

# CORRECTIONAL SERVICE CANADA

CHANGING LIVES. PROTECTING CANADIANS.



## Quarterly Financial Report

FOR THE QUARTER ENDED JUNE 30, 2018

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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](#). 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](#).

### ***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 which full supply was released on June 21, 2018<sup>1</sup>. 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 reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

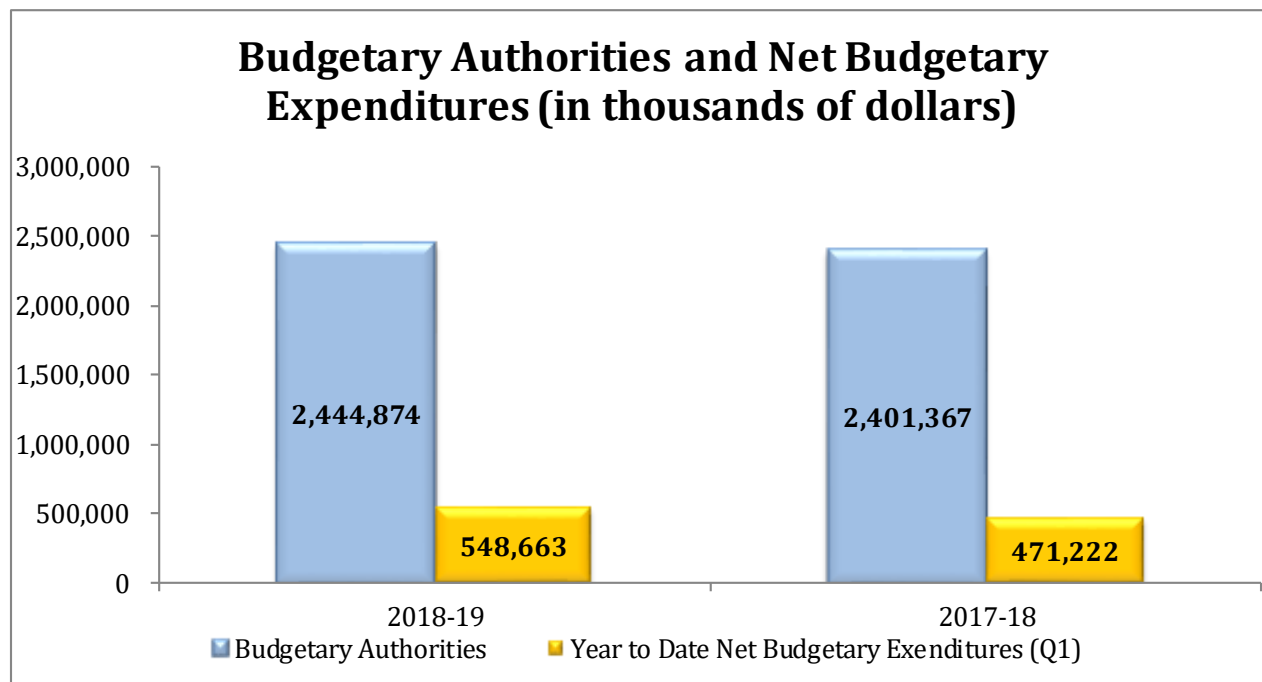
CSC has an active Revolving Fund (CORCAN) which is included in the statutory authorities of the enclosed Statement of Authorities. CORCAN's purpose is to aid in the safe reintegration of offenders into Canadian society by providing employment and training opportunities to offenders incarcerated in federal 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.

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<sup>1</sup> Released through Order in Council P.C. [2018-865](#).

## 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 June 30, 2018 and June 30, 2017 for CSC's combined operating, capital and budgetary statutory authorities.



### Significant Changes to Authorities

As reflected in the [Statement of Authorities](#) for the period ending June 30, 2018, CSC has seen an **increase** in total authorities of **\$43.5 million or 1.8%** for the current fiscal year compared to the previous fiscal year.

### Operating Vote

CSC's Operating Vote **increased by \$64.3 million or 3.3%** compared to the authorities at the end of June 2017, which is attributed to the net effect of the following items:

- An **increase of \$31.4 million** related to compensation for the funded portion of Collective Agreement increases;
- An **increase of \$18.9 million** related to funding for Vulnerable Offenders, an item of Budget 2017;

- An **increase of \$9.7 million** related to cover incremental expenditures due to changes in offender population volumes and price fluctuations;
- An **increase of \$4.7 million** related to a transfer from capital to operating funding is an internal reallocation of resources to support operating requirements; and
- A **decrease of \$0.4 million** for miscellaneous items.

### Capital Vote

CSC's Capital Vote **decreased by \$19.8 million or 9.5%** compared to the authorities at the end of June 2017 which is attributed to the net effect of the following items:

- A **decrease of \$15.1 million** due to reduced funding associated with the completion of capital projects; and
- A **decrease of \$4.7 million** related to a transfer from capital to operating funding is an internal reallocation of resources to support operating requirements.

### Budgetary Statutory Authorities

CSC's budgetary statutory authorities **decreased by \$1.0 million or 0.4%** mainly due to a decrease in the rate of the employer's contribution to the Employee Benefit Plan from 15.7% in the previous year to 15.2% in the current year, as directed by the Treasury Board Secretariat, as well as a decrease in the proceeds from the disposal of surplus of Crown assets.

***Explanation of Significant Variances from Previous Year Expenditures***

Compared with the first quarter of the previous fiscal year, total net budgetary expenditures **increased by \$77.5 million or 16.4%** due to the following factors:

- Personnel expenditures **increased by \$51.2 million** mainly due to:
  - An **increase of \$20.5 million** due to the retroactive payments being processed during the first quarter of 2018-2019 following the signing and implementation of various collective agreements after the first quarter of 2017-2018;
  - An **increase of \$27.3 million** due to increased rates of pay for salaries in the current quarter compared to the previous quarter as a result of the signing and implementation of various collective agreements after the first quarter of 2017-2018; and
  - An **increase of \$3.4 million** for other salary expenses including increased payments to casual and part-time staff.
  
- Professional and special services **increased by \$3.2 million** mainly due to:
  - An **increase of \$1.8 million** for training and correctional fees as a result of increased responsibilities for training related to the management of farms and indigenous employment;
  - An **increase of \$0.6 million** in expenditures for physicians and surgeons, mainly due to timing differences of invoicing and an increase in hours worked for these professionals; and
  - A **net increase of \$0.8 million** in other professional services due to timing of invoices being received in the first quarter instead of the second quarter.
  
- Utilities, materials and supplies expenditures **decreased by \$5.4 million** mainly due to:
  - A **decrease of \$6.3 million** as a result of increased inventory levels of Hepatitis C medication at the end of 2017-18. Therefore, less medication was purchased in the first quarter compared to the same period in the prior year; and
  - A **net increase of \$0.9 million** in the expenditures for footwear, protective wear and uniforms for correctional officers.
  
- Acquisition of land, buildings and works **increased by \$6.3 million** mainly due to:
  - An **increase of \$1.5 million** in costs for the continuation of a project for a sewage lagoon at Stony Mountain Institution started after the first quarter in the prior year;
  - An **increase of \$1.7 million** to upgrade the electrical system at the regional reception centre in Quebec;
  - An **increase of \$0.9 million** for HVAC upgrades at Matsqui Institution;
  - An **increase of \$0.8 million** to build increased capacity at Joliette Institution; and
  - The remaining **increase of \$1.4 million** can primarily be attributed to an increase in general construction in the current period compared to the same period in the prior year.
  
- Acquisition of machinery and equipment expenditures increased by **\$4.0 million** mainly due to purchasing replacement vehicles as part of increased vehicle lifecycle management.

- A **net decrease of \$12.3 million** in CORCAN's revenues mainly due to:
  - A **decrease of \$17.6 million** due to the earlier invoicing by CORCAN of the correctional and training fees in the prior year;
  - An **increase of \$3.5 million** due to timing of orders for goods sold and construction projects managed by CORCAN; and
  - An **increase of \$1.8 million** in correctional and training fees training and correctional fees as a result of increased responsibilities for training related to the management of farms and indigenous employment.

*(in millions of dollars)*

<b>Organizational Budgetary Expenditures</b>	<b>Quarter Over Quarter</b>
Total Net Budgetary Expenditures 2017-2018	471.2
Total Net Budgetary Expenditures 2018-2019	548.7
<b>Variance</b>	<b>77.5</b>
<b>Explanation of Variances by Standard Object</b>	
Personnel	51.2
Professional and special services	3.2
Utilities, materials and supplies	(5.4)
Acquisition of land, buildings and works	6.3
Acquisition of machinery and equipment	4.0
CORCAN Revenues	12.3
Other	5.9
<b>Total</b>	<b>77.5</b>

## Risks and Uncertainties

CSC's [Departmental Plan 2018-2019](#) 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 would have 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 and is undertaking a comprehensive review, over a two-year period, 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 subsequently 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 Operating context and key risks](#), 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 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

There have been the following significant changes since April 1, 2018:

- Tony Matson has undertaken the duties of Assistant Commissioner, Corporate Services Sector and Chief Financial Officer, effective June 18, 2018 replacing Denis Bombardier who left CSC as effective June 1, 2018.
- Anne Kelly was appointed as Commissioner of CSC effective July 30, 2018.

## Approvals by Senior Officials

Approved by:

*Original Signed by*

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Anne Kelly,  
Commissioner

*Ottawa, Canada  
August 28, 2018*

*Original Signed by Gregory Hall for*

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Tony Matson,  
Chief Financial Officer

## Statement of Authorities (unaudited)

(in thousands of dollars)

	<i>Fiscal Year 2018-2019</i>			<i>Fiscal Year 2017-2018</i>		
	Total available for use for the year ending March 31, 2019*	Used during the quarter ended June 30, 2018	Year to date used at quarter-end	Total available for use for the year ending March 31, 2018*	Used during the quarter ended June 30, 2017	Year to date used at quarter-end
<b>Expenses</b>						
Vote 1 – Operating Expenditures	2,026,626	466,338	466,338	1,962,343	419,021	419,021
Vote 5 – Capital Expenditures	189,142	21,493	21,493	208,942	9,888	9,888
<b>Budgetary Statutory Authorities</b>						
CORCAN Gross Expenditures	108,355	22,819	22,819	120,292	16,261	16,261
CORCAN Gross Revenues	(108,355)	(19,057)	(19,057)	(120,292)	(31,336)	(31,336)
<b>CORCAN Net Expenditures (Revenues)</b>	-	3,762	3,762	-	(15,075)	(15,075)
Contributions to employee benefit plans	228,278	57,070	57,070	229,424	57,388	57,388
Spending of proceeds from the disposal of surplus Crown assets	828	-	-	658	-	-
<b>Total Budgetary Authorities</b>	<b>2,444,874</b>	<b>548,663</b>	<b>548,663</b>	<b>2,401,367</b>	<b>471,222</b>	<b>471,222</b>
Non-Budgetary Authorities	45	-	-	45	-	--
<b>Total Authorities</b>	<b>2,444,919</b>	<b>548,663</b>	<b>548,663</b>	<b>2,401,412</b>	<b>471,222</b>	<b>471,222</b>

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 2018-2019			Fiscal Year 2017-2018		
	Planned expenditures for the year ending March 31, 2019	Expended during the quarter ended June 30, 2018	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2018	Expended during the quarter ended June 30, 2017	Year to date used at quarter-end
<b>Expenditures</b>						
Personnel	1,779,904	448,216	448,216	1,740,183	397,053**	397,053**
Transportation and communications	24,502	4,758	4,758	25,465	4,035**	4,035**
Information	538	161	161	610	64	64
Professional and special services	293,299	44,057	44,057	298,072	40,869**	40,869**
Rentals	22,629	4,029	4,029	16,726	2,317	2,317
Repair and maintenance	23,035	3,943	3,943	23,460	2,332	2,332
Utilities, materials and supplies	130,516	24,148	24,148	129,360	29,578	29,578
Acquisition of land, buildings and works*	100,588	11,084	11,084	132,198	4,760	4,760
Acquisition of machinery and equipment*	84,719	7,098	7,098	72,702	3,129	3,129
Transfer payments	120	-	-	120	30	30
Other subsidies and payments	93,379	20,226	20,226	82,763	18,391**	18,391**
<b>Total Gross Budgetary Expenditures</b>	<b>2,553,229</b>	<b>567,720</b>	<b>567,720</b>	<b>2,521,659</b>	<b>502,558</b>	<b>502,558</b>
<b>Less Revenues Netted Against Expenditures</b>						
CORCAN	(108,355)	(19,057)	(19,057)	(120,292)	(31,336)	(31,336)
<b>Total Net Budgetary Expenditures</b>	<b>2,444,874</b>	<b>548,663</b>	<b>548,663</b>	<b>2,401,367</b>	<b>471,222</b>	<b>471,222</b>

\* These are mainly Vote 5 (Capital) expenditures

\*\*Amounts re-classified to conform to current quarter presentation.