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2018 Pre-Budget Submission to the House of Commons Standing Committee on Finance Government of Canada

CGI looks forward to the opportunity to speak with the Finance Committee during 2018 Budget Consultations.



Founded in Canada in 1976, CGI has evolved into the country's largest IT services provider, serving as a long-term, committed partner to clients in Canada and around the world. With more than 10,000 professionals across Canada, we work where our clients do business, providing local responsiveness and accountability that ensure the highest level of service and support.

This local presence is backed by the global capabilities of 70,000 professionals, providing the scale and global delivery expertise to support the delivery needs and requirements of our clients.

Major brands across Canada consistently turn to CGI to manage broad, transformative initiatives. We deliver end-to-end services and solutions combined with deep industry experience, and have a long track record of achieving the results our clients expect.



EXECUTIVE SUMMARY

CGI is pleased to see the Government of Canada implementing Canada's Innovation Agenda. Our nation's information and communications technology (ICT) sector is the fuel that ignites innovation across all sectors, CGI is a big part of this and proud to support Canada's competitiveness on the world stage.

In this 2018 federal pre-budget submission, CGI calls on the Government of Canada to implement measures that will:

1. Strengthen corporate tax measures

- Grow Canada's ICT sector by strengthening the tax measures to stimulate the creation of higher value IT services and solutions by making changes to how the SRED tax credit is applied to Canadian provided IT services; and
- Encourage sourcing to remain in Canada by enacting an input tax refund for regulated sectors.

2. Innovate public service delivery

- Identify the Government of Canada's own IT skills gap so that it can resolve internal service delivery issues through workforce development plans, national hiring strategies and/or end-to-end IT outsourcing solutions;
- Provide Treasury Board Secretariat, Public Services and Procurement Canada and related departments with the funding needed to modernize its back office;
- Make the financial investment needed to strengthen current security efforts and maintain a strong and stable cyber perimeter for its federal departments; and
- Accelerate efforts to modernize procurement so that investments made in transformation, modernization and digital experimentation are fully realized.

3. Protect Canadians from cyber threats

- Take the steps necessary to improve Canada's cyber and IT security posture.

In doing so, the Government of Canada will create more jobs, improve citizen service delivery, foster a climate of innovation, help protect Canadians from cyber threats and increase our nation's competitiveness on the world stage.



STRENGTHEN CORPORATE TAX MEASURES

CGI is pleased to see the Government of Canada (GoC) undertaking a meaningful and effective review of its innovation programs. Through this review, Canada can create a more favorable tax environment that will encourage the development of high value IT services and solutions in Canada.

To further the Canadian economy's evolution towards strengthening the services sector, CGI asks that the following recommendations be applied to the Scientific Research and Experimental Development (SRED) program.

Recommendation #1: Strengthen tax measures to stimulate the creation of higher value IT services and solutions by making changes to how the SRED tax credit is applied to Canadian provided IT services. This will enable Canadian companies to demonstrate competitive business cases that result in the continued growth of Canada's IT Sector.

Canada should learn from India's IT industry policies – including tax breaks for IT Services companies - that have been very successful in attracting business and growing the IT Services sector in that country. There is a significant amount of Canada's IT spending that occurs outside of Canada. Many of our country's largest companies are aggressively "offshoring" their IT operations due to the need for continued cost competitiveness. This results in the transfer of their spending, creation of IT jobs and skill development outside of Canada, which impacts Canadian productivity, innovation, talent and economic growth. The Canadian Government should begin reviewing the SRED tax credit to better reflect the evolution of the IT Sector from "product" based companies versus "services" companies. Approximately 80% of the SRED tax credit currently goes to product companies, while the future of the Canadian economy is in knowledge-based IT Services.

Recommendation #2: CGI recommends that the federal government enact an input tax refund for regulated sectors to encourage sourcing to remain in Canada.

Canada should take advantage of significant IT spending in certain regulated sectors of the Canadian economy, particularly Canadian Banks. These organizations represent some of the most aggressive consumers of offshore IT services, mentioned above. Unlike many Canadian-based organizations, Canadian banks do not benefit from an input tax refund and therefore



must pay GST when services are provided to them by third parties. This cost influences these companies to relocate their IT functions to other countries. The GoC has been slow to respond to this deployment of solutions, and should reverse that tendency by implementing a suite of sector protections that will ultimately generate more jobs for Canadians and improve productivity and innovation in Canada.

INNOVATE PUBLIC SERVICE DELIVERY

The GoC has a very complex service delivery environment with multiple channels across more than 125 government departments and agencies. For the past five years, there has been momentum toward transforming federal IT service delivery and CGI applauds the GoC for its continued work and effort to innovate service delivery to Canadians.

Rigorous work is still required to effectively transform, modernize and digitize federal services. Recognizing this, CGI encourages that investments be made in the following areas to ensure that the departments leading these efforts are set up for success: talent and skills development, back office transformation, cyber and IT security, and procurement modernization.

Talent and Skills Development

Recommendation #3: CGI asks that the Government of Canada identify its own IT skills gap so that it can resolve internal service delivery issues through workforce development plans, national hiring strategies and/or end-to-end IT outsourcing solutions.

The GoC has recognized that our country has a significant IT skills gap, and Budget 2017 demonstrated the need to reduce this gap through substantial investments in talent and skills development. CGI is encouraged by these investments and asks that the same lens be applied to the government's own federal workforce.

Presently, the GoC defaults to hiring informatics professionals as sub-contractors for the lowest price competition versus a measurement of the best value and outcome. This approach means that any IT project, including large-scale transformation projects are not set up for success from the start, high turnover occurs, and projects have a high risk of failure. In addition, the GoC's constant procurement of IT sub-contractors has created an economy of *individuals* who have set up sole proprietorship businesses to respond to the federal



government demand. The results of this are as follows:

- a) This business ownership model provides a significant tax break for highly paid individual consultants who are essentially acting as full time IT staff across the GoC. This has enabled an unfair tax advantage and the GoC is not receiving fair taxes from this piece of the economy.
- b) These individual sole proprietorships are not creating industry or talent development value to the economy.
- c) Due to the procurement practices of the GoC, requiring many years of references for any IT role, a large majority of these sole proprietorships currently servicing the GoC are individuals very close to retirement. This has created a severe gap of “next generation” IT talent that can and has worked with the GoC. This model will further exacerbate the GoC’s upcoming wave of retirement eligibility across IT department as these individuals have been used as compliments to IT staff, rather than generating full-time employment.
- d) Due to item “c”, above, IT companies that invest, create sector value to Canada and pay their fair corporate taxes, have not been able to hire youth to service the GoC’s demand. It is imperative that procurement practices for IT services change so that these IT companies can provide good jobs to Canada’s youth and develop our next generation of knowledge workers.

In identifying its own talent and skills gap, the GoC can develop solutions to strengthen internal capabilities and determine areas of IT services and solutions best suited for professional organizations that also invest in jobs and growth in Canada.

Back Office Transformation

Recommendation #4: CGI asks that the Government of Canada provide Treasury Board Secretariat, Public Services and Procurement Canada and related departments with the funding needed to modernize its back office.

In accordance with the need to maintain a legacy system that underpins federal program delivery, investments are also needed to modernize the GoC’s back office systems.



Cyber and IT Security

Recommendation #5: CGI asks that the Government of Canada provide the financial investment needed to strengthen current efforts and maintain a strong and stable cyber perimeter for its federal departments.

The Defense Policy Review outlined significant investments in IT security and cyber innovations. CGI appreciates that the Department of National Defense is taking necessary measures to secure its systems while spurring cyber innovation and growth in Canada.

Equally important will be an investment in protecting the GoC's cyber perimeter as outlined in Shared Services Canada's Report on Plans and Priorities. The Government requires funding in this area if they are going to maintain security and remain the department's first line of defense from malicious cyber-attacks.

Procurement Modernization

Recommendation #6: CGI asks that the Government of Canada accelerate its efforts to modernize procurement so that investments made in transformation, modernization and digital experimentation are fully realized.

All roads lead to procurement. Whether its modernizing the government's back office, maintaining legacy systems, outsourcing IT projects to experienced solution providers or investing in the talent and skills needed to build a 21st century federal public service.

Recognizing that the GoC has begun piloting new approaches to procurement, modernizing the process, and building agility into contracts, CGI encourages federal leadership to continue collaborating with industry to apply best practices and approaches while removing internal roadblocks.



PROTECT CANADIANS FROM CYBER THREATS

To advance digital services and the digital economy, and as the Internet of Things (IoT) becomes more pervasive, businesses and governments need to become cyber secure to the greatest extent possible and be poised to address cyber-risks.

Recommendation #7: The federal government should take steps to improve Canada's cyber and IT security.

The federal government must be leaders on the cyber front. CGI recommends there be a Chief Security Officer for Canada with the role of providing oversight and guidance to the public, businesses and government on cyber security issues.

Canada needs to foster IT talent in this field to be able to do this. Increased funding for research, development and commercialization of new cyber solutions and services is essential. The government must aggregate and leverage emerging companies who have cyber services and solutions on offer to create greater value to the Canadian economy.

CONCLUSION

CGI is advocating for these measures to ensure that Canada can compete and thrive in the digital and IoT economy with well-paying technology jobs throughout Canada, resulting in increased productivity, innovation and a strong future of jobs for our youth. This effort will support Canadian companies in developing and gaining expertise in delivering high-value services and solutions that can potentially be sold to other countries. These recommendations will also improve Canada's cyber and IT security measures which are essential to the future economic stability of Canada.

CGI appreciates the opportunity to make this submission. We are requesting to be involved in any discussions or consultations that might be occurring as part of this proposal process.

For further questions or comments please contact:

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