Développement économique Canada Economic Development

QUARTERLY FINANCIAL REPORT FOR THE QUARTER

ENDED DECEMBER 31, 2012

ECONOMIC DEVELOPMENT AGENCY OF CANADA

FOR THE REGIONS OF QUEBEC

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1. Introduction

This quarterly financial report should be read in conjunction with the 2012-2013 *Main Estimates*, the *Supplementary Estimates (B)* and Canada's Economic Action Plan 2012 (*Budget 2012*). This report has been prepared by the Agency as required by subsection 65.1 of the *Financial Administration Act* and in the form and manner prescribed by Treasury Board (TB) Accounting Standard 1.3 - Departmental and Agency Quarterly Financial Report. This report has not been subject to an external audit or review.

1.1 Authorities, Mandate and Programs

According to its enabling act, which came into force on October 5, 2005, the Agency's mission is to promote long-term economic development in the regions of Quebec.

Additional information on the Agency's authorities, mandate and programs can be found in the *Report on Plans and Priorities* and the *Main Estimates.*

1.2 Basis of Presentation

This quarterly report has been prepared by the Agency using an expenditure basis of accounting and a special purpose financial reporting framework designed to meet financial information needs with respect to spending authorities. The accompanying Statement of Authorities can be used to compare the spending authorities Parliament granted to the Agency with authorities used by the Agency.

The information in the Statement of Authorities is consistent with the information presented in the *Main Estimates* for the 2012-2013 fiscal year. However, within the framework of the Business of Supply in Parliament, the Main Estimates must be tabled in Parliament on or before the first day of March preceding the start of the new fiscal year. Budget 2012 was tabled in Parliament on March 29, following the tabling of the Main Estimates on February 28, 2012. As a result, the measures announced in Budget 2012 do not feature in the Main Estimates for 2012-2013.

For fiscal 2012-2013, frozen allotments were established by Treasury Board in departmental votes to prevent the spending of funds already set aside for savings measures in Budget 2012. In upcoming fiscal years, the Treasury-Board-approved Annual Reference Level Update will be used to amend departmental authorities and the amendments will appear in the subsequent Main Estimates tabled before Parliament.

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 authority 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.

The Agency uses the full accrual method of accounting to prepare and present its annual departmental financial statements published in the Departmental Performance Report. However, the spending authorities voted by Parliament are always established on an expenditure basis.

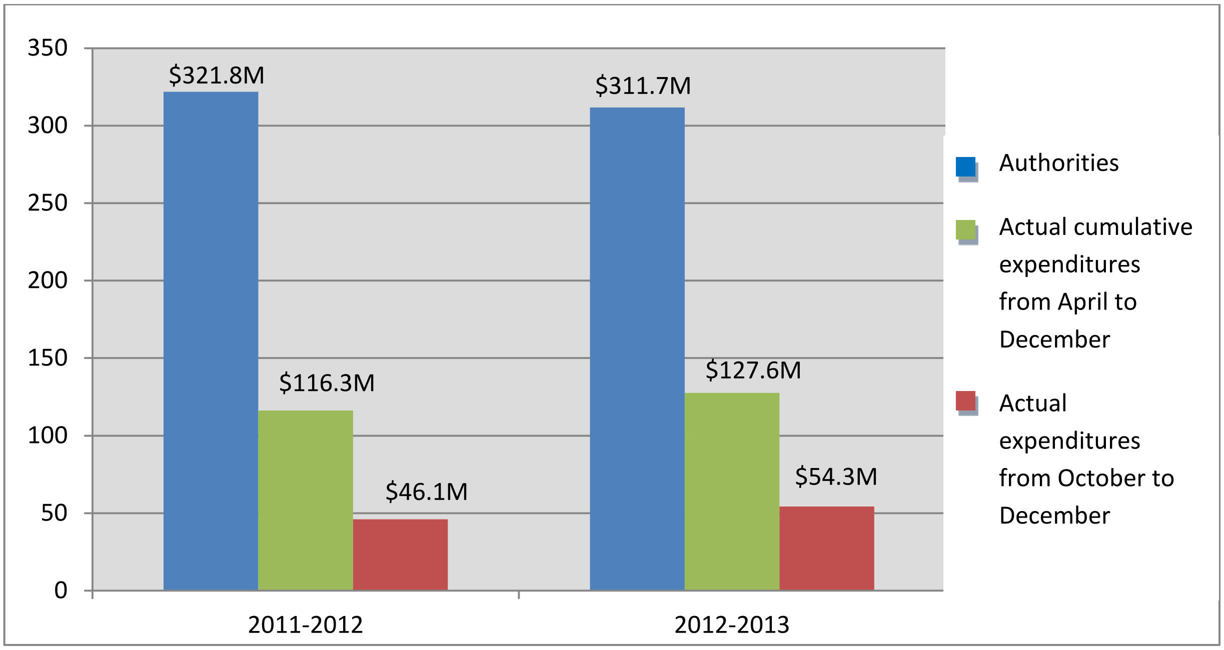
2. Highlights of Financial and Year-to-Date (YTD) Results

The goal of this section is to highlight the key elements underlying the Agency's financial results, which show a slight net decrease in resources available for the current fiscal year compared with the preceding year.

The explanation of variances considers that changes under 5% have minimal impact on the interpretation of results.

2.1 Analysis of Authorities

The table on the following page provides an overview of net budgetary authorities that correspond to resources available for use for the fiscal year ending March 31, 2013.



Graph 1 – Third quarter actual expenditures and actual cumulative expenditures vs annual authorities (in millions of dollars)

There was a net decrease of $10.0M (about 3%) in available authorities in 2012-2013, compared to the same period in 2011-2012, dropping from $321.8M to $311.7M. This is the result of a decrease of 10% in Vote 1 - Net Operating Expenditures ($4.8M), a decrease of 2% in Vote 5 - Grants and Contributions ($5.0M), and a 5% drop in Budgetary Statutory Authorities ($0.2M).

Vote 1 – Operating Authorities

The 10% decrease in operating expenditures is related to a combination of a several factors, including the impact of the 2010 Strategic Review, the administrative review, the operating budget freeze linked to collective agreements in 2010-2011 and the implementation of savings measures in Budget 2012. (See table *Statement of Authorities*)

Vote 5 - Grants and Contributions

The 2% decrease in financial resources is the result of the combined effect of:
• Decrease in contributions related to special projects and temporary initiatives for an amount of $34M;
• Decrease in contributions related to the regular programming for an amount of $0.9M;
• Increase related to new funding received for the Community Infrastructure Improvement

Fund (CIIF) ($ 15.5M);
• Increase related to new funding to finance the construction of a pipeline between Vallee-Jonction and Thetford Mines ($14.5M).

2.2 Analysis of Expenditures

Total recorded expenditures in the third quarter of 2012-2013 were $8.2M (18%) higher than in the third quarter of 2011-2012, up from $46.1M to $54.3M. This increase is due to a 30% increase in expenditures linked to Vote 5 – Grants and Contributions ($10.0M), a 14% decrease in Vote 1 – Net Operating Expenditures ($1.5M), and a 5% decrease in expenditures related to statutory appropriations ($0.5M).

The pace of expenditures for the first nine months of the year increased slightly compared to the comparable period of 2011-2012. Expenses incurred during the first three quarters of 2012-2013 accounted for 41% of authorities, compared to 36% in 2011-2012.

Vote 1 – Operating Expenditures

Following the implementation of the 2010 Strategic Review, the administrative review and the freeze on operating expenses, net expenditures for operating expenses in the third quarter of 2012-2013 decreased compared to the corresponding quarter, declining from $10.3M in 2011-2012 to $8.9M in 2012-2013.

This decline is partially the result of efforts by the Agency to implement the government's deficit reduction strategy. Accordingly, the Agency implemented various measures with a view to reducing expenses. The decrease during the third quarter was most notable with regard to travel expenses (Standard Object: Transportation and Communications) and to expenditures on external consulting services, training, conferences and the documentation centre (Standard Object: Professional and Special Services). The decreases in these two Standard Objects amounted to 43% and 36% compared to the same quarter of 2011-2012. The reduction in the Agency's headcount, undertaken within the context of the implementation of Budget 2012 (Standard Object: Staff), results in a 13% reduction in the third quarter compared to the preceding year. This represents an amount of more than $1.3 million, constituting approximately 87% of the total reduction in operating expenses (see table of *Departmental Budgetary Expenditures by Standard Object*).

After 9 months the Agency has disbursed nearly 65% of its available authorities in terms of operating expenses, which corresponds to the average expenditure of authorities for the last three years (2009-2010 to 2011-2012).

Vote 5 - Grants and Contributions Expenditures

During the third quarter of 2012-2013, the Agency spent $44.0M in grants and contributions, compared with $33.9M in 2011-2012. This 30% ($10.0M) increase is related to the fact that clients submitted expenditure reimbursement claims at a faster pace than last year.

During the first three quarters of 2012-2013, the Agency has made disbursements at a faster pace than in the past two years, disbursing 36% of the authorities it obtained in 2012-2013, compared to 29% in 2010-2011 and 30% in 2011-2012.

3. Risks and Uncertainties

Transforming the Agency and Restoring Fiscal Balance

The government made a commitment to achieve fiscal balance and to reduce spending to restore the fiscal situation. The announced budget reduction in Budget 2012 was $10M for the Agency in 2012-2013. This is an addition to the departmental operating budget freeze at 2010-2011 levels, as was announced in Budget 2010. The impact of the freeze is that there is no longer funding in our spending authorities to cover anticipated annual salary increases of 1.5%. The Agency therefore has to re-allocate funds from its operating budget to cover these salary increases. On a cumulative basis, the freeze accounts for roughly $1.6M in 2012-2013. Faced with this reality, the Agency undertook a number of transformation projects to enable the organization to mitigate the budgetary pressures indicated above. This translates into a reduction in headcount.

Accordingly, a number of projects were launched aiming to make the Agency more modern and efficient and to increase its ability to provide excellent service to Canadians, all the while respecting the limits on its financial resources. However, there are some risks attached to implementing these measures, particularly with regard to the integration of risk management into the administration of grants and contribution programs and the reduction of the resulting administrative burden. Consequently, if these risks materialize, there could be an impact on the ability of the Agency will have to deliver its programs.

Uncommitted balances

As of December 31, the Agency shows an uncommitted balance in its primary program of about $13 million. This is largely the result of the slow pace of the economic recovery and the reluctance of businessmen to undertake new investments. However, as in prior years, the Agency continues to sign contribution agreements with clients up until the end of the financial year and is continuing to work in concert with all of its development partners. To the extent that these efforts do not materialize to the degree anticipated, the Agency may end up with a budgetary lapse in this regard.

As of December 31, the Agency shows an uncommitted balance with regard to the CIIF initiative of approximately $14 million. This initiative was announced in July 2012 and the initial call for proposals closed on October 1, 2012. On account of the large volume of applications received a period of several weeks was required to prioritize and analyze the files. The winter period and the short period available to undertake construction prior to March 31 mean that the project promoters will largely undertake their projects in the next financial year. The mitigation measure to be applied is the reprofiling of funds to the 2013-2014 financial year for the entire uncommitted balance of funds.

4. Significant Changes in Relation to Operations, Personnel and Programs

Shared Services Canada

Pursuant to section 31.1 of the Financial Administration Act and Order-in-Council P.C. 2011-2012, effective November 15, 2011, the sum of $0.8M is deemed to have been allocated to Vote 1 and to the Budgetary Statutory Authorities of Shared Services Canada in 2011-2012, compared to $1.8M in 2012-2013. This means that the Agency's Vote 1 and Budgetary Statutory Authorities pursuant to the *Appropriation Act No 1* of 2011-2012 have been reduced by this amount.

New Program Alignment Architecture and New Program

As a result of the 2010-2011 Strategic Spending Review, it became apparent that the complexity of the PAA, the performance measurement framework and the number of programs the Agency managed had made clear reporting and justifying its actions difficult for the Agency.

As a result, the Agency embarked on measures to renew its strategic framework, PAA, performance measurement, programs, regional strategies and implementation mechanisms. This led to the Agency's new PAA and its new program coming into effect on April 1, 2012.

Work Force Adjustment

The termination of temporary programs, the absorption of the increase in collective agreements and the implementation of the 2010 Strategic Review resulted in a progressive reduction in the number of full-time equivalents (FTEs) at the Agency beginning in 2012-2013. Accordingly, the plan is to gradually reduce from 406 FTEs in 2011-2012 to 329 FTEs in 2012-2013, to 314 FTEs in 2013-2014 and to 301 FTEs in 2014-2015. These reductions are being implemented in conformity with the Directive on Work Force Adjustment.

5. Implementing Budget 2012

Budget 2012 provided an opportunity to modernize the government's activities and reduce their cost, while making it easier for Canadians and companies to do business with the government.

Canada Economic Development contributed $28.1M to the government's efforts to reduce the deficit.

Canada Economic Development's contribution to this exercise consisted in:

- ✓ simplifying its programs
- ✓ reducing processing times and cutting red tape
- ✓ reorganizing its internal services in order to be more effective.

During the first year of implementation of Budget 2012, CED will achieve savings of around $7.4M. The implementation of savings measures has proceeded as expected during the third quarter. The reduction in positions has been achieved through a combination of attrition, management of unfilled positions and the negotiated elimination of positions in accordance with the Directive on Work Force Adjustment and collective agreements. In 2013-2014, there will be $26.7M in savings. There will be permanent savings of $28.1M between now and 2014-2015.

The original version was signed by:

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Me Guy Mc Kenzie	Pierre Bordeleau
Deputy Minister/President	Chief Financial Officer
Montreal, Quebec, Canada	Montreal, Quebec, Canada
February 28, 2013	February 28, 2013

Economic Development Agency of Canada for the Regions of Quebec

Statement of Authorities (unaudited)

For the quarter ended December 31, 2012

	Fiscal Year 2012-2013 (in thousands of dollars)			Fiscal Year 2011-2012 (in thousands of dollars)		
Authorities	**Total available for use for the year ending March 31, 2013***	**Used during the quarter ended December 31, 2012**	**Year-to-date used at quarter end**	**Total available for use for the year ending March 31, 2012***	**Used during the quarter ended December 31, 2011**	**Year-to-date used at quarter end**
Vote 1 – Net Operating Expenditures	44,560	8,872	29,000	49,328	10,343	33,111
Vote 5 – Grants and Contributions	261,638	44,025	94,475	266,624	33,935	79,028
Total Budgetary Statutory Authorities	5,529	1,382	4,147	5,807	1,843	4,158
Non-budgetary Authorities	-	-	-	-	-	-
Total Authorities	**311,727**	**54,280**	**127,622**	**321,758**	**46,120**	**116,296**

Includes only Authorities available for use and granted by Parliament at quarter-end.
(An incremental difference in the sum of data may result from rounding)

Economic Development Agency of Canada for the Regions of Quebec

Departmental budgetary expenditures by Standard Object (unaudited)

For the quarter ended December 30, 2012

	Fiscal Year 2012-2013 (in thousands of dollars)			Fiscal Year 2011-2012 (in thousands of dollars)		
Expenditures:	**Planned expenditures for the year ending March 31, 2013***	**Spent during the quarter ended September 30, 2012**	**Year-to-date used at quarter end**	**Planned expenditures for the year ending March 31, 2012**	**Spent during the quarter ended September 30, 2011**	**Year-to-date used at quarter end**
Staff	36,898	9,046	29,441	40,064	10,360	32,037
Transportation and communications	2,643	181	520	2,955	319	999
Information	793	67	175	1,130	86	296
Professional and special services	6,212	811	2,339	6,915	1,261	3,139
Rentals	1,190	42	437	1,252	55	448
Repair and maintenance	141	6	17	177	8	25
Utilities, materials and supplies	264	37	96	591	45	136
Acquisition of land, buildings and works	-	-	-	-	-	-
Acquisition of machinery and equipment	1,830	49	96	1,850	55	138
Transfer payments	261,638	44,025	94,475	266,624	33,935	79,028
Other subsidies and payments	118	16	26	200	(4)	50
Total net budgetary expenditures	**311,727**	**54,280**	**127,622**	**321,758**	**46,120**	**116,296**

(An incremental difference in the sum of data may result from rounding)