

**Natural Sciences and Engineering Research Council of Canada**  
**Quarterly Financial Report**  
**For the Quarter Ended December 31, 2016**

## **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 [Main Estimates](#) and [Supplementary Estimates](#) for 2016-17. 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 and Supplementary Estimates for the fiscal year 2016-17. 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.

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.

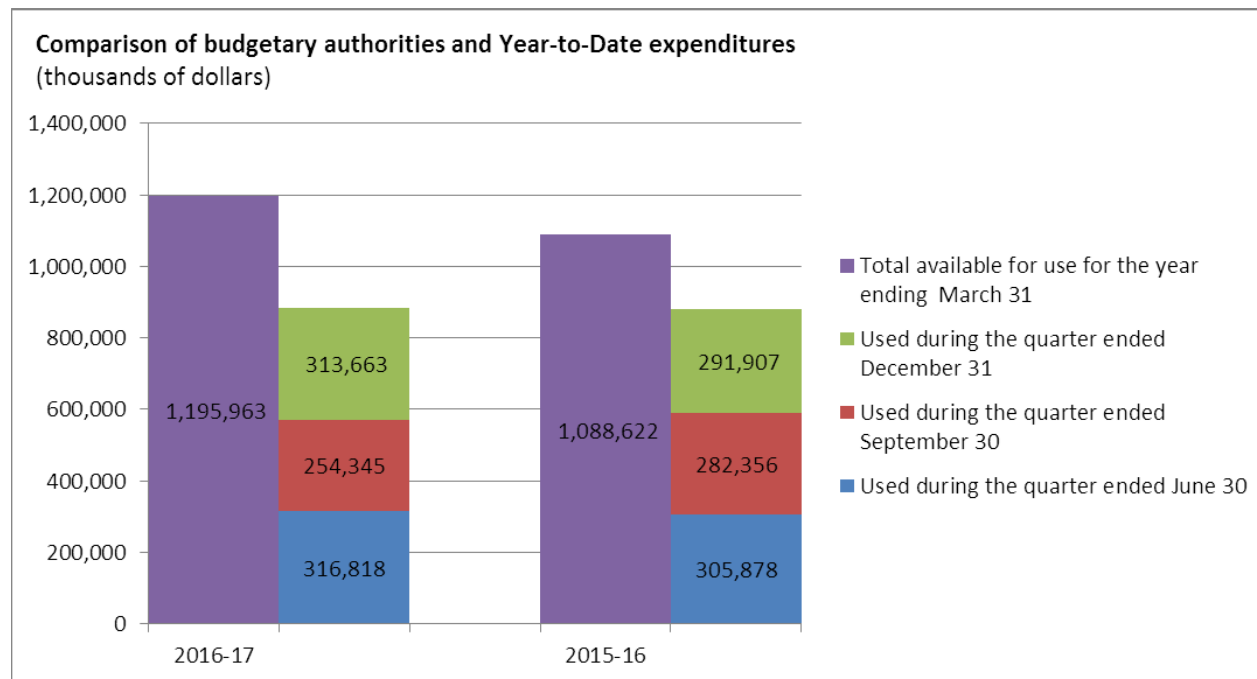
### **2. Highlights of fiscal quarter and fiscal year-to-date results**

This QFR reflects the results of the current fiscal period in relation to the 2016-17 Main Estimates, the Supplementary Estimates (A) and (B) (SEA and SEB) and the operating carry forward.

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Sections 2.1 and 2.2 below highlight the significant items that contributed to the net increase in resources available from fiscal 2015-16 to fiscal 2016-17 and the actual expenditures as at December 31, 2016, and December 31, 2015.

The following graph provides a comparison of budgetary authorities available for the full fiscal year and budgetary expenditures for the first three quarters of fiscal year 2016-17, and fiscal year 2015-16.



### 2.1 Significant changes to budgetary authorities

As of December 31, 2016, NSERC's total available authorities for 2016-17 amounted to \$1,196.0 million. This represents an overall increase of \$107.4 million (9.9%) from the comparative period of the previous year, of which \$104.6 million relates to an increase in NSERC's grant and scholarship programs (Vote 5) and \$2.8 million to an increase in net operating expenditures (Vote 1). The net changes between the current and previous fiscal year include:

- an increase of \$67.3 million for the Canada First Research Excellence Fund, a tri-agency initiative that helps institutions excel globally in research areas that create long-term economic advantages for Canada (Budget 2014);
- an increase of \$29.9 million to fund discovery research (Budget 2016);
- an increase of \$10.3 million to support collaborations between companies and researchers from universities and colleges under the new consolidated suite of similar business innovation programs (Budget 2015);
- an increase of \$6.0 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;

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- an increase of \$4.6 million for the College and Community Innovation Program, directed to industry-driven applied research initiatives at Canada’s polytechnics and colleges (Budget 2015);
- a decrease of \$9.7 million due to a transfer to the Department of Innovation, Science and Economic Development to contribute to Mitacs Inc. to support industrial research and development internships (\$7.0 million), and the Let’s Talk Science program (\$2.7 million); and
- a decrease of \$1.0 million in various transfers to other government agencies to support programs such as the Centre for Molecular and Materials Science and the Business-Led Networks of Centres of Excellence.

**2.2 Significant changes to authorities used**

**Year-to-date spending**

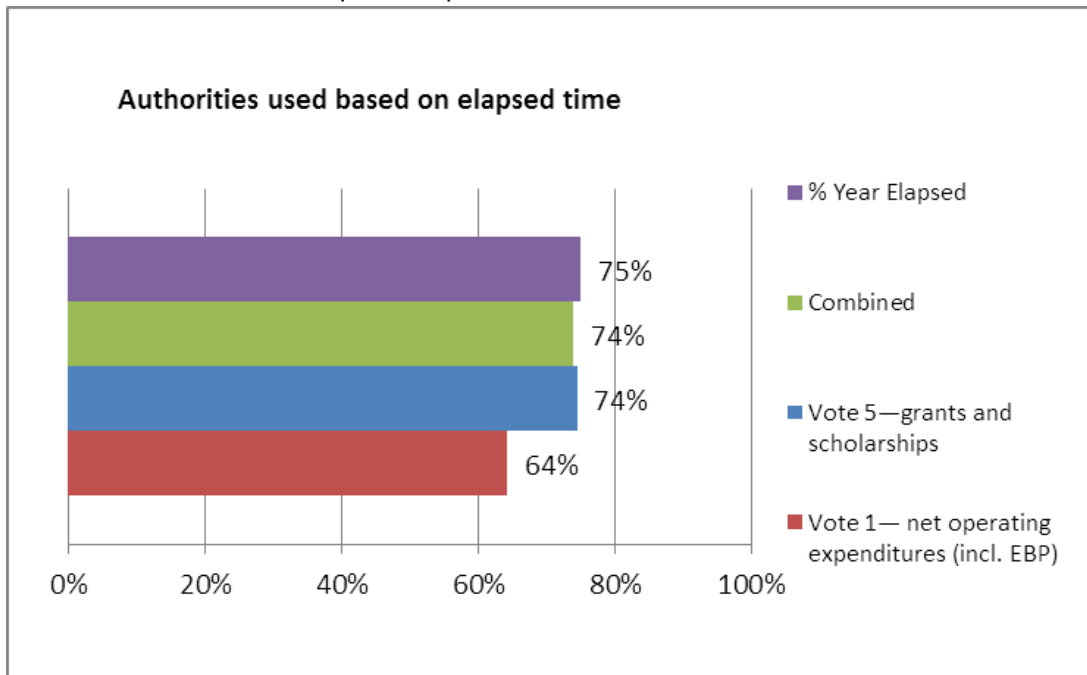
The following table provides a comparison of cumulative spending by vote for the current and previous fiscal years.

**Year-to-date Budgetary Expenditures Used at Quarter End**

(millions of dollars)

	<b>2016-17</b>	<b>2015-16</b>	<b>Variance</b>
<b>Vote 1 - Operating Expenditures</b>			
Personnel	28.5	27.7	0.8
Non-personnel	5.5	5.2	0.3
<b>Vote 5 - Grant and Scholarship</b>	850.8	847.3	3.5
<b>Total Budgetary Expenditures</b>	<b>884.8</b>	<b>880.2</b>	<b>4.6</b>

Total budgetary expenditures amounted to \$884.8 million at the end of the third quarter of fiscal 2016-17, compared to \$880.2 million reported in the same period in the previous fiscal year. The total authorities used at the end of the third quarter represent 74% of total available authorities.



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*Grants and Scholarships*

At the end of the third quarter, NSERC spent **\$3.5 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 net decrease in spending of \$13.6 million due to timing differences of payments for some programs, such as the Centres of Excellence for Commercialization and Research, Discovery Grants, Canada Excellence Research Chairs and Canada Research Chairs;
- an increase of \$28.3 million over the previous year, mainly related to the Canada First Research Excellence Fund; and
- a decrease of \$11.2 million over the previous year due to the phasing out of the Major Resources Support, the G8 Research Councils Initiative on Multilateral Research Funding and Belmont Forum, and the Industrial Research and Development Internship programs.

*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 68% of available operating authorities and planned operating expenditures for fiscal 2016-17). The personnel expenditures for the first nine months of 2016-17 have increased by \$0.8 million, mainly due to the hiring for vacant full-time positions.

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 for the first nine months of 2016-17 increased by \$0.3 million compared to the same period in the previous fiscal year. The variance is mainly due to higher requirements and timing of expenditures in information, professional services and transportation. The variance in "other subsidies and payments" of \$119,000 (or 100%) is due to a non-recurring transition payment in the prior fiscal year for implementing salary payment in arrears by the Government of Canada.

**Quarterly spending**

The total authorities used during the third quarter of 2016-17 amounted to \$314 million (26% of the total available authorities; 26% of total authorities used for grant and scholarship programs; and 21% for operating expenditures and employee benefits).

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**Budgetary Expenditures Used During the Third Quarter**

(millions of dollars)

	2016-17	2015-16	Variance
<b>Vote 1 - Operating Expenditures</b>			
Personnel	9.4	9.3	0.1
Non-personnel	1.9	2.1	(0.2)
<b>Vote 5 - Grant and Scholarship</b>	302.4	280.5	21.9
<b>Total Budgetary Expenditures</b>	<b>313.7</b>	<b>291.9</b>	<b>21.8</b>

*Grants and Scholarships*

Transfer payments represent 95.5% 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 2016-17, NSERC's transfer payment expenditures have increased by **\$21.9 million** compared to the same quarter of the previous fiscal year. There are a number of differences in specific programs from year to year:

- a net increase in spending of \$14.5 million due to timing differences of payments for some programs, such as: Discovery Grants, Collaborative Research and Development Grants, and the Collaborative Research and Training Experience Program;
- an increase of \$7.9 million over the previous year for the Canada First Research Excellence Fund;
- an increase of \$2.1 million over the previous year for the first full cycle of the Technology Access Centre program; and
- a decrease of \$2.6 million over the previous year for Major Resource Support due to the phasing out of the program.

*Operating Expenditures*

The personnel expenditures are in line with those of the third quarter of the prior fiscal year. The non-personnel expenditures decreased by \$0.2 million compared to the same period in the previous fiscal year. The variance is 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**

**Stakeholder Relations:** The organization might not effectively manage diverse stakeholder relationships and challenges to its reputation, which may affect its ability to deliver on its mandate.

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- Risk response: The implementation of NSERC 2020, the agency's five-year strategic plan, will continue to involve consultations with external stakeholders and NSERC management and staff to ensure that it remains responsive to Canadian stakeholders' needs and that it aligns with Government priorities and strategic directions.

To ensure stakeholder engagement and to mitigate the risk of misalignment with 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 all parties stay informed 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.

**External influence:** 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.

- Risk response: NSERC develops formal communications and external relation strategies to ensure that stakeholder relationships and expectations are managed effectively and that NSERC fulfils identified research and innovation needs.

**Delivery of mandate:** There is the risk that NSERC fails to achieve its mandate and the goals of its strategic plan.

- Risk response: To mitigate this risk, an integrated planning and risk management 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 opportunity to align priorities and resources accordingly. An internal audit of NSERC's integrated planning is currently underway.

### **Internal Risk Factors**

**Business transformation:** NSERC might be unable to adapt to and capitalize on technological, policy and process changes. NSERC is currently planning a transformation of its business processes to adapt more efficiently to internal changes and improve external client service.

- Risk response: NSERC will develop an implementation roadmap for NSERC 2020 to align with broader Government of Canada initiatives and policies, and to ensure that the development of standardized, simplified, and client-focused business processes is leveraged by a new grants management system.

NSERC is working closely with SSHRC and the Treasury Board Secretariat to ensure that the project achieves its goal within the timelines and budget allocated.

**Demonstrating results and relevance:** NSERC might be unable to demonstrate its relevance by measuring and reporting on the outcomes of its programs.

- Risk response: NSERC will develop departmental results framework to support NSERC 2020.

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#### **4. Significant Changes Related to Operations, Personnel and Programs**

Budget 2016 reiterated the Government of Canada's commitment to strengthen science and research by "recognizing the fundamental role of investigator-led discovery research in an innovative society" with new investments in science and technology<sup>1</sup>. This includes \$30 million per year on an ongoing basis for NSERC. The government had first indicated this commitment in its mandate letters<sup>2</sup> to the Minister of Innovation, Science and Economic Development and the Minister of Science.

In keeping with the NSERC 2020 vision of making Canada a country of discoverers and innovators for the benefit of all Canadians, NSERC will develop an implementation roadmap over the coming year that will align with the evolving government priorities and focus on measurable results for Canadians.

Approved by:

*Original signed by*

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

*Original signed by*

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

**Ottawa, Canada  
February 28, 2017**

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<sup>1</sup> Growing the Middle Class (Federal Budget 2016, p.113)

<sup>2</sup> Minister of Science Mandate Letter (November 2016)

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**5. Statement of authorities (unaudited)**

<i>(in thousands of dollars)</i>	Fiscal Year 2016-17			Fiscal Year 2015-16		
	Total available for use for the year ending March 31, 2017*	Used during the quarter ended December 31, 2016	Year-to-date used at quarter-end	Total available for use for the year ending March 31, 2016*	Used during the quarter ended December 31, 2015	Year-to-date used at quarter-end
Vote 1 — Operating Expenditures	47,698	10,007	30,191	45,402	10,153	29,175
Vote 5 — Grants and Scholarships	1,142,572	302,358	850,767	1,038,021	280,488	847,246
Budgetary Statutory Authorities						
Contributions to the employee benefit plan	5,314	1,285	3,854	5,020	1,255	3,765
Spending of revenues pursuant to subsection 4 (2) of the <i>Natural Sciences and Engineering Research     Council Act</i>	379	13	13	179	11	11
<b>Total Budgetary Authorities</b>	<b>1,195,963</b>	<b>313,663</b>	<b>884,825</b>	<b>1,088,622</b>	<b>291,907</b>	<b>880,197</b>

\* 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)**

*(in thousands of dollars)*

	Fiscal Year 2016-17			Fiscal Year 2015-16		
	Planned expenditures for the year ending March 31, 2017	Expended during the quarter ended December 31, 2016	Year-to-date used at quarter-end	Planned expenditures for the year ending March 31, 2016	Expended during the quarter ended December 31, 2015	Year-to-date used at quarter-end
<b>Expenditures</b>						
Personnel	36,159	9,403	28,566	34,989	9,324	27,706
Transportation and communications	5,207	660	1,609	4,190	459	1,441
Information	1,368	118	486	928	158	325
Professional and special services	7,023	876	2,316	6,843	895	2,158
Rentals	1,810	117	741	2,464	230	725
Repair and maintenance	208	63	112	118	37	54
Utilities, materials and supplies	220	27	116	260	123	197
Acquisition of machinery and equipment	1,396	41	112	809	143	226
Other subsidies and payments	-	-	-	-	50	119
Transfer payments	1,142,572	302,358	850,767	1,038,021	280,488	847,246
<b>Total budgetary expenditures</b>	<b>1,195,963</b>	<b>313,663</b>	<b>884,825</b>	<b>1,088,622</b>	<b>291,907</b>	<b>880,197</b>