

Natural Sciences and Engineering Research Council of Canada Quarterly Financial Report for the Quarter Ended December 31, 2015

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

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1. Introduction

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 [Financial Administration Act](#). 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](#).

This Quarterly Financial Report (QFR) has been prepared by management as required by section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by the Treasury Board. This quarterly report should be read in conjunction with the [Main Estimates](#) and [Supplementary Estimates](#) for 2015-16.

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 2015-16 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.

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.

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.

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

2. Highlights of Fiscal Quarter

Statement of Authorities

Available Authorities

As of December 31, 2015, NSERC's total available authorities for 2015-16 amounted to \$1,089 million. To date, for 2015-16, total authorities have decreased by \$0.1 million over the previous year. The net changes between the current and previous fiscal year comprise the following elements:

- an increase of **\$3.2 million** to support the Canada Excellence Research Chairs program, aimed at attracting and retaining the world's most accomplished and promising minds;
- a decrease of **\$1.7 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;
- a decrease of **\$1.5 million** for the support of the Canadian Light Source initiative due to a reduction in the amount transferred from the National Research Council; and
- other variances of less than **\$0.1 million** include the reduction in the Council's operating budget from government cost-effectiveness initiatives. This includes the Back-Office Transformation Initiatives.

Authorities Used in the Third Quarter

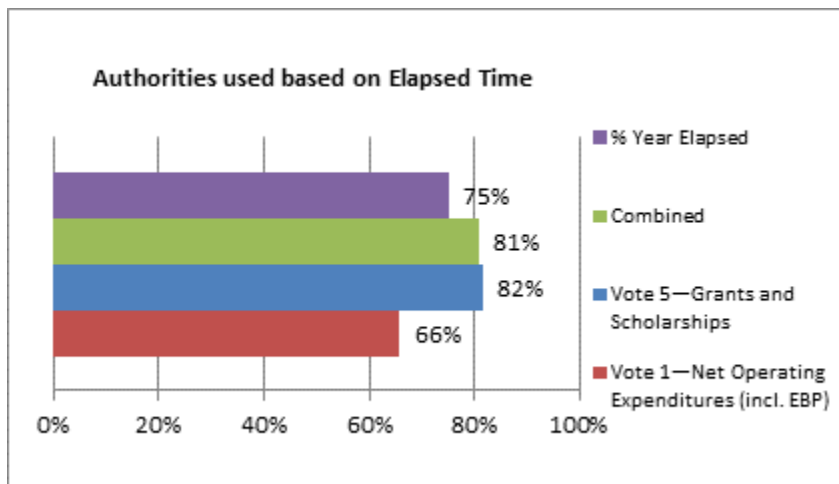
This QFR reflects the results of the current fiscal period in relation to the 2015-16 Main Estimates, Supplementary Estimates (A) (SEA) and allocations from Treasury Board's central votes.

The total authorities used during the third quarter of 2015-16 amounted to \$291.9 million (27% of the total available authorities; 27% of total authorities used for grant and scholarship programs; and 23% for operating expenditures and employee benefits). The expenditures are \$0.4 million less than at the end of the same quarter in the previous fiscal year. This decrease is principally related to grant and scholarship expenditures (\$1.2 million), offset by an increase in operating expenditures (\$0.8 million). The decrease in grant and scholarship expenditures is due to payment timing differences between the second and third quarters of the comparative fiscal years, which are expected to offset by year-end.

Grant and scholarship payments vary between periods due to the competition cycles and results of peer-reviewed programs and multi-year award profiles. 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.

Authorities Used Year-to-Date

Total authorities used cumulatively during the first nine months of 2015-16 fiscal year represented \$880.2 million (81% of the available authorities). This represents \$51.3 million more than the previous fiscal year. The main factors for this overall increase include previously expanded program authorities in specific programs; increasing demand in some programs; and payment timing differences between the second and third quarters. The proportion of the cumulative grant and scholarship authorities used in 2015-16 increased to 81.6%, from 76.7% in 2014-15. This fiscal year, the cumulative authorities used for operating expenditures and the employee benefit plan increased by \$0.6 million over the previous fiscal year. NSERC has spent 65.3% of its operating authorities and the employee benefit plan in the current fiscal year, compared with 63.5% in 2014-15. Total operating expenditures to date in 2015-16 are generally consistent with the previous year.



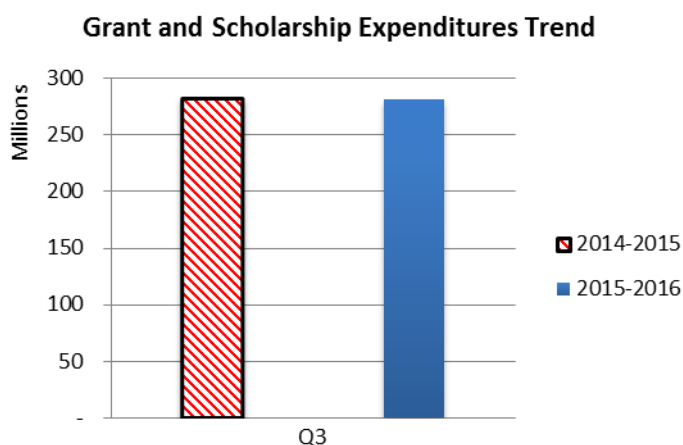
Statement of Departmental Budgetary Expenditures by Standard Object

Third Quarter Grant and Scholarship Expenditures

Transfer payments represent 95.4% of NSERC's available authorities. Variations occur in transfer payment expenditures between quarters due to the nature of program cycles. During the third quarter of 2015-16, NSERC's transfer payment expenditures have decreased by \$1.2 million compared with the

same quarter of the previous fiscal year. There are a number of differences in specific programs from year to year:

- a timing difference on payments resulted in a decrease of **\$15 million** over the previous year for the following programs: Joseph-Armand Bombardier Canada Graduate Scholarships, College and Community Innovation, Industrial Research and Development Internships, Collaborative Research and Training Experience, and Equipment Grants. It also resulted in an increase of **\$11.3 million** over the previous year for the following programs: Major Resource Support, Research Grants, Strategic Networks and Networks of Centres of Excellence;
- a decrease of **\$5.2 million** over the previous year for Postgraduate Scholarships due to the realignment of programs;
- a decrease of **\$3.2 million** over the previous year in the Centres of Excellence for Commercialization and Research program due to timing differences in the approval of authorities;
- an increase of **\$9.2 million** over the previous year related to an increase in demand for the Collaborative Research and Development Grants and the Engage Grants, resulting in an increase in the number of projects funded; and
- an increase of **\$1.7 million** over the previous year related to an increase in program authorities in the Canada Excellence Research Chairs Program.



Year-to-Date Grant and Scholarship Expenditures

At the end of the second quarter, NSERC spent **\$50.7 million** more in grants and scholarships than it had spent by the end of the same quarter in the previous fiscal year. The main factors in the net increase over the previous year include:

- a timing difference on payments resulted in an increase of **\$50.7 million** over the previous year for the following programs: Canada Research Chairs, Networks of Centres of Excellence, Major

Resource Support, Research Grants and Postdoctoral Fellowships. It also resulted in a decrease of **\$18.5 million** over the previous year for the following programs: Joseph-Armand Bombardier Canada Graduate Scholarships, Collaborative Research and Training Experience, College and Community Innovation, and Equipment Grants;

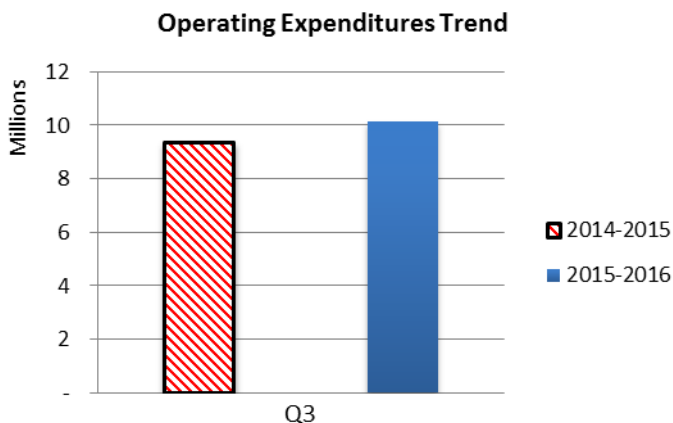
- an increase of **\$11.4 million** over the previous year related to an increase in program authorities in the Canada Excellence Research Chairs Program;
- an increase of **\$14.9 million** over the previous year related to an increase demand for the Collaborative Research and Development Grants and Engage Grants, resulting in an increase in the number of projects funded; and
- a decrease of **\$7.8 million** over the previous year in the Strategic Partnership Grants for Networks Program and Post Graduate Scholarships due to realignment of programs.

Third Quarter and Year-to-Date Personnel Expenditures

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 2015-16). The year-to-date increase of \$1.4 million is the result of long-term vacancies being filled. The decrease of \$1.1 million in “Other subsidies and payments,” is due to a 2014-15 one-time transition payment for implementing salary payment in arrears by the Government of Canada.

Third Quarter and Year-to-Date Non-Personnel Operating Expenditures

Non-personnel operating expenditures include all other operating costs related to the support of program delivery, a significant proportion of which relates to program competitions that take place predominantly during the final quarter of the fiscal year. Total non-personnel expenditures to date in 2015-16 are generally consistent with the prior year.



3. Risks and Uncertainties

Funding and Program Delivery Risk Factors

Through the corporate risk identification exercise, the risks that have a potential financial impact or that deal with financial sustainability have been assessed. The impact on NSERC and the planned mitigation strategies related to these risks are discussed below.

External Risk Factors

NSERC is funded through annual parliamentary spending authorities and statutory authorities for program transfer payments (grant and scholarship programs) and for its supporting operating expenditures. As a result, its program activities and operations are impacted by any changes to funding approved through Parliament. Accordingly, program delivery can be affected by factors such as the economic and political climate, technological and scientific development, and evolving government priorities, which impact approved resource levels (total available authorities).

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. Formal communications and external relation strategies are developed by NSERC to ensure that stakeholder relationships and expectations are managed effectively and that NSERC has fulfilled identified research and innovation needs.

There is also the risk that NSERC fails to achieve its mandate and strategic outcomes. To mitigate this risk, an integrated planning 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 to align priorities and resources accordingly.

Internal Risk Factors

In order to ensure stakeholder engagement and to mitigate the risk of misrepresenting our 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 parties stay abreast 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. In addition, NSERC 2020, the Council's 5-year Strategic Plan, was developed following extensive consultation with the research community.

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 is developing a human resources strategy that outlines the organization's commitments and action plan for developing talent and for building and sustaining a thriving and successful workplace and work culture. NSERC is challenged by the ability to hire the skilled resources needed to successfully achieve the transformation and realignment agendas to meet tomorrow's needs. Potential consequences could include workload management issues and succession planning challenges.

NSERC is transforming its business in order improve external client service and increase efficiencies.

Thus far, NSERC has achieved operational efficiencies through economies of scale by the shared administrative service arrangements with the Social Sciences and Humanities Research Council of Canada; corporate-wide prioritization and harmonization or reduction of activities; internal reallocations; and a focus on streamlining and generating efficiencies wherever possible. An established budgetary process with regular in-year budget reviews and formal reallocations for emerging priorities approved by senior management supports this endeavour. NSERC is also undertaking a revision of its operating and grant delivery systems and processes to generate further efficiencies and future savings.

NSERC is a lean agency in terms of operating funding provided to deliver existing and expanding programs (less than 5% of total resources). This efficiency is in part due to the thousands of volunteer peer reviewers offering their expertise in the rigorous evaluation of funding applications. In addition, NSERC is pursuing business transformation to enhance resource decision-making.

4. Significant Changes Related to Operations, Personnel and Programs

A number of important changes, in comparison with the previous fiscal year, relate to operations, personnel and programs. These include the impacts generated by NSERC's previously increased available authorities, which resulted in the expansion of the Strategy for Partnerships and Innovation program and augmented support for advanced research in the natural sciences and engineering.

Another notable source of change was the December 2014 launch of the Government of Canada's new strategy, *Seizing Canada's Moment: Moving Forward in Science, Technology and Innovation 2014*. This strategy provided NSERC with an overarching direction for the development of its five-year strategic plan: *NSERC 2020*. The NSERC strategic plan was developed following extensive consultation with stakeholders.

Approved by:

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February 28, 2016**

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