

QUARTERLY FINANCIAL REPORT FOR THE QUARTER

ENDED JUNE 30, 2013

ECONOMIC DEVELOPMENT AGENCY OF CANADA

FOR THE REGIONS OF QUEBEC

TABLE OF CONTENTS

1. Introduction	3
1.1 Authorities, Mandate and Programs.....	3
1.2 Basis of Presentation.....	3
2. Highlights of Financial and Year-to-Date (YTD) Results	4
2.1 Analysis of Authorities	4
2.2 Analysis of Expenditures	6
3. Risks and Uncertainties	7
4. Significant Changes in Relation to Operations, Personnel and Programs	8
5. Implementing Budget 2012	8
Statement of Authorities (unaudited)	9
Departmental Budgetary Expenditures by Standard Object (Unaudited).....	10

1. Introduction

This quarterly financial report should be read in conjunction with the 2013-2014 *Main Estimates* and Canada's Economic Action Plan 2012 (*Budget 2012*). This report has been prepared by the Agency as required by subsection 65.1 of the *Financial Administration Act* and in the form and manner prescribed by Treasury Board (TB) Accounting Standard 1.3 - Departmental and Agency Quarterly Financial Report. This report has not been subject to an external audit or review.

1.1 Authorities, Mandate and Programs

According to its enabling act, which came into force on October 5, 2005, the Agency's mission is to promote long-term economic development in the regions of Quebec.

Additional information on the Agency's authorities, mandate and programs can be found in the [Report on Plans and Priorities](#) and the [Main Estimates](#).

1.2 Basis of Presentation

This quarterly report has been prepared by the Agency using an expenditure basis of accounting and a special purpose financial reporting framework designed to meet financial information needs with respect to spending authorities. The accompanying Statement of Authorities can be used to compare the spending authorities Parliament granted to the Agency with authorities used by the Agency.

The information in the Statement of Authorities is consistent with the information presented in the *Main Estimates* for the 2013-2014 fiscal year. However, within the framework of the Business of Supply in Parliament, the Main Estimates must be tabled in Parliament on or before the first day of March preceding the start of the new fiscal year. Budget 2012 was tabled in Parliament on March 29, following the tabling of the Main Estimates on February 28, 2012. As a result, the measures announced in Budget 2012 do not feature in the Main Estimates for 2012-2013.

For fiscal 2012-2013, frozen allotments were established by Treasury Board in departmental votes to prevent the spending of funds already set aside for savings measures in Budget 2012. In 2013-2014, the Treasury-Board-approved Annual Reference Level Update were used to

amend departmental authorities and were reflected in the 2013-2014 Main Estimates tabled before Parliament.

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.

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 Agency uses the full accrual method of accounting to prepare and present its annual departmental financial statements published in the *Departmental Performance Report*. However, the spending authorities voted by Parliament are always established on an expenditure basis.

2. Highlights of Financial and Year-to-Date (YTD) Results

The goal of this section is to highlight the key elements underlying the Agency's financial results, which show a net decrease in resources available for the current fiscal year compared with the preceding year.

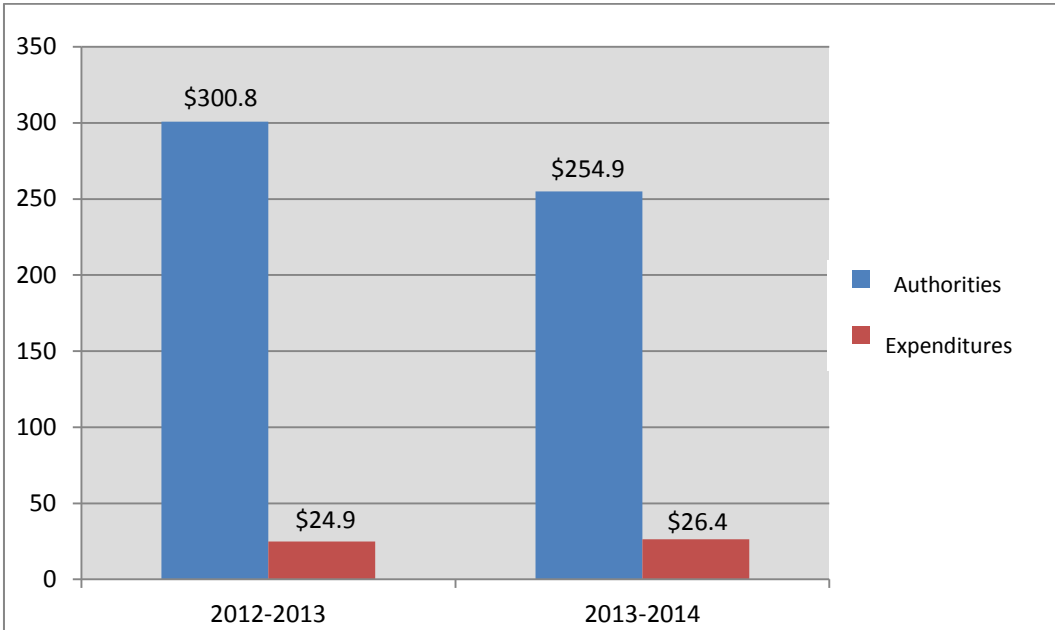
The explanation of variances considers that changes under 5% have minimal impact on the interpretation of results.

2.1 Analysis of Authorities

There was a net decrease of \$45.8 million (about 15%) in available authorities in 2013-2014, compared to the same period of 2012-2013, from \$300.8 million to \$254.9 million. This is the result of an 11% decrease in Vote 1 – Net Operating Expenditures (\$4.6 million), a decrease of 16% in Vote 5 – Grants and Contributions (\$40.6 million) and an 11% decrease in budgetary statutory authorities (\$0.6 million).

The graph on the following page provides an overview of net budgetary authorities that correspond to resources available for use for the fiscal year ending March 31, 2014.

Economic Development Agency of Canada for the Regions of Quebec
Quarterly Financial Report for the Quarter Ended June 30, 2013



Graph 1 – First quarter actual expenditures vs annual authorities (in millions of dollars).

Vote 1 Authorities – Operating Expenditures

The 11% decrease in operating expenditures (from \$43.2 million in 2012-2013 to \$38.5 million in 2013-2014) is related to a combination of a several factors, including the impact of the 2010 Strategic Review, the implementation of savings measures in Budget 2012 and the end of certain temporary programs and initiatives. (See table *Statement of Authorities*)

Vote 5 Authorities - Grants and Contributions

The 16% decrease in authorities (from \$252.0 million in 2012-2013 to \$211.5 million in 2013-2014) is the result of the combined effect of:

- A decrease in contributions related to the end of some temporary initiatives, including the Initiative in Support of the Development of International Cruises on the St Lawrence and Saguenay Rivers, the Temporary Initiative for the Strengthening of Quebec’s Forest Economies and the Contribution Program to Fund the Construction of a Gas Pipeline between Valley Junction and Thetford Mines, for an amount of \$50.9 million;
- A decrease in contributions resulting from the 2010 Strategic Review, for an amount of \$2.8 million;

- Decrease in contributions related to regular programming, for an amount of \$2.4M;
 - An increase related to new funding received for the Community Infrastructure Improvement Fund (CIIF) (\$ 15.5 million);
- (See table *Statement of Authorities*)

2.2 Analysis of Expenditures

Total recorded expenditures in the first quarter of 2013-2014 were \$1.5 million (18%) higher than in the first quarter of 2012-2013, up from \$24.9 million to \$26.4 million. This increase is due to a 16% increase in expenditures linked to Vote 5 – Grants and Contributions (\$2.2 million), an 11% decrease in Vote 1 – Net Operating Expenditures (\$1.1 million), and a 34% increase in expenditures related to statutory appropriations (\$0.3 million). However, this last increase is entirely attributable to an accounting technicality which will be reversed during the second quarter of the year.

Vote 1 – Operating Expenditures

Following the implementation of the 2010 Strategic Review, the Deficit Reduction Action Plan and the Administrative Review, the Agency established a number of measures to restrain spending, so as to comply with key government objectives. Similarly, the end of some temporary initiatives also helped to reduce net operating expenditures. In the first quarter of 2013-2014, net expenditures thus decreased by 11% as compared to the corresponding quarter, declining from \$9.9 million in 2012-2013 to \$8.8 million in 2013-2014.

These efforts resulted in reduced expenses for the Staff (reduction of 5% compared to the first quarter of 2012-2013) and Transportation and Communications (reduction of 18%) standard objects. Rental expenditures declined by 93%, largely as the result of transferring responsibility for Microsoft product licences to Shared Services Canada and the fact that maintenance costs for Oracle products had not yet been paid by June 30, 2013, in contrast to 2012.

Expenses related to Professional and Special Services increased by 12% over the corresponding quarter, owing to an increase in spending on interpretation and translation.

Upward and downward variances in other standard objects are not considered significant.

Vote 5 - Grants and Contributions Expenditures

During the first quarter of 2013-2014, the Agency spent \$16.3 million in grants and contributions, compared with \$14.1 million in 2012-2013 (see table *Departmental Budgetary Expenditures by Standard Object*). This 16% (\$2.2 million) increase is related to the fact that clients submitted expenditure reimbursement claims at a faster pace than last year. The Agency actually disbursed 8% of authorities obtained, compared to 6% in 2012-2013.

3. Risks and Uncertainties

The Agency conducts an annual analysis to update and maintains a corporate risk profile that enables it to identify and evaluate risks that could impede the attainment of its objectives and priorities. Like any organization, the Agency faces certain risks that, if they materialize, could have a financial impact. Mitigation strategies have been developed and measures implemented to keep the possibility of their occurrence to a minimum. Financial controls overall operate effectively and allow for the identification of material misstatements.

Three years ago, the government made a commitment to achieve fiscal balance and to reduce spending to restore the fiscal situation. It was with this in mind that the results of the 2010 Strategic Review, in which the Agency participated, were announced in Budget 2011. The reduction announced for CED in 2013-2014 was \$13.4 million. The budget cuts announced in Budget 2012 total \$26.9 million for CED in 2013-2014. In view of this situation, the Agency implemented a set of measures to enable it to mitigate the impact of the budgetary pressures indicated above. This has meant a staff reduction.

Accordingly, a number of transformation projects were launched in order to make the Agency more modern and efficient and to increase its ability to provide excellent service to Canadians, all the while respecting the limits on its financial resources. However, there are some risks attached to implementing these measures, particularly with regard to the integration of risk management into the administration of grants and contribution programs and the reduction of the resulting administrative burden. Consequently, if these risks were to materialize, there could be an impact on the manner in which the Agency delivers its programs.

CED manages the implementation of these measures in the context of reduced budgetary allocations and monitors funding regularly through a number of budgetary review processes for the Agency as a whole and through the analysis of expenditures and budget estimates by sector.

4. Significant Changes in Relation to Operations, Personnel and Programs

There have been no significant changes in relation to operations, personnel and programs impacting the results of this quarter, other than the implementation of measures related to Budget 2012.

5. Implementing Budget 2012

Budget 2012 provided an opportunity to modernize the government's activities and reduce their cost, while making it easier for Canadians and companies to do business with the government.

Canada Economic Development's contribution to this exercise consisted in:

- ✓ simplifying its programs
- ✓ reducing processing times and cutting red tape
- ✓ reorganizing its internal services in order to be more effective.

During 2012-2013, the first year of implementation of Budget 2012, CED achieved savings of around \$7.4 million. The implementation of savings measures will proceed as expected and will result in savings of \$26.9 million in 2013-2014. The reduction in positions has been achieved through a combination of attrition, management of unfilled positions and the negotiated elimination of positions in accordance with the work force adjustment process and collective agreements. There will be permanent savings of \$28.1 million between now and 2014-2015.

The original version was signed by:

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August 28, 2013

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Economic Development Agency of Canada for the Regions of Quebec

Statement of Authorities (unaudited)

For the quarter ended June 30, 2012

Authorities	Fiscal Year 2013-2014 (in thousands of dollars)			Fiscal Year 2012-2013 (in thousands of dollars)		
	Total available for use for the year ending March 31, 2014*	Used during the quarter ended June 30, 2013	Year-to-date used at quarter end	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
Vote 1 – Net Operating Expenditures	38,535	8,794	8,794	43,169	9,868	9,868
Vote 5 – Grants and Contributions	211,467	16,331	16,331	252,053	14,111	14,111
Total Budgetary Statutory Authorities	4,929	1,232	1,232	5,529	922	922
Non-budgetary Authorities	-	-	-	-	-	-
Total Authorities	254,931	26,357	26,357	300,751	24,901	24,901

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

(An incremental difference in the sum of data may result from rounding)

Economic Development Agency of Canada for the Regions of Quebec

Departmental budgetary expenditures by Standard Object (unaudited)

For the quarter ended June 30, 2013

Expenditures	Fiscal Year 2013-2014 (in thousands of dollars)			Fiscal Year 2012-2013 (in thousands of dollars)		
	Planned expenditures for the year ending March 31, 2014*	Spent during the quarter ended June 30, 2013	Year-to-date used at quarter end	Planned expenditures for the year ending March 31, 2013	Spent during the quarter ended June 30, 2012	Year-to-date used at quarter end
Staff	33,259	9,065	9,065	36,946	9,594	9,594
Transportation and communications	2,041	161	161	2,351	196	196
Information	612	33	33	705	42	42
Professional and special services	4,899	684	684	5,524	611	611
Rentals	919	21	21	1,058	307	307
Repair and maintenance	102	5	5	118	4	4
Utilities, materials and supplies	204	28	28	235	24	24
Acquisition of land, buildings and works	-	-	-	118	-	-
Acquisition of machinery and equipment	1,327	23	23	1,528	7	7
Transfer payments	211,467	16,331	16,331	252,053	14,111	14,111
Other subsidies and payments	101	6	6	118	2	2
Total net budgetary expenditures	254,931	26,357	26,357	300,751	24,901	24,901

(An incremental difference in the sum of data may result from rounding)