



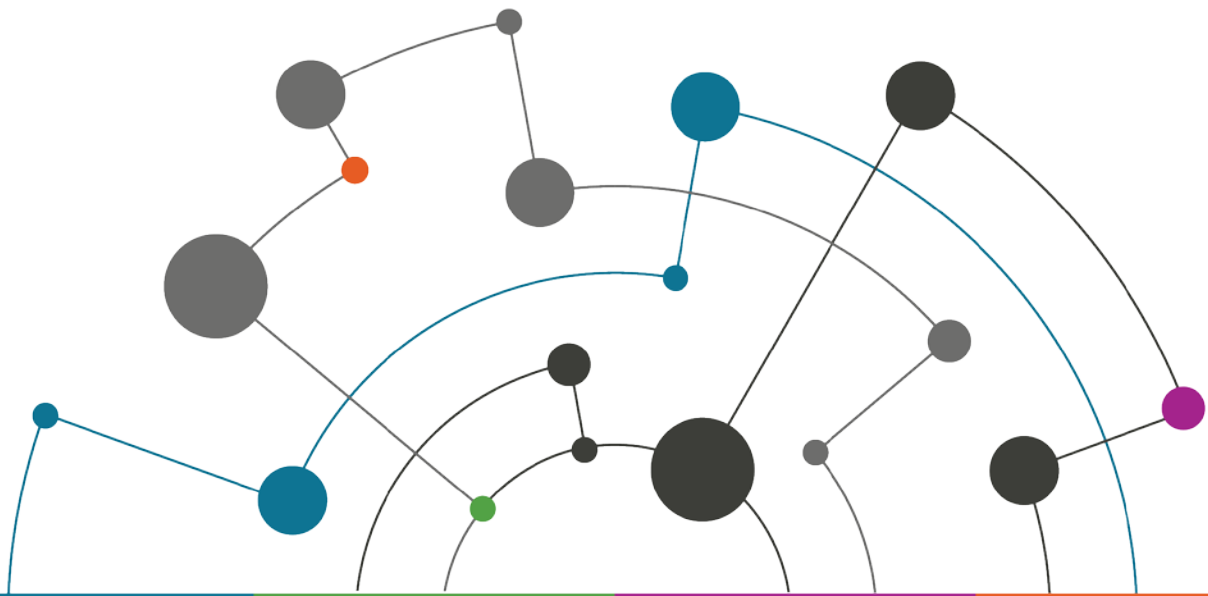
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Shared Services Canada Quarterly Financial Report

For the quarter ended June 30, 2018



Powering Technology for the Government of Canada

**Shared Services Canada
Quarterly Financial Report
For the quarter ended June 30, 2018**

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1.0 Introduction

This quarterly financial report should be read in conjunction with the [2018-19 Main Estimates](#). 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. It has not been subject to an external audit or review.

1.1 Authority, Mandate and Programs

Shared Services Canada (SSC) reports to Parliament through the Minister of Public Services and Procurement Canada and Minister responsible for SSC. The Department provides services related to email, data centres, networks and end-user information technology (IT) to organizations specified by the Governor in Council. SSC also provides government-wide operational coordination of cyber security events, including IT incident response and recovery, and supports government-wide decision-making with respect to incident mitigation. The Minister responsible for SSC has the authority to procure whatever is required to provide shared IT infrastructure services to departments. Maintaining strong customer relationships and service management is essential to the successful delivery of SSC's mandate.

SSC works to manage and improve the efficiency, reliability and security of the government's IT infrastructure. A more efficient use of technology will increase productivity across departments and support the vision of a twenty-first-century Public Service, as articulated in [Blueprint 2020](#).

In carrying out its mandate, SSC is supporting the [Government of Canada Strategic Plan for Information Management and Information Technology 2017 to 2021](#) and the [Government of Canada Cloud Adoption Strategy](#), as well as working in partnership with public-sector and private-sector stakeholders, implementing enterprise-wide approaches for managing IT infrastructure services, and employing effective and efficient business management processes.

The *Shared Services Canada Act* and related Orders-in-Council set out the powers, duties and functions of the Minister responsible for SSC. Amendments to the Act in June 2017 allow the Minister to delegate to other Ministers the power to procure certain items, thereby making it easier for federal departments to buy some of the most frequently purchased IT goods and services. SSC remains responsible for setting up IT contracts, standing offers and supply arrangements, and will continue to ensure only trusted IT equipment and software are used. The Minister responsible for SSC may also, in exceptional circumstances, authorize another Minister to obtain services from within their own department or from a source other than SSC. However, this authorization cannot be used to exempt the entire department from using SSC's services.

In 2018-19, the Departmental Results Framework (DRF) came into effect and replaced the Program Alignment Architecture as per the Treasury Board Policy on Results. The DRF is a plain language document which describes, at a high level, the domains in which SSC acts, the changes it seeks to contribute to, and how it measures and reports on its progress. The DRF is structured by the following 5 Core Responsibilities; Email and Workplace Technology, Data Centres, Telecommunications, Cyber and IT Security, and Customer Relationships and Service Management. Each of SSC's programs were aligned to one of the Core Responsibilities and are listed in the Program Inventory.

Further details on SSC's authority, mandate, responsibilities and programs may be found in the [2018-19 Main Estimates](#) and in [SSC's 2018-19 Departmental Plan](#).

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1.2 Basis of Presentation

This quarterly financial report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes the Department's spending authorities granted by Parliament, and those used by the Department consistent with the [2018-19 Main Estimates](#). This quarterly report has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities.

The authority of Parliament is required before money 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.

When Parliament is dissolved for the purposes of a general election, section 30 of the *Financial Administration Act* authorizes the Governor General, under certain conditions, to issue a special warrant authorizing the Government to withdraw funds from the Consolidated Revenue Fund. A special warrant is deemed to be an appropriation for the fiscal year in which it is issued.

The Department uses the full accrual method of accounting to prepare and present its annual departmental financial statements that are part of the departmental results reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis. The main difference between the Quarterly Financial Report and the Departmental Financial Statements is the timing of when revenues and expenses are recognized. The Quarterly Financial Report presents revenues only when the money is received and expenses only when the money is paid out. The Departmental Financial Statements report revenues when they are earned and expenses when they are incurred. In the latter case, revenues are recorded even if cash has not been received and expenses are incurred even if cash has not yet been paid out.

1.3 Shared Services Canada Financial Structure

SSC has a financial structure composed mainly of voted budgetary authorities, namely Vote 1 - Operating Expenditures and Vote 5 - Capital Expenditures, including Vote Netted Revenues, while the statutory authorities comprise the contributions to the Employee Benefit Plans (EBP). The contributions to EBP consist of the contributions for SSC's employees including the members of Royal Canadian Mounted Police.

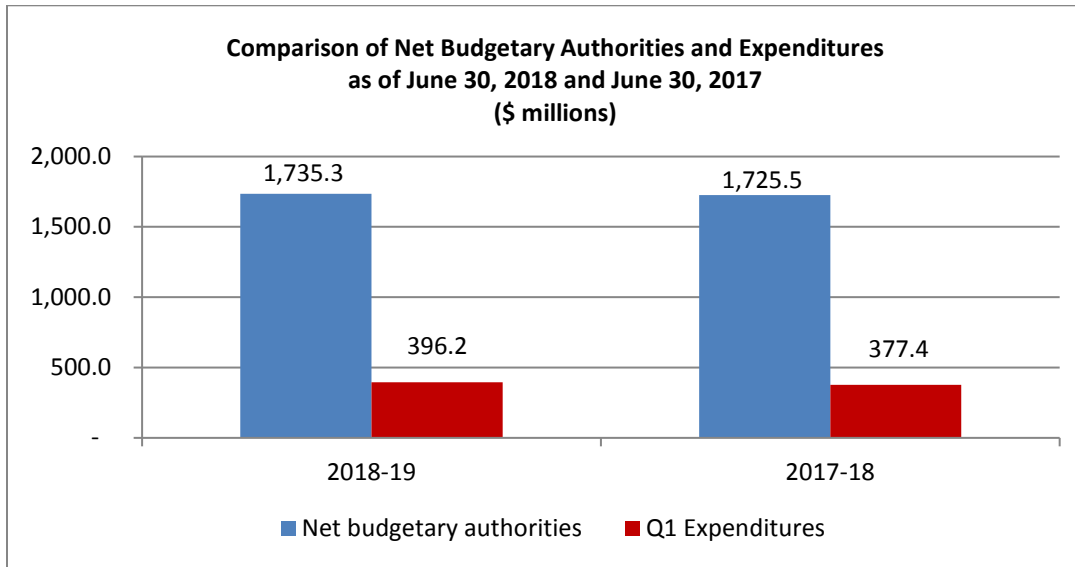
At the end of the first quarter of 2018-19, 92 percent of the Department's budget was devoted to support its IT consolidation and standardization goals while ensuring that current and future IT infrastructure services offered to the Government of Canada are maintained in an environment of operational excellence. The remaining 8 percent was devoted to Internal Services which support services provided by SSC.

Total Vote Netted Revenue authority for 2018-19 is \$442.1 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 following graph provides a comparison of the net budgetary authorities available for spending and the expenditures for the quarters ended June 30, 2018 and June 30, 2017, 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, 2018, the authorities provided to the Department include the Main Estimates and funding from the new Treasury Board Central Vote; the Budget Implementation vote which provides new funding for Budget 2018 initiatives. Authorities available for spending in 2018-19 were \$1,735.3 million at the end of the first quarter, compared to \$1,725.5 million at the end of the first quarter of 2017-18, representing an increase of \$9.8 million, or 0.6 percent. This total increase is a combination of an increase of \$97.8 million in Vote 1 - Operating Expenditures, a decrease of \$59.8 million in Vote 5 - Capital Expenditures, an increase in Budgetary Statutory Authorities of \$6.8 million and an increase of \$35.0 million in Vote Netted Revenues which decreased the total net authorities available.

Comparison of Net Budgetary Authorities for the Quarters Ended June 30, 2018 and June 30, 2017

Net Authorities Available (\$ millions)	2018-19	2017-18	Variance
Vote 1 - Operating Expenditures	1,768.8	1,671.0	97.8
Vote 5 - Capital Expenditures	320.2	380.0	(59.8)
Vote Netted Revenues	(442.1)	(407.1)	(35.0)
Statutory (EBP)	88.4	81.6	6.8
Total Net Authorities	1,735.3	1,725.5	9.8

Vote 1 - Operating Expenditures (includes Vote Netted Revenues)

The Department's Vote 1 increased by \$97.8 million, compared to the first quarter of 2017-18, mainly due to:

- An increase of \$159.7 million related to funding received for the following projects and initiatives:
 - Information Technology Refresh Program (\$65.2 million);
 - Improving Service Integrity at SSC (\$57.2 million);
 - 2018 G7 Summit (\$15.3 million);
 - Signed collective agreements (\$12.4 million);
 - 2021 Census of Population Program (\$2.1 million);
 - Other projects and initiatives (\$7.5 million);

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- An increase of \$1.2 million in transfers from partners related to funding for various projects; and
- A decrease of \$63.1 million related to the following projects and initiatives:
 - Refresh of the Mission Critical Infrastructure Technology (\$47.9 million);
 - High Performance Computing (\$7.8 million);
 - Expanding Biometrics screening in Canada's Immigration System (\$4.6 million);
 - Other projects and initiatives (\$2.8 million).

Vote 5 - Capital Expenditures (includes Vote Netted Revenues)

The Department's Vote 5 decreased by \$59.8 million, compared to the first quarter of 2017-18, mainly due to:

- A decrease of \$157.3 million related to the following projects and initiatives:
 - Refresh of the Mission Critical Infrastructure Technology (\$103.4 million);
 - Secure Canada's Government IT Infrastructure and Information (\$25.0 million);
 - Carling Campus project (\$19.3 million);
 - Other projects and initiatives (\$9.6 million);
- An increase of \$61.0 million related to funding received for the following projects and initiatives:
 - Information Technology Refresh Program (\$57.9 million);
 - Other projects and initiatives (\$3.1 million);
- An increase of \$35.0 million related to the new Vote Netted Revenue authority for capital expenditures; and
- An increase of \$1.5 million in transfers from the Department of Fisheries and Oceans Canada for High Performance Computing Storage and Service.

Statutory (EBP)

The Department's Employee Benefits Plan (EBP) authority increased by \$6.8 million. This increase is mainly due to the funding received from the new Treasury Board Central Vote related to the following Budget 2018 initiative: Improving Service Integrity at SSC.

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, 2018, have increased by \$18.8 million, from \$377.4 million to \$396.2 million as per the table below. This represents an increase of 5.0 percent against expenditures recorded for the same period in 2017-18.

Comparison of Year-to-Date Expenditures for the Quarters Ended June 30, 2018 and June 30, 2017

Net Year-to-Date Expenditures (\$ millions)	2018-19	2017-18	Variance
Vote 1 - Operating Expenditures	437.5	377.1	60.4
Vote 5 - Capital Expenditures	45.7	26.7	19.0
Vote Netted Revenues	(106.8)	(46.8)	(60.0)
Statutory (EBP)	19.8	20.4	(0.6)
Total Net Year-to-Date Expenditures	396.2	377.4	18.8

Vote 1 - Increase of \$60.4 million

The net increase in operating expenditures, compared to the first quarter of 2017-18, is mainly attributed to:

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- Rentals expenditures increased by \$28.7 million. This increase is mainly attributable to new contracts for software licenses and maintenance fees. This increase is offset by a decrease due to the end of a consolidated contract for mainframe hardware, software maintenance and support services;
- Personnel expenditures increased by \$22.5 million. This increase is mainly due to the increase of the number of SSC's employees in the first quarter of 2018-19;
- Acquisitions of machinery and equipment increased by \$9.0 million. This increase is mainly due to new contracts for the acquisition of communication network equipment, computer server and hardware. The increase is also attributable to expenditures related to the 2018 G7 Summit; and
- Repair and maintenance expenditures decreased by \$9.2 million. This decrease is mainly attributable to expenditures related to Refresh of the Mission Critical Infrastructure Technology for which there were no expenditures in the first quarter of 2018-19. The decrease is also due to timing differences between fiscal years in processing payments for repair and maintenance of communication network equipment.

Vote 5 - Increase of \$19.0 million

The net increase in capital expenditures, compared to the first quarter of 2017-18, is mainly attributed to:

- Rentals expenditures increased by \$28.9 million. This increase is mainly due to expenses related to a new capital lease contract that was recorded in Rentals instead of acquisition of Machinery and equipment which will be adjusted in the next quarter; and
- Acquisitions of machinery and equipment decreased by \$9.1 million. The decrease is mainly explained by expenditures in the first quarter of 2017-18 in Refresh of the Mission Critical Infrastructure Technology and in Secure Canada's Government IT Infrastructure and Information, for which there were no expenditures in the first quarter of 2018-19. The decrease is also due to the end of a consolidated contract which included payments related to capital lease obligations.

Vote Netted Revenues - Increase of \$60.0 million

The increase in the collected Vote Netted Revenues, compared to the first quarter of 2017-18, is due to more timely billing in 2018-19 for services provided by SSC to partner departments that are funded through annual transfers instead of a one-time transfer when SSC was created.

3.0 Risks and Uncertainty

Ensuring adequate resource capacity to provide IT infrastructure, email, data centres and network services across government represents a key risk for both SSC and the Government of Canada in the years ahead. Maintaining Government of Canada IT infrastructure services while undertaking IT modernization initiatives will require an engaged employee base possessing a specialized skill set, as well as sustainable, and reliable funding. How well this risk is managed will impact whether SSC and its partners can fulfill the collective mandate to serve Canadians. In order to better support this mandate and manage this key risk, SSC continues to improve its enabling functions such as financial management, project management and people management, which are essential to the successful implementation of spending plans and achievement of strategic objectives.

SSC is promoting effective financial management practices and financial sustainability to ensure that it has the financial resources, systems and funding mechanisms in place to maintain mission-critical systems and fund the modernization initiatives. The Department is also taking steps, such as developing recruitment and retention strategies that focus on learning, re-training, re-skilling, alternate and flexible work arrangements, and proactive classification and staffing resourcing strategies, to ensure a workforce with the right skills and capacity to sustain current, transitional and future business needs.

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Additional risks that may impact the Department's spending plans, as well as strategies to mitigate those risks, are described in [SSC's 2018-19 Departmental Plan](#).

4.0 Significant Changes in Relation to Operations, Personnel and Programs

On May 31, 2018, Alain Duplantie, Senior Assistant Deputy Minister of Corporate Services, and Chief Financial Officer, left SSC for retirement.

Effective May 28, 2018, shifts were made to the structure of the Chief Financial Officer, Corporate Services Branch, to continue to improve the essential internal services enabling SSC to respond effectively to employees' and customers' changing business and service needs. Stéphane Cousineau joined SSC to assume the role of Senior Assistant Deputy Minister of Corporate Services, leading all non-financial corporate functions, and Denis Bombardier joined SSC to assume the role of Chief Financial Officer, leading all financial management functions for SSC.

Effective June 18, 2018, SSC created an Ombudsman Office, which reports directly to the President. An ombudsman provides a safe place where employees can raise, discuss and resolve work-related issues—such as management issues, workplace health and wellness, values and ethics—through informal approaches without fear of reprisal. The Ombudsman Office is a neutral, confidential, and independent resource that provides support and directs you to the services you need. The Ombudsman also proactively identifies workplace trends, patterns and systemic issues, and relays his observations through appropriate channels. The new Ombudsman is Luc Bégin.

Approval by Senior Officials

Original signed by

Ron Parker, President

Ottawa, Canada
August 29, 2018

Original signed by

Denis Bombardier, CPA, CGA
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 2018-19			Fiscal year 2017-18		
	Total available for use for the year ending March 31, 2019*	Used during the quarter ended June 30, 2018	Year-to-date used at quarter-end	Total available for use for the year ending March 31, 2018*	Used during the quarter ended June 30, 2017	Year-to-date used at quarter-end
Vote 1 - Operating expenditures						
Gross Operating expenditures	1,768,794	437,473	437,473	1,670,996	377,087	377,087
Vote Netted Revenues	(407,094)	(106,803)	(106,803)	(407,094)	(46,758)	(46,758)
Net Operating expenditures	1,361,700	330,670	330,670	1,263,902	330,329	330,329
Vote 5 - Capital expenditures						
Gross Capital expenditures	320,174	45,692	45,692	379,955	26,656	26,656
Vote Netted Revenues	(35,000)	-	-	-	-	-
Net Capital expenditures	285,174	45,692	45,692	379,955	26,656	26,656
(S) Contributions to employee benefit plans	88,395	19,834	19,834	81,688	20,422	20,422
Total Budgetary authorities	1,735,269	396,196	396,196	1,725,545	377,407	377,407

* Includes only 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 2018-19			Fiscal year 2017-18		
	Planned expenditures for the year ending March 31, 2019*	Expended during the quarter ended June 30, 2018	Year-to-date used at quarter-end	Planned expenditures for the year ending March 31, 2018*	Expended during the quarter ended June 30, 2017	Year-to-date used at quarter-end
Expenditures:						
Personnel (includes EBP)	655,638	156,871	156,871	601,992	133,955	133,955
Transportation and communications	489,889	73,324	73,324	501,786	70,234	70,234
Information	761	207	207	692	118	118
Professional and special services	218,845	35,182	35,182	225,395	32,589	32,589
Rentals	297,392	180,061	180,061	323,767	122,461	122,461
Repair and maintenance	118,721	22,285	22,285	96,992	31,452	31,452
Utilities, materials and supplies	7,258	614	614	6,684	690	690
Acquisition of land, buildings and works	12,017	-	-	3,782	-	-
Acquisition of machinery and equipment	370,617	29,319	29,319	369,705	29,430	29,430
Transfer payments	-	-	-	-	-	-
Public debt charges	4,181	435	435	-	-	-
Other subsidies and payments	2,044	4,701	4,701	1,844	3,236	3,236
Total gross budgetary expenditures	2,177,363	502,999	502,999	2,132,639	424,165	424,165
Less Revenues netted against expenditures:						
Vote Netted Revenues	442,094	106,803	106,803	407,094	46,758	46,758
Total Revenues netted against expenditures	442,094	106,803	106,803	407,094	46,758	46,758
Total net budgetary expenditures	1,735,269	396,196	396,196	1,725,545	377,407	377,407

* Includes only 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.

Departmental Plan

The Departmental Plan (formerly known as the Report on Plans and Priorities) is an expenditure plan for each department and agency (excluding Crown corporations). It describes departmental priorities, expected results and associated resource requirements covering a three-year period, beginning with the year indicated in the title of the report.

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.

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Expenditure basis of accounting

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

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.

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.

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.

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Supplementary Estimates

The President of the Treasury Board tables two Supplementary Estimates usually in 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 and B).

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.