security.

We met with Transport Canada staff in Ottawa, Vancouver, Edmonton, Winnipeg, Toronto, Montréal, and Moncton. We also discussed the National Airports Rent Policy Review with officials from the Department of Finance. Last, we met with officials from a number of airport authorities and air transportation organizations.

Criteria

We expected that Transport Canada

- had clearly defined its roles and responsibilities for the National Airports System;
- had observed sound management practices in managing and administering agreements with the airport authorities and for the National Airports System as a whole;
- had kept abreast of new developments to safeguard public assets and protect taxpayers' interests; and
- was monitoring and analyzing the results and impact of the airport transfers, the workability of the National Airports System, and the maintenance of leased facilities, and reporting these matters to decision makers and Parliament.

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Appendix Financial results of 10 airport authorities in 2003 (\$ thousands)

	Toronto	Vancouver	Montréal	Calgary	Edmonton	Ottawa	Winnipeg	Halifax	Victoria	Moncton
Consolidated statement of operations (for the year ended 31 December 2003)										
Aeronautical revenues	360,434	99,469	67,395	47,805	25,567	21,921	18,591	17,492	3,433	3,363
Non-aeronautical revenues	180,572	120,610	87,466	39,160	18,732	17,912	14,820	14,054	5,172	2,925
Operational revenues	541,006	220,079	154,861	86,965	44,299	39,833	33,411	31,546	8,605	6,288
Airport improvement fees	105,857	54,437	53,525	37,341	23,326	20,838	12,672	10,199	3,465	2,288
Total revenues	646,863	274,516	208,386	124,306	67,625	60,671	46,083	41,745	12,070	8,576
Rent to federal government	125,211	66,300	4,805	23,408	2,358	11,329	3,755	3,191	1,096	-
Salaries and wages	85,504	30,485	38,889	10,477	12,893	10,066	11,780	10,399	2,419	1,910
Other operating expenses	249,353	90,091	85,179	40,188	22,222	16,465	12,797	12,218	4,214	3,741
Operational expenses	460,068	186,876	128,873	74,073	37,473	37,860	28,332	25,808	7,729	5,651
Interest and financing charges	157,086	22,184	26,612	13,751	14,655	4,682	-	-	873	1,684
Amortization	96,479	41,957	47,138	29,712	14,354	5,724	2,284	2,307	1,465	1,141
Total expenses	713,633	251,017	202,623	117,536	66,482	48,266	30,616	28,115	10,067	8,476
Settlement of a lawsuit relating to Château Mirabel	N/A	N/A	20,670	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net income (net loss)	(66,770)	23,499	(14,907)	6,770	1,143	12,405	15,467	13,630	2,003	100

Consolidated balance sheet (as at 31 December 2003)										
Total assets	5,872,430	936,203	1,122,643	634,609	324,428	381,547	78,749	62,125	31,128	31,850
Long-term debt	5,571,623	305,664	800,000	370,000	248,957	274,198	-	6,026	13,214	26,065
Total liabilities	5,871,256	358,845	945,640	415,584	264,636	302,811	8,957	13,844	15,054	27,657
Total net assets	1,174	577,358	177,003	219,025	59,792	78,736	69,792	48,281	16,074	4,193

Source: Transport Canada and airport authorities' 2003 annual reports

