

Natural Sciences and Engineering Research Council of Canada
Quarterly Financial Report
For the Quarter Ended September 30, 2017

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

1. Introduction

This Quarterly Financial Report (QFR) has been prepared by management as required by section 65.1 of the [Financial Administration Act](#) (FAA), and in the form and manner prescribed by the Treasury Board. It should be read in conjunction with the 2017-18 [Main Estimates](#). This report has not been subject to an external audit or review.

1.1 Authority, mandate and programs

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 FAA. 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](#).

1.2 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 for fiscal 2017-18 and the operating budget carry-forward. 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 of Canada. 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.

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.

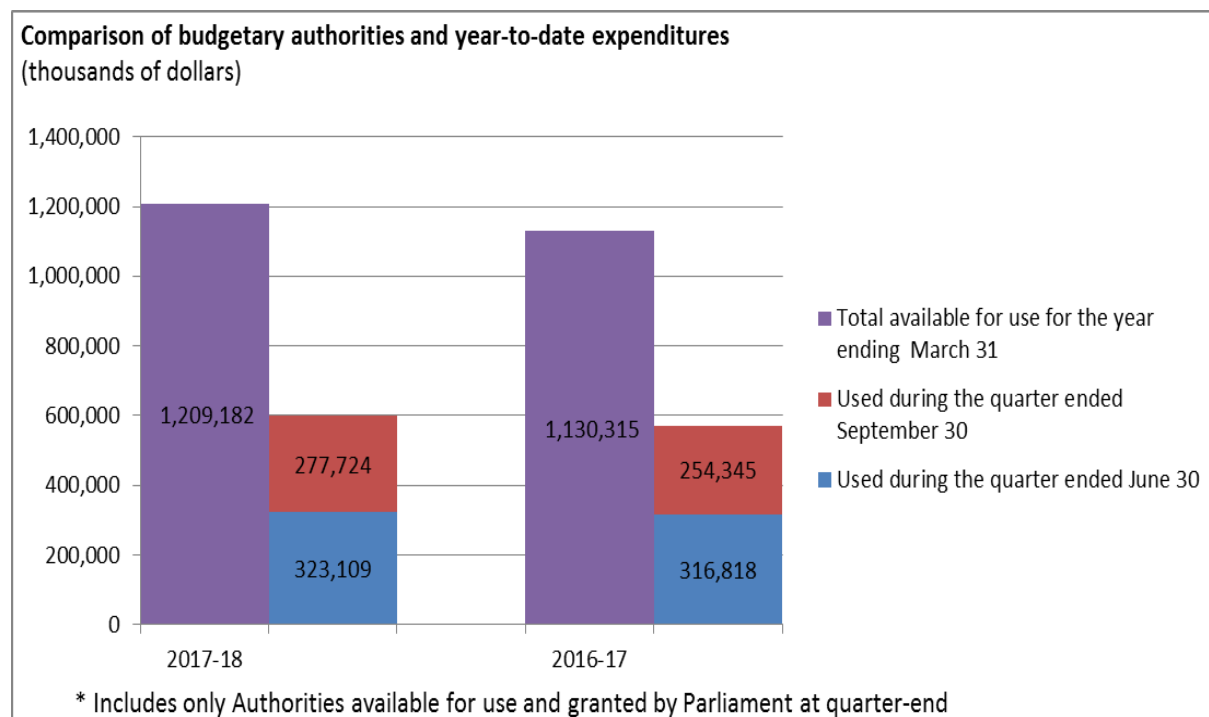
2. Highlights of fiscal quarter and fiscal year-to-date results

This QFR reflects the results of the current fiscal period in relation to the 2017-18 [Main Estimates](#) and the operating budget carry-forward.

Sections 2.1 and 2.2 below highlight the significant items that contributed to the net increase in resources available from fiscal 2016-17 to fiscal 2017-18 and the actual expenditures as at September 30, 2016, and September 30, 2017.

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The following graph provides a comparison of budgetary authorities available for the full fiscal year and budgetary expenditures by quarters for fiscal 2017-18 and fiscal 2016-17.



2.1 Significant changes to budgetary authorities

As of September 30, 2017, NSERC's total available authorities for 2017-18 amounted to \$1,209 million. This represents an overall increase of \$78.9 million (7%) from the comparative period of the previous year, mainly due to an increase in funding for a tri-agency initiative as detailed in the list below. Of the \$78.9 million, \$78.5 million relates to an increase in NSERC's grant and scholarship programs (Vote 5), \$0.6 million to an increase in net operating expenditures (Vote 1) and \$0.2 million to a decrease in budgetary statutory authorities.

The \$78.9 million variation in NSERC's budgets between the current and previous fiscal years includes:

- an increase of \$70.2 million for the Canada First Research Excellence Fund, a tri-agency initiative, to help institutions excel globally in research areas that create long-term economic advantages for Canada;
- an increase of \$29.9 million from Budget 2016 to support discovery research in the natural sciences and engineering;
- a decrease of \$9.0 million for the Canada Excellence Research Chairs Program due to the ending of the first award cycle;
- a decrease of \$7.0 million for the Climate Change and Atmospheric Research due to sunset of the program;
- a decrease of \$3.0 million to Canada-India Research Centre of Excellence due to sunset of the program;
- a decrease of \$1.7 million in the funding for the Centres of Excellence for Commercialization and Research program, which supports world-renowned researchers and their teams to establish ambitious research programs at Canadian universities: and

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- a decrease of \$0.5 million in the operating budget mainly related to the Budget 2016 reductions in professional services, travel and advertising.

2.2 Significant changes to authorities used

The following table provides a comparison of cumulative spending by vote for the current and previous fiscal years.

Year-to-date budgetary expenditures used at quarter-end

(millions of dollars)

Vote 1 - Operating expenditures

Personnel

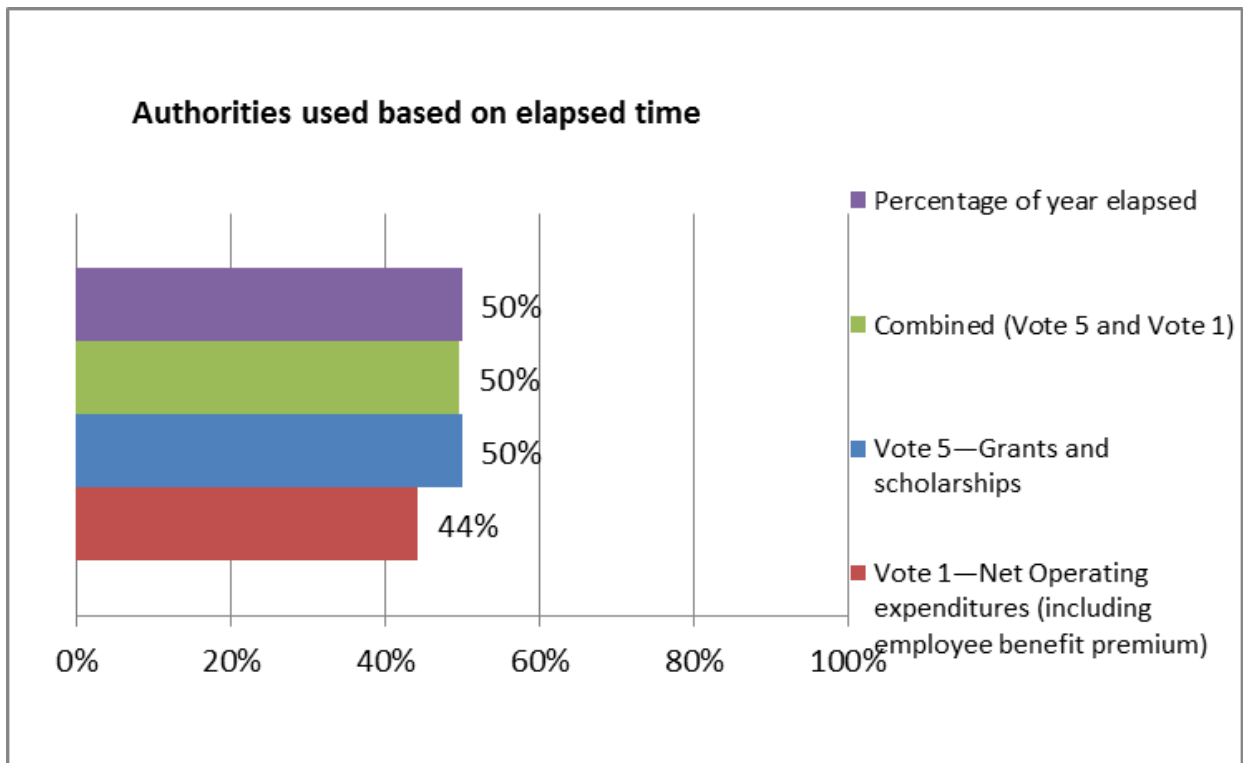
Non-personnel

Vote 5 - Grant and scholarship

Total budgetary expenditures

	2017-18	2016-17	Variance
Personnel	19.3	19.2	0.1
Non-personnel	3.6	3.6	0.0
Vote 5 - Grant and scholarship	577.9	548.4	29.5
Total budgetary expenditures	600.8	571.2	29.6

Total budgetary expenditures amounted to \$600.8 million at the end of the second quarter of fiscal 2017-18, compared to \$571.2 million reported in the same period in the previous fiscal year. The total authorities used at the end of the second quarter (\$600.8 million) represent 49.7% of total available authorities (\$1,209 million).



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Grants and scholarships

Transfer payments represent 95.7% of NSERC's available authorities. Grant and scholarship payments vary between periods due to the competition cycles, results of peer reviewed programs and multiyear award profiles. During the first half of fiscal 2017-18, NSERC's transfer payment expenditures have increased by \$29.5 million, compared to what was reported in the same half of the previous fiscal year. The differences in specific programs from year to year are as follows:

- an increase of \$35.1 million due to expanded program authorities for the Canada First Research Excellence Fund;
- an increase of \$10.8 million due to expanded program authorities to support Discovery Research Program;
- a decrease of \$3.4 million due to the ending of the first award cycle for the Canada Excellence Research Chairs Program;
- a decrease of \$17.3 million due to timing differences on payments for the following programs:
 - Canada Research Chairs Program (\$7.5 million);
 - Collaborative Health Research Projects (\$3.5 million);
 - Networks of Centres of Excellence suite of programs (\$4.0 million); and
 - Connect Grants (\$2.3 million);
- an increase of \$4.3 million due to timing differences on payments for the following programs:
 - Equipment Grants (\$2.1 million);
 - Canada Graduate Scholarships (\$1.2 million); and
 - Undergraduate Student Research Awards – University (\$1.0 million).

Operating expenditures

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.

Personnel expenditures in support of program delivery account for the largest proportion of NSERC's planned operating expenditures (approximately 79% of available operating authorities and planned operating expenditures for fiscal 2017-18). The personnel expenditures are in line with previous year expenditures.

Non-personnel operating expenditures include all other operating costs related to the support of program delivery. A significant portion of these costs relate to funding opportunity competitions that take place predominantly during the final quarter of the fiscal year. Total non-personnel expenditures are in line with previous year expenditures.

Quarterly spending

The total authorities used during the second quarter of 2017-18 amounted to \$277.7 million (23% of the total available authorities; 23% of the total authorities for grant and scholarship programs; and 22.1% of the total authorities for operating expenditures and employee benefits).

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Budgetary expenditures used during the second quarter

(millions of dollars)

	2017-18	2016-17	Variance
Vote 1 - Operating expenditures			
Personnel	9.6	9.5	0.1
Non-personnel	1.8	1.7	0.1
Vote 5 - Grant and scholarship	266.3	243.1	23.2
Total budgetary expenditures	277.7	254.3	23.4

Grants and scholarships

Transfer payments represent 95.7% of NSERC's available authorities. Variations occur in transfer payment expenditures between quarters due to the nature of program cycles. During the second quarter of 2017-18, NSERC's transfer payment expenditures have increased by \$23.2 million compared to those reported in the same quarter of the previous fiscal year. The differences in specific programs from year to year are as follows:

- a net increase in spending of \$9.4 million due to timing differences of payments for some programs, such as: Discovery Grants, Collaborative Research and Development Grants, Industrial Research Chairs and Canada Graduate Scholarships; and
- an increase of \$13.8 million over the previous year for the Canada First Research Excellence Fund.

Operating expenditures

Both the non-personnel and personnel expenditures are in line with the same period in the previous fiscal year. The variances are mainly due to the timing of expenditures.

3. Risks and uncertainties

Funding and program delivery risk factors

NSERC annually identifies corporate level risks and develops response measures in order to minimize their likelihood and/or impact.

External risk factors

Organizational capacity / Resource management and prioritization: The risk that NSERC, as a small agency, may be limited in its ability to reallocate/utilize resources effectively to meet strategic and operational needs and respond to government priorities.

- Risk response: The implementation of the NSERC 2020 Strategic Plan will continue to involve consultations with external stakeholders to ensure that it remains responsive to Canadian stakeholder needs and aligns with Government of Canada priorities. NSERC will assess and prioritize government-wide initiatives to define a resource plan linking project decisions and human/financial resources. NSERC and the Social Sciences and Humanities Research Council will work together to replace their respective aging and disparate grants management systems with a shared solution.

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NSERC will implement its People Strategy Action Plan to ensure that the workforce is well prepared to adapt to change and to promote workplace wellness and mental health.

Internal risk factors

Ability to manage change: The risk that NSERC may face challenges to adjust in a timely way to government policy decisions (e.g., resulting from the Fundamental Science Review and the Innovation and Skills Plan).

- Risk response: NSERC will work within its existing governance, planning and priority-setting mechanisms to adapt to changing priorities in delivering on the agency's core mandate and NSERC 2020 strategic goals.

4. Significant changes related to operations, personnel and programs

The Government of Canada indicated in the mandate letters to the minister of Innovation, Science and Economic Development and the minister of Science that “investments in scientific research, including an appropriate balance between fundamental research to support new discoveries and the commercialization of ideas, will lead to good jobs and sustainable economic growth.”¹

Budget 2017 provided insight into this commitment and its Innovation and Skills Plan by announcing “Innovation Canada, a new platform led by Innovation, Science and Economic Development Canada that will coordinate and simplify the support available to Canada’s innovators.”²

Through Innovation Canada, the government “proposes to review dozens of innovation programs situated across many departments to see how they will be consolidated and simplified.”²

Budget 2017 also announced “a new organization to support skills development and measurement in Canada”.²

¹ Minister of Science Mandate Letter
<http://pm.gc.ca/eng/minister-science-mandate-letter>

² Federal Budget 2017 (Chapter 1 - Skills, Innovation and Middle Class Jobs, Part 2 - A Nation of Innovators)
<http://www.budget.gc.ca/2017/docs/plan/chap-01-en.html?=&wbdisable=true>

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Canada's Fundamental Science Review, which was released April 2017, "outlines a comprehensive agenda to strengthen the foundations of Canadian extramural research."³ NSERC's plans and governance will be impacted by the minister's response to the report. It is within this context that NSERC is implementing its strategic plan and corporate key commitments.

Approved by:

B. Mario Pinto, PhD, FCIC, FRSC
President, NSERC

Patricia Sauvé-McCuan
Vice-President and
Chief Financial Officer, NSERC

Ottawa, Canada
November 28, 2017

³ Canada's Fundamental Science Review, Investing in Canada's Future
[http://www.sciencereview.ca/eic/site/059.nsf/vwapi/ScienceReview_April2017-rv.pdf/\\$file/ScienceReview_April2017-rv.pdf](http://www.sciencereview.ca/eic/site/059.nsf/vwapi/ScienceReview_April2017-rv.pdf/$file/ScienceReview_April2017-rv.pdf)

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5. Statement of authorities (unaudited)

	Fiscal year 2017-18			Fiscal year 2016-17		
	Total available for use for the year ending March 31, 2018*	Used during the quarter ended September 30, 2017	Year-to-date used at quarter-end	Total available for use for the year ending March 31, 2017*	Used during the quarter ended September 30, 2016	Year-to-date used at quarter-end
<i>(in thousands of dollars)</i>						
Vote 1 — Net Operating Expenditure	46,845	10,230	20,527	46,288	9,970	20,184
Vote 5 — Grants and Scholarships	1,156,972	266,297	577,912	1,078,435	243,090	548,409
Budgetary Statutory Authorities						
Contributions to the employee benefit plan	4,877	1,197	2,393	5,213	1,285	2,570
Spending of revenues pursuant to subsection 4 (2) of the <i>Natural Sciences and Engineering Research Council Act</i>	488	-	-	379	-	-
Total Budgetary Authorities	1,209,182	277,724	600,832	1,130,315	254,345	571,163

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

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6. Departmental budgetary expenditures by standard object (unaudited)

	Fiscal year 2017-18			Fiscal year 2016-17		
	Planned expenditures for the year ending March 31, 2018	Expended during the quarter ended September 30, 2017	Year-to-date used at quarter-end	Planned expenditures for the year ending March 31, 2017	Expended during the quarter ended September 30, 2016	Year-to-date used at quarter-end
<i>(in thousands of dollars)</i>						
Expenditures						
Personnel	36,900	9,588	19,350	35,554	9,520	19,163
Transportation and communications	5,254	551	1,013	5,028	578	950
Information	1,741	225	591	1,271	177	367
Professional and special services	5,308	792	1,191	6,591	770	1,441
Rentals	1,559	134	536	1,766	117	624
Repair and maintenance	230	10	43	208	7	49
Utilities, materials and supplies	275	39	84	220	42	89
Acquisition of machinery and equipment	943	88	112	1,242	44	71
Transfer payments	1,156,972	266,297	577,912	1,078,435	243,090	548,409
Total Budgetary Expenditures	1,209,182	277,724	600,832	1,130,315	254,345	571,163