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Quarterly Financial Report

For the quarter ended December 31, 2018

2018-2019

pspc-spac

1. Introduction

This Quarterly Financial Report (QFR) should be read in conjunction with the Main Estimates. It has been prepared by management as required under section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by the Directive on Accounting Standards, GC 4400 Departmental Quarterly Financial Report. It has not been subject to an external audit or review.

1.1 Raison d'être

Public Works and Government Services Canada (PWGSC) was established effective June 20, 1996, under the *Department of Public Works and Government Services Act*. As of November 4, 2015, PWGSC started operating as Public Services and Procurement Canada (PSPC). PSPC plays an important role in the daily operations of the Government of Canada. It supports federal departments and agencies in the achievement of their mandated objectives as their central purchasing agent, real property manager, linguistic authority, treasurer, accountant, pay and pension administrator, and common service provider. The Department's vision is to excel in government operations, and its strategic outcome and mission are to deliver high-quality, central programs and services that ensure sound stewardship on behalf of Canadians and meet the program needs of federal institutions.

A summary description of the Department's core responsibilities can be found in Part II of the Main Estimates.

1.2 Basis of presentation

This quarterly report has been prepared by management using an expenditure basis of accounting and a special-purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities. The accompanying Statement of Authorities includes the Department's spending authorities granted by Parliament, and those used by the Department are consistent with the Main Estimates for the current fiscal year.

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.

When Parliament is dissolved for the purposes of a general election, section 30 of the *Financial Administration Act* authorizes the Governor General, under certain conditions, to issue a special warrant authorizing the Government to withdraw funds from the Consolidated Revenue Fund. A special warrant is deemed to be an appropriation for the fiscal year in which it is issued.

The Department 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.

1.3 PSPC's financial structure

PSPC provides services to many government departments, agencies and Crown corporations through a variety of funding mechanisms. This includes budgetary authorities that are comprised of voted and statutory authorities, as well as non-budgetary authorities. The voted budgetary authorities include operating expenditures, vote-netted revenues and capital expenditures, while the statutory authorities are mainly

composed of revolving funds, employee benefit plans and payments in lieu of taxes (PILT). The non-budgetary authorities consist primarily of the Seized Property Working Capital Account (see description below).

PSPC's complex financial structure may result in significant fluctuations in authorities on a quarterly basis, which are due to timing differences that are resolved by year-end. These are summarized as follows:

- For the most part, PSPC delivers its services on a cost-recovery basis, generating revenues via revolving-fund ("the Funds") organizations and programs within the operating vote. These organizations and programs are mainly designed to provide services to other government organizations, and are expected to recover the cost of their operations through revenues. However, the costs incurred by the Funds are usually disbursed prior to invoicing the client, which generally occurs upon completion of a project or after services are rendered, and thus revenues may be collected in a subsequent quarter.

- PSPC manages a variety of real property projects that progress through phases from planning to funding and from procurement to construction. Historical trends have shown that expenditures against these projects are not incurred evenly throughout the year; thus, quarter-to-quarter fluctuations are normal. Such projects include the Alaska Highway in British Columbia and Yukon, and the rehabilitation of the Parliamentary Precinct in Ottawa.

- PILT issued by PSPC are funded through a statutory vote and paid on behalf of other participating federal departments. Payments are subsequently recovered from the participating departments and are recorded as statutory grants in the Public Accounts of Canada. Timing fluctuations can occur between the payments and the recoveries.

- PSPC also manages seized property for the Government of Canada pursuant to the *Seized Property Management Act*. The financial management of this activity is undertaken through the non-budgetary Seized Property Working Capital Account. Charged to this account are expenditures and advances made to maintain and manage any seized or restrained property. PSPC recovers its costs from this account once the property owner loses the right to the property and it is disposed of.

2. Highlights of fiscal quarter and fiscal year-to-date results

2.1 Significant changes to authorities

When compared to the same quarter of the previous year, year-to-date PSPC's **authorities available for use decreased by $18.9 million** ($3,838.2 million in Q3 of the fiscal year ending March 31, 2018; $3,819.3 million in Q3 of the fiscal year ending March 31, 2019) as reflected in Table 1 - *Statement of Authorities (unaudited).*
Major reasons for the decrease are outlined below:

Year-over-year variances in authorities available for use
(in millions of dollars)

Project	Operating	Capital	Budgetary Statutory Authorities	Total Variances
Stabilization of the Phoenix pay system	50.4	25.7	0.7	76.8
Price and Volume Protection	60.3	-	-	60.3
Carry forward of unused funds from previous fiscal year*	1.8	42.7	-	44.5
E-Procurement Solution	38.1	-	2.0	40.1
G7 Summit	21.7	-	0.1	21.8
International Civil Aviation	12.1	2.1	-	14.2
Capital Vote Implementation	101.2	(101.2)	-	-
Collective Agreements	(30.7)	-	3.5	(27.2)
Federal Infrastructure	(14.6)	(31.1)	-	(45.7)
Real Property Program Integrity	(61.6)	9.5	-	(52.1)
Refit / Fit-up	-	(60.0)	-	(60.0)
Long Term Vision and Plan	(5.5)	(80.9)	-	(86.4)
Other	4.5	(2.3)	(7.4)	(5.2)
Cumulative Variance in Authorities Available for Use	**177.7**	**(195.5)**	**(1.1)**	**(18.9)**

*$0.8M included in the Operating Budget Carry Forward is related to Stabilization of the Phoenix pay system.
Groupings can change between quarters due to materiality of initiatives.
Amounts may not balance with other public documents due to rounding.

The **net decrease of $18.9 million** from the third quarter of the fiscal year ending March 31, 2018 can be explained by:

Stabilization of the Phoenix Pay System – increase of $76.8 million
Consists in a portion of funding announced in Budget 2018 to continue with the enhanced measures to help stabilize the Phoenix pay system and Pay Centre service delivery.

Price and Volume Protection – increase of $60.3 million
This funding increase of accommodation costs protects for inflation (price) and variation in the space requirements for public servants (volume). An annual reconciliation exercise is performed to ensure PSPC is not over/under funded.

Carry forward of unused funds from previous fiscal year – increase of $44.5 million
Treasury Board Secretariat allows departments to transfer a portion of unused funds from one fiscal year to the following year. A carry forward of $145.3 million was received in the second quarter of this fiscal year. During the same quarter last year, PSPC received $100.8 million in carry forward. Amounts carried forward are primarily for projects that are continuing into the fiscal year ending March 31, 2019.

E-Procurement Solution – increase of $40.1 million
As announced in Budget 2018, the funding is to implement an e-Procurement solution that will modernize the government's procurement function and improve efficiency and electronic access for users.

G7 Summit – increase of $21.8 million
New funding for the G7 Summit hosted by Canada in June 2018. PSPC supported other government departments for the planning, organization and delivery of the event. PSPC provided accommodation, special events management, procurement, and interpretation services.

International Civil Aviation – increase of $14.2 million
Permanent transfer from the Department of Foreign Affairs, Trade and Development for operating and maintenance costs related to the International Civil Aviation Organization headquarters building in Montréal.

Capital Vote Implementation – Total variance of $0 million
PSPC must comply with the new Government of Canada Capital Vote definition, which came into effect on April 1, 2018, for the Department. Under this more elaborate definition, PSPC identified recurring operating costs currently funded by the Capital Vote and requested an initial vote transfer to the Operating Vote, as part of the current fiscal year's Main Estimates.

Collective Agreements – decrease of $27.2 million
Funding provided in 2017-18 to cover retroactive salary payments and wage increases due to the implementation of various signed collective agreements.

Federal Infrastructure – decrease of $45.7 million
The sunset of Budget 2015 and 2016 funding to ensure that Canadians continue to benefit from modern, efficient and sustainable infrastructure by applying innovative environmental technologies.

Real Property Program Integrity – decrease of $52.1 million
As the Federal Government Real Estate Manager, part of PSPC's mandate includes making necessary repairs and maintenance of federal buildings across Canada in order to ensure a safe, healthy and secure workplace. The decrease in operating authorities is due to the sunset of Budget 2016 funding for the repair, maintenance and operation of federal buildings. The decrease in Main Estimates of $327 million is offset by $275 million of funding received this quarter as announced in Budget 2018 to continue to deliver on the ongoing operation, maintenance and repair of the portfolio.

Refit/Fit-Up – decrease of $60.0 million
The sunset of one time funding transferred in 2017–18 to prepare the space for occupancy to meet client's program requirements, which can range from smaller refit projects to larger full scale fit-ups, such as constructing a new boardroom, to larger full scale fit-ups where tenants are relocated to a new space.

Long Term Vision and Plan (LTVP) – decrease of $86.4 million
PSPC advanced the work on the LTVP to address the deteriorated state of Canada's parliamentary buildings. When carrying out LTVP projects, PSPC continued to address environmental sustainability and heritage conservation issues, while improving the accessibility and safety of the Parliamentary Precinct and promoting innovation and opportunities for youth, women and Indigenous peoples. Major construction activities of the West Block, the Government Conference Centre (GCC) and the Visitor Welcome Centre Phase 1 are coming to completion to transition parliamentary operations into the newly rehabilitated buildings. As well, work and projects to enable the rehabilitation of the Centre Block have begun to better refine costs, scope, and schedule for the project.

Other – decrease of $5.2 million
The net decrease of $5.2 million is the result of funding variances in miscellaneous projects and activities such as Manège militaire des Voltigeurs de Québec.

2.2 Significant changes to year-to-date net expenditures

As presented in Table 2 - *Departmental budgetary expenditures by standard object (unaudited)*, year-to-date **total net budgetary expenditures have increased by $296.4 million** when compared with the same quarter of the previous year ($2,891.8 million in the current fiscal year compared with $2,595.4 million in the previous fiscal year).

Overall, total spending at the end of the third quarter represents 76% of annual planned expenditures for this current fiscal year, compared with 68% for the third quarter of the previous year.

Year-over-year variances in net budgetary expenditures (presented by standard object) (in millions of dollars)

Standard Object	December 31, 2018 Year to date used at quarter end	December 31, 2017 Year to date used at quarter end	Year over year variance
Personnel	1,017.1	993.5	23.6
Professional and special services	1,218.3	1,032.3	186.0
Rentals	831.4	878.6	(47.2)
Repair and maintenance	823.0	754.5	68.5
Acquisition of land, buildings and works	351.1	251.0	100.1
Acquisition of machinery and equipment	79.5	50.2	29.3
Transfer payments	80.0	111.9	(31.9)
Other subsidies and payments	273.8	314.1	(40.3)
Other expenditures	340.2	333.2	7.0
Revenues netted against expenditures	(2,122.6)	(2,123.9)	1.3
Total net budgetary expenditures	**2,891.8**	**2,595.4**	**296.4**

Comparative figures have been reclassified to conform to the current year's presentation.
Amounts may not balance with other public documents due to rounding.

The year-over-year **net increase of $296.4 million** is mainly attributable to:

Personnel – increase of $23.6 million

- The increase is mainly due to the hiring of additional resources to support pay operations and to stabilize the pay system.

Professional and special services – increase of $186.0 million

- The increase is mainly due to an increase in professional, architectural, engineering and consulting services to continue work on various projects, including the Parliamentary Precinct as per the project plans, as well as an increase in consulting services to support pay operations.

- The increase is also partially due to timing differences in billing by service providers and variation of the scope of projects from the previous year.

Rentals – decrease of $47.2 million

- The decrease is mainly attributable to year-over-year timing difference between when costs are incurred and when recovered from clients.

Repair and maintenance – increase of $68.5 million

- The increase is mainly due to capital vote implementation where some PSPC recurring project costs are now reflected in operating costs.

Acquisition of land, buildings and works – increase of $100.1 million

- The increase is mainly due to an increase in business volume of Real Property projects for other government departments and timing differences between quarters in which costs are incurred.

Acquisition of machinery and equipment – increase of $29.3 million

- The increase is mainly due to timing of the construction costs of projects. It is also partially due to equipment acquisition costs for Windows 10 migration.

Transfer payments – decrease of $31.9 million

- There is no overall change in payment in lieu of taxes (PILT). The variance is the result of a timing difference between when a PILT payment is issued and when the cost is recovered from other government departments.

Other subsidies and payments – decrease of $40.3 million

- Net decrease is mainly due to a lower volume of construction project activities and to the payment of charges through internal budget transfer rather than revenue, as was done in previous years.

Other expenditures – increase of $7.0 million

- Net increase in other expenditure categories not listed above is the result of a number of small activity increases across a range of projects.

Revenues netted against expenditures – decrease of $1.3 million

- Net decrease is mainly due to timing difference between when costs are incurred and when recovered from clients.

3. Risks and uncertainties

PSPC integrates risk management principles into business planning, decision-making and organizational processes to minimize negative impacts and maximize opportunities across our diverse range of services and operations. Risk management at PSPC is carried out in accordance with TBS's Framework for the Management of Risk, the Management Accountability Framework, and PSPC's Policy on Integrated Risk Management.

The following key risks were identified as having a potential financial impact on PSPC's operations:

- PSPC's dependency on clients' expenditures: More than half of PSPC's financial and human resources are tied directly to cost-recovered services and activities. In a context of reduced expenditures on the part of client departments and agencies, there is a risk that PSPC could face unpredictable and reduced business volumes and associated reduced resources. In response to this risk, PSPC continually adjusts to fluctuations in operational demands while maintaining the quality of its services. This includes sustaining rigorous management of revenues, expenditures, forecasting and commitment monitoring, and working closely with other departments through the client service network to identify changing requirements and their impacts on the Department.
- PSPC's ability to undertake and deliver complex, transformational and interdepartmental major projects and procurements: There are inherent risks in PSPC undertaking and delivering complex, transformational and interdepartmental major projects and procurements on time, within the approved budget and according to scope, which could ultimately have an impact on the Department's service strategy. In order to address these risks, PSPC has implemented disciplined investment and project management processes; established service agreements and service standards with clear identification of responsibilities; ensured sound contract management; engaged early with client departments and other stakeholders; and developed the departmental Integrated Investment Plan (IIP).
- PSPC's potential fraud risk exposure: Fraud risk has been identified as a key risk in the Departmental Plan for the year ending March 31, 2019. PSPC is undertaking a three phase departmental fraud risk assessment, in addition to the fraud risk responses already in place, such as the Integrity Regime and Fairness Monitoring on procurement contracts. Phase one assessed PSPC's contracting activities. Results of the assessment have been incorporated in the development of Departmental documents including the Departmental Risk Profile 2017-19.
- As previously outlined in last year's Quarterly Financial Reports, the Department implemented a new pay system as part of the Pay Transformation Initiative. The implementation was a major undertaking that experienced challenges. In collaboration with other departments, central agencies and union partners, the Department will continue to address the recommendations related to Phoenix from the 2017 Fall Report and 2018 Spring Report delivered by the Auditor General of Canada to the Parliament of Canada.

4. Significant changes to operations, personnel and programs

The Prime Minister announced the nomination of Bill Matthews as the new Deputy Minister of Public Services and Procurement, effective January 28, 2019.

Approved by:

Bill Matthews Deputy Minister Public Services and Procurement Canada	Marty Muldoon, CPA, CMA, MBA Chief Financial Officer Public Services and Procurement Canada
Gatineau, Canada February 28, 2019	Gatineau, Canada February 28, 2019

Table 1 - STATEMENT OF AUTHORITIES (unaudited)

(In thousands of dollars)	Fiscal year ending March 31, 2019			Fiscal year ending March 31, 2018		
	Total available for use for the year ending March 31, 2019 1) 2)	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 1) 2)	Used during the quarter ended December 31, 2017	Year to date used at quarter end
Vote 1						
Gross operating expenditures	3,566,771	910,428	2,596,120	3,517,707	775,831	2,381,232
Vote-netted revenues	(1,148,387)	(372,048)	(827,396)	(1,277,087)	(342,185)	(894,136)
Net operating expenditures	**2,418,384**	**538,380**	**1,768,724**	**2,240,620**	**433,646**	**1,487,096**
Vote 5 - Capital expenditures	**1,283,380**	**304,615**	**838,722**	**1,478,973**	**373,558**	**771,798**
Revolving fund authorities						
Real Property Services Revolving Fund						
Gross expenditures	1,857,643	540,895	1,176,733	2,066,201	534,020	1,120,719
Revenues	(1,853,943)	(538,296)	(1,062,116)	(2,060,076)	(534,923)	(1,000,029)
Net expenditures	3,700	2,599	114,617	6,125	(903)	120,690
Translation Bureau Revolving Fund						
Gross expenditures	164,741	46,124	108,383	162,223	43,805	116,090
Revenues	(157,433)	(42,261)	(108,936)	(158,266)	(38,705)	(101,945)
Net expenditures	7,308	3,863	(553)	3,957	5,100	14,145
Optional Services Revolving Fund						
Gross expenditures	180,056	92,798	136,704	145,343	96,760	136,345
Revenues	(180,056)	(82,993)	(124,131)	(145,343)	(86,413)	(127,814)
Net expenditures	-	9,805	12,573	-	10,347	8,531
Total of all revolving funds						
Gross expenditures	2,202,440	679,817	1,421,820	2,373,767	674,585	1,373,154
Revenues	(2,191,432)	(663,550)	(1,295,183)	(2,363,685)	(660,041)	(1,229,788)
Total revolving fund net expenditures	**11,008**	**16,267**	**126,637**	**10,082**	**14,544**	**143,366**

Table 1 – STATEMENT OF AUTHORITIES - CONTINUED (unaudited)

Other budgetary statutory authorities						
Contributions to employee benefit plans	106,159	25,892	77,677	107,826	26,957	80,870
Minister of PSP salary and motor car allowance	86	22	65	84	20	63
Refunds of amounts credited to revenues in previous years	-	-	-	200	200	200
Spending of proceeds from the disposal of surplus Crown assets	351	-	-	455	124	124
Collection agency fees	-	-	-	-	-	-
Payment in lieu of taxes to municipalities and other taxing authorities [2)]	-	(14,899)	79,992	-	(8,254)	111,872
Total other budgetary statutory authorities	**106,596**	**11,015**	**157,734**	**108,565**	**19,047**	**193,129**
Total budgetary authorities	**3,819,368**	**870,277**	**2,891,817**	**3,838,240**	**840,795**	**2,595,389**
Non-budgetary authority						
Seized Property Working Capital Account	-	-	-	-	-	-
Total authorities	**3,819,368**	**870,277**	**2,891,817**	**3,838,240**	**840,795**	**2,595,389**

Net decrease of $18.9 million

Notes:

1) Includes only Authorities available for use and approved by Parliament at quarter-end. Amounts may not balance with other public documents due to rounding.

2) Consistent with the presentation in the Main Estimates, "Total available for use for the year", for both fiscal year ending March 31, 2019 and year ended March 31, 2018, under "Payment in lieu of taxes" (PILT), is presented net of planned PILT made to municipalities and the equivalent planned recoveries from other government departments. A description of PILT is provided in Section 1.3 of this report.

Table 2 – DEPARTMENTAL BUDGETARY EXPENDITURES BY STANDARD OBJECT (unaudited)

(In thousands of dollars)	Fiscal year ending March 31, 2019			Fiscal year ending March 31, 2018		
	Planned expenditures for the year ending March 31, 2019 1) 2)	Expended during the quarter ended December 31, 2018	Year to date used at quarter end	Planned expenditures for the year ending March 31, 2018 1) 2) 3)	Expended during the quarter ended December 31, 2017 3)	Year to date used at quarter end 3)
Expenditures						
Professional and special services	2,029,624	515,188	1,218,266	2,039,679	470,734	1,032,306
Rentals	1,278,498	273,686	831,430	1,321,474	305,447	878,652
Personnel	1,202,903	355,132	1,017,142	1,202,759	339,266	993,534
Repair and maintenance	1,290,291	354,351	823,027	1,195,409	331,169	754,567
Other subsidies and payments	482,181	58,219	273,773	643,701	92,957	314,051
Acquisition of land, buildings and works	390,736	161,534	351,099	507,704	122,323	250,959
Public Debt charges	128,574	31,782	97,343	136,571	33,729	102,855
Utilities, materials and supplies	150,176	109,736	179,737	271,452	109,734	173,756
Acquisition of machinery and equipment	108,670	37,218	79,460	69,778	24,059	50,164
Transportation and communications	73,466	20,839	53,582	77,574	18,100	47,303
Information	24,068	3,089	9,545	12,910	3,758	9,294
Transfer payments 2)	-	(14,899)	79,992	-	(8,254)	111,872
Total gross budgetary expenditures	**7,159,187**	**1,905,875**	**5,014,396**	**7,479,011**	**1,843,022**	**4,719,313**
Less revenues netted against expenditures						
Revolving funds revenues	(2,191,432)	(663,550)	(1,295,183)	(2,363,684)	(660,041)	(1,229,788)
Vote-netted revenues	(1,148,387)	(372,048)	(827,396)	(1,277,087)	(342,186)	(894,136)
Total revenues netted against expenditures	**(3,339,819)**	**(1,035,598)**	**(2,122,579)**	**(3,640,771)**	**(1,002,227)**	**(2,123,924)**
Total net budgetary expenditures	**3,819,368**	**870,277**	**2,891,817**	**3,838,240**	**840,795**	**2,595,389**

Net increase of $296.4 million

Notes:

1) Includes only Authorities available for use and approved by Parliament at quarter-end. Amounts may not balance with other public documents due to rounding.

2) Consistent with the presentation in the Main Estimates, "Planned expenditures for the year" for both fiscal year ending March 31, 2019 and year ended March 31, 2018, under "Transfer payments", are presented net of planned Payments in lieu of taxes (PILT) made to municipalities and the equivalent planned recoveries from other government departments. A description of PILT is provided in Section 1.3 of this report.

3) Comparative figures have been reclassified to conform to the current year's presentation.