

Social Sciences and Humanities Research Council of Canada Quarterly Financial Report for the Quarter Ended December 31, 2012

Statement Outlining Results, Risks and Significant Changes in Operations, Personnel and Programs, and Budget 2012 Implementation

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1. Introduction

The Social Sciences and Humanities Research Council of Canada (SSHRC) was established in 1977 by the *Social Sciences and Humanities Research Council Act*, and is a departmental corporation named in Schedule II of the *Financial Administration Act*. SSHRC's legislative mandate is to promote and assist research and scholarship in the social sciences and humanities, and advise the minister in respect of such matters relating to such research as the Minister may refer to the Council for its consideration.

Social sciences and humanities research builds knowledge about people in the past and present, with a view towards creating a better future, by:

- supporting postsecondary research and research training to enhance the economic, social and cultural development of Canada, its communities and regions; and
- contributing to key policies across government and society by funding excellent research on priority issues.

Further information on the SSHRC mandate and program activities can be found in [Part II of the Main Estimates](#).

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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 2012-13.

Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes SSHRC's spending authorities granted by Parliament and those used by the department, consistent with the Main Estimates and Supplementary Estimates for the 2012-13 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 authority for specific purposes.

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, 2012 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 have been 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.

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.

SSHRC uses the full accrual method of accounting to prepare and present its annual departmental 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

SSHRC manages total authorities of \$692.6 million, \$332.4 million of which corresponds to the tri-agency [Indirect Costs Program](#) on behalf of the other two federal research granting agencies, the Natural Sciences and Engineering Research Council of Canada (NSERC) and the Canadian Institutes of Health Research (CIHR).

As of December 31, 2012, SSHRC's total available authorities for 2012-13 amounted to \$692.6 million. The changes in total available authorities are the result of prior federal budget announcements and Treasury Board decisions that impact both the operating authorities (vote 90), and the grants and scholarships program authorities (vote 95) in the current fiscal year. In addition, SSHRC is authorized to transfer up to 5% of its unused operating budget (vote 90) from the previous fiscal year (representing a \$1.15 million carry-forward from 2011-12 to 2012-13). This operating budget carry-forward process is in place to provide federal departments and agencies with the flexibility to manage cash flow appropriately and to address schedule variances in operating projects. To date for 2012-13, the cumulative resource level adjustments resulted in a decrease in total available authorities of \$5.9 million (0.8%) from the previous fiscal year. This net decrease in total available authorities is attributable to a \$6.6 million decrease in grants and scholarships authorities (vote 95) offset by an increase in operating expenditures (vote 90) of \$0.9 million.

In this quarter, total available authorities incorporate the elements of the 2012-13 Supplementary Estimates (B) (SEB). The SEB is the second, and the most significant, of three opportunities to approve changes in SSHRC's authority levels for the current fiscal year (other than transfers from Treasury Board votes). The vast majority of these changed elements are the result of previous federal budget announcements while the balance relate to technical adjustments from Treasury Board and transfers between departments and agencies for specific initiatives. The future and ongoing impacts of SEB elements will be included in SSHRC's 2013-14 Main Estimates for the next fiscal year. The 2011-12 SEB elements were also included in the third quarter of last fiscal year. Some of these 2011-12 SEB elements, which were introducing funding for more than one fiscal year, were already factored into the 2012-13 Main Estimates. For that reason, they were included in the available authorities as of the first quarter of 2012-13. For these ongoing elements, only the net difference in the level of funding between the two fiscal years is presented in the explanation below. The following elements comprise the changes in total available authorities—which amount to a decrease of \$5.9 million over the previous year:

- an increase of **\$7.0 million** in the Grants and Scholarships program to support world-leading research in the social sciences and humanities through industry-academic partnership initiatives (*Budget 2012*);
- an increase of **\$1.1 million** in the operating budget due to an allocation from Treasury Board (vote 30) for the reimbursement of eligible payroll expenditures, such as severance pay and parental benefits;

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- an increase of **\$0.7 million** in the Indirect Costs Program to assist Canadian postsecondary institutions by supporting costs of federally funded research conducted on campuses across Canada. This program helps researchers concentrate on cutting edge discoveries and research excellence (*Budget 2011*);
- an increase of **\$0.3 million** in grants and scholarships programs due to a transfer from Heritage Canada to support the Sport Participation Research Initiative;
- a decrease of **\$7.0 million** as part of the government's efforts to return to a balanced budget (*Budget 2012*).
- a decrease of **\$3.5 million** related to the Canada Graduate Scholarships Program due to the phase-out of the Economic Action Plan (*Budget 2009*);
- a decrease of **\$3.0 million** in the Centres of Excellence for Commercialization and Research Program to advance research and facilitate the commercialization of technologies, products and services within the four priority areas identified in the federal science and technology (S&T) strategy (*Budget 2007*);
- a decrease of **\$1.0 million** in the Metropolis Project, funded by SSHRC and a consortium of federal departments and agencies led by Citizenship and Immigration Canada; and
- a decrease of **\$0.5 million** in the Networks of Centres of Excellence program due to the sunsetting of funding from *Budget 2004*.

Authorities Used in Third Quarter

This departmental QFR reflects the results of the current fiscal period in relation to the 2012-13 Main Estimates and the Supplementary Estimates (A), for which full supply was released by Parliament on June 29, 2012, the carry-forward of operating funds from 2011-12 to 2012-13 that was approved on September 28, 2012, the reimbursement of eligible payroll expenditures and the Supplementary Estimates (B) that was approved on December 14, 2012.

Total authorities used during the third quarter of 2012-13 amounted to \$195 million (28.2% of the total available authorities: 28.3% of the total authorities used for grants and scholarships programs and 24.4% for operating expenditures and employee benefits). This represents a \$15.8 million increase from the same quarter of the previous fiscal year (\$15 million increase was experienced in authorities used for grants and scholarships expenditures, the operating and employee benefit expenditures increased by \$751,000 in comparison of the same quarter of last fiscal year). The increase in grants and scholarships expenditures is a result of reversal of payment timing differences between second and third quarters of the comparative fiscal years.

The increase in authorities used for operating expenditures and the employee benefits plan over the third quarter of the previous year can be attributed to an increase in personnel expenditure. In the third quarter, personnel expenditure is higher because some benefits were paid to SSHRC employees as the result of the renewal of the Collective Agreement. SSHRC employees had the option to cash out certain benefits that were no longer included in the Collective Agreement. The increase can also be explained by the annual salary increase.

Grants and scholarships payments vary between periods due to the cycle and results of the peer-reviewed funding opportunity competitions as well as the multi-year award profiles. The operating expenditures cover personnel and other operating expenses required to support the delivery of the grants and scholarships programs. Expenditures related to the employee benefits plan are accounted for separately in statutory authorities. Although the majority of personnel expenditures and other operating

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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, occur in direct conjunction with the program cycle and are demand-driven. As a large proportion of the program competitions occur in the last quarter of the fiscal year, the expenditures in each of the first three quarters are typically less than 25% of the annual available operating authorities.

Authorities Used Year-to-date

Total authorities used cumulatively during the first nine months of the 2012-13 fiscal year represented \$520.6 million (75.2% of the available authorities). This represents \$9.3 million more than the previous fiscal year, of which \$7.8 million is attributed to grants and scholarships expenditures. The main factor for this overall increase is payment timing differences between the comparative fiscal years. The proportion of the cumulative grants and scholarships authorities used in the fiscal year was higher to 75.4% in 2012-13 from 73.6% in the previous fiscal year. The cumulative authorities used in this fiscal year for operating expenditures and employee benefits plan increased by \$1.5 million over the last fiscal year. SSHRC has spent 68.8% of its operating authorities and employee benefits plan in the current fiscal year, compared to 64.9% in 2011-12. The main factor of this increase is cash-out of some benefits by SSHRC employees as per the approved Collective Agreement.

Statement of Departmental Budgetary Expenditures by Standard Objects

Variation in Amounts Available for Use in 2012-13

As described in the Available Authorities section, SSHRC's total Parliamentary authorities have decreased by \$5.9 million for 2012-13 over the previous fiscal year. This decrease is attributed to the decrease in transfer payment (i.e., grant and scholarship) program authorities.

The implementation of the government's efforts to return to a balanced budget had no significant impact on the overall results of the third quarter but could explain variances between expenditures by standard objects. The savings that resulted from the changes will affect the results of the quarters to come.

Transfer Payment Expenditures (Grants and Scholarships)

Third Quarter Grant and Scholarship Expenditures

Transfer payments represent over 95.9% of SSHRC's total available authorities. Variations occur in transfer payment expenditures between quarters due to the nature of the funding opportunity cycles. During the third quarter of 2012-13, SSHRC's transfer payment expenditures increased by \$15 million over the same quarter of the previous fiscal year. The main factor for this increase is the reversal of payment timing differences between comparative quarters mainly in the Indirect Costs Program.

Year-to-Date Grants and Scholarships Expenditures

At the end of the third quarter, SSHRC has spent \$7.8 million more than what was spent at the same point in the previous fiscal year. The main factors are an increase of funding in the Indirect Costs

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Program from *Budget 2011* (\$6.4 million spent at the end of the third quarter), combined with a decrease of \$3.5 million related to the Canada Graduate Scholarships Program due to the phase-out of the Economic Action Plan and the timing difference on Insight Grants. This timing difference resulted from recipient funding requests that accelerated payments compared to last fiscal year (4.1 million at the end of third quarter). The timing difference between quarters will be offset by the end of the fiscal year.

Third Quarter and Year-to-Date Personnel Expenditures

Personnel expenditures in support of program delivery account for the largest proportion of SSHRC's planned operating expenditures (70.1% of available operating authorities or expenditures for 2012-13). The personnel expenditures for the first nine months of the fiscal year of 2012-13 increased by \$1.4 million (9.7%), mostly in the second and third quarter in comparison to the same period of the previous year. This increase is the result of changes in the SSHRC Collective Agreement. To reduce the government's financial liability and to align with the greater Public Service and the Canadian Labour Market, where severance pay in the case of voluntary departures is not common practice, severance benefits for retirement and resignation ceased to accumulate, and accumulated severance benefits were paid out to SSHRC employees. Treasury Board Secretariat has compensated SSHRC for these expenditures and the SSHRC operating authorities have increased accordingly (as mentioned in the available authorities section). The increase could also be explained by the annual salary increase.

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 these costs relate to funding competitions that take place predominantly during the latter quarter of the fiscal year. Total non-personnel expenditures to date and for the third quarter are in line with the comparable expenditures of the previous year. The implementation of the government's efforts to return to a balanced budget had no significant impact on the overall non-personnel operating expenditures.

3. Risks and Uncertainties

Funding and Program Delivery Risk Factors

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

External Risk Factors

SSHRC is funded through annual parliamentary spending authorities and statutory authorities for program transfer payments (grants and scholarships 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, delivering programs 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).

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Research and innovation are part of a global enterprise; therefore participation in our programs is not only influenced by the Canadian context, but also by initiatives and opportunities worldwide. Formal communications and external relations strategies are developed and implemented by SSHRC to ensure that stakeholder relationships are managed effectively and that SSHRC has continued to fulfill research, training and innovation needs.

There is also the risk that SSHRC fails to achieve its mandate and strategic outcomes. To mitigate this risk, an integrated planning process was initiated by SSHRC in 2009. This process will serve as the foundation for SSHRC to plan all aspects of its business in an integrated manner in order to align priorities and resources accordingly.

Internal Risk Factors

SSHRC 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, SSHRC has developed 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. SSHRC's financial restraints are challenging their ability to engage 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.

SSHRC is transforming its business in order to adapt more efficiently to internal changes and to improve external client service.

Federal Budget 2010 and Budget 2011 announced operating budget constraint measures and froze the operating budgets of federal departments and agencies at their 2010-11 levels for fiscal years 2011-12 and 2012-13. Federal Budget 2012 announced the Government of Canada's efforts to return to a balanced budget. The resulting budgetary pressures include the self-financing of annual salary increases requiring internal reductions and reallocation measures. These pressures are compounded by the operational requirement to support an increased and broadened program base while processing an increasing number of applications within limited operational envelopes and inflationary costs on operating expenditures. SSHRC is also managing the requirement for the implementation of modernized technology solutions to better support program delivery.

Thus far, SSHRC has achieved the reduction of its operating pressures through economies of scale achieved by the shared administrative service arrangements with the Natural Sciences and Engineering Research Council of Canada (NSERC), corporate-wide prioritization and 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. SSHRC is also undertaking a revision of its operating and grant delivery systems and processes to generate further efficiencies and future savings.

SSHRC is a lean agency in terms of operating funding provided to deliver existing and expanding programs (less than 4% of total resources). An integrated planning process to address restraint measures and funding cuts was developed to enhance SSHRC's resource decision-making.

4. Significant Changes Related to Operations, Personnel and Programs

SSHRC has undertaken a program architecture renewal initiative to create a more flexible and effective system of program application, assessment and reporting, allowing it to maximize its impact on Canada's economic prosperity and quality of life. The new program architecture has placed an emphasis on developing talent, and insights through research excellence, and enabling connections and partnerships within and beyond academia, for the benefit of society. This has resulted in greater overall program coherence with flexible programming, a more responsive competition cycle, an improved and simplified interface for applicants, and an improved reporting system on results. The implementation of the new program architecture allows for the consolidation of existing and new funding opportunities under umbrella programs, as well as enhanced business processes and service delivery. These implications will evolve over the years to come.

There were a number of important changes in comparison with the previous fiscal year that relate to operations, personnel and programs. These include the impacts caused by SSHRC's increased available authorities, which resulted in expanding dimensions of the partnership program. SSHRC is optimizing the new investment of \$7 million, announced in Economic Action Plan 2012, to enhance support for industry-academic partnership initiatives. This new investment will be funded through SSHRC's partnership grants and partnership development grants. Implementation of government-wide operating budget constraint measures continued in meeting the government's efforts to return to a balanced budget for which details are described in the section below. The federal Budget 2012, tabled in March, included funding announcements with additional program dimensions that are being implemented by SSHRC, following Treasury Board and Parliament approvals, over the course of the fiscal year.

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.

As part of the Government of Canada's spending review, SSHRC examined all of its activities to identify opportunities for savings and for greater effectiveness and efficiencies in its operations.

As noted in Economic Action Plan 2012, SSHRC will achieve savings of approximately \$7 million in 2012-13. The Government of Canada reinvested \$7 million this year to enhance support for industry-academic partnership initiatives, making the net impact on SSHRC's overall budget neutral for 2012-13. Net Savings will increase by \$7 million in 2013-14 for a total of \$14 million in ongoing savings.

In realizing operating budget savings, a number of measures are being implemented to generate greater efficiency and effectiveness, including an enhanced use of technological advancements, such as teleconferencing and virtual meetings. A rigorous and cohesive approach to priority setting, project planning and training will further help SSHRC meet its goals.

Expenditures in the first three quarters of 2012-13 are higher than the same period of the previous fiscal year. The difference between the two fiscal years is mainly due to timing difference on grants

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payments. The saving measures for Budget 2012 will be reflected later in the fiscal year and over the course of the next fiscal year.

There was no incremental funding provided to SSHRC to complete the above work that is underway. There are no financial risks or uncertainties related to these savings.

Approved by:

Originally signed by:

Originally signed by:

**Chad Gaffield, PhD, FRSC
President, SSHRC**

February 25, 2013

**Jaime W. Pitfield
Vice-President and Chief
Financial Officer, SSHRC**

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6. Statement of Authorities (unaudited)

<i>(in thousands of dollars)</i>	Fiscal Year 2012-2013			Fiscal Year 2011-2012		
	Total available for use for the year ending March 31, 2013*	Used during the quarter ended December 31, 2012	Year-to-date used at quarter-end	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
Vote 90—Net Operating Expenditures	25,552	6,193	17,325	24,615	5,410	15,688
Vote 95—Grants and Scholarships	664,339	188,152	501,222	670,910	173,115	493,456
Budgetary Statutory Authorities—Employee Benefits Plan	2,696	700	2,100	2,948	732	2,196
Total Budgetary Authorities	692,587	195,045	520,647	698,473	179,257	511,340
Non-Budgetary Authorities	-	-	-	-	-	-
Total Authorities	692,587	195,045	520,647	698,473	179,257	511,340

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

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7. Departmental Budgetary Expenditures by Standard Object (unaudited)

<i>(in thousands of dollars)</i>	Fiscal Year 2012-2013			Fiscal Year 2011-2012		
	Planned expenditures for the year ending March 31, 2013	Expended during the quarter ended December 31, 2012	Year-to-date used at quarter-end	Planned expenditures for the year ending March 31, 2012	Expended during the quarter ended December 31, 2011	Year-to-date used at quarter-end
<u>Expenditures</u>						
Personnel	19,795	5,664	16,201	20,160	5,097	14,765
Transportation and communications	1,446	217	640	1,548	192	585
Information	423	113	179	542	61	134
Professional and special services	4,556	748	1,646	4,138	557	1,681
Rentals	211	24	70	251	18	71
Repair and maintenance	592	76	281	341	51	290
Utilities, materials and supplies	152	9	37	173	13	61
Acquisition of machinery and equipment	1,073	42	371	410	155	297
Transfer payments	664,339	188,152	501,222	670,910	173,115	493,456
Total budgetary expenditures	692,587	195,045	520,647	698,473	179,259	511,340