



SAFETY, RESPECT
AND DIGNITY
FOR ALL

LA SÉCURITÉ,
LA DIGNITÉ
ET LE RESPECT
POUR TOUS

Quarterly Financial Report

*For the Quarter ended
December 31, 2013*

Table of Contents

| | |
|--|-----------|
| <i>Introduction</i> | 3 |
| Basis of Presentation | 3 |
| <i>Highlights of Fiscal Quarter End and Fiscal Year to Date (YTD) Results</i> | 4 |
| Authorities Analysis | 4 |
| Quarterly Expenditures Analysis | 6 |
| <i>Risks and Uncertainties</i> | 7 |
| <i>Significant Changes in Relation to Operations, Personnel and Programs</i> | 8 |
| <i>Budget 2012 Implementation</i> | 8 |
| <i>Statement of Authorities (unaudited)</i> | 10 |
| <i>Departmental Budgetary Expenditures by Standard Object (unaudited)</i> | 11 |

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 Reports as of [June 30, 2013](#) and [September 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 organization, consistent with the [Main Estimates](#) and [Supplementary Estimates A](#) for the 2013-2014 fiscal year, for which full supply was released on June 20, 2013¹ and [Supplementary Estimates B](#), for which full supply was released on December 13, 2013². 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.

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

² Released through Orders in Council P.C. [2013-1411](#)

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.

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 December 31, 2013, CSC has seen a reduction in total authorities of \$373.8 million for the current fiscal year compared to the previous fiscal year. This represents an 11.6% decrease over the total authorities available as of December 31, 2012.

The following table summarizes the variances in total authorities by vote between each quarter from 2012 to 2013. The items highlighted in yellow represent the variances that occurred in the third quarter of 2013-14.

(in millions of dollars)

| | Operating (Vote 25) | Capital (Vote 30) | Budgetary Statutory Authorities ³ | Total |
|---|------------------------|----------------------|--|---------|
| Quarterly Financial Report as of June 30, 2013 | | | | |
| CSC's 2013-2018 Accommodation Plan | (165.3) | (19.8) | (18.8) | (203.9) |
| Budget 2012 Saving Measures (Canada's Economic 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) |

³ Represent CSC's allocation of the employer's share of Employee Benefit Plan.

| Quarterly Financial Report as of December 31, 2013 | | | | |
|---|----------------|---------------|---------------|----------------|
| Collective Agreements | 0.3 | - | - | 0.3 |
| Operating Budget Carry-forward | 115.3 | - | - | 115.3 |
| Capital Budget Carry-forward | - | 101.8 | - | 101.8 |
| Reimbursement of personnel costs | (3.6) | - | - | (3.6) |
| Disposal of Crown Assets | - | - | (0.4) | (0.4) |
| Other | (1.5) | - | - | (1.5) |
| Total | (253.1) | (90.7) | (30.0) | (373.8) |

Variations in Authorities for the Quarter ended June 30, 2013⁴

Through CSC's 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](#) (Canada's Economic 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.

Variations in Authorities for the Quarter ended September 30, 2013⁵

As of September 30, CSC's request to carry forward operating and capital funds in 2013-14 had not yet been 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 severance benefits.

⁴ [Quarterly Financial Report](#) as of June 30, 2013

⁵ [Quarterly Financial Report](#) as of September 30, 2013

Variations in Authorities for the Quarter ended December 31, 2013

As of December 31, CSC received \$115.3 million in Operating Budget Carry Forward and \$101.8 million in Capital Budget Carry Forward.

The reduction of \$3.6 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, for severance benefits and additional funding received for collective agreements.

The decrease in the planned expenditures by standard object as reflected in the [Departmental Budgetary Expenditures by Standard Object \(unaudited\)](#) table is mainly attributable to the savings identified as part of the *Canada's Economic Action Plan 2012 (Budget 2012)* and the return of funds as part of the CSC's 2013-2018 Accommodation Plan.

Quarterly Expenditures Analysis

Compared to the third quarter of the previous fiscal year, total net budgetary expenditures have increased by \$1.7 million (0.3%). In the same manner, the total year-to-date expenditures have increased as well by \$2.2 million (0.1%).

(in millions of dollars)

| Departmental Budgetary Expenditures | Year To Date | Quarter Over Quarter |
|---|--------------|----------------------|
| Total Net Budgetary Expenditures 2012-2013 | 1,816.7 | 645.2 |
| Total Net Budgetary Expenditures 2013-2014 | 1,818.9 | 646.9 |
| Variance | 2.2 | 1.7 |
| Explanation of Variances by Standard Object | | |
| • Professional and special services | 2.3 | 11.7 |
| • Other | (0.1) | (10.0) |
| • Total | 2.2 | 1.7 |

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

Of the increase of \$11.7 million in quarter over quarter expenditures in professional and special services expenditures, \$5.2 million is due to a modification in the Correctional and Training fee⁶ invoicing process between CSC and CORCAN that resulted in 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. An additional \$3.3 million increase in expenditures is related to the exchange of services agreement with Provinces.

The other variances (decrease of \$10 million) are composed of several minor variances that are mostly offsetting the increase in Professional and special services.

⁶ 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.

Spending Trend Analysis

Overall, CSC's trend in annual budgetary expenditures is consistent with 2012-2013. CSC's spending trend in the third quarter of 2013-2014 is comparable to the same quarter last year (\$646.9 million versus \$645.2 million).

Although the Canada's *Economic Action Plan* saving measures will reduce CSC's expenditures as measures are implemented as planned, 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](#).

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 ratified a new collective agreement (retroactive to June 1, 2010) that resulted in a 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 costs relating to the \$90.5 million are not included in the actual expenditures as CSC will be processing these payments in the last quarter of the fiscal year. 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](#)⁷, 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

No changes have occurred that would have significantly impacted departmental operations, personnel or programs in the recent quarter.

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.

⁷ As of 2013-2014, CSC is receiving the funding for the increases in salary; however, CSC must cover the salary increases for signed agreements for 2010-2011, 2011-2012 and 2012-2013.

Approvals by Senior Officials

Signed by: _____

Don Head, Commissioner
Ottawa, Canada
February 11, 2014

Signed by: _____

Liette Dumas-Sluyter, CMA, CIA
Chief Financial Officer

Statement of Authorities (unaudited)

| | Fiscal Year 2013-2014 | | | Fiscal Year 2012-2013 | | |
|--|---|---|----------------------------------|--|---|----------------------------------|
| | Total available for use for the year ending March 31, 2014* | Used during the quarter ended December 31, 2013 | Year to date used at quarter-end | Total available for use for the year ending March 31, 2013* ** | Used during the quarter ended December 31, 2012 | Year to date used at quarter-end |
| <i>(in thousands of dollars)</i> | | | | | | |
| Vote 25 – Operating Expenditures | 2,143,426 | 481,611 | 1,409,539 | 2,396,525 | 465,701 | 1,384,756 |
| Vote 30 – Capital Expenditures | 456,921 | 101,965 | 227,138 | 547,554 | 108,579 | 228,785 |
| Budgetary Statutory Authorities | | | | | | |
| CORCAN Gross Expenditures | 87,201 | 20,416 | 58,005 | 86,633 | 21,564 | 58,684 |
| CORCAN Gross Revenues | -87,201 | (15,901) | (51,214) | (86,633) | (16,422) | (52,691) |
| CORCAN Net Expenditures (Revenues) | - | 4,515 | 6,791 | - | 5,142 | 5,993 |
| Contributions to employee benefit plans | 233,117 | 58,279 | 174,837 | 262,737 | 65,684 | 197,053 |
| Spending of proceeds from the disposal of surplus Crown assets | 1,564 | 552 | 552 | 2,009 | 89 | 89 |
| Total Budgetary Authorities | 2,835,028 | 646,922 | 1,818,857 | 3,208,825 | 645,195 | 1,816,676 |
| Non-Budgetary Authorities | 43 | - | - | 46 | - | - |
| Total Authorities | 2,835,071 | 646,922 | 1,818,857 | 3,208,871 | 645,195 | 1,816,676 |

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 Canada's Economic Action Plan 2012.

Departmental Budgetary Expenditures by Standard Object (unaudited)

| <i>(in thousands of dollars)</i> | Fiscal Year 2013-2014 | | | Fiscal Year 2012-2013 | | |
|--|---|---|----------------------------------|--|---|----------------------------------|
| | Planned expenditures for the year ending March 31, 2014** | Expended during the quarter ended December 31, 2013 | Year to date used at quarter-end | Planned expenditures for the year ending March 31, 2013*** | Expended during the quarter ended December 31, 2012 | Year to date used at quarter-end |
| Expenditures | | | | | | |
| Personnel | 1,750,651 | 430,678 | 1,278,307 | 1,834,739 | 434,874 | 1,279,109 |
| Transportation and communications | 59,715 | 8,596 | 21,269 | 73,847 | 7,403 | 19,756 |
| Information | 1,931 | 223 | 534 | 2,113 | 187 | 513 |
| Professional and special services | 355,914 | 76,949 | 201,960 | 471,045 | 65,290 | 199,612 |
| Rentals | 16,847 | 5,658 | 13,994 | 20,496 | 3,643 | 9,872 |
| Repair and maintenance | 46,326 | 6,778 | 14,833 | 63,199 | 5,795 | 12,894 |
| Utilities, materials and supplies | 149,888 | 29,032 | 78,161 | 183,094 | 28,486 | 76,984 |
| Acquisition of land, buildings and works | 382,101 | 88,622 | 197,546 | 394,598 | 95,723 | 199,626 |
| Acquisition of machinery and equipment | 76,384 | 8,164 | 16,909 | 154,964 | 8,721 | 20,854 |
| Transfer payments | 957 | 114 | 265 | 1,590 | 278 | 556 |
| Other subsidies and payments | 81,515 | 8,009 | 46,293 | 95,773 | 11,217 | 49,591 |
| Total Gross Budgetary Expenditures | 2,922,229 | 662,823 | 1,870,071 | 3,295,458 | 661,617 | 1,869,367 |
| Less Revenues Netted Against Expenditures | | | | | | |
| CORCAN | (87,201) | (15,901) | (51,214) | (86,633) | (16,422) | (52,691) |
| Total Net Budgetary Expenditures | 2,835,028 | 646,922 | 1,818,857 | 3,208,825 | 645,195 | 1,816,676 |

* Planned expenditures do not reflect measures announced in Canada's Economic Action Plan 2012.

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