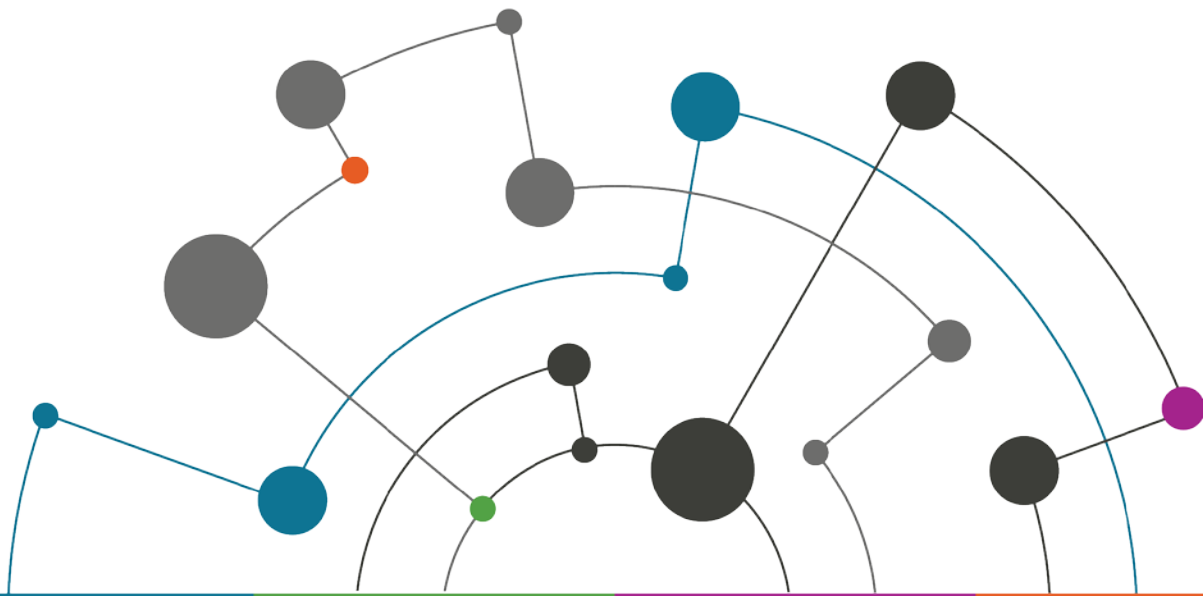




Shared Services Canada Quarterly Financial Report

For the quarter ended September 30, 2018



Powering Technology for the Government of Canada

**Shared Services Canada
Quarterly Financial Report
For the quarter ended September 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.

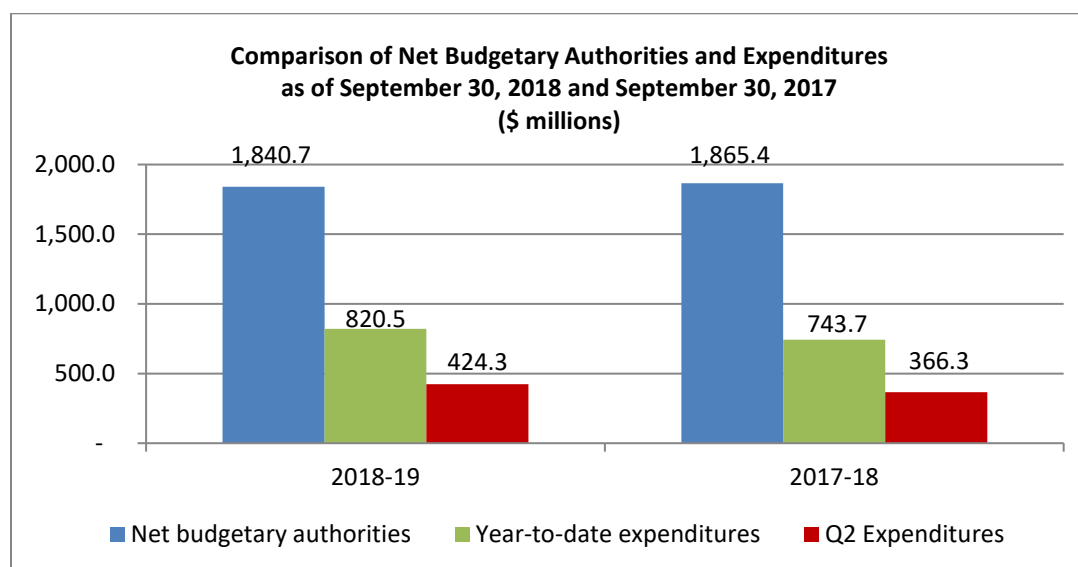
At the end of the second quarter of 2018-19, 92 percent of the Department's budget was devoted to support its IT consolidation and standardization goals while ensuring that current and future IT infrastructure services offered to the Government of Canada are maintained in an environment of operational 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 \$552.6 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, the year-to-date expenditures, and the expenditures for the quarters ended September 30, 2018 and September 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 September 30, 2018, the authorities provided to the Department include the Main Estimates, the Budget Carry Forward from 2017-18 and funding from the Treasury Board Central Vote which provides new funding for Budget 2018 initiatives. Authorities available for spending in 2018-19 were \$1,840.7 million at the end of the second quarter, compared to \$1,865.4 million at the end of the second quarter of 2017-18, representing a decrease of \$24.7 million, or 1.3 percent. This total decrease is a combination of an increase of \$172.5 million in Vote 1 - Operating Expenditures, a decrease of \$58.5 million in Vote 5 - Capital Expenditures, an increase in Budgetary Statutory Authorities of \$6.8 million and an increase of \$145.5 million in Vote Netted Revenues which decreased the total net authorities available.

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

Net Authorities Available (\$ millions)	2018-19	2017-18	Variance
Vote 1 - Operating Expenditures	1,923.5	1,751.0	172.5
Vote 5 - Capital Expenditures	381.4	439.9	(58.5)
Vote Netted Revenues	(552.6)	(407.1)	(145.5)
Statutory (EBP)	88.4	81.6	6.8
Total Net Authorities	1,840.7	1,865.4	(24.7)

Vote 1 - Operating Expenditures (includes Vote Netted Revenues)

The Department's Vote 1 increased by \$172.5 million, compared to the second 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 \$101.8 million related to additional Vote Netted Revenue authorities;
- An increase of \$1.2 million in transfers from partners related to funding for various projects;
- A decrease of \$64.9 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);
 - Contribution to the Enabling Functions Transformation program (\$1.8 million);
 - Other projects and initiatives (\$2.8 million); and
- A decrease of \$25.3 million related to the 2017-18 Operating Budget Carry Forward received in 2018-19 compared to the 2016-17 Operating Budget Carry Forward received in 2017-18.

Vote 5 - Capital Expenditures (includes Vote Netted Revenues)

The Department's Vote 5 decreased by \$58.5 million, compared to the second 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);
- A decrease of \$7.4 million related to the 2017-18 Capital Budget Carry Forward received in 2018-19 compared to the 2016-17 Capital Budget Carry Forward received in 2017-18;
- 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 \$8.7 million related to additional Vote Netted Revenue authorities; 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 September 30, 2018, have increased by \$76.8 million, from \$743.7 million to \$820.5 million as per the table below. This represents an increase of 10.3 percent against expenditures recorded for the same period in 2017-18.

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

Net Year-to-Date Expenditures (\$ millions)	2018-19	2017-18	Variance
Vote 1 - Operating Expenditures	877.2	795.1	82.1
Vote 5 - Capital Expenditures	50.0	68.0	(18.0)
Vote Netted Revenues	(146.4)	(160.3)	13.9
Statutory (EBP)	39.7	40.9	(1.2)
Total Net Year-to-Date Expenditures	820.5	743.7	76.8

Vote 1 - Increase of \$82.1 million

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

- Acquisitions of machinery and equipment increased by \$26.3 million. This increase is mainly due to new contracts for the acquisition of communication network equipment and application software, as well as expenditures related to the 2018 G7 Summit;
- Personnel expenditures increased by \$19.3 million. This increase is mainly due to the increase of the number of SSC's employees in 2018-19;
- Rentals expenditures increased by \$16.4 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;
- Transportation and communications expenditures increased by \$15.8 million. This increase is mainly attributable to expenditures related to the 2018 G7 Summit;
- Professional and special services expenditures increased by \$14.6 million. This increase is mainly due to expenditures in management and engineering consultants, as well as expenditures to address program integrity related to Mission Critical Projects. This increase is offset by a decrease related to Refresh of the Mission Critical Infrastructure Technology, for which there were no expenditures in 2018-19;
- Repair and maintenance expenditures decreased by \$8.6 million. This decrease is mainly attributable to Refresh of the Mission Critical Infrastructure Technology for which there were no expenditures in 2018-19; and
- Decrease of \$1.7 million in other various expenditures.

Vote 5 - Decrease of \$18.0 million

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

- Acquisitions of machinery and equipment decreased by \$8.2 million. The decrease is mainly explained by contracts for the acquisition of hardware equipment in 2017-18 and by a decrease in expenditures related to Refresh of the Mission Critical Infrastructure Technology and Secure Canada's Government IT Infrastructure and Information;
- Rentals expenditures decreased by \$5.6 million. This decrease is mainly due to Secure Canada's Government IT Infrastructure and Information, for which there were no expenditures in 2018-19, and to a timing difference between fiscal years in reallocating the payments related to capital lease obligations; and
- Professional and special services expenditures decreased by \$4.2 million. This decrease is mainly explained by the Carling Campus Project, for which there were no expenditures in 2018-19.

Vote Netted Revenues - Decrease of \$13.9 million

The decrease in the collected Vote Netted Revenues, compared to the second quarter of 2017-18, is mainly due to timing difference between fiscal years in billing the services provided by SSC to partner departments.

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.

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

In September 2018, changes were made to the organization structure of the Strategy and Service Delivery and Management Branches to improve the way SSC delivers digital services to customers and to provide the best workplace for employees. SSC merged the Account Management and Service Delivery Management directorates, forming a new consolidated Client Executive directorate. This directorate now falls under the Service Delivery and Management Branch. This realignment will help ensure SSC continues to deliver the best services to the Government of Canada and to Canadians.

Approval by Senior Officials

Original signed by

Ron Parker, President

Ottawa, Canada
November 27, 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 September 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 September 30, 2017	Year-to-date used at quarter-end
Vote 1 - Operating expenditures						
Gross Operating expenditures	1,923,472	439,752	877,225	1,750,971	418,022	795,109
Vote Netted Revenues	(508,867)	(37,983)	(144,786)	(407,094)	(113,569)	(160,327)
Net Operating expenditures	1,414,605	401,769	732,439	1,343,877	304,453	634,782
Vote 5 - Capital expenditures						
Gross Capital expenditures	381,414	4,343	50,035	439,837	41,375	68,031
Vote Netted Revenues	(43,750)	(1,679)	(1,679)	-	-	-
Net Capital expenditures	337,664	2,664	48,356	439,837	41,375	68,031
(S) Contributions to employee benefit plans	88,395	19,834	39,668	81,688	20,422	40,844
Total Budgetary authorities	1,840,664	424,267	820,463	1,865,402	366,250	743,657

* 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 September 30, 2018	Year-to-date used at quarter-end	Planned expenditures for the year ending March 31, 2018*	Expended during the quarter ended September 30, 2017	Year-to-date used at quarter-end
Expenditures:						
Personnel (includes EBP)	674,430	162,713	319,584	601,992	166,796	300,751
Transportation and communications	547,000	138,020	211,344	537,696	126,147	196,381
Information	848	283	490	740	158	276
Professional and special services	246,355	59,719	94,901	243,987	51,941	84,530
Rentals	331,685	(6,074)	173,987	345,941	40,731	163,192
Repair and maintenance	132,577	37,560	59,845	104,611	36,838	68,290
Utilities, materials and supplies	8,092	1,521	2,135	7,172	1,845	2,535
Acquisition of land, buildings and works	13,795	-	-	4,381	-	-
Acquisition of machinery and equipment	432,018	68,708	98,027	423,980	50,446	79,876
Transfer payments	-	-	-	-	-	-
Public debt charges	4,181	1,558	1,993	-	-	-
Other subsidies and payments	2,300	(79)	4,622	1,996	4,917	8,153
Total gross budgetary expenditures	2,393,281	463,929	966,928	2,272,496	479,819	903,984
Less Revenues netted against expenditures:						
Vote Netted Revenues	552,617	39,662	146,465	407,094	113,569	160,327
Total Revenues netted against expenditures	552,617	39,662	146,465	407,094	113,569	160,327
Total net budgetary expenditures	1,840,664	424,267	820,463	1,865,402	366,250	743,657

* 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.