

CORRECTIONAL SERVICE CANADA

CHANGING LIVES. PROTECTING CANADIANS.



Quarterly Financial Report

FOR THE QUARTER ENDED JUNE 30, 2020

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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 2020-2021](#).

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 2020-2021 fiscal year for which a first interim supply was released March 17, 2020¹ and a second interim supply was released June 26, 2020². Although CSC has only received Parliamentary approval for interim supplies totalling 9/12th of the total Main Estimates by the end of this quarter, in order to provide a useful comparison between both fiscal years, the full amount of the 2020-2021 Main Estimates has been provided in the various tables which follow. 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 Department. 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, after they are released into the community. CORCAN has a continuing

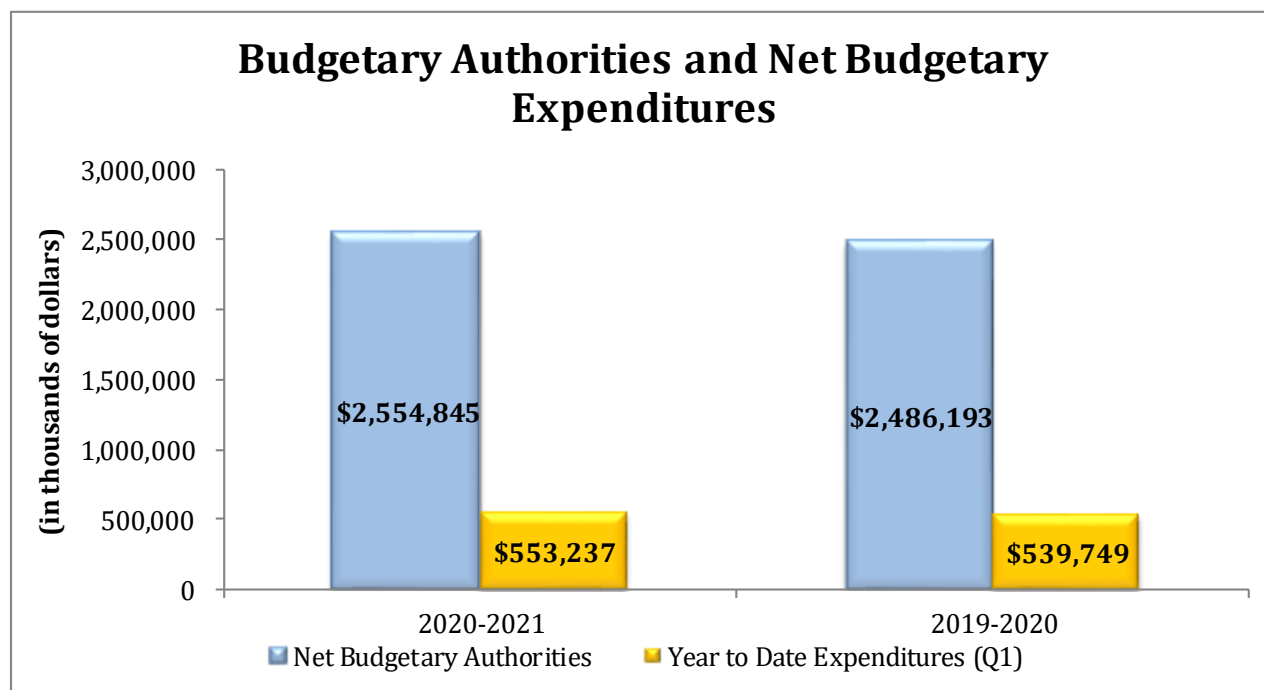
¹ Released through Order in Council P.C. [2020-156](#).

² Released through Order in Council P.C. [2020-509](#).

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 \$20.0 million at any time. Through Supplementary Estimates (A), 2020–2021³, this limit was increased from a previous amount of \$5.0 million. This increase was requested as a consequence of reduced sales and operations resulting from the COVID-19 pandemic.

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, 2020 and June 30, 2019 for CSC's combined operating, capital and budgetary statutory authorities.



³ Released through Order in Council P.C. [2020-510](#) on June 26, 2020.

Significant Changes to Authorities

Please note that to provide the reader with a significant comparison between the first quarter of 2020-2021 and 2019-2020, the variances outlined below are between the Main Estimates for both years, therefore full supply.

Currently for the 2020-2021 financial year, only 9/12th of the Main Estimates have been voted by Parliament as an interim supply, which amounts to \$1.609 billion for operating vote 1 and \$140.8 million for capital vote 5. The statutory authority for the employee benefit plan in the amount of \$220.4 million is fully available to the organization. Full supply for the Main Estimates is expected to be voted by Parliament by December 2020.

As reflected in the [Statement of Authorities](#) for the period ending June 30, 2020, CSC has seen an **increase** in total authorities of **\$68.7 million or 2.8%** for the current fiscal year compared to the previous fiscal year⁴.

Operating Vote

CSC's Operating Vote **increased by \$82.7 million or 4.0%** compared to the authorities at the end of June 2019, which is attributed to the net effect of the following items:

- An **increase of \$49.7 million** in funding related to *Transforming Federal Corrections* (Bill C-83);
- An **increase of \$24.3 million** due to a conversion of personnel budget to other operating budget;
- An **increase of \$14.1 million** related to compensation for the funded portion of collective agreement increases;
- An **increase of \$0.5 million** in funding for the *Federal Contaminated sites Action Plan*;
- An **increase of \$0.3 million** related to the *Program and Administrative Services (PA) Modernization* initiative;
- A **decrease of \$4.9 million** for *Fiscal Dividend* (Budget 2018);
- A **decrease of \$0.6 million** related to funding for *Addressing the Needs of Vulnerable Offenders* (Budget 2017);
- A **decrease of \$0.6 million** related to Funding for *Mental Health for Offenders and CORCAN Farms* (Budget 2018); and
- A **decrease of \$0.1 million** for contributions for the *Census of Population*.

Capital Vote

CSC's Capital Vote **decreased by \$0.01 million or 0.01%** compared to the authorities at the end of June 2019, which is attributed to the **decrease of \$0.01 million** for contributions for the *Back Office Transformation* initiative.

⁴ Note that this comparison does not include the \$95.0M for Budget 2019 (Support for the Correctional Service of Canada) as part of the Main Estimates for 2019-2020. Since this funding had not yet been approved at Q1 of 2019-2020, it was excluded from the budgetary authorities presented at that time.

Budgetary Statutory Authorities

CSC's budgetary statutory authorities **decreased by \$14.0 million or 6.0%** compared to June 2019, which is related to the department's allocation of the employer's share of the employee benefit plan.

CORCAN Drawdown Authority

CORCAN's existing drawdown authority **was increased from \$5.0 million to a new limit of \$20.0 million**. This was requested as a consequence of reduced sales and operations resulting from the COVID-19 pandemic and was approved through Supplementary Estimates (A), 2020–2021.

Explanation of Significant Variances from Previous Year Expenditures

Compared with the previous fiscal year, the total year to date net budgetary expenditures **increased by \$13.5 million or 2.5%** mainly due to the following factors:

- Personnel expenditures **increased by \$14.1 million** primarily due to:
 - An **increase of \$8.6 million** in salary mainly due to the hiring of new employees to implement *Transforming Federal Corrections* (Bill C-83) and the increased rates of pay for salaries compared to the previous fiscal year;
 - An **increase of \$5.0 million** in overtime expenses mainly due to the COVID-19 response;
 - An **increase of \$0.8 million** due to increased allowances; and
 - A **decrease of \$0.3 million** in other supplementary personnel costs.

- Transportation and communications expenditures **decreased by \$2.9 million** primarily due to:
 - A **decrease of \$2.1 million** in travel due to COVID-19. Public servant travel expenditures decreased by \$1.6 million, while non-public servant travel expenditures decreased by \$0.5 million; and
 - A **decrease of \$0.8 million** in relocation costs due to COVID-19, caused by the reduction in recruitment of Correctional Officers and other relocations.

- Professional and special services **decreased by \$10.3 million** primarily due to:
 - A **decrease of \$9.7 million** resulting from a delay in the intra-departmental billing between CORCAN and CSC for the Correctional and Training Fee compared to last year;
 - An **increase of \$1.6 million** in expenditures related to the Energy Performance Contracts (EPC);
 - An **increase of \$0.8 million** in information technology and telecommunications consultants for various projects;
 - The impact of COVID-19:
 - An **increase of \$1.5 million** in contracted building cleaning services;
 - A **decrease of \$1.7 million** in health care services/specialists due to work orders which were stopped;

- A **decrease of \$1.3 million** in consultant fees, excluding the information technology and telecommunication consultants;
 - A **decrease of \$0.9 million** in inmate training, and
 - A **decrease of \$0.6 million** in Corps Commissionaire expenditures associated with the delayed constructions projects.
- Utilities, materials and supplies **increased by \$6.1 million** primarily due to:
 - An **increase of \$1.5 million** in allowance for footwear which is paid every second year;
 - A **decrease of \$8.8 million** in purchases of Hep C medications as the inventory level was sufficient during the first quarter;
 - The impact of COVID-19:
 - An **increase of \$8.6 million** in medical supplies;
 - An **increase of \$3.8 million** in personal protective equipment (PPE) purchases;
 - An **increase of \$1.8 million** in food inventory;
 - An **increase of \$0.8 million** in cleaning products;
 - A **decrease of \$0.7 million** in personal goods, such as uniforms and other clothing, caused by the reduction in recruitment of Correctional Officers;
 - A **decrease of \$0.5 million** in utilities, caused by the reduction of electricity expenditures; and
 - A **decrease of \$0.4 million** in expenditures for gasoline, diesel fuel and light fuel oil.
- Acquisition of land, buildings and works **decreased by \$9.8 million** primarily due to construction projects that were stopped or delayed to the first quarter of 2020-2021, in response to COVID-19.
- Other subsidies and payments **increased by \$7.7 million** primarily due to:
 - An **increase of \$12.1 million** due to the payment of court orders;
 - An **increase of \$0.5 million** in miscellaneous expenditures resulting from the situation of the COVID-19;
 - A **decrease of \$3.8 million** due to changes in CORCAN inventory resulting from the COVID-19 situation; and
 - A **decrease of \$1.1 million** associated to salary overpayments corrections.
- A **net decrease of \$8.6 million** in CORCAN's revenues due to the impact of COVID-19.

(in millions of dollars)

Organizational Budgetary Expenditures	Year-to-Date Over Prior Year-to-Date
Total Net Budgetary Expenditures 2019-2020	539.7
Total Net Budgetary Expenditures 2020-2021	553.2
Variance	13.5
Explanation of Variances by Standard Object	
Personnel	14.1
Transportation and communications	(2.9)
Professional and special services	(10.3)
Utilities, materials and supplies	6.1
Acquisition of land, buildings and works	(9.8)
Other subsidies and payments	7.7
CORCAN Revenues	8.6
Other Standard Objects	0
Total	13.5

Risks and Uncertainties

CSC's [Departmental Plan 2020-2021](#) identifies the current risk environment and CSC's key risk areas to the achievement of its strategic outcomes.

CSC was successful in obtaining permanent supplementary funding following the undertaking of an intensive two-year comprehensive review. The funding obtained will help to mitigate short and mid term financial pressures. However, a new financial risk has developed with the emergence of the COVID-19 pandemic. CSC is facing new challenges to ensure the health and safety of inmates, employees and the public during this pandemic as it continues to contribute to the efforts to reduce the transmission of the virus. CSC has quickly adapted to a new reality by providing non-operational employees with the ability to telework and ensuring the delivery of services while respecting physical distancing regulations. These events have created additional pressures on CSC's existing reference levels. In order to address this financial situation, CSC has submitted a request for supplementary funding to the Department of Finance.

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 [Departmental Plan 2020-2021](#), 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, the maintenance of public confidence in the federal correctional system, and the maintenance of a safe, secure, healthy, respectful, and collaborative working environment as established by its legal and policy obligations, mission, and values statement.

CSC has put in place risk mitigation strategies to address the stated risks. The integrated approach allows CSC to handle risk-related challenges, ensure operational sustainability to fulfill its mandate.

Significant Changes in Relation to Operations, Personnel and Programs

During the first quarter of 2020-2021, CSC has felt the impact of the COVID-19 pandemic. Many of CSC's operations were modified or temporarily suspended. Operating expenditures saw a substantial increase from the previous year, as CSC continues to do its part to prevent the spread of the virus and manage outbreaks at several institutions. Conversely, planned capital projects that were halted at the end of the 2019-2020 fiscal year (as mandated by municipal and federal governments), have slowly restarted.

In an effort to respond to the pandemic, based on the advice of public health organizations, CSC has acquired personal protective equipment (PPE) for staff and offenders to reduce and control the spread of the virus. Furthermore, CSC has increased both its health care and purchases of cleaning materials and services as a means to ensure infection prevention and control within federal correctional institutions. Of note, demand and prices for PPE have increased significantly.

CSC is also facing additional operational and health care challenges, such as required modifications to the routines of inmates, enhanced institutional cleaning strategies, and staff usage of overtime above usual levels. In addition, CSC anticipates needing to conduct extensive virus testing to limit the infection and spread of the virus within institutions.

CSC's Special Operating Agency (SOA), CORCAN, operates a revolving fund with authority to spend its revenues. Due to the resulting measures around COVID-19, CORCAN is not able to operate under normal conditions. Consequently, CSC is seeking to maintain CORCAN's increased drawdown limit set at \$20.0M, until such time as operations return to normal or compensating measures are implemented.

Due to COVID-19 and limited number of sessions being held in Parliament, authorities available for use at the end of Q1 2020-2021 are reduced to a 9/12th interim supply. CSC continues to manage within its existing authorities at this time, and is actively engaged with central agencies to mitigate operational risks.

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 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 has started and is continuing the process of making the necessary infrastructure changes, developing policies, and hiring and training staff to operate the SIUs. Funding for these initiatives gradually increases over a period of five years and stabilizes in fiscal year 2024-2025.

There have been no changes to key senior personnel in the first quarter of 2020-2021.

Approvals by Senior Officials

Approved by:

Original Signed by _____
Anne Kelly,
Commissioner

Original Signed by _____
Tony Matson,
Chief Financial Officer

Ottawa, Canada
August 21, 2020

Statement of Authorities (unaudited)

<i>(in thousands of dollars)</i>	<i>Fiscal year 2020-2021</i>			<i>Fiscal year 2019-2020</i>		
	Main Estimates for the year ending March 31, 2021*	Used during the quarter ended June 30, 2020	Year to date used at quarter-end	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
Vote 1– Net operating expenditures	2,145,689	492,881	492,881	2,062,951	468,148	468,148
Vote 5 – Capital expenditures	187,797	7,185	7,185	187,809	15,840	15,840
Budgetary statutory authorities						
CORCAN gross expenditures	124,334	17,953	17,953	124,339	25,677	25,677
CORCAN revenues	(124,334)	(19,870)	(19,870)	(124,339)	(28,501)	(28,501)
CORCAN net expenditures	-	(1,917)	(1,917)	-	(2,824)	(2,824)
Spending of proceeds from disposal of surplus Crown assets	1,006	-	-	1,098	1	1
Contributions to employee benefits plans	220,353	55,088	55,088	234,335	58,584	58,584
	221,359	55,088	55,088	235,433	58,585	58,585
Total budgetary authorities	2,554,845	553,237	553,237	2,486,193	539,749	539,749
Non-budgetary authorities	45	(1)	(1)	44	-	-
Total authorities	2,554,890	553,236	553,236	2,486,237	539,749	539,749

More information is available on the following page.

* Due to COVID-19 and a limited number of sessions in Parliament, authorities available for use at the end of Q1 2020-2021 are significantly reduced to a 9/12th interim supply. In order to provide comparative figures between both quarters, the full amount of CSC's Main Estimates are indicated above. CSC is expected to receive full supply for the 2020-2021 Main Estimates in December 2020.

** Includes only Authorities available for use and granted by Parliament at quarter-end.

Note: CORCAN's available drawdown authority at the end of June 2020 was \$20.0M, of which \$9.2M was used, leaving a residual balance available of \$10.8M. In comparison, at the end of June 2019, CORCAN's drawdown authority was \$5.0M, of which none was utilized, and \$11.8M of funding was available.

Organizational budgetary expenditures by Standard Object (unaudited)

	<i>Fiscal year 2020-2021</i>			<i>Fiscal year 2019-2020</i>		
	Planned expenditures for the year ending March 31, 2021	Expended during the quarter ended June 30, 2020	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2020	Expended during the quarter ended June 30, 2019	Year to date used at quarter-end
<i>(in thousands of dollars)</i>						
Expenditures						
Personnel	1,767,134	449,500	449,500	1,824,052	435,390	435,390
Transportation and communications	29,374	1,818	1,818	24,631	4,702	4,702
Information	835	27	27	621	139	139
Professional and special services	389,894	46,252	46,252	326,783	56,626	56,626
Rentals	23,665	2,796	2,796	18,093	3,494	3,494
Purchased repair and maintenance	29,727	2,284	2,284	23,873	3,311	3,311
Utilities, materials and supplies	155,823	37,614	37,614	120,982	31,500	31,500
Acquisition of land, buildings and works*	147,798	1,926	1,926	123,125	11,688	11,688
Acquisition of machinery and equipment*	36,305	3,950	3,950	61,081	2,147	2,147
Transfer payments	120	-	-	120	-	-
Other subsidies and payments	98,504	26,940	26,940	87,171	19,253	19,253
Total gross budgetary expenditures	2,679,179	573,107	573,107	2,610,532	568,250	568,250
		-	-			-
Less revenues netted against expenditures						
CORCAN	(124,334)	(19,870)	(19,870)	(124,339)	(28,501)	(28,501)
Total revenues netted against expenditures	(124,334)	(19,870)	(19,870)	(124,339)	(28,501)	(28,501)
Total net budgetary expenditures	2,554,845	553,237	553,237	2,486,193	539,749	539,749

* These are mainly Vote 5 (Capital) expenditures.