

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 December 31, 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.

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

Statement of Authorities

Available Authorities

As of December 31, 2011, NSERC's total authorities available for 2011-12 amount to \$1.088 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 unused operating budget (vote 75) from the previous 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 and to address schedule variances in operating projects. To date, for 2011-12, the cumulative resource level adjustments resulted in an increase in total available authorities of \$26.7 million (2.5%) over the prior year, of which \$26.3 million (98.5% of the change in total available authorities) represented an increase in NSERC's grants and scholarships programs (vote 80).

In this quarter, total available authorities incorporate the elements of the 2011-12 Supplementary Estimates (B) (SEB). The SEB is the second, and most significant, of three opportunities to approve changes in NSERC's authority levels for the current fiscal year (other than transfers from Treasury Board votes). The vast majority of these changed elements are the result of previous federal budget announcements, while the balance relate to technical adjustments from Treasury Board and transfers between departments and agencies for specific initiatives. The future and ongoing impacts of SEB elements will be included in NSERC's 2012-13 Main Estimates for the next fiscal year. The 2010-11 SEB elements were also included in the third quarter of last fiscal year. Some of these 2010-11 SEB elements, that were introducing funding for more than one fiscal year, were already factored in the 2011-12 Main Estimates. For that reason, they were included in available authorities as of the first quarter of 2011-12. For these ongoing elements, only the net difference in the level of funding between the two fiscal years is presented in the explanation below. The net changes, amounting to the \$26.7 million increase in total available authorities between the current and previous fiscal year, are comprised of the following elements:

- An increase of \$16.4 million in the Centres of Excellence for Commercialization and Research Program to advance research and facilitate the commercialization of technologies, products and services within the four priority areas identified in the federal science and technology (S&T) strategy—environmental science and technologies; natural resources and energy; health and related life sciences and technologies; and information and communications technologies (*Budget 2007*);
- An increase of \$15 million in NSERC's Grants and Scholarships Programs to strengthen NSERC's 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 2011*);
- A decrease of \$11.9 million in program re-alignments as per the federal Strategic Review exercise (*Budget 2008*);
- An increase of \$6.9 million in the Canada Excellence Research Chairs Program to attract and retain the world's most accomplished and promising minds. This program is helping Canada build

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a critical mass of expertise in priority research areas of environmental science and technologies, natural resources and energy, health and related life sciences and technologies, and information and communications technologies (*Budget 2008*);

- A decrease of \$7.0 million with respect to the Canada Graduate Scholarships Program due to the phasing-out of the funding from the federal Economic Action Plan (*Budget 2009*);
- An increase of \$3.9 million to launch two new college programs—Industrial Research Chairs for Colleges Grants, and College-University Idea to Innovation Grants (*Budget 2011*);
- An increase of \$1.7 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*);
- An increase of \$0.9 million in the operating budget due to an allocation from Treasury Board (vote 30) for the reimbursement of eligible paylist expenditures, such as severance pay and parental benefits;
- An increase of \$0.4 million in the operating budget due to the difference between fiscal years of the adjustments related to the self-financing of salary increases measure included in *Budget 2010*;
- An increase of \$0.25 million due to the difference between fiscal years on the amount transferred to other departments such as the transfer 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;
- An increase of \$0.1 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*); 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 Third 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; the carry-forward of operating funds from 2010-11 to 2011-12 that was approved on August 19, 2011; and the Supplementary Estimates (B) that were approved on December 19, 2011.

Total authorities used during the third quarter of 2011-12 amounted to \$296 million (27.2% of the total available authorities: 27.4% of total authorities used for grants and scholarships programs and 22.2% for operating expenditures and employee benefits). This represents a \$9.2 million increase from the same quarter in the previous fiscal year (\$8.6 million net increase in authorities used for grants and scholarship expenditures and \$0.6 million increase in authorities used for operating and employee benefit plan expenditures). The increase in grants and scholarship expenditures is the result of the expanded program authorities, increasing demand in some partnership programs and payment timing differences between the third and fourth quarters of the comparative fiscal years, which will offset by year-end. The increase in authorities used for operating and employee benefits plans over the third quarter of the previous year is

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mainly related to the increased authorities for additional personnel spending to support the delivery of an increased program base.

Grants and scholarships payments vary between periods 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 peak 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 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.

Authorities Used Year to Date

Total authorities used cumulatively during the first nine months of the 2011-12 fiscal year represented \$817.5 million (75.1% of the available authorities). This represents \$31.9 million more than the previous fiscal year, of which \$29 million is attributed to grants and scholarships expenditures. The main factor for this overall increase is the delivery of the additional programs and supporting funding approved by Parliament (as outlined in the Available Authorities section). The proportion of the cumulative grants and scholarships authorities used in the fiscal year was up slightly to 75.6% in 2011-12 from 74.7% in the previous fiscal year. The cumulative authorities used in this fiscal year for operating expenditures and employee benefit plans increased by \$2.9 million over the last fiscal year. NSERC spent 64.8% of its operating authorities in the current fiscal year, compared to 59.7% 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 \$26.7 million for 2011-12 to date over the prior year; the majority of which is attributed to the transfer payment (grants and scholarships) programs (\$26.3 million) and a slight balance of \$0.4 million, increasing the net available authorities for operating expenditures to support the delivery of programs. NSERC has also adjusted its operating budget allocations by category of expenditures to reflect historical spending patterns and requirements, increasing the proportion available for personnel expenditures in comparison with the prior year plans and reducing the other categories of operating expenditures accordingly to align with current forecasts.

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Transfer Payments Expenditures (Grants and Scholarships)

Third Quarter Grants and Scholarships Expenditures

Transfer Payments represent approximately 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 third quarter of 2011-12, NSERC's actual transfer payment expenditures have increased by \$8.6 million compared to the same quarter of the previous fiscal year. The main factor for this increase is payment timing differences particularly for the Major Resources Support Program (\$2.2 million) that were paid on schedule in the third quarter in the current fiscal year whereas the equivalent payments were done in the last quarter of 2010-11 due to outstanding progress reports at the end of December 2010, which were required before the grant installments could be paid. Outstanding progress reports were not an issue in this fiscal year, therefore there was no delay in payment of grant installments. In addition to these payment timing differences, the additional grants and scholarships spending related to the expanded program authorities, and the related increased take-up in certain programs in the third quarter, such as the Canada Excellence Research Chairs Program for which the installment payments have generated an increase of \$4.3 million in expenditures over the prior year; and programs like the Collaborative Research and Development Grants and Engage Grants, with a \$2.1 million dollars increase over the previous fiscal year.

Year to Date Grants and Scholarships Expenditures

At the end of the third quarter, NSERC spent over \$29 million (3.8%) more than what was spent at the same point in the previous fiscal year. The main factors for the increase over the prior year include the additional grants and scholarships spending related to the expanded program authorities, and the related increased take-up in certain programs in the first nine months of the year particularly for the Canada Excellence Research Chairs Program (\$13.3 million), Engage Grants (\$5 million), Industrial Research Chairs (\$2.5 million), and Strategic Network Grants (\$4.2 million). The timing differences on payments relates to the outstanding progress reports at the end of December 2010, which were required before the grant installments, explaining the balance in cumulative grant spending between fiscal years (\$4 million).

Personnel Expenditures

Personnel expenditures in support of program delivery account for the largest proportion of NSERC's planned operating expenditures (well over 70% of available operating authorities or expenditures for 2011-12). The personnel expenditures for the third quarter of 2011-12 increased by \$0.5 million (6.4%) in comparison to the same period of the prior year, and by \$2.1 million (8.5%) cumulatively in the first nine months of the year. This increase is attributed to a number of factors such as a decreased number of vacant positions, combined with the general increase in wage levels in accordance with NSERC's terms and conditions of employment; 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. Personnel expenditures include some paylist expenditures such as parental benefits and severance pay which are reimbursed from Treasury Board votes. As mentioned in the above authorities section, NSERC's total available authorities were increased after an allocation from Treasury Board's vote 30 (\$0.9 million) was approved to cover the reimbursement of eligible paylist expenditures.

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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 relates to program competitions that predominantly take place during the latter quarter of the fiscal year. The non-personnel operating expenditures for the third quarter of 2011-12 are in line with the comparable expenditures of the prior year. For the first nine months of the year, the non-personnel operating cumulative expenditures increased over the same period in the prior year by \$828,000 (13.4%), mostly in the second quarter to support 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 (\$463,000, representing 56% of the total increase to date) and acquisition of machinery and equipment (\$205,000) while the balance of non-personnel operating expenditures to date in 2011-12 are generally consistent with the prior year. The increased expenditures that took place during the third quarter of this fiscal year for the acquisition of machinery and equipment (\$56,000) were related to replacements of obsolete hardware components. Personnel and non-personnel operating expenditures must be funded from the established net operating expenditures authorities available for 2011-12. As such, timing differences between quarters 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 which impact approved resource levels (total available authorities).

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 on a peer review model which is dependent on the availability and high-quality of external experts from across the country and all over 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 not only influenced by the Canadian context, but also by initiatives and opportunities worldwide.

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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 annual salary increases requiring internal reductions and reallocation measures for an estimated amount of \$1.3 million to date since the announcement of budget constraint measures. 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 and inflationary costs on operating expenditures. 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 are being implemented by NSERC over the course of the fiscal year, following Treasury Board and Parliament approvals.

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February 22, 2012