



NATIONAL RESEARCH COUNCIL CANADA

ARCHIVED - Quarterly Financial Report for the quarter ended June 30, 2012 (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of Canada uses financial information to support decision making, for policy development, for service delivery and for historical reference.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](#) as well as [Canada's Economic Action Plan 2012 \(Budget 2012\)](#). They have 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. 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 for the period ending June 30, 2012.

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

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 innovation support, 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 2012-13. This 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.

As part of the Parliamentary business of supply, the [Main Estimates](#) must be tabled in Parliament on or before March 1 preceding the new fiscal year. [Budget 2012](#) was tabled in Parliament on March 29, after the tabling of the [Main Estimates](#) on February 28, 2012. As a result the measures announced in the Budget 2012 could not be reflected in the 2012-13 [Main Estimates](#).

In fiscal year 2012-2013, frozen allotments will be established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in [Budget 2012](#). In future years, the changes to departmental authorities will be implemented through the Annual Reference Level Update, as approved by Treasury Board, and reflected in the subsequent [Main Estimates](#) tabled in Parliament.

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

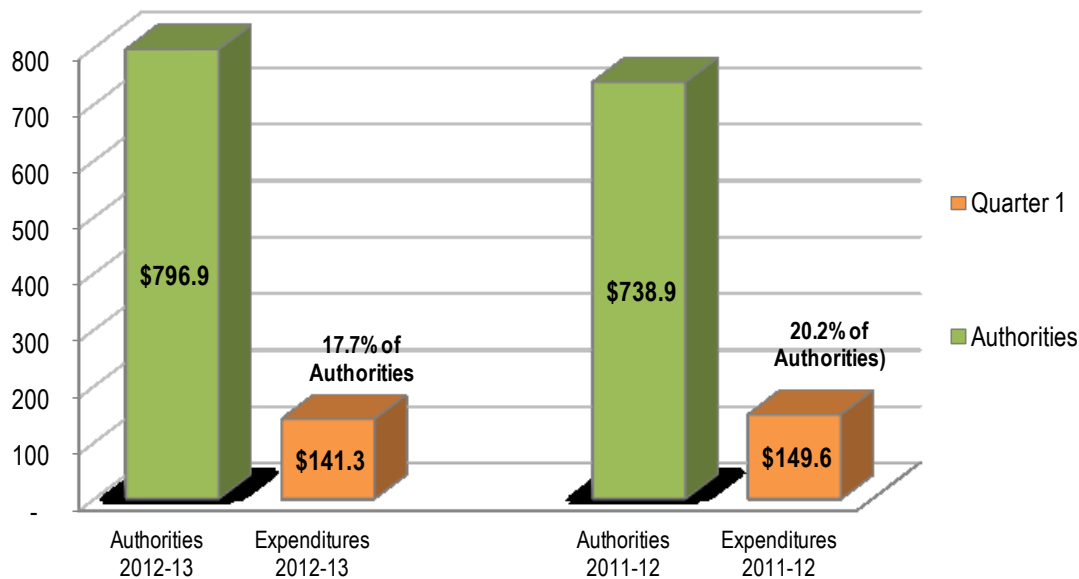
This section highlights the items that contributed most significantly to the changes in budgetary authorities for the current fiscal year and to the actual expenditures for the quarter that ended on June 30, 2012, compared with the previous fiscal year. This section should be read in conjunction with NRC's [Statement of Authorities](#) and [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 June 30, 2012, and those as of June 30, 2011.

**Comparison of Budgetary Authorities and Expenditures
as of June 30, 2012 and June 30, 2011
(in millions of dollars)**



As shown in the graph above, NRC’s expenditures totalled \$141.3 million for the first quarter of the 2012–2013 fiscal year, compared with \$149.6 million for the first quarter of the previous fiscal year. This decrease of \$8.3 million is primarily owed to reduced transfer payments and personnel expenditures, as well as delays resulting from NRC’s refocusing efforts. This required a review of resources and activities, which caused a number of delays in acquisitions and in the recording of expenditures and revenues.

2.2 Significant Changes to Authorities

For the period ending June 30, 2012, the authorities provided to NRC include both the [Main Estimates](#) and [Supplementary Estimates \(A\)](#). Please note that for the current fiscal year, NRC has no supplementary estimates (A).

As reflected in the 2012–2013 [Statement of Authorities](#), NRC has seen a total increase in authorities of \$58.0 million, that is, an increase of 7.8%, compared with the same quarter of the previous fiscal year.

The following table summarizes the variances:

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For the year ending March 31, 2013 - As of June 30, 2012

Significant Changes to Authorities (unaudited)

(in millions of dollars)

	Vote 60 Operating	Vote 65 Capital	Vote 70 Grants & Contributions	Statutory Revenues	Contributions to EBP	Total
Authorities – Total available for use for the year ending March 31, 2012 - As of June 30, 2011						738.9
Add :						
Canada's Technology Clusters	(55.8)	(3.3)	(2.1)		(5.5)	(66.7)
Statutory Revenue Increase				58.4		58.4
Statutory Revenue Carry Forward Increase				48.3		48.3
Digital Technologies Adoption Pilot Program (DTAPP)	2.7		24.9		0.4	28.0
Administrative Service Review	(16.1)				(1.1)	(17.2)
Genomics R&D Initiative (GRDI)	8.2				0.6	8.8
Canadian HIV Technology Development Program (CHTD)			2.5			2.5
Other	(2.6)	0.2	4.5	(1.4)	(4.8)	(4.1)
Total increase in authorities in comparison to prior year	(63.6)	(3.1)	29.8	105.3	(10.4)	58.0
Authorities – Total available for use for the year ending March 31, 2013 - As of June 30, 2012						796.9

The items below explain the variance of \$58.0 million in authorities. These items were either added to or eliminated from the 2012–2013 [Main Estimates](#), as compared with the 2011–2012 *Main Estimates*.

- The \$66.7 million in funding for the Canada's Technology Clusters development initiatives sunset during the period and therefore this amount was eliminated from the 2012–2013 *Main Estimates*.
- The \$58.4 million increase in projected statutory revenues is owed to refocusing activities. These include increased client revenues, the adoption of a results-based approach to research program planning, budget setting, financial management and financial reporting. Policies and operating methods will be streamlined and co-ordinated in order to provide more effective support for programs and research projects, thereby increasing operational efficiencies and reducing administrative costs.
- The \$48.3 million increase in reported statutory revenues is attributable to increased statutory revenues in relation to statutory expenditures during fiscal year 2011–2012. The revenues reported at the end of the fiscal year totalled \$96.3 million (compared with \$48.0 million at the end of fiscal year 2010–2011). The ability to carry-forward unspent revenues is provided for in the [National Research Council Act](#).
- The implementation of the [Digital Technologies Adoption Pilot Program](#) to assist small and medium-sized enterprises accelerated their adoption of information and communications



technologies. This program is delivered by the [Industrial Research Assistance Program \(IRAP\)](#) for a total of \$76.0 million over three years, of which \$28.0 million in 2012-2013.

- The \$17.2 million decrease as a result of the Administrative Service Review, this amount was transferred to a new organization called Shared Services Canada (SSC).
- 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 led by the GRDI Secretariat.
- 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 the [Industrial Research Assistance Program \(IRAP\)](#).

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

Expenditures for 2012–2013 as of June 30 decreased by \$8.3 million (5.5%), compared with the first quarter of 2011–2012.

- Grants and contributions expenditures dropped by \$3.1 million, compared with the previous fiscal year, mainly because of the decrease in contributions to small and medium enterprises from the [Industrial Research Assistance Program \(IRAP\)](#).
- The Employee Benefit Plan (EBP) provided for by the Act decreased by \$2.6 million, over the same period during the previous fiscal year. EBP expenditures are based on estimated salary expenditures, as listed in the [Main Estimates](#), and are adjusted at year end to reflect actual salary expenditures.
- Operating expenditures decreased by \$1.9 million, compared with the previous fiscal year. This drop is attributable to the \$1.1 million decrease in personnel expenditures (excluding the EBP) and to the \$1.1 million reduction in repair and maintenance expenditures caused by delays resulting from refocusing activities.
- Estimated revenue expenditures for the first quarter decreased by \$0.5 million, compared with the previous fiscal year.
- Capital expenditures decreased by \$0.2 million.



3. Risks and Uncertainties

3.1 NRC Corporate Risks

The most current NRC Corporate Risk Profile, approved by the Senior Executive Committee in January 2012, defined and assessed the highest risks for the organization to be managed in the coming year. At the time, a key driving factor for those risks were organizational and process changes taking place to enable NRC to refocus. A number of new and revamped systems and processes have since been put into place including the new financial management system, an HR performance management system (Commitment to Excellence, which is now in year two), and a new client relationship management system that is now in the proof-of-concept phase. As NRC's renewed focus continues to be defined, it remains a priority to manage the process smoothly, both internally with staff and managers, and externally with stakeholders and clients.

Externally, government initiatives such as its efforts to return to balanced budgets, R&D Review recommendations, and Shared Services Canada, combined with an uncertain global economic environment continue to drive other risks for NRC. These include potential for: staff disengagement; ineffective workload management; lower productivity; lower organizational agility and responsiveness; and ineffective client relationship management. During the last operational plan progress review in June 2012, Human Resources recruitment was raised as a concern – that competencies required in some areas may not be available in house and/or external recruitment may not yield desired hires in a reasonable timeframe, potentially slowing down accomplishment of business outcomes.

Initiatives to help manage the most significant risks include: regular meetings between common services and research leads to identify challenges associated with refocusing, and to direct action to where support is needed; targeted training for managers around new systems and processes (some completed, and others planned in the coming months); development of employee engagement initiatives; communications strategy to help manage renewal activities both internally and externally; more regular monitoring of employee satisfaction and addressing key issues raised in the public service employee survey; and further definition of managers' roles and responsibilities. Quarterly performance progress reviews have also been implemented that incorporate risk updates and discussions to identify potential issues earlier to be addressed as they are emerging, as well as progress in managing existing risks.

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

NRC is moving away from a technology-push approach to one that is much more business-like, and focused on market-driven innovation outcomes and benefits to Canada. During this past quarter, General Managers (GMs) were formally named and a number of acting GMs were announced. With these appointments and the elimination of research Director General positions, a number of individuals who have served NRC for many years in leadership positions have left the organization. These leadership changes are not related to



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Government of Canada's efforts to return to a balanced budget. Rather, they are a result of NRC's overall refocusing effort.

5. Budget 2012 Implementation

This section provides an overview of the savings measures announced in [Budget 2012](#) that will be implemented in order to refocus government and programs; make it easier for Canadians and business to deal with their government; and, modernize and reduce the back office.

[Budget 2012](#) identified [savings](#) of \$1.3 million in 2012-2013 and \$16.3 million per year starting in 2013-2014 for NRC. These represent cost savings associated with sunseting certain projects and programs, and through new organizational efficiencies.

The remainder of NRC's cost savings were through administrative efficiencies and reductions in overheads.

Approved by:

John R. McDougall, P.Eng.
President
National Research Council Canada
Ottawa
Date: 22 August 2012

Michel Piché, M.P.A., CMA, CIA
VP, Corporate Management
and Chief Financial Officer
National Research Council Canada
Ottawa
Date: 22 August 2012



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National Research Council Canada

For the quarter ended June 30, 2012

Statement of Authorities (unaudited)

(in thousands of dollars)

	Fiscal Year 2012-2013			Fiscal Year 2011-2012		
	Total available for use for the year ending March 31, 2013 *	Used during the quarter ended June 30, 2012 ***	Year to date used at quarter-end	Total available for use for the year ending March 31, 2012 ****	Used during the quarter ended June 30, 2011	Year to date used at quarter-end
Vote 60 - Net Operating expenditures	323,633	92,929	92,929	387,215	94,826	94,826
Vote 65 - Capital expenditures	34,949	534	534	38,017	768	768
Vote 70 - Grants & contributions	169,416	27,447	27,447	139,650	30,503	30,503
Statutory revenue **	228,367	10,283	10,283	123,047	10,787	10,787
Statutory EBP	40,514	10,128	10,128	50,954	12,738	12,738
Total Budgetary authorities	796,879	141,321	141,321	738,883	149,622	149,622

* Includes only Authorities available for use and granted by Parliament at quarter-end. Total available for use does not reflect measures announced in Budget 2012.

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

*** Figures in this column have been adjusted to include estimates of amounts that were incurred but not recorded in the financial system as of June 30. These one-time adjustments are necessary due to transition issues related to the implementation of NRC's new business model.

**** To ensure comparability of financial information, figures in this column have been adjusted. The Operating and Capital Carry-Forward amounts included in the June 30, 2011 Quarterly Report have been removed as they were not yet approved for the quarter ended June 30, 2011. Includes only Authorities available for use and granted by Parliament at quarter end.



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National Research Council Canada

For the quarter ended June 30, 2012

Departmental budgetary expenditures by Standard Object (unaudited)*(in thousands of dollars)*

	Fiscal Year 2012-2013			Fiscal Year 2011-2012		
	Planned expenditures for the year ending March 31, 2013 ***	Expended during the quarter ended June 30, 2012 *	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2012 **	Expended during the quarter ended June 30, 2011	Year to date used at quarter-end
Expenditures						
Personnel	313,141	94,963	94,963	366,270	98,667	98,667
Transportation & communications	30,200	2,432	2,432	22,737	3,111	3,111
Information	9,144	559	559	3,012	261	261
Professional & special services	67,106	4,630	4,630	52,037	4,715	4,715
Rentals	6,421	778	778	4,274	693	693
Repair & maintenance	26,967	1,656	1,656	17,377	2,726	2,726
Utilities, materials & supplies	114,546	7,069	7,069	69,911	6,695	6,695
Acquisition of machinery & equipment	50,550	28	28	45,388	284	284
Transfer payments	169,416	27,447	27,447	139,650	30,503	30,503
Other subsidies & payments	9,388	1,759	1,759	18,227	1,967	1,967
Total net budgetary expenditures	796,879	141,321	141,321	738,883	149,622	149,622

* Figures in this column have been adjusted to include estimates of amounts that were incurred but not recorded in the financial system as of June 30. These one-time adjustments are necessary due to transition issues related to the implementation of NRC's new business model.

** To ensure comparability of financial information, figures in this column have been adjusted. The Operating and Capital Carry-Forward amounts included in the June 30, 2011 Quarterly Report have been removed as they were not yet approved for the quarter ended June 30, 2011.

*** Planned expenditures do not reflect measures announced in Budget 2012.