Correctional Service Canada | Service correctionnel Canada

SAFETY, RESPECT AND DIGNITY FOR ALL

LA SÉCURITÉ, LA DIGNITÉ ET LE RESPECT POUR TOUS

Quarterly Financial Report

For the Quarter ended

September 30, 2013

Canada

Table of Contents

Introduction

This quarterly report has been prepared by management 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, Quarterly Financial Report as of June 30, 2013 as well as *Canada's Economic Action Plan 2012* (Budget 2012). This report has not been subject to an external audit or review.

Correctional Service Canada (CSC), as part of the criminal justice system and respecting the rule of law, contributes to public safety by actively encouraging and assisting offenders to become law-abiding citizens, while exercising reasonable, safe, secure and humane control. It delivers its mandate under four major program activities. A summary description of CSC's program activities can be found in Part II of the Main Estimates.

CSC contributes to public safety by administering court-imposed sentences for offenders sentenced to two years or more. This involves managing institutions of various security levels and supervising offenders on different forms of conditional release, while assisting them to become law-abiding citizens. CSC also administers post-sentence supervision of offenders with Long Term Supervision Orders for up to ten years.

Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes the CSC's spending authorities granted by Parliament and those used by the department, consistent with the Main Estimates and Supplementary Estimates A for the 2013-2014 fiscal year, for which full supply was released on June 20, 2013[1]. 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.

As part of the Parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1 preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, after the tabling of the Main Estimates on February 28, 2012. As a result the measures announced in the Budget 2012 could not be reflected in the 2012-13 Main Estimates, i.e., these authorities did not take into consideration any effect from the Deficit Reduction Action Plan.

In fiscal year 2012-2013, frozen allotments were established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in Budget 2012. In 2013-2014, the changes to departmental authorities were reflected in the 2013-2014 Main Estimates tabled in Parliament.

The authority of Parliament is required before moneys 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.

[1] Released through Orders in Council P.C. 2013-0827 and P.C. 2013-0828.

CSC uses the full accrual method of accounting to prepare and present its annual departmental financial statements that are part of the departmental reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

CSC has an active Revolving Fund (CORCAN) which is included in the statutory votes 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.

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

Authorities Analysis

As reflected in the attached Statement of Authorities, as of September 30, 2013, CSC has seen a reduction in total authorities of $585.7 million for the current fiscal year compared to the previous fiscal year. This represents an 18.4% decrease over the total authorities available as of September 30, 2012.

The following table summarizes the variances in total authorities by vote between September 30, 2012 and September 30, 2013. The items highlighted in yellow represent the decrease that occurred in the second quarter of 2013-14.

(in millions of dollars)

	Operating (Vote 25)	Capital (Vote 30)	Budgetary Statutory Authorities[2]	Total
Quarterly Financial Report as of June 30, 2013				
CSC Accommodation Plan 2013-2018	(165.3)	(19.8)	(18.8)	(203.9)
Budget 2012 Saving Measures (Deficit Reduction Action Plan)	(154.3)	-	(15.9)	(170.2)
Reprofiling among fiscal years	-	(81.1)	-	(81.1)
Collective Agreements Renewals	20.9	-	4.2	25.1
National Capital, Accommodation and Operations Plan	1.1	-	(0.1)	1.0
Other	(0.3)	-	1.0	0.7
Quarterly Financial Report as of September 30, 2013				
Operating Budget Carry-forward	(53.3)	-	-	(53.3)
Capital Budget Carry-forward	-	(91.1)	-	(91.1)
Reimbursement of personnel costs	(12.4)	-	-	(12.4)
Disposal of Crown Assets	-	(0.5)	-	(0.5)
Total	**(363.6)**	**(192.5)**	**(29.6)**	**(585.7)**

[2] Represent CSC's allocation of the employer's share of Employee Benefit Plan.

Variances in Authorities for the Period of October 1st, 2012 to June 30, 2013[3]

Through CSC 2013-2018 Accommodation Plan, funding has been reduced by $203.9 million. As part of the Plan, CSC's reference levels were reduced by $165.3 million in operating, $19.8 million in capital and $18.8 million in Employee Benefit Plan. This reduction in operating is associated with the return of funds related to projected inmate population growth which has not materialized for the *Tackling Violent Crime Act* and the *Truth in Sentencing Act*. The reduction in capital of $19.8 million is the result of two adjustments. Capital funding was reduced by $89.8 million to reflect the inmate population growth that has not materialized and an increase of $70.0 million was provided to address the ongoing capitalized maintenance requirements of existing and planned additional units within existing institutions.

The $170.2 million relates to savings identified as part of the Budget 2012 (Deficit Reduction Action Plan).

There was a reduction in capital vote reference levels of $81.1 million due to reprofiling of capital funding among fiscal years. It is attributable to the Construction Portfolio ($12.3 million), the reduction in opening reference level relating to the *Truth in Sentencing Act* ($57.6 million), the Strategic Review Reallocation ($10.8 million) and other adjustments ($0.4 million).

In the first quarter of 2013-2014, CSC received $25.1 million for Collective Agreement renewals.

The $1.0 million increase for the National Capital, Accommodation & Operations Plan (NCAOP) represents a net adjustment from previous years' plans. These changes are based on funding formulae driven by variations in Consumer Price Index and offender population levels, both incarcerated and in the community, as well as changes to the offender profile.

Variances in Authorities for the Period of July 1st, 2013 to September 30, 2013

As of September 30, CSC request to carry forward operating and capital funds in 2013-14[4] was not yet approved by Treasury Board and therefore resulted in a reduction in authorities of $53.3 million in operating and $91.1 million in capital funds.

The reduction of $12.4 million is attributable to a timing difference in the reception of funds from Treasury Board to supplement other appropriations for requirements related to parental and maternity allowances, and for entitlements on cessation of service or employment.

[3] Quarterly Financial Report as of June 30, 2013

[4] For 2013-14, CSC requested the authority from Treasury Board to carry forward $115.3 million in operating and $101.8 million in capital funds.

Quarterly Expenditures Analysis

Compared to the second quarter of the previous fiscal year, total net budgetary expenditures have increased by $4.0 million (0.6%). In the same manner, the total year-to-date expenditures have slightly increased by $0.4 million (0.03%).

(in millions of dollars)

Departmental Budgetary Expenditures	**Year To Date**	**Quarter Over Quarter**
Total Net Budgetary Expenditures 2012-2013	1,171.5	649.1
Total Net Budgetary Expenditures 2013-2014	1,171.9	653.1
Variance	**0.4**	**4.0**
Explanation of Variances by Standard Object		
• Professional and special services	(9.3)	4.8
• Other	9.7	(0.8)
• **Total**	**0.4**	**4.0**

Year-To-Date Expenditures Analysis and Quarter Over Quarter Expenditures Analysis

The decrease of $9.3 million in year-to-date expenditure and the increase of $4.8 million in quarter over quarter expenditure in professional and special services expenditures are mainly due to a modification in the Correctional and Training fee[5] invoicing process between CSC and CORCAN that resulted from a difference in the timing of the expenditure. In 2012-2013, CSC had completely paid the Training fee invoice to CORCAN during the first quarter whereas in 2013-2014 CORCAN is invoicing CSC throughout the year.

Spending Trend Analysis

Overall, CSC's trend in annual budgetary expenditures is consistent with 2012-2013. CSC's spending trend in the second quarter of 2013-2014 is comparable to the same quarter last year ($653.1 million versus $649.1 million).

Although the Deficit Reduction Action Plan saving measures will reduce CSC's expenditures as measures are implemented as planned later in the year, it is expected that CSC's total expenditures for the current fiscal year will increase compared to 2012-2013. This forecasted expenditures increase is mostly attributable to:

- The retroactive pay adjustment and the one-time severance payments pursuant to the collective agreement negotiated with the Union of Canadian Correctional Officers (see Risk and Uncertainties section for further details); and
- The increase in expenditures related to the implementation of the *Tackling Violent Crime Act* and the *Truth in Sentencing Act*.

[5] The Correctional and Training fee's purpose is to offset salary and operating costs that cannot be recovered by CORCAN through the sale of goods and services due to the correctional environment in which it operates.

Risks and Uncertainties

CSC's Report on Plans and Priorities (RPP) identifies the current risk environment and CSC's key risk areas to the achievement of its strategic outcomes. Within this context, specific financial risks relative to the second quarter include the following:

On November 5, 2013, the Treasury Board of Canada and the Union of Canadian Correctional Officers have ratified a new collective agreement (retroactive to June 1, 2010) that has resulted in significant financial impact for CSC. For fiscal year 2013-14, the financial impact of this settlement is estimated to be up to $90.5 million and approximately $30 million annually for future years (including the employer's share of Employee Benefit Plan). The 2012-13 Departmental Performance Report provides additional details regarding the carry forward of funds in 2013-14 that will be mainly used to cover the increase in salary. As part of this new agreement, the accumulation of severance benefits under the employee severance pay program will cease and the employees will be given the option to be immediately paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits on termination from the public service. Although CSC will report an increase in salary expenditures due to the one-time severance payments, it will not create an additional financial pressure for CSC since additional funding will be provided by the Treasury Board of Canada to cover these costs.

CSC continues to implement measures to address the budgetary constraints resulting from the *Expenditure Restraint Act*[6], including:

- maintaining staff deployment standards for Correctional Officers and computerized roster systems to ensure efficient staffing levels in federal institutions, resulting in a significant reduction in overtime expenditures;
- improving integrated human resource and business planning methods to improve the accuracy of forecasts for future staffing, recruitment, and essential training needs;
- implementing strict controls on travel and hospitality expenditures; and,
- reducing contracts for non-essential professional services.

Significant Changes in Relation to Operations, Personnel and Programs

During the second quarter of 2013-2014, CSC completed the closure of three institutions (Kingston Penitentiary and the Regional Treatment Centre in Ontario and Leclerc Institution in Quebec) as previously announced on April 19, 2012 by the federal government.

All transfers of inmates were made in accordance with the *Corrections and Conditional Release Act*, and risk assessments were performed by CSC before transferring an offender to a facility that meets his or her security and programming needs.

[6] As of 2013-2014, CSC is receiving the funding for the increase in salary; however, CSC has to cover the salary increase for signed agreement for 2010-2011, 2011-2012 and 2012-2013.

CSC has put in place a comprehensive plan to accommodate staff impacted by the closures, with the majority of affected staff being redeployed to other facilities or other institutions nearby.

CSC is currently building additional new units within existing institutions to accommodate the increase in offender population due to the implementation of the *Tackling Violent Crime Act* and the *Truth in Sentencing Act*. Most staff affected by the closure of the institutions have been accommodated and will remain on strength to meet the staffing requirements as new accommodation units come on-line.

Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that are being implemented in order to refocus government and programs; make it easier for Canadians and business to deal with their government; and, modernize and reduce the back office.

CSC is doing its part to support the federal government's return to a balanced budget, reduce the deficit, and deliver on its commitments to Canadians.

Budget 2012 announced that CSC will achieve savings of $85.5 million in 2012-2013, $170.2 million in 2013-2014, and ongoing savings of $295.4 million by 2014-2015. The organization will achieve these cost savings by pursuing the implementation of measures to increase offender accountability, achieve administrative efficiencies, streamline operations and program delivery, and close three institutions by 2014-2015 (Kingston Penitentiary and the Regional Treatment Centre in Ontario and Leclerc Institution in Quebec).

CSC fully achieved its target for 2012-2013. For the current and following fiscal years, CSC is actively managing the roll-out of all initiatives through regular and sustained monitoring at the local, regional and national levels. For 2013-2014, as noted above, CSC has completed the closure of three institutions. Although delays are anticipated in the implementation of a few initiatives, interim mitigation strategies have been implemented to achieve the savings as planned.

The initiatives arising from Budget 2012 will further enable CSC to focus resources on the organization's key priorities and core mandate, while at the same time ensuring the organization will continue delivering strong public safety results for Canadians.

Approvals by Senior Officials

Signed by: _____________

Don Head, Commissioner
Ottawa, Canada
November 14, 2013

Signed by: _____________

Liette Dumas-Sluyter, CMA, CIA
Chief Financial Officer

Statement of Authorities (unaudited)

(in thousands of dollars)	*Fiscal Year 2013-2014* Total available for use for the year ending March 31, 2014*	*Fiscal Year 2013-2014* Used during the quarter ended September 30, 2013	*Fiscal Year 2013-2014* Year to date used at quarter-end	*Fiscal Year 2012-2013* Total available for use for the year ending March 31, 2013*, **	*Fiscal Year 2012-2013* Used during the quarter ended September 30, 2012	*Fiscal Year 2012-2013* Year to date used at quarter-end
Vote 25 – Operating Expenditures	**2,008,952**	**495,546**	**927,928**	**2,372,554**	**474,668**	**919,055**
Vote 30 – Capital Expenditures	**355,545**	**94,698**	**125,173**	**547,554**	**100,532**	**120,206**
Budgetary Statutory Authorities						
CORCAN Gross Expenditures	87,201	20,841	37,589	86,633	19,448	37,120
CORCAN Gross Revenues	(87,201)	(16,258)	(35,313)	(86,633)	(11,270)	(36,270)
CORCAN Net Expenditures (Revenues)	–	4,583	2,276	–	8,178	850
Contributions to employee benefit plans	233,117	58,279	116,558	262,737	65,685	131,369
Spending of proceeds from the disposal of surplus Crown assets	1,449	–	–	1,956	–	–
Total Budgetary Authorities	**2,599,063**	**653,106**	**1,171,935**	**3,184,801**	**649,063**	**1,171,480**
Non-Budgetary Authorities	70	–	–	46	–	–
Total Authorities	**2,599,133**	**653,106**	**1,171,935**	**3,184,847**	**649,063**	**1,171,480**

More information is available on the following page.
* *Includes only Authorities that were available for use and granted by Parliament as of quarter end.*

***Total available for use does not reflect measures announced in Budget 2012.*

Departmental Budgetary Expenditures by Standard Object (unaudited)

(in thousands of dollars)	***Fiscal Year 2013-2014*** Planned expenditures for the year ending March 31, 2014**	Expended during the quarter ended September 30, 2013	Year to date used at quarter-end	***Fiscal Year 2012-2013*** Planned expenditures for the year ending March 31, 2013*, **	Expended during the quarter ended September 30, 2012	Year to date used at quarter-end
Expenditures						
Personnel	1,614,750	432,584	847,629	1,810,767	424,681	844,236
Transportation and communications	60,641	6,802	12,673	73,847	6,160	12,354
Information	1,931	137	311	2,113	175	326
Professional and special services	356,414	73,649	125,011	471,045	68,810	134,322
Rentals	16,847	5,404	8,336	20,496	3,801	6,228
Repair and maintenance	46,327	5,294	8,055	63,199	4,452	7,099
Utilities, materials and supplies	149,888	27,003	49,129	183,094	27,453	48,498
Acquisition of land, buildings and works	280,725	82,452	108,924	394,598	87,441	103,902
Acquisition of machinery and equipment	76,268	6,696	8,745	154,912	9,404	12,133
Transfer payments	958	30	151	1,590	278	278
Other subsidies and payments	81,515	29,313	38,284	95,773	27,678	38,374
Total Gross Budgetary Expenditures	**2,686,264**	**669,364**	**1,207,248**	**3,271,434**	**660,333**	**1,207,750**
Less Revenues Netted Against Expenditures						
CORCAN	(87,201)	(16,258)	(35,313)	(86,633)	(11,270)	(36,270)
Total Net Budgetary Expenditures	**2,599,063**	**653,106**	**1,171,935**	**3,184,801**	**649,063**	**1,171,480**

** Planned expenditures do not reflect measures announced in Budget 2012.*

*** The variations in planned expenditures by Standard Object in 2013 are attributable to the implementation of Budget 2012 Saving Measures as well as the return of operating and capital funds associated with the CSC Accommodation Plan 2013-2018.*