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Shared Services Canada
Quarterly Financial Report
For the quarter ended December 31, 2013



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1.0 Introduction

This Quarterly Financial Report should be read in conjunction with the *Main Estimates* and *Supplementary Estimates (B)* of 2013-14, as well as *Canada's Economic Action Plan 2012* (Budget 2012). It 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

Shared Services Canada (SSC) is a federal department created on August 4, 2011, to transform how the Government of Canada manages its information technology (IT) infrastructure. SSC reports to Parliament through the Minister of Public Works and Government Services and is responsible for delivering mandated email, data centre and network services to its partner departments in a consolidated and standardized manner to support the delivery of Government of Canada programs and services. SSC also provides certain optional technology related services to government organizations on a cost-recovery basis. With a whole-of-government approach to IT, SSC is creating economies of scale to deliver more efficient, reliable and secure IT infrastructure services to Government of Canada departments. SSC's mandate was reinforced on June 29, 2012, with the passage of the *Shared Services Canada Act* by Parliament.

On April 3, 2013, through an Order in Council, SSC was given the mandate to provide services related to the acquisition and provision of hardware and software for Workplace Technology Devices, formerly known as End User Devices. This government-wide, standardized, centralized approach to supplying and supporting Workplace Technology Devices will reduce costs and strengthen the security of government systems.

In addition to Workplace Technology Devices, SSC was also directed to invest \$20 million of its existing funding to enhance the Government's telepresence capacity to assist with travel costs reductions. This initiative was announced in the *Budget 2013 - Economic Action Plan*.

SSC's Program Alignment Architecture (PAA), as approved by the Treasury Board of Canada, supports the achievement of the following strategic outcome: Mandated services are delivered in a consolidated and standardized manner to support the delivery of Government of Canada programs and services for Canadians.

The current PAA is an interim structure that has been reviewed and expanded for 2014-15 in keeping with SSC's evolution and deepening organizational maturity.

Further details on SSC's authority, mandate, responsibilities and programs may be found in the [2013-14 Main Estimates](#) and [2013-14 Report on Plans and Priorities](#).

1.2 Basis of Presentation

This quarterly 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 *Main Estimates* and *Supplementary Estimates (B)* for the 2013-14 fiscal year.

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. 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*.

In fiscal year 2012-13, frozen allotments were established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in Budget 2012. In 2013-14, the changes to departmental authorities were reflected in the *2013-14 Main Estimates* tabled in Parliament.

The Department uses the full accrual method of accounting to prepare and present its annual departmental financial statements that 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 15 - Operating Expenditures and Vote Netted Revenues and Vote 20 - Capital Expenditures, while the statutory authorities comprise the Contributions to employee benefit plans.

Over 89% 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.

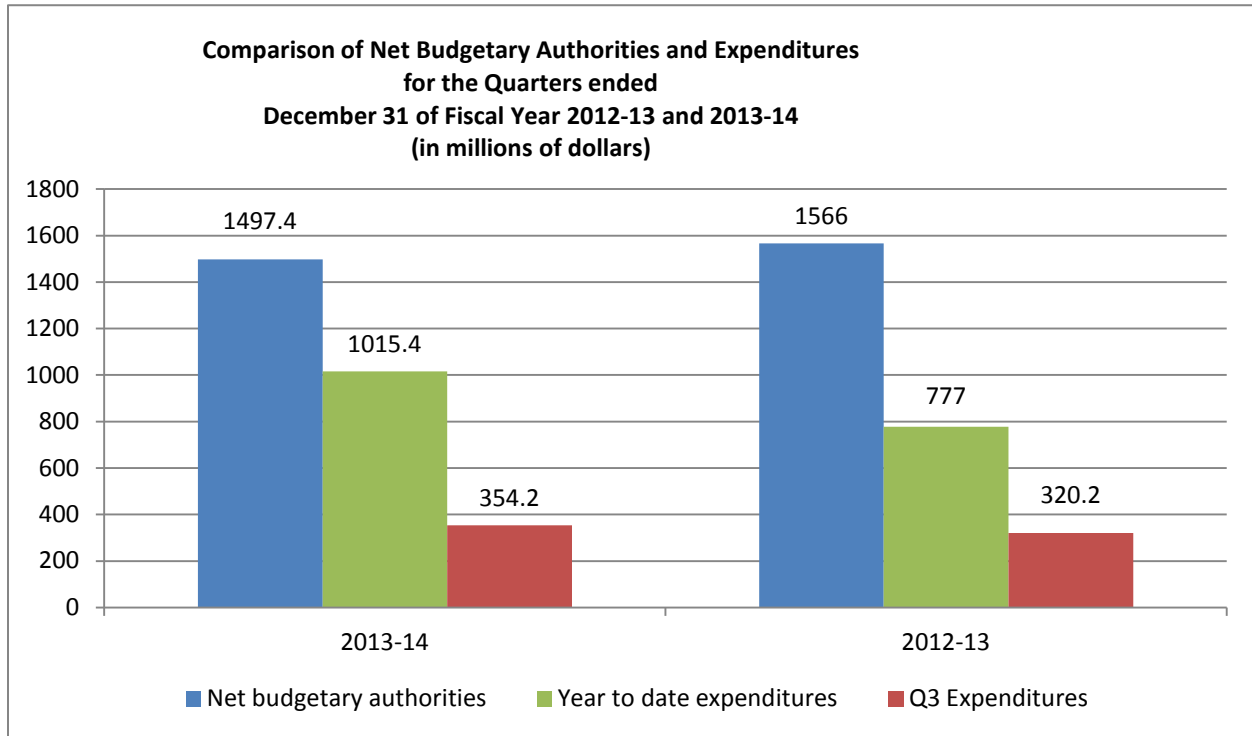
Total revenue authority for 2013-14 is \$320.7 million, which consists of spendable revenue for IT infrastructure services provided by SSC to its partnering organizations and other Government of Canada departments and agencies on a cost-recoverable basis.

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 2013-14 and the 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 quarter ended December 31, 2013 and December 31, 2012 for the Department's combined Vote 15 - Operating Expenditures, Vote 20 - Capital Expenditures and Statutory Authorities.

Comparison of Net Budgetary Authorities and Expenditures for the Quarters ended December 31 of Fiscal Year 2012-13 and 2013-14



2.1 Significant Changes to Authorities

For the period ending December 31, 2013, the authorities provided to the Department includes the *Main Estimates*, the *Supplementary Estimates (B)*, and the funding from the TB Central Votes, such as the *Operating Budget Carry Forward from 2012-13* and the collective bargaining funding. They also incorporate the saving measures identified in Budget 2012, however they do not reflect the initiatives and saving measures of Budget 2013. Authorities available for spending in fiscal year 2013-14 are \$1,497.4 million at the end of the third quarter as compared with \$1,566.0 million at the end of the third quarter of 2012-13, representing a decrease of \$68.6 million, or 4.4%. This net decrease is a combination of a decrease of \$211.7 million in Vote 15 - Operating Expenditures (includes a decrease in Vote Netted Revenues of \$47.5 million), an increase of \$97.1 million in Vote 20 - Capital Expenditures and a decrease in Budgetary Statutory Authorities of \$1.5 million.

Comparison of Net Budgetary Authorities for the Quarters Ended December 31 of Fiscal Years 2012-13 and 2013-14

Net authorities available (in millions of dollars)	2012-13	2013-14	Variance
Vote 15 - Operating Expenditures	1,744.8	1,533.1	(211.7)
Vote 20 - Capital Expenditures	87.9	185.0	97.1
Vote Netted Revenues	(368.2)	(320.7)	47.5
Statutory	101.5	100.0	(1.5)
Total authorities	1,566.0	1,497.4	(68.6)

Vote 15 - Operating Expenditures (includes Vote Netted Revenues)

The Department's Vote 15 decreased by \$211.7 million, which is mainly due to:

- A decrease of \$101.1 million as a result of the saving measures of Budget 2012;
- A decrease of \$100 million related to a transfer from Vote 15 - Operating Expenditures to Vote 20 - Capital Expenditures, in order to reflect the capital requirements estimated for the 2013-14 fiscal year;
- A decrease of \$47.5 million in the Vote Netted Revenues to reflect a transfer of appropriations from partnering organizations in lieu of revenues and to reflect a reduction resulting from products and services no longer being offered by SSC;
- An increase of \$37.9 million related to the 2012-13 Operating Budget Carry Forward compared to the 2011-12 Operating Budget Carry Forward;
- A net decrease of \$3.7 million for various sunseting projects and initiatives (Cyber Authentication, Cyber Security Strategy and Environment Canada Supercomputer) and net adjustments with the partnering organizations as a result of the creation of SSC; and
- An increase of \$2.7 million related to funds received from TB Central Votes for collective agreement.

Vote 20 – Capital Expenditures

The Department's Vote 20 increased by \$97.1 million, which is mainly due to:

- An increase of \$100.0 million related to a transfer from Vote 15 - Operating Expenditures to Vote 20 - Capital Expenditures, in order to reflect the capital requirements estimated for the 2013-14 fiscal year;
- An increase of \$6.3 million related to funding for various projects (Pay modernization, TBS Workspace Renewal and Electronic Travel Authorization);
- A decrease of \$4.7 million related to the 2011-12 Capital Budget Carry Forward; and
- A net decrease of \$4.5 million relating to adjustments with the partnering organizations as a result of the creation of SSC and to the sunseting funding for Data Center Sustainability Project for which funding is ending in 2013-14.

Budgetary Statutory Authorities

The decrease of \$1.5 million in 2013-14 is related to the contributions to the Employee Benefit Plans (EBP) associated with the change in the Department's budgetary requirements for salary. This does not represent an appreciable change compared to 2012-13.

2.2 Explanations of Significant Variances from Previous Year Expenditures

Compared to the previous year, the total year to date expenditures, ending December 31, 2013, have increased by \$238.4 million, from \$777.0 million to \$1,015.4 million as per the Table below. This represents an increase of 30.7% against expenditures recorded for the same period in 2012-13. This increase is largely attributed to the establishment of enterprise procurement and financial processes and procedures that better support the timely execution of transactions and operating requirements.

Comparison of Year to Date Expenditures for the Quarters ended December 31 of Fiscal Years 2012-13 and 2013-14

Net year to date expenditures (in millions of dollars)	2012-13	2013-14	Variance
Vote 15 - Operating Expenditures	808.0	1,017.8	209.8
Vote 20 - Capital Expenditures	15.1	47.1	32.0
Vote Netted Revenues	(122.2)	(124.5)	(2.3)
Statutory	76.1	75.0	(1.1)
Total year to date expenditures	777.0	1,015.4	238.4

The increase in spending is a combination of an increase of \$209.8 million in Vote 15 - Operating Expenditures, an increase of \$32.0 million in Vote 20 - Capital Expenditures as well as a minor decrease in EBP expenditures of \$1.1 million.

For the most part, this difference is explained by an increase in personnel expenditures, by \$101.9 million to \$478.9 million as of December 31, 2013 from \$377.0 million for the same period in 2012-13. This increase of 27.0% is primarily attributable to the transfer of departmental employees' pay files. Since the beginning of 2013-14, the Department is paying its employees directly (from its Operating authorities) resulting in a more timely spending pattern. In 2012-13, SSC was dependent on invoicing from other Departments which delayed spending on personnel costs. In 2013-14, there has also been additional payroll expenditure costs (corporate costs) related to signed collective bargaining agreements and severance payouts.

The remaining operating and capital expenditure increase is attributed to:

- Expenditures for informatics rentals also increased by \$43.6 million to \$140.0 million as of December 31, 2013 compared to \$96.4 million for the same period in 2012-13. This increase of 45.2%, for the total year to date expenditures, ending December 31, 2013, is mainly attributed to new contracts during the second quarter, in support of the Workplace Technology Devices initiative and SSC's Transformation agenda.
- Professional and special services expenditures increased by \$17.0 million to \$114.6 million as of December 31, 2013 compared to \$97.6 million for the same period in 2012-13. This increase of 17.3% mostly reflects the consolidation of contracts and costs being processed at an earlier rate than in 2012-13.
- Acquisition of machinery and equipment expenditures also increased by \$54.5 million to \$110.9 million as of December 31, 2013 compared to \$56.4 million for the same period in 2012-13. This increase mostly reflects the consolidation of contracts and costs being processed at an earlier rate than in 2012-13.
- Repair and maintenance expenditures increased by \$12.6 million to \$39.5 million as of December 31, 2013 compared to \$26.9 million for the same period in 2012-13. This increase is mainly attributed to contract costs for repair and maintenance related to hardware being processed at an earlier rate than in 2012-13.

The collected Vote Netted Revenues of \$124.5 million is following the trend on a year to date basis since the billing has been processed on a regular schedule in 2013-14. The revenues are dependent on the agreements with partners and clients being finalized.

3.0 Risks and Uncertainty

In SSC's first full year of operation, the focus was to put in place the management processes, procedures and controls required for a start-up federal department. During its second year, the Department continues to build into its work the necessary internal management rigour in order to mitigate risk and achieve success.

Risk management is a priority for SSC and the main risks are identified in the [2013-14 Report on Plans and Priorities](#). In this regard, the Department implemented strategies to foster strong relationships with partners, to manage its resources effectively and to ensure sound financial management. The Department will continue to promote its risk management practices by integrating these into the departmental planning and performance measures as well as in its decision-making.

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 fiscal year, 2013-14 and future years, SSC intends to increase its project management maturity level, as measured by the Government of Canada's Organizational Project Management Capacity Assessment process, and engage in targeted capacity enrichment.

As part of SSC's participation in the Management, Resources and Results Structure (MRSS) amendment cycle in 2013-14, SSC has developed a revised PAA and a corresponding Performance Measurement Framework (PMF) to ensure that it delivers on the mandate of the Government of Canada.

There was also significant progress made in building SSC's internal audit and evaluation capacity in 2012-13, and SSC will continue to build on this work in 2013-14 as the risk-based internal audit and evaluation plan is implemented. In 2013-14, significant consultation and outreach will shape SSC's evaluation plan.

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 Employee Benefit Plan) by fiscal year 2014-15 through increased efficiencies, better pricing and reductions in duplication, as IT infrastructure operations across partner departments are consolidated and standardized. 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.

In 2013-14, SSC is building on this foundation to further consolidate and improve IT service delivery and is making significant progress on its mandated transformation initiatives. Savings will increase 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 \$104.5 million in SSC's authorities between fiscal year 2012-13 and 2013-14 related to Budget 2012.

There are no financial risks or uncertainties related to these savings.

Approval by Senior Officials:

Liseanne Forand, President
Ottawa, Ontario
Date:

Gina Rallis, Senior Assistant Deputy Minister and Chief Financial Officer
Ottawa, Ontario
Date:

6.0 Statement of Authorities (unaudited)

(in thousands of dollars)	Fiscal year 2013-14			Fiscal year 2012-13		
	Total available for use for the year ending March 31, 2014 *	Used during the quarter ended December 31, 2013	Year to date used at quarter-end	Total available for use for the year ending March 31, 2013 **	Used during the quarter ended December 31, 2012	Year to date used at quarter-end
Vote 15 - Operating expenditures						
Gross Operating expenditures	1,533,128	398,807	1,017,844	1,744,797	381,749	807,964
Vote Netted Revenues	(320,745)	(89,306)	(124,512)	(368,200)	(98,218)	(122,270)
Net Operating expenditures	1,212,383	309,501	893,332	1,376,597	283,531	685,694
Vote 20- Capital expenditures	184,951	19,713	47,100	87,891	11,320	15,141
(S) Contributions to employee benefit plans	100,053	24,988	74,965	101,520	25,375	76,140
Total Budgetary authorities	1,497,387	354,202	1,015,397	1,566,008	320,226	776,975

* Includes authorities available for use and granted by Parliament at quarter-end as well as the authorized TB Central Votes transfers for the *Operating Budget Carry Forward*.

** Total available for use does not reflect measures announced in Budget 2012.

Notes:

- Totals may not add and may not agree with details provided elsewhere due to rounding.
- The decrease of authority in Vote 15 - Operating Expenditures is mainly due to the savings measures of Budget 2012 which were included in the *2013-14 Main Estimates* and to the transfer of \$100 million to the Vote 20 - Capital Expenditures in order to reflect the capital requirements estimated for the 2013-14 fiscal year.
- The increase in expenditures between the third quarter of 2013-14 and 2012-13 is largely attributed to the establishment of enterprise procurement and financial processes and procedures that better support the timely execution of transactions and operating requirements.

7.0 Departmental Budgetary Expenditures by Standard Object (unaudited)

<i>(in thousands of dollars)</i>	Fiscal year 2013-14			Fiscal year 2012-13		
	Planned expenditures for the year ending March 31, 2014*	Expended during the quarter ended December 31, 2013	Year to date used at quarter- end	Planned expenditures for the year ending March 31, 2013 * **	Expended during the quarter ended December 31, 2012	Year to date used at quarter- end
Expenditures:						
Personnel (includes EBP)	676,963	155,267	478,908	684,730	164,491	377,008
Transportation and communications	440,975	127,629	243,788	522,444	132,099	239,046
Information	1,008	64	578	487	161	304
Professional and special services	250,271	47,036	114,569	506,118	38,552	97,649
Rentals	87,080	32,134	139,994	30,396	28,974	96,423
Repair and maintenance	169,365	16,832	39,528	109,507	14,534	26,889
Utilities, materials and supplies	4,009	1,176	3,475	3,553	2,657	2,993
Acquisition of land, buildings and works	139	3,895	3,895	-	-	4
Acquisition of machinery and equipment	181,226	62,239	110,925	69,281	38,794	56,433
Transfer payments	-	-	-	-	-	-
Public debt charges	-	-	-	-	-	-
Other subsidies and payments	7,096	(2,764)	4,249	7,692	(1,818)	2,496
Total gross budgetary expenditures	1,818,132	443,508	1,139,909	1,934,208	418,444	899,245
Less Revenues netted against expenditures:						
Vote Netted Revenues	320,745	89,306	124,512	368,200	98,218	122,270
Total Revenues netted against expenditures:	320,745	89,306	124,512	368,200	98,218	122,270
Total net budgetary expenditures	1,497,387	354,202	1,015,397	1,566,008	320,226	776,975

* Includes authorities available for use and granted by Parliament at quarter-end as well as the authorized TB Central Votes transfers for the *Operating Budget Carry Forward*.

** Planned expenditures do not reflect measures announced in Budget 2012.

Notes:

- Totals may not add and may not agree with details provided elsewhere due to rounding.
- The personnel (salary) expenditures increase by 27.0% compared to the third quarter of 2012-13 due to the transfer of departmental employees' pay files. As of the beginning of 2013-14, the Department is paying its employees directly (from its Operating authorities) resulting in a more timely spending pattern. In 2012-13, SSC was dependent on invoicing from other departments which delayed spending on personnel costs. In 2013-14, there has also been additional payroll expenditure costs (corporate costs) related to signed collective bargaining agreements and severance payouts.

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- The increase in Rentals (Informatics), acquisition of machinery and equipment as well as the increase in repair and maintenance is mostly attributed to new contracts and contract consolidation established by SSC and costs being processed at an earlier rate than in 2012-13
 - The Vote Netted Revenues have increased by 2.2% compared to the third quarter of 2012-13 since the billing has been processed on a regular schedule.