



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 September 30, 2019

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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.

The CGC's Core Responsibility is Grain Regulation, or, to regulate grain handling in Canada and to establish and maintain science based standards for Canadian grain. The Commission regulates the handling of 20 grains¹ grown in Canada to protect producer rights and to ensure the integrity of grain transactions.

The CGC's Departmental Results are that domestic and international markets regard Canadian grain as dependable and safe, and that farmers are fairly compensated for their grain. The CGC has three programs: Grain Quality, Grain Research and Safeguards for Grain Farmers. Internal Services supports these programs.

Further details on the CGC's authority, mandate, and programs may be found in the [Departmental Plan](#), the [Departmental Results Report](#), 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](#).

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.

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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](#). 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, 2019, the CGC had reported an accumulated revolving fund surplus of approximately \$134.334 million in the Public Accounts of Canada due to higher than expected grain volumes and relatively stable operating costs.

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.

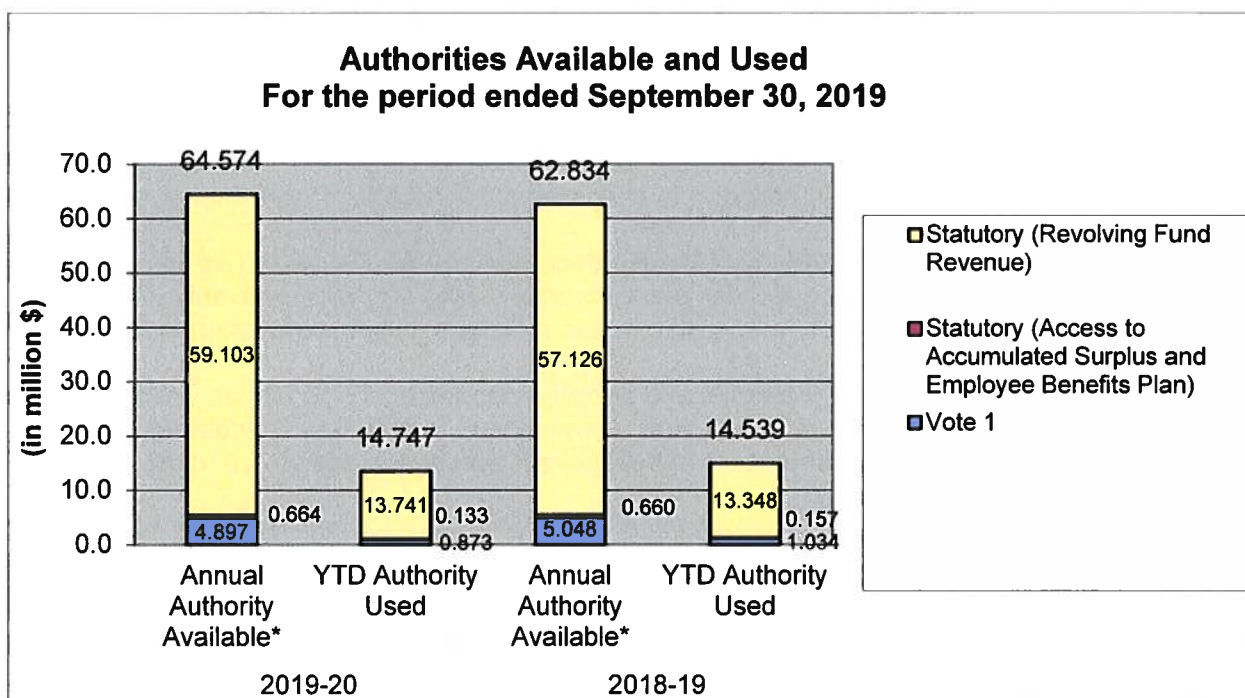
The CGC's revenue projections for 2019-20 and beyond are based on the funding model identified in the [2017 User Fees Consultation and Pre-Proposal Notification](#) and fees

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published in the [Canada Gazette, Part II](#) in March 2018. This includes a revised annual grain volume projection of 34.405 million metric tonnes and fees as set out in [Schedule I to the Canada Grain Regulations](#). Planned revenue projections and FTEs for 2019-20 and beyond are available in the CGC's [2019-20 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 September 30, 2019 is \$6.191 million, as compared to \$5.708 million as at September 30, 2018. The increase of \$0.483 million is primarily due to anticipated spending on the continued enhancement of the Harvest Sample Program.

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 September 30, 2019 is \$0.743 million, as compared to \$2.407 million used in the quarter ended September 30, 2018. The change of (\$1.664 million) in total budgetary authority used can be attributed to:

1. the overall increase of \$1.872 million in revenues received in the quarter ended September 30, 2019 primarily due to higher grain volumes handled; and
2. the overall increase of \$0.208 million in expenditures, primarily a result of the following variances:
 - a. Professional and special services expenditures increased by \$0.457 million as compared to the same quarter last year, primarily due to advanced payment for SAP and Legal services ;
 - b. Rentals increased by \$0.183 million as compared to the same quarter last year, primarily due to purchase of Microsoft software licenses in 2019-20;
 - c. Repair and maintenance decreased by \$0.124 million as compared to the same quarter last year, primarily due to a prepaid warranty of lab equipment and replacement of Reverse Osmosis System in 2018-19; and
 - d. Utilities, materials and supplies decreased by \$0.288 as compared to the same quarter last year, primarily due to start up expenditures related to the enhancement of the Harvest Survey Program in 2018-19.

The total budgetary authority used in the year to September 30, 2019 is 0.134 million compared to \$3,166 million for the same period last year. The change of (\$3,032 million) in budgetary authority used can be attributed to:

1. the overall increase of \$1.766 million in revenues received in the period ended September 30, 2019 primarily due to higher grain volumes handled; and
2. the overall decrease of \$1.266 million in expenditures, primarily a result of the following variances:
 - a. Transportation and communication expenditures decreased by \$0.288 million as compared to the same period last year, primarily due to reduction in Public Servant travel in the Industry Services Division;
 - b. Professional services decreased by \$0.311 million as compared to the same period last year, primarily due to the timing of payment for pay services to Public Services and Procurement Canada;
 - c. Repair and maintenance decreased by \$0.206 million as compared to the same period last year, primarily due to a prepaid warranty of lab equipment and replacement of Reverse Osmosis System in 2018-19; and

- d. Utilities, materials and supplies decreased by \$0.388 as compared to the same period last year, primarily due to start up expenditures related to the enhancement of the Harvest Survey Program in 2018-19.

3.0 Risks and Uncertainties

The CGC receives funding through voted appropriations and fees related to services and licences it provides to the grain sector. Fees 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 would be required to draw on its surpluses. The Canadian grain sector continues to face uncertainty regarding access to international markets due to heightened market sensitivity related to real and perceived grain quality and safety issues. Restricted access has potential to result in lower than expected grain volumes and revenues. The annual budget is reviewed throughout the year to accommodate shifting needs and priorities, including risk mitigation strategies that enable the CGC to accommodate up to a 20 percent variance in forecasted grain volumes.

On August 1, 2018, the CGC announced plans to invest approximately \$130 million of accumulated surplus funds in programs and services through a investment framework. The CGC plans to spend \$90 million on strategic investment, with the remainder held as a contingency fund to mitigate the risk of fluctuating grain volumes. The key areas of investment are as follows:

- Strengthening safeguards for producers;
- Investing in grain quality assurance; and
- Enhancing grain quality science and innovation.

As part of the Investment Framework, the CGC announced enhancements to the Harvest Sample Program. Starting for the 2018-19 crop year, the Harvest Sample Program will provide deoxynivalenol (DON), also known as vomitoxin, and Falling Number² results for wheat samples, and DON results for corn samples. Producers can use this quality information to help make marketing and delivery decisions. The CGC has allocated \$4 million to fund these enhancements to the Harvest Sample Program over five years.

When the Investment Framework was announced, the CGC committed to working with stakeholders and stated its intent to consult the sector on further investment initiatives. At that time the CGC envisioned rolling out investments over a two-year time frame, but as a result of Budget 2019's announcement of a Canada Grain Act review, the CGC is engaging in further consultations on investment initiatives.

Budget 2019 confirmed the Government's commitment to reviewing the Canada Grain Act in response to stakeholder input received through the Regulatory Review and the

² The Falling Number test evaluates the amount of alpha-amylase found in sprout damage in Canadian wheats, which impacts baking performance.

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Economic Strategy Roundtable. Agriculture and Agri-Food Canada (AAFC) will lead the review with support from the CGC. Until the review is complete, and decisions are taken the impact to CGC operations, personnel, programs, and budgets is unknown.

4.0 Significant Changes to Operations, Personnel, and Programs

Over the last 10 years, the grain sector has experienced a period of significant transformation. In order to add-value and deliver clear results to this dynamic sector, since fiscal 2012-13 the CGC has been streamlining operations and become a financially sustainable organization.

Planned operational spending has stabilized at approximately \$61 million. Planned human resource requirements are approximately 450 Full Time Equivalents.

During the 2nd quarter of 2019-20 and going forward, the following changes to executive management structure have or will be taking place:

- The Director General, Grain Research Laboratory, Dr. Stefan Wagener retired effective August 2019. Dr. Esther Salvano has been appointed to the position;
- CGC's Chief Audit Executive, Brian Brown, retired from the Public Service. Angela Davis was appointed to the position effective September 2019; and
- The CGC announced the formation of the Innovation and Strategy Division in September 2019. This division incorporates the units previously grouped under Corporate Services, as well as the Statistics and Business Information unit, and will be led by Jon Friesen.

Approval by Senior Official

Approved by:



Patricia Miller
Chief Commissioner and Deputy Head
Winnipeg, Manitoba
November 7, 2019



Cheryl Blahy
Chief Financial Officer
Winnipeg, Manitoba
November 7, 2019

Statements of Budgetary Authorities (Unaudited)

For the quarter ended September 30, 2019

	Fiscal Year 2019-20		Fiscal Year 2018-19	
	Total available for use for the year ending March 31, 2020*	Used during the quarter ended September 30, 2019	Used during the quarter ended September 30, 2018	Year-to date used at quarter end
(in thousands of dollars)				
Vote 1		873	1,034	2,158
Appropriation including Ad hoc	\$ 4,897			
Statutory Authorities:				
Revolving Fund Gross Expenditures	59,013	13,741	13,348	27,055
Revolving Fund Gross Revenues	(58,383)	(14,004)	(12,132)	(26,372)
Revolving Fund Net Expenditures	\$ 630	(263)	1,216	683
Employee Benefit Plan	664	133	157	325
Total Statutory Authorities	1,294	(130)	1,373	1,008
Total Budgetary Authorities	\$ 6,191	743	2,407	3,166

* 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 September 30, 2019

	Fiscal Year 2019-20			Fiscal Year 2018-19		
	Planned Expenditures for the year ending March 31, 2020*	Expended during the quarter ended September 30, 2019	Year-to date used at quarter end	Planned Expenditures for the year ending March 31, 2019*	Expended during the quarter ended September 30, 2018	Year-to date used at quarter end
(in thousands of dollars)						
Expenditures:						
Personnel	\$44,348	10,784	21,645	\$43,203	10,737	21,552
Transportation and communications	2,979	636	1,058	2,885	667	1,286
Information	190	76	98	279	51	82
Professional and special services	2,868	821	927	3,485	364	1,238
Rentals	6,536	1,503	2,894	6,679	1,320	2,821
Repair and Maintenance	1,552	243	464	1,243	367	670
Utilities, materials and supplies	2,207	322	565	1,250	610	953
Acquisition of machinery and equipment	3,894	365	584	3,810	394	740
Other Subsidies and payments	0	(3)	37	0	29	196
Total Gross Budgetary Expenditures	64,574	14,747	28,272	62,834	14,539	29,538
Revolving Fund Revenue (To be credited to Vote)	(58,383)	(14,004)	(28,138)	(57,126)	(12,132)	(26,372)
Total Net Budgetary Expenditures	\$ 6,191	743	134	\$ 5,708	2,407	3,166

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