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Shared Services Canada
Quarterly Financial Report
For the quarter ended September 30, 2015



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1.0 Introduction

This Quarterly Financial Report should be read in conjunction with the [2015-16 Main Estimates](#). Shared Services Canada (SSC) had no items in the 2015-16 Supplementary Estimates (A) process. This 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 Accounting Standard 1.3. It has not been subject to an external audit or review.

1.1 Authority, Mandate and Programs

The Government of Canada created Shared Services Canada (SSC) in 2011 to modernize how the government manages its information technology (IT) infrastructure. SSC has brought together people, IT resources and assets to improve the efficiency, reliability and security of the government's IT infrastructure, increase productivity across departments and agencies, and support the vision of a 21st century public service, as articulated in [Blueprint 2020](#).

SSC reports to Parliament through the Minister of Public Works and Government Services and Minister responsible for SSC. The Department is mandated to deliver email, data centre and telecommunication services, including videoconferencing and Wi-Fi, to partner organizations. In addition, SSC provides services related to workplace technology devices, and cyber and IT security services. It also offers optional services on a cost-recovery basis to other organizations.

As part of its mandate, SSC is maintaining and improving IT infrastructure service delivery while renewing the government's aging IT infrastructure. In doing so, the Department is:

- working in partnership with key public and private sector stakeholders;
- adopting enterprise wide approaches for managing IT infrastructure services; and
- implementing efficient and effective business management processes in support of its mandate.

The main legislative authorities for the Department may be found in the [Shared Services Canada Act](#).

In 2014-15, revisions were made to SSC's 2015-16 Program Alignment Architecture (PAA) and Performance Measurement Framework. SSC's PAA, as approved by the Treasury Board of Canada, supports the achievement of the following strategic outcome: Modern, reliable, secure and cost-effective IT infrastructure services to support government priorities and program delivery. In addition to supporting the achievement of SSC's commitments to Parliament and Canadians, the 2015-16 PAA is an evergreen document that will evolve as the Department's programs mature.

Further details on SSC's authority, mandate, responsibilities and programs may be found in the *2015-16 Main Estimates* and [2015-16 Report on Plans and Priorities](#).

1.2 Basis of Presentation

This quarterly financial report has been prepared by management using an expenditure basis of accounting (modified cash accounting). The accompanying Statement of Authorities presents the Department's spending authorities granted by Parliament and those used by the Department consistent with the *2015-16 Main Estimates*.

The authority of Parliament is required before monies 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.

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.

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

1.3 Shared Services Canada Financial Structure

SSC has a financial structure composed mainly of voted budgetary authorities, namely Vote 1 - Operating Expenditures, including Vote Netted Revenues, and Vote 5 - Capital Expenditures, while the statutory authorities comprise the contributions to employee benefit plans (EBP).

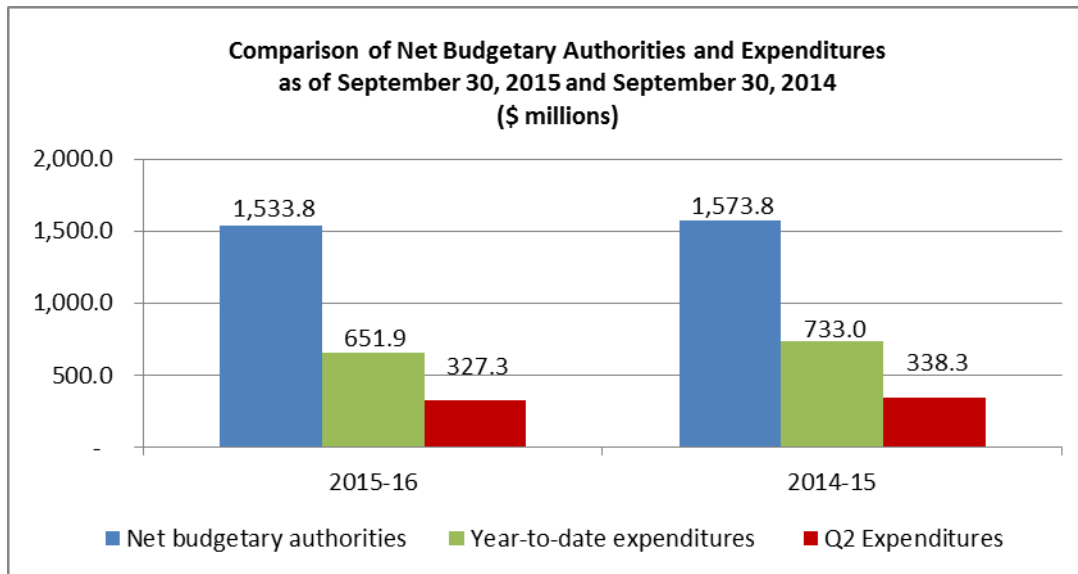
At the end of the second quarter of 2015-16, 92% of the Department's budget was devoted to support its IT consolidation and standardization goals while ensuring that current and future IT infrastructure services offered to the Government of Canada are maintained in an environment of operational excellence. The remaining 8% is devoted to Internal Services which support IT infrastructure services.

Total Vote Netted Revenue authority for 2015-16 is \$411.1 million, which consists of spendable revenue for IT infrastructure services provided by SSC to partner organizations and other organizations on a cost-recovery basis.

2.0 Highlights of Fiscal Quarter and Fiscal Year-to-Date Results

The numbers presented in the report are in accordance with the Government-Wide Chart of Accounts for Canada for 2015-16 and Treasury Board Accounting Standard (TBAS) 1.3.

The following graph provides a comparison of the net budgetary authorities available for spending, the year-to-date expenditures, and the expenditures for the quarters ended September 30, 2015 and September 30, 2014, for the Department's combined Vote 1 - Operating Expenditures, Vote 5 - Capital Expenditures and Statutory Authorities.



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2.1 Significant Changes to Authorities

For the period ended September 30, 2015, the authorities provided to the Department include the Main Estimates and the Budget Carry Forward from 2014-15. They also incorporate the savings measures identified in Budget 2014. Authorities available for spending in 2015-16 were \$1,533.8 million at the end of the second quarter as compared with \$1,573.8 million at the end of the second quarter of 2014-15, representing a decrease of \$40.0 million, or 2.5%. This net decrease is a combination of a decrease of \$36.2 million in Vote 1 - Operating Expenditures, an increase of \$2.5 million in Vote 5 - Capital Expenditures, a decrease in Budgetary Statutory Authorities of \$8.9 million and a decrease of \$2.6 million in Vote Netted Revenues which increased the total net authorities available.

Comparison of Net Budgetary Authorities for the Quarters Ended September 30, 2015 and September 30, 2014

Net Authorities Available (\$ millions)	2015-16	2014-15	Variance
Vote 1 - Operating Expenditures	1,614.8	1,651.0	(36.2)
Vote 5 - Capital Expenditures	240.8	238.3	2.5
Vote Netted Revenues	(411.1)	(413.7)	2.6
Statutory (EBP)	89.3	98.2	(8.9)
Total Net Authorities	1,533.8	1,573.8	(40.0)

Vote 1 - Operating Expenditures (includes Vote Netted Revenues)

The Department's Vote 1 decreased by \$36.2 million, compared to the second quarter of 2014-15, mainly due to:

- A decrease of \$55.6 million mostly attributed to the savings measures of \$49.9 million related to the Email Transformation Initiative and to various other reductions in authorities totaling \$5.7 million such as the Northwest Territories Agreement and late fees and interest charges;
- A net increase of \$41.2 million in transfers received from partner organizations to adjust amounts as a result of the creation of SSC;
- A decrease of \$26.7 million related to the 2014-15 Operating Budget Carry Forward received in 2015-16 compared to the 2013-14 Operating Budget Carry Forward received in 2014-15;
- A net increase of \$6.7 million related to funding for various projects such as the 2016 Census of Population Program, the Data Centre Closures, Mercury Global and the Supercomputer project;
- A net decrease of \$2.6 million in Vote Netted Revenues based on the 2015-16 revenue forecast; and
- An increase of \$0.8 million related to funds received from Treasury Board Central Votes for collective agreements.

Vote 5 - Capital Expenditures

The Department's Vote 5 increased by \$2.5 million, compared to the second quarter of 2014-15, mainly due to:

- An increase of \$15.2 million related to the 2014-15 Capital Budget Carry Forward received in 2015-16 compared to the 2013-14 Capital Budget Carry Forward received in 2014-15; and
- A net decrease of \$12.7 million related to time-limited projects that do not have ongoing funding or that have variations in their funding profile such as Pay Modernization, Treasury Board Secretariat Workspace Renewal and Carling Campus.

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Budgetary Statutory Authorities

The decrease of \$8.9 million in 2015-16 is related to contributions to the Employee Benefit Plans (EBP) associated with the change in the Department's budgetary requirements for the salary portion of the Vote Netted Revenue authority.

2.2 Explanations of Significant Variances from Previous Year Expenditures

Compared to the previous year, the total year-to-date expenditures, for the period ended September 30, 2015, have decreased by \$81.1 million, from \$733.0 million to \$651.9 million as per the table below. This represents a decrease of 11.1% against expenditures recorded for the same period in 2014-15.

Comparison of Year-to-Date Expenditures for the Quarters Ended September 30, 2015 and September 30, 2014

Net Year-to-Date Expenditures (\$ millions)	2015-16	2014-15	Variance
Vote 1 - Operating Expenditures	702.1	714.3	(12.2)
Vote 5 - Capital Expenditures	31.4	27.9	3.5
Vote Netted Revenues	(119.2)	(49.5)	(69.7)
Statutory (EBP)	37.6	40.3	(2.7)
Total Net Year-to-Date Expenditures	651.9	733.0	(81.1)

Vote 1 - Decrease of \$12.2 million

The net decrease in operating expenditures, compared to the second quarter of 2014-15, is mainly attributed to:

- Professional and special services expenditures decreased by \$21.6 million. The decrease is mostly due to timing differences between fiscal years in processing payments related to different contracts. It is also due to the completion of certain IT services contracts in 2014-15;
- Transportation and telecommunications expenditures decreased by \$18.7 million. This decrease is mainly due to timing differences between fiscal years in processing payments related to different contracts;
- Other subsidies and payments expenditures decreased by \$14.2 million. This decrease is mainly explained by the implementation of the salary payments in arrears in 2014-15 which generated a one-time transition payment in 2014-15 for all employees paid on a bi-weekly basis; and
- Rentals and acquisitions of machinery and equipment increased by \$39.6 million. This increase is partly attributable to a new contract for the consolidation of previous contracts related to the mainframe hardware, software maintenance and support services. It is also attributable to new contracts related to IT security and maintenance for software and hardware. The increase is also due to timing differences between fiscal years in processing payments related to different contracts.

Vote 5 - Increase of \$3.5 million

The net increase in capital expenditures, compared to the second quarter of 2014-15, is mainly attributed to:

- Transportation and telecommunications expenditures increased by \$4.7 million. This increase is mainly explained by a multi-year contract for data centre co-location services which started in the third quarter of 2014-15.

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Vote Netted Revenue - Increase of \$69.7 million

- The collected Vote Netted Revenues have increased by \$69.7 million, compared to the second quarter of 2014-15. The revenues reported for the second quarter of 2014-15 were lower due to delays in billing for services provided by SSC to other departments as a result of changes in the 2014-15 Chart of Accounts which impacted the billing system.

3.0 Risks and Uncertainty

As SSC moves forward with the operationalization of its transformation agenda, the management of internal and external risks is vital in supporting strategic and business planning, as well as the successful delivery of SSC services to partner organizations and other organizations.

SSC's risk management process is a structured methodology for managing risks across the strategic, operational, and project levels of the Department. One of the key components of the management rigour is the development and application of industry proven project management methodologies, processes and tools to deliver the partner and transformation projects that are at the core of SSC's mandate. In 2013-14, SSC attained a Government of Canada Organizational Project Management Capacity Assessment (OPMCA) Class 3, which means that the organization has the capacity to successfully deliver projects to achieve evolving strategic objectives. SSC intends to maintain this level through sound project management discipline and practices.

Financial management, as it relates to the achievement of SSC's self-funding requirement, is one of five key organizational risks identified in the 2015-16 Report on Plans and Priorities. With the active engagement of senior management in risk identification, assessment, monitoring and reporting functions, targeted mitigation strategies are being implemented across the Department to ensure effective financial processes, controls and accountabilities are in place.

Additional risks, risk drivers and response strategies that may impact the Department's Investment Plan will be reflected in the 2016-17 Report on Plans and Priorities.

4.0 Significant Changes in Relation to Operations, Personnel and Programs

Ron Parker started his appointment as the President of SSC on July 6, 2015.

Effective July 8, 2015, Pankaj Sehgal was appointed as Assistant Deputy Minister, Networks and End Users, and Raj Thuppal as Assistant Deputy Minister, Cyber and IT Security.

As a result of an Order-in-Council approved on July 16, 2015, changes have been made to SSC's mandate. On September 1, 2015, responsibility for a number of procurement instruments previously managed by Public Works and Government Services Canada has been transferred to SSC. This had an impact on how departments and agencies access certain goods and services related to information technology infrastructure. At the same time, SSC's mandate was also expanded to include a number of new departments, agencies and other government entities who will now receive shared services from SSC, which are enabled by SSC's technical expertise and procurement authorities, both on an optional and a mandatory basis.

Effective August 24, 2015, Nisa Tummon was appointed as Chief of Staff.

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Approval by Senior Officials

Approved by:

Original signed by

Ron Parker, President

Ottawa, Canada
November 27, 2015

Original signed by

Elizabeth Tromp, Acting Senior Assistant
Deputy Minister and Chief Financial Officer

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5.0 Statement of Authorities (unaudited)

<i>(in thousands of dollars)</i>	Fiscal year 2015-16			Fiscal year 2014-15		
	Total available for use for the year ending March 31, 2016 *	Used during the quarter ended September 30, 2015	Year-to-date used at quarter-end	Total available for use for the year ending March 31, 2015 *	Used during the quarter ended September 30, 2014	Year-to-date used at quarter-end
Vote 1 - Operating expenditures						
Gross Operating expenditures	1,614,752	389,411	702,091	1,651,083	366,949	714,297
Vote Netted Revenues	(411,075)	(103,204)	(119,172)	(413,731)	(65,257)	(49,454)
Net Operating expenditures	1,203,677	286,207	582,919	1,237,352	301,692	664,843
Vote 5 - Capital expenditures						
(S) Contributions to employee benefit plans	240,780	21,227	31,421	238,271	16,480	27,862
(S) Contributions to employee benefit plans	89,324	19,855	37,603	98,211	20,158	40,316
Total Budgetary authorities	1,533,781	327,289	651,943	1,573,834	338,330	733,021

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

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6.0 Departmental Budgetary Expenditures by Standard Object (unaudited)

<i>(in thousands of dollars)</i>	Fiscal year 2015-16			Fiscal year 2014-15		
	Planned expenditures for the year ending March 31, 2016*	Expended during the quarter ended September 30, 2015	Year-to-date used at quarter-end	Planned expenditures for the year ending March 31, 2015*	Expended during the quarter ended September 30, 2014	Year-to-date used at quarter-end
Expenditures:						
Personnel (includes EBP)	603,554	143,283	278,086	674,785	139,095	279,061
Transportation and telecommunications	479,290	116,171	154,898	476,750	112,587	168,897
Information	1,364	138	205	1,658	46	89
Professional and special services	208,146	43,970	57,273	191,537	51,935	78,305
Rentals	244,875	59,770	170,092	256,852	117,178	143,512
Repair and maintenance	82,742	24,098	33,128	72,528	20,215	32,593
Utilities, materials and supplies	8,018	1,148	1,544	12,261	1,224	1,988
Acquisition of land, buildings and works	-	-	-	-	-	-
Acquisition of machinery and equipment	314,088	35,758	68,683	294,158	(41,455)	57,202
Transfer payments	-	-	-	-	-	-
Public debt charges	-	-	-	-	-	-
Other subsidies and payments	2,779	6,157	7,206	7,036	2,762	20,828
Total gross budgetary expenditures	1,944,856	430,493	771,115	1,987,565	403,587	782,475
Less Revenues netted against expenditures:						
Vote Netted Revenues	411,075	103,204	119,172	413,731	65,257	49,454
Total Revenues netted against expenditures	411,075	103,204	119,172	413,731	65,257	49,454
Total net budgetary expenditures	1,533,781	327,289	651,943	1,573,834	338,330	733,021

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

7.0 Glossary

Appropriations / Authorities

Expenditure authorities are approvals from Parliament for individual government organizations to spend up to specific amounts. Expenditure authority is provided in two ways: annual appropriation acts that specify the amounts and broad purposes for which funds can be spent; and other specific statutes that authorize payments and set out the amounts and time periods for those payments. The amounts approved in appropriation acts are referred to as voted amounts, and the expenditure authorities provided through other statutes are called statutory authorities.

Vote 1 - Operating Expenditures

A vote that covers most day-to-day expenses, such as salaries, utilities and minor capital expenditures.

Vote 5 - Capital Expenditures

Capital expenditures are those made for the acquisition or development of items that are classified as tangible capital assets as defined by Government accounting policies. This vote is generally used for capital expenditures that exceed \$10,000.

Capital Budget Carry Forward

Treasury Board centrally managed vote that permits departments to bring forward eligible lapsing funds from one fiscal year to the next in an amount up to twenty percent of their year-end allotments in the Capital Expenditures Vote as reflected in Public Accounts.

Cash method of accounting

The cash method recognizes revenues when they are received and expenses when they are paid for.

Collective agreement

Collective agreement means an agreement in writing entered into under the *Public Service Staff Relations Act* between the employer and a bargaining agent and containing provisions covering terms and conditions of employment and related matters.

Employee Benefit Plan (EBP)

A statutory item that includes employer contributions for the Public Service Superannuation Plan, the Canada and the Quebec Pension Plans, Death Benefits, and the Employment Insurance accounts. Expressed as a percentage of salary, the EBP rate is changed every year as directed by the Treasury Board Secretariat.

Expenditure basis of accounting (modified cash accounting)

An accounting method that combines elements of the two major accounting methods, the cash method and the accrual method. The modified cash accounting method recognizes revenues when cash is received and expenses when liabilities are incurred or cash is paid out.

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Frozen allotments

Frozen allotments are used to prohibit the spending of funds previously appropriated by Parliament. There are two types of frozen allotments:

- Permanent: where the Treasury Board has directed that funds lapse at the end of the fiscal year; and
- Temporary: where an appropriation is frozen until such time as conditions have been met.

Full accrual method of accounting

An accounting method that measures the performance and position of an organization by recognizing economic events regardless of when cash transactions occur. Therefore, the full accrual method of accounting recognizes revenues when they are earned (for example, when the terms of a contract are fulfilled) and expenses when they are incurred.

Government-wide Chart of Accounts

The Government-wide Chart of Accounts (COA) provides the framework for identifying, collecting and reporting financial transactions to satisfy the government's corporate information requirements. The COA contains accounts and codes for all the fields that comprise the government-wide coding block.

Main Estimates

Each year, the government prepares estimates in support of its request to Parliament for authority to spend public funds. This request is formalized through the introduction of appropriation bills in Parliament. In support of the Appropriation Act, the Main Estimates identify the spending authorities (Votes) and amounts to be included in subsequent appropriation bills. Parliament is asked to approve these Votes to enable the government to proceed with its spending plans.

Management, Resources and Results Structures (MRRS)

A common approach and structure to the collection, management and reporting of financial and non-financial performance information.

An MRRS provides detailed information on all departmental programs (e.g. program costs, program expected results and their associated targets, how they align to the government's priorities and intended outcomes, etc.) and establishes the same structure for both internal decision making and external accountability.

Operating Budget Carry Forward

Treasury Board centrally managed vote that permits departments to bring forward eligible lapsing funds from one fiscal year to the next in an amount up to five percent of their Main Estimates gross Operating Budget allotment.

Payment in arrears

The adoption of the payment in arrears means that employees are paid on Wednesday for the ten days worked (from a Thursday to a Wednesday) that concluded two weeks prior to the pay day.

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Performance Measurement Framework (PMF)

A requirement of the Policy on Management, Resources and Results Structure, a PMF sets out an objective basis for collecting information related to a department's programs. A PMF includes the department's strategic outcomes, expected results of programs, performance indicators and associated targets, data sources and data collection frequency and actual data collected for each indicator.

Program Alignment Architecture (PAA)

A structured inventory of a department's programs, where programs are arranged in a hierarchical manner to depict the logical relationship between each program and the strategic outcomes to which they contribute.

Reports on Plans and Priorities (RPP)

Reports on Plans and Priorities are expenditure plans for each department and agency (excluding Crown corporations). They describe departmental priorities, expected results and associated resource requirements covering a three-year period, beginning with the year indicated in the title of the report.

Standard objects

A system in accounting that classifies and summarizes the expenditures by categories, such as type of goods or services acquired, for monitoring and reporting.

Strategic Outcome

A long-term and enduring benefit to Canadians that is linked to the department's mandate, vision, and core functions.

Sunsetting

Refers to a time-limited program or initiative that does not have on-going funding or policy authority.

Supplementary Estimates

The President of the Treasury Board tables three Supplementary Estimates usually in late spring, late fall and early spring to obtain the authority of Parliament to adjust the government's expenditure plan set out in the estimates for that fiscal year. Supplementary Estimates serve two purposes. First, they seek authority for revised spending levels that Parliament will be asked to approve in an Appropriation Act. Second, they provide Parliament with information on changes in the estimated expenditures to be made under the authority of statutes previously passed by Parliament. Each Supplementary Estimates document is identified alphabetically (A, B and C).

Vote Netted Revenues Authority

The authority by which Shared Services Canada has permission to collect and spend revenue earned and collected from the provision of IT services within the government.