

**QUARTERLY FINANCIAL REPORT FOR THE QUARTER
ENDED SEPTEMBER 30, 2013**

**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 2013-2014 *Main Estimates* 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 Economic Development Agency of Canada for the Regions of Quebec's (the Agency) 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 2013-2014 fiscal year. As part of the Parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1 preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, after the tabling of the Main Estimates on February 28, 2012. As a result the measures announced in the Budget 2012 could not be reflected in the 2012-13 Main Estimates.

In fiscal year 2012-2013, frozen allotments were established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in Budget 2012. In 2013-2014, the changes to departmental authorities were reflected in the

2013-2014 Main Estimates tabled in 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 fiscal quarter and fiscal 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 net decrease in resources available for the current fiscal year compared with the preceding year.

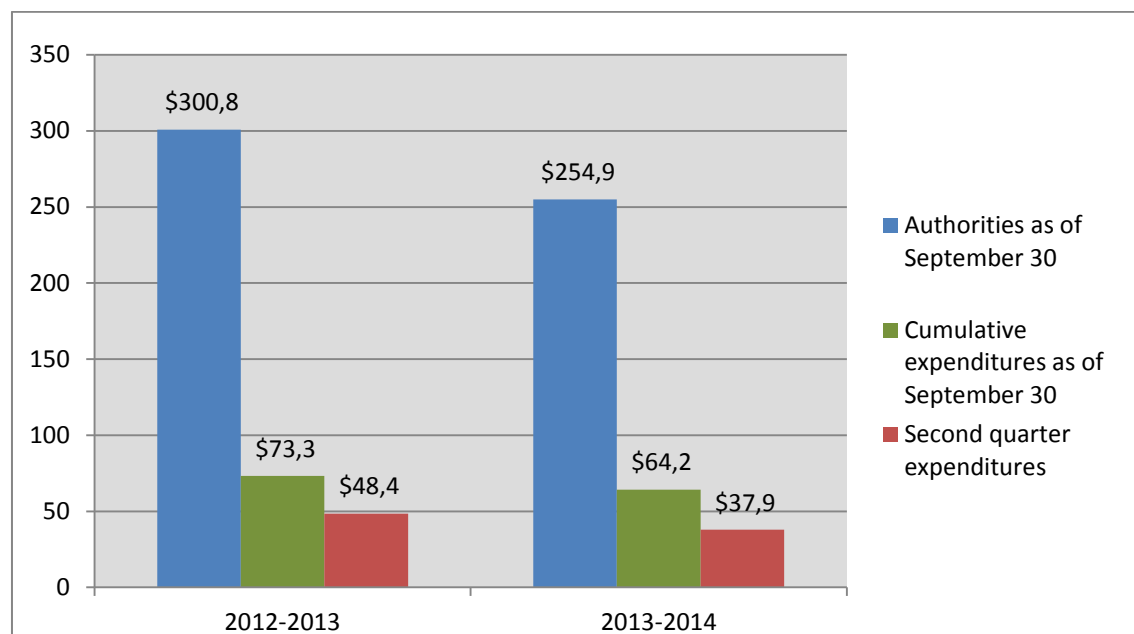
The explanation of variances considers that changes under 5% have minimal impact on the interpretation of results.

2.1 Analysis of Authorities

There was a net decrease of \$45.8 million (15%) in available authorities in 2013-2014, compared to the same period of 2012-2013, from \$300.8 million to \$254.9 million. This is the result of an 11% decrease in Vote 1 – Net Operating Expenditures (\$4.6 million), a decrease of 16% in Vote 5 – Grants and Contributions (\$40.6 million) and an 11% decrease in budgetary statutory authorities (\$0.6 million).

There were no changes in regards of authorities from the previous quarter.

The graph 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, 2014.



Graph 1 – Actual expenditures compared to annual authorizations (in millions of dollars).

Vote 1 Authorities – Operating Expenditures

The 11% decrease in operating expenditures (from \$43.2 million in 2012-2013 to \$38.5 million in 2013-2014) is related to a combination of a several factors, including the impact of the 2010 Strategic Review, the implementation of savings measures in Budget 2012 and the end of certain temporary programs and initiatives.

(See table *Statement of Authorities*)

Vote 5 Authorities - Grants and Contributions

The 16% decrease in authorities (from \$252.0 million in 2012-2013 to \$211.5 million in 2013-2014) is the result of the combined effect of:

- A decrease in contributions related to the end of some temporary initiatives, including the Initiative in Support of the Development of International Cruises on the St Lawrence and Saguenay Rivers, the Temporary Initiative for the Strengthening of Quebec's Forest Economies and the Contribution Program to Fund the Construction of a Gas Pipeline between Valley Junction and Thetford Mines, and the Montreal Planetarium, for an

amount of \$50.9 million;

- A decrease in contributions resulting from the 2010 Strategic Review, for an amount of \$2.8 million;
- A decrease in contributions related to regular programming for an amount of \$2.4 million;
- An increase related to new funding received for the Community Infrastructure Improvement Fund (CIIF) (\$15.5 million)

(See table *Statement of Authorities*)

2.2 Analysis of Expenditures

Total recorded expenditures in the second quarter of 2013-2014 were \$10.6 million (22%) lower than in the first quarter of 2012-2013, down from \$48.4 million to \$37.9 million. This decrease is due to a 25% decrease in expenditures linked to Vote 5 – Grants and Contributions (\$9.0 million), a 10% decrease in Vote 1 – Net Operating Expenditures (\$1.0 million), and a 33% decrease in expenditures related to statutory appropriations (\$0.6 million). However, this last amount is mainly attributable to an accounting entry recorded in the first quarter of 2013-2014 but in the second quarter of 2012-2013.

Vote 1 – Operating Expenditures

Following the implementation of the 2010 Strategic Review, the Deficit Reduction Action Plan and the Administrative Review, amongst other measures, the Agency implemented a number of steps to restrain spending, so as to comply with key government objectives. Similarly, the end of some temporary initiatives also helped to reduce net operating expenditures. Thus, in the second quarter of 2013-2014, net expenditures decreased as compared to the corresponding quarter of 2012-2013, declining from \$10.3 million to \$9.3 million. This decrease is a continuation of the decline experienced in the first quarter of the year.

These efforts resulted in reduced expenses for the Staff (reduction of 17% compared to the second quarter of 2012-2013) and Transportation and Communications (reduction of 28%) standard objects. Rental expenditures, however, experienced a 140% increase as the result of maintenance costs for software products, which were paid in the second quarter of 2013-14 but were expensed in the first quarter of 2012-13. Accordingly, on a cumulative basis to September 30, the Agency shows a decrease of 41% in Rental expenditures.

Furthermore, expenditures related to Acquisition of machinery and equipment experienced a substantial increase of 189% due to the acquisition of two cars (one to replace an existing vehicle, and one in anticipation of the delivery of upcoming new initiatives).

Upward and downward variances in other standard objects are not considered significant.

Vote 5 - Grants and Contributions Expenditures

During the second quarter of 2013-2014, the Agency disbursed \$27.4 million in grants and contributions, compared with \$36.3 million in 2012-2013 (see table *Departmental Budgetary Expenditures by Standard Object*). This 25% (\$9.0 million) decrease is related to normal operational fluctuations which should even out by the end of the year. On a cumulative basis for the first two quarters, the decrease is only 13% compared to 2012-2013.

3. Risks and Uncertainties

The Agency conducts an annual analysis to update and maintains a corporate risk profile that enables it to identify and evaluate risks that could impede the attainment of its objectives and priorities. Like any organization, the Agency faces certain risks that, if they materialize, could have a financial impact. Mitigation strategies have been developed and measures implemented to keep the possibility of their occurrence to a minimum. Financial controls overall operate effectively and allow for the identification of material misstatements.

Three years ago, the government made a commitment to achieve fiscal balance and to reduce spending to restore the fiscal situation. It was with this in mind that the results of the 2010 Strategic Review, in which the Agency participated, were announced in Budget 2011. The reduction announced for CED in 2013-2014 was \$13.4 million. The budget cuts announced in Budget 2012 total \$26.9 million for CED in 2013-2014. In view of this situation, the Agency implemented a set of measures to enable it to mitigate the impact of the budgetary pressures indicated above. This has meant a staff reduction.

Accordingly, a number of transformation projects were launched in order 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 were to materialize, there could be an impact on the manner in which the Agency delivers its programs.

CED manages the implementation of these measures in the context of reduced budgetary allocations and monitors funding regularly through a number of budgetary review processes for the Agency as a whole and through the analysis of expenditures and budget estimates by sector.

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

There have been no significant changes in relation to operations, personnel and programs impacting the results of this quarter, other than the implementation of measures related to Budget 2012.

5. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that are being implemented in order to refocus government and programs: make it easier for Canadians and business to deal with their government; and, modernize and reduce the back office.

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 2012-2013, the first year of implementation of Budget 2012, CED achieved savings of around \$7.4 million. The implementation of savings measures will proceed as expected and will result in savings of \$26.7 million in 2013-2014. 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 work force adjustment process and collective agreements. There will be permanent savings of \$28.1 million between now and 2014-2015.

Economic Development Agency of Canada for the Regions of Quebec
Quarterly Financial Report for the Quarter Ended September 30, 2013

The original version was signed by:

Marie Lemay
Deputy Minister / President
Montreal , Quebec, Canada
November 29, 2013

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November 29, 2013

Economic Development Agency of Canada for the Regions of Quebec

Statement of Authorities (unaudited)

For the quarter ended September 30, 2013

Authorities	Fiscal Year 2013-2014 (in thousands of dollars)			Fiscal Year 2012-2013 (in thousands of dollars)		
	Total available for use for the year ending March 31, 2014*	Used during the quarter ended September 30, 2013	Year-to-date used at quarter end	Total available for use for the year ending March 31, 2013*	Used during the quarter ended September 30, 2012	Year-to- date used at quarter end
Vote 1 – Net Operating Expenditures	38,535	9,276	18,069	43,169	10,260	20,128
Vote 5 – Grants and Contributions	211,467	27,358	43,689	252,053	36,338	50,449
Total Budgetary Statutory Authorities	4,929	1,232	2,465	5,529	1,843	2,765
Non-budgetary Authorities	-	-	-	-	-	-
Total Authorities	254,931	37,866	64,223	300,751	48,441	73,342

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 September 30, 2013

Expenditures	Fiscal Year 2013-2014 (in thousands of dollars)			Fiscal Year 2012-2013 (in thousands of dollars)		
	Planned expenditures for the year ending March 31, 2014*	Spent during the quarter ended September 30, 2013	Year-to-date used at quarter end	Planned expenditures for the year ending March 31, 2013	Spent during the quarter ended September 30, 2012	Year-to-date used at quarter end
Staff	33,259	8,987	18,052	36,946	10,801	20,395
Transportation and communications	2,041	102	267	2,351	142	339
Information	612	62	95	705	66	108
Professional and special services	4,899	990	1,674	5,524	917	1,528
Rentals	919	211	232	1,058	88	396
Repair and maintenance	102	6	11	118	7	12
Utilities, materials and supplies	204	34	63	235	34	58
Acquisition of land, buildings and works	-	-	-	118	-	-
Acquisition of machinery and equipment	1,327	113	136	1,528	39	47
Transfer payments	211,467	27,358	43,689	252,053	36,338	50,449
Other subsidies and payments	102	2	4	118	8	10
Total net budgetary expenditures	254,931	37,866	64,223	300,751	48,441	73,342

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