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Quarterly Financial Report

For the quarter ended June 30, 2019

2019-2020

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 increased by $285.3 million** ($3,275.8 million in Q1 of the fiscal year ending March 31, 2019; $3,561.1 million in Q1 of the fiscal year ending March 31, 2020) as reflected in Table 1 - *Statement of Authorities (unaudited).*
Major reasons for the increase are outlined below:

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

Project	Operating	Capital	Budgetary Statutory Authorities	Total Variances
Phoenix pay system	291.0	(1.2)	46.2	**336.0**
Price and Volume Protection	63.2	-	-	**63.2**
Long Term Vision and Plan	(17.1)	60.6	-	**43.5**
E-Procurement Solution	21.1	-	0.2	**21.3**
Revolving Funds	-	-	8.6	**8.6**
Engineering Assets	(2.4)	(77.9)	-	**(80.3)**
Carling Campus	(0.6)	(45.5)	-	**(46.1)**
Real Property Program Integrity	-	(33.3)	-	**(33.3)**
Federal Infrastructure	(2.3)	(26.3)	-	**(28.6)**
Vote Transfer	21.2	(21.2)	-	**-**
Other	(5.5)	1.9	4.6	**1.0**
Cumulative Variance in Authorities Available for Use	**368.6**	**(142.9)**	**59.6**	**285.3**

Groupings can change between quarters due to materiality of initiatives.
Amounts may not balance with other public documents due to rounding.

The **net increase of $285.3 million** from the first quarter of the year ending March 31, 2019 can be explained by:

Phoenix Pay System – increase of $336.0 million
As announced in Budget 2019, this funding ensures that adequate resources are dedicated to address pay issues and system support. This funding is comparable to the previous year, however, it was received earlier in the fiscal year.

Price & Volume Protection – increase of $63.2 million
This funding increase for accommodation costs protects Public Services and Procurement Canada for inflation (price) and any variations in space requirements for public servants (volumes).

Long Term Vision and Plan (LTVP) – increase of $43.5 million
This funding increase is to continue the implementation of the Parliamentary Precinct Rehabilitation. Major projects such as the Center Block, the East Block and the Visitors Center (Phase II) will preserve Parliament buildings as heritage assets and national symbols.

E-Procurement Solution – increase of $21.3 million
This funding increase is to continue with the implementation of the E-Procurement Solution (EPS) as announced in Budget 2018 for a simpler and a better procurement.

Revolving Funds – increase of $8.6 million
The variance is mainly due to investments in the modernization of service delivery tools and the workplace renewal initiative within the Real Property Services Revolving Fund.

Engineering Assets – decrease of $80.3 million
Consist of reduction in Budget 2016 capital funding to address program integrity funding pressures faced by the Real Property Program for its portfolio of 17 public infrastructures across Canada.

Carling Campus – decrease of $46.1 million
Reduction of Budget 2010 funding for the design and construction of necessary base building upgrades, special purpose space, information technology (IT), and security for the Carling Campus Project .

Federal Infrastructure - Program Integrity – decrease of $33.3 million
Decrease of Budget 2016 capital funding for the recapitalization and rehabilitation of federal buildings in order to provide a safe, healthy, and secure workplace.

Federal Infrastructure - Accelerated Infrastructure Program – decrease of $28.6 million
The sunset of Budget 2016 funding to ensure that Canadians continue to benefit from modern, efficient and sustainable infrastructure.

Vote Transfer – net variance of $0 million
PSPC has transferred some activities that cannot be capitalized such as swing space and minor accommodation adjustments under the Refit/Fit-up project.

Other – increase of $1.0 million
The net increase of $1 million is the result of funding variances in miscellaneous projects and activities such as Real Property initiatives.

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 decreased by $90.7 million** when compared with the same quarter of the previous year ($1,232.4 million in the current fiscal year compared with $1,323.1 million in the previous fiscal year).

Overall, total spending at the end of the first quarter represents 35% of annual planned expenditures for this current fiscal year, compared with 40% for the first quarter of the previous year.

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

Standard Object	June 30, 2019 Year-to-date used at quarter end	June 30, 2018 Year-to-date used at quarter end	Year-over-year variance
Personnel	361.2	323.7	**37.5**
Professional and special services	232.1	258.7	**(26.6)**
Rentals	354.8	367.9	**(13.1)**
Repair and maintenance	191.6	182.4	**9.2**
Acquisition of land, buildings and works	67.4	58.3	**9.1**
Transfer payments	362.8	327.6	**35.2**
Other expenditures	132.7	134.7	**(2.0)**
Revenues netted against expenditures	(470.2)	(330.2)	**(140.0)**
Total net budgetary expenditures	**1,232.4**	**1,323.1**	**(90.7)**

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 decrease of $90.7 million** is mainly attributable to:

Personnel – increase of $37.5 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 – decrease of $26.6 million

- The decrease is mainly due to decreased professional, architectural, engineering and consulting services resulting from the completion of major phases of the Parliamentary Precinct project as per the project plans.
- The decrease is partially offset by an increase in consulting services to support pay operations across the country as well as engineering and digital transformation projects.

Rentals – decrease of $13.1 million

- The decrease is attributable to the previous year costs being higher due to the G7 Summit and to a decrease in the variable component of rental costs.

Repair and maintenance – increase of $9.2 million

- The increase is mainly due to major work undertaken in Esquimalt and at federal institutions in British Columbia and Saskatchewan.

Acquisition of land, buildings and works – increase of $9.1 million

- The increase is mainly due to increased activities for office accommodation in Toronto and in the National Capital area as well as increased business volume of Real Property projects for other government departments.

Transfer payments – increase of $35.2 million

- There is no overall change in payment in lieu of taxes (PILT) expenditures. 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 expenditures – decrease of $2.0 million

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

Revenues netted against expenditures – increase of $140.0 million

- The increase is primarily due to timing differences for revenues collected from other government departments for pension services as well as property and facilities management services.

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: PSPC has undertaken 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. Phase two assessed PSPC's Real Property activities and is in the process of being finalized. Phase three will assess remaining areas of fraud risk during 2020.

- As reported in previous quarters, 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

There were no significant changes to operations, personnel and programs during the first quarter ended June 30, 2019.

Approved by:

Original signed by

Bill Matthews
Deputy Minister
Public Services and Procurement Canada

Gatineau, Canada
August 29, 2019

Original signed by

Marty Muldoon, CPA, CMA, MBA
Chief Financial Officer
Public Services and Procurement Canada

Gatineau, Canada
August 29 2019

Table 1 - STATEMENT OF AUTHORITIES (unaudited)

(In thousands of dollars)	Fiscal year ending March 31, 2020			Fiscal year ending March 31, 2019		
	Total available for use for the year ending March 31, 2020 1) 2)	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 1) 2)	Used during the quarter ended June 30, 2018	Year to date used at quarter end
Vote 1						
Gross operating expenditures	3,572,470	794,994	794,994	3,126,233	746,896	746,896
Vote-netted revenues	(1,226,007)	(250,656)	(250,656)	(1,148,387)	(138,961)	(138,961)
Net operating expenditures	**2,346,463**	**544,338**	**544,338**	**1,977,846**	**607,935**	**607,935**
Vote 5 - Capital expenditures	**1,038,155**	**158,486**	**158,486**	**1,181,026**	**205,406**	**205,406**
Revolving fund authorities						
Real Property Services Revolving Fund						
Gross expenditures	1,991,322	310,046	310,046	1,857,643	306,218	306,218
Revenues	(1,980,108)	(167,245)	(167,245)	(1,853,943)	(144,088)	(144,088)
Net expenditures	11,214	142,801	142,801	3,700	162,130	162,130
Translation Bureau Revolving Fund						
Gross expenditures	174,057	33,644	33,644	164,741	28,660	28,660
Revenues	(165,908)	(31,256)	(31,256)	(157,433)	(30,759)	(30,759)
Net expenditures	8,149	2,388	2,388	7,308	(2,099)	(2,099)
Optional Services Revolving Fund						
Gross expenditures	176,708	15,492	15,492	180,056	12,578	12,578
Revenues	(176,500)	(21,043)	(21,043)	(180,056)	(16,387)	(16,387)
Net expenditures	208	(5,551)	(5,551)	-	(3,809)	(3,809)
Total of all revolving funds						
Gross expenditures	2,342,087	359,182	359,182	2,202,440	347,456	347,456
Revenues	(2,322,516)	(219,544)	(219,544)	(2,191,432)	(191,234)	(191,234)
Total revolving fund net expenditures	**19,571**	**139,638**	**139,638**	**11,008**	**156,222**	**156,222**

Table 1 – STATEMENT OF AUTHORITIES - CONTINUED (unaudited)

Other budgetary statutory authorities						
Contributions to employee benefit plans	156,569	27,120	27,120	105,586	25,892	25,892
Minister of PSP salary and motor car allowance	88	22	22	86	22	22
Refunds of amounts credited to revenues in previous years	-	-	-	-	-	-
Spending of proceeds from the disposal of surplus Crown assets	266	-	-	218	-	-
Collection agency fees	-	-	-	-	-	-
Payment in lieu of taxes to municipalities and other taxing authorities [2)]	-	362,760	362,760	-	327,638	327,638
Total other budgetary statutory authorities	**156,923**	**389,902**	**389,902**	**105,890**	**353,552**	**353,552**
Total budgetary authorities	**3,561,112**	**1,232,364**	**1,232,364**	**3,275,770**	**1,323,115**	**1,323,115**
Non-budgetary authority						
Seized Property Working Capital Account	-	-	-	-	-	-
Total authorities	**3,561,112**	**1,232,364**	**1,232,364**	**3,275,770**	**1,323,115**	**1,323,115**

Net increase of $285.3 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, 2020 and year ended March 31, 2019, 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, 2020			Fiscal year ending March 31, 2019		
	Planned expenditures for the year ending March 31, 2020 1) 2)	Expended during the quarter ended June 30, 2019	Year to date used at quarter end	Planned expenditures for the year ending March 31, 2019 1) 2)	Expended during the quarter ended June 30, 2018	Year to date used at quarter end
Expenditures						
Personnel	1,483,419	361,151	361,151	1,184,598	323,664	323,664
Transportation and communications	80,405	15,236	15,236	72,139	14,508	14,508
Information	22,410	2,268	2,268	21,317	1,843	1,843
Professional and special services	1,888,189	232,057	232,057	1,838,504	258,712	258,712
Rentals	1,146,697	354,830	354,830	1,265,713	367,926	367,926
Repair and maintenance	1,112,854	191,580	191,580	1,055,548	182,370	182,370
Utilities, materials and supplies	261,054	26,434	26,434	107,729	23,934	23,934
Acquisition of land, buildings and works	421,188	67,441	67,441	373,026	58,310	58,310
Acquisition of machinery and equipment	108,665	17,108	17,108	92,657	16,591	16,591
Transfer payments 2)	-	362,760	362,760	-	327,638	327,638
Public Debt charges	123,452	30,863	30,863	128,574	33,046	33,046
Other subsidies and payments	461,301	40,836	40,836	475,784	44,768	44,768
Total gross budgetary expenditures	**7,109,634**	**1,702,564**	**1,702,564**	**6,615,589**	**1,653,310**	**1,653,310**
Less revenues netted against expenditures						
Revolving funds revenues	(2,322,515)	(219,544)	(219,544)	(2,191,432)	(191,234)	(191,234)
Vote-netted revenues	(1,226,007)	(250,656)	(250,656)	(1,148,387)	(138,961)	(138,961)
Total revenues netted against expenditures	**(3,548,522)**	**(470,200)**	**(470,200)**	**(3,339,819)**	**(330,195)**	**(330,195)**
Total net budgetary expenditures	**3,561,112**	**1,232,364**	**1,232,364**	**3,275,770**	**1,323,115**	**1,323,115**

Net decrease of $90.7 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, 2020 and year ended March 31, 2019, 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.