Canadian Grain Commission | Commission canadienne des grains

Quarterly Financial Report

Canadian Grain Commission
Statement Outlining Results, Risks, and Significant Changes in Operations, Personnel, and Programs (Unaudited)

For the quarter ended December 31, 2017

Canada

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1.0 Introduction

This quarterly financial report should be read in conjunction with the *Main Estimates* and *Supplementary Estimates.* It has been prepared by Canadian Grain Commission (CGC) management as required by section 65.1 of the *Financial Administration Act* and is in the form and manner prescribed by the Treasury Board Accounting Standard 1.3. This quarterly report has not been subject to an external audit or review.

1.1 Authority, Mandate and Program Activities

The CGC was established in 1912 and is the federal government department responsible for administering the provisions of the *Canada Grain Act* (CGA).

The CGC's mandate as set out in the act is to, "in the interests of the grain producers, establish and maintain standards of quality for Canadian grain and regulate grain handling in Canada, to ensure a dependable commodity for domestic and export markets".

The CGC's vision is "To be a world class, science-based quality assurance provider". The Minister of Agriculture and Agri-Food is responsible for the CGC.

In order to effectively pursue its mandate, the CGC aims to achieve the following strategic outcome: **Canada's grain is safe, reliable and marketable and Canadian grain producers are properly compensated for grain deliveries to licensed grain companies.**

The CGC's Program Alignment Architecture has five programs. The Quality Assurance Program, Quantity Assurance Program, Grain Quality Research Program, and Producer Protection Program each contribute to achieving strategic outcomes. The Internal Services Program supports all other programs within the CGC.

Further details on the CGC's authority, mandate, and program activities may be found in the Departmental Plan (formerly the Report on Plans and Priorities) and the *Main Estimates.*

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting (modified cash) and a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities. The accompanying *Statement of Budgetary Authorities* compares the department's spending authorities granted by Parliament to those used by the department. Information in the Statement of Authorities is consistent with that in the *Main Estimates* and *Supplementary Estimates.*

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 *Appropriations Acts* or through legislation in the form of statutory spending 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.

The CGC uses the full accrual method of accounting to prepare and present its annual departmental financial statements included in the Departmental Results Report (formerly the Departmental Performance Report). However, the spending authorities voted by Parliament are on an expenditure basis (modified cash) of accounting.

1.3 CGC Financial Structure

The CGC funding structure is based on budgetary authorities that are comprised of both statutory and voted (non-statutory) authorities. The statutory authorities include employee benefit plan authority for appropriation-funded personnel costs and CGC revolving fund authority, which allows the CGC to re-spend fees that it has collected. The voted authority is Vote 1 – Program Expenditures, which includes annual appropriation authority and any one time ad hoc appropriation authority for the fiscal year.

A revolving fund was set up for the CGC in 1995 with the expectation that the CGC would be largely self-funded through fees for service. Prior to August 1, 2013, CGC user fees had not increased since 1991 despite continually increasing operating costs. As a result, overall cost recovery had fallen from approximately 90 percent in the early 1990s to between 50 and 60 percent. The CGC's falling cost recovery level caused the CGC to rely on ad hoc government appropriation from 1999 to 2014 to fund operations on an annual basis.

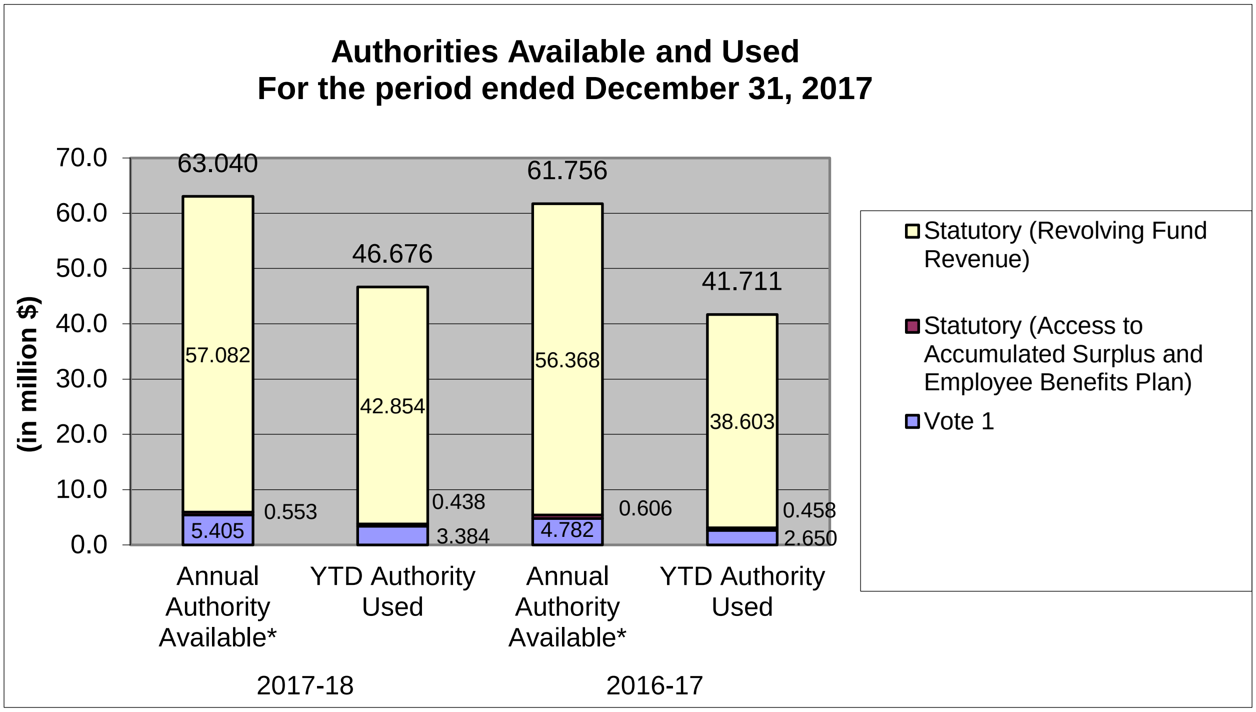
In fall 2012, the CGC initiated a process to modernize user fees to align with amendments to the CGA introduced in Parliament as part of *Bill C-45*. Bill C-45 received Royal Assent on December 14, 2012. Amended legislation and updated user fees came into force concurrently on August 1, 2013. These changes eliminated the need for annual ad hoc funding going forward.

Planned spending for fiscal year 2017-18 is based on operations under an amended CGA and fees updated in 2013. The CGC planned to recover approximately 92 percent of its costs through fees. Planned FTEs are 404 during fiscal year 2017-18 as per the Departmental Plan (formerly the Report on Plans and Priorities).

During 2015-16, the CGC commenced a review of the fee structure as part of the organizations five year review cycle. The review will ensure that fees accurately reflect the costs of providing services and reflect updated grain volume projections and the uncertainty associated with such projections. Fee consultations have taken place. An updated fee schedule is expected to be in place by April 1, 2018. In addition, to reflect updated grain volume forecasts and costs for official inspection and weighing services and to control the accumulation of additional surplus in the CGC revolving fund, the CGC has reduced fees for official inspection and official weighing services as of August 1, 2017.

2.0 Highlights of Fiscal Year to Date

This section highlights any significant items that affected the year-to-date results and/or contributed to the net change in resources available for the year and actual expenditures. It should be read in conjunction with the *Statement of Budgetary Authorities* and the *Departmental Budgetary Expenditures by Standard Object,* which can be found at the end of this report.



* Authority available based on amounts approved through the Estimates process. Amounts detailed in Statement of Authorities.

2.1 Authority Available Analysis

As reflected in the *Statement of Budgetary Authorities,* the department's total authority available for use (net of Revolving Fund revenue) in the fiscal year as at December 31, 2017 is $5.958 million, as compared to $5.388 million as at December 31, 2016. The authorities available for use are consistent with prior fiscal year 2016-17.

With the implementation of revised user fees to support its sustainable funding model, the CGC forecasts an increase of $0.714 million in its revolving fund gross revenues authorities due to inflation adjustments for user fees. This increase does not affect the change in the CGC budgetary authorities.

2.2 Authority Used Analysis

As reflected in the *Departmental Budgetary Expenditures by Standard Object,* the department's total budgetary authority used in the quarter ended December 31, 2017 is $1.631 million, as compared to ($6.372 million) as at the quarter ended December 31, 2016. The change of $8.003 million in total budgetary authority used can be attributed to:

1. the overall decrease of $6.710 million in revenues received in the quarter ended December 31, 2017 primarily due to reduction of fees related to outward official inspection and weighing and elimination of recoverable overtime; and

2. the overall increase of $1.293 million in expenditures is primarily a result of the following significant variances:

    a. Personnel expenditures increased by $1.172 million as compared to the same quarter last year primarily due to retroactive payments for collective agreement settlements;

The total budgetary authority used in the year to December 31, 2017 is ($4.039 million) as compared to ($15.529 million) for the same period last year. The change of $11.490 million in budgetary authority used can be attributed to:

1. the overall decrease of $6.525 million in revenues collected is primarily due to reduction of fees related to outward official inspection and weighing and elimination of recoverable overtime; and

2. the overall increase of $4.965 million in expenditures is as a result of the following significant variances:

    a. Personnel expenditures increased by $4.293 million as compared to the same period last year primarily to retroactive payments for collective agreement settlements;

    b. Professional and special services expenditures increased by $0.354 million as compared to the same period last year primarily due to increased project management and consulting services for the development of a functional program for the headquarters building which defines CGC's space requirements going forward; and

    c. Acquisition of machinery and equipment expenditures increased by $0.566 million as compared to the same period last year primarily due to purchase of bench scales for CGC service centers and terminal locations.

3.0 Risks and Uncertainties

The CGC receives funding through both voted appropriations and fees related to the handling of grain. Service fee revenue is largely based on grain volumes which fluctuate from year to year. The annual budget is also re-profiled throughout the year to deal with shifting needs and priorities, including risk mitigation strategies that enable the CGC to accommodate up to a 20 percent swing in forecasted grain volumes.

In fall 2012, the CGC initiated a process to modernize user fees to align with amendments to the CGA introduced in Parliament as part of Bill C-45. Bill C-45 received Royal Assent on December 14, 2012. Amended legislation and updated user fees came into force concurrently on August 1, 2013. These changes eliminated the need for annual ad hoc funding going forward and created a more stable environment for business and people management. A stable funding environment has reduced overall organizational financial risk and allows the CGC to continue to successfully deliver its program activities and achieve strategic outcomes.

While updated user fees took effect on August 1, 2013, there continues to be external pressure and corresponding risks related to the CGC's funding structure. As noted above, CGC revenues are dependent on annual grain volumes that can fluctuate considerably from year to year. In addition, grain volumes are not fully known prior to commencement of the fiscal year. This can result in significant variances between CGC projected revenues and actual revenues. Because actual grain volumes vary from year to year, in years with higher-than-average grain volumes, revenues may exceed costs and the CGC could accumulate surpluses (shown as unused authority carried forward in Public Accounts). In years with lower-than-average grain volumes, revenues could be less than costs and the CGC is required to draw on its surpluses. The reduction to user fees on August 1, 2017 may increase the risk that CGC will require the use of surplus during the year.

The fees for the 2013 to 2018 user fees cycle are based on an annual average grain volume of 23.253 million metric tonnes. A simple 15-year average linear regression model of grain volumes inspected and weighed was used to establish the average of 23.253 million metric tonnes. Since the implementation of the user fee schedule on August 1, 2013, the CGC has inspected and weighed significantly higher than projected export grain volumes while operating costs have remained relatively constant. While the updated funding model and user fees have eliminated the CGC's dependence on annual ad hoc federal appropriations, the CGC accumulated a surplus of $121.789 million as of March 31, 2017 due to higher than expected grain volumes in recent years.

To control further accumulation of surplus revenue, CGC fees for official inspection and weighing services were reduced by 24% effective August 1, 2017 as these fees were generating the majority of the surplus. These fee reductions will result in savings to industry of approximately $15 million annually. Between August 1, 2017 and October 31, 2017 the grain industry saved over $4 million in CGC fees. The CGC is proposing to reduce most of its remaining fees effective April 1, 2018. These additional fee reductions are expected to further reduce costs to the grain industry by approximately $405,000 annually.

To mitigate the risks associated with the funding model, the CGC:

- completed a review of its fee structure to ensure that user fees accurately reflect the costs of providing services;

- updated grain volume projections, as well as the uncertainty associated with these projections. The CGC's updated model for projecting grain volumes uses time-series analysis. Annual grain volumes of approximately 34.400 MMT are projected over the next five years. The previous historical average annual grain volume model for forecasting annual revenue projections was replaced because higher than projected annual grain volumes over the past several years have led to total revolving fund revenue being higher than expected;

- completed user fees consultations during the first quarter of 2017 to ensure the user fees amendment process, as per the *Service Fees Act*, was completed in a timely manner;

- is assessing possible options and uses for the accumulated surplus by engaging central agencies and stakeholders; and
- will continue to engage collaboratively with all stakeholders to understand their priorities and to expand awareness of what the CGC does and how it adds value.

4.0 Significant Changes to Operations, Personnel, and Programs

From fiscal year 2012-13 to fiscal year 2015-16, the CGC transformed itself into a streamlined and financially sustainable organization. This was achieved by moving the responsibility for inward inspection and weighing from the CGC to the private sector and updating the CGC's fees to cover the costs of providing its services. Changes resulted in a reduction in operational spending of $21.835 million between 2012-13 and 2015-16.

Planned operational spending began to stabilize at approximately $60.537 million in 2015-16. This includes $5.475 million from annual appropriation and projected spending of approximately $55.062 million of revenue earned through user fees as adjusted for inflation. Planned human resource requirements decreased from approximately 731 full time equivalents (FTEs) (as at March 31, 2013) to 404 FTEs by the end of 2015-16.

The CGC reduced fees for official inspection and weighing services as well as eliminated recoverable overtime as of August 1, 2017.

Significant changes to operations and programs are not anticipated in 2017-18 even though there will be a transfer of services from Chatham to Hamilton service center.

A new division was established called, Information Management and Technology Services (IMTS).

Approval by Senior Official

Approved by**:**

Patricia Miller Chief Commissioner Winnipeg, Manitoba February 22, 2018	Cheryl Blahey Chief Financial Officer Winnipeg, Manitoba February 22, 2018

Statements of Budgetary Authorities (Unaudited)

For the quarter ended December 31, 2017

(in thousands of dollars)	Fiscal Year 2017-18: Total available for use for the year ending March 31, 2018*	Fiscal Year 2017-18: Used during the quarter ended December 31, 2017	Fiscal Year 2017-18: Year-to date used at quarter end	Fiscal Year 2016-17: Total available for use for the year ending March 31, 2017*	Fiscal Year 2016-17: Used during the quarter ended December 31, 2016	Fiscal Year 2016-17: Year-to date used at quarter end
Vote 1						
Appropriation including Ad hoc	**$ 5,405**	**1,503**	**3,384**	**$ 4,782**	**849**	**2,650**
Statutory Authorities:						
Revolving Fund Gross Expenditures	57,082	14,440	42,854	56,368	13,800	38,603
Revolving Fund Gross Revenues	(57,082)	(14,456)	(50,715)	(56,368)	(21,166)	(57,240)
Revolving Fund Net Expenditures	**$ 0**	**(16)**	**(7,861)**	**$ 0**	**(7,366)**	**(18,637)**
Employee Benefit Plan	553	144	438	606	145	458
Total Statutory Authorities	**553**	**128**	**(7,423)**	**606**	**(7,221)**	**(18,179)**
Total Budgetary Authorities	**$ 5,958**	**1,631**	**(4,039)**	**$ 5,388**	**(6,372)**	**(15,529)**

*** Includes only Authorities available for use and granted by Parliament at quarter-end.**
Due to rounding, totals may not add to totals shown.

Departmental Budgetary Expenditures by Standard Object (Unaudited)

For the quarter ended December 31, 2017

	Fiscal Year 2017-18			*Fiscal Year 2016-17*		
(in thousands of dollars)	Planned Expenditures for the year ending March 31, 2018*	Expended during the quarter ended December 31, 2017	Year-to date used at quarter end	Planned Expenditures for the year ending March 31, 2017*	Expended during the quarter December 31, 2016	Year-to date used at quarter end
Expenditures:						
Personnel	$43,271	11,509	34,358	$42,622	10,337	30,065
Transportation and communications	3,515	1,019	2,217	2,892	1,197	2,484
Information	330	56	173	318	116	230
Professional and special services	2,677	614	2,060	3,059	508	1,706
Rentals	6,014	1,445	4,135	6,684	1,195	4,121
Repair and Maintenance	1,931	231	747	993	339	769
Utilities, materials and supplies	879	404	923	852	248	652
Acquisition of machinery and equipment	4,423	814	1,928	4,336	680	1,362
Other Subsidies and payments	0	(5)	135	0	174	322
Total Gross Budgetary Expenditures	**63,040**	**16,087**	**46,676**	**61,756**	**14,794**	**41,711**
Revolving Fund Revenue (To be credited to Vote)	**(57,082)**	**(14,456)**	**(50,715)**	**(56,368)**	**(21,166)**	**(57,240)**
Total Net Budgetary Expenditures	**$ 5,958**	**1,631**	**(4,039)**	**$ 5,388**	**(6,372)**	**(15,529)**

*** Includes only Authorities available for use and granted by Parliament at quarter-end.**
Due to rounding, totals may not add to totals shown.