



SAFETY, RESPECT  
AND DIGNITY  
FOR ALL

LA SÉCURITÉ,  
LA DIGNITÉ  
ET LE RESPECT  
POUR TOUS

# Quarterly Financial Report

*For the Quarter ended  
September 30, 2012*

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## Introduction

This quarterly report has been prepared by management 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](#), [Quarterly Financial Report](#) as of June 30, 2012 as well as *Canada's Economic Action Plan 2012* ([Budget 2012](#)). This report has not been subject to an external audit or review.

Correctional Service Canada (CSC), as part of the criminal justice system and respecting the rule of law, contributes to public safety by actively encouraging and assisting offenders to become law-abiding citizens, while exercising reasonable, safe, secure and humane control. It delivers its mandate under four major program activities. A summary description of CSC's program activities can be found in [Part II of the Main Estimates](#).

CSC contributes to public safety by administering court-imposed sentences for offenders sentenced to two years or more. This involves managing institutions of various security levels and supervising offenders on different forms of conditional release, while assisting them to become law-abiding citizens. CSC also administers post-sentence supervision of offenders with Long Term Supervision Orders for up to ten years.

## Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes the CSC's spending authorities granted by Parliament and those used by the department, consistent with the [Main Estimates](#) and [Supplementary Estimates A](#) for the 2012-2013 fiscal year, for which full supply was released on June 29, 2012<sup>1</sup>. 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.

As part of the Parliamentary business of supply, the [Main Estimates](#) must be tabled in Parliament on or before March 1 preceding the new fiscal year. [Budget 2012](#) was tabled in Parliament on March 29, after the tabling of the [Main Estimates](#) on February 28, 2012. As a result the measures announced in the [Budget 2012](#) could not be reflected in the 2012-13 [Main Estimates](#), i.e., these authorities do not take into consideration any effect from the Deficit Reduction Action Plan.

In fiscal year 2012-2013, frozen allotments will be established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in [Budget 2012](#). In future years, the changes to departmental authorities will be implemented through the Annual Reference Level Update, as approved by Treasury Board, and reflected in the subsequent [Main Estimates](#) tabled in Parliament.

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<sup>1</sup> Released through Orders in Council P.C. [2012-0956](#) and P.C. [2012-0957](#)

The authority of Parliament is required before moneys 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.

CSC uses the full accrual method of accounting to prepare and present its annual departmental financial statements that are part of the departmental reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

CSC has an active Revolving Fund (CORCAN) which is included in the statutory votes 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 of time, 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 of which is not to exceed \$5.0 million at any time.

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

### ***Authorities Analysis***

As reflected in the attached Statement of Authorities, as of September 30, 2012, CSC has seen an increase in total authorities of \$88.5 million for the current fiscal year compared to the previous fiscal year. This represents a 2.9% increase over the total authorities available as of September 30, 2011. It should be noted that these authorities do not take into consideration any effect from the Deficit Reduction Action Plan.

The following table summarizes the variances in total authorities by vote between September 30, 2011 and September 30, 2012. The items highlighted in yellow represent the increase that occurred in the second quarter of 2012-13.

(in millions of dollars)

	Operating (Vote 25)	Capital (Vote 30)	Budgetary Statutory Authorities	Total
<b>Quarterly Financial Report as of June 30, 2012</b>				
<i>Truth in Sentencing Act</i>	171.8	2.4		<b>174.2</b>
<i>Tackling Violent Crime Act</i>	3.8			<b>3.8</b>
Budget 2008	4.7			<b>4.7</b>
National Capital, Accommodation and Operations Plan	(48.6)			<b>(48.6)</b>
Shared Services Canada	(32.8)	(10.5)		<b>(43.3)</b>
Strategic Review	(1.6)	(39.7)		<b>(41.3)</b>
Reprofiling to future years		(13.3)		<b>(13.3)</b>
Budgetary Statutory Authorities			6.3	<b>6.3</b>
Other	1.7			<b>1.7</b>
<b>Quarterly Financial Report as of September 30, 2012</b>				
Operating Budget Carry-forward	3.6			<b>3.6</b>
Capital Budget Carry-forward		36.7		<b>36.7</b>
Reimbursement of personnel costs	4.0			<b>4.0</b>
Disposal of Crown Assets	0.1			<b>0.1</b>
Other	(0.1)			<b>(0.1)</b>
<b>Total</b>	<b>106.6</b>	<b>(24.4)</b>	<b>6.3</b>	<b>88.5</b>

#### Variations in Authorities for the Period of October 1<sup>st</sup>, 2011 to June 30, 2012<sup>2</sup>

Of the net increase in total authorities reflected in the Statement of Authorities, \$174.2 million (\$171.8 million in operating funding and \$2.4 million in capital funding) was received in relation to the implementation of the [Truth in Sentencing Act](#), and \$3.8 million for the [Tackling Violent Crime Act](#), where increases in both individual sentence length and the numbers of federal offenders is expected.

These changes will result in CSC accommodating and supervising an increase in the current offender population. However, it was announced in July 2012 that CSC will be reducing its reference levels by approximately \$1.48 billion over the period of 2011-2012 to 2017-2018 given that the forecasted growth in the inmate population did not materialize as originally forecasted. For 2012-2013, the adjustments represent a reduction in operating funding of \$258 million and a reduction in capital funding of \$8 million. These adjustments have not yet been reflected in CSC's authorities.

As part of the Budget 2008 Integrity Funding from the 2010-2011 Annual Reference Level Update, \$4.7 million of the Operating vote was reprofiled from previous years to 2012-13.

The \$48.6 million decrease for the National Capital, Accommodation & Operations Plan relates to offender programs and specific accommodation measures. These measures are based on funding formulae driven by variations in population levels, both incarcerated and in the community, as well as changes to the types of offender.

<sup>2</sup> [Quarterly Financial Report](#) as of June 30, 2012

CSC decreased its reference level by \$43.3 million (\$32.8 million in operating funding and \$10.5 million in capital funding) due to the transfer of some IT responsibilities to Shared Services Canada (SSC). SSC was established by an Order in Council to pool existing resources from across government in order to consolidate and transform IT infrastructure for the Government of Canada.

Funding has been reduced by \$41.3 million (\$1.6 million in Operating and \$39.7 million in Capital) as a result of the 2009 Strategic Review.

There was a \$13.3 million decrease in CSC's capital vote reference levels due to reprofiling of capital funds to future years.

The Budgetary Statutory Authority increase of \$6.3 million is primarily due to CSC's allocation of the employer's share of the Employee Benefit Plan (EBP).

### **Variations in Authorities for the Period of July 1<sup>st</sup>, 2012 to September 30, 2012**

In September 2012, CSC received notification that the requested Operating Budget Carry-forward of \$53.3 million had been transferred. This represents an increase of \$3.6 million over the Operating Budget Carry-forward received last year.

CSC received a Capital Budget Carry-forward of \$91.1 million, which represents an increase of \$36.7 million as compared to the \$54.4 million that was received last year.

CSC also received \$12.4 million from the Treasury Board to supplement other appropriations for requirements related to parental and maternity allowances, and for entitlements on termination of employment. It represents an increase of \$4.0 million over the same period last year.

### **Quarterly Expenditures Analysis**

Compared to the second quarter of the previous fiscal year, total net budgetary expenditures have decreased by \$13.8 million (2.1%). On the other hand, the total year-to-date expenditures have increased by \$12.8 million (1.1%).

*(in millions of dollars)*

<b>Departmental Budgetary Expenditures</b>	<b>Year To Date</b>	<b>Quarter Over Quarter</b>
Total Net Budgetary Expenditures 2011-2012	1,158.7	662.9
Total Net Budgetary Expenditures 2012-2013	1,171.5	649.1
<b>Variance</b>	<b>12.8</b>	<b>(13.8)</b>
Explanation of Variances by Standard Object		
• Acquisition of land, buildings and works	49.9	43.9
• Professional and special services	15.7	(3.4)
• Personnel	(24.5)	(42.1)
• Transportation and communications	(9.7)	(7.5)
• Repair and maintenance	(9.5)	(5.3)
• Other	(9.1)	0.6
<b>Total</b>	<b>12.8</b>	<b>(13.8)</b>

### **Year-To-Date Expenditures Analysis**

The overall increase of \$12.8 million is mainly attributable to an increase in professional and special services as well as in the acquisition of land, buildings and works. These increases were partially reversed by a reduction in personnel expenditures, transportation and communications and repairs and maintenance. The following paragraphs explain these variances in detail.

The year-to-date increase of \$49.9 million in acquisition of land, buildings and works expenditures is mainly due to the construction of new living units in many of CSC's existing institutions across the country as necessitated by the [Truth in Sentencing Act](#).

The increase of \$15.7 million in professional and special services expenditures is due to a modification in the Correctional and Training fee<sup>3</sup> invoicing process between CSC and CORCAN that resulted from a difference in the timing of the expenditure. As of September 30, 2012, CORCAN has invoiced the full amount for the 2012-2013 Correctional and Training fee whereas in 2011-2012 CORCAN invoiced CSC throughout the year.

The reduction in personnel expenditures of \$24.5 million<sup>4</sup> reflects the decrease in severance benefits paid over the same period last year.

The reduction of \$9.7 million in transportation and communication is attributable to the transfer of the email, network and data centre services to Shared Services Canada (\$4.2 million) and to CSC's reductions in travel and relocation expenses as a result of ongoing efforts to reduce these costs (\$5.5 million).

The reduction of \$9.5 million in repair and maintenance is mainly due to the transfer of the email, network and data centre services to Shared Services Canada.

### **Quarter Over Quarter Expenditures Analysis**

To explain the reduction of \$13.8 million in the quarter over quarter budgetary expenditures, two factors must be considered in addition of the year-to-date variance explanations provided above.

Compared to the second quarter of the previous fiscal year, the personnel expenditures have decreased by \$42.1 million due to a significant reduction of severance benefits paid. Finally, the professional and special services decreased slightly compared to the increase of \$15.7 million reported in the year-to-date analysis.

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<sup>3</sup> The Correctional and Training fee's purpose is to offset salary and operating costs that cannot be recovered by CORCAN through the sale of goods and services due to the correctional environment in which it operates.

<sup>4</sup> The total variation in personnel expenditures represents a decrease in salaries and overtime (\$27.7 M) and an increase in EBP (\$3.2 M).

## Spending Trend Analysis

Overall, CSC's trend in annual budgetary expenditures is consistent with 2011-2012. CSC's expenditures in the second quarter of 2012-2013 represented 20.4% of the available authorities compared to 21.4% for the same quarter last year. This spending trend continued for the year-to-date expenditures as 36.8% of the available authorities were used during the first 6 months of 2012-1013, compared to 37.4% for the same period last year.

## Risks and Uncertainties

CSC's [Report on Plans and Priorities \(RPP\)](#) identifies the current risk environment and CSC's key risk areas to the achievement of its strategic outcomes. Within this context, specific financial risks relative to the second quarter include the following:

[Budget 2010](#) Cost Containment Measures will require CSC to internally finance, on a permanent basis, the costs of wage increases resulting from current and future collective agreements negotiated between 2010-11 and 2012-13. For the current year, CSC will absorb internally an estimated amount of \$20.2 million relating to salary increases.

In addition, collective agreements covering approximately 46% of CSC's workforce have expired (mostly with the Union of Canadian Correctional Officers). New agreements could result in significant financial pressure for CSC.

CSC continues to implement measures to address the budgetary constraints resulting from the [Expenditure Restraint Act](#), including:

- maintaining staff deployment standards for Correctional Officers and computerized roster systems to ensure efficient staffing levels in federal institutions, resulting in a significant reduction in overtime expenditures;
- improving integrated human resource and business planning methods to improve the accuracy of forecasts for future staffing, recruitment, and essential training needs;
- implementing a more focused approach to reducing travel and hospitality expenditures; and,
- piloting an innovative Integrated Correctional Program Model that will reduce redundancies and overlap between some of the programs offered to offenders, leading to efficiencies in program delivery.

## Significant Changes in Relation to Operations, Personnel and Programs

As noted in the last [Quarterly Financial Report of 2011-2012](#), CSC transferred to Shared Services Canada (SSC) the responsibility for providing email, network and data centre services. As a result of this transfer, effective April 1, 2012, CSC's total authorities were permanently reduced by \$43.3 million.

## Budget 2012 Implementation

This section provides an overview of the savings measures announced in [Budget 2012](#) that will be implemented in order to refocus government and programs; make it easier for Canadians and business to deal with their government; and, modernize and reduce the back office.

The Correctional Service of Canada (CSC) is doing its part to support the federal government's return to a balanced budget, reduce the deficit, and deliver on its commitments to Canadians.

[Budget 2012](#) announced that CSC will achieve savings of \$85.5 million in 2012-13, \$170.2 million in 2013-14, and ongoing savings of \$295.4 million by 2014-15. The organization will achieve these cost savings by implementing measures to increase offender accountability, achieve administrative efficiencies, streamline operations and program delivery, and close three institutions by 2014-15 (Kingston Penitentiary and the Regional Treatment Centre in Ontario and Leclerc Institution in Quebec).

CSC has fully achieved its target for 2012-13. For the next two fiscal years, all initiatives are on track for completion within identified timelines. CSC is actively managing the roll-out of all initiatives through regular and sustained monitoring at the local, regional and national levels, in order to ensure that implementation is proceeding on time, on plan, and on budget.

The initiatives arising from Budget 2012 will further enable CSC to focus resources on the organization's key priorities and core mandate, while at the same time ensuring the organization will continue delivering strong public safety results for Canadians.

## Approvals by Senior Officials

Signed by: \_\_\_\_\_

Don Head, Commissioner  
*Ottawa, Canada*  
*November 27, 2012*

Signed by: \_\_\_\_\_

Liette Dumas-Sluyter, CMA, CIA  
Chief Financial Officer

## Statement of Authorities (unaudited)

	<b>Fiscal Year 2012-2013</b>			<b>Fiscal Year 2011-2012</b>		
	Total available for use for the year ending March 31, 2013* **	Used during the quarter ended September 30, 2012	Year to date used at quarter-end	Total available for use for the year ending March 31, 2012*	Used during the quarter ended September 30, 2011	Year to date used at quarter-end
<i>(in thousands of dollars)</i>						
Vote 25 (30) – Operating Expenditures	2,372,554	474,668	919,055	2,266,044	537,023	947,164
Vote 30 (35) – Capital Expenditures	547,554	100,532	120,206	571,981	58,269	75,017
<b>Budgetary Statutory Authorities</b>						
CORCAN Gross Expenditures	86,633	19,448	37,120	80,460	22,234	39,007
CORCAN Gross Revenues	(86,633)	(11,270)	(36,270)	(80,460)	(17,912)	(30,733)
CORCAN Net Expenditures (Revenues)	–	8,178	850	–	4,322	8,274
Other Budgetary Statutory Authorities	264,693	65,685	131,369	258,288	63,276	128,198
<b>Total Budgetary Authorities</b>	<b>3,184,801</b>	<b>649,063</b>	<b>1,171,480</b>	<b>3,096,313</b>	<b>662,890</b>	<b>1,158,653</b>
Non-Budgetary Authorities	46	–	–	49	(1)	(1)
<b>Total Authorities</b>	<b>3,184,847</b>	<b>649,063</b>	<b>1,171,480</b>	<b>3,096,362</b>	<b>662,889</b>	<b>1,158,652</b>

More information is available on the following page.

\* Includes only Authorities that were available for use and granted by Parliament as of quarter end.

\*\*Total available for use does not reflect measures announced in Budget 2012 or the return of funds (\$258 million in operating and \$8 million in capital) announced in July 2012.

## Departmental Budgetary Expenditures by Standard Object (unaudited)

	<b>Fiscal Year 2012-2013</b>			<b>Fiscal Year 2011-2012</b>		
	Planned expenditures for the year ending March 31, 2013*	Expended during the quarter ended September 30, 2012	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2012	Expended during the quarter ended September 30, 2011	Year to date used at quarter-end
<i>(in thousands of dollars)</i>						
<b>Expenditures</b>						
Personnel	1,810,767	424,681	844,236	1,731,150	466,826	868,746
Transportation and communications	73,847	6,160	12,354	74,757	13,664	22,088
Information	2,113	175	326	2,509	217	397
Professional and special services	471,045	68,810	134,322	452,685	72,213	118,672
Rentals	20,496	3,801	6,228	15,307	4,553	5,993
Repair and maintenance	63,199	4,452	7,099	62,138	9,797	16,582
Utilities, materials and supplies	183,094	27,453	48,498	174,620	28,606	49,832
Acquisition of land, buildings and works	394,598	87,441	103,902	371,276	43,546	53,966
Acquisition of machinery and equipment	154,912	9,404	12,133	202,602	11,315	13,856
Transfer payments	1,590	278	278	1,573	399	437
Other subsidies and payments	95,773	27,678	38,374	88,156	29,666	38,817
<b>Total Gross Budgetary Expenditures</b>	<b>3,271,434</b>	<b>660,333</b>	<b>1,207,750</b>	<b>3,176,773</b>	<b>680,802</b>	<b>1,189,386</b>
<b>Less Revenues Netted Against Expenditures</b>						
CORCAN	(86,633)	(11,270)	(36,270)	(80,460)	(17,912)	(30,733)
<b>Total Net Budgetary Expenditures</b>	<b>3,184,801</b>	<b>649,063</b>	<b>1,171,480</b>	<b>3,096,313</b>	<b>662,890</b>	<b>1,158,653</b>

\* Planned expenditures do not reflect measures announced in Budget 2012 or the return of funds (\$258 million in operating and \$8 million in capital) announced in July 2012.