

CORRECTIONAL SERVICE CANADA

CHANGING LIVES. PROTECTING CANADIANS.



Quarterly Financial Report

FOR THE QUARTER ENDED DECEMBER 31, 2019

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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 Report for the quarter as at [June 30, 2019](#) and [September 30, 2019](#). 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 2018-2019](#).

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 2019-2020 fiscal year for which full supply was released on June 25, 2019¹ as well as Supplementary Estimates (A) for 2019-2020 for which full supply was released on December 16, 2019². This quarterly report has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities.

The authority of Parliament is required before money can be spent by the Government. Approvals are given in the form of annually approved limits through appropriation acts, or through legislation in the form of statutory spending authority for specific purposes.

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 an expenditure basis.

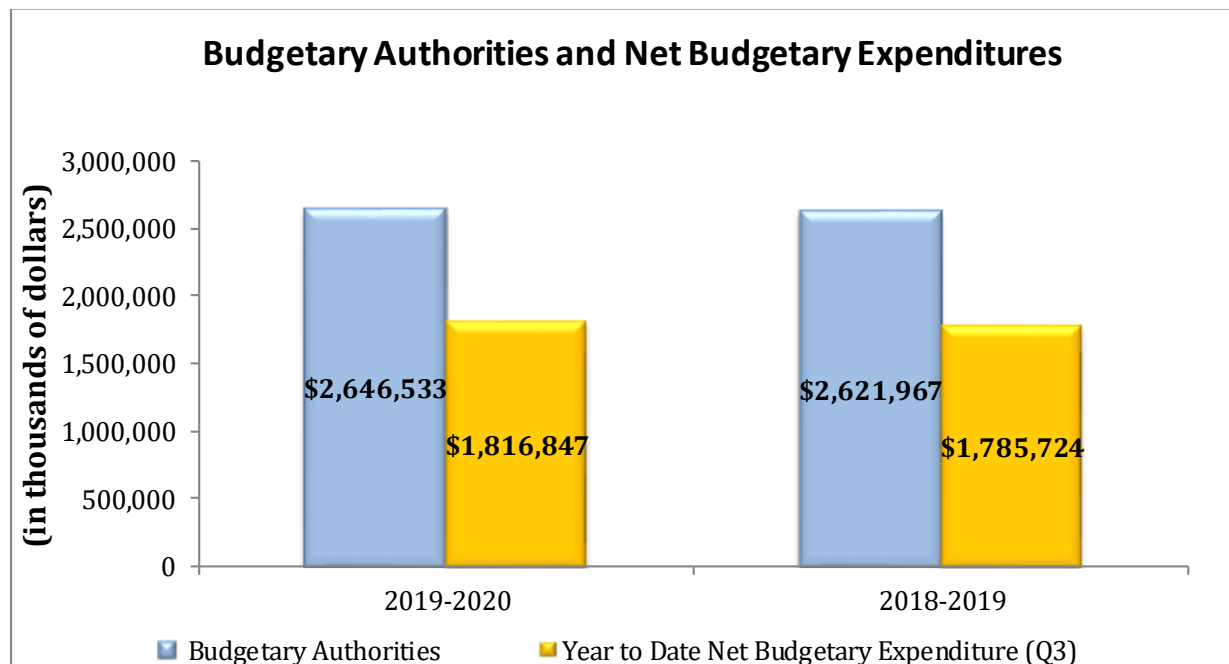
CSC has an active Revolving Fund (CORCAN) that is included in the statutory authorities of the enclosed Statement of Authorities. CORCAN's purpose is to aid in the safe reintegration of offenders into Canadian society by providing employment and training opportunities to offenders incarcerated in federal penitentiaries and, for brief periods of time, 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 of which is not to exceed \$5.0 million at any time.

¹ Released through Order in Council P.C. [2019-964](#).

² Released through Order in Council P.C. [2019-1414](#).

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, 2019 and December 31, 2018 for CSC's combined operating, capital and budgetary statutory authorities.



Significant Changes to Authorities

CSC's 2019-2020 Main Estimates include \$95.0M under Vote 10 for funding approved through Budget 2019 for "Support for the Correctional Service of Canada", to support CSC's existing operations. Funding approved through Vote 10 has not yet been transferred to CSC and is not yet available for use. Therefore, Vote 10 has been excluded from the budgetary authorities presented here and in the Statement of Authorities.

As reflected in the [Statement of Authorities](#) for the period ending December 31, 2019, CSC has seen an **increase** in total authorities of **\$24.6 million or 0.9%** for the current fiscal year compared to the previous fiscal year.

Operating Vote

CSC's Operating Vote **increased by \$70.8 million or 3.3%** compared to the authorities at the end of December 2018, which is attributed to the net effect of the following items:

- An **increase of \$53.2 million** in operating budget carry forward as compared to the previous year;
- An **increase of \$43.2 million** in the operating budget related to Transforming Federal Corrections (Bill C-83): rehabilitative programming, interventions and targeted mental healthcare through the implementation of Structured Intervention Units;
- An **increase of \$21.6 million** in the operating budget due to a conversion of personnel budget to other operating budget;
- An **increase of \$9.4 million** related to the funded portion of Collective Agreement increases;
- An **increase of \$7.9 million** to cover incremental expenditures due to changes in offender population volumes and price fluctuations;
- An **increase of \$6.2 million** related to funding for Vulnerable Offenders, an item of Budget 2017;
- An **increase of \$3.5 million** in operating budget carry forward due to the Transforming Federal Corrections Initiative;
- An **increase of \$3.0 million** in the operating budget due to a transfer of funds from the capital vote for activities in relation to the Offender Management System Modernization Project that cannot be capitalized;
- An **increase of \$1.2 million** in the operating budget due to a transfer of funds from the capital vote for activities in relation to cloud computing services that cannot be capitalized;
- An **increase of \$0.3 million** in funding due to the Modernization of the Program and Administrative Services (PA);
- A **decrease of \$65.3 million** for Program Integrity funding received in the 2018-2019 fiscal year;
- A **decrease of \$9.5 million** due to reallocation of funds to modernize and enhance Government digital services (Budget 2018);
- A **decrease of \$2.3 million** due to the Stabilization of Federal Pay Administration;
- A **decrease of \$1.1 million** in the funding received to date from Treasury Board's Vote 30 for Paylist Requirements for reimbursements for maternity allowances and severance payments;
- **Decreases of \$0.5 million** for other miscellaneous items.

Capital Vote

CSC's Capital Vote **decreased by \$47.9 million or -20.3%** compared to the authorities at the end of December 2018, which is attributed to the following items:

- A **decrease of \$42.4 million** in the capital budget carry forward as compared to the previous year;
- A **decrease of \$3.0 million** in the capital budget due to a transfer of funds to the operating vote for activities in relation to the Offender Management System Modernization Project that cannot be capitalized;
- A **decrease of \$1.3 million** for CSC's contribution to the Financial Management Transformation Initiative;
- A **decrease of \$1.2 million** in the capital budget due to a transfer of funds to the operating vote for activities in relation to cloud computing services that cannot be capitalized.

Budgetary Statutory Authorities

CSC's budgetary statutory authorities **increased by \$1.7 million or 0.7%** compared to December 2018, which is related to increased employer contributions to the Employee Benefit Plan as a result of increases in personnel expenses associated with the items described above, as well as proceeds from the disposal of surplus Crown assets.

Explanation of Significant Variances from Previous Year Expenditures

Compared with the previous fiscal year, the total year to date net budgetary expenditures **increased by \$31.1 million or 1.7%** mainly due to the following factors:

- Personnel expenditures **increased by \$38.7 million** primarily due to:
 - An **increase of \$16.7 million** primarily due to increased rates of pay for salaries in the current fiscal year compared to the previous fiscal year as a result of the signing and implementation of various collective agreements;
 - An **increase of \$9.8 million** related to increased overtime expenses compared to the same period of last fiscal year as more correctional officers were on leave for work-related injuries/illness causing other officers to work overtime;
 - An **increase of \$6.9 million** for other salary expenses including increased payments to casual and part-time staff;
 - An **increase of \$5.5 million** for employer contributions associated with the increased rates of pay for salaries in the current fiscal year compared to the previous fiscal year;
 - A **decrease of \$1.5 million** as fewer retroactive payments were processed during the current fiscal year compared to the prior fiscal year;
 - A **decrease of \$1.1 million** due to a decrease in payments for termination benefits.

- Professional and special services **increased by \$9.7 million** primarily due to:
 - An **increase of \$4.3 million** in welfare services due to an increase in requirements for beds in Community Residential Facilities;
 - An **increase of \$4.0 million** for correctional and training fees to CORCAN as a result of an increase of \$5.0 million related to the Indigenous Offenders Employment Initiative, which was offset by a decrease of \$1.0 million for the reopening of the penitentiary farms in Ontario during 2018-2019;
 - An **increase of \$2.1 million** for physicians and surgeons services due to increases in specialists rates and an increase in the number of hours billed;
 - An **increase of \$1.7 million** related to management consulting services, as more Master Plans and Buildings Conditions Reports were completed in 2019-2020 compared to the same period in 2018-2019;
 - A **decrease of \$3.3 million** related to timing differences in the payments to Public Services and Procurement Canada for contractors security clearances;

- A **decrease of \$1.1 million** for information technologies and telecommunications consultants in 2019-2020, as CSC has been hiring more employees in Information Management Services, instead of contracting to external consultants;
- A **decrease of \$1.0 million** due to timing differences in the payments for exchange of service agreements with the province of Ontario, as well as a reduction in contracted food services over the prior year, as the kitchen for CSC's Training Academy now provide on-site food to recruits, which was previously contracted out.
- Utilities, materials and supplies **increased by \$2.6 million** primarily due to:
 - An **increase of \$1.1 million** for meals provided to inmates, reflecting the rise in food prices, the implementation of a national menu with increased portion sizes, and increased specialized diets;
 - An **increase of \$1.6 million** due to purchases of uniforms and other clothing for newly recruited correctional officers, as well as the scheduled replacement of uniforms and other clothing for officers;
 - An **increase of \$1.0 million** for kitchen supplies and equipment;
 - A **decrease of \$1.6 million** in footwear allowance which is paid every second year.
- Acquisition of land, buildings and works **decreased by \$2.7 million** primarily due to:
 - A **decrease of \$3.7 million** related to the completion in 2018-2019 of the New Sewage Lagoon at Stony Mountain Institution;
 - An **increase of \$1.3 million** mainly due to new building projects that have begun in the Quebec and Ontario regions. This includes modifications that were required as part of the upgrades for Structured Intervention Units resulting from new correctional model introduced with the passage of Bill C-83, *An Act to Amend the Corrections and Conditional Release Act and another Act*.
- Acquisition of machinery and equipment expenditures **decreased by \$5.1 million** primarily due to:
 - A **decrease of \$5.1 million** for road motor vehicles, as new guidelines in 2019-2020 have extended the life cycle of vehicles resulting in fewer replacements as compared to 2018-2019;
 - A **decrease of \$2.5 million** mainly attributable to perimeter security projects that were completed in 2018-2019.
- Other subsidies and payments **decreased by \$14.8 million** primarily due to:
 - A **decrease of \$7.2 million** from the timing of payments made to Employment and Social Development Canada (ESDC) for workers compensation;
 - A **decrease of \$5.8 million** for payments for claims against the Crown compared to the same period last year.

- An **increase of \$3.0 million** in CORCAN's revenues primarily due to:
 - An **increase of \$4.0 million** for correctional and training fees to CORCAN as a result of an increase of \$5.0 million related to the Indigenous Offenders Employment Initiative, which was offset by a decrease of \$1.0 million for the reopening of the penitentiary farms in Ontario during 2018-2019;
 - An **increase of \$3.9 million** related to construction revenues;
 - A **decrease of \$6.9 million** in manufacturing sales.

(in millions of dollars)

Organizational Budgetary Expenditures	Year Over Year	Quarter Over Quarter
Total Net Budgetary Expenditures 2018-2019	1,785.7	634.2
Total Net Budgetary Expenditures 2019-2020	1,816.8	647.4
Variance	31.1	13.2
Explanation of Variances by Standard Object		
Personnel	38.7	28.4
Professional and special services	9.7	4.2
Utilities, materials and supplies	2.6	(5.2)
Acquisition of land, buildings and works	(2.7)	(4.8)
Acquisition of machinery and equipment	(5.1)	5.4
Other subsidies and payments	(14.8)	(14.9)
CORCAN Revenues	(3.0)	(1.3)
Other Standard Objects	5.7	1.4
Total	31.1	13.2

Risks and Uncertainties

CSC's [Departmental Plan 2019-2020](#) identifies the current risk environment and CSC's key risk areas to the achievement of its strategic outcomes.

In the 2013 Speech from the Throne, the Government of Canada announced it would freeze the overall federal operating budget. Consequently, CSC was required to fund the increases in salary resulting from collective agreements that took effect during the freeze period (2014-2015 and 2015-2016), and for the ongoing impact of those adjustments. Given that salaries represent a significant portion of CSC's expenditures, this freeze and other government-wide spending reduction exercises have resulted in significant financial pressures.

CSC continues to review its operations to address the budgetary constraints resulting from the operating budget freeze. The department has undertaken a comprehensive two-year review to:

- identify potential efficiencies and reallocation opportunities,
- make further investments to mitigate operational and financial risks,
- ensure resource levels are sufficient for CSC to meet its legislated mandate, and
- continue to deliver results for Canadians and stabilize its financial position into the future.

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 Plans at a glance and operating context](#), are the increasingly diverse and evolving 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 of the organization, the potential loss of partners delivering critical services and providing resources for offenders and the need to sustain results related to violent reoffenders.

CSC has put in place risk mitigation strategies to address the stated potential risks. The integrated approach allows CSC to handle risk-related challenges, ensure operational sustainability and fulfill its mandate. This includes receiving program integrity funding in the last quarter of 2017-2018, the third quarter of 2018-2019, and through Budget 2019, along with additional anticipated funding in the future until such time as the comprehensive review is completed.

Significant Changes in Relation to Operations, Personnel and Programs

CSC sought incremental funding to implement Transforming Federal Corrections (TFC), a strategy to eliminate the practice of segregation and to transform federal corrections through investments in proactive diagnosis, targeted intervention and treatment of inmates needs.

The TFC Memorandum to Cabinet was approved in September 2018 and funding was approved by Treasury Board Ministers in May 2019. Funding approved through the Treasury Board Submission has begun in the 2019-2020 fiscal year, and will gradually increase over the following five years until it will finally stabilize in fiscal year 2024-2025 going forward.

The Honorable Bill Blair was appointed Minister of Public Safety and Emergency Preparedness on November 20, 2019.

Approvals by Senior Officials

Approved by:

Anne Kelly,
Commissioner

Tony Matson,
Chief Financial Officer

Ottawa, Canada
February , 2020

Statement of Authorities (unaudited)

(in thousands of dollars)

	Fiscal Year 2019-2020			Fiscal Year 2018-2019		
	Total available for use for the year ending March 31, 2020*	Used during the quarter ended December 31, 2019	Year to date used at quarter-end	Total available for use for the year ending March 31, 2019*	Used during the quarter ended December 31, 2018	Year to date used at quarter-end
Expenses						
Vote 1 – Operating Expenditures	2,217,404	530,449	1,526,959	2,146,643	515,861	1,488,901
Vote 5 – Capital Expenditures	187,722	49,014	110,610	235,661	51,651	125,430
Budgetary Statutory Authorities						
CORCAN Gross Expenditures	124,339	31,039	85,736	108,355	28,952	78,281
CORCAN Gross Revenues	(124,339)	(21,753)	(82,261)	(108,355)	(20,405)	(79,237)
CORCAN Net Expenditures (Revenues)	-	9,286	3,475	-	8,547	(956)
Contributions to employee benefit plans	239,664	58,584	175,751	237,905	57,070	171,209
Refunds of previous years revenue	-	-	-	-	(54)	55
Spending of proceeds from the disposal of surplus Crown assets	1,743	44	52	1,758	1,074	1,085
Total Budgetary Authorities	2,646,533	647,377	1,816,847	2,621,967	634,149	1,785,724
Non-Budgetary Authorities	45	(1)	(1)	45	-	-
Total Authorities	2,646,578	647,376	1,816,846	2,622,012	634,149	1,785,724

More information is available on the following page.

* Includes only Authorities available for use and granted by Parliament at quarter-end.

Organizational budgetary expenditures by Standard Object (unaudited)*(in thousands of dollars)*

	Fiscal Year 2019-2020			Fiscal Year 2018-2019		
	Planned expenditures for the year ending March 31, 2020	Expended during the quarter ended December, 2019	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2019	Expended during the quarter ended December, 2018	Year to date used at quarter-end
Expenditures						
Personnel	1,851,660	464,602	1,329,500	1,901,034	436,211	1,290,815
Transportation and communications	24,631	8,975	20,785	24,502	7,807	18,483
Information	621	165	499	538	115	419
Professional and special services	435,943	85,779	243,795	295,638	81,570	234,119
Rentals	18,093	9,003	19,863	22,630	9,878	18,846
Repair and maintenance	23,873	8,138	21,358	23,035	7,165	19,319
Utilities, materials and supplies	142,597	31,631	94,061	130,516	36,806	91,421
Acquisition of land, buildings and works*	130,127	34,057	82,399	153,282	38,844	85,064
Acquisition of machinery and equipment*	56,036	13,951	22,158	85,648	8,575	27,275
Transfer payments	120	379	918	120	224	662
Other subsidies and payments	87,171	12,450	63,772	93,379	27,359	78,538
Total Gross Budgetary Expenditures	2,770,872	669,130	1,899,108	2,730,322	654,554	1,864,961
Less Revenues Netted Against Expenditures						
CORCAN	(124,339)	(21,753)	(82,261)	(108,355)	(20,405)	(79,237)
Total Net Budgetary Expenditures	2,646,533	647,377	1,816,847	2,621,967	634,149	1,785,724

* These are mainly Vote 5 (Capital) expenditures