Public Services and Procurement Canada | Services publics et Approvisionnement Canada

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Quarterly Financial Report

For the quarter ended September 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 second quarter of the previous fiscal year. 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 $342.0 million** ($3,911.1 million in Q2 of the fiscal year ending March 31, 2020; $4,253.1 million in Q2 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
Payments to provide supplies for the health system	-	-	500.0	500.0
Predictable Capital Funding	8.4	308.0	-	316.4
Federal Laboratories	38.9	59.6	2.7	101.2
Price and Volume Protection	77.5	-	-	77.5
Les Terrasses de la Chaudière	2.9	54.9	-	57.8
West Memorial Building	1.0	49.8	-	50.8
E-Procurement Solution	20.2	-	(0.3)	19.9
Transfers	(4.4)	-	-	(4.4)
Carry Forward	2.8	(19.7)	-	(16.9)
Engineering Assets	(7.3)	(26.5)	-	(33.8)
Long Term Vision and Plan	(2.8)	(134.9)	-	(137.7)
Variance due to Interim Supply	(193.0)	(396.8)	-	(589.8)
Other	(2.8)	(1.6)	5.4	1.0
Cumulative Variance in Authorities Available for Use	**(58.6)**	**(107.2)**	**507.8**	**342.0**

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

The **cumulative net increase of $342.0 million** from the second quarter of the fiscal year ending March 31, 2020 can be explained by:

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.

Predictable Capital Funding – increase of $316.4 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.

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.

Transfers – decrease of $4.4 million
This funding decrease is for the transfer of the Ministers' Regional Office Program from PSPC to Privy Council Office.

Carry forward of unused funds from previous fiscal year – decrease of $16.9 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 $53.5 million was received in the second quarter of this fiscal year. During the same quarter last year, PSPC received $70.4 million in carry forward.

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 in 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 $1.0 million
The net increase of $1.0 million is the result of funding variances in miscellaneous projects and activities such as the Cape Breton Operations.

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 $305.4 million** when compared with the same quarter of the previous year ($2,167.4 million in the current fiscal year compared with $1,862.0 million in the previous fiscal year).

Overall, total spending at the end of the second quarter represents 51% of annual planned expenditures for this current fiscal year, compared with 48% for the second quarter of the previous year.

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

Standard Object	September 30, 2020 Year to date used at quarter end	September 30, 2019 Year to date used at quarter end	Year-over-year variance
Personnel	784.9	735.5	49.4
Transportation and communications	72.3	32.4	39.9
Information	4.2	6.5	(2.3)
Professional and special services	643.7	642	1.7
Rentals	590.3	564.7	25.6
Repair and maintenance	388.2	473.3	(85.1)
Utilities, materials and supplies	241.4	73.0	168.4
Acquisition of land, buildings and works	272.9	223.5	49.4
Acquisition of machinery and equipment	32.6	39.4	(6.8)
Transfer payments	130.6	111.9	18.7
Public Debt charges	58.7	61.2	(2.5)
Other subsidies and payments	164.4	205.2	(40.8)
Revenues netted against expenditures	(1,216.8)	(1,306.6)	89.8
Total net budgetary expenditures	**2,167.4**	**1,862.0**	**305.4**

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 $305.4 million** is mainly attributable to:

Personnel – increase of $49.4 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 $39.9 million

- The increase is mainly due to transportation and logistics services related to COVID-19 procurements as well as to postal fees for issuing payments for COVID-19 programs to individuals and businesses to alleviate the effects of the COVID-19 Pandemic.

Rentals – increase of $25.6 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, specifically related to the recoveries of rent for accommodation services provided to departments. The increase is also due to higher rental rates as well as the addition of new leases.
- This increase is partially offset by a decrease in lease expenditures due to the purchase of the Library Square complex in Vancouver which was previously leased.

Repair and maintenance – decrease of $85.1 million

- The decrease in expenditures for repair and maintenance is mainly due to the winding down of various projects. High value projects such as Phase 2 of the Carling Campus and the Esquimalt Graving Dock South Jetty Reconstruction project were completed last fiscal year. The completion of projects in the Quebec region in 2019-20 also contributed to the decrease.
- The decrease is also due to the fact that construction activities and projects were delayed due to COVID-19. Once construction activities resumed, the added precautions needed to ensure the safety and health of the workers reduced the work output and therefore the overall expenditures.
- The decrease was partially offset by the increase in expenditures due to a much larger program of work forecasted for this fiscal year in the Atlantic region, projects in the Québec Region that started in 2020-21 and by the public private partnership contract for Energy Services Acquisition Program in the National Capital area that is underway in the current year.

Utilities, materials and supplies – increase of $168.4 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 $49.4 million

- The increase is mainly due to the Alaska Highway construction costs where the majority of the work started in the fourth quarter of the last fiscal year is being completed in this fiscal year and to the British Columbia Fraser River Big Bar landslide remediation program.
- The increase is also due to the acquisition of land for the relocation of Tunney's Pasture Central Heating and Cooling Plant and the acquisition of land for the Courts Administrative Service.
- As well, COVID-19 costs must now be included in project expenses creating an increase in project delivery costs.

Transfer payments – increase of $18.7 million

- The increase 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 $40.8 million

- The decrease is mainly due to a change in the accounting treatment for certain lease payments. Effective this fiscal year, these payments are accounted for as cost recoveries instead of revenues and disbursements.
- The decrease is also 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.
- The decrease is partially offset by PILT expenditures being incurred earlier than in the previous year.

Other standard objects – decrease of $9.9 million

- The decrease is attributable to minor changes in expenditures related to day-to-day operations.

Revenues netted against expenditures – decrease of $89.8 million

- The decrease is primarily due to timing differences between revenues collected and costs disbursed for services provided to other government departments, such as the timing of invoicing to the Contract Security Program and by the fact that some occupancy instruments were not signed.
- The decrease is also due to project delays related to COVID-19 requiring the suspension and rescheduling of work for GC Surplus activities. For the Quebec, Western and Pacific regions, project completion and timing of work resulted in a decrease in revenue.
- In addition, due to COVID-19, the business volume for services such as translation and interpretation have decreased.
- Delays from clients in the ordering of vaccines due to the COVID-19 pandemic also created a decrease in revenue.

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

There were no significant changes to operations and programs during the second quarter ended September 30, 2020.

Wojciech Zielonka was nominated as the new Chief Financial Officer of Public Services and Procurement, effective September 8, 2020.

Approved by:

Bill Matthews Deputy Minister Public Services and Procurement Canada	Wojciech Zielonka, CPA, CA Chief Financial Officer Public Services and Procurement Canada
Gatineau, Canada November 27, 2020	Gatineau, Canada November 27, 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 September 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 September 30, 2019	Year to date used at quarter end
Vote 1						
Gross operating expenditures	3,505,614	951,251	1,832,944	3,660,229	960,818	1,755,812
Vote-netted revenues	(1,129,959)	(461,877)	(562,919)	(1,226,007)	(299,774)	(550,430)
Net operating expenditures	**2,375,655**	**489,374**	**1,270,025**	**2,434,222**	**661,044**	**1,205,382**
Vote 5 - Capital expenditures	**1,190,358**	**258,147**	**404,345**	**1,297,562**	**242,099**	**400,585**
Revolving fund authorities						
Real Property Services Revolving Fund						
Gross expenditures	2,174,293	440,944	666,786	1,991,322	414,597	724,643
Revenues	(2,155,385)	(441,398)	(568,651)	(1,980,108)	(470,688)	(637,933)
Net expenditures	18,908	(454)	98,135	11,214	(56,091)	86,710
Translation Bureau Revolving Fund						
Gross expenditures	172,866	39,361	68,841	174,058	42,357	76,001
Revenues	(162,322)	(33,591)	(56,188)	(165,908)	(35,380)	(66,636)
Net expenditures	10,544	5,770	12,653	8,150	6,977	9,365
Optional Services Revolving Fund						
Gross expenditures	173,488	21,180	28,197	176,708	29,919	45,411
Revenues	(173,488)	(18,337)	(29,029)	(176,500)	(30,557)	(51,600)
Net expenditures	-	2,843	(832)	208	(638)	(6,189)
Total of all revolving funds						
Gross expenditures	2,520,647	501,485	763,824	2,342,088	486,873	846,055
Revenues	(2,491,195)	(493,326)	(653,868)	(2,322,516)	(536,625)	(756,169)
Total revolving fund net expenditures	**29,452**	**8,159**	**109,956**	**19,572**	**(49,752)**	**89,886**

Table 1 – STATEMENT OF AUTHORITIES - CONTINUED (unaudited)

Other budgetary statutory authorities						
Contributions to employee benefit plans	157,140	28,879	57,757	159,222	27,121	54,241
Minister of PSP salary and motor car allowance	89	23	45	88	22	44
Refunds of amounts credited to revenues in previous years	-	-	-	-	-	-
Spending of proceeds from the disposal of surplus Crown assets	452	282	282	410	-	-
Payments to provide supplies for the health system	500,000	31,311	194,189	-	-	-
Payment in lieu of taxes to municipalities and other taxing authorities [2)]	-	(200,514)	130,812	-	(250,877)	111,883
Total other budgetary statutory authorities	**657,681**	**(140,019)**	**383,085**	**159,720**	**(223,734)**	**166,168**
Total budgetary authorities	**4,253,146**	**615,661**	**2,167,411**	**3,911,076**	**629,657**	**1,862,021**
Non-budgetary authority						
Seized Property Working Capital Account	-	-	-	-	-	-
Total authorities	**4,253,146**	**615,661**	**2,167,411**	**3,911,076**	**629,657**	**1,862,021**

Net increase of $342.0 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)

	Fiscal year ending March 31, 2021			Fiscal year ending March 31, 2020		
(In thousands of dollars)	Planned expenditures for the year ending March 31, 2021 1) 2)	Expended during the quarter ended September 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 September 30, 2019	Year to date used at quarter end
Expenditures						
Personnel	1,521,917	403,289	784,895	1,511,678	374,347	735,498
Transportation and communications	78,891	(4,887)	72,251	81,045	17,194	32,430
Information	14,980	2,588	4,215	22,561	4,234	6,502
Professional and special services	1,885,263	434,961	643,740	2,015,547	409,912	641,969
Rentals	998,550	277,379	590,268	1,196,093	209,895	564,725
Repair and maintenance	1,296,893	225,344	388,169	1,187,912	281,743	473,323
Utilities, materials and supplies	744,702	62,406	241,470	263,326	46,557	72,991
Acquisition of land, buildings and works	588,675	194,265	272,858	463,379	156,091	223,532
Acquisition of machinery and equipment	167,968	18,604	32,607	127,540	22,323	39,431
Transfer payments 2)	-	(200,723)	130,603	-	(250,877)	111,883
Public Debt charges	111,471	28,894	58,742	123,452	30,326	61,189
Other subsidies and payments	464,990	128,744	164,380	467,065	164,311	205,147
Total gross budgetary expenditures	**7,874,300**	**1,570,864**	**3,384,198**	**7,459,598**	**1,466,056**	**3,168,620**
Less revenues netted against expenditures						
Revolving funds revenues	(2,491,195)	(493,326)	(653,868)	(2,322,515)	(536,625)	(756,169)
Vote-netted revenues	(1,129,959)	(461,877)	(562,919)	(1,226,007)	(299,774)	(550,430)
Total revenues netted against expenditures	**(3,621,154)**	**(955,203)**	**(1,216,787)**	**(3,548,522)**	**(836,399)**	**(1,306,599)**
Total net budgetary expenditures	**4,253,146**	**615,661**	**2,167,411**	**3,911,076**	**629,657**	**1,862,021**

Net increase of $305.4 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.