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**Shared Services Canada**  
**Quarterly Financial Report**  
For the quarter ended June 30, 2014



Shared Services  
Canada

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# Shared Services Canada Quarterly Financial Report For the quarter ended June 30, 2014

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## 1.0 Introduction

This Quarterly Financial Report should be read in conjunction with the [2014-15 Main Estimates](#), as well as Budget 2012 and 2013. Shared Services Canada (SSC) had no items in the *2014-15 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 21<sup>st</sup> 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 workplace technology device (WTD) procurement, and cyber and IT security services. It also offers optional services on a cost-recovery basis to other federal 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.

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

In 2013-14, SSC developed a revised Program Alignment Architecture (PAA) and a corresponding Performance Measurement Framework (PMF) to ensure that it delivers on its mandate. 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. The current PAA, while supporting the achievement of SSC's commitments to Parliament and Canadians, is an evergreen document that will evolve as the Department's programs mature.

As part of SSC's participation in the 2014-15 Management, Resources and Results Structure (MRSS) amendment cycle and in preparation for its 2015-16 performance reporting obligations, the Department is currently reviewing the identification and alignment of programs, in addition to the collection, management, and reporting of departmental financial and non-financial information on program performance.

Further details on SSC's authority, mandate, responsibilities and programs may be found in the [2014-15 Main Estimates](#) and [2014-15 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 *2014-15 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.

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 that include Vote 1 - Operating Expenditures, Vote Netted Revenues and Vote 5 - Capital Expenditures, while the statutory authorities comprise the Contributions to employee benefit plans (EBP).

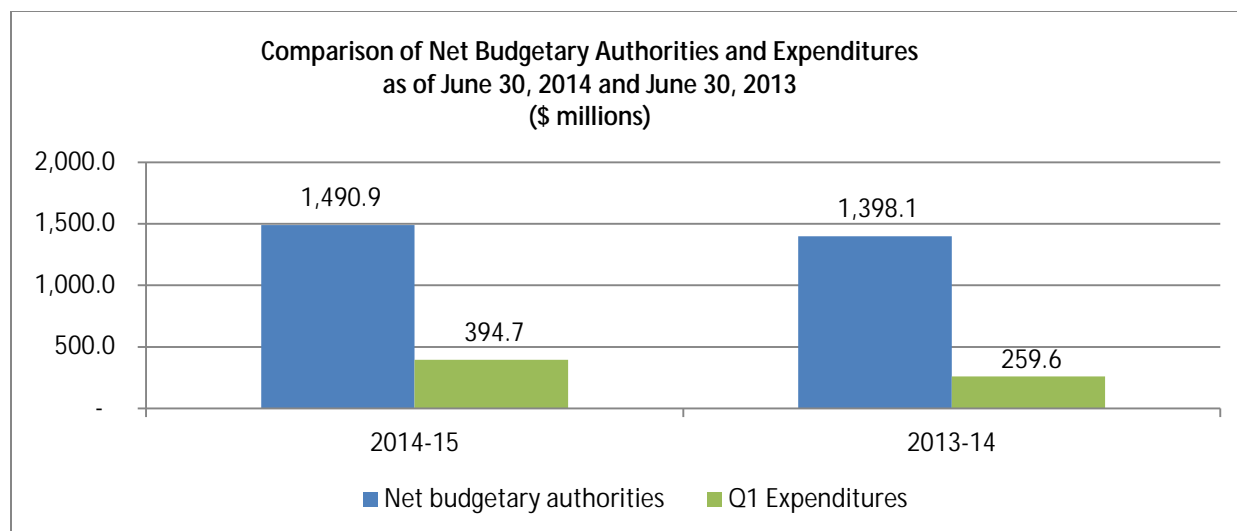
Over 88% of the Department's budget is devoted to support its IT consolidation and standardization goals while ensuring that current and future IT infrastructure services offered to the Government of Canada are maintained in an environment of operational excellence.

Total vote netted revenue authority for 2014-15 is \$413.7 million, which consists of spendable revenue for IT infrastructure services provided by SSC to partner organizations and other Government of Canada departments and agencies 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 2014-15 and Treasury Board Accounting Standard (TBAS) 1.3.

The following graph provides a comparison of the net budgetary authorities available for spending, and year to date expenditures, for the quarters ending June 30, 2014, and June 30, 2013, for the Department's combined Vote 1 - Operating Expenditures, Vote 5 - Capital Expenditures and Statutory Authorities.



## 2.1 Significant Changes to Authorities

For the period ending June 30, 2014, the authorities provided to the Department include only the Main Estimates. They also incorporate the savings measures identified in Budget 2012 and Budget 2013; however they do not reflect the initiatives and savings measures of Budget 2014. Authorities available for spending in 2014-15 were \$1,490.9 million at the end of the first quarter as compared with \$1,398.1 million at the end of the first quarter of 2013-14, representing an increase of \$92.8 million, or 6.6%. This net increase is a combination of an increase of \$149.6 million in Vote 1 - Operating Expenditures (includes an increase in Vote Netted Revenues of \$93.0 million), an increase of \$37.9 million in Vote 5 - Capital Expenditures and a decrease in Budgetary Statutory Authorities of \$1.7 million.

### Comparison of Net Budgetary Authorities for the Quarters Ended June 30 of 2014-15 and 2013-14

Net Authorities Available (\$ millions)	2014-15	2013-14	Variance
Vote 1 - Operating Expenditures	1,589.8	1,440.2	149.6
Vote 5 - Capital Expenditures	216.6	178.7	37.9
Vote Netted Revenues	(413.7)	(320.7)	(93.0)
Statutory (EBP)	98.2	99.9	(1.7)
<b>Total Net Authorities</b>	<b>1,490.9</b>	<b>1,398.1</b>	<b>92.8</b>

#### Vote 1 - Operating Expenditures (includes Vote Netted Revenues)

The Department's Vote 1 increased by \$149.6 million, mainly due to:

- A net increase of \$98.3 million related to the procurement of software for Workplace Technology Devices and other projects;
- A net increase of \$93.0 million in Vote Netted Revenues to reflect the increase of revenue related to core and optional services offered to partner organizations and other federal organizations, as well as revenue related to projects;
- An increase of \$6.9 million related to funds received from Treasury Board Central Votes for collective agreements;

- A net decrease of \$3.9 million for the net adjustments with partner organizations as a result of the creation of SSC, the various sunseting projects (Cyber Authentication and Cyber Security Strategy); and
- A decrease of \$44.7 million as a result of the savings measures of Budget 2012.

#### Vote 5 - Capital Expenditures

The Department's Vote 5 increased by \$37.9 million, mainly due to:

- An increase of \$38.7 million related to funding for various projects involving other departments [Carling Campus (consolidation of National Defence's design and fit-up of IT infrastructure at their new location), Pay Modernization, TBS Workspace Renewal, Biometrics and Electronic Travel Authorization]; and
- A net decrease of \$0.8 million related to the sunseting funding for the Data Center Sustainability Project and Immigration Information Sharing.

#### Budgetary Statutory Authorities

The decrease of \$1.7 million in 2014-15 is related to contributions to the Employee Benefit Plans (EBP) associated with the change in the Department's budgetary requirements for salary, as well as a decrease of \$0.8 million for additional savings measures of Budget 2012.

## 2.2 Explanations of Significant Variances from Previous Year Expenditures

Compared to the previous year, the total year-to-date expenditures, ending June 30, 2014, have increased by \$135.1 million, from \$259.6 million, to \$394.7 million as per the Table below. This represents an increase of 52.0% against expenditures recorded for the same period in 2013-14.

#### Comparison of Year-to-Date Expenditures for the Quarters Ended June 30 of 2014-15 and 2013-14

Net Year-to-Date Expenditures (\$ millions)	2014-15	2013-14	Variance
Vote 1 - Operating Expenditures	347.3	238.8	108.5
Vote 5 - Capital Expenditures	11.4	6.7	4.7
Vote Netted Revenues	15.8	(10.9)	26.7
Statutory (EBP)	20.2	25.0	(4.8)
<b>Total Net Year-to-Date Expenditures</b>	<b>394.7</b>	<b>259.6</b>	<b>135.1</b>

#### Vote 1- Increase of \$108.5 million

For the most part, this difference is explained by an increase of \$88.1 million for the acquisition of machinery and equipment, from \$10.6 million in 2013-14 to \$98.7 million for the same period in 2014-15. This increase is primarily attributable to the new contract for the acquisition of workplace technology devices software as well as invoices being processed earlier than in 2013-14 due to the continuous improvements in regards to the financial processes and contract consolidation.

The remaining operating expenditures net increase is attributed to:

- Transportation and communications (telecommunications) expenditures increased by \$34.2 million since the payments to the service providers were processed in an earlier period than in 2013-14;
- Other subsidies and payments expenditures have also increased by \$15.9 million compared to the 2013-14 first quarter. This variance can be explained by the implementation of the payment of salaries in arrears system which generated a one-time transition payment for all employees paid on a bi-weekly basis;

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- Personnel expenditures decreased by \$31.8 million, including EBP, mainly due to a reduction of one-time severance pay settlement payouts. In the first quarter of 2013-14, this expense represented \$26.2 million compared to \$0.5 million for the same period in 2014-15.

#### **Vote Netted Revenue - Variance of \$26.7 million**

- The collected Vote Netted Revenues have decreased by \$26.7 million. This variance can be explained by the delays in billing for services provided by SSC to other departments due to the changes in the 2014-15 Chart of Accounts which impacted the billing system. Also, an amount of \$16.6 million in revenue from 2013-14 was reversed since it was disputed by a department during the first quarter. Both situations will be resolved by the next quarter.

### **3.0 Risks and Uncertainty**

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

SSC management incorporates the consideration of risks and opportunities in decision-making at all levels. One of the key components of the management rigour is the development and application of project management methodologies 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) Level 3. In future years, SSC intends to maintain this level while striving to increase it to level 4.

Financial Management, as it relates to the achievement of SSC's self-funding requirement, is one of three key organizational risks identified in the [2014-15 Report on Plans and Priorities](#). With the active engagement of senior management in risk 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 and mitigation strategies that may impact the department's Investment Plan will be identified in the 2014-2015 Organizational Risk Profile v1.0 this fall, following a horizontal risk identification and assessment exercise mobilizing all four branches.

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

There have been no significant changes in relation to operations, personnel and programs over the last quarter.

### **5.0 Budget 2012 Implementation**

This section provides an overview of the savings measures announced in Budget 2012 that are being 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.

Like all departments and agencies, SSC supported the government in its efforts to introduce measures to return to a balanced budget by 2014-15. The Department's mandate was specifically designed to find efficiencies and deliver value for money. SSC will achieve Budget 2012 savings of \$150.0 million (including EBP) by fiscal year 2014-15 through increased efficiencies, better pricing and reductions in duplication, as IT infrastructure operations across partner organizations are consolidated and standardized.

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In the first year of implementation, SSC achieved savings of \$74.7 million by consolidating telecommunications service contracts, leveraging buying power and introducing a very lean internal services model. Savings have increased to \$104.5 million in 2013-14 and will result in ongoing savings of \$150.0 million by 2014-15. There is a variance of \$45.5 million in SSC's authorities between fiscal year 2013-14 and 2014-15 related to Budget 2012 initiatives.

To achieve departmental savings, in 2014-15 SSC will deploy business solutions to enable efficient delivery of client-centred internal services. In addition, SSC will standardize and develop internal departmental policies, processes and reports in support of sound management. The Department will build on its internal financial control framework and improve the efficiency of IT goods and services procurement by deploying an electronic procure-to-pay system. Also, SSC will implement the new enterprise email solution and become the first federal department to adopt the new email system.

**Approval by Senior Officials:**

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Liseanne Forand, President  
Ottawa, Ontario  
Date:

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Elizabeth Tromp, Acting Senior Assistant Deputy Minister and Chief Financial Officer  
Ottawa, Ontario  
Date:

## 6.0 Statement of Authorities (unaudited)

<i>(in thousands of dollars)</i>	Fiscal year 2014-15			Fiscal year 2013-14		
	Total available for use for the year ending March 31, 2015 *	Used during the quarter ended June 30, 2014	Year to date used at quarter-end	Total available for use for the year ending March 31, 2014 *	Used during the quarter ended June 30, 2013	Year to date used at quarter-end
<b>Vote 1 - Operating expenditures</b>						
Gross Operating expenditures	1,589,830	347,348	347,348	1,440,204	238,755	238,755
Vote Netted Revenues	(413,731)	15,803	15,803	(320,745)	(10,885)	(10,885)
<b>Net Operating expenditures</b>	<b>1,176,099</b>	<b>363,151</b>	<b>363,151</b>	<b>1,119,459</b>	<b>227,870</b>	<b>227,870</b>
<b>Vote 5 - Capital expenditures</b>	<b>216,593</b>	<b>11,382</b>	<b>11,382</b>	<b>178,694</b>	<b>6,722</b>	<b>6,722</b>
(\$ Contributions to employee benefit plans	98,211	20,158	20,158	99,953	24,988	24,988
<b>Total Budgetary authorities</b>	<b>1,490,903</b>	<b>394,691</b>	<b>394,691</b>	<b>1,398,106</b>	<b>259,580</b>	<b>259,580</b>

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

### Notes:

- The net increase of authority in Vote 1 - Operating Expenditures is mainly due to the funding received for the Workplace Technology Devices and the decrease related to the savings measures of Budget 2012 and 2013, included in the *2014-15 Main Estimates*.
- The net increase of authority in Vote 5 - Capital Expenditures is mainly due to the additional funding for various projects.
- The increase in expenditures between the first quarter of 2014-15 and 2013-14 is mostly attributed to a new contract related to Workplace Technology Devices as well as invoices being processed earlier than in 2013-14.
- The decrease in Vote Netted Revenues relates to the delays in billing due to the changes in the billing system and also to a disputed amount of 2013-14 revenues, which will be resolved by the next quarter.



## 7.0 Departmental Budgetary Expenditures by Standard Object (unaudited)

<i>(in thousands of dollars)</i>	Fiscal year 2014-15			Fiscal year 2013-14		
	Planned expenditures for the year ending March 31, 2015*	Expended during the quarter ended June 30, 2014	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2014*	Expended during the quarter ended June 30, 2013	Year to date used at quarter-end
<b>Expenditures:</b>						
Personnel (includes EBP)	586,889	139,966	139,966	673,377	171,738	171,738
Transportation and communications	488,340	56,310	56,310	404,712	22,067	22,067
Information	1,699	43	43	925	48	48
Professional and special services	195,600	26,370	26,370	231,813	21,848	21,848
Rentals	261,849	26,334	26,334	72,380	36,252	36,252
Repair and maintenance	73,853	12,378	12,378	157,543	4,906	4,906
Utilities, materials and supplies	12,016	764	764	3,328	821	821
Acquisition of land, buildings and works	-	-	-	139	-	-
Acquisition of machinery and equipment	277,428	98,657	98,657	167,857	10,572	10,572
Transfer payments	-	-	-	-	-	-
Public debt charges	-	-	-	-	-	-
Other subsidies and payments	6,960	18,066	18,066	6,777	2,213	2,213
<b>Total gross budgetary expenditures</b>	<b>1,904,634</b>	<b>378,888</b>	<b>378,888</b>	<b>1,718,851</b>	<b>270,465</b>	<b>270,465</b>
<b>Less Revenues netted against expenditures:</b>						
Vote Netted Revenues	413,731	(15,803)	(15,803)	320,745	10,885	10,885
<b>Total Revenues netted against expenditures:</b>	<b>413,731</b>	<b>(15,803)</b>	<b>(15,803)</b>	<b>320,745</b>	<b>10,885</b>	<b>10,885</b>
<b>Total net budgetary expenditures</b>	<b>1,490,903</b>	<b>394,691</b>	<b>394,691</b>	<b>1,398,106</b>	<b>259,580</b>	<b>259,580</b>

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

### Notes:

- The increase in acquisition of machinery and equipment and transportation and communications expenditures in 2014-15 is mostly attributed to new contracts established by SSC and costs being processed earlier than in 2013-14.
- The Vote Netted Revenues decrease can be explained by the delays in billing and the disputed amount from 2013-14 that was reversed in 2014-15.
- The increase in other subsidies and payments compared to the 2013-14 first quarter and planned expenditures for 2014-15 is explained by the implementation of the payment of salaries in arrears system which generated a one-time transition payment for all employees paid on a bi-weekly basis.

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## 8.0 Glossary

### ***Appropriations acts***

Expenditures made by government require the authority of Parliament. That authority is provided in two ways: annual Appropriation Acts or Supply Bills specify the amounts and broad purposes for which funds can be spent; and other specific statutes 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***

A vote used when capital expenditures equal or exceed \$5 million. Capital vote would include items expected to exceed \$10,000.

### ***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.

### ***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 (modified cash accounting)***

Costs are reported when liabilities are incurred or cash is paid out. Revenues are reported when cash is received.

### ***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 year
- Temporary: where an appropriation is frozen until such time as a condition has been met

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### ***Full accrual method of accounting***

Costs are reported based on their consumption. Revenues are reported when earned.

### ***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 the operating budgets contained in their Main Estimates. (See also Voted and statutory appropriations.)

### ***Payment in arrears***

Employees are currently paid on a "current" basis. Employees pay is calculated and processed in advance of the work being performed and, therefore, the pay often does not reflect recent changes in the employees' situation, such as leave without pay, or even salary increases.

Adopting payment in arrears means that employees will be paid on Wednesday for the ten days worked (from a Thursday to a Wednesday) that concluded two weeks prior to the pay day.

### ***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 outcome(s), expected results of programs, performance indicators and associated targets, data sources and data collection frequency and actual data collected for each indicator.

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### ***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 Outcome(s) 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 records by categories, such as type of good or service 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***

The end of temporary funding.

### ***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, 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.