Public Services and Procurement Canada | Services publics et Approvisionnement Canada

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Quarterly Financial Report

For the quarter ended December 31, 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 Table 1 - *Statement of Authorities (unaudited)* 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 Public Services and Procurement Canada'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 from the other departments.

- 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 $579.1 million** ($3,819.3 million in Q3 of the fiscal year ending March 31, 2019; $4,398.4 million in Q3 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
Government of Canada's Pay System	258.8	4.0	46.1	308.9
Predictable Capital Funding	31.2	238.9	2.7	272.8
Federal Laboratories	65.2	29.7	2.2	97.1
Price and Volume Protection	63.2	-	-	63.2
Long Term Vision and Plan	(17.1)	60.6	-	43.5
Les Terrasses de la Chaudière	1.8	30.9	-	32.7
West Memorial Building	2.6	21.2	-	23.8
E-Procurement Solution	21.1	-	0.2	21.3
Collective Agreements	12.4	-	0.4	12.8
Revolving Funds	-	-	8.6	8.6
Engineering Assets	(2.4)	(77.9)	-	(80.3)
Carry Forward	(7.9)	(67.0)	-	(74.9)
Carling Campus	(0.6)	(45.5)	-	(46.1)
Build in Canada Innovation Program	(39.5)	-	(0.3)	(39.8)
Real Property Integrity Program	-	(33.3)	-	(33.3)
Federal Infrastructure	(2.3)	(26.3)	-	(28.6)
Vote Transfer	21.2	(21.2)	-	-
Other	(10.9)	3.8	4.5	(2.6)
Cumulative Variance in Authorities Available for Use	**396.8**	**117.9**	**64.4**	**579.1**

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 $579.1 million** from the third quarter of the fiscal year ending March 31, 2019 can be explained by:

Government of Canada's Pay System – increase of $308.9 million
As announced in Budget 2019, this funding ensures that adequate resources are dedicated to address pay issues and system support. This increase is due to funding received earlier in this fiscal year when compared to the previous year.

Predictable Capital Funding – increase of $272.8 million
As announced in Budget 2019, this funding will allow PSPC to establish a long-term predictable capital funding strategy to manage its portfolio of assets.

Federal Laboratories – increase of $97.1 million
As announced in Budget 2018, this funding will allow PSPC to provide federal scientists with facilities and tools that enable collaboration and support the important work they carry out for Canadians.

Price and Volume Protection – increase of $63.2 million
This funding increase for accommodation costs protects PSPC 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 Centre Block, the East Block and the Visitor Welcome Center (Phase II) are preserving and restoring Canada's built-heritage for future generations of Canadians and maintaining the symbolic primacy of Parliament Hill and its surroundings.

Les Terrasses de la Chaudière (LTDLC) – increase of $32.7 million
This funding increase is to support the project in the design stage and preparation for delivery of the envelope replacement of the LTDLC complex.

West Memorial Building – increase of $23.8 million
This funding increase is to provide interim accommodation during renovation of the Supreme Court of Canada Building.

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.

Collective Agreements – increase of $12.8 million
This funding increase is to cover wage increases due to the implementation of various signed collective agreements.

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
Consists of the sunset of Budget 2016 capital funding received to address program integrity funding pressures faced by the Real Property Program for its portfolio of 17 public infrastructures across Canada.

Carry Forward of unused funds from previous fiscal year – decrease of $74.9 million
Departments are allowed to transfer a portion of unused funds from one fiscal year to the following year. A carry forward of $70.4 million was received in the second quarter of this fiscal year. During the same quarter last year, PSPC received $145.3 million in carry forward. Amounts carried forward are primarily for projects that are continuing into the fiscal year ending March 31, 2020.

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

Build in Canada Innovation Program (BCIP) – decrease of $39.8 million
The decrease is due to funding transferred to Innovation, Science and Economic Development Canada to support the consolidation of BCIP.

Federal Infrastructure: Program Integrity – decrease of $33.3 million
The sunset of Budget 2016 capital funding received 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 received to ensure that Canadians continue to benefit from modern, efficient and sustainable infrastructure.

Vote Transfer – net variance of $0 million
PSPC has transferred funding between its capital and operating votes for activities that cannot be capitalized such as the preparation of swing space and minor accommodation refit work.

Other – decrease of $2.6 million
The net decrease of $2.6 million is the result of funding variances in miscellaneous projects.

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 $104.8 million** when compared with the same quarter of the previous year ($2,787.0 million in the current fiscal year compared with $2,891.8 million in the previous fiscal year).

Overall, total spending at the end of the third quarter represents 63% of annual planned expenditures for this current fiscal year, compared with 76% 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, 2019 Year to date used at quarter end	December 31, 2018 Year to date used at quarter end	Year-over-year variance
Personnel	1,160.1	1,017.1	143.0
Professional and special services	1,165.1	1,218.3	(53.2)
Rentals	859.3	831.4	27.9
Repair and maintenance	764.7	823.0	(58.3)
Acquisition of land, buildings and works	402.3	351.1	51.2
Acquisition of machinery and equipment	70.4	79.5	(9.1)
Public debt charges	91.3	97.3	(6.0)
Other subsidies and payments	263.7	273.8	(10.1)
Other expenditures	325.2	322.9	2.3
Revenues netted against expenditures	(2,315.1)	(2,122.6)	(192.5)
Total net budgetary expenditures	**2,787.0**	**2,891.8**	**(104.8)**

Amounts may not balance with other public documents due to rounding.

The year-over-year **net decrease of $104.8 million** is mainly attributable to:

Personnel – increase of $143.0 million

- The increase is due to the hiring of additional resources to support pay operations and to stabilize the pay system as well as to increased workforce in Real Property Services Branch and Translation Bureau revolving funds to meet business demands.
- The increase is also due to retroactive salary payments and increased pay rates following the ratification of various collective agreements.

Professional and special services – decrease of $53.2 million

- The decrease is mainly due to lower professional, architectural, engineering and consulting services resulting from the completion of the West Block and Senate of Canada Building rehabilitation projects.
- The decrease is partially offset by an increase in expenditures due to activities associated with the Federal Science and Technology Infrastructure Initiative, the East Block and 100 Wellington LTVP projects, as well as higher business volume in the management of projects for other departments and in property and facilities management.

Rentals – increase of $27.9 million

- The increase is primarily due to year-over-year timing difference between when the billing is issued and when the revenue is recovered from clients.
- The increase is partially offset by a reduction of rental fees attributable to previous year costs being higher for the 2018 G7 Summit and the non-renewal of certain capital lease contracts at the end of the term.

Repair and maintenance – decrease of $58.3 million

- The decrease in expenditures of repair and maintenance is mainly due to the winding down of various projects such as Phase 2 of the Carling Campus project.
- The decrease is also due to the later timing of expenditures in a number of repair and maintenance programs undertaken this fiscal year.

Acquisition of land, buildings and works – increase of $51.2 million

- The increase is mainly due to increased activities in the delivery and implementation phases of various projects in the National Capital Area and Ontario region such as Place du Portage III, Arthur Meighen Building and Parks Canada's Trent Severn Waterway.
- This increase is partially offset by the winding down of several projects in Pacific region.

Acquisition of machinery and equipment – decrease of $9.1 million

- The decrease is mainly due to last year's equipment acquisition costs being higher for the Windows 10 migration project. The decrease is also explained by the earlier completion of fit-up projects in the previous fiscal year.

Public debt charges – decrease of $6.0 million

- The decrease is due to lower interest expenses on capital leases as the portfolio is getting closer to maturity.

Other subsidies and payments – decrease of $10.1 million

- The decrease is mainly due to the timing difference between the receipt and payment invoices compared to the previous year. The overall expenditures are expected to be similar to the previous year.

Other expenditures – increase of $2.3 million

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

Revenues netted against expenditures – increase of $192.5 million

- The increase is primarily due to timing differences of revenues collected and costs disbursed for services provided to other government departments primarily for Project Management as well as for 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).

- 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

The Prime Minister announced the appointment of the Honourable Anita Anand as Minister of Public Services and Procurement, effective November 20, 2019.

Approved by:

	Monique A. Arnold for
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, 2020	Gatineau, Canada February 28, 2020

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 December 31, 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 December 31, 2018	Year to date used at quarter end
Vote 1						
Gross operating expenditures	4,041,175	938,683	2,694,495	3,566,771	910,428	2,596,120
Vote-netted revenues	(1,226,006)	(339,661)	(890,091)	(1,148,387)	(372,048)	(827,396)
Net operating expenditures	**2,815,169**	**599,022**	**1,804,404**	**2,418,384**	**538,380**	**1,768,724**
Vote 5 - Capital expenditures	**1,401,327**	**288,154**	**688,739**	**1,283,380**	**304,615**	**838,722**
Revolving fund authorities						
Real Property Services Revolving Fund						
Gross expenditures	1,991,322	572,387	1,297,030	1,857,643	540,895	1,176,733
Revenues	(1,980,108)	(546,792)	(1,184,725)	(1,853,943)	(538,296)	(1,062,116)
Net expenditures	11,214	25,595	112,305	3,700	2,599	114,617
Translation Bureau Revolving Fund						
Gross expenditures	174,058	45,604	121,605	164,741	46,124	108,383
Revenues	(165,908)	(40,577)	(107,213)	(157,433)	(42,261)	(108,936)
Net expenditures	8,150	5,027	14,392	7,308	3,863	(553)
Optional Services Revolving Fund						
Gross expenditures	176,708	88,563	133,974	180,056	92,798	136,704
Revenues	(176,500)	(81,497)	(133,097)	(180,056)	(82,993)	(124,131)
Net expenditures	208	7,066	877	-	9,805	12,573
Total of all revolving funds						
Gross expenditures	2,342,088	706,554	1,552,609	2,202,440	679,817	1,421,820
Revenues	(2,322,516)	(668,866)	(1,425,035)	(2,191,432)	(663,550)	(1,295,183)
Total revolving fund net expenditures	**19,572**	**37,688**	**127,574**	**11,008**	**16,267**	**126,637**

Table 1 – STATEMENT OF AUTHORITIES - CONTINUED (unaudited)

Other budgetary statutory authorities						
Contributions to employee benefit plans	161,749	27,120	81,361	106,159	25,892	77,677
Minister of PSP salary and motor car allowance	88	22	66	86	22	65
Refunds of amounts credited to revenues in previous years	-	-	-	-	-	-
Spending of proceeds from the disposal of surplus Crown assets	526	95	95	351	-	-
Collection agency fees	-	-	-	-	-	-
Payment in lieu of taxes to municipalities and other taxing authorities [2]	-	(27,140)	84,743	-	(14,899)	79,992
Total other budgetary statutory authorities	**162,363**	**97**	**166,265**	**106,596**	**11,015**	**157,734**
Total budgetary authorities	**4,398,431**	**924,961**	**2,786,982**	**3,819,368**	**870,277**	**2,891,817**
Non-budgetary authority						
Seized Property Working Capital Account	-	-	-	-	-	-
Total authorities	**4,398,431**	**924,961**	**2,786,982**	**3,819,368**	**870,277**	**2,891,817**

Net increase of $579.1 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 December 31, 2019	Year to date used at quarter end	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
Expenditures						
Personnel	1,546,703	424,693	1,160,191	1,202,903	355,132	1,017,142
Transportation and communications	82,009	17,995	50,425	73,466	20,839	53,582
Information	22,704	3,819	10,321	24,068	3,089	9,545
Professional and special services	2,174,273	523,161	1,165,130	2,029,624	515,188	1,218,266
Rentals	1,198,519	294,555	859,280	1,278,498	273,686	831,430
Repair and maintenance	1,394,170	291,349	764,672	1,290,291	354,351	823,027
Utilities, materials and supplies	304,716	106,694	179,685	150,176	109,736	179,737
Acquisition of land, buildings and works	502,486	178,719	402,251	390,736	161,534	351,099
Acquisition of machinery and equipment	130,740	30,925	70,356	108,670	37,218	79,460
Transfer payments 2)	-	(27,140)	84,743	-	(14,899)	79,992
Public Debt charges	123,452	30,190	91,379	128,574	31,782	97,343
Other subsidies and payments	467,181	58,528	263,675	482,181	58,219	273,773
Total gross budgetary expenditures	**7,946,953**	**1,933,488**	**5,102,108**	**7,159,187**	**1,905,875**	**5,014,396**
Less revenues netted against expenditures						
Revolving funds revenues	(2,322,515)	(668,866)	(1,425,035)	(2,191,432)	(663,550)	(1,295,183)
Vote-netted revenues	(1,226,007)	(339,661)	(890,091)	(1,148,387)	(372,048)	(827,396)
Total revenues netted against expenditures	**(3,548,522)**	**(1,008,527)**	**(2,315,126)**	**(3,339,819)**	**(1,035,598)**	**(2,122,579)**
Total net budgetary expenditures	**4,398,431**	**924,961**	**2,786,982**	**3,819,368**	**870,277**	**2,891,817**

Net decrease of $104.8 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.