

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

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

Erratum

Date: December 22, 2016

Location: Statement of Authorities (unaudited), Total available for use for the year ending March 31, 2017, Vote 1 – Operating Expenditures.

Revision: “Vote 1 – Operating Expenditures \$46,288 thousands” replaces “Vote 1 – Operating Expenditures \$46,228 thousands”.

Rationale for the revision: Original amount reported on the HTML version was not correct.

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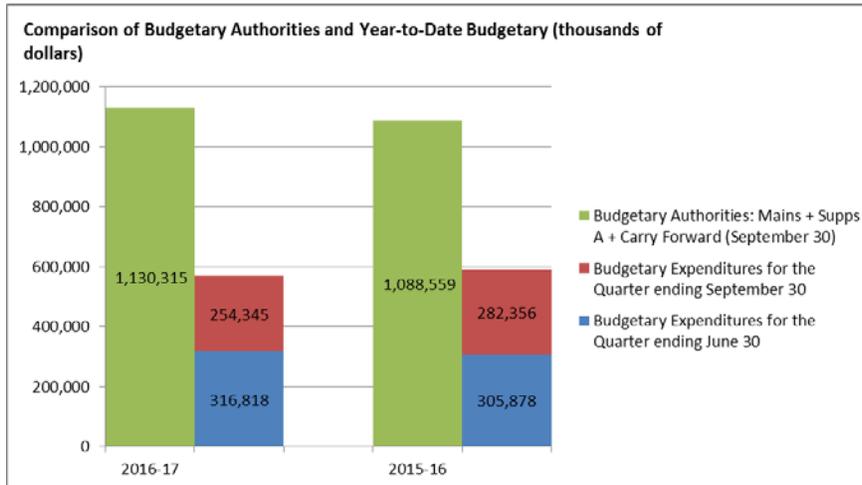
NSERC uses the full accrual method of accounting to prepare and present its annual financial statements that are part of the departmental performance reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

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

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

Sections 2.1 and 2.2 below highlight the significant items that contributed to the net increase in resources available from fiscal 2015-16 to fiscal 2016-17 and the actual expenditures as at September 30, 2016, and September 30, 2015.

The following graph provides a comparison of budgetary authorities available for the full fiscal year and budgetary expenditures for the first six months of fiscal 2016-17 and fiscal 2015-16.



2.1 Significant changes to budgetary authorities

NSERC's total budgetary authority available at the end of the second quarter ending September 30, 2016, was \$1,130.3 million. This represents an overall increase of \$41.8 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 \$1.2 million to an increase in net operating expenditures (Vote 1).

The major changes in NSERC's grant and scholarship programs between September 30, 2016, and the same period in the 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);

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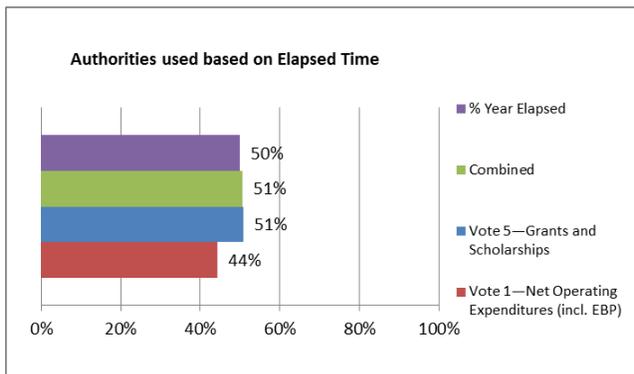
- an increase of \$10.3 million to support collaborations between companies and researchers from universities and colleges under the new consolidated suite of similar business innovation programs (Budget 2015);
- an increase of \$6.0 million for the Centres of Excellence for Commercialization and Research 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.

2.2 Significant changes to authorities used

The following table provides a comparison of cumulative spending by vote for the current and previous fiscal years.

| Year-to-date expenditures (millions of dollars) | 2016-17 | 2015-16 | Variance |
|---|--------------|--------------|---------------|
| Vote 1 - Operating Authorities | | | |
| Personnel | 19.2 | 18.4 | 0.8 |
| Non-personnel | 3.6 | 3.0 | 0.6 |
| Vote 5 - Grant and Scholarship Program Authorities | 548.4 | 566.8 | (18.4) |
| Total Budgetary Expenditures | 571.2 | 588.2 | (17.0) |

Total budgetary expenditures amounted to \$571.2 million at the end of the second quarter of fiscal 2016-17, compared to \$588.2 million reported in the same period in the previous fiscal year. The total authorities used at the end of the second quarter represent 51% of total available authorities.



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Grants and Scholarships

At the end of the second quarter of fiscal 2016-17, NSERC spent \$18.4 million less than what was spent at the same point in the previous fiscal year. The main factors are:

- a net decrease in spending of \$37.3 million due to timing differences of payments for the following programs: Canada Research Chairs, Canada Excellence Research Chairs, Canada Graduate Scholarships and Collaborative and Thematic Resources Support in Mathematics and Statistics;
- an increase of \$15.8 million due to the Canada First Research Excellence Fund in Budget 2014;
- increases in spending of \$8.8 million in various programs due to expanded authorities and higher program funding, including the College and Community Innovation Program and the Collaborative Health Research Projects;
- a decrease related to the transfer of the Industrial Research and Development Internships program to the Department of Innovation, Science and Economic Development to contribute to Mitacs Inc. (\$7 million); and
- a \$1.3 million increase due to early acceptance of Banting Postdoctoral Fellowship awards .

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 69% of available operating authorities and planned operating expenditures for fiscal 2016-17). The personnel expenditures for the second quarter have increased by \$0.8 million mainly due to the hiring of vacant full-time positions. "Other subsidies and payments" decreased by \$17,000 (or 100%) due to a non-recurring transition payment in the prior fiscal year for implementing salary payment in arrears by the Government of Canada.

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 six months of 2016-17 increased by \$0.6 million compared to the same period in the previous fiscal year. The variance is mainly due to higher requirements and timing of expenditures in information and professional services.

Quarterly Spending

Budgetary expenditures in the second quarter of 2016-17 amounted to \$254.3 million, compared to \$282.4 million reported in the same quarter of 2015-16.

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| Expenditures for the Second Quarter (millions of dollars) | 2016-17 | 2015-16 | Variance |
|--|----------------|----------------|-----------------|
| Vote 1 - Operating Authorities | | | |
| Personnel | 9.5 | 9.2 | 0.3 |
| Non-personnel | 1.7 | 1.8 | (0.1) |
| Vote 5 - Grant and Scholarship Program Authorities | 243.1 | 271.4 | (28.3) |
| Total Budgetary Expenditures | 254.3 | 282.4 | (28.1) |

Grants and Scholarships

Transfer payments represent 95.4% of NSERC's available authorities. Grant and scholarship payments vary between periods due to the timing of the competition cycles, the announcement of the results of peer-reviewed programs and multiyear award payment schedules.

During the second quarter of 2016-17, NSERC's transfer payment expenditures decreased by \$28.3 million over the same quarter of the previous fiscal year. The main factors for this decrease are as follows:

- timing differences of payments:
 - Canada Research Chairs (\$33.3 million decrease);
 - Canada Excellence Research Chairs (\$6.2 million decrease);
 - Canada Graduate Scholarships (\$1.2 million increase);
 - Collaborative and Thematic Resources Support in Mathematics and Statistics (\$1 million increase);
- an increase of \$7.9 million due to the Canada First Research Excellence Fund in Budget 2014; and
- early acceptance of Banting Postdoctoral Fellowship awards (\$1.1 million increase).

Operating Expenditures

Variance explanations of the quarterly spending for personnel expenditures are in line with year-to-date variance explanations. The non-personnel expenditures are in line with those of the first six months of the prior fiscal year.

3. Risks and Uncertainties

Funding and Program Delivery Risk Factors

NSERC annually identifies corporate level risks and develops response measures in order to minimize their likelihood and/or impact.

External Risk Factors

Stakeholder Relations: The organization might not effectively manage diverse stakeholder relationships and challenges to its reputation, which may affect its ability to deliver on its mandate.

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- Risk response: The implementation of NSERC 2020, the agency's five-year strategic plan, will continue to involve consultations with external stakeholders and NSERC management and staff to ensure that it remains responsive to Canadian stakeholders' needs and that it aligns with Government priorities and strategic directions.

To ensure 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.

External influence: 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.

- Risk response: NSERC develops formal communications and external relation strategies to ensure that stakeholder relationships and expectations are managed effectively and that NSERC fulfils identified research and innovation needs.

Delivery of mandate: There is the risk that NSERC fails to achieve its mandate and the goals of its strategic plan.

- Risk response: 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 currently underway.

Internal Risk Factors

Business transformation: NSERC might be unable to adapt to and capitalize on technological, policy and process changes. NSERC is currently planning a transformation of its business processes to adapt more efficiently to internal changes and improve external client service.

- Risk response: NSERC will develop an implementation roadmap for NSERC 2020 to align with broader Government of Canada initiatives and policies, and to ensure that the development of standardized, simplified, and client-focused business processes is leveraged by a new grants management system.

NSERC is working closely with SSHRC and the Treasury Board Secretariat to ensure that the project achieves its goal within the timelines and budget allocated.

Demonstrating results and relevance: NSERC might be unable to demonstrate its relevance by measuring and reporting on the outcomes of its programs.

- Risk response: NSERC will develop departmental results framework to support NSERC 2020.

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4. Significant Changes Related to Operations, Personnel 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 launched in September 2016 its People Strategy Action Plan 2016-20 for developing talent and for building and sustaining a thriving and successful workplace and work culture.

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 technology¹. This includes \$30 million per year on an ongoing basis for NSERC. The government had first indicated this commitment in its mandate letters² 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
President, NSERC

Original signed by

Patricia Sauvé-McCuan
Vice-President and
Chief Financial Officer, NSERC

Ottawa, Canada
November 18, 2016

¹ Growing the Middle Class (Federal Budget 2016, p.113)

² Minister of Science Mandate Letter (November 2016)