

Natural Sciences and Engineering Research Council of Canada
Quarterly Financial Report
Statement outlining results, risks and significant changes
in operations, personnel and programs
For the quarter ended June 30, 2011

1. Introduction

The Natural Sciences and Engineering Research Council of Canada (NSERC) was established in 1978 by the *Natural Sciences and Engineering Research Council Act*, and is a departmental corporation named in Schedule II of the *Financial Administration Act*. NSERC's purpose is to help make Canada a country of discoverers and innovators for the benefit of all Canadians, by supporting post-secondary students, postdoctoral fellows in their advanced studies, promoting discovery by funding the research programs of academic researchers, and stimulating partnerships between academia and industry. Further information on the NSERC mandate and program activities can be found in [Part II of the Main Estimates](#).

This Quarterly Financial Report (QFR) 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. This quarterly report should be read in conjunction with the [Main Estimates and Supplementary Estimates for 2011-2012](#).

Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes NSERC's spending authorities granted by Parliament and those used by the department, consistent with the Main Estimates and Supplementary Estimates for the 2011-2012 fiscal year. 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 moneys 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 authorities 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.

NSERC 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.

This quarterly report has not been subject to an external audit or review.

2. Highlights of Fiscal Quarter and Fiscal Year to Date Results

Statement of Authorities

Available Authorities

As of June 30, 2011, NSERC's total available authorities for 2011-2012 amount to \$1,050 million. The changes in available authorities are the result of previous federal budget announcements that impact both the operating authorities (vote 75), and the grants and scholarships program authorities (vote 80) in the current fiscal year. To date, for 2011-2012, these changes resulted in an increase in total authorities of \$30.4 million (3%) over the prior year, of which \$29.3 million (96% of the total changes) represented an increase in NSERC's grants and scholarships programs. The changes in available authorities are comprised of the following elements:

- An increase of \$17.8 million in the Canada Excellence Research Chairs Program to attract and retain the world's most accomplished and promising minds. The program is helping Canada build a critical mass of expertise in the priority research areas of environmental sciences and technologies, natural resources and energy, health and related life sciences and technologies, and information and communications technologies (*Budget 2008*);
- An increase of \$14.9 million in the College and Community Innovation Program to encourage innovation at the community and/or regional level by enabling Canadian colleges to enhance their research capacity to work with local companies, particularly small and medium-sized enterprises (*Budget 2010*);
- An increase of \$12.9 million in Grants and Scholarships Programs to strengthen NSERC support of advanced research and to foster closer research collaborations between academic institutions and the private sector through NSERC's Strategy for Partnerships and Innovation (*Budget 2010*);
- An increase of \$3.3 million in the Banting Postdoctoral Fellowships Program to attract and retain top-tier postdoctoral talent, both nationally and internationally, to develop their leadership potential and to position them for success as research leaders of tomorrow, positively contributing to Canada's economic, social and research-based growth through a research-intensive career (*Budget 2010*);
- A decrease of \$11.9 million in program realignments as per the federal Strategic Review exercise (*Budget 2008*);
- A decrease of \$7.0 million in relation to the Canada Graduate Scholarships Program due to the phasing out of the funding from the federal Economic Action Plan (*Budget 2009*);
- A timing difference for grant transfers in the amount of \$0.4 million made to the Department of National Defence to support academic research at the Royal Military College awarded through the Canada Research Chairs Program, University Faculty Awards Program, and Industrial Research Chairs Program. These transfers took place in the first quarter of 2010-2011 but the current year transfers could not occur in the first quarter of 2011-2012 as Parliament was not in session during the federal election; the equivalent transfers for the current year will take place during subsequent quarters of this fiscal year.

Authorities Used

This departmental QFR reflects the results of the current fiscal period in relation to the 2011-2012 Main Estimates for which full supply was released by Parliament on June 27, 2011.

Total authorities used during the first quarter of 2011-2012 amounted to \$282 million (27% of the available authorities) \$60.2 million more than at the end of the same quarter in the previous fiscal year, of which \$59.4 million relate to grants and scholarships programs (99% of the increase). The main factors for this increase are the additional program authorities in grants and scholarships and operating expenditures (refer to the Available Authorities section), as well as payment timing differences between the comparative quarters.

Grants and scholarship payments vary from period to period due to the cycle and results of the peer-reviewed program competitions, as well as the multi-year award profiles. The operating expenditures cover personnel and non-salary expenses required to support the delivery of the grants and scholarships programs. Although the majority of personnel expenditures and operating costs are incurred in a consistent manner throughout the fiscal year, the balance of expenditures, including temporary employees hired for the competition season and travel costs for peer-reviewers, directly occur in conjunction with the program cycle and are demand-driven. As a large proportion of the program competitions occur in the last quarters of the fiscal year, the operating expenditures in the first quarter are typically less than 25% of the annual operating available authorities.

Statement of Departmental Budgetary Expenditures by Standard Objects

Variation in Amounts Available for Use in 2011-2012

As described in the above Available Authorities section, NSERC's Parliamentary authorities have been increased by \$30.4 million for 2011-2012 to date over the prior year, the bulk of which is attributed to the transfer payment programs (\$29.3 million). NSERC has also adjusted its operating budget allocations to reflect the historical spending patterns and requirements, increasing the proportion available for personnel expenditures by \$4 million and reducing the other categories of operating expenditures in accordance with current forecasts.

Transfer Payments (Grants and Scholarships)

Transfer Payments represent 95% of NSERC's total available authorities. Variations occur in transfer payment expenditures between quarters due to the nature of the program cycles. During the first quarter of 2011-2012, NSERC's actual transfer payment expenditures have increased by \$59.4 million over the same quarter in the previous fiscal year. The main factors for this increase are the additional available program authorities spent to date including the increased take-up in the Engage Grants Program (\$2.9 million) and the Idea to Innovation Program (\$0.8 million) in comparison with the same period in the previous fiscal year as well as payment timing differences. In 2010-2011, installments for the Discovery Grants Program, one of NSERC's largest programs, were paid at the beginning of July whereas, in 2011-2012, payments were completed by the end of June, representing \$53 million in timing expenditure increases (89% of the total increase). Accordingly, an offsetting variance between fiscal years will exist in the second quarter.

Personnel

Personnel expenditures for program delivery account for the largest proportion of NSERC's operating expenditures. The personnel expenditures increase of \$0.7 million (9%) in comparison to the same period in the prior year is attributed to a number of factors. Among these factors is a decreased number of vacant positions and additional expenditures related to positions created to support the new or expanded programs as provided by the increased available authorities received by NSERC. This includes a marginal increase in the NSERC regional offices to support the management of the increased demand for the Engage Grants Program, combined with the general increase in wage levels in accordance with NSERC's terms and conditions of employment.

Non-personnel Operating Expenditures

Non-personnel operating expenditures include all costs related to the support of program delivery, a significant proportion of which is directly incurred in conjunction with the program competitions that predominantly take place during the latter quarters of the fiscal year. Total non-personnel expenditures to date in 2011-2012 are generally consistent with the prior year. Increased expenditures took place during the first quarter of this fiscal year for professional and special services (\$76,000) related to the early initiation of projects requiring professional expertise and assistance, for system repair and maintenance services (\$44,000), and acquisition of machinery and equipment (\$104,000) for server replacements and hardware components, all of which are mainly due to timing of purchases that did not occur in the comparative period of the previous fiscal year.

3. Risks and Uncertainties

Funding and Program Delivery Factors

NSERC is funded through annual Parliamentary spending authorities and statutory authorities for program transfer payments and its operating expenditures. As a result, its program activities and operations are impacted by any changes to funding approved through Parliament. Accordingly, delivering programs can be affected by factors such as the economic and political climate, technological and scientific development, and evolving government priorities.

NSERC is a knowledge-based organization and relies on maintaining its talented and committed workforce to deliver its programs. Similarly, NSERC's delivery model is centered around a peer-review model which is dependent on the availability and high-quality of external experts from across the country and the world who contribute their time and expertise to adjudicate grant proposals and scholarship applicants with the aim of funding excellence for the benefit of Canada. In addition, research and innovation are part of a global enterprise, thus participation in our programs is influenced not only by the Canadian context but also by initiatives and opportunities world wide.

Operating Budget Pressures and Constraint Measures

Federal *Budget 2010* and *Budget 2011* announced operating budget constraint measures and froze the operating budgets of departments at their 2010-2011 levels for the fiscal years 2011-2012 and 2012-2013. The resulting budgetary pressures along with the impacts of absorbing inflationary costs and salary increases are compounded by the operational requirement to support an increased and broadened program base while processing an increasing number of applications within limited operational envelopes. NSERC is also managing the requirement for the implementation of modernized technology solutions to better support program delivery. Thus far, NSERC has absorbed these operating pressures through economies of scale harnessed by the shared administrative service arrangements with the Social Sciences and Humanities Research Council of Canada (SSHRC), corporate-wide prioritization and reduction of activities, internal reallocations and a focus on streamlining and generating efficiencies wherever possible, however capacity is strained. An established budgetary process with regular in-year budget reviews and formal reallocations for emerging priorities approved by senior management supports this endeavour. Management is reviewing various options to address future budgetary challenges. NSERC is also undertaking a revision of its operating and program delivery systems and processes to generate further efficiencies and future savings.

4. Significant Changes Related to Operations, Personnel and Programs

Other than the impacts of NSERC's increased available authorities resulting in expanded program dimensions and the influence of the continuing implementation of government-wide operating budget constraint measures, there were no important changes in the current quarter related to operations, personnel or programs in comparison with the previous fiscal year. However, the federal *Budget 2011*, tabled in June, included funding announcements with expanded program dimensions that will be implemented by NSERC over the course of the fiscal year, following Treasury Board approvals.

Approved by:

Originally signed by:

**Suzanne Fortier, President
NSERC
Ottawa, Canada**

Originally signed by:

**Jaime W. Pitfield
Vice-President and Chief
Financial Officer, NSERC**

August 25, 2011