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Shared Services Canada
Quarterly Financial Report
For the quarter ended June 30, 2016



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1.0 Introduction

This Quarterly Financial Report should be read in conjunction with the [2016-17 Main Estimates](#) and the [2016-17 Supplementary Estimates \(A\)](#). 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 Services and Procurement Canada and Minister responsible for SSC. The Department is mandated to deliver email, data centre, network and workplace technology device services to departments and agencies in a consolidated and standardized manner to support the delivery of Government of Canada programs and services. SSC also provides certain optional technology services to other organizations on a cost-recovery basis.

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](#).

SSC's Program Alignment Architecture (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. Minor changes were made to the 2016-17 PAA, consisting of updates to sub-sub-programs and revision of titles and descriptions. In addition to supporting the achievement of SSC's commitments to Parliament and Canadians, the 2016-17 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 [2016-17 Main Estimates](#) and [2016-17 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 [2016-17 Main Estimates](#) and the [2016-17 Supplementary Estimates \(A\)](#).

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 the Employee Benefit Plans (EBP).

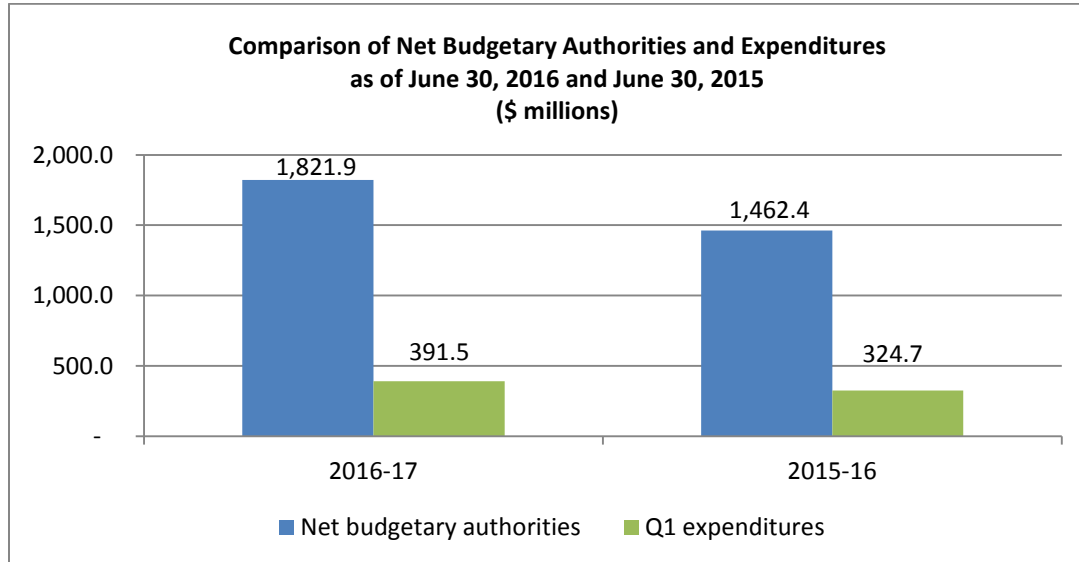
At the end of the first quarter of 2016-17, 93 percent of the Department's budget was devoted to support its IT consolidation and standardization goals while ensuring that current and future IT infrastructure services offered to the Government of Canada are maintained in an environment of operational excellence. The remaining 7 percent was devoted to Internal Services which support IT infrastructure services.

Total Vote Netted Revenue authority for 2016-17 is \$407.1 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 2016-17 and Treasury Board Accounting Standard 1.3.

The following graph provides a comparison of the net budgetary authorities available for spending and the expenditures for the quarters ended June 30, 2016 and June 30, 2015, 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 June 30, 2016, the authorities provided to the Department include the Main Estimates and the Supplementary Estimates (A). Authorities available for spending in 2016-17 were \$1,821.9 million at the end of the first quarter as compared with \$1,462.4 million at the end of the first quarter of 2015-16, representing an increase of \$359.5 million, or 24.6 percent. This net increase is a combination of an increase of \$128.9 million in Vote 1 - Operating Expenditures, an increase of \$226.0 million in Vote 5 - Capital Expenditures, an increase in Budgetary Statutory Authorities of \$0.6 million and a decrease of \$4.0 million in Vote Netted Revenues which increased the total net authorities available.

The 2016-17 Supplementary Estimates (A) included Budget 2016 approved initiatives in the amount of \$256.1 million, of which, \$232.5 million for Mission Critical Information Technology Infrastructure and \$23.6 million to enhance the security of network and cyber systems.

Comparison of Net Budgetary Authorities for the Quarters Ended June 30, 2016 and June 30, 2015

Net Authorities Available (\$ millions)	2016-17	2015-16	Variance
Vote 1 - Operating Expenditures	1,709.2	1,580.3	128.9
Vote 5 - Capital Expenditures	429.9	203.9	226.0
Vote Netted Revenues	(407.1)	(411.1)	4.0
Statutory (EBP)	89.9	89.3	0.6
Total Net Authorities	1,821.9	1,462.4	359.5

Vote 1 - Operating Expenditures (includes Vote Netted Revenues)

The Department's Vote 1 increased by \$128.9 million, compared to the first quarter of 2015-16, mainly due to:

- An increase of \$130.0 million related to funding received for various projects and initiatives, such as Mission Critical Information Technology Infrastructure (\$99.0 million), Cyber Security (\$24.1 million), and Canada Revenue Agency Legislative Measure and Enhanced Compliance Measures (\$2.7 million); and
- A net decrease of \$1.1 million mainly due to a decrease in Vote Netted Revenues, based on the 2016-17 revenue forecast (\$4.0 million), less a net increase in transfers from partners and funding related to various projects (\$2.9 million).

Vote 5 - Capital Expenditures

The Department's Vote 5 increased by \$226.0 million, compared to the first quarter of 2015-16, mainly due to:

- An increase of \$175.0 million related to funding received for various projects and initiatives, such as Mission Critical Information Technology Infrastructure (\$133.5 million), Cyber Security (\$25.3 million), and High Performance Computing (\$12.9 million); and
- A net increase of \$51.0 million in funding for various projects, including \$34.1 million related to the reprofiling of funding for the Carling Campus project.

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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 June 30, 2016, have increased by \$66.8 million, from \$324.7 million to \$391.5 million as per the table below. This represents an increase of 20.6 percent against expenditures recorded for the same period in 2015-16.

Comparison of Year-to-Date Expenditures for the Quarters Ended June 30, 2016 and June 30, 2015

Net Year-to-Date Expenditures (\$ millions)	2016-17	2015-16	Variance
Vote 1 - Operating Expenditures	353.3	312.7	40.6
Vote 5 - Capital Expenditures	38.1	10.2	27.9
Vote Netted Revenues	(22.2)	(16.0)	(6.2)
Statutory (EBP)	22.3	17.8	4.5
Total Net Year-to-Date Expenditures	391.5	324.7	66.8

Vote 1 - Increase of \$40.6 million

The net increase in operating expenditures, compared to the first quarter of 2015-16, is mainly attributed to:

- Transportation and telecommunications expenditures increased by \$28.1 million. This increase is mainly due to timing differences between fiscal years in processing payments related to various contracts;
- Repair and maintenance expenditures increased by \$10.6 million. This increase is mostly attributable to new contracts for repair, maintenance and support services related to computer hardware and software;
- Professional and special services expenditures increased by \$9.5 million. This increase is mainly due to timing differences between fiscal years in processing payments related to various contracts;
- Personnel expenditures decreased by \$7.6 million. This decrease is mostly due to the reduction of the number of SSC's employees; and
- Acquisitions of Machinery and Equipment decreased by \$18.6 million while Rentals increased by \$16.3 million. These variances are mostly due to a change in operational requirements that resulted in a shift of expenditures from Acquisitions of Machinery and Equipment to Rentals.

Vote 5 - Increase of \$27.9 million

The net increase in capital expenditures, compared to the first quarter of 2015-16, is mainly attributed to:

- Rentals expenditures increased by \$20.4 million. This increase is mainly attributable to the increase of the costs related to a consolidated contract for mainframe hardware, software maintenance and support services; and
- Transportation and telecommunications expenditures increased by \$2.3 million. This increase is mainly explained by a multi-year contract for data centre co-location services which started in the second quarter of 2015-16.

Vote Netted Revenue - Increase of \$6.2 million

- The collected Vote Netted Revenues increased by \$6.2 million, compared to the first quarter of 2015-16, is due to earlier billing in 2016-17 for services provided by SSC to other departments.

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. The OPMCA is due to be renewed by March 2017.

The aggregated annual departmental forecast, as estimated at the conclusion of the first quarter, is indicative of a deficit position, compelling a risk-based determination of activities and projects that will be curtailed, deferred or stopped to ensure SSC operates within its authorized reference levels. Impacted partners and clients will be kept apprised as the situation evolves. Additionally, SSC may require central agency permission to exceed its vote netted revenue authorities should early revenue projections be confirmed by the ratification of recovery agreements.

Additional risks and response strategies that may impact the Department's Investment Plan may be found in the *2016-17 Report on Plans and Priorities*.

4.0 Significant Changes in Relation to Operations, Personnel and Programs

On April 4, 2016, Alain Duplantie started his appointment as Senior Assistant Deputy Minister, Corporate Services and Chief Financial Officer.

Approval by Senior Officials

Approved by:

Original signed by

Ron Parker, President

Original signed by

Alain Duplantie, MBA, CPA, CGA
Senior Assistant Deputy Minister,
Corporate Services and Chief Financial Officer

Ottawa, Canada
August 29, 2016

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5.0 Statement of Authorities (unaudited)

<i>(in thousands of dollars)</i>	Fiscal year 2016-17			Fiscal year 2015-16		
	Total available for use for the year ending March 31, 2017 *	Used during the quarter ended June 30, 2016	Year-to-date used at quarter-end	Total available for use for the year ending March 31, 2016 *	Used during the quarter ended June 30, 2015	Year-to-date used at quarter-end
Vote 1 - Operating expenditures						
Gross Operating expenditures	1,709,176	353,302	353,302	1,580,259	312,680	312,680
Vote Netted Revenues	(407,094)	(22,233)	(22,233)	(411,075)	(15,968)	(15,968)
Net Operating expenditures	1,302,082	331,069	331,069	1,169,184	296,712	296,712
Vote 5 - Capital expenditures	429,893	38,073	38,073	203,868	10,194	10,194
(S) Contributions to employee benefit plans	89,962	22,341	22,341	89,324	17,748	17,748
Total Budgetary authorities	1,821,937	391,483	391,483	1,462,376	324,654	324,654

* 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 2016-17			Fiscal year 2015-16		
	Planned expenditures for the year ending March 31, 2017*	Expended during the quarter ended June 30, 2016	Year-to-date used at quarter-end	Planned expenditures for the year ending March 31, 2016*	Expended during the quarter ended June 30, 2015	Year-to-date used at quarter-end
Expenditures:						
Personnel (includes EBP)	612,509	132,916	132,916	603,554	134,803	134,803
Transportation and telecommunications	444,176	69,137	69,137	479,153	38,727	38,727
Information	542	209	209	1,321	67	67
Professional and special services	227,424	24,204	24,204	190,036	13,303	13,303
Rentals	290,945	147,056	147,056	217,727	110,322	110,322
Repair and maintenance	144,362	20,355	20,355	80,236	9,030	9,030
Utilities, materials and supplies	5,525	751	751	7,784	396	396
Acquisition of land, buildings and works	-	-	-	-	-	-
Acquisition of machinery and equipment	498,084	16,438	16,438	290,939	32,925	32,925
Transfer payments	-	-	-	-	-	-
Public debt charges	-	-	-	-	-	-
Other subsidies and payments	5,464	2,650	2,650	2,701	1,049	1,049
Total gross budgetary expenditures	2,229,031	413,716	413,716	1,873,451	340,622	340,622
Less Revenues netted against expenditures:						
Vote Netted Revenues	407,094	22,233	22,233	411,075	15,968	15,968
Total Revenues netted against expenditures	407,094	22,233	22,233	411,075	15,968	15,968
Total net budgetary expenditures	1,821,937	391,483	391,483	1,462,376	324,654	324,654

* Includes authorities available for use and granted by Parliament at quarter-end, which are distributed based on historical financial data.

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.