

Natural Sciences and Engineering Research Council of Canada
Quarterly Financial Report
For the Quarter Ended June 30, 2016

Statement Outlining Results, Risks and Significant Changes in Operations, Personnel and Programs

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1. Introduction

This Quarterly Financial Report (QFR) has been prepared by management as required by section 65.1 of the [Financial Administration Act](#) (FAA) and in the form and manner prescribed by the Treasury Board. It should be read in conjunction with the [Main Estimates](#) and [Supplementary Estimates](#) for 2016-17. This report has not been subject to an external audit or review.

1.1 Authority, mandate and programs

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 FAA. NSERC's purpose is to help make Canada a country of discoverers and innovators for the benefit of all Canadians, by supporting postsecondary students and 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](#).

1.2 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 agency, consistent with the Main Estimates and Supplementary Estimates for the 2016-17 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 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 authorities for specific purposes.

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NSERC uses the full accrual method of accounting to prepare and present its annual financial statements that are part of the departmental performance reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

2. Highlights of fiscal quarter and fiscal year-to-date results

This section highlights the significant items that contributed to the net increase in resources available for the year and the actual expenditures for the quarter ending June 30, 2016.

2.1 Significant changes to budgetary authorities

This QFR reflects the results of the current fiscal period in relation to the 2016-17 Main Estimates and the Supplementary Estimates (A) (SEA).

NSERC's total budgetary authority available in the first quarter ending June 30, 2016, was \$1,128.1 million. This represents an overall increase of \$41.6 million (4%) from the comparative period of the previous year, of which \$40.6 million relates to an increase in NSERC's grant and scholarship programs (Vote 5) and \$1.0 million to an increase in net operating expenditures (Vote 1).

The major changes in NSERC's grant and scholarship programs between the current and previous fiscal year include the following elements:

- an increase of \$31.6 million for the Canada First Research Excellence Fund, a tri-agency initiative that helps institutions excel globally in research areas that create long-term economic advantages for Canada (Budget 2014);
- an increase of \$10.3 million to support collaborations between companies and researchers from universities and colleges under the new consolidated suite of similar business innovation programs (Budget 2015);
- an increase of \$6.0 million for the Centres of Excellence for Commercialization and Research Program, a tri-agency initiative to create a more effective and efficient way to identify commercialization opportunities;
- an increase of \$4.6 million for the College and Community Innovation Program, directed to industry-driven research initiatives at Canada's polytechnics and colleges (Budget 2015);
- a decrease of \$9.7 million due to a transfer to the Department of Innovation, Science and Economic Development to contribute to Mitacs Inc. to support industrial research and development internships (\$7.0 million), and the Let's Talk Science program (\$2.7 million); and
- a decrease of \$1.6 million in various transfers to other government agencies to support programs such as the Centre for Molecular and Materials Science and the Business-Led Networks of Centres of Excellence.

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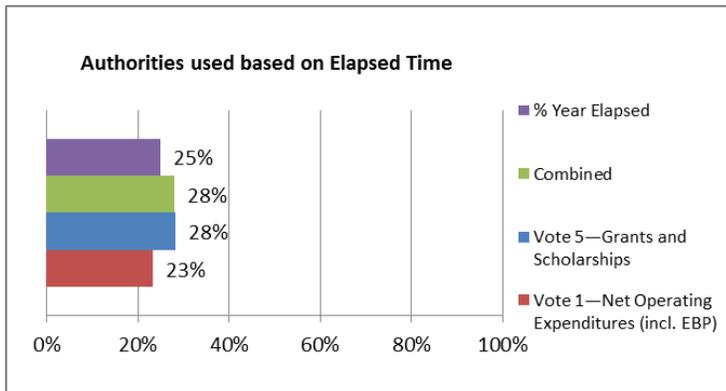
2.2 Significant variances from previous year expenditures

In the first quarter of 2016-17, total budgetary expenditures amounted to \$316.8 million compared to \$305.9 million reported in the same quarter of 2015-16.

(millions of dollars)	2016-17	2015-16	Variance
Vote 1 - Operating Authorities			
Personnel	9.6	9.2	0.4
Non-personnel	1.9	1.4	0.5
Vote 5 - Grant and Scholarship Program Authorities	305.3	295.3	10.0
Total Net Budgetary Expenditures	316.8	305.9	10.9

Authorities Used

As shown above, total authorities used during the first quarter of 2016-17 amounted to \$316.8 million. This represents 28% of the total available authorities.



Grants and Scholarships

Transfer payments represent 95.6% of NSERC's available authorities. Grant and scholarship payments vary between periods due to the competition cycles and results of peer-reviewed programs and multiyear award profiles. During the first quarter of 2016-17, NSERC's transfer payment expenditures have increased by \$10.0 million, compared with the same quarter of the previous fiscal year. The major differences in specific programs from year to year are as follows:

- an increase of \$2.9 million due to expanded program authorities for the College and Community Innovation Program;
- an increase of \$2.7 million due to higher program funding for Collaborative Health Research Projects; and
- an increase of \$4.4 million due to timing differences on payments for the following programs:
 - Collaborative and Thematic Resources Support in Mathematics and Statistics (\$1.5 million)
 - Canada Graduate Scholarships (\$1.2 million)
 - Discovery Development Grants (\$0.9 million)
 - Postdoctoral Fellowships Program (\$0.8 million)

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Operating Expenditures

Operating expenditures cover personnel and other operating expenses required to support the delivery of grant and scholarship programs. Expenditures related to the employee benefit plan are accounted for separately in statutory authorities. Although the majority of personnel expenditures and other operating costs are incurred in a consistent manner throughout the fiscal year, the balance of expenditures, including temporary employees hired for the peak competition season and travel costs for peer reviewers, are tied to the program cycle and are demand-driven. As a large proportion of program competitions occur in the final quarter of the fiscal year, the operating expenditures in each of the first three quarters are typically less than 25% of the annual operating available authorities.

Personnel expenditures in support of program delivery account for the largest proportion of NSERC's planned operating expenditures (approximately 72% of available operating authorities and planned operating expenditures for 2016-17). The personnel expenditures for the first quarter have increased by \$0.5 million due to the hiring of vacant full-time positions.

Non-personnel operating expenditures include all other operating costs related to the support of program delivery. A significant portion of these costs relate to funding opportunity competitions that take place predominantly during the final quarter of the fiscal year. Total non-personnel expenditures for the first quarter increased by \$0.4 million and a large proportion are consistent with spending in the previous year.

3. Risks and Uncertainties

Funding and Program Delivery Risk Factors

Through the corporate risk identification exercise, the risks that have a potential financial impact or that deal with financial sustainability have been assessed. The impact on NSERC and the planned mitigation strategies related to these risks are discussed below.

External Risk Factors

NSERC is funded through annual parliamentary spending authorities and statutory authorities for program transfer payments (grant and scholarship programs) and for its supporting operating expenditures. As a result, its program activities and operations are impacted by any changes to funding approved through Parliament. Accordingly, program delivery can be affected by factors such as the economic and political climate, technological and scientific development, and evolving government priorities, which impact approved resource levels (total available authorities). In recent years, competition has also impacted approved resource levels.

Research and innovation are part of global trends; therefore, participation in NSERC programs is influenced not only by the Canadian context, but also by initiatives and opportunities worldwide. Formal communications and external relation strategies are developed by NSERC to ensure that stakeholder relationships and expectations are managed effectively and that NSERC fulfils identified research and innovation needs.

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There is also the risk that NSERC fails to achieve its mandate and the goals of its strategic plan. To mitigate this risk, an integrated planning and risk management process is firmly in place. This process serves as the foundation for NSERC to plan all aspects of its business in an integrated manner and opportunity to align priorities and resources accordingly. An internal audit of NSERC's integrated planning is presently underway.

Internal Risk Factors

In order to ensure effective stakeholder engagement and to mitigate the risk of misalignment with stakeholders' priorities and values, a group of institution representatives, NSERC Leaders, was created. NSERC Leaders provide an ongoing channel of communication between their institutions and NSERC, helping all parties stay informed of developing issues. This open dialogue permits the relay to universities of information on new policy and program developments. For their part, NSERC Leaders are able to gather information and ideas from the university community, feeding into the development of NSERC policies and programs.

NSERC is a knowledge-based organization that relies on maintaining its talented and committed workforce to deliver its programs. To retain its valuable human resources and their corporate memory, NSERC is developing a human resources strategy that outlines the organization's commitments and action plan for developing talent and for building and sustaining a thriving and successful workplace and work culture. NSERC is challenged by the ability to rejuvenate and build new capacities needed to modernize the organization's business to deliver on the goals of NSERC 2020, the agency's five-year strategic plan, and establish modern information management/technology systems and business platforms¹. Potential consequences could include failed corporate projects and risk to business continuity. The arrival of the new vice-president, Communications, Corporate and International Affairs at NSERC coincides with the development of the implementation plan for NSERC 2020.

To improve external client service and increase efficiencies, NSERC is putting in place a business solution to replace its legacy systems. This new business solution will not be in place for at least two years, which exposes NSERC to business continuity risk should the legacy systems fail. NSERC is presently renewing its Business Continuity Program and IT Disaster Recovery Plan in response to its Security Management corporate risk. This renewal provides an opportunity to put in place a plan that mitigates business continuity risk associated with the potential failure of the legacy systems.

¹ NSERC Corporate Risk Profile 2016-17

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4. Significant Changes Related to Operations, Personnel and Programs

Budget 2016 reiterated the Government of Canada's commitment to strengthen science and research by "recognizing the fundamental role of investigator-led discovery research in an innovative society" with new investments in science and technology². This includes \$30 million per year on an ongoing basis for NSERC. The newly elected government had first indicated this commitment in its mandate letters³ to the Minister of Innovation, Science and Economic Development and the Minister of Science.

In keeping with the NSERC 2020 vision of making Canada a country of discoverers and innovators for the benefit of all Canadians, NSERC will develop an implementation roadmap over the coming year that will align with the evolving government priorities and focus on measurable results for Canadians.

Approved by:

Original signed by

**B. Mario Pinto, PhD, FCIC, FRSC
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**Ottawa, Canada
August 18, 2016**

Original signed by

**Patricia Sauvé-McCuan
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Chief Financial Officer, NSERC**

² Growing the Middle Class (Federal Budget 2016, p.113)

³ Minister of Science Mandate Letter (November 2016)