



NATIONAL RESEARCH COUNCIL CANADA

ARCHIVED -Quarterly Financial Report for the quarter ended December 31, 2011 (unaudited)

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National Research
Council Canada

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National Research Council Canada

Statement outlining results, risks and significant changes in operations, personnel and programs

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1. Introduction

The Government of Canada uses financial information to support decision making, for policy development, for service delivery and for historical reference. These financial statements have been prepared to respond to these requirements. These statements should be read in conjunction with the [Main Estimates](#) and [Supplementary Estimates](#) for 2011-12 and the NRC's Quarterly Financial Reports of [June 30, 2011](#) and [September 30, 2011](#). They have been prepared by management as required by section 65.1 of the [Financial Administrative Act](#) and in the form and manner prescribed by the Treasury Board. Although these statements have not been subject to an external audit or review, NRC attests that they are an accurate and true reflection of the financial position as at December 31, 2011.

This Departmental Quarterly Financial Report (QFR) reflects the results of the current fiscal period in relation to the [Main Estimates](#) and [Supplementary Estimates \(A\) and \(B\)](#).

1.1 NRC Mandate

The [National Research Council Canada \(NRC\)](#) exists under the [National Research Council Act](#) and is a Departmental corporation named in Schedule II of the Financial Administration Act. The mission of NRC is to work with clients and partners to provide strategic research, scientific and technical services to develop and deploy solutions to meet Canada's current and future industrial and societal needs.

Under the [National Research Council Act](#), NRC is responsible for:

- Undertaking, assisting or promoting scientific and industrial research in fields of importance to Canada;
 - Providing vital scientific and technological services to the research and industrial communities;
 - Investigating standards and methods of measurement;
 - Working on the standardization and certification of scientific and technical apparatus and instruments and materials used or usable by Canadian industry;
 - Operating and administering any astronomical observatories established or maintained by the Government of Canada;
 - Establishing, operating and maintaining a national science library; and
 - Publishing and selling or otherwise distributing such scientific and technical information as the Council deems necessary.
- Further details on NRC's legislative framework, authority, mandate and program activities can be found in [Part II of the Main Estimates](#) and the [Report on Plans and Priorities](#).

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 the NRC's spending authorities granted by Parliament and those used by the NRC consistent with the [Main Estimates](#) and [Supplementary Estimates](#) for 2011-12. This



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quarterly report has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the use for 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 (pursuant to paragraph 5(1)(e) of the [National Research Council Act](#), the NRC has authority to expend revenues it has received through the conduct of its operations).

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.

The NRC uses the full accrual method of accounting to prepare and present its annual departmental financial statements which 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 (YTD) results

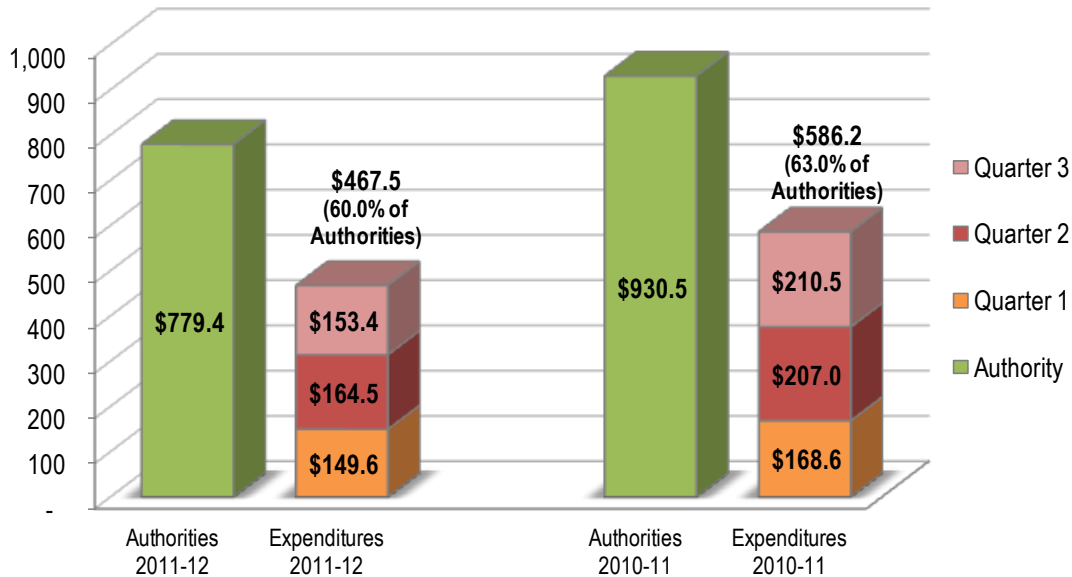
This section highlights the significant items which contributed to the changes to resources available for the year and actual expenditures for the quarter ended December 31, 2011 and fiscal year to date. This section should be read in conjunction with [NRC's Statement of Authorities](#) and [NRC's Departmental Budgetary Expenditures by Standard Object table](#).

2.1 Authorities and Expenditures

The following graph provides a comparison of the [budgetary authorities](#) and [expenditures](#) as of December 31, 2011 and December 31, 2010.



Comparison of Budgetary Authorities and Expenditures as of December 31, 2011 and December 31, 2010 (in millions of dollars)



As shown in above graph, NRC’s expenditures totaled \$153.4 million during the third quarter of the current fiscal year compared to the previous year’s equivalent of \$210.5 million. This third quarter expenditure decrease of \$57.1 million and year-to-date decrease of \$118.7 million is primarily due to the \$151.1 million decrease in NRC’s total available authorities. When normalized for fluctuations in total available authorities, NRC’s expenditures decreased by only 2.9% in the third quarter, consistent with the 3.0% year-to-date decrease illustrated in the diagram.

2.2 Significant Changes to Authorities

For the period ending December 31, 2011, the authorities’ level provided to the NRC include both the [Main Estimates](#) and [Supplementary Estimates](#) (B). Please note that for this fiscal year, no Supplementary Estimates (A) were tabled.

As reflected in [Statement of Authorities](#), in 2011-12, NRC has seen an increase of 5% in total authorities from the previous quarter of 37.1 million, mainly due to the tabling of Supplementary Estimates (B) on November 3, 2011. Refer to September 30, 2011 [Statements of Authorities](#) for the previous quarter.

The following table summarizes the variances:



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For the year ending March 31, 2012 - As of December 31, 2011

Significant Changes to Authorities (unaudited)

(in millions of dollars)

	Vote 60 Operating	Vote 65 Capital	Vote 70 Grants & Contributions	Total
Authorities – Total available for use for the year ending March 31, 2012 - As of Sept. 30, 2011				742.3
Add :				
Digital Technologies Adoption Pilot Program (DTAPP)	2.2		17.2	19.4
Playlist Requirements (Treasury Board funded allowances)	6.2			6.2
Genomics Research and Development Initiative	6.0			6.0
Canadian HIV Technology Program	0.1		2.9	3.0
Clean Air Regulatory Agenda	1.1	0.6		1.7
Contributions to international telescope programs	(4.8)		4.8	-
Other	0.5	0.3		0.8
Total increase in authorities this quarter	11.3	0.9	24.9	37.1
Authorities – Total available for use for the year ending March 31, 2012 - As of Dec. 31, 2011				779.4

From [Supplementary Estimates](#) (B) the NRC has received or transferred funding for:

- The implementation of the [Digital Technologies Adoption Pilot Program](#) to assist small and medium-sized enterprises accelerate their adoption of information and communications technology. This program is delivered by [Industrial Research Assistance Program \(NRC-IRAP\)](#).
- The renewal of the [Genomics Research and Development Initiative \(GRDI\)](#), which was announced on November 17, 2011 by the Government of Canada for a total of \$59.7 million over three years. This funding is being used to coordinate federal science departments and agencies in the field of genomics research. This initiative is delivered by NRC [Genomics and Health Initiative \(NRC-GHI\)](#).
- The [Canadian HIV Technology Development \(CHTD\) Program](#), launched on April 1, 2011, represents a significant contribution to global efforts to develop a safe, effective, affordable and globally accessible HIV vaccine. Over the next five years, the CHTD Program will receive funding, in relation to the Canadian HIV Vaccine Initiative (CHVI), a collaborative effort between the Government and the Bill & Melinda Gates Foundation. This program is delivered by [Industrial Research Assistance Program \(NRC-IRAP\)](#).



- The renewal of the funding for the [Clean Air Regulatory Agenda \(CARA\)](#). The CARA increases the focus on regulatory actions as the cornerstone of Canada's approach to climate change and clean air. Announced through Budget 2011, this initiative is delivered by [NRC Institute for Research in Construction \(NRC-IRC\)](#).
- The National Science and Technology Infrastructure Program from the NRC's Operating vote to the NRC's Grants and Contributions vote in support of its International Telescope Agreements (ITAs). The [NRC Act](#) assigns to NRC a mandate to operate and administer astronomical observatories established or maintained by the Government. Specifically, it enables NRC to fund the following offshore telescopes: Atacama Large Millimetre Array (ALMA), Canada-France-Hawaii Telescope (CFHT), Gemini and the James Clerk Maxwell Telescope (JCMT). This program is delivered by [NRC Herzberg Institute of Astrophysics \(NRC-HIA\)](#).

2.3 Significant Changes to Budgetary Expenditures

This section should be read in conjunction with [NRC's Departmental Budgetary Expenditures by Standard Object table](#).

2.3.1 Variances in Year-to-date Expenditures

Total expenditures have decreased by 20%, \$118.7 million year to date with a decrease of approximately \$57.1 million in the third quarter. The key changes are related to transfer payments, the privatization of the Research Press program at [NRC's Canada Institute for Scientific and Technical Information \(NRC-CISTI\)](#) and salary. The significant decline in transfer payments is mostly attributable to the sun-setting of funds received for [Canada's Economic Action Plan \(EAP\)](#). On the operations side, during 2011-12, the NRC has continued to take budgetary measures to meet the Budget 2010 operating freeze. Furthermore, NRC has taken the final reduction from the 2008 Strategic Review which resulted in lower year to date expenditures.

- Operating expenditures declined by \$25.7 million year to date (\$14.6 million of which was in the third quarter), mainly attributable to the final reduction from the 2008 Strategic Review and the Budget 2010 operating budget freeze. These measures resulted in severance and retention payments in 2009-10, decreased salaries in 2010-11, and the privatization of the Research Press program of [NRC-CISTI](#). Consequently, personnel expenditures have decreased by \$17.2 million year to date, including an \$8.5 million decrease in the third quarter.
- Capital expenditures declined by \$9.9 million for the year to date (\$3.8 million of which was in this quarter). This is due to the implementation of NRC's Strategy to 2031 and a new Project Management Framework, in support of the implementation of NRC's Investment Plan. This new framework has slightly delayed the flow of capital expenditures, as the processes are in their initial stages of implementation.
- The Grants & Contributions expenditures decline by \$85.1 million year to date (\$39.1 million in the third quarter). This is mostly attributable to the sun-setting of funds received for [Canada's Economic Action Plan \(EAP\)](#) which includes the [Federal Development Agency for Southern Ontario \(FedDev\)](#). The Government's EAP has provided over \$300 million over the two previous years. This



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sun-setting funding, which bolstered [NRC-IRAP](#) support for innovative Canadian firms, ended March 31, 2011. As a percentage of budget, the year to date spending has decreased to 61% from 63% for last year and has also declined for the third quarter with 21% this year and 25% for last year.

- Revenue expenditures declined by just \$2.0 million for the year to date (\$1.0 million decline in this quarter). The decline is mainly attributable the privatization of the [Research Press program](#) of [NRC-CISTI](#).
- Statutory Employee Benefits Plan (EBP) increased by \$4.0 million year to date (\$1.3 million increase in the third quarter). EBP expenditures are based on the estimated salary expenditures as listed in the [Main Estimates](#) and are adjusted at year end based on actual salary expended.

3. Risks and Uncertainties

3.1 [Operating Budget Freeze](#)

[Budget 2010](#) announced that the operating budgets of departments and agencies would be frozen at their 2010-11 levels for 2011-12 and 2012-13. The NRC has estimated the impact of this initiative to be a yearly permanent reduction of approximately \$3.7 million in salary and \$0.7 million in Employee Benefits Plan, for a total reduction of \$4.4 million in 2011-12. Management is reviewing various options to adjust to this constraint in funding and the impact on departmental activities through a more focused direction, including:

- The review of its internal services to identify potential efficiencies through a modified service delivery mechanism,
- Budget reductions for investment in the new strategy,
- The implementation of video conferencing that has reduced travel expenditures by more than 30% since 2008-09, and
- Restrictions on hiring.

3.2 [NRC Corporate Risks](#)

The draft NRC Corporate Risk Profile (CRP), presented to the Senior Executive Committee (SEC) on December 14, 2011, defined and assessed the highest risks for the organization to be managed in the coming year. As identified in the last [quarterly financial report](#), a key driving factor for a number of those risks is the complex and significant organizational and process changes taking place to enable a new business model for delivery on NRC's Strategy to 2031. It remains a priority concern to be able to manage this transition, including implementation of such changes as: a new financial management system and practices; move to program-based management; a new HR performance management system; and new security policies and practices.

Externally, government initiatives such as the Deficit Reduction Action Plan (DRAP), Research and Development (R&D) Review recommendations, Shared Services Canada (refer to [section below](#)) combined



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with an uncertain global economic environment also present other risks for NRC going into the new fiscal year, including the potential for Strategy implementation failure, inability to maintain organizational agility, and ineffective client relationship management.

While suitable risk management actions will be confirmed by SEC for implementation with the CRP's final approval, some actions are already in progress. These include the development of training for managers around the new systems and processes, definition of managers' roles and responsibilities, and development and implementation of an integrated transition plan to coordinate, track and manage change initiatives (including interdependencies, responsibilities, information flow, sequence of required decisions). Central leads have been designated in each area of transition.

4. Significant changes in relation to operations, personnel and programs

As indicated in the [September 2011 Quarterly Report](#), on August 4, 2011 [Shared Services Canada \(SSC\)](#) was created, pursuant to [s. 31.1 of the Financial Administration Act](#). Through an order-in-council [PC Number: 2011-1297](#) executed on November 16, the responsibility to provide e-mail, data centre and network services to NRC has been transferred to SSC. Effective November 16, 76 people became employees of SSC. NRC has identified the financial impacts of this change, by vote of authorities related to functions transferred to SSC. Amounts for future years have been addressed in the 2012-13 Annual Reference Level Updates and subsequent Supplementary Estimates.

The NRC is continuing the process of implementing its new strategy, moving towards a program-based management model for all activities, and transforming NRC's existing institutes into sector portfolios. With an execution date of April 1, 2012, NRC's operating structure is in the final stages of definition with the parallel development of portfolio's and programs (and their associated budgets). At the same time, NRC is continuing the review of all administrative and common services.

Approved by:

John R. McDougall, P.Eng.
President
National Research Council Canada
Ottawa
Date: 21 February 2012

Michel Piché, M.P.A., CMA, CIA
VP, Corporate Management
and Chief Financial Officer
National Research Council Canada
Ottawa
Date: 21 February 2012



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National Research Council Canada

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Statement of Authorities (unaudited)

(in thousands of dollars)

	Fiscal Year 2011-2012			Fiscal Year 2010-2011		
	Total available for use for the year ending March 31, 2012 *	Used during the quarter ended December 31, 2011	Year to date used at quarter-end	Total available for use for the year ending March 31, 2011*	Used during the quarter ended December 31, 2010	Year to date used at quarter-end
Vote 60 - Net Operating expenditures***	398,698	86,573	281,919	414,093	101,142	307,689
Vote 65 - Capital expenditures	42,166	4,607	7,210	53,192	8,360	17,071
Vote 70 - Grants & contributions	164,535	34,732	99,643	294,478	73,856	184,758
Statutory revenue **	123,047	14,795	40,533	123,145	15,795	42,503
Statutory EBP	50,954	12,738	38,215	45,582	11,395	34,186
Total Budgetary authorities	779,400	153,445	467,520	930,489	210,548	586,207

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

** Includes Statutory Revenue available for use pursuant to paragraph 5(1)(e) of the National Research Council Act.

Note: Totals may not add due to rounding.

*** Pursuant to s. 31.1 of the Financial Administration Act and Order in Council P.C. 2011-0877 effective November 16, 2011, all unexpended money relating to the new Shared Services Canada has been deemed to be appropriated resulting in a reduction for the same amount in NRC's Vote 60.



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Departmental budgetary expenditures by Standard Object (unaudited)

(in thousands of dollars)

	Fiscal Year 2011-2012			Fiscal Year 2010-2011		
	Planned expenditures for the year ending March 31, 2012	Expended during the quarter ended December 31, 2011	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2011	Expended during the quarter ended December 31, 2010	Year to date used at quarter-end
Expenditures						
Personnel	355,262	84,398	278,117	434,210	92,889	295,339
Transportation & communications	21,830	3,874	10,409	18,151	4,563	12,346
Information	3,755	543	1,209	5,662	2,929	3,851
Professional & special services	70,611	9,896	22,605	43,752	15,224	29,759
Rentals	4,990	753	2,440	3,839	966	2,611
Repair & maintenance	21,187	3,719	9,184	13,482	3,996	9,170
Utilities, materials & supplies	93,065	13,285	31,493	49,515	12,630	33,679
Acquisition of machinery & equipment	13,573	1,129	2,079	5,882	2,013	4,001
Transfer payments	148,600	34,732	99,643	294,478	73,856	184,758
Other subsidies & payments	17,545	1,116	10,341	15,721	1,482	10,693
Total net budgetary expenditures	750,419	153,445	467,520	884,692	210,548	586,207

Note: Totals may not add due to rounding.