

**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 September 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 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](#).

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 2011-12](#).

**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 2011-12 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.

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 September 30, 2011, NSERC's total authorities available for 2011-12 amount to \$1.052 billion. The changes in total available authorities are the result of previous federal budget announcements and Treasury Board decisions that impact both the operating authorities (vote 75), and the grants and scholarships program authorities (vote 80) in the current fiscal year. In addition, NSERC is authorized to transfer up to 5% of its operating budget (vote 75) to the next fiscal year (representing a \$2.1 million carry-forward from 2010-11 to 2011-12). This operating budget carry-forward process is in place to provide federal departments and agencies with some flexibility to manage cash flow appropriately to address schedule variances in operating projects. To date, for 2011-12, these cumulative changes resulted in an increase in total authorities of \$30.5 million (3%) over the prior year, of which \$29.3 million (96% of the change in total authorities) represented an increase in NSERC's grants and scholarships programs (vote 80). The changes in total 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 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. These transfers took place in the first quarter of 2010-11, but the current year transfers could not occur in the first quarter of 2011-12 as Parliament was not in session during the federal election; the equivalent transfers for the current year will take place during the third quarter of this fiscal year; and

- An increase of \$0.05 million in the operating budget carry-forward over the prior year due to the increased operating budget carry-forward limit associated with increased funding from *Budget 2010* announcements.

### **Authorities Used in the Second Quarter**

This departmental QFR reflects the results of the current fiscal period in relation to the 2011-12 Main Estimates for which full supply was released by Parliament on June 27, 2011 and the carry-forward of operating funds from 2010-11 to 2011-12 that was approved on August 19, 2011.

Total authorities used during the second quarter of 2011-12 amounted to \$240 million (23% of the total available authorities). This represents a \$38 million decrease from the same quarter in the previous fiscal year (\$39 million net decrease in authorities used for grants and scholarship expenditures offset by a \$1.2 million increase in authorities used for operating and employee benefit plan expenditures). The decrease in grants and scholarship expenditures is a result of payment timing differences between the first and second quarters of the comparative fiscal years that will have offset each other by the end of the second quarter. The increase in authorities used for operating and employee benefits plans over the second quarter of the previous year is mainly related to the additional personnel spending to support the delivery of an increased program base.

Grants and scholarships payments vary from period to period due to the cycle and results of the peer-reviewed program competitions, and the multi-year award profiles. The operating expenditures cover personnel and other operating expenses required to support the delivery of the grants and scholarships programs. Expenditures related to employee benefit plans are accounted 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 competition season and travel costs for peer-reviewers, occur in direct conjunction with the program cycle and are demand-driven. As a large proportion of the program competitions occur in the final quarters of the fiscal year, the operating expenditures in the second quarter are typically less than 25% of the annual operating available authorities.

### **Authorities Used Year to Date**

Total authorities used cumulatively during the first half of the fiscal year of 2011-12 represented \$521.6 million (49.5% of the available authorities); this represents \$22.7 million more than the previous fiscal year, of which \$20.4 million is related to grants and scholarships expenditures (The main factor for this overall increase is the program delivery of the additional funding approved by Parliament (as outlined in the Available Authorities section). The proportion of grants and scholarships authorities used in the first half of the fiscal year was up only slightly to 49.9% in 2011-12 from 49.2% in the previous fiscal year. The authorities used in the first half of the fiscal year for operating expenditures and employee benefit plans increased by \$2.3 million over the last fiscal year. NSERC spent 43% of its operating authorities in the first half of the current fiscal year compared to 39% in 2010-11. The main factor of this increase is the ramp-up of the increased operating funding received to support the delivery of the expanded grants and scholarships programs.

## **Statement of Departmental Budgetary Expenditures by Standard Objects**

### **Variation in Amounts Available for Use in 2011-12**

As described in the Available Authorities section, NSERC's Parliamentary authorities have been increased by \$30.5 million for 2011-12 to date over the prior year, the majority of which can be attributed to the transfer payment (grants and scholarships) programs (\$29.3 million). NSERC has also adjusted its operating budget allocations to reflect 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 Expenditures (Grants and Scholarships)**

#### **Second Quarter Grants and Scholarships**

Transfer Payments represent over 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 second quarter of 2011-12, NSERC's actual transfer payment expenditures have decreased by \$39 million compared to the same quarter of the previous fiscal year. The main factor for this decrease is a payment timing difference on Discovery Grants instalments that were paid in June this year whereas, in 2010-11, payments were done at the beginning of July. This timing difference represented \$53 million dollars of the decrease. This timing difference was offset by the additional grants and scholarships spending related to the expanded program authorities and the related increased take-up in certain programs in the second quarter such as the Engage Grants (\$1 million), Idea to Innovation Grants (\$0.5 million), Industrial Research Chairs (\$3.1 million) and the new installments of the Canada Excellence Research Chairs Program were also paid in this period, generating an increase of \$8.9 million in expenditures over the prior year.

#### **Year to Date Grants and Scholarships**

At the end of the first half of the year, NSERC spent over \$20 million (4%) more than what was spent at this point last fiscal year. The main factors for the increase over the prior year is the additional grants and scholarships spending related to the expanded program authorities and the related increased take-up in certain programs in the first and second quarter for the Canada Excellence Research Chairs Program (\$8.9 million), Engage Grants (\$3.9 million over the first two quarters), Idea to Innovation Grants (\$1.3 million over the first two quarters), Industrial Research Chairs (\$3.9 million over the first two quarters), and Strategic Network Grants (\$2 million over the first two quarters).

### **Personnel Expenditures**

Personnel expenditures in support of program delivery account for the largest proportion of NSERC's operating expenditures (approximately 70% of operating authorities for 2011-12). The personnel expenditures, for the second quarter of 2011-12, increased by \$0.8 million (10%) in comparison to the same period in the prior year and by 1.5 million (9%) cumulatively in the first half of the year. This increase is attributed to a number of factors such as a decreased number of vacant positions and additional expenditures related to the 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 Engage Grants and

new positions for the College and Community Innovation 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 other operating costs related to the support of program delivery, a significant proportion of which relate to program competitions that predominantly take place during the latter quarters of the fiscal year. For the first half of the year, the non-personnel operating expenditures increased over the same period in the prior year by \$777,000 (21.6%), mostly in the second quarter in support of the expanded program delivery requirements and the earlier ramp-up of activities in comparison with the prior year. This increase is mainly in professional and special services (\$507,000, representing 65% of the total increase to date). However, total non-personnel operating expenditures to date in 2011-12 are generally consistent with the prior year. The increased expenditures that took place during the second quarter of this fiscal year for professional and special services (\$431,000) related to the early initiation of projects requiring professional expertise, for utilities, materials and supplies (\$91,000), and the acquisition of machinery and equipment (\$44,000) for server replacements and hardware components, all of which are mainly due to the timing of purchases that did not occur in the comparative period of the previous fiscal year. Personnel and non-personnel operating expenditures must be funded from the established net operating expenditures authorities available for 2011-12. As such, timing differences will be offset by the end of the 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 (grants and scholarships programs) and its supporting 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. 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 building and sustaining a thriving and successful workplace and work culture.

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 review grant and scholarship applications with the aim of funding excellence for the benefit of Canada. In addition, research and innovation are part of a global enterprise, therefore participation in our programs is influenced not only by the Canadian context but also by initiatives and opportunities worldwide.

### **Operating Budget Pressures and Constraint Measures**

Federal *Budget 2010* and *Budget 2011* announced operating budget constraint measures and froze the operating budgets of federal departments and agencies at their 2010-11 levels for the fiscal years 2011-12 and 2012-13. The resulting budgetary pressures include the self-financing of inflationary costs and annual salary increases requiring internal reductions and reallocation measures for an estimated amount of \$1.3 million. These pressures 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. NSERC has developed an Information Technology Strategic Plan to sustain its technological capacities within a reasonable and restricted budget.

Thus far, NSERC has absorbed its 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 grant 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 additional program dimensions that will be implemented by NSERC over the course of the fiscal year, following Treasury Board and Parliament approvals.

Approved by:

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