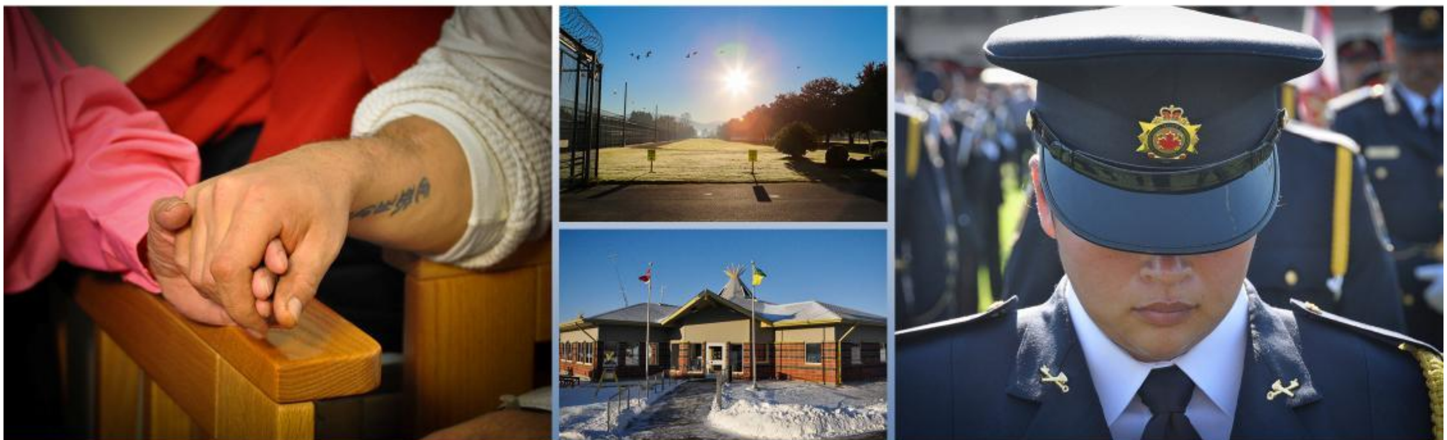
CORRECTIONAL SERVICE CANADA

CHANGING LIVES. PROTECTING CANADIANS.



Quarterly Financial Report

FOR THE QUARTER ENDED DECEMBER 31, 2021

Correctional Service Canada   Service correctionnel Canada

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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 Reports for the quarters ended June 30, 2021 and September 30, 2021. 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 2021-2022.

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 2021-2022 fiscal year for which the interim supply was released on March 31, 2021[1] and the full supply was released June 24, 2021[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. 2021-0244.

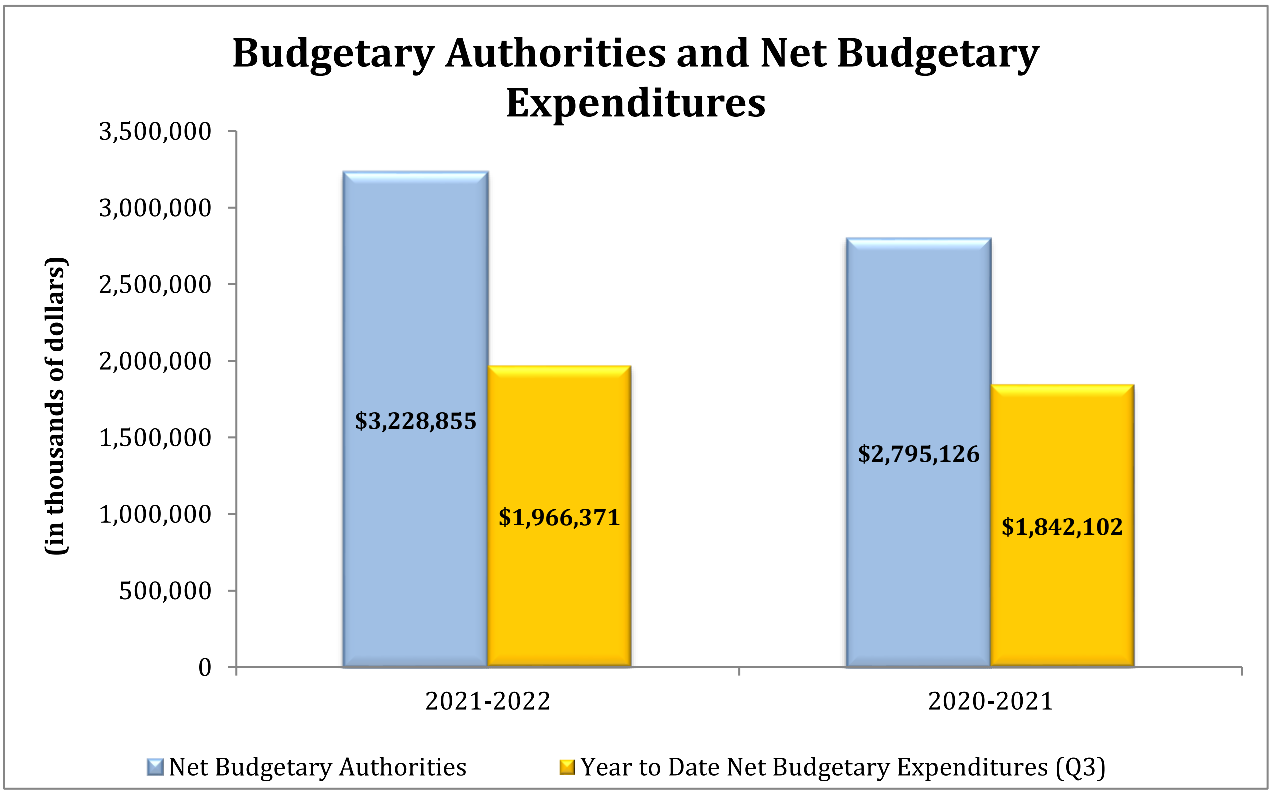
[2] Released through Order in Council P.C. 2021-0629.

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 2021-22 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, 2021 and December 31, 2020 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, 2021, CSC has seen an **increase** in total authorities of **$433.7 million or 15.5%** for the current fiscal year compared to the previous fiscal year.

Operating Vote

CSC's Operating Vote **increased by $400.4 million[4] or 17.1%** compared to the authorities at the end of December 2020, which is attributed to the net effect of the following items:

- An **increase of $151.1 million** for critical operating requirements related to COVID-19;
- An **increase of $102.9 million** related to compensation for the funded portion of collective agreement increases;
- An **increase of $77.7 million** for funding related to class action lawsuits;
- An **increase of $45.1 million** in funding from the Operating Budget Carry Forward;
- An **increase of $22.1 million** in funding related to *Transforming Federal Corrections* (Bill C-83);
- An **increase of $18.3 million** related to funding approved for Support for the Correctional Service of Canada (Budget 2020);
- An **increase of $0.7 million** related to *Funding for Mental Health for Offenders and CORCAN Farms* (Budget 2018);
- A **decrease of $12.5 million** in the funding received to date from Treasury Board's Vote 30 for Paylist Requirements reimbursements of maternity allowances and severance payments;
- A **decrease of $2.5 million** related to funding for *Addressing the Needs of Vulnerable Offenders* (Budget 2017);
- A **decrease of $2.2 million** to transfer funds to the Parole Board of Canada due to the establishment of an alternative cost recovery mechanism in Correctional Services Canada for the provision of Information Technology and Information Management Services;
- A **decrease of $0.3 million** related to the *Program and Administrative Services (PA) Modernization* initiative; and
- A **decrease of $0.2 million** in funding for the *Federal Contaminated Sites Action Plan*.

Capital Vote

CSC's Capital Vote **increased by $18.0 million or 8.6%** compared to the authorities at the end of December 2020, which is related to an increase in the Capital Budget Carry Forward.

Budgetary Statutory Authorities

CSC's budgetary statutory authorities **increased by $15.3 million or 6.3%** compared to December 2020, which is related to:

[4] A variance between the total authorities and the addition of the separate items may occur due to rounding.

- An **increase of $13.2 million** for the department's allocation of the employer's share of the employee benefit plan;
- An **increase of $2.3 million** related to the CORCAN revolving fund, due to a higher planned utilization of the drawdown authorities; and
- A **decrease of $0.2 million** of 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 $124.3 million or 6.7%** mainly due to the following factors:

Expenditures

- Personnel expenditures **increased by $118.9 million** primarily due to:
    - An **increase of $83.3 million** in salary:
        - An **increase of $51.5 million** due to increases of rates of pay resulting from the implementation of various collective agreements ratified in 2020-21;
        - An **increase of $14.8 million** due to the recruitment of new employees and the current 2021-22 rates of pay, of which $8.3 million was spent in relation to Transforming Federal Corrections (Bill C-83);
        - An **increase of $9.3 million** due to signing bonuses following the ratification of collective agreements;
        - An **increase of $5.0 million** to adapt to the impacts of COVID-19; and
        - An **increase of $2.7 million** for expenditures related to Administrative Segregation Class Actions, under the direction of the Class Action Management Office and with the support of internal services.
    - An **increase of $18.3 million** for the employer's contributions to the employee benefit plan. This will be adjusted at year-end based on the total salary expenditures;
    - An **increase of $9.3 million** to compensate employees for Phoenix damages and the late implementation of the collective agreements financial clauses;
    - An **increase of $4.8 million** due to the increase in Workers' Compensation Boards (WCB) expenditures;
    - An **increase of $3.3 million** for the new Welfare Programs (WP) group's Parolee officer allowance;
    - An **increase of $2.6 million** in retroactive payments following the ratification of collective agreements;
    - An **increase of $1.3 million** in other civilian allowances and benefits, mainly for maternity allowances;
    - An **increase of $0.4 million** in other supplementary personnel costs and benefits mainly for employee settlements;
    - A **decrease of $2.4 million** in overtime expenditures compared to last year; and
    - A **decrease of $2.0 million** in severance pay.

- Transportation and communications expenditures **increased by $3.6 million** primarily due to:
  - An **increase of $2.6 million** mainly due to the reduction of travel restrictions between 2020-21 and 2021-22, in related to the pandemic:
    - An **increase of $1.3 million** in relocation costs;
    - An **increase of $0.8 million** in public servants travel mainly for the recruitment of Correctional Officers; and
    - An **increase of $0.5 million** in non-public servants travel for transfers of inmates between regions.
  - An **increase of $1.0 million** in data communication services in response to COVID-19.

- Professional and special services **increased by $42.5 million** primarily due to:
  - An **increase of $10.0 million** in non-professional personal service contracts not elsewhere specified, mainly due to the Exchange of Services Agreement with the Provinces;
  - An **increase of $8.9 million** in management consulting mainly due to invoices processed earlier this year than last year for the Federal Building Initiative energy contracting;
  - An **increase of $5.4 million** in legal services;
  - An **increase of $4.0 million** in health care services/specialist, in various specialities not related to COVID-19;
  - An **increase of $3.7 million** in consultant fees: $1.6 million in Chaplaincy Services, $1.7 million for the Administration Segregation Class Action and $0.4 million for other services;
  - An **increase of $3.2 million** due to COVID-19, as many activities were stopped or delayed last year and resumed to a certain degree this year:
    - An **increase of $1.0 million** in other consultant fees, excluding the information technology and telecommunication consultants;
    - An **increase of $1.0 million** in information technology and telecommunications consultants;
    - An **increase of $0.7 million** in health care services/specialist due to last year's stopped work orders; and
    - An **increase of $0.5 million** in staff training.
  - An **increase of $2.2 million** in other business services not elsewhere specified, including $0.6 million due to the COVID-19 response;
  - An **increase of $1.8 million** in information technology and telecommunications consultants for various projects not related to COVID-19;
  - An **increase of $1.7 million** in Correctional and Training Fees;
  - An **increase of $1.6 million** in protection services for Corps Commissionaire expenditures, mainly associated with construction projects which had been delayed last year;
  - An **increase of $1.4 million** in acquisition and contract charges due to the increase of construction projects;
  - An **increase of $0.4 million** in translation services; and
  - A **decrease of $1.8 million** in contracting building cleaning services, in response to COVID-19.

- Rentals **increased by $5.7 million** primarily due to:
  - An **increase of $4.9 million** in license and maintenance fees:
    - An **increase of $2.6 million** to maintain CSC's ongoing operational activities amidst restrictions;
    - An **increase of $1.4 million** for invoices processed earlier this year than last year; and
    - An **increase of $0.9 million** for ongoing operations.
  - An **increase of $0.7 million** in rental of office buildings and industrial and commercial buildings;
  - An **increase of $0.4 million** in other rentals; and
  - A **decrease of $0.3 million** in rental of machinery, office furniture and fixtures and other equipment.

- Repair and maintenance **decreased by $3.4 million** primarily due to:
  - A **decrease of $1.7 million** in other equipment repairs;
  - A **decrease of $1.0 million** due to an expenditure which had initially been incorrectly recorded under repair and maintenance in 2020-21, but was corrected later on that year;
  - A **decrease of $0.4 million** in heating, air-conditioning and refrigeration equipment; and
  - A **decrease of $0.3 million** in institutional buildings.

- Utilities, materials and supplies **decreased by $37.5 million** primarily due to:
  - A **decrease of $34.4 million,** as, last year, CSC purchased higher levels of supplies to ensure sufficient inventory to support its operational activities during the early period of the COVID-19 pandemic. This approach was not required this fiscal year. The variance is made up of the following categories:
    - A **decrease of $31.1 million** in medical supplies, including personal protective equipment (PPE) purchases;
    - A **decrease of $2.0 million** in cleaning products; and
    - A **decrease of $1.3 million** in food inventory and in the methods of delivery of meals to inmates;
  - A **decrease of $2.4 million** in the purchases of medications as the inventory level was sufficient (mainly for Hepatitis C medications);
  - A **decrease of $1.6 million** in allowances for footwear, which is paid every second year; and
  - An **increase of $0.9 million** in expenditures for gasoline, diesel fuel and light fuel oil caused by savings due to COVID-19 in 2020-21.

- Acquisition of land, buildings and works **increased by $14.7 million,** due to the construction projects that were stopped or delayed last fiscal year, in response to COVID-19;

- Acquisition of machinery and equipment **decreased by $4.0 million** primarily due to:
  - A **decrease of $2.3 million** in investment in other vehicles;
  - A **decrease of $1.3 million** in communication and networking equipment due to the completion of construction project; and

  - A **decrease of $0.4 million** for laptops and other IT equipment, required to allow the organization to maintain operations during the pandemic.

- Other subsidies and payments **decreased by $12.4 million** primarily due to:
  - A **decrease of $20.2 million** of court ordered payments;
  - An **increase of $3.9 million** due to increase in Workers' Compensation Boards (WCB) expenditures;
  - An **increase of $2.7 million** in out-of-court settlements; and
  - An **increase of $1.2 million** in shared costs programs for inmate training, mainly due to an update of the expenditure classification, but also due to a greater level of activities this year compared to last year, due to restrictions related to the pandemic.

Revenues

- A **net increase of $2.0 million** in revenue related to the Voted Netted Revenue (VNR) agreement with Parole Board Canada; and

- A **net increase of $2.3 million** in CORCAN revenues due to the recognition of Correctional and Training Revenue.

(in millions of dollars)

Organizational Budgetary Expenditures	**Year Over Year**	**Quarter Over Quarter**
Total Net Budgetary Expenditures 2020-2021	1,842.1	635.6
Total Net Budgetary Expenditures 2021-2022	1,966.4	673.3
Variance	**124.3**	**37.7**
Explanation of Variances by Standard Object		
Personnel	118.9	21.0
Transportation and communications	3.6	2.0
Professional and special services	42.5	8.0
Rentals	5.7	0.8
Repair and maintenance	(3.4)	(1.6)
Utilities, materials and supplies	(37.5)	(1.2)
Acquisition of land, buildings and works	14.7	3.9
Acquisition of machinery and equipment	(4.0)	(1.8)
Other subsidies and payments	(12.4)	3.6
Vote Netted Revenue	(2.0)	0.3
CORCAN revenues	(2.3)	2.2
Other standard objects	0.5	0.5
Total	**124.3**	**37.7**

Risks and Uncertainties

CSC's Departmental Plan 2021-2022 identifies the current risk environment and CSC's key risk areas to the achievement of its strategic outcomes.

CSC secured permanent integrity funding in 2019-20 to maintain operations after completing its Comprehensive Review. In the short term, CSC is focused on maintaining operations during and in the aftermath of the COVID-19 pandemic. 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 2021-22 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 2021-2022, 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 COVID-19 pandemic, Correctional Service Canada (CSC) has implemented rigorous infection prevention and control measures at its sites. Over 86% of the inmate population has had at least one dose of the vaccine, more than 82% are fully vaccinated and over 34% are fully vaccinated with an additional dose. Since the situation has stabilized, CSC is gradually resuming inmate visits with appropriate public health measures in place.

With the emergence of the new COVID-19 Omicron variant, CSC continues to focus on vaccinations, both COVID-19 and influenza, in combination with other infection prevention and control measures, to help reduce the spread of illness in our facilities. However, evidence is emerging that the effectiveness of the COVID-19 vaccine may decrease over time. Therefore, in mid-November, we began offering booster vaccines for inmates across the country to further protect everyone in our congregate living settings. We began by prioritizing individuals aged 65 and over, and those who had their second dose of the COVID-19 vaccine more than six months ago.

COVID-19 is still quite active in our communities and it is important not to let our guard down, even with higher rates of vaccination. In late November, the Atlantic region experienced its first COVID-19 outbreak at Dorchester Penitentiary, in the medium security unit. Everyone worked hard to contain and prevent the spread of the virus and, thankfully, the vaccination rates are high. While there have been 58 total positive inmate cases to date, 49 have recovered and, as of December 5, 2021, there remains nine active cases at Dorchester. Across the country, the reported cases remain lower but, consistent with the community, we are seeing a surge in cases after several months of not seeing any outbreaks.

While certain pandemic-related expenditures had begun to stabilize in the previous quarter, the emergence of the Omicron variant has already led to increased costs for the department. CSC is continuing to closely monitor the pandemic situation as we head into the final quarter of the fiscal year, with continued importance placed on preventing the spread of COVID-19 in institutions.

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 $20.0M 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.

There have been no changes to key senior personnel in the third quarter of 2021-2022.

Approvals by Senior Officials

Approved by:

Original Signed By
Anne Kelly,
Commissioner

Original Signed By
Tony Matson,
Chief Financial Officer

Ottawa, Canada
February 17, 2022

Statement of Authorities (unaudited)

	Fiscal year 2021-2022			Fiscal year 2020-2021		
(in thousands of dollars)	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	Total available for use for the year ending March 31, 2021*	Used during the quarter ended December 31, 2020	Year to date used at quarter-end
Vote 1–Operating expenditures						
Gross operating expenditures	2,744,826	572,026	1,717,814	2,340,532	551,934	1,633,362
Vote-netted revenues	(3,943)	**363**	(1,985)	-	-	-
Net operating expenditures	**2,740,883**	**572,389**	**1,715,829**	**2,340,532**	**551,934**	**1,633,362**
Vote 5 – Capital expenditures	**227,457**	**32,224**	**69,524**	**209,428**	**23,987**	**47,422**
Budgetary statutory authorities						
CORCAN gross expenditures	108,388	23,316	66,887	124,334	22,461	62,766
CORCAN revenues	(106,106)	(15,719)	(69,078)	(124,334)	(17,925)	(66,729)
CORCAN net expenditures	2,282	7,597	(2,191)	-	4,536	(3,963)
Spending of proceeds from disposal of surplus Crown assets	1,006	5	24	1,182	15	15
Refunds from previous years	-	-	-	-	1	1
Contributions to employee benefits plans	257,227	61,062	183,185	243,984	55,088	165,265
	258,233	61,067	183,209	245,166	55,104	165,281
Total budgetary authorities	**3,228,855**	**673,277**	**1,966,371**	**2,795,126**	**635,561**	**1,842,102**
Non-budgetary authorities	45	-	-	45	-	(1)
Total authorities	**3,228,900**	**673,277**	**1,966,371**	**2,795,171**	**635,561**	**1,842,101**

** Includes only Authorities available for use and granted by Parliament at quarter-end.*
Note: CORCAN's available drawdown authority at the end of December 2021 was $20.0M, of which $5.7M was used, leaving a residual balance available of $14.3M. In comparison, at the end of December 2020, CORCAN's drawdown authority was $20.0M, of which $7.0M was utilized, and $13.0M of funding was available.

Organizational budgetary expenditures by Standard Object (unaudited)

	Fiscal year 2021-2022			*Fiscal year 2020-2021*		
(in thousands of dollars)	Planned expenditures for the year ending March 31, 2022	Expended during the quarter ended December 31, 2021	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2021	Expended during the quarter ended December 31, 2020	Year to date used at quarter-end
Expenditures						
Personnel	2,101,152	483,520	1,479,841	1,912,986	462,488	1,360,982
Transportation and communications	13,546	5,414	12,549	29,374	3,439	8,936
Information	273	120	263	836	92	181
Professional and special services	449,907	105,380	284,278	438,901	97,430	241,822
Rentals	25,992	7,049	23,829	23,665	6,285	18,100
Purchased repair and maintenance	31,442	5,524	13,909	29,727	7,142	17,287
Utilities, materials and supplies	268,344	34,831	89,439	172,040	36,062	126,954
Acquisition of land, buildings and works*	107,265	16,273	35,650	169,428	12,335	20,966
Acquisition of machinery and equipment*	116,497	7,906	18,780	36,481	9,782	22,780
Transfer payments	120	810	829	120	267	382
Other subsidies and payments	224,366	21,806	78,067	105,902	18,164	90,441
Total gross budgetary expenditures	**3,338,904**	**688,633**	**2,037,434**	**2,919,460**	**653,486**	**1,908,831**
Less revenues netted against expenditures						
Vote netted revenue	(3,943)	363	(1,985)	-	-	-
CORCAN	(106,106)	(15,719)	(69,078)	(124,334)	(17,925)	(66,729)
Total revenues netted against expenditures	**(110,049)**	**(15,356)**	**(71,063)**	**(124,334)**	**(17,925)**	**(66,729)**
Total net budgetary expenditures	**3,228,855**	**673,277**	**1,966,371**	**2,795,126**	**635,561**	**1,842,102**

** These are mainly Vote 5 (Capital) expenditures.*