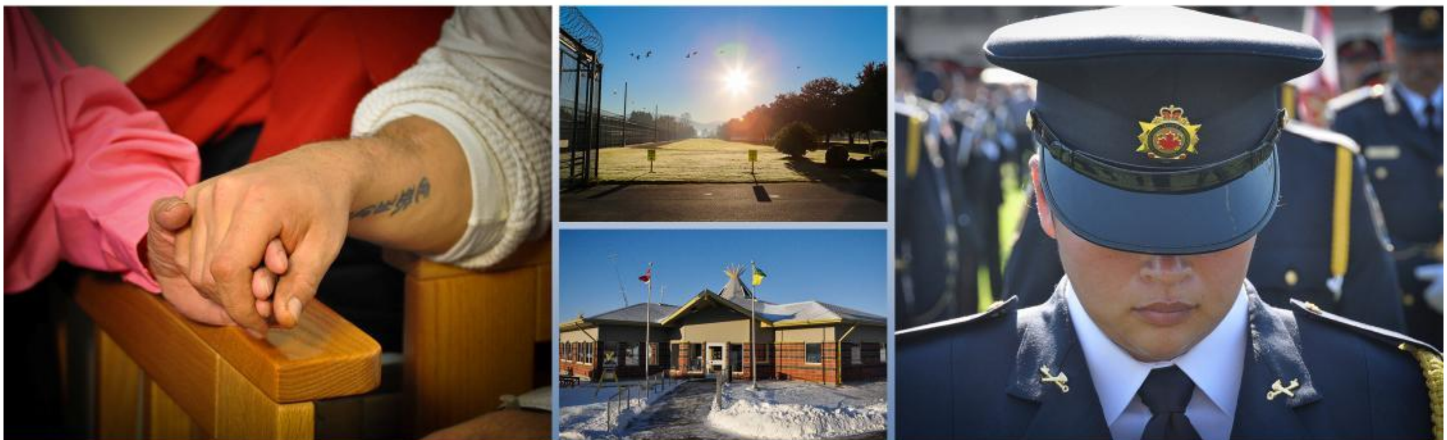
CORRECTIONAL SERVICE CANADA

CHANGING LIVES. PROTECTING CANADIANS.



Quarterly Financial Report

FOR THE QUARTER ENDED DECEMBER 31, 2022

Correctional Service Canada | Service correctionnel Canada

Canada

Table of Contents

Introduction

This quarterly report has been prepared by management of Correctional Service of Canada (CSC) as required by section 65.1 of the Financial Administration Act and in the form and manner prescribed by the Treasury Board. This quarterly report should be read in conjunction with the Main Estimates, Supplementary Estimates and the Quarterly Financial Reports for the quarters ended June 30, 2022 and September 30, 2022. This report has not been subject to an external audit or review.

The purpose of the federal correctional system, as defined by law, is to contribute to the maintenance of a just, peaceful and safe society by carrying out sentences imposed by courts through the safe and humane custody and supervision of offenders; and by assisting the rehabilitation of offenders and their safe reintegration into the community as law-abiding citizens through the provision of programs in penitentiaries and in the community (Corrections and Conditional Release Act, s.3). A summary description of CSC's program activities can be found in Part II of the Main Estimates and the Departmental Plan 2022-2023.

Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes CSC's spending authorities granted by Parliament and those used by the organization, consistent with the Main Estimates for the 2022-2023 fiscal year for which the interim supply was released on March 31, 2022[1] and the full supply was released June 24, 2022[2]. 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 Department. 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.

CSC 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 a cash expenditure basis.

CSC has an active Revolving Fund (CORCAN) that is included in the statutory authorities of the enclosed Statement of Authorities. CORCAN's purpose is to aid in the safe reintegration of offenders into Canadian society by providing employment and training opportunities to offenders incarcerated in federal penitentiaries and, for brief periods, after they are released into the community. CORCAN has a continuing non-lapsing authority from Parliament to make payments out of the Consolidated Revenue Fund (CRF) for working capital, capital acquisitions and temporary financing of accumulated operating deficits, the total

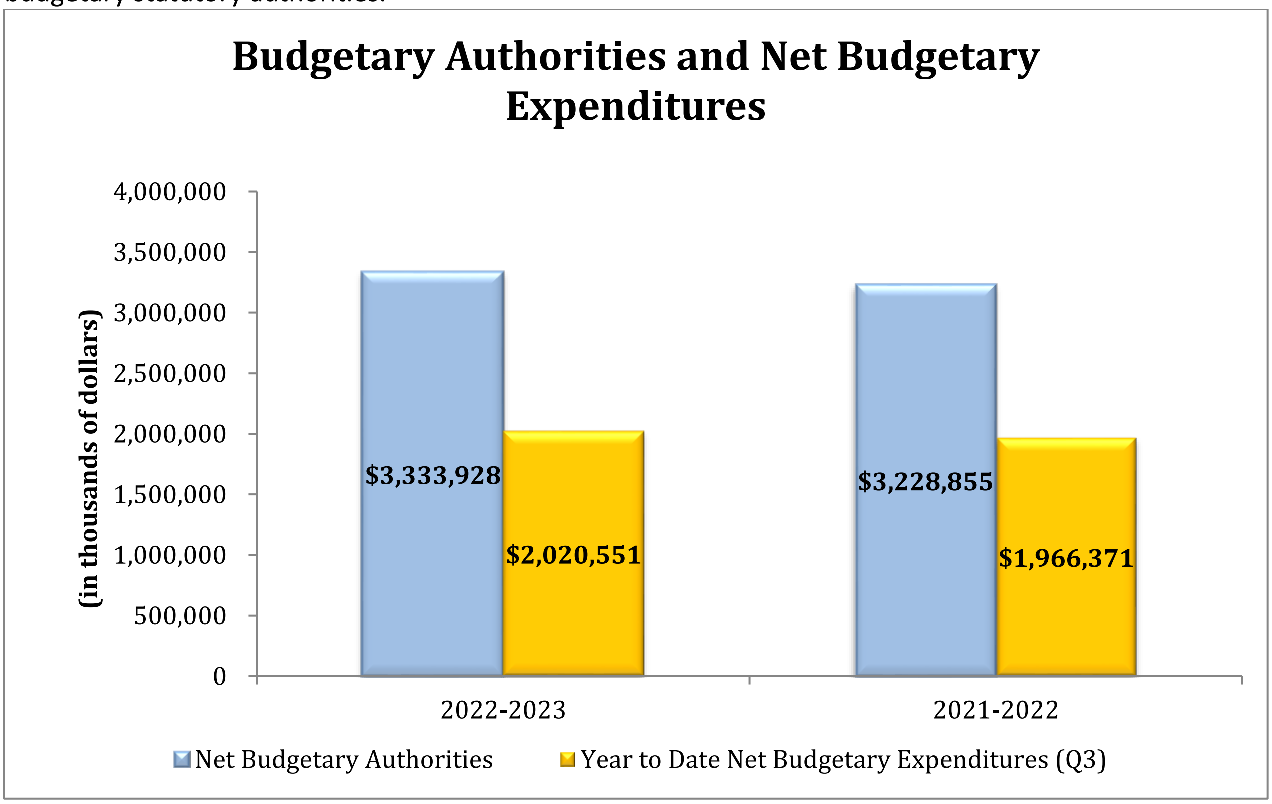
1 Released through Order in Council P.C. 2022-0319.
2 Released through Order in Council P.C. 2022-0834.

of which is not to exceed $20.0 million at any time. Through Supplementary Estimates (A), 2020–2021[3], this limit was increased from a previous amount of $5.0 million. This increase was requested as a consequence of reduced sales and operations resulting from the COVID-19 pandemic. The limit will gradually decrease until fiscal year 2025-26, at which point it will return to the original $5.0 million threshold.

CSC also has a Vote Netted Revenue (VNR) authority in place, currently only being utilised for transactions with the Parole Board of Canada (PBC). The total VNR authority for 2022-23 is $3.9 million, which allows CSC to bill PBC for information management and information technology services on a full incremental cost recovery basis. Throughout this report, the VNR authorities are netted with CSC's vote 1 operating authorities.

Highlights of Fiscal Quarter and Fiscal Year to Date (YTD) Results

The following graph provides a comparison of the total budgetary authorities and net budgetary expenditures as of December 31, 2022 and December 31, 2021 for CSC's combined operating, capital and budgetary statutory authorities.



[3] Released through Order in Council P.C. 2020-510 on June 26, 2020.

Significant Changes to Authorities

As reflected in the Statement of Authorities for the period ending December 31, 2022, CSC has seen an **increase** in total authorities of **$105.1 million or 3.3%** for the current fiscal year compared to the previous fiscal year.

Operating Vote

CSC's Operating Vote **increased by $63.3 million or 2.3%** compared to the authorities at the end of December 2021, which is attributed to the net effect of the following items:

- An **increase of $102.7 million** related to funding for class action lawsuits;
- An **increase of $24.9 million** in funding related to *Transforming Federal Corrections* (Bill C-83);
- An **increase of $19.9 million** in quasi statutory funding related to changes in prices (inflation) and volume of goods and services being procured;
- An **increase of $13.8 million** related to funding approved for Support for the Correctional Service of Canada (Budget 2020);
- An **increase of $11.3 million** in funding from the Operating Budget Carry Forward;
- An **increase of $1.1 million** related to the reprofile of unused 2020-21 funding which was earmarked for the Innovative Solutions Canada initiative;
- An **increase of $1.1 million** in funding for the Application Modernization Initiative;
- An **increase of $0.7 million** related to *Funding for Mental Health for Offenders and CORCAN Farms* (Budget 2018);
- A **decrease of $96.7 million** in funding to support pressures related to COVID-19;
- A **decrease of $8.0 million** related to compensation for the funded portion of collective agreement increases;
- A **decrease of $3.6 million** for travel reductions (Budget 2021);
- A **decrease of $3.1 million** to transfer funds to Shared Services Canada for Government IT Operations (Budget 2021);
- A **decrease of $0.4 million** to transfer funds to the Royal Canadian Mounted Police for Law Enforcement Record Check Services;
- A **decrease of $0.2 million** to transfer funds to Shared Services Canada for Administrative Service Review; and
- A **decrease of $0.2 million** in funding for the *Federal Contaminated Sites Action Plan*.

Capital Vote

CSC's Capital Vote **increased by $32.7 million or 14.4%** compared to the authorities at the end of December 2021, which is related to:

- An **increase of $24.7 million** related to the reprofile of unused 2020-21 funding for the completion of capital projects;
- An **increase of $6.7 million** in funding from the Capital Budget Carry Forward; and
- An **increase of $1.3 million** related to the Financial Management Transformation initiative.

Budgetary Statutory Authorities

CSC's budgetary statutory authorities **increased by $9.1 million or 3.5%** compared to December 2021, which is attributed to the net effect of the following items:

- An **increase of $10.0 million** for the department's allocation of the employer's share of the employee benefit plan;
- An **increase of $1.6 million** of proceeds from the disposal of surplus Crown assets; and
- A **decrease of $2.5 million** resulting from a reduction of the drawdown on the CORCAN revolving fund authority.

Explanation of Significant Variances from Previous Year Expenditures

Compared with the previous fiscal year, the total year to date net budgetary expenditures **increased by $54.2 million or 2.8%** mainly due to the following factors:

- Personnel expenditures **increased by $6.1 million** primarily due to:
  - An **increase of $11.6 million** in civilian regular pay due to increased staffing for class action lawsuits, collective bargaining increases, and the return to work of employees on leave without pay as a result of the vaccination requirement for federal public servants;
  - An **increase of $10.2 million** for the employer's contributions to the employee benefit plan. This will be adjusted at year-end based on total salary expenditures;
  - An **increase of $4.6 million** due to the increase in Workers' Compensation Boards (WCB) expenditures;
  - A **decrease of $9.3 million** due to employee compensation paid last year for Phoenix damages and the late implementation of the collective agreements financial clauses;
  - A **decrease of $8.3 million** in salary due to signing bonuses paid last year following the ratification of collective agreements in 2020-21; and
  - A **decrease of $2.7 million** in retroactive payments paid last year following the ratification of collective agreements in 2020-21.
- Transportation and communication expenditures **increased by $3.7 million** primarily due to:
  - An **increase of $2.8 million** in public servant travel mainly due to the relaxation of COVID-19 travel restrictions as well as site access restrictions; and
  - An **increase of $0.9 million** in data communication services due to invoices being processed earlier this year than last year.
- Professional and special services **increased by $14.4 million** primarily due to:
  - An **increase of $5.8 million** in the actual day bed usage at Community Residential Facilities;
  - An **increase of $5.2 million** in acquisition and contract charges from Public Services and Procurement Canada due to the resumption of construction projects that were stopped or delayed last year, in response to COVID-19;
  - An **increase of $3.0 million** in management consulting for the Federal Building Initiative energy contracting;

    - An **increase of $1.4 million** in education costs mainly due to Correctional and Training invoices being processed earlier this year than last year; and
    - A **decrease of $1.0 million** in legal services mainly due to invoices being processed later this year than last year.
- Rentals **decreased by $3.2 million** in office and residential building rentals mainly due to invoices being processed later this year than last year.
- Repair and maintenance **increased by $5.0 million** primarily due to:
    - An **increase of $4.1 million** in other equipment primarily due to the maintenance of fire safety equipment; and
    - An **increase of $0.9 million** in the maintenance of institutional buildings.
- Utilities, materials and supplies **increased by $17.4 million** primarily due to:
    - An **increase of $5.0 million** in utilities mainly due to increased natural gas, waste disposal and electricity costs;
    - An **increase of $3.9 million** in the purchasing of medications, mainly Hepatitis C medications, to ensure the maintenance of adequate inventory levels for operational needs;
    - An **increase of $3.9 million** in food inventory for inmates mainly due to increased costs;
    - An **increase of $1.7 million** in fuel mainly due to increased costs;
    - An **increase of $1.7 million** in allowance for footwear, which is paid every second year; and
    - An **increase of $1.2 million** in uniforms to ensure sufficient inventory to support operational activities.
- Acquisition of land, buildings and works **increased by $20.3 million**, mainly due to the resumption of construction projects that were stopped or delayed last fiscal year, in response to COVID-19.
- Transfer payments **increased by $1.7 million** mainly due to a new contribution agreement with a local non-profit organization signed in October 2021, qualified under CSC's National Infrastructure Contribution Program.
- Other subsidies and payments **decreased by $3.4 million** primarily due to:
    - A **decrease of $2.1 million** in court ordered payments;
    - A **decrease of $1.8 million** in out of court settlements; and
    - An **increase of $0.5 million** in emergency salary advances and others.
- An **increase of $0.8 million** in CSC's vote-netted revenue with Parole Board of Canada.
- A **net increase of $6.8 million** in CORCAN's revenues is the result of the combination of an increase in sale prices and the improved activities at the institutions as well as the gradual reopening of the economy in general.
- A **decrease of $0.2 million** in other standard objects.

(in millions of dollars)

Organizational Budgetary Expenditures	**Year Over Year**	**Quarter Over Quarter**
Total Net Budgetary Expenditures 2021-2022	1,966.4	673.3
Total Net Budgetary Expenditures 2022-2023	2,020.6	717.6

Variance	**54.2**	**44.3**
Explanation of Variances by Standard Object		
Personnel	6.1	16.0
Transportation and communications	3.7	0.9
Professional and special services	14.4	2.3
Rentals	(3.2)	(0.4)
Purchased repair and maintenance	5.0	1.1
Utilities, materials and supplies	17.4	6.2
Acquisition of land, buildings and works	20.3	16.3
Transfer payments	1.7	0.4
Other subsidies and payments	(3.4)	1.1
Vote-netted revenues	(0.8)	(0.4)
CORCAN revenues	(6.8)	(1.7)
Other standard objects	(0.2)	2.5
Total	**54.2**	**44.3**

Risks and Uncertainties

CSC's Departmental Plan 2022-2023 identifies the current risk environment and CSC's key risk areas to the achievement of its strategic outcomes.

The Government of Canada lifted the proof of vaccination required for federal public servants and supplier personnel as of June 20, 2022. In line with the Government of Canada's decision, effective June 27, 2022, visitors are no longer required to show a proof of vaccination to enter CSC facilities. CSC's existing infection prevention and control efforts are ongoing and CSC will continue to follow public health guidance in adherence with national, provincial and local public health authorities. CSC will address existing financial challenges, and will continue working on a modernization plan over the three-year planning period. During 2020-21, CSC stabilized its existing Departmental Financial Management System (DFMS) using an Oracle technical upgrade, and in 2022-23 will continue to advance plans for the future modernization of the DFMS through a SAP hosting solution.

CSC continues to experience ongoing issues related to the Phoenix Pay System. Given the complexity of our workforce coupled with the operational nature of our organization, CSC has experienced a significantly high number of pay related issues. CSC is continuously working internally and with external stakeholders to resolve these issues.

CSC's specific risks, as outlined in CSC's Departmental Plan 2022-2023, are the increasingly complex and diverse profile of the offender population, the maintenance of required levels of operational safety and security in institutions and the community, the inability to implement its mandate and ensure the financial sustainability and modernization of the organization, the potential loss of support of partners delivering critical services and providing resources for offenders, the maintenance of public confidence in the federal correctional system, and the maintenance of a safe, secure, healthy, respectful, and collaborative working environment as established by its legal and policy obligations, mission, and values statement.

CSC has put in place risk mitigation strategies to address the stated risks. The integrated approach allows CSC to handle risk-related challenges, ensure operational sustainability to fulfill its mandate.

Significant Changes in Relation to Operations, Personnel and Programs

Since the beginning of the pandemic, Correctional Service Canada (CSC) has implemented rigorous infection prevention and control measures at its sites. Over 77.0% of the inmate population have completed their primary COVID-19 vaccine series and 24.1% have received a booster dose in the last six months. Since the situation has stabilized, CSC is gradually resuming inmate visits with appropriate public health measures in place.

CSC’s Special Operating Agency (SOA), CORCAN, operates a revolving fund with authority to spend its revenues. Due to the resulting measures around COVID-19, CORCAN could not operate under normal conditions. Consequently, CORCAN’s drawdown limit increased to $20.0 million following Treasury Board approval. This limit will gradually decrease until fiscal year 2025-26, at which point it will return to the original $5.0 million threshold.

CSC received significant investments via the Fall Economic Statement (2018) to enhance mental health services for offenders, and support amendments to transform federal corrections, specifically in support of Bill C-83. Bill C-83 “*An Act to amend the Corrections and Conditional Release Act and another Act*” received Royal Assent on June 21, 2019. The amendments eliminate administrative and disciplinary segregation, and introduce a new correctional model including the use of structured intervention units (SIUs) for inmates who cannot be managed safely within a mainstream inmate population. CSC has started and is continuing the process of making the necessary infrastructure changes, developing policies, and hiring and training staff to operate the SIUs. Funding for these initiatives gradually increases over a period of five years and stabilizes in fiscal year 2024-2025.

The following change was made to key senior personnel, effective December 2022:

- Kathy Neil has been appointed Assistant Deputy Commissioner, Correctional Operations, Prairie region.

Approvals by Senior Officials

Approved by:

Original Signed	Original Signed
Anne Kelly,	Tony Matson,
Commissioner	Chief Financial Officer

Ottawa, Canada
February 27, 2023

Statement of Authorities (unaudited)

	Fiscal year 2022-2023			Fiscal year 2021-2022		
(in thousands of dollars)	Total available for use for the year ending March 31, 2023*	Used during the quarter ended December 31, 2022	Year to date used at quarter-end	Total available for use for the year ending March 31, 2022*	Used during the quarter ended December 31, 2021	Year to date used at quarter-end
Vote 1 – Operating expenditures						
Gross operating expenditures	2,808,162	590,061	1,741,671	2,744,823	572,026	1,717,814
Vote-netted revenues	(3,943)	-	(2,736)	(3,943)	363	(1,985)
Net operating expenditures	**2,804,219**	**590,061**	**1,738,935**	**2,740,883**	**572,389**	**1,715,829**
Vote 5 – Capital expenditures	**260,118**	**56,303**	**95,856**	**227,457**	**32,224**	**69,524**
Budgetary statutory authorities						
CORCAN gross expenditures	109,527	24,000	67,798	108,388	23,316	66,887
CORCAN revenues	(109,731)	(17,400)	(75,847)	(106,106)	(15,719)	(69,078)
CORCAN net expenditures	(204)	6,600	(8,049)	2,282	7,597	(2,191)
Spending of proceeds from disposal of surplus Crown assets	2,562	15	76	1,006	5	24
Contributions to employee benefits plans	267,233	64,573	193,719	257,227	61,062	183,185
Refunds of amounts credited to revenues in previous years	-	14	14	-	-	-
	269,795	64,602	193,809	258,233	61,067	183,209
Total budgetary authorities	**3,333,928**	**717,566**	**2,020,551**	**3,228,855**	**673,277**	**1,966,371**
Non-budgetary authorities	45	-	-	45	-	-
Total authorities	**3,333,973**	**717,566**	**2,020,551**	**3,228,900**	**673,277**	**1,966,371**

More information is available on the following page.
* Includes only Authorities available for use and granted by Parliament at quarter-end.
Note: CORCAN's available drawdown authority at the end of December 2022 was $20.0M, of which none was used, leaving a residual balance available of $20.0M. In comparison, at the end of December 2021, CORCAN's drawdown authority was $20.0M, of which $5.7M was used, and $14.3M of funding was available.

Organizational budgetary expenditures by Standard Object (unaudited)

	Fiscal year 2022-2023			Fiscal year 2021-2022		
(in thousands of dollars)	Planned expenditures for the year ending March 31, 2023	Expended during the quarter ended December 31, 2022	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2022	Expended during the quarter ended December 31, 2021	Year to date used at quarter-end
Expenditures						
Personnel	2,126,739	499,540	1,485,893	2,101,152	483,520	1,479,841
Transportation and communications	25,674	6,344	16,221	13,546	5,414	12,549
Information	467	205	381	273	120	263
Professional and special services	577,179	107,695	298,711	449,907	105,380	284,278
Rentals	49,677	6,662	20,635	25,992	7,049	23,829
Purchased repair and maintenance	26,877	6,604	18,925	31,442	5,524	13,909
Utilities, materials and supplies	212,501	41,004	106,862	268,344	34,831	89,439
Acquisition of land, buildings and works*	146,090	32,558	55,912	107,265	16,273	35,650
Acquisition of machinery and equipment*	100,561	10,199	18,414	116,497	7,906	18,780
Transfer payments	720	1,212	2,496	120	810	829
Other subsidies and payments	181,117	22,943	74,684	224,366	21,806	78,067
Total gross budgetary expenditures	**3,447,602**	**734,966**	**2,099,134**	**3,338,904**	**688,633**	**2,037,434**
Less revenues netted against expenditures						
Vote-netted revenues	(3,943)	-	(2,736)	(3,943)	363	(1,985)
CORCAN	(109,731)	(17,400)	(75,847)	(106,106)	(15,719)	(69,078)
Total revenues netted against expenditures	**(113,674)**	**(17,400)**	**(78,583)**	**(110,049)**	**(15,356)**	**(71,063)**
Total net budgetary expenditures	**3,333,928**	**717,566**	**2,020,551**	**3,228,855**	**673,277**	**1,966,371**

* These are mainly Vote 5 (Capital) expenditures.