Public Services and Procurement Canada | Services publics et Approvisionnement Canada

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Quarterly Financial Report

For the quarter ended June 30, 2020

2020-21

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.

1.4 COVID-19 pandemic

The COVID-19 pandemic represents a serious global health threat that has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. PSPC has been actively engaged in supporting the Government of Canada's pandemic response, through procurements in response to an unprecedented and urgent demand for personal protective equipment and by securing transportation to repatriate Canadians from abroad. This has led to an increase in PSPC expenditures over the first quarter of 2020-2021. At the same time, COVID-19 is having a major impact on government operations, which has led to a decrease in requests from other government departments for PSPC services. As a result, PSPC revenues have decreased. COVID-19 will continue to have an impact on PSPC's financial picture for the foreseeable future as the department continues to play a central role in response and recovery efforts.

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 $642.9 million** ($3,561.1 million in Q1 of the fiscal year ending March 31, 2020; $4,204.0 million in Q1 of the fiscal year ending March 31, 2021) 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
Predictable Capital Funding	39.7	547.0	2.7	589.4
Payments to provide supplies for the health system	0	0	500.0	500.0
Federal Laboratories	38.9	59.6	2.7	101.2
Price and Volume Protection	77.5	0	0	77.5
Les Terrasses de la Chaudière	2.9	54.9	0	57.8
West Memorial Building	1.0	49.8	0	50.8
E-Procurement Solution	20.2	0	(0.3)	19.9
Engineering Assets	(7.3)	(26.5)	0	(33.8)
Long Term Vision and Plan	(2.8)	(134.9)	0	(137.7)
Variance due to Interim Supply	(193.0)	(396.8)	0	(589.8)
Other	3.0	(0.9)	5.5	7.6
Cumulative Variance in Authorities Available for Use	**(19.9)**	**152.2**	**510.6**	**642.9**

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 $642.9 million** from the first quarter of the fiscal year ending March 31, 2020 can be explained by:

Predictable Capital Funding – increase of $589.4 million
As announced in Budget 2019, this funding is to continue to establish a long-term predictable capital funding strategy to manage PSPC's portfolio of assets.

Payments to provide supplies for the health system – increase of $500.0 million
This funding increase is to allow PSPC to meet expected needs related to the COVID-19 pandemic by expanding its procurement scope and to purchase supplies without unnecessary delays, as well as to prepare against future uncertainties by ensuring market availability and establishing an excess supply.

Federal Laboratories – increase of $101.2 million
As announced in Budget 2018, this funding allows 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 $77.5 million
This funding increase for accommodation costs protects PSPC from inflation (price) and any variations in space requirements for public servants (volumes).

Les Terrasses de la Chaudière (LTDLC) – increase of $57.8 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 $50.8 million
This funding increase is to rehabilitate the West Memorial Building which will be used as interim accommodation during the renovation of the Supreme Court of Canada Building.

E-Procurement Solution – increase of $19.9 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.

Engineering Assets – decrease of $33.8 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.

Long Term Vision and Plan (LTVP) – decrease of $137.7 million
Significant progress has been made for the LTVP to preserve and rehabilitate Parliamentary buildings. The current focus is on advancing the rehabilitation of Centre Block, as well as the rehabilitation of remaining assets still in need of intervention. Moving forward, PSPC is shifting away from a building-by building approach and adopting a holistic approach to create an integrated parliamentary campus.

Variance due to Interim Supply – decrease of $589.8 million
The decrease in funding is due to the postponement of the approval of the remaining Main Estimates for the fiscal year ending March 31, 2021. Due to the impacts of the COVID-19 response on parliamentary business, Parliament has introduced a second interim supply bill in the current fiscal year to provide PSPC with sufficient cash to sustain operations until the tabling of the full supply expected in December 2020. Consequently, PSPC has received a total of eleven twelfths of the Main Estimates for the fiscal year ending March 31, 2021 for Vote 1 – Operating expenditures and a total of nine twelfths for Vote 5 – Capital expenditures.

Other – increase of $7.6 million
The net increase of $7.6 million is the result of funding variances in miscellaneous projects and activities such as the Industrial Security Services Transformation and the Accessibility Canada Program.

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 $319.4 million** when compared with the same quarter of the previous year ($1,551.8 million in the current fiscal year compared with $1,232.4 million in the previous fiscal year).

Overall, total spending at the end of the first quarter represents 37% of annual planned expenditures for this current fiscal year, compared with 35% 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, 2020 Year to date used at quarter end	June 30, 2019 Year to date used at quarter end	Year-over-year variance
Personnel	381.6	361.2	20.4
Transportation and communications	77.1	15.2	61.9
Professional and special services	208.8	232.1	(23.3)
Rentals	312.9	354.8	(41.9)
Repair and maintenance	162.8	191.6	(28.8)
Utilities, materials and supplies	179.1	26.4	152.7
Acquisition of land, buildings and works	78.6	67.4	11.2
Transfer payments	331.3	362.8	(31.5)
Other subsidies and payments	35.6	40.8	(5.2)
Other expenditures	45.6	50.3	(4.7)
Revenues netted against expenditures	(261.6)	(470.2)	208.6
Total net budgetary expenditures	**1,551.8**	**1,232.4**	**319.4**

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 $319.4 million** is mainly attributable to:

Personnel – increase of $20.4 million

- The increase is due to increased pay rates following the ratification of various collective agreements in the previous year and to an increase in the workforce across departmental programs to meet business demands.

Transportation and communications – increase of $61.9 million

- The increase is mainly due to flight and logistics services related to COVID-19 procurements.

Professional and special services – decrease of $23.3 million

- The decrease is due to lower professional, architectural, engineering and consulting services resulting from the completion of environmental remediation projects on behalf of other departments and the temporary stoppage of projects due to the COVID-19 pandemic.
- The decrease is partially offset by an increase in expenditures for legal service fees paid to Justice Canada in June as compared to August in previous years.

Rentals – decrease of $41.9 million

- The decrease is primarily due to year-over-year timing difference between when the billing is issued and when the revenue is recovered from clients, specifically related to the recoveries of rent for accommodation services provided to departments. In addition, the decrease is due to a change in the accounting for one type of lease payment. Effective this fiscal year, these payments are accounted for as cost recoveries instead of revenues and disbursements.
- This decrease is partially offset by an increase in enterprise information management software licences obtained during the first quarter.

Repair and maintenance – decrease of $28.8 million

- The decrease in expenditures for repair and maintenance is mainly due to the winding down of various projects such as the completion of the Esquimalt Graving Dock South Jetty Reconstruction project and Phase 2 of the Carling Campus project.
- The decrease is also due to the fact that construction activities and projects were delayed due to COVID-19, and the construction costs have significantly diminished. Once construction activities resumed, the added precautions that needed to be taken to ensure the safety and health of the workers diminished the work output and therefore the costs. In addition, budget authorization for subcontracted facilities management projects was received only in June, therefore, less repair and maintenance took place in the buildings where facilities management is subcontracted.

Utilities, materials and supplies – increase of $152.7 million

- This increase is mainly due to procurements related to COVID-19, including a $100M funding advance to Global Affairs Canada-China for overseas suppliers.
- This increase is partially offset by a decrease in vaccine purchases as ordering of vaccines has been lower than historical levels due to the impact of the COVID-19 pandemic on the medical system. Orders are forecasted to occur later this year.

Acquisition of land, buildings and works – increase of $11.2 million

- The increase is mainly due to the British Columbia Fraser River Big Bar landslide remediation program since the majority of the work started in the fourth quarter of the last fiscal year as well as the completion of various projects.

Transfer payments – decrease of $31.5 million

- The decrease is the result of a timing difference between when a payment in lieu of taxes is issued and when the cost is recovered from other government departments.

Other subsidies and payments – decrease of $5.2 million

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

Other expenditures – decrease of $4.7 million

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

Revenues netted against expenditures – decrease of $208.6 million

- The decrease is primarily due to timing differences between revenues collected and costs disbursed for services provided to other government departments, such as payment processing.
- The decrease is also due to a change in the accounting for one type of lease payment. Effective this fiscal year, these payments are accounted for as cost recoveries instead of revenues and disbursements.
- In addition, the Trent Severn Waterway rehabilitation projects have a different work schedule this year and disbursements are expected to occur after the end of the navigation season instead of during the spring and summer as was the case in the previous year.
- The decrease is also due to project delays related to COVID-19 requiring the rescheduling of work for many smaller projects.

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 the Treasury Board Secretariat'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).

- In 2016, 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.

- The COVID-19 pandemic has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption globally resulting in an economic slowdown. The duration and impact of the COVID-19 outbreak is unknown at this time. As a result, it is not possible to reliably estimate the length and severity of the impact on PSPC's financial results in future periods.

4. Significant changes to operations, personnel and programs

On May 8, 2020, the President of the Treasury Board provided the Department with access to a statutory appropriation under the Public Health Events of National Concern Payments Act of up to $500M for the fiscal year ending March 31, 2021 to procure supplies for the broader health system, essential service providers, and other organizations to combat the COVID-19 pandemic.

In addition, PSPC's Chief Financial Officer, Marty Muldoon, retired on June 26, 2020.

Approved by:

Bill Matthews Deputy Minister Public Services and Procurement Canada	Monique A. Arnold, FCPA, FCMA Acting Chief Financial Officer Public Services and Procurement Canada
Gatineau, Canada August 28, 2020	Gatineau, Canada August 28, 2020

Table 1 - STATEMENT OF AUTHORITIES (unaudited)

(In thousands of dollars)	Fiscal year ending March 31, 2021			Fiscal year ending March 31, 2020		
	Total available for use for the year ending March 31, 2021 1) 2)	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 1) 2)	Used during the quarter ended June 30, 2019	Year to date used at quarter end
Vote 1						
Gross operating expenditures	3,456,489	881,693	881,693	3,572,470	794,994	794,994
Vote-netted revenues	(1,129,959)	(101,042)	(101,042)	(1,226,007)	(250,656)	(250,656)
Net operating expenditures	**2,326,530**	**780,651**	**780,651**	**2,346,463**	**544,338**	**544,338**
Vote 5 - Capital expenditures	**1,190,358**	**146,198**	**146,198**	**1,038,155**	**158,486**	**158,486**
Revolving fund authorities						
Real Property Services Revolving Fund						
Gross expenditures	2,174,293	225,842	225,842	1,991,322	310,046	310,046
Revenues	(2,155,385)	(127,253)	(127,253)	(1,980,108)	(167,245)	(167,245)
Net expenditures	18,908	98,589	98,589	11,214	142,801	142,801
Translation Bureau Revolving Fund						
Gross expenditures	172,866	29,480	29,480	174,057	33,644	33,644
Revenues	(162,322)	(22,597)	(22,597)	(165,908)	(31,256)	(31,256)
Net expenditures	10,544	6,883	6,883	8,149	2,388	2,388
Optional Services Revolving Fund						
Gross expenditures	173,488	7,017	7,017	176,708	15,492	15,492
Revenues	(173,488)	(10,692)	(10,692)	(176,500)	(21,043)	(21,043)
Net expenditures	-	(3,675)	(3,675)	208	(5,551)	(5,551)
Total of all revolving funds						
Gross expenditures	2,520,647	262,339	262,339	2,342,087	359,182	359,182
Revenues	(2,491,195)	(160,542)	(160,542)	(2,322,516)	(219,544)	(219,544)
Total revolving fund net expenditures	**29,452**	**101,797**	**101,797**	**19,571**	**139,638**	**139,638**

Table 1 – STATEMENT OF AUTHORITIES - CONTINUED (unaudited)

Other budgetary statutory authorities						
Contributions to employee benefit plans	157,140	28,878	28,878	156,569	27,120	27,120
Minister of PSP salary and motor car allowance	89	22	22	88	22	22
Refunds of amounts credited to revenues in previous years	-	-	-	-	-	-
Spending of proceeds from the disposal of surplus Crown assets	402	-	-	266	-	-
Payments to provide supplies for the health system	500,000	162,878	162,878	-	-	-
Payment in lieu of taxes to municipalities and other taxing authorities [2]	-	331,326	331,326	-	362,760	362,760
Total other budgetary statutory authorities	**657,631**	**523,104**	**523,104**	**156,923**	**389,902**	**389,902**
Total budgetary authorities	**4,203,971**	**1,551,750**	**1,551,750**	**3,561,112**	**1,232,364**	**1,232,364**
Non-budgetary authority						
Seized Property Working Capital Account	-	-	-	-	-	-
Total authorities	**4,203,971**	**1,551,750**	**1,551,750**	**3,561,112**	**1,232,364**	**1,232,364**

Net increase of $642.9 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, 2021 and year ended March 31, 2020, 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, 2021			Fiscal year ending March 31, 2020		
	Planned expenditures for the year ending March 31, 2021 1) 2)	Expended during the quarter ended June 30, 2020	Year to date used at quarter end	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
Expenditures						
Personnel	1,510,066	381,606	381,606	1,483,419	361,151	361,151
Transportation and communications	79,010	77,138	77,138	80,405	15,236	15,236
Information	14,865	1,627	1,627	22,410	2,268	2,268
Professional and special services	1,874,086	208,779	208,779	1,888,189	232,057	232,057
Rentals	990,693	312,889	312,889	1,146,697	354,830	354,830
Repair and maintenance	1,288,779	162,825	162,825	1,112,854	191,580	191,580
Utilities, materials and supplies	742,802	179,064	179,064	261,054	26,434	26,434
Acquisition of land, buildings and works	585,242	78,593	78,593	421,188	67,441	67,441
Acquisition of machinery and equipment	167,353	14,003	14,003	108,665	17,108	17,108
Transfer payments 2)	-	331,326	331,326	-	362,760	362,760
Public Debt charges	110,570	29,848	29,848	123,452	30,863	30,863
Other subsidies and payments	461,659	35,636	35,636	461,301	40,836	40,836
Total gross budgetary expenditures	**7,825,125**	**1,813,334**	**1,813,334**	**7,109,634**	**1,702,564**	**1,702,564**
Less revenues netted against expenditures						
Revolving funds revenues	(2,491,195)	(160,542)	(160,542)	(2,322,515)	(219,544)	(219,544)
Vote-netted revenues	(1,129,959)	(101,042)	(101,042)	(1,226,007)	(250,656)	(250,656)
Total revenues netted against expenditures	**(3,621,154)**	**(261,584)**	**(261,584)**	**(3,548,522)**	**(470,200)**	**(470,200)**
Total net budgetary expenditures	**4,203,971**	**1,551,750**	**1,551,750**	**3,561,112**	**1,232,364**	**1,232,364**

Net increase of $319.4 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, 2021 and year ended March 31, 2020, 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.