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, 2019

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.

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 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.

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.

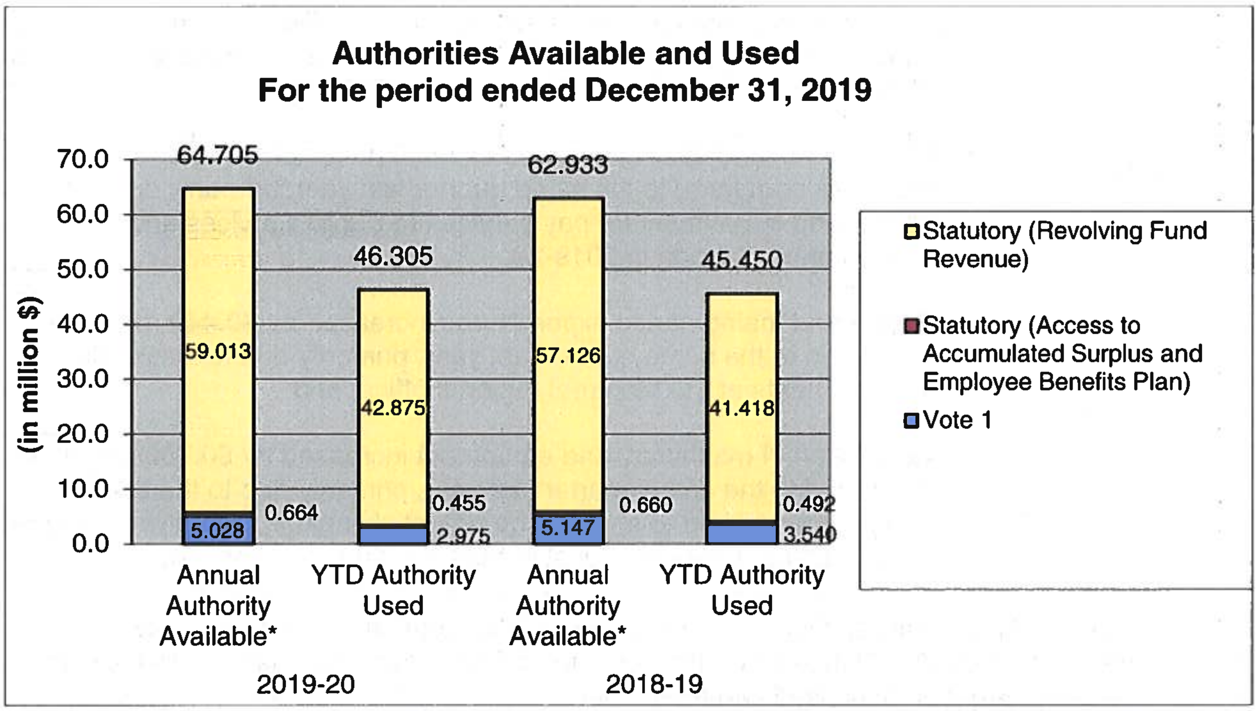
The CGC updated fees on August 1, 2013, which eliminated the need for annual ad hoc funding going forward. Updated fees were based on a $60 million operating budget, and an annual average official inspection and weighing volume of 23.253 million metric tonnes of export grains. However, the actual volume 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 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 December 31, 2019 is $6.322 million, as compared to $5.807 million as at December 31, 2018. The increase of $0.515 million is primarily due to anticipated spending on the continued enhancement of the Harvest Sample Program as part of the investment framework.

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, 2019 is $1.414 million, as compared to ($3.231 million) used in the quarter ended December 31, 2018. The change of $4.645 million in total budgetary authority used can be attributed to:

1. the overall decrease of $2.532 million in revenues received in the quarter ended December 31, 2019, primarily due to lower grain volumes handled as compared to last year; and

2. the overall increase of $2.113 million in expenditures, primarily a result of the following variances:

    a. Personnel expenditures increased by $0.458 million as compared to the same quarter last year, primarily due to payment of retro pay as a result of settlement of collective agreements in 2019-20;

    b. Professional and special services expenditures increased by $0.613 million as compared to the same quarter last year, primarily due to the later timing of payment for pay services to Public Services and Procurement Canada in 2019-20;

    c. Repair and maintenance expenditures increased by $0.449 million as compared to the same quarter last year, primarily due to leasehold improvements at the Montreal regional office; and

    d. Acquisition of machinery and equipment increased by $0.730 million as compared to the same quarter last year, primarily due to the additional equipment required to analyze the potential impacts of applying mineral oil to grain as a means of dust suppression during handling.

The total budgetary authority used in the year to December 31, 2019 is 1.548 million compared to ($0.073 million) for the same period last year. The change of $1.621 million in budgetary authority used can be attributed to:

1. the overall decrease of $0.766 million in revenues received in the period ended December 31, 2019 primarily due to lower grain volumes handled as compared to last year; and

2. the overall increase of $0.855 million in expenditures, primarily a result of the following variances:

    a. Personnel expenditures increased by $0.552 million as compared to the same period last year, primarily due to payment of retro pay as a result of settlement of collective agreements in 2019-20;

    b. Transportation and communication expenditures decreased by $0.316 million as compared to the same period last year, primarily due to reduction in Public Servant travel in the Industry Services Division;

c. Professional services expenditures increased by $0.302 million as compared to the same period last year, primarily due to the later timing of payment for pay services to Public Services and Procurement Canada;

d. Utilities, materials and supplies expenditures decreased by $0.455 as compared to the same period last year, primarily due to start up expenditures in 2018-19 that related to the enhancement of the Harvest Survey Program; and

e. Acquisition of machinery and equipment increased by $0.574 as compared to the same period last year, primarily due to additional equipment required to analyze the potential impacts of applying mineral oil to grain as a means of dust suppression during handling.

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 an 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 were identified 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 Number[2] 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

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

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 has paused further consultations and rollout of investments.

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 Economic Strategy Roundtable. Agriculture and Agri-Food Canada (AAFC) will lead the review with support from the CGC. The review is ongoing and may result in regulatory or operational changes.

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 3rd quarter of 2019-20 and going forward, the following changes to executive management structure have or will be taking place:

- Gino Castonguay has been appointed as Acting Director, Industry Services effective the beginning of the fourth quarter. Derek Bunkowsky has been appointed as Acting Chief Grain Inspector for Canada.

Approval by Senior Official

Approved by:

Patricia Miller	Cheryl Blakey
Chief Commissioner and Deputy Head	Chief Financial Officer
Winnipeg, Manitoba	Winnipeg, Manitoba
February 25, 2020	February 19, 2020

Statements of Budgetary Authorities (Unaudited)

For the quarter ended December 31, 2019

	Fiscal Year 2019-20			Fiscal Year 2018-19		
(in thousands of dollars)	Total available for use for the year ending March 31, 2020*	Used during the quarter ended December 31, 2019	Year-to date used at quarter end	Total available for use for the year ending March 31, 2019*	Used during the quarter ended December 31, 2018	Year-to date used at quarter end
Vote 1						
Appropriation including Ad hoc	**$ 5,028**	**1,155**	**2,975**	**5,147**	**1,383**	**3,540**
Statutory Authorities:						
Revolving Fund Gross Expenditures	59,013	16,702	42,875	57,126	14,370	41,418
Revolving Fund Gross Revenues	(58,383)	(16,619)	(44,757)	(57,126)	(19,151)	(45,523)
Revolving Fund Net Expenditures	**$ 630**	**83**	**(1,882)**	**$ 0**	**(4,781)**	**(4,105)**
Employee Benefit Plan	664	176	455	660	167	492
Total Statutory Authorities	**1,294**	**259**	**(1,427)**	**660**	**(4,614)**	**(3,613)**
Total Budgetary Authorities	$ 6,322	1,414	1,548	$ 5,807	(3,231)	(73)

*** 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, 2019

(in thousands of dollars)	Fiscal Year 2019-20 Planned Expenditures for the year ending March 31, 2020*	Fiscal Year 2019-20 Expended during the quarter ended December 31, 2019	Fiscal Year 2019-20 Year-to date used at quarter end	Fiscal Year 2018-19 Planned Expenditures for the year ending March 31, 2019*	Fiscal Year 2018-19 Expended during the quarter ended December 31, 2018	Fiscal Year 2018-19 Year-to date used at quarter end
Expenditures:						
Personnel	$44,479	12,119	33,764	$43,203	11,661	33,212
Transportation and communications	2,979	939	1,998	2,885	1,028	2,314
Information	190	75	174	279	68	150
Professional and special services	2,868	990	1,917	3,485	377	1,615
Rentals	6,536	1,353	4,246	6,778	1,345	4,165
Repair and Maintenance	1,552	854	1,318	1,243	405	1,075
Utilities, materials and supplies	2,207	253	817	1,250	319	1,272
Acquisition of machinery and equipment	3,894	1,417	2,001	3,810	687	1,427
Other Subsidies and payments	0	33	70	0	30	220
Total Gross Budgetary Expenditures	**64,705**	**18,033**	**46,305**	**62,933**	**15,920**	**45,450**
Revolving Fund Revenue (To be credited to Vote)	**(58,383)**	**(16,619)**	**(44,757)**	**(57,126)**	**(19,151)**	**(45,523)**
Total Net Budgetary Expenditures	$ 6,322	1,414	1,548	$ 5,807	(3,231)	(73)

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