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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 under section 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 2019–2020 Main Estimates and the 2019–2020 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 Authority, mandate and programs

CED's mission is to promote the long-term economic development of the regions of Quebec by giving special attention to those where economic growth is slow and opportunities for productive employment are inadequate. CED carries out its mandate in accordance with the provisions of the Economic Development Agency of Canada for the Regions of Quebec Act, which came into force on October 5, 2005. Furthermore, CED is committed to promoting cooperation and a complementary relationship with Quebec and its communities.

CED is a key federal player in Quebec for the promotion of the economic development of the regions and small and medium-sized businesses (SMEs). To achieve its core responsibility, which consists in developing the Quebec economy, CED fosters business start-ups and performance. It helps businesses become more innovative and enhance their productivity and competitiveness. It supports community engagement efforts in the various regions of Quebec and the attraction of investment aimed at increasing the prosperity of the Quebec and Canadian economies.

CED contributes to the economic vitality of all of Quebec's regions by leveraging their competitive regional advantages. It also supports the transition and diversification of communities that remain dependent on a limited number of sectors or that have been affected by an economic shock such as the closure of the chrysotile mines or the Lac Mégantic tragedy.

CED has three programs to support its core responsibility:

- Regional Innovation
- Community Vitality
- Targeted or Temporary Support

Additional information on CED's authority, mandate and programs can be found in the 2019–2020 Main Estimates and the 2019–2020 Departmental Plan.

1.2 Basis of presentation

This quarterly report has been prepared by CED using an expenditure basis of accounting. The accompanying Statement of Authorities includes CED's spending authorities granted by Parliament and used by CED, in a manner consistent with the Main Estimates for the 2019-2020 fiscal year. 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.

Prior authority from Parliament is required before funds can be spent by the Government. Authorities available for use are given in the form of annually approved limits through appropriation acts or through legislation in the form of statutory 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 of accounting.

1.3 Financial structure of Canada Economic Development for Quebec Regions (CED)

CED manages its expenditures under two annual votes:

- Vote 1 Net Operating Expenditures, which includes CED authorities related to staff 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 share of the Employee Benefits Plan.

SECTION 2

HIGHLIGHTS OF FISCAL QUARTER AND FISCAL YEAR-TO-DATE (YTD) RESULTS

HIGHLIGHTS OF FISCAL QUARTER AND FISCAL YEAR-TO-DATE (YTD) RESULTS

This section provides a variety of financial information for the current fiscal year up to September 30, 2019, including the authorities available for the year and expenditures incurred during the second quarter, as compared with the previous fiscal year and the previous quarter. The explanation of variances in the amounts is based on the premise that discrepancies of less than 5% have a minimal impact on the interpretation of the results.

The details of this financial information are provided in sections 2.1 and 2.2, and in the tables in the Appendix.

2.1 Authorities analysis

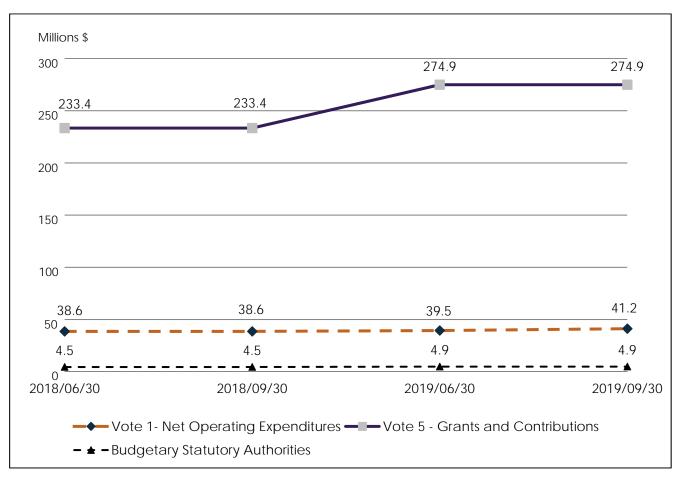
At the end of the second quarter, i.e., as at September 30, 2019, CED's annual authorities totalled \$321.0M, compared with \$276.5M as at September 30, 2018.

The variance of \$44.5M (16.1%) is due to the following changes:

- Vote 1 Net Operating Expenditures: \$2.6M;
- Vote 5 Grants and Contributions: \$41.5M; and
- Budgetary Statutory Authorities: \$0.4M.

The following graph illustrates the annual budgetary authorities by appropriation as at June 30, 2019, and as at September 30, 2019, compared with the previous fiscal year.





Vote 1 authorities (Net Operating Expenditures)

As at September 30, 2019, annual authorities available for Vote 1 totalled \$41.2M, compared with \$38.6M as at September 30, 2018. The variance of \$2.6M (6.7%) is primarily due to:

- the obtaining, in the second quarter of 2019-2020, of the deferral of the previous year's operating expenditures; and
- the receipt of funds for temporary initiatives under the Innovation and Skills Plan and the Women Entrepreneurship Strategy.

Vote 5 expenditures (Grants and Contributions)

As at September 30, 2019, annual authorities available for Vote 5 totalled \$274.9M, compared with \$233.4M as at September 30, 2018. Annual authorities for the current exercise increased by \$41.5M (17.8%). This variance is due to a number of factors, the most important of which include the allocation of funding for temporary initiatives such as the *Innovation and Skills Plan*, the *Women* Entrepreneurship Strategy, the Canadian Experiences Fund (tourism) and the Steel and Aluminum *Initiative.* In addition, client reimbursements of repayable contributions that were subsequently reinvested in the annual authorities were higher than in 2018–2019.

Authorities remained unchanged between the first and second quarters of 2019-2020.

Budgetary Statutory Authorities

Budgetary Statutory Authorities in 2019-2020 increased by \$0.4M year-over-year. This increase can be attributed, among other things, to the increase in salary authorities and the receipt of salary funds for some of the temporary initiatives.

2.2 Analysis of expenditures

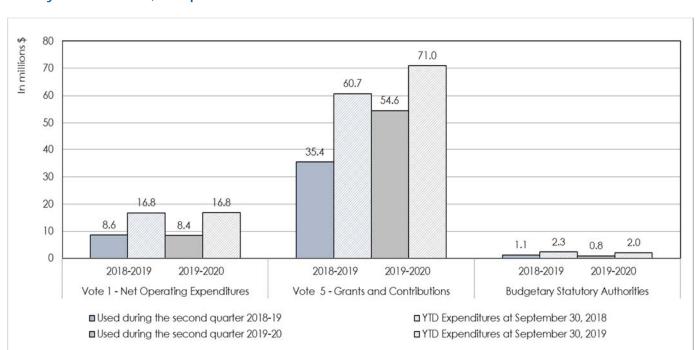
CED's total expenditures recorded during the second quarter of 2019-2020 totalled \$63.8M, compared with \$45.1M for the same period in 2018-2019. This represents a net increase of \$18.7M (41.5%) year-over-year. The variance can be broken down as follows:

- Vote 1 Net Operating Expenditures: -\$0.2M;
- Vote 5 Grants and Contributions: \$19.1M; and
- Budgetary Statutory Authorities: -\$0.3M.

On a YTD basis, total expenditures as at September 30, 2019, amounted to \$89.8M, compared with \$79.8M for the same period a year earlier, a net increase of \$10.0M (12.5%). The variance can be broken down as follows:

- Vote 5 Grants and Contributions: \$10.2M; and
- Budgetary Statutory Authorities: -0.2M.

The following graph illustrates second quarter 2019–2020 expenditures by budgetary appropriation, and year-to-date expenditures, compared with the previous fiscal year.



Second-quarter and year-to-date expenditures as at September 30 by budgetary appropriation, fiscal year 2019-2020, compared with 2018-2019

Figures may differ from the total indicated because of rounding.

Vote 1 expenditures (Net Operating Expenditures)

Net operating expenditures for the second quarters of 2019-2020 and 2018-2019 stood at \$8.4M and \$8.6M, respectively. The variance of \$0.2M (-2.3%) is considered insignificant.

(For further details on these expenditures, see the table in Appendix 6.2 entitled "Departmental budgetary expenditures by Standard Object.")

Vote 5 expenditures (Grants and Contributions)

During the second quarter of 2019–2020, CED spent \$54.6M on grants and contributions. This is up \$19.2M (54.2%) compared with the second quarter of 2018–2019.

Authorities are higher this year because of the increase in the number of temporary initiatives. An increase in overall spending has been reported for all programs. Examples include the Women Entrepreneurship Strategy and the Innovation and Skills Plan, which aim to support innovative projects and inclusive ecosystem growth; the Steel and Aluminum Initiative, the goal of which is to support SMEs that use steel and aluminum; and, finally, the Canadian Experiences Fund (tourism), a two-year program aimed at attracting tourists to areas outside major urban centres and during

other times of the year than just the summer months, as well as facilitating access to capital and addressing labour shortages.

(For further details on these expenditures, see the table in Appendix 6.2 entitled "Departmental budgetary expenditures by Standard Object.")

SECTION 3 RISKS AND UNCERTAINTIES

RISKS AND UNCERTAINTIES

To achieve its results, CED needs to have an overall view of the changing factors that have a significant impact on its environment and activities. It incorporates these factors into its decision-making process. Integrating risk management into departmental planning allows CED to implement appropriate risk management strategies in order to achieve its results.

CED has a mandate to promote economic development; its principal external risk is linked to its ability to adapt the delivery of its mandate in a changing economic environment. Many factors are likely to have an impact on the delivery of the organization's mandate, including global economic growth and the interdependence of global risks; changes in the number of business investment projects in the regions as a result of the vulnerability of some regions owing to the state of the economy; the many technological and political changes; and measures that affect trade in global markets. These external factors may limit CED's ability to achieve its expected results, notably as concerns the creation of new businesses and the expansion of existing ones. To mitigate this risk, CED will, for example, continue to develop and implement regional strategies and special initiatives to address region-specific issues, based on budget availability.

The obsolescence of the financial system poses a risk to the integrity of the financial data available for decision-making purposes. In addition to its work on the implementation of a new financial management system (SAP), CED has introduced mitigation strategies, including the evaluation of infrastructure elements by transformation project and the planning of alternative options; follow-up on requests for technological infrastructure services, and timelines; the renewal of its technological tools; and the maintaining of an effective and serious relationship with partners for the delivery of technological services.

CED manages its resources within a well-defined framework of responsibilities, policies and procedures, including an appropriate budget and reporting system 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 a number of budgetary review processes and activities, together with monthly analysis of expenditures and budgetary estimates by organizational unit. 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**

On April 1, 2019, CED introduced a new Program Inventory to better reflect its activities, namely Regional Innovation, Community Vitality and Targeted or Temporary Support.

In 2019–2020, CED received supplementary funding for temporary initiatives of one year or more:

- Steel and Aluminum Initiative;
- Women Entrepreneurship Strategy (supplementary funding envelope);
- Canadian Experiences Fund.

Some major departmental and government-wide projects are under way that will help enhance the client experience, modernize methods, and create a stimulating work environment. These initiatives include the creation of an innovation incubator, the implementation of the digital strategy and the development of a new common platform of grants and contributions management.

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:	
Original signed by	Original signed by
Manon Brassard	Guy Lepage
Deputy Minister	Chief Financial Officer

Montreal, Quebec November 29, 2019

SECTION 6 APPENDICES

APPENDICES

6.1 Statement of authorities (unaudited)

2019-2020 fiscal year (\$000's)

	Total available for use for the year ending March 31, 2020*	Used during the quarter ended September 30, 2019	Year to date used at quarter-end
Vote 1 – Net Operating Expenditures	41,202	8,442	16,855
Vote 5 - Grants and Contributions	274,903	54,551	70,969
Total Budgetary Statutory Authorities	4,877	809	2,021
Total authorities	320,982	63,802	89,845

2018-2019 fiscal year (\$000's)

	Total available for use for the year ending March 31, 2019*	Used during the quarter ended September 30, 2018	Year to date used at quarter-end
Vote 1 – Net Operating Expenditures	38,634	8,613	16,853
Vote 5 – Grants and Contributions	233,365	35,406	60,741
Total Budgetary Statutory Authorities	4,506	1,126	2,253
Total authorities	276,505	45,145	79,847

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

Figures may differ from the total indicated because of rounding.

6.2 Departmental budgetary expenditures by Standard Object (unaudited)

2019-2020 fiscal year (\$000's)

	Planned expenditures for the year ending March 31, 2020*	Expenditures during the quarter ended September 30, 2019	Year to date used at quarter-end
Expenditures			
Staff*	37,577	7,795	16,354
Transportation and communication	910	176	408
Information	308	26	63
Professional and special services	5,623	937	1,223
Leasing	571	104	402
Repair and maintenance services	22	9	16
Public utilities, materials and supplies	237	16	32
Acquisition of land, buildings and works	0	0	0
Acquisition of equipment and tools	827	157	177
Transfer payments	274,903	54,551	70,969
Other grants and payments	4	31	201
Total net budgetary expenditures	320,982	63,802	89,845

^{*} Includes employee benefit plans (EBPs)

2018-2019 fiscal year (\$000's)

	Planned expenditures for the year ending March 31, 2019*	Expenditures during the quarter ended September 30, 2018	Year to date used at quarter-end
Expenditures			
Staff*	34,148	8,193	16,294
Transportation and communication	1,010	220	372
Information	442	21	51
Professional and special services	4,759	897	1,609
Leasing	692	162	367
Repair and maintenance services	36	9	12
Public utilities, materials and supplies	204	39	65
Acquisition of land, buildings and works	0	0	0
Acquisition of equipment and tools	1,831	219	286
Transfer payments	233,365	35,406	60,741
Other grants and payments	18	(21)	50
Total net budgetary expenditures	276,505	45,145	79,847

^{*} Includes employee benefit plans (EBPs)