

Minister of Transport



Ministre des Transports

Ottawa, Canada K1A 0N5

The Honourable Kevin Sorenson
Chair
Standing Committee on Public Accounts
House of Commons
Ottawa, Ontario K1A 0A6

FEB 14 2017

Dear Colleague:

Pursuant to Section 109 of the Standing Orders of the House of Commons, I am pleased to provide the Government of Canada's response to the 17th Report of the House Standing Committee on Public Accounts, "VIA Rail Canada Inc., Special Examination Report of the Spring 2016 Reports of the Auditor General of Canada" tabled in the House of Commons on October 19, 2016.

I appreciate and value the important work undertaken by this Standing Committee in conducting a review of the performance audit of the Auditor General of Canada, which examined whether the systems and practices selected for examination at VIA Rail Canada Inc. provide the corporation with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

The Government is pleased to report back to the Standing Committee on its nine recommendations. To this end, the actions annexed to this letter detail the specific activities that VIA Rail Canada Inc. and Transport Canada have undertaken or will undertake in response to the findings identified by the Auditor General, building on current progress.

I would like to take the opportunity to thank you and the members of the Standing Committee again for your important work.

Yours sincerely,

A handwritten signature in black ink that reads "Marc Garneau". The signature is fluid and cursive.

The Honourable Marc Garneau, P.C., M.P.

Enclosure

Canada

**Annex to the Government Response: VIA Rail Canada Inc. (VIA) and Transport Canada (TC)
Responses**

Public Accounts Committee Recommendation:	
<p>Recommendation 1: That, by 28 April 2017, VIA and TC provide the House of Commons Standing Committee on Public Accounts (PACP) with a report explaining how the Corporation’s reviewed governance systems and practices allow it to define, obtain approval of, and implement its long-term strategic direction in a timely manner.</p>	
<p>Response from VIA to the PACP recommendation</p>	<p>Agreed. VIA’s operational effectiveness and ability to define and implement long-term plans would be significantly enhanced with approval for ongoing multi-year funding. VIA continues to work with TC to obtain approval of multi-year funding, as was previously granted in a three-year funding envelope ending in March 2017. Moving forward, a five-year appropriation including funding for both operational and capital requirements would be optimal for managing the approval processes required to launch and advance key initiatives, therefore ensuring VIA fulfills its mandate economically, efficiently and effectively.</p> <p>Year-to-year appropriations and the required approval processes, have hampered VIA’s ability to respond to the planning and implementation schedule required to run a modern and reliable passenger train service. The practice of allocating funds on a yearly basis hinders VIA’s ability to access funding in a timely fashion for capital projects before the end/middle to end of the construction season which results in project delays due to missed seasonal construction windows. Should year-to-year appropriations mechanisms continue, VIA’s capacity to plan for the long-term and manage its day-to-day operations of the service will continue to be hampered.</p> <p>Despite these limitations, VIA’s Board of Directors continues to actively oversee the strategic direction of the corporation, reporting to the government. In addition, Board members sit on committees responsible for oversight and monitoring associated with internal and strategic governance and operations. Specifically, the Governance, Risk and Strategy Committee is responsible for the Corporation’s strategic planning processes and oversight linked to the implementation of these strategies. To this end, the Committee reviews the strategic planning processes on an annual basis and makes recommendations to the wider Board of Directors on these processes. Further, the Committee regularly reviews the Corporation’s progress against its strategic plan, recommending adjustments if necessary. In terms of reporting, the Chairperson of the Committee reports to the Board of</p>

	<p>Directors following each meeting.</p> <p>VIA will continue to make a concerted effort through the timely tabling and approval of our Corporate Plan to outline the long-term strategic direction of the Corporation.</p>
Response from TC to the PACP recommendation	<p>TC supports VIA in the continual process of defining, obtaining approval of, and implementing long-term strategic direction. This is done both through the development and approval of VIA’s annual corporate plan, a process required under the <i>Financial Administration Act</i> (FAA) and overseen and approved by Treasury Board, and through periodic requests to Cabinet for funding. TC will continue to balance the interests of VIA for long-term predictability with broader public interests related to the sound stewardship of public funds and the well-being of the entire transportation system.</p> <p>Budget 2014 provided VIA \$683.4 million (M) over three years in additional operating and capital funding for the continued operation of its passenger rail service. Budget 2015 provided VIA a further \$102.0M over two years to support rail infrastructure improvement projects. More recently, Budget 2016 provided VIA \$42.1M in additional funding over two years to support maintenance and improvements to existing infrastructure, to undertake pre-assessment activities for VIA’s proposed fleet renewal initiative, and to make targeted improvements to safety and security. Budget 2016 also provided TC \$3.3M over three years to assess VIA’s high frequency rail (HFR) proposal. Related to this effort, TC is developing options on the best approach to passenger rail going forward, including possible changes to VIA’s long-term funding situation.</p>

Public Accounts Committee Recommendation:	
Recommendation 2: That, by 28 April 2017, VIA and TC provide the PACP with a report outlining what they would propose with regard to enabling legislation.	
Response from VIA to the PACP recommendation	<p>Agreed. VIA is an appropriation dependent, non-agent Crown corporation, subject to Part X of the FAA which describes its governance framework. VIA was created under the <i>Canada Business Corporations Act</i> (CBCA) with all of the powers of a typical private-sector company, but such powers are subject to the authorities and limitations outlined in the FAA. Accordingly, financial instruments including basic debt-financing are not available to VIA, rendering inaccessible the use of such instruments to support the execution of its strategic plans and its day-to-day operations.</p>

	<p>In order to modernize and address the growing demand and expectations of Canadians for safe, frequent, reliable and cost-effective passenger rail service, VIA would benefit from gaining greater autonomy through the enactment of enabling legislation.</p> <p>Accordingly, a <i>VIA Rail Canada Act</i> could, within an explicit mandate, establish a comprehensive legislative framework that would provide VIA with a frame of reference outlining its governance and powers. Such legislation could also confer sufficiently broad corporate powers on VIA to provide it with greater autonomy, notably operational and financial flexibility in its management and operations of its public rail passenger service in a manner that is consistent with commercial practice. Those corporate powers relate particularly to both access to financing and management of assets.</p> <p>It is important to clarify that VIA does not propose the establishment of legislative instruments that prioritize its service over other vital economic actors in the rail industry. Nor does it encourage the development of legislation that would enshrine particular operations or routes, discouraging the flexibility required to meet the evolving demands of travelers.</p>
Response from TC to the PACP recommendation	VIA, like many other federal Crown Corporations, has operated for decades under the authorities and controls provided by the FAA and the CBCA, without the addition of specific enabling legislation. TC continues to assess whether or not such specific enabling legislation for VIA would be in the public interest.

Public Accounts Committee Recommendation:	
<p>Recommendation 3: That, by 30 December 2016, VIA provide the PACP with a report outlining the results of its review on the type of information that it should share with its board members in order to allow them to properly assess risks and support decision making. This report should also explain how VIA will ensure that such reviews are conducted regularly.</p>	
Response from VIA to the PACP recommendation	<p>Agreed. The Corporation underwent an internal board evaluation in 2015 initiated by the Corporate Secretariat, as the Board composition had changed significantly since the 2013 Board evaluation. All Directors were asked to complete a questionnaire as part of this overall assessment of Board's, Committees', and Directors' performance. The objective of the questionnaire was to provide directors with an opportunity to give their feedback on how the Board was operating, how they individually contributed to the Board and what could be done to improve the effectiveness and efficiency of the Board. The evaluation revealed concerns from Directors about the volume of information provided to the Board of Directors, as well as how this information was being presented.</p>

Following the evaluation, the Corporation's management, with the support of its Directors, initiated a review to reduce the volume and enhance the relevance of information provided to Directors to enable them to perform their oversight duties in a more effective manner.

As a result of the abovementioned process, meetings were organized with Senior Executives and their coordinators to review and discuss:

- the procedures in place and key milestones leading to the preparation of Board documentation;
- the new corporate template for presentations prepared for the Board of Directors; and
- what should be included as part of these presentations, depending on the type of items on the agenda (for information versus for decision).

In 2016 the new responsible executive for the Human Resources Committee (i.e. the Chief Human Resources Officer) met with the Corporate Secretariat to discuss its roles and responsibilities, as well as practices and procedures in place regarding preparation of Board documentation. According to the practices and procedures, documentation is to be sent at least two weekends prior to the Board of Directors' meetings (part of President and Chief Executive Officer's objectives in 2016), timely information being of foremost importance in order to allow the Board of Directors to be well prepared for the meetings.

Furthermore, in order to obtain continuous feedback from the Board of Directors, the Governance, Risk & Strategy Committee recommended the implementation of the Quarterly Committee Chair Evaluations to be completed by the Chairperson of each Committee following regular meetings of the Board of Directors. Once completed, Chairpersons are invited to share their evaluation with the executive in charge of their respective Committee and schedule a short conference call with him/her to discuss the key aspects of their evaluation, if deemed necessary. The use of such a form is however optional and at the discretion of each Chairperson; the idea being for Chairpersons to set their expectations and address issues raised following a specific meeting, if any, at their earliest convenience.

As a result of such initiatives, the Governance, Risk & Strategy Committee confirmed that the steps taken to address this specific recommendation

	were complete. VIA’s management is committed to continually improving reporting and engagement with the Board of Directors.
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Public Accounts Committee Recommendation:

Recommendation 4: That, by 30 December 2016, VIA provide the PACP with a report outlining the results of the official audit on the effectiveness of its new Safety Management System (SMS).

Response from VIA to the PACP recommendation	Agreed. The Corporation conducted an internal audit, performed by a third-party, to assess the compliance and effectiveness of the SMS between May and July, 2016. Generally, the main conclusions from the audit found that the implementation of the SMS appears well coordinated, with reactive processes already implemented, and the implementation of both proactive and predictive processes in progress. Documentation linked to the operationalization phases of the SMS are being evaluated and continually improved. The audit noted that once the operationalization phase is complete, it is anticipated that the SMS procedures, plans and methods will be effective in improving the level of safety of VIA’s operations and meeting VIA’s policy, objectives and targets. The audit concluded that despite the recent implementation of the SMS, it is effective in supporting the policies and objectives of VIA and in meeting the requirements of the Railway Safety Management System Regulation. Accordingly, the audit did not identify any practices related to railway safety inferred to be in opposition with those listed in VIA’s SMS.
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Public Accounts Committee Recommendation:

Recommendation 5: That VIA provide the PACP with: a first report explaining how it has improved the documentation of its SMS by 30 December 2016; and, a second report outlining how it has improved, in collaboration with TC and other track-owning railway companies, the documentation of actions and decisions related to the safety of tracks owned by other railway companies by 31 December 2018.

Response from VIA to the PACP recommendation	<p>Agreed. The Corporation continues to make concerted efforts to ensure safety is always a top priority. With regard to the SMS and steps taken to improve documentation, VIA has fully completed the TC transition plan to full compliance with a full review and upgrade of all documents resulting in its SMS meeting the new requirements and structure of the new TC SMS regulations.</p> <p>The elements associated with the upgrade of the SMS include: developing the SMS manual based on all elements of the system and TC feedback, updating the safety policies, ensuring legal compliance</p>
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procedures are in place, developing hazard identification and risk assessment procedures, establishing safety targets, strengthening contractor safety programs and fatigue management requirements for locomotive engineers, developing a dashboard and monitoring framework for SMS implementation, providing training linked to critical safety requirements, and developing the documents and records procedure in the SMS manual, as per the regulations.

TC conducted a review of the corporation's SMS documents in October 2015. Its inspection included the review of all documents (procedures, policies, plans and methods) and an evaluation of VIA's compliance with the regulations; it found no non-compliances.

With regard to work undertaken by VIA in collaboration with other railway companies, as well as TC, linked to the safety of the tracks owned by host railways, the VIA infrastructure group performs annual track inspections on host railways' infrastructure. The data collected is shared with host railways and TC. Additionally, since spring 2016, subsequent to the period examined by the Office of the Auditor General of Canada, VIA also receives quarterly reports on Canadian National Railway (CN) track defaults from our Enesco device, a device which identifies necessary repairs on host railway's infrastructure located in the Quebec-Windsor corridor.

Additional collaborative work, including joint efficiency tests, is performed with CN and Metrolinx to ensure rules compliance. Further, the Rule Revision Team, involving various rail partners, facilitates information exchanges and the sharing of best practices within the industry. Information is also shared through monthly safety calls with CN to discuss any safety issues, including the progress made on previously identified action items.

From a long-term planning perspective, yearly meetings with CN, every February, are convened to discuss the major work programs for the upcoming construction season. This planning session promotes an understanding of the status of the infrastructure and of the investment required to maintain and improve the infrastructure.

As is the usual practice, locomotive engineers are encouraged to report safety issues to the control centre or to their respective managing train operations unit for follow-up, as required.

Public Accounts Committee Recommendation:	
Recommendation 6: That, by 30 December 2016, VIA provide the PACP with a report outlining the measures implemented to mitigate its information technology (IT) systems' risks and vulnerabilities.	
Response from VIA to the PACP recommendation	<p>Agreed. VIA has recognized in its strategy the need to identify and resolve potential IT security risks. To this end, in March of 2015, VIA established a 12 pillar roadmap to address IT risks and vulnerabilities. The 12 pillars include: Identity & Access Management, Cyber Security, Security Monitoring, Security Incident Management, Information Security Risk Management, Security Communication/Awareness & Training, Compliance & Assurance, Security Governance, Security Architecture, Vulnerability and Patch Management, Configuration Management, and Anti-Malware Management.</p> <p>To date, the following activities and initiatives were put in place to manage VIA's IT assets in terms of risks and vulnerabilities:</p> <ul style="list-style-type: none"> • Experienced senior IT resources were engaged consisting of security, management, and analyst personnel; • Operational processes were established to address risks; • Improved incident management through continuous monitoring of VIA's security risks and vulnerabilities were implemented; • New IT Key Risk Indicators were developed and are managed through the Corporation's enterprise risk program; • New security awareness programs have been rolled out, including an ongoing monthly newsletter; • New processes for security governance have been established and additional IT related requirements within project deliverables have been established; and • Modernization of existing security infrastructure throughout 2016 and 2017. <p>No corporation can afford to neglect IT security risk and VIA intends to continue managing that risk and improving its risk treatments.</p>

Public Accounts Committee Recommendation:	
Recommendation 7: That, by 31 March 2017, VIA provide the PACP with a report outlining the mechanisms that it put in place to maintain the on-time performance of its trains.	
Response from VIA to the PACP	Agreed. Over 97% of the track on which VIA operates is owned by other railways, mainly those involved with slower moving freight. In

<p>recommendation</p>	<p>this context, congestion on shared tracks will continue to create challenges on VIA's on-time performance, even more so as Canada's economy gets reenergized and requires freight rail service to transport goods within and outside our borders.</p> <p>The Corporation will continue its efforts with host railway companies to improve the on-time performance of its trains through a combination of enhancements to operational process, as well as through greater communications with host railway companies.</p> <p>The internal mechanisms VIA has presently at its disposal to monitor its on-time performance include:</p> <ul style="list-style-type: none"> • VIA owned Train Status Information Plus; • VIA's Train Summary Trip Report managed by locomotive engineers; • CN overviews and CN Train Operations Planning and Control System; and • Performance reviews by the Management Committee. <p>Other mechanisms utilized in the current context to monitor and manage on-time performance include:</p> <ul style="list-style-type: none"> • The development of VIA train schedules using the CN Train Performance Calculator which enables VIA schedulers to take under consideration the size, length, itineraries, and station stop requirements of the freight trains using the same rights of way as the VIA trains; • Collaboration with the owners of rights of way (CN, Canadian Pacific Railway (CP), GO Transit) who review VIA's proposed schedule and suggest adjustments, if required; • Communication of schedule changes to VIA employees and contractors; • Provision of additional training (if required), and a new operating manual; • Weekly operational calls with CN to review factors that could effect on-time performance including mechanical matters, signaling, and infrastructure work; • Weekly meeting for members of the VIA operations team to discuss the previous week's performance and the subsequent week's planning; and • Weekly review of on-time performance by the management team.
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	VIA's HFR project is a solution that could address the above issue of congestion and on-time performance. Enabling VIA trains to operate on tracks that are dedicated for passenger rail would allow the Corporation to improve its frequencies and reliability in the most densely populated area of Canada. The Corporation has submitted a proposal to the Government for HFR between Quebec-Montréal-Ottawa-Toronto.
Public Accounts Committee Recommendation:	
Recommendation 8: That, by 30 December 2016, VIA provide the PACP with a report explaining how it integrated profitability analysis and rolling stock fleet management mechanisms into its revenue management system to optimize ridership and revenues.	
Response from VIA to the PACP recommendation	<p>Agreed. Over the past two years, VIA network planning practices have been evolving. The shift has led to the implementation of new organizational processes and an automated tool to maximize profitability based on passenger demand and operational constraints.</p> <p>VIA's profitability analysis is the responsibility of the Network Planning Group. This group is currently implementing a tool that optimizes the train cycles and schedules based on profitability. This means that passenger demand assumptions and operational costs are used to optimize the distribution of the rolling stock within a planned schedule. The Revenue Management group takes the schedule provided by Network Planning and optimizes the top-line revenues through pricing and inventory strategies.</p>

Public Accounts Committee Recommendation:	
Recommendation 9: That, by 30 December 2016, VIA provide the PACP with a report explaining how it has improved its capital investment project management systems and practices.	
Response from VIA to the PACP recommendation	<p>Agreed. As per the OAG Special Examination Report, 2016, weaknesses were reported in project planning, project control and monitoring as well as measurement of project results and benefits. OAG's recommendation was that 'VIA Rail Canada Inc. should continue implementing corrective measures concerning its project management systems and practices in order to ensure that, for its future capital investments, it is able to reliably estimate costs, risks, and expected results, as well as manage projects within established budgets and timelines'.</p> <p>In 2015, VIA established a centralized Project Management Office, to increase timely and positive outcomes of projects and initiatives, both capital and operating, and encourage cross-functional collaboration. Governance mechanisms at the project, project portfolio and corporate level have been deployed since 2015, and the operationalization for the Capital Assets Management project portfolio took place in 2016.</p>

Since its creation in 2015, VIA's Corporate Project Management Office documented project management principles, processes and tools in line with the recommended practices, and established a 2016 training program for all of its project management teams. Measures have been taken for increasing project management capacity within VIA's project delivery teams in order to successfully deliver its committed projects using its Corporate Project Management Office systems and practices; recruitment of additional experienced project management professionals took place.

Continual improvement and learning programs are in place for the pursuit of VIA's project management maturity level. For example, a VIA Community of Practice in project, program and portfolio management, inspired from Project Management Institute was initiated in August 2015; as of October 2016, thirteen of these sessions took place.

The Corporate Project Management Office is structured to ensure a clear segregation of duties. For example, the Corporate Project Management Office governance charter clearly defines segregation of duties between Finance and Project Management Office.

Corporate Project Management Office Center Of Excellence is in place for further enhancements of its benefits management, risk management, cost management and other processes, procedures and tools. For example, excellent collaboration between VIA's Enterprise Risk Management and Corporate Project Management Office resulted in a single and centralized risk register used both for projects as well as operations. Phase deployment started with an initial focus on major projects. A single corporation-wide probability-impact grid enables the standardization of reporting, risk appetite and governance.

In summary, the Corporate Project Management Office has quickly delivered positive results for VIA and its ability to now effectively manage small to major projects on time and on budget. This has had a positive impact on the Corporation's operations and bottom line. The Corporate Project Management Office will continue working in this manner in 2017, using a phased approach.