CORRECTIONAL SERVICE CANADA

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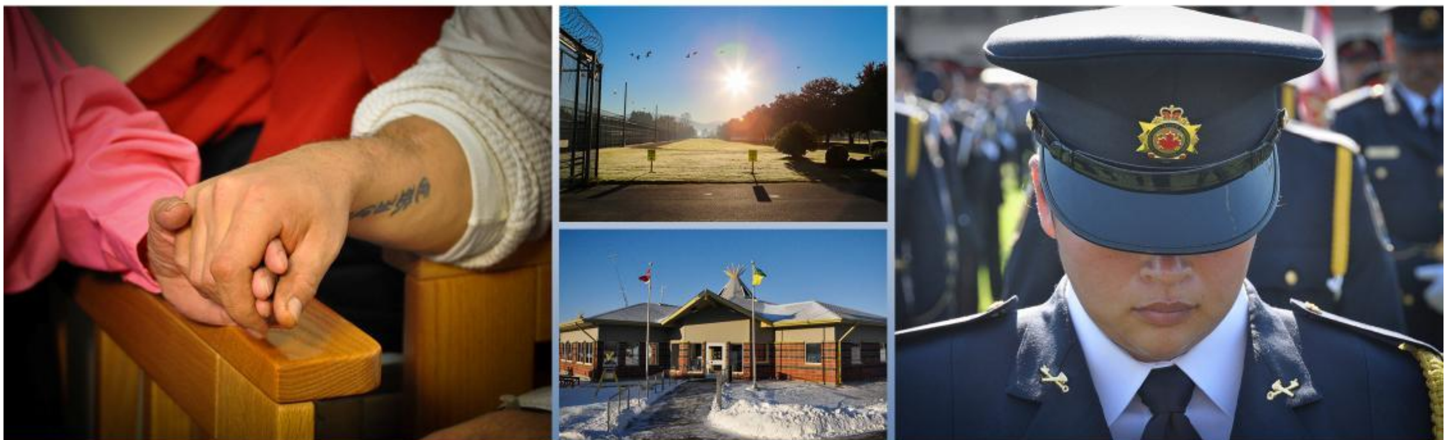

Quarterly Financial Report

FOR THE QUARTER ENDED SEPTEMBER 30, 2021

Correctional Service Canada | Service correctionnel Canada

Canada

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Introduction

This quarterly report has been prepared by management of Correctional Service of Canada (CSC) as required by section 65.1 of the Financial Administration Act and in the form and manner prescribed by the Treasury Board. This quarterly report should be read in conjunction with the Main Estimates, Supplementary Estimates and the Quarterly Financial Report for the quarter ended June 30, 2021. This report has not been subject to an external audit or review.

The purpose of the federal correctional system, as defined by law, is to contribute to the maintenance of a just, peaceful and safe society by carrying out sentences imposed by courts through the safe and humane custody and supervision of offenders; and by assisting the rehabilitation of offenders and their safe reintegration into the community as law-abiding citizens through the provision of programs in penitentiaries and in the community (Corrections and Conditional Release Act, s.3). A summary description of CSC's program activities can be found in Part II of the Main Estimates and the Departmental Plan 2021-2022.

Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes CSC's spending authorities granted by Parliament and those used by the organization, consistent with the Main Estimates for the 2021-2022 fiscal year for which the interim supply was released on March 31, 2021[1] and the full supply was released June 24, 2021[2]. This quarterly report has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities.

The authority of Parliament is required before money can be spent by the Department. 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.

CSC 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 a cash expenditure basis.

CSC has an active Revolving Fund (CORCAN) that is included in the statutory authorities of the enclosed Statement of Authorities. CORCAN's purpose is to aid in the safe reintegration of offenders into Canadian society by providing employment and training opportunities to offenders incarcerated in federal penitentiaries and, for brief periods, after they are released into the community. CORCAN has a continuing non-lapsing authority from Parliament to make payments out of the Consolidated Revenue Fund (CRF) for working capital, capital acquisitions and temporary financing of accumulated operating deficits, the total

[1] Released through Order in Council P.C. 2021-0244.

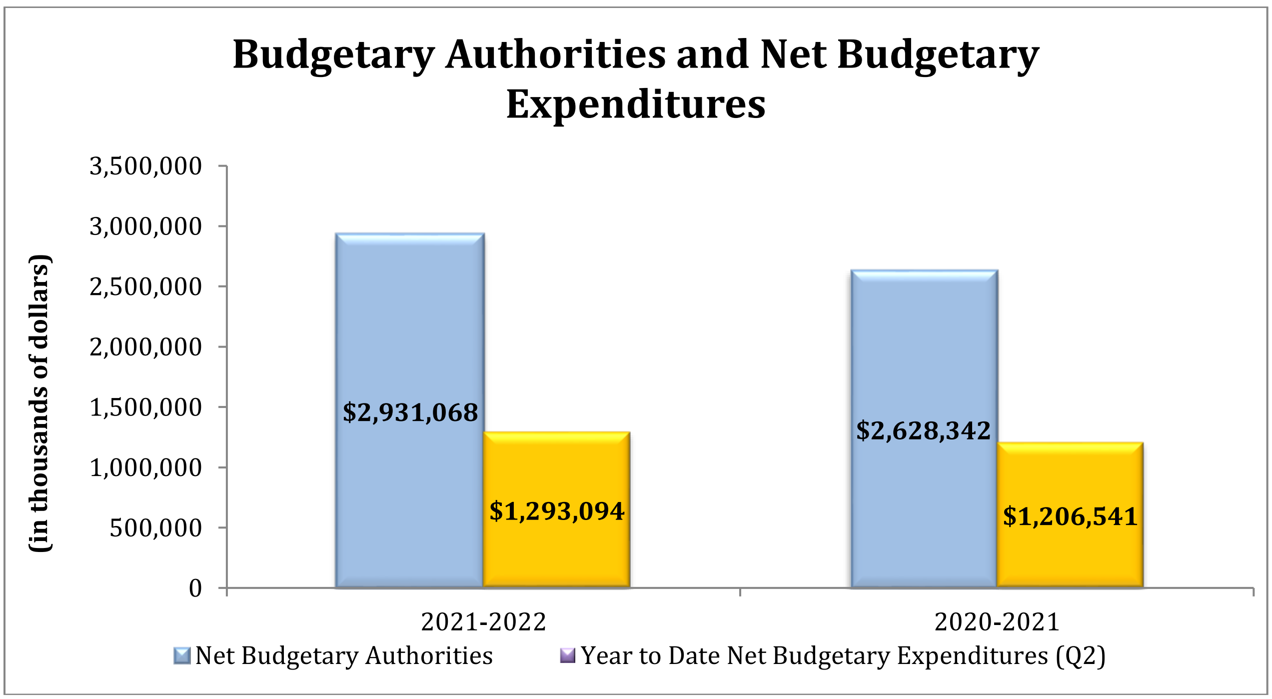
[2] Released through Order in Council P.C. 2021-0629.

of which is not to exceed $20.0 million at any time. Through Supplementary Estimates (A), 2020–2021[3], this limit was increased from a previous amount of $5.0 million. This increase was requested as a consequence of reduced sales and operations resulting from the COVID-19 pandemic. The limit will gradually decrease until fiscal year 2025-26, at which point it will return to the original $5.0 million threshold.

CSC also has a Vote Netted Revenue (VNR) authority in place, currently only being utilised for transactions with the Parole Board of Canada (PBC). The total VNR authority for 2021-22 is $3.9 million, which allows CSC to bill PBC for information management and information technology services on a full incremental cost recovery basis. Throughout this report, the VNR authorities are netted with CSC's vote 1 operating authorities.

Highlights of Fiscal Quarter and Fiscal Year to Date (YTD) Results

The following graph provides a comparison of the total budgetary authorities and net budgetary expenditures as of September 30, 2021 and September 30, 2020 for CSC's combined operating, capital and budgetary statutory authorities.



[3] Released through Order in Council P.C. 2020-510 on June 26, 2020.

Significant Changes to Authorities

As reflected in the Statement of Authorities for the period ending September 30, 2021, CSC has seen an **increase** in total authorities of **$302.7 million or 11.5%** for the current fiscal year compared to the previous fiscal year.

Operating Vote

CSC's Operating Vote **increased by $258.8 million[4] or 11.8%** compared to the authorities at the end of September 2020, which is attributed to the net effect of the following items:

- An **increase of $140.1 million** related to funding approved for Support for the Correctional Service of Canada (Budget 2020);
- An **increase of $45.1 million** in funding from the Operating Budget Carry Forward;
- An **increase of $35.3 million** related to compensation for the funded portion of collective agreement increases;
- An **increase of $22.1 million** in funding related to *Transforming Federal Corrections* (Bill C-83);
- An **increase of $11.8 million** for critical operating requirements related to COVID-19;
- An **increase of $8.8 million** in quasi-statutory funding related to changes in prices and volume of goods and services being procured;
- An **increase of $0.7 million** related to *Funding for Mental Health for Offenders and CORCAN Farms* (Budget 2018);
- A **decrease of $2.5 million** related to funding for *Addressing the Needs of Vulnerable Offenders* (Budget 2017);
- A **decrease of $2.2 million** to transfer funds to the Parole Board of Canada due to the establishment of an alternative cost recovery mechanism in Correctional Services Canada for the provision of Information Technology and Information Management Services;
- A **decrease of $0.3 million** related to the *Program and Administrative Services (PA) Modernization* initiative; and
- A **decrease of $0.2 million** in funding for the *Federal Contaminated Sites Action Plan*.

Capital Vote

CSC's Capital Vote **increased by $18.0 million or 8.6%** compared to the authorities at the end of September 2020, which is related to an increase in the Capital Budget Carry Forward.

Budgetary Statutory Authorities

CSC's budgetary statutory authorities **increased by $25.9 million or 11.7%** compared to September 2020, which is related to:

- An **increase of $23.9 million** for the department's allocation of the employer's share of the employee benefit plan;

[4] A variance between the total authorities and the addition of the separate items might occur due to rounding.

- An **increase of $2.3 million** related to the CORCAN revolving fund, due to higher planned utilization of the drawdown authorities; and
- A **decrease of $0.3 million** of proceeds from the disposal of surplus Crown assets.

Explanation of Significant Variances from Previous Year Expenditures

Compared with the previous fiscal year, the total year to date net budgetary expenditures **increased by $86.6 million or 7.2%** mainly due to the following factors:

Expenditures

- Personnel expenditures **increased by $97.8 million** primarily due to:
  - An **increase of $66.0 million** in salary:
    - An **increase of $39.4 million** due to the increase of rates of pay resulting from the implementation of various collective agreements ratified after the first quarter of 2020-21;
    - An **increase of $10.3 million** due to the recruitment of new employees and the current 2021-22 rates of pay, of which $6.2 million was spent in relation to Transforming Federal Corrections (Bill C-83);
    - An **increase of $9.2 million** due to signing bonuses following the ratification of collective agreements;
    - An **increase of $5.5 million** to adapt to the impacts of COVID-19;
    - An **increase of $1.6 million** for expenditures related to Administrative Segregation Class Actions, under the direction of the Class Action Management Office and with the support of internal services;
  - An **increase of $12.1 million** for the employer's contributions to the employee benefit plan. This will be adjusted at year-end based on total salary expenditures;
  - An **increase of $9.3 million** to compensate employees for Phoenix damages and the late implementation of the collective agreements financial clauses;
  - An **increase of $5.0 million** in retroactive payments following the ratification of collective agreements;
  - An **increase of $2.6 million** due to the increase in Workers' Compensation Board (WCB) expenditures;
  - An **increase of $2.3 million** in overtime expenditure mainly related to the COVID-19 response;
  - An **increase of $1.9 million** for the new Welfare Programmes Groups (WP) Parolee officer allowance; and
  - A **decrease of $1.4 million** in severance pay.

- Transportation and communications expenditures **increased by $1.6 million** primarily due to the COVID-19 restrictions in effect during the first semester of 2020-21 compared to the first semester of 2021-22, where restrictions have declined and resulted in an increase in relocation and travel:

- An **increase of $0.9 million** in relocation costs;
- An **increase of $0.4 million** in public servants travel mainly due to the recruitment of Correctional Officers; and
- An **increase of $0.3 million** in non-public servants travel for transfers of inmates between regions.

- Professional and special services **increased by $34.5 million** primarily due to:
  - An **increase of $16.3 million** in legal services mainly for legal fees paid to Justice Canada processed earlier this year than last year ;
  - An **increase of $5.6 million** in non-professional personal service contracts not elsewhere specified, mainly due to the Exchange of Services Agreement with the Provinces;
  - An **increase of $5.0 million** due to COVID-19, as many activities were stopped or delayed during last year's first quarter and have resumed to a certain degree this year:
    - An **increase of $1.5 million** in health care services/specialists due to last year's stopped work orders;
    - An **increase of $1.4 million** in other consultant fees, excluding the information technology and telecommunication consultants;
    - An **increase of $1.0 million** in information technology and telecommunications consultants; and
    - An **increase of $0.7 million** in inmate training;
    - An **increase of $0.4 million** in staff training;
  - An **increase of $2.6 million** in management consulting mainly for the Federal Building Initiative energy contracting;
  - An **increase of $2.3 million** in health care services/specialists, in various specialities not related to COVID-19;
  - An **increase of $1.9 million** in consultant fees for Chaplaincy Services;
  - An **increase of $1.8 million** in Correctional and Training Fees;
  - An **increase of $0.7 million** in information technology and telecommunications consultants for various projects not related to COVID-19; and
  - A **decrease of $1.7 million** in contracting building cleaning services, in response to COVID-19.

- Rentals **increased by $5.0 million** primarily due to:
  - An **increase of $4.1 million** in license and maintenance fees for $2.5 million to maintain CSC's ongoing operational activities amidst COVID-19 restrictions and for invoices processed earlier this year than last year;
  - An **increase of $0.6 million** in rental of office buildings and industrial and commercial buildings; and
  - An **increase of $0.3 million** in other rentals.

- Repair and maintenance **decreased by $1.8 million** primarily due to:
  - A **decrease of $1.0 million** due to an expenditure which had initially been incorrectly recorded under repair and maintenance in 2020-21, but was corrected later on that year; and

    - A **decrease of $0.8 million** in other equipment repairs.

- Utilities, materials and supplies **decreased by $36.3 million** primarily due to:
    - A **decrease of $33.4 million** as, last year, CSC purchased higher levels of supplies to ensure sufficient inventory to support its operational activities during the early period of the COVID-19 pandemic. This approach was not required this fiscal year. The variance is made up of the following categories:
        - A **decrease of $30.3 million** in medical supplies, including personal protective equipment (PPE) purchases;
        - A **decrease of $1.7 million** in cleaning products;
        - A **decrease of $1.4 million** in food inventory and in the methods of delivery of meals to inmates;
    - A **decrease of $2.6 million** in the purchase of medications as the inventory level was sufficient (mainly for Hepatitis C medications);
    - A **decrease of $1.6 million** in allowance for footwear, which is paid every second year;
    - An **increase of $1.3 million** caused by savings due to COVID-19 in 2020-21:
        - An **increase of $0.8 million** in personal goods, such as uniforms and other clothing due to the reduction of recruitment of Correctional Officers in 2020-21; and
        - An **increase of $0.5 million** in expenditures for gasoline, diesel fuel and light fuel oil.

- Acquisition of land, buildings and works **increased by $10.7 million,** due to the construction projects that were stopped or delayed last fiscal year, in response to COVID-19.

- Acquisition of machinery and equipment **decreased by $2.1 million** primarily due to:
    - A **decrease of $1.0 million** in other equipment and parts, mainly due to a purchase of an automated medication dispensing system in 2020-21;
    - A **decrease of $0.7 million** for laptops and other IT equipment, required to allow the organization to maintain operations during the pandemic; and
    - A **decrease of $0.4 million** in communication and networking equipment due to the completion of construction projects.

- Other subsidies and payments **decreased by $16.0 million** primarily due to:
    - A **decrease of $18.3 million** of court ordered payments; and
    - A **decrease of $3.6 million** in salary overpayments recognized by Phoenix;
    - An **increase of $2.7 million** in out-of-court settlements;
    - An **increase of $2.2 million** due to the increase in Workers' Compensation Board (WCB) expenditures; and
    - An **increase of $1.0 million** in shared costs programs for inmate training, mainly due to an update of the expenditure classification, but also due to a greater level of activities this year compared to last year, due to restrictions related to the pandemic.

Revenues

- A **net increase of $2.3 million** in revenue related to the Vote Netted Revenue (VNR) agreement with the Parole Board of Canada.

- A **net increase of $4.5 million** in CORCAN revenues due to the activities at the institutions gradually returning to normal and the recognition of Correctional and Training Revenue.

(in millions of dollars)

Organizational Budgetary Expenditures	**Year Over Year**	**Quarter Over Quarter**
Total Net Budgetary Expenditures 2020-2021	1,206.5	653.3
Total Net Budgetary Expenditures 2021-2022	1,293.1	710.6
Variance	**86.6**	**57.3**
Explanation of Variances by Standard Object		
Personnel	97.8	62.8
Transportation and communications	1.6	1.0
Professional and special services	34.5	21.1
Rentals	5.0	0.3
Repair and maintenance	(1.8)	(2.3)
Utilities, materials and supplies	(36.3)	(21.6)
Acquisition of land, buildings and works	10.7	7.7
Acquisition of machinery and equipment	(2.1)	(3.5)
Other subsidies and payments	(16.0)	(5.8)
Vote Netted Revenue	(2.3)	(2.3)
CORCAN revenues	(4.5)	(0.1)
Total	**86.6**	**57.3**

Risks and Uncertainties

CSC's Departmental Plan 2021-2022 identifies the current risk environment and CSC's key risk areas to the achievement of its strategic outcomes.

CSC secured permanent integrity funding in 2019-20 to maintain operations after completing its Comprehensive Review. In the short term, CSC is focused on maintaining operations during and in the aftermath of the COVID-19 pandemic. CSC will address existing financial challenges, and will continue working on a modernization plan over the three-year planning period. During 2020-21, CSC stabilized its existing Departmental Financial Management System (DFMS) using an Oracle technical upgrade, and in 2021-22 will continue to advance plans for the future modernization of the DFMS through a SAP hosting solution.

CSC continues to experience ongoing issues related to the Phoenix Pay System. Given the complexity of our workforce coupled with the operational nature of our organization, CSC has experienced a significantly high number of pay related issues. CSC is continuously working internally and with external stakeholders to resolve these issues.

CSC's specific risks, as outlined in CSC's Departmental Plan 2021-2022, are the increasingly complex and diverse profile of the offender population, the maintenance of required levels of operational safety and security in institutions and the community, the inability to implement its mandate and ensure the financial sustainability and modernization of the organization, the potential loss of support of partners delivering critical services and providing resources for offenders, the maintenance of public confidence in the federal correctional system, and the maintenance of a safe, secure, healthy, respectful, and collaborative working environment as established by its legal and policy obligations, mission, and values statement.

CSC has put in place risk mitigation strategies to address the stated risks. The integrated approach allows CSC to handle risk-related challenges, ensure operational sustainability to fulfill its mandate.

Significant Changes in Relation to Operations, Personnel and Programs

Since the beginning of the pandemic, Correctional Service Canada (CSC) has implemented rigorous infection prevention and control measures at its sites. By the end of the second quarter of 2021-2022, there were no active cases of COVID-19 among the inmate population in any of CSC's institutions. Over 82% of the inmate population has had at least one dose of the vaccine and more than 76% are fully vaccinated. Since the situation has stabilized, CSC is gradually resuming inmate visits with appropriate public health measures in place.

Having seen no new COVID-19 cases during this second quarter of 2021-22 and a successful vaccination campaign within correctional facilities, working groups have been put in place and are developing plans to resume activities at CSC. These plans will ensure we make evidence-based decisions, put in place the proper safeguards, and determine exactly how any return to a new normal will roll-out.

Furthermore, CSC will adopt a phased and gradual restoration of interventions, programs and services approach, ensuring there are appropriate measures in place to limit health and safety risks, while supporting public safety efforts. CSC will adjust restrictions in adherence with national, provincial and local public health authorities.

A current challenge facing CSC is to understand the full impact of the COVID-19 Vaccination Guidelines for Federal Employees, which has the potential to lead to cost savings for the department, but may also result in increased personnel spending and possible significant delays with capital spending plans. Further information will be known on this topic in the coming weeks and financial risks will need to be mitigated.

CSC's Special Operating Agency (SOA), CORCAN, operates a revolving fund with authority to spend its revenues. Due to the resulting measures around COVID-19, CORCAN could not operate under normal conditions. Consequently, CORCAN's drawdown limit increased to $20.0M following Treasury Board approval. This limit will gradually decrease until fiscal year 2025-26, at which point it will return to the original $5.0 million threshold.

CSC received significant investments via the Fall Economic Statement (2018) to enhance mental health services for offenders, and support amendments to transform federal corrections, specifically in support of Bill C-83. Bill C-83 "*An Act to amend the Corrections and Conditional Release Act and another Act*" received Royal Assent on June 21, 2019. The amendments eliminate administrative and disciplinary segregation, and introduce a new correctional model including the use of structured intervention units (SIUs) for inmates who cannot be managed safely within a mainstream inmate population. CSC has started and is continuing the process of making the necessary infrastructure changes, developing policies, and hiring and training staff to operate the SIUs. Funding for these initiatives gradually increases over a period of five years and stabilizes in fiscal year 2024-2025.

There have been no changes to key senior personnel in the second quarter of 2021-2022.

Approvals by Senior Officials

Approved by:

Original Signed By
Anne Kelly,
Commissioner

Original Signed By
Tony Matson,
Chief Financial Officer

Ottawa, Canada
November 19, 2021

Statement of Authorities (unaudited)

(in thousands of dollars)	*Fiscal year 2021-2022*			*Fiscal year 2020-2021*		
	Total available for use for the year ending March 31, 2022*	Used during the quarter ended September 30, 2021	Year to date used at quarter-end	Total available for use for the year ending March 31, 2021*	Used during the quarter ended September 30, 2020	Year to date used at quarter-end
Vote 1–Operating expenditures						
Gross operating expenditures	2,460,213	632,115	1,145,788	2,197,516	588,547	1,081,428
Vote-netted revenues	(3,943)	(2,348)	(2,348)	-	-	-
Net operating expenditures	**2,456,270**	**629,767**	**1,143,440**	**2,197,516**	**588,547**	**1,081,428**
Vote 5 – Capital expenditures	**227,457**	**26,302**	**37,300**	**209,427**	**16,250**	**23,435**
Budgetary statutory authorities						
CORCAN gross expenditures	108,388	22,535	43,571	124,334	22,352	40,305
CORCAN revenues	(106,106)	(29,043)	(53,359)	(124,334)	(28,934)	(48,804)
CORCAN net expenditures	2,282	(6,508)	(9,788)	-	(6,582)	(8,499)
Spending of proceeds from disposal of surplus Crown assets	813	19	19	1,046	-	-
Contributions to employee benefits plans	244,246	61,061	122,123	220,353	55,089	110,177
	245,059	61,080	122,142	221,399	55,089	110,177
Total budgetary authorities	**2,931,068**	**710,641**	**1,293,094**	**2,628,342**	**653,304**	**1,206,541**
Non-budgetary authorities	45	-	-	45	-	(1)
Total authorities	**2,931,113**	**710,641**	**1,293,094**	**2,628,387**	**653,304**	**1,206,540**

More information is available on the following page.

** Includes only Authorities available for use and granted by Parliament at quarter-end.*

Note: CORCAN's available drawdown authority at the end of September 2021 was $20.0M, of which none was used, leaving a residual balance available of 20.0M. In comparison, at the end of September 2020, CORCAN's drawdown authority was $20.0M, of which $2.6M was utilized, and $17.4M of funding was available.

Organizational budgetary expenditures by Standard Object (unaudited)

	Fiscal year 2021-2022			Fiscal year 2020-2021		
(in thousands of dollars)	Planned expenditures for the year ending March 31, 2022	Expended during the quarter ended September 30, 2021	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2021	Expended during the quarter ended September 30, 2020	Year to date used at quarter-end
Expenditures						
Personnel	1,972,480	511,813	996,321	1,789,368	448,994	898,494
Transportation and communications	13,546	4,700	7,135	29,374	3,679	5,497
Information	273	96	143	835	62	89
Professional and special services	407,467	119,270	178,898	404,691	98,140	144,392
Rentals	25,992	9,379	16,780	23,665	9,019	11,815
Purchased repair and maintenance	23,691	5,609	8,385	29,727	7,861	10,145
Utilities, materials and supplies	217,252	31,657	54,608	163,221	53,278	90,892
Acquisition of land, buildings and works*	107,265	14,464	19,377	169,428	6,705	8,631
Acquisition of machinery and equipment*	116,305	5,522	10,874	36,345	9,048	12,998
Transfer payments	120	19	19	120	115	115
Other subsidies and payments	156,726	39,503	56,261	105,902	45,337	72,277
Total gross budgetary expenditures	**3,041,117**	**742,032**	**1,348,801**	**2,752,676**	**682,238**	**1,255,345**
Less revenues netted against expenditures						
Vote netted revenue	(3,943)	(2,348)	(2,348)	-	-	-
CORCAN	(106,106)	(29,043)	(53,359)	(124,334)	(28,934)	(48,804)
Total revenues netted against expenditures	**(110,049)**	**(31,391)**	**(55,707)**	**(124,334)**	**(28,934)**	**(48,804)**
Total net budgetary expenditures	**2,931,068**	**710,641**	**1,293,094**	**2,628,342**	**653,304**	**1,206,541**

** These are mainly Vote 5 (Capital) expenditures.*