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SECTION 1 INTRODUCTION

INTRODUCTION

This quarterly financial report has been prepared by Canada Economic Development for Quebec Regions (CED) as required by subsection 65.1 of the Financial Administration Act and in the form and manner prescribed by Treasury Board.

This report should be read in conjunction with the 2017–2018 Main Estimates and the 2017–2018 Departmental Plan. These documents provide a brief description of CED's mandate and programs.

This report has not been subject to an external audit or review.

1.1 Basis of presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The appended Statement of Authorities includes CED spending authorities granted by Parliament and those used by CED, consistent with the Main Estimates for fiscal year 2017– 2018. This quarterly financial 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 moneys 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.

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

1.2 Canada Economic Development for Quebec Regions financial structure

CED manages its expenditures under two annual votes:

• Vote 1 – Net Operating Expenditures, which includes CED authorities related to personnel costs, and operating and maintenance expenditures.

• Vote 5 - Grants and Contributions, which includes all authorities related to transfer payments.

Costs under statutory authorities, which represent payments made under legislation previously approved by Parliament and which are not part of the annual appropriation bills, include items such as the employer's benefit plan.

SECTION 2

HIGHLIGHTS OF FISCAL QUARTER AND FISCAL YEAR-TO-DATE RESULTS

HIGHLIGHTS OF FISCAL QUARTER AND FISCAL YEAR-TO-**DATE RESULTS**

This section provides a variety of financial information for the current fiscal year up to September 30, 2017, including the authorities available for the year and expenditures incurred during the first quarter, as compared with the previous fiscal year and the previous quarter. The explanations of variances in the amounts are based on the premise that discrepancies of less than 5% have a minimal impact on the interpretation of the results.

Further details of this financial information are provided in Sections 2.1 and 2.2, and in the tables in the Appendices.

2.1 Authorities analysis

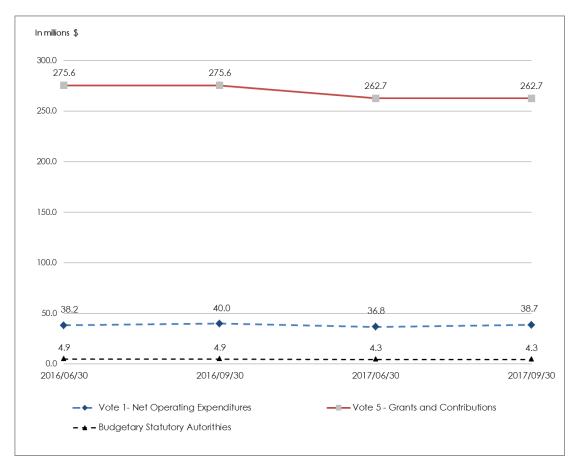
At the end of the second quarter, as at September 30, 2017, CED's annual authorities totalled \$305.7M. They were \$320.6M as at September 30, 2016.

The variance of \$14.9M (4.6%) is due to the following changes:

- Vote 1 Net Operating Expenditures of -\$1.4M;
- Vote 5 Grants and Contributions of -\$12.9M;
- Budgetary Statutory Authorities of -\$0.6M.

The following figure shows the annual budgetary authorities by vote on June 30, 2017, and September 30, 2017, compared with the previous fiscal year.

Annual budget authorities by appropriation as at June 30 and September 30, fiscal year 2017– 2018 compared with 2016–2017



Vote 1 authorities (Net Operating Expenditures)

A decrease of \$1.3M (-3.3%) as at September 30, 2017, compared with the same period in fiscal year 2016–2017 is to be noted but this variance is not significant.

An increase of \$1.9M (5.2%) between the first and second quarters of 2017–2018 is due to an adjustment to the authorities to include the carry-forward from the 2016-2017 operating budget.

Vote 5 authorities (Grants and Contributions)

As at September 30, 2016, the annual authorities available for Vote 5 totalled \$275.6M. As at September 30, 2017, this amount was \$262.7M, a decrease of \$12.9M (-4.7%). This variance is not significant. The authority remained stable between the first and second quarters of 2017–2018.

2.2 Expenditure analysis

Total CED expenditures recorded during the first quarter of 2017–2018 were \$51.7M, compared with \$52.2M during the same quarter of the previous year. This represents a net decrease of \$0.5M (-1.0%) compared with the previous fiscal year.

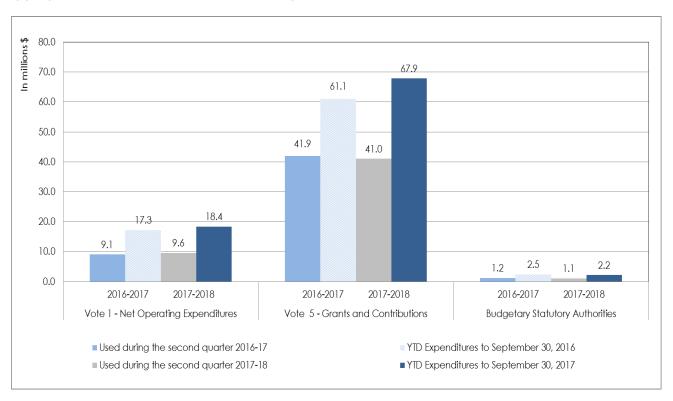
This variance can be broken down as follows:

- Vote 1 Net Operating Expenditures of +\$0.5M;
- Vote 5 Grants and Contributions of -\$0.9M;
- Budgetary Statutory Authorities of -\$0.1M.

On a cumulative basis, total expenditures as at September 30, 2017 were \$88.5M, compared with \$80.9M for the same period a year earlier. This represents a net increase of \$7.6M (+9.4%). This variance can be largely explained by a major increase in contribution expenditures in the second quarter of 2017-2018.

The following figure illustrates second quarter 2017-2018 expenditures and year-to-date expenditures, compared with the previous fiscal year.

Second Quarter Expenditures and Year-to-Date Expenditures as at September 30 by Budgetary Appropriation, Fiscal Year 2017–2018 Compared with 2016–2017



Vote 1 expenditures (Net Operating Expenditures)

Net operating expenditures for the second quarter of 2017–2018 and 2016–2017 were \$9.6M and \$9.1M respectively. The variance of \$0.5M (+5.5%) comprises several items, including "Staff" expenditures explained by payments issued following the ratification of collective agreements. In addition, there was also a \$0.8M (+9.1%) increase over the previous quarter.

When consulting the Departmental Budgetary Expenditures by Statutory Authority table in the Appendix, the Canada Business Service Centre (CBSC) expenditures have been charged to the Advance Account under the current item "Other Grants and Payments" since 2015–2016 until they are duly authorized and charged to Professional and Special Services. The variance observed in the item "Professional and Support Services" between the first and second quarters of 2017–2018 can be largely explained by the fact that there were claims from the CBSC that were approved during the quarter of 2017-18, for a total of \$0.6M, while they had been charged to the third quarter of 2016–2017. Moreover, \$0.2M in legal services expenditures were also charged to this item during the quarter.

(For further details on these expenditures, see the table entitled Departmental Budgetary Expenditures by Statutory Authority in Appendix 6.2.)

Vote 5 expenditures (Grants and Contributions)

During the second quarter of 2017—2018, CED spent \$41.0M on grants and contributions. This is down \$0.9M (-2.1%) from the second quarter of 2016–2017. This variance is not significant.

However, an increase of \$14.1M (+52.4%) in grants and contributions expenditures between the first quarter (\$26.9M) and the second quarter (\$41.0M) is observed due to significant expenditures made in all programs, both in regular programming and specific initiatives, such as the Canadian Economic Diversification Initiative of Communities Reliant on the Chrysotile Industry, the Strategic Initiative to Combat the Spruce Budworm Outbreak in Quebec and the Canada 150 Community Infrastructure Program.

(For further details on these expenditures, see the table entitled Departmental Budgetary Expenditures by Statutory Authority in Appendix 6.2.)

SECTION 3 RISKS AND UNCERTAINTIES

RISKS AND UNCERTAINTIES

To achieve its results, CED needs to have an overview of the changing factors that have a marked impact on its environment and activities. It integrates these factors into its decisionmaking process. Incorporating risk management in departmental planning allows CED to implement appropriate risk management strategies in order to achieve its results.

CED has a mandate to promote economic development; therefore, its principal external risk is linked to its ability to adapt the delivery of its mandate in a changing economic environment. Many factors, such as fluctuations in the value of commodities and the Canadian dollar, strong global competition in certain industries, numerous technological and policy changes, as well as changes in market measures affecting trade on the world markets, are likely to have an impact on the delivery of the organization's mandate. These external factors may limit CED's ability to achieve its expected results, including the creation of new businesses and the expansion of existing businesses. To mitigate this risk, for example, CED will continue to develop and implement regional strategies and scorecards to monitor departmental priorities.

The internal risk for CED, linked to the maintenance of a functional and secure technological infrastructure, is most likely to have an impact on the achievement of CED's results over the next year. CED's current technological infrastructure is aging; the risk of service outages or data loss is increasing, pending infrastructure renewal or migration to a data centre. These data outages or losses could adversely affect the reliability of the financial information presented in CED's reporting, and limit the ability to appropriately track its financial situation. To mitigate this risk, the scope of which is beyond the control of CED, the Agency has maintained a close relationship with the central agencies and the FreeBalance consulting group, and has assessed its options and its plan for maintaining and renewing its technological assets in order to address infrastructure and technology needs, as well as information management systems.

CED manages its resources within a well-defined framework of responsibilities, policies and procedures, including an appropriate system of budget, reporting and other controls allowing it to manage its operations within the limits of available resources and Parliamentary authorities. It regularly monitors the progress and effectiveness of their implementation through several budgetary review processes and activities, together with expenditure analysis and budgetary estimates by organizational unit on a monthly basis. The financial risks are mitigated in large part by the implementation of strong internal controls over financial reporting. CED conducts periodic assessments such as entity controls, general IT controls, and business process controls.

SECTION 4 SIGNIFICANT CHANGES IN OPERATIONS, STAFF AND PROGRAMS

SIGNIFICANT CHANGES IN OPERATIONS, STAFF AND PROGRAMS

A number of leases in CED's real property portfolio will expire between 2017 and 2021, giving CED an opportunity to adhere to the Government of Canada's vision for modern workplaces. Much more than moves, the change is an opportunity both to modernize the workspace and to innovate through new ways of doing things.

SECTION 5 APPROVAL OF SENIOR OFFICIALS

APPROVAL OF SENIOR OFFICIALS

The purpose of this section is to provide the approval of senior officials, as required by the Policy on Financial Management, as follows:

Approved by:	
Manon Brassard	Guy Lepage
Deputy Minister	Chief Financial Officer

Montréal, Quebec November 29, 2017

SECTION 6 APPENDICES

APPENDICES

6.1 Statement of authorities (unaudited)

Fiscal year 2017–2018 (in thousands of dollars)

	Total available appropriations for the fiscal year ending March 31, 2018*	Appropriations used for the quarter ended September 30, 2017	Year-to-date used at quarter-end
Vote 1 – Net Operating Expenditures	38,664	9,590	18,413
Vote 5 – Grants and Contributions	262,730	41,018	67,930
Total budgetary statutory authorities	4,332	1,083	2,166
Total authorities	305,726	51,691	88,509

Fiscal year 2016–2017 (in thousands of dollars)

	Total available appropriations for the fiscal year ending March 31, 2017*	Appropriations used for the quarter ended September 30, 2016	Year-to-date used at quarter-end
Vote 1 – Net Operating Expenditures	40,047	9,074	17,293
Vote 5 – Grants and Contributions	275,622	41,904	61,090
Total budgetary statutory authorities	4,917	1,229	2,459
Total authorities	320,586	52,207	80,842

^{*} Includes only authorities available for use and granted by Parliament at quarter-end.

6.2 Departmental budgetary expenditures by statutory authority (unaudited)

Fiscal year 2017–2018 (in thousands of dollars)

	Planned expenditures for the year ending March 31, 2018*	Expenditures during the quarter ended September 30, 2017	Year-to-date used at quarter-end
Expenditures			
Staff*	31,923	9,125	18,073
Transportation and communication	1,203	169	352
Information	531	54	73
Professional and special services	6,934	1,219	1,603
Rentals	861	88	287
Repairs and maintenance	49	4	9
Utilities, materials and supplies	235	49	70
Acquisition of land, buildings and works	0	0	0
Acquisition of machinery and equipment	902	20	46
Transfer payments	262,730	41,018	67,930
Other subsidies and payments	358	(55)	66
Total net budgetary expenditures	305,726	51,691	88,509

^{*} Includes employee benefit plans (EBPs)

Fiscal year 2016–2017 (in thousands of dollars)

	Planned expenditures for the year ending March 31, 2017*	Expenditures during the quarter ended September 30, 2016	Year-to-date used at quarter-end
Expenditures			
Staff*	33,507	8,382	16,223
Transportation and communication	1,476	219	420
Information	576	77	131
Professional and special services	7,111	937	1,787
Rentals	882	260	287
Repairs and maintenance	56	4	7
Utilities, materials and supplies	277	29	53
Acquisition of land, buildings and works	0	0	0
Acquisition of machinery and equipment	1,056	60	79
Transfer payments	275,622	41,904	61,090
Other subsidies and payments	23	335	765
Total net budgetary expenditures	320,586	52,207	80,842

^{*} Includes employee benefit plans (EBPs)