

CORRECTIONAL SERVICE CANADA

CHANGING LIVES. PROTECTING CANADIANS.



Quarterly Financial Report

FOR THE QUARTER ENDED JUNE 30, 2019

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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](#) and the [Departmental Plan 2019-2020](#).

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 2019-2020 fiscal year for which full supply was released on June 28, 2019¹. 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.

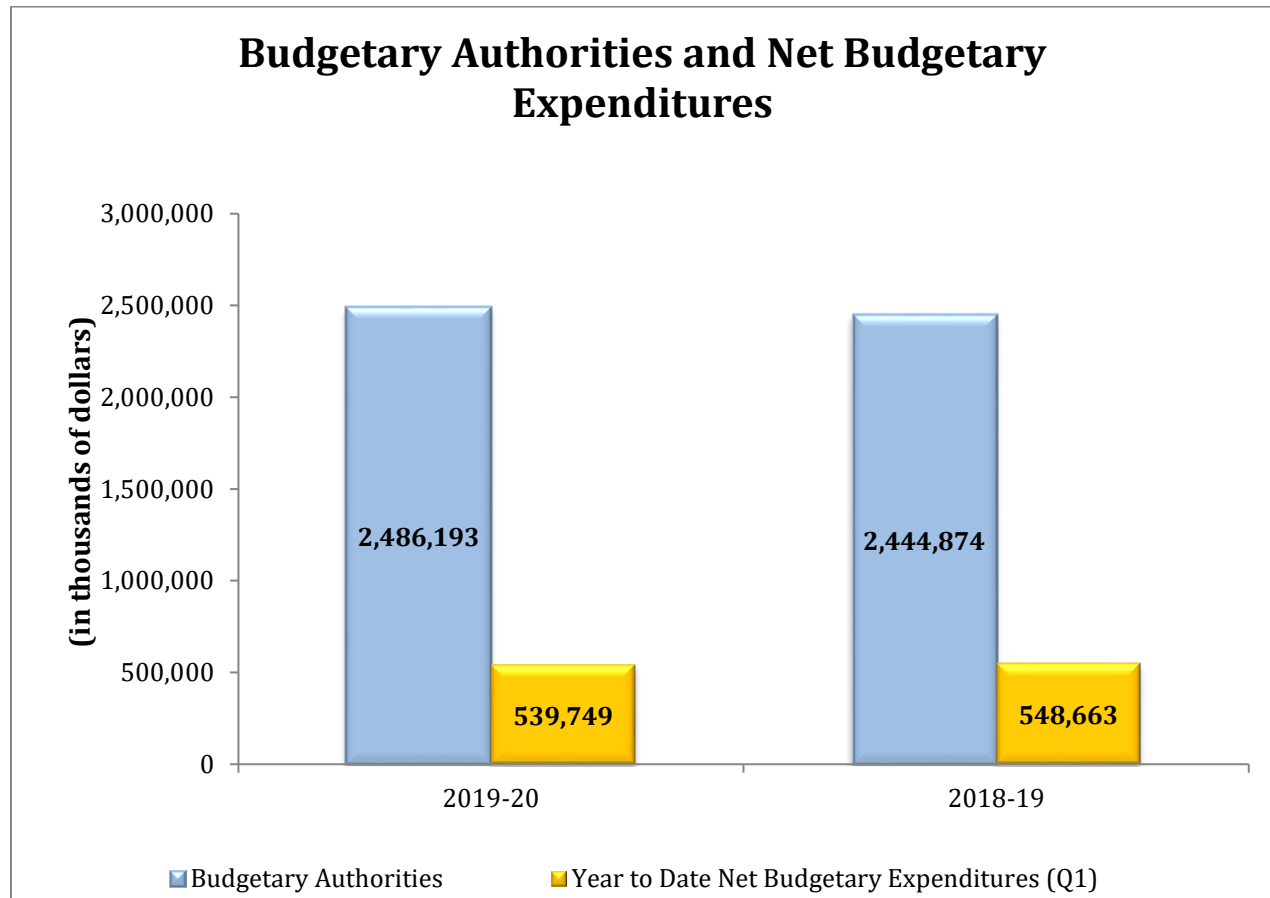
CSC uses the full accrual method of accounting to prepare and present its annual departmental financial statements that are part of the departmental results reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

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. [2019-964](#).

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, 2019 and June 30, 2018 for CSC's combined operating, capital and budgetary statutory authorities.



Significant Changes to Authorities

CSC's 2019-20 Main Estimates include \$95.0M under Vote 10 for funding approved through Budget 2019 for "Support for the Correctional Service of Canada", to support CSC's existing operations. Funding approved through Vote 10 has not yet been transferred to CSC and is not yet available for use. Therefore, Vote 10 has been excluded from the budgetary authorities presented here and in the Statement of Authorities.

As reflected in the [Statement of Authorities](#) for the period ending June 30, 2019, CSC has seen an **increase** in total authorities available for use of **\$41.3 million or 1.7 %** for the current fiscal year compared to the previous fiscal year.

Operating Vote

CSC's Operating Vote **increased by \$36.3 million or 1.8 %** compared to the authorities at the end of June 2018, which is attributed to the net effect of the following items:

- An **increase of \$27.6 million** related to the funded portion of Collective Agreement increases;
- An **increase of \$7.9 million** to cover incremental expenditures due to changes in offender population volumes and price fluctuations;
- An **increase of \$6.2 million** related to funding for Vulnerable Offenders (Budget 2017);
- An **increase of \$4.3 million** to further support the mental health needs of inmates and to support the reopening of the penitentiary farms at Joyceville and Collins Bay institutions (Budget 2018);
- A **decrease of \$9.5 million** due to reallocation of funds to Shared Services Canada to modernize and enhance Government digital services (Budget 2018);
- A **decrease of \$0.1 million** in funding for the *Federal Contaminated Sites Action Plan Initiative*;
- A **decrease of \$0.1 million** in funding to the *Greening Government Fund Initiative*.

Capital Vote

CSC's Capital Vote **decreased by \$1.3 million or 0.7%** compared to the authorities at the end of June 2018, which is attributed to CSC's contribution to the *Financial Management Transformation Initiative* of the Treasury Board of Canada Secretariat.

Budgetary Statutory Authorities

CSC's budgetary statutory authorities **increased by \$6.3 million or 2.8%** compared to June 2018, which is related to increases in personnel expenses associated with the items described above, as well as proceeds from the disposal of surplus of crown assets.

Explanation of Significant Variances from Previous Year Expenditures

Compared with the previous fiscal year, the total year to date net budgetary expenditures **decreased by \$8.9 million or 1.6%** mainly due to the following factors:

- Personnel expenditures **decreased by \$12.8 million** primarily due to:
 - An **increase of \$7.1 million** to personnel salaries due to increased rates of pay for salaries and allowances 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 \$21.5 million** due to fewer retroactive payments processed during the current fiscal year compared to the prior fiscal year; and
 - An **increase of \$1.6 million** to employer contribution to employee benefits plans due to increased rates of pay for salaries in the current fiscal year compared to the previous fiscal year because of the signing and implementation of various collective agreements.

- Professional and special services **increased by \$11.8 million** primarily due to:
 - An **increase of \$9.5 million** as a result of a change in the intra-departmental billing between CORCAN and CSC for the Correctional and Training Fee from 25% in the first quarter of 2018-19 to 50% in the first quarter of 2019-20, as well as increases in the total fee related to the management of farms and Indigenous employment/training initiatives; and
 - An **increase of \$2.0 million** in welfare services due to an increase Community Residential Facility bed requirements.

- Utilities, materials and supplies **increased by \$7.4 million** primarily due to:
 - An **increase of \$8.9 million** for pharmaceutical and other medical products associated with the needs of the offender population;
 - An **increase of \$0.6 million** for officer uniforms; and
 - A **decrease of \$1.7 million** in payment of footwear allowance which is paid every second year.

- Acquisition of machinery and equipment expenditures **decreased by \$5.0 million** primarily due to:
 - A **decrease of \$4.4 million** related to the purchase of vehicles in the prior fiscal year as part of increased vehicle lifecycle management.

- A net increase of \$9.4 million in CORCAN's revenues primarily due to:
 - An increase of \$9.5 million as a result of a change in the intra-departmental billing between CORCAN and CSC for the Correctional and Training Fee from 25% in the first quarter of 2018-19 to 50% in the first quarter of 2019-20, as well as increases in the total fee related to the management of farms and Indigenous employment/training initiatives; and
 - A net decrease of \$0.1 million due to fewer sales in both manufacturing and textiles, which were offset by an increase in construction revenues in the first quarter of this fiscal year, compared to the first quarter of the last fiscal year.

(in millions of dollars)

Organizational Budgetary Expenditures	Year-to-Date Over Prior Year-to-Date
Total Net Budgetary Expenditures 2018-2019	548.7
Total Net Budgetary Expenditures 2019-2020	539.7
Variance	(9.0)
Explanation of Variances by Standard Object	
Personnel	(12.8)
Professional and special services	12.5
Utilities, materials and supplies	7.3
Acquisition of land, buildings and works	0.6
Acquisition of machinery and equipment	(5.0)
CORCAN Revenues	(9.4)
Other subsidies and payments/Standard Objects	(2.2)
Total	(9.0)

Risks and Uncertainties

CSC's [Departmental Plan 2019-20](#) identifies the current risk environment and CSC's key risk areas to the achievement of its strategic outcomes.

CSC continues to manage financial pressures resulting from prior-year operating budget freezes (2014-2015 and 2015-2016), other government-wide spending reduction exercises, and increases in non-discretionary costs. CSC has undertaken 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 continues to work with internal and external stakeholders to resolve these issues.

CSC's specific risks, as outlined in [CSC's Plans at a glance and operating context](#), 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 included receiving program integrity funding in the last quarter of 2017-2018 and the third quarter of 2018-2019. Additional funding to support CSC's operations has been announced in the 2019 Budget Plan, however this funding is still pending the approval of the Treasury Board, before being transferred to CSC, and is not included in the Statement of Authorities available to CSC. Additional funding is anticipated in the future, until the comprehensive review is completed.

Significant Changes in Relation to Operations, Personnel and Programs

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 will 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 is in the process of making the necessary infrastructure changes, developing policy, and hiring and training staff to open the SIUs. Funding for these initiatives will gradually increase over the following five years and stabilize in fiscal year 2024-2025.

There have been no changes to key senior personnel in the first quarter of 2019-2020.

Approvals by Senior Officials

Approved by:

Original signed by
Alain Tousignant,
A/Commissioner

Original signed by
Tony Matson,
Chief Financial Officer

*Ottawa, Canada
August 27, 2019*

Statement of Authorities (unaudited)

(in thousands of dollars)

	<i>Fiscal Year 2019-2020</i>			<i>Fiscal Year 2018-2019</i>		
	Total available for use for the year ending March 31, 2020*	Used during the quarter ended June 30, 2019	Year to date used at quarter-end	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
Expenses						
Vote 1 – Operating Expenditures	2,062,951	468,148	468,148	2,026,626	466,338	466,338
Vote 5 – Capital Expenditures	187,809	15,840	15,840	189,142	21,493	21,493
Budgetary Statutory Authorities						
CORCAN Gross Expenditures	124,339	25,677	25,677	108,355	22,819	22,819
CORCAN Gross Revenues	(124,339)	(28,501)	(28,501)	(108,355)	(19,057)	(19,057)
CORCAN Net Expenditures (Revenues)	-	(2,824)	(2,824)	-	3,762	3,762
Contributions to employee benefit plans	234,335	58,584	58,584	228,278	57,070	57,070
Refunds of previous years revenue	-	-	-	-	-	-
Spending of proceeds from the disposal of surplus Crown assets	1,098	1	1	828	-	-
Total Budgetary Authorities	2,486,193	539,749	539,749	2,444,874	548,663	548,663
Non-Budgetary Authorities	44	-	-	45	-	-
Total Authorities	2,486,237	539,749	539,749	2,444,919	548,663	548,663

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 2019-2020			Fiscal Year 2018-2019		
	Planned expenditures for the year ending March 31, 2020	Expended during the quarter ended June 30, 2019	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2019	Expended during the quarter ended June 30, 2018	Year to date used at quarter-end
Expenditures						
Personnel	1,824,052	435,390	435,390	1,779,904	448,216	448,216
Transportation and communications	24,631	4,702	4,702	24,502	4,758	4,758
Information	621	139	139	538	161	161
Professional and special services	326,783	56,626	56,626	293,299	44,057	44,057
Rentals	18,093	3,494	3,494	22,629	4,029	4,029
Repair and maintenance	23,873	3,311	3,311	23,035	3,943	3,943
Utilities, materials and supplies	120,982	31,500	31,500	130,516	24,148	24,148
Acquisition of land, buildings and works*	123,125	11,688	11,688	100,588	11,084	11,084
Acquisition of machinery and equipment*	61,081	2,147	2,147	84,719	7,098	7,098
Transfer payments	120	-	-	120	-	-
Other subsidies and payments	87,171	19,253	19,253	93,379	20,226	20,226
Total Gross Budgetary Expenditures	2,610,532	568,250	568,250	2,553,229	567,720	567,720
Less Revenues Netted Against Expenditures						
CORCAN	(124,339)	(28,501)	(28,501)	(108,355)	(19,057)	(19,057)
Total Net Budgetary Expenditures	2,486,193	539,749	539,749	2,444,874	548,663	548,663

* These are mainly Vote 5 (Capital) expenditures.