

CORRECTIONAL SERVICE CANADA

CHANGING LIVES. PROTECTING CANADIANS.



Quarterly Financial Report

FOR THE QUARTER ENDED DECEMBER 31, 2018

Table of Contents

<i>Introduction</i>	3
Basis of Presentation	3
<i>Highlights of Fiscal Quarter and Fiscal Year to Date (YTD) Results</i>	4
Significant Changes to Authorities	4
Explanation of Significant Variances from Previous Year Expenditures	7
<i>Risks and Uncertainties</i>	10
<i>Significant Changes in Relation to Operations, Personnel and Programs</i>	11
<i>Statement of Authorities (unaudited)</i>	12
<i>Organizational Budgetary Expenditures by Standard Object (unaudited)</i>	13

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 Quarterly Financial Reports as of [June 30, 2018](#) and [September 30, 2018](#). 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 2018-2019 fiscal year for which full supply was released on June 21, 2018¹ and [Supplementary Estimates \(A\)](#), for which full supply was released on December 16, 2018². 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.

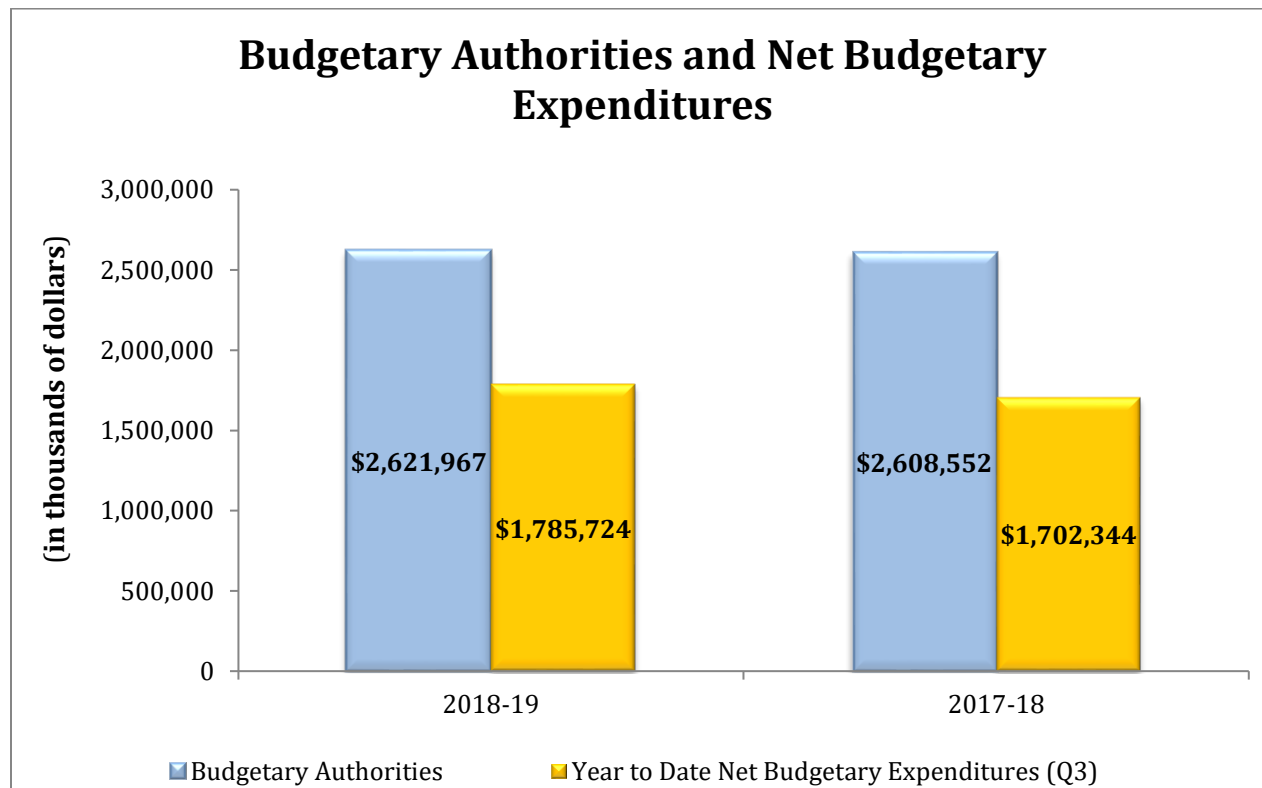
CSC has an active Revolving Fund (CORCAN) that is included in the statutory authorities of the enclosed Statement of Authorities. CORCAN's purpose is to aid in the safe reintegration of offenders into Canadian society by providing employment and training opportunities to offenders incarcerated in federal 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. [2018-865](#).

² Released through Orders in Council P.C. [2018-1565](#).

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, 2018 and December 31, 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 December 31, 2018, CSC has seen an **increase** in total authorities of **\$13.4 million or 0.5 %** for the current fiscal year compared to the previous fiscal year.

Operating Vote

CSC's Operating Vote **increased by \$25.1 million or 1.2 %** compared to the authorities at the end of December 2017, which is attributed to the net effect of the following items:

- An **increase of \$65.3 million** in funding to enable CSC to continue existing operations in support of its mandate;
- A **decrease of \$82.0 million** in operating budget carry forward as there was none in 2018-2019 due to CSC's 2017-2018 Program Integrity funding;

- An **increase of \$11.0 million** related to compensation for the funded portion of collective agreement increases;
- An **increase of \$6.9 million** for Budget 2017 investments to modernise Canada's Correctional System, address indigenous over representation and provide greater mental health support for vulnerable offenders;
- An **increase of \$9.7 million** to address 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 as an internal reallocation of resources to support operating requirements;
- An **increase of \$4.7 million** in funding received from Budget 2018 for mental health and the reopening of CORCAN farms;
- An **increase of \$2.8 million** through the Supplementary Estimates A for an internal transfer of resources to implement a common definition of the capital expenditures vote;
- An **increase of \$2.3 million** through the Supplementary Estimates A in funding to address issues with Phoenix;
- A **decrease of \$0.3 million** for miscellaneous items.

Capital Vote

CSC's Capital Vote **decreased by \$19.5 million or 7.6%** compared to the authorities at the end of December 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;
- A **decrease of \$4.7 million** related to a transfer from capital to operating funding as an internal reallocation of resources to support operating requirements;
- A **decrease of \$2.8 million** through the Supplementary Estimates A for an internal transfer of resources to implement a common definition of the capital expenditures vote;
- A **decrease of \$0.2 million** related to a one-time transfer in 2017-18 from the Royal Canadian Mounted Police (RCMP) for the Shared Learning Facility Project.
- An **increase of \$3.4 million** for the capital carry forward budget as compared to the carry forward for the prior fiscal year; and
- A **decrease of \$0.1 million** for miscellaneous items.

Budgetary Statutory Authorities

CSC's budgetary statutory authorities **increased by \$7.8 million or 3.4%** compared to December 2017, which is attributed to the net effect of the following items:

- An **increase of \$9.3 million** related to funding received for support to CSC;
- An **increase of \$0.3 million** in funding received from Budget 2018 for mental health and the reopening of CORCAN farms;
- A **decrease of \$0.9 million** in funding received in 2017-18 through the Supplementary Estimates B related to the vulnerable offenders; and

- A **decrease of \$0.9 million** 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; offset by an increase in the 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 \$83.4 million or 4.9%** mainly due to the following factors:

- Personnel expenditures **increased by \$23.6 million** primarily due to:
 - An **increase of \$55.6 million** 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;
 - A **decrease of \$48.1 million** due to fewer retroactive payments processed during the current fiscal year compared to the prior fiscal year;
 - An **increase of \$14.6 million** for other salary expenses including increased payments to casual and part-time staff and overtime expenses; and
 - An **increase of \$1.2 million** due to increase in payments of termination benefits.

- Professional and special services **increased by \$17.4 million** primarily due to:
 - An **increase of \$7.6 million** for correctional and training fees to CORCAN as a result of increased responsibilities for training related to the management of farms and indigenous employment;
 - An **increase of \$3.3 million** due to payment to Public Services and Procurement Canada for contractors security clearance;
 - An **increase of \$2.4 million** in welfare services primarily due to an increase of 2.1% in the per diem rate and a 3% increase in utilisation of Community Residential Facilities beds; and
 - An **increase of \$1.4 million** due to expenses related to the transfer of Correctional Training Academy from Regina to Kingston including **\$1.1 million** paid to St. Lawrence College.

- Acquisition of land, buildings and works **increased by \$38.3 million** mainly related to projects started after September 30, 2017 and continued in 2018-2019, including:
 - \$6.3 million for a firing range project at the National Training Academy;
 - \$3.5 million for heating and cooling at the Edmonton Institution;
 - \$3.4 million for an electrical distribution project;
 - \$3.4 million for gate and fence repair at Saskatchewan Penitentiary;
 - \$3.2 million for mechanical systems upgrade at Kent;
 - \$3.0 million for perimeter wall repairs at Dorchester;
 - \$2.6 million for window replacements at the Millhaven Institution;
 - \$2.6 million for replacement of heating, ventilation, and air conditioning units at Regional Psychiatric Centre Prairies;
 - \$2.1 million for a sewage lagoon project;
 - \$1.8 million for heating, ventilation, and air conditioning revitalization at Matsqui;
 - \$1.5 million for repair and replacement of road lights at Archambault Institution;
 - \$1.5 million for principal entrance and industrial building at the Edmonton Institution;
 - \$1.4 million for fire alarm system upgrades at Beaver Creek;

- \$1.3 million for replacement of windows at Port Cartier; and
- \$1.3 million for healthcare renovation & expansion at Mountain Institution.

- Acquisition of machinery and equipment expenditures **increased by \$7.9 million** due to:
 - An **increase of \$4.1 million** for purchasing replacement vehicles as part of increased vehicle lifecycle management;
 - An **increase of \$3.0 million** due to upgrade of security system at Bowden and Drumheller institutions;
 - An **increase of \$1.2 million** due to radio infrastructure upgrade; and
 - A **decrease of \$0.4 million** for miscellaneous items.

- Other subsidies and payments **increased by \$8.3 million** primarily due to:
 - An **increase of \$4.6 million** in usage of inventory as a result of increased sales volume of CORCAN products compared to last fiscal year; and
 - An **increase of \$3.7 million** in payments for claims against the Crown compared to the same period last year.

- A **net increase of \$18 million** in CORCAN's revenues due to:
 - An **increase of \$13.4 million** due to CORCAN sales initiatives to encourage major clients to complete orders earlier in the fiscal year;
 - An **increase of \$2.3 million** due to timing of orders for goods sold and construction projects managed by CORCAN; and
 - An **increase of \$2.3 million** in correctional and training fees due to increased responsibilities for training related to the management of farms and indigenous employment.

When compared to the same quarter in the previous fiscal year, total net budgetary expenditures in the third quarter ending December 31, 2018 have **increased by \$45.6 million or 7.8%**. The net increase is mainly due to a \$15.5 million increase in salary expenses because of higher rates of pay for salaries in the current fiscal quarter compared to the previous fiscal quarter as a result of the signing and implementation of various collective agreements in 2017-2018. There was an increase of \$12.1 million in construction expenditures largely caused by an increase in expenditures from Public Services and Procurement Canada. Increase of \$11.4 million in utilities, materials and supplies is primarily due to \$4.9 million increase pharmaceutical products due to bulk purchase of Hepatitis C vaccine, \$4 million due to timing of invoices and \$1.3 million due to payments of uniform allowance to Correctional Officers in the third quarter of this year. There was an increase of \$9.2 million in other subsidies and payments due to an increase of \$3.2 million in payments for claims against the Crown, \$2.2 million increase in the usage of inventory resulting from greater CORCAN sales, and an increase of \$2.9 million for payments of administrative services charges by Employment and Social Development Canada related to workers compensation. Additionally, revenues netted against expenditures increased by \$2.4 million due to the CORCAN sales initiatives to encourage major clients to complete orders earlier in the fiscal year, as well as an increase in the correctional and training fees between CSC and CORCAN.

(in millions of dollars)

Organizational Budgetary Expenditures	Year Over Year	Quarter Over Quarter
Total Net Budgetary Expenditures 2017-2018	1,702.3	588.5
Total Net Budgetary Expenditures 2018-2019	1,785.7	634.1
Variance	83.4	45.6
Explanation of Variances by Standard Object		
Personnel	23.6	15.5
Professional and special services	17.4	(3.4)
Utilities, materials and supplies	2.0	11.4
Acquisition of land, buildings and works	38.3	12.1
Acquisition of machinery and equipment	7.9	1.3
Other subsidies and payments	8.3	9.2
CORCAN Revenues	(18.0)	(2.4)
Other Standard Objects	3.9	1.9
Total	83.4	45.6

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 and the third quarter of 2018-2019 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

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

- Anuradha Marisetti, Regional Deputy Commissioner Pacific Region, left CSC in October 2018.
- Denis Boucher was appointed Regional Deputy Commissioner Pacific on January 21, 2019.
- Jay Pyke was appointed Regional Deputy Commissioner Atlantic on January 7, 2019.
- Fraser Macaulay, Assistant Commissioner Correctional Operations and Programs announced his retirement effective February 16, 2019.

Approvals by Senior Officials

Approved by:

Original Signed by _____
Anne Kelly,
Commissioner

Original Signed by _____
Tony Matson,
Chief Financial Officer

Ottawa, Canada
February 25, 2019

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 December 31, 2018	Year to date used at quarter-end	Total available for use for the year ending March 31, 2018*	Used during the quarter ended December 31, 2017	Year to date used at quarter-end
Expenses						
Vote 1 – Operating Expenditures	2,146,643	515,861	1,488,901	2,121,546	485,189	1,450,194
Vote 5 – Capital Expenditures	235,661	51,651	125,430	255,155	41,154	78,458
Budgetary Statutory Authorities						
CORCAN Gross Expenditures	108,355	28,952	78,281	120,292	22,788	62,792
CORCAN Gross Revenues	(108,355)	(20,405)	(79,237)	(120,292)	(18,040)	(61,239)
CORCAN Net Expenditures (Revenues)	-	8,547	(956)	-	4,748	1,553
Contributions to employee benefit plans	237,905	57,070	171,209	230,291	57,356	172,068
Refunds of previous years revenue	-	(54)	55	-	-	-
Spending of proceeds from the disposal of surplus Crown assets	1,758	1,074	1,085	1,560	47	71
Total Budgetary Authorities	2,621,967	634,149	1,785,724	2,608,552	588,494	1,702,344
Non-Budgetary Authorities	45	-	-	45	-	-
Total Authorities	2,622,012	634,149	1,785,724	2,608,597	588,494	1,702,344

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)*

	<i>Fiscal Year 2018-2019</i>			<i>Fiscal Year 2017-2018</i>		
	Planned expenditures for the year ending March 31, 2019	Expended during the quarter ended December 31, 2018	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2018	Expended during the quarter ended December 31, 2017	Year to date used at quarter-end
Expenditures						
Personnel	1,901,034	436,211	1,290,815	1,892,547	420,715**	1,267,220**
Transportation and communications	24,502	7,807	18,483	25,804	6,745**	16,907**
Information	538	115	419	610	154	368
Professional and special services	295,638	81,570	234,119	304,143	84,963**	216,711**
Rentals	22,630	9,878	18,846	16,946	7,371	16,549
Repair and maintenance	23,035	7,165	19,319	23,460	8,486	18,438
Utilities, materials and supplies	130,516	36,806	91,421	130,436	25,452	89,428
Acquisition of land, buildings and works*	153,282	38,844	85,064	178,411	26,756	46,778
Acquisition of machinery and equipment*	85,648	8,575	27,275	73,603	7,250	19,342
Transfer payments	120	224	662	120	531	1,583
Other subsidies and payments	93,379	27,359	78,538	82,763	18,111**	70,259**
Total Gross Budgetary Expenditures	2,730,322	654,554	1,864,961	2,728,843	606,534	1,763,583
Less Revenues Netted Against Expenditures						
CORCAN	(108,355)	(20,405)	(79,237)	(120,291)	(18,040)	(61,239)
Total Net Budgetary Expenditures	2,621,967	634,149	1,785,724	2,608,552	588,494	1,702,344

* These are mainly Vote 5 (Capital) expenditures

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