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 June 30, 2018

Canada

Table of Contents

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.

The CGC's Core Responsibility is Grain Regulation, or, to regulate grain handing in Canada and to establish and maintain science based standards for Canadian grain. The Commission regulates the handing of 20 grains[1] grown in Canada to protect producer rights and to ensure the integrity of grain transactions.

The Departmental Results of this Core Responsibility are that domestic and international markets regard Canadian grain as dependable and safe, and that farmers are fairly compensated for their grain. The CGC supports its Core Responsibility through its three programs: Grain Quality, Grain Research, and Safeguards for Grain Farmers. Internal Services 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

[1] Grain refers to any seed designated by regulation as a grain for the purposes of the Canada Grain Act. This includes barley, beans, buckwheat, canola, chickpeas, corn, fababeans, flaxseed, lentils, mixed grain, mustard seed, oats, peas, rapeseed, rye, safflower seed, soybeans, sunflower seed, triticale, and wheat.

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 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 annually.

The CGC updated fees on August 1, 2013, which eliminated the need for annual ad hoc funding going forward. Updated fees were based on a $60 million operating budget, and an annual average official inspection and weighing volume of 23.253 million metric tonnes of export grains. However, the actual volume of grain officially inspected and weighed was underestimated due to an unprecedented increase in production. Predicting grain volumes is inherently difficult due to ongoing annual variations from weather and numerous other conditions. As a result, as of March 31, 2017, the CGC had reported an accumulated revolving fund surplus of approximately $121.789 million in the Public Accounts of Canada due to higher than expected grain volumes and relatively stable operating costs. The CGC continued to report a surplus in its 2017-18 quarterly financial reports.

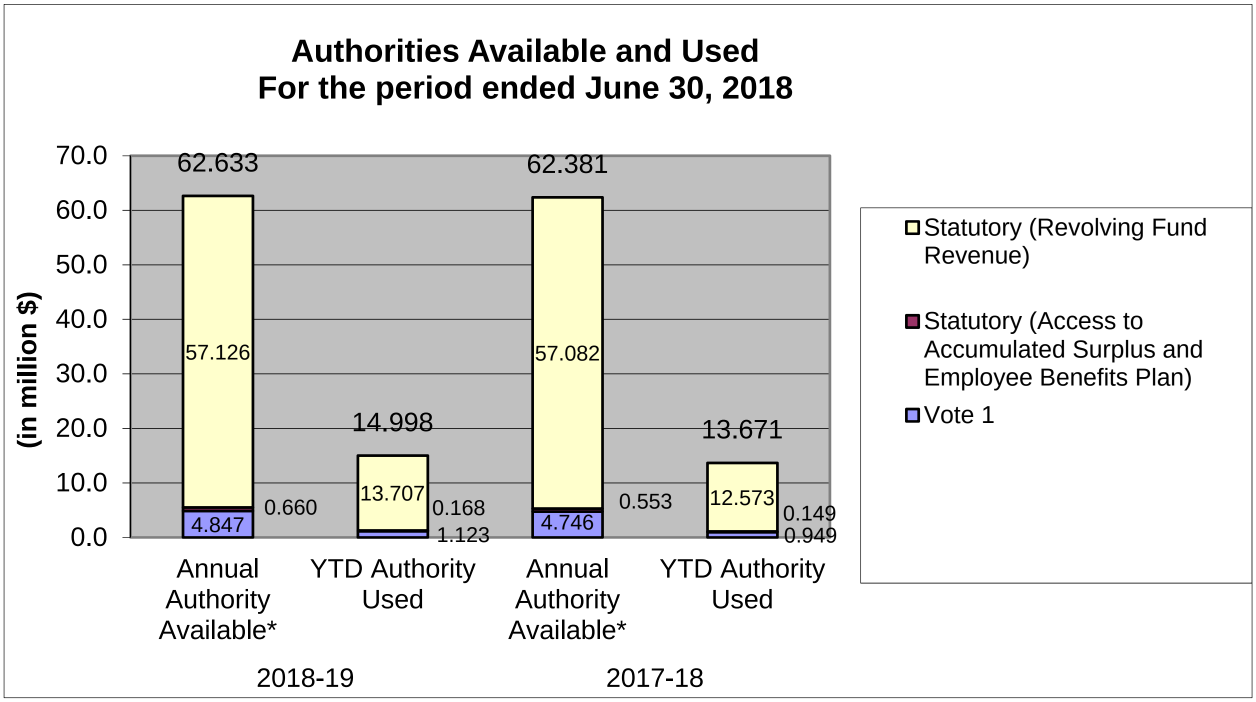
In 2017-18, the CGC conducted fee consultations with stakeholders to update its funding model and fee schedule as part of the organization's 5-year fee review cycle. The 2017 User Fees Consultation and Pre-Proposal Notification issued on March 1, 2017, proposed changes to fees and service standards to mitigate the risk of further accumulation of surplus funds and to align fees with operational costs. As a result, the CGC reduced fees for official inspection and official weighing services, effective August

1, 2017. Further fee updates came into effect April 1, 2018, to better align revenues and costs.

The CGC's revenue projections for 2018-19 and beyond are based on the funding model identified in the 2017 User Fees Consultation and Pre-Proposal Notification and fees published in the Canada Gazette, Part II in March 2018. This includes a revised annual grain volume projection of 34.400 million metric tonnes and fees as set out in Schedule I to the Canada Grain Regulations. Planned revenue projections and FTEs for 2018-19 and beyond are available in the CGC's 2018-19 Departmental Plan.

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 June 30, 2018 is $5.507 million, as compared to $5.299 million as at June 30, 2017. The increase of $0.208 million is primarily due to the revised salary base from collective agreement settlements implemented during 2017.

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 June 30, 2018 is \$0.758 million, as compared to (\$7.912 million) as at the quarter ended June 30, 2017 The change of \$8.670 million in total budgetary authority used can be attributed to:

1. the overall decrease of \$7.343 million in revenues received in the quarter ended June 30, 2018 primarily due to reduction of service fees related to outward official inspection and weighing and elimination of recoverable overtime; and

2. the overall increase of \$1.327 million in expenditures is primarily a result of the following significant variances:

    a. Personnel expenditures increased by \$0.428 million as compared to the same quarter last year primarily due to the revised salary base from collective agreement settlements implemented in 2017 and payment of obligations for departing employees; and

    b. Professional and services increased by \$0.572 million as compared to the same quarter last year primarily due to the timing of the payment for pay services to Public Services and Procurement Canada.

3.0 Risks and Uncertainties

The CGC receives funding through voted appropriations and fees related to services and licenses it provides to the grain sector. Fee revenue is largely based on grain volumes, which fluctuate 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 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.

The CGC updated fees 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 its departmental result.

After the CGC implemented its fee schedule on August 1, 2013, the CGC has inspected and weighed significantly higher than projected export grain volumes while operating costs remained relatively constant. While the updated funding model and fees eliminated the CGC's dependence on annual ad hoc federal appropriations, higher than expected grain volumes resulted in revolving fund surpluses of $25.902 million in 2016-17. This led to a total authority available for future years of $121.789 million as of March 31, 2017 reported in the Public Accounts of Canada. The CGC continued to report a surplus in its 2017-18 quarterly financial reports.

Effective August 1, 2017, the CGC mitigated the risk of further accumulation of surplus funds through reducing fees for official inspection and weighing services by 24% as these fees were generating the majority of the surplus. This fee reduction occurred 8 months ahead of the end of the CGC's 5-year review cycle. Further fee updates came into effect April 1, 2018 to better align revenues and costs, and factor in projected increases in grain volumes inspected and weighed by the CGC. In 2017-18, the fee reductions resulted in sector savings of $10.8 million. Going forward the CGC expects that these reductions will result in sector savings of approximately $15.5 million annually.

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

- completed a review of its fee structure to ensure that 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 34.405 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 fee consultations during the first quarter of 2017 to ensure the fee amendment process, as per the Service Fees Act, was completed in a timely manner;
- conducted consultations with stakeholders regarding potential uses of available surplus funds; 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 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. Further fee updates came into effect April 1, 2018 to better align revenues and costs, and factored in projected increases in grain volumes inspected and weighed by the CGC.

In early 2016, the federal government implemented the Policy on Results. The policy requires departments to establish and implement a Departmental Results Framework (DRF). The CGC’s DRF was approved on October 30, 2017 and the new framework took effect April 1, 2018. The DRF identifies the CGC’s one core responsibility as Grain Regulation, and includes a Program Inventory of three programs: Grain Quality, Grain Research, and Safeguards for Grain Farmers. These three programs replace the programs and sub-programs established in the Program Alignment Architecture.

In 2017-18, the CGC relocated its Service Centre in Chatham, Ontario, to Hamilton, Ontario. The decision to move will allow the CGC to deliver more cost-effective service. In January 2018 a new division was established, Corporate Services. This Division is responsible for Corporate Information Services; Policy, Planning and Reporting; National Affairs; and the newly established Project Management Office unit. The CGC welcomed Jon Friesen as Director, Corporate Services.

The CGC established its own Pay Integration Unit to provide support to employees with complex or untimely pay issues and supported the resolution of larger scale problems affecting employee pay.

Approval by Senior Official

Approved by**:**

Patricia Miller Chief Commissioner Winnipeg, Manitoba August 31, 2018	Cheryl Blahey Chief Financial Officer Winnipeg, Manitoba August 31, 2018

Statements of Budgetary Authorities (Unaudited)

For the quarter ended June 30, 2018

	Fiscal Year 2018-19			*Fiscal Year 2017-18*		
(in thousands of dollars)	Total available for use for the year ending March 31, 2019*	Used during the quarter ended June 30, 2018	Year-to date used at quarter end	Total available for use for the year ending March 31, 2018*	Used during the quarter ended June 30, 2017	Year-to date used at quarter end
Vote 1						
Appropriation including Ad hoc	**$ 4,847**	**1,123**	**1,123**	**$ 4,746**	**949**	**949**
Statutory Authorities:						
Revolving Fund Gross Expenditures	57,126	13,707	13,707	57,082	12,573	12,573
Revolving Fund Gross Revenues	(57,126)	(14,240)	(14,240)	(57,082)	(21,583)	(21,583)
Revolving Fund Net Expenditures	**$ 0**	**(533)**	**(533)**	**$ 0**	**(9,010)**	**(9,010)**
Employee Benefit Plan	660	168	168	553	149	149
Total Statutory Authorities	**660**	**(365)**	**(365)**	**553**	**(8,861)**	**(8,861)**
Total Budgetary Authorities	**$ 5,507**	**758**	**758**	**$ 5,299**	**(7,912)**	**(7,912)**

*** 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 June 30, 2018

(in thousands of dollars)	*Fiscal Year 2018-19* Planned Expenditures for the year ending March 31, 2019*	Expended during the quarter ended June 30, 2018	Year-to date used at quarter end	*Fiscal Year 2017-18* Planned Expenditures for the year ending March 31, 2018*	Expended during the quarter June 30, 2017	Year-to date used at quarter end
Expenditures:						
Personnel	$43,203	10,815	10,815	$42,646	10,387	10,387
Transportation and communications	2,885	618	618	3,515	604	604
Information	279	31	31	330	36	36
Professional and special services	3,485	875	875	2,677	303	303
Rentals	6,478	1,501	1,501	5,979	1,411	1,411
Repair and Maintenance	1,243	303	303	1,931	317	317
Utilities, materials and supplies	1,250	343	343	880	248	248
Acquisition of machinery and equipment	3,810	345	345	4,423	297	297
Other Subsidies and payments	0	167	167	0	68	68
Total Gross Budgetary Expenditures	**62,633**	**14,998**	**14,998**	**62,381**	**13,671**	**13,671**
Revolving Fund Revenue (To be credited to Vote)	**(57,126)**	**(14,240)**	**(14,240)**	**(57,082)**	**(21,583)**	**(21,583)**
Total Net Budgetary Expenditures	**$ 5,507**	**758**	**758**	**$ 5,299**	**(7,912)**	**(7,912)**

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