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, 2020

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

CGC programs and activities are funded through a combination of revolving fund (based on service fees) and appropriation sources. Approximately 91 percent of CGC costs are funded through its service fees. 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.

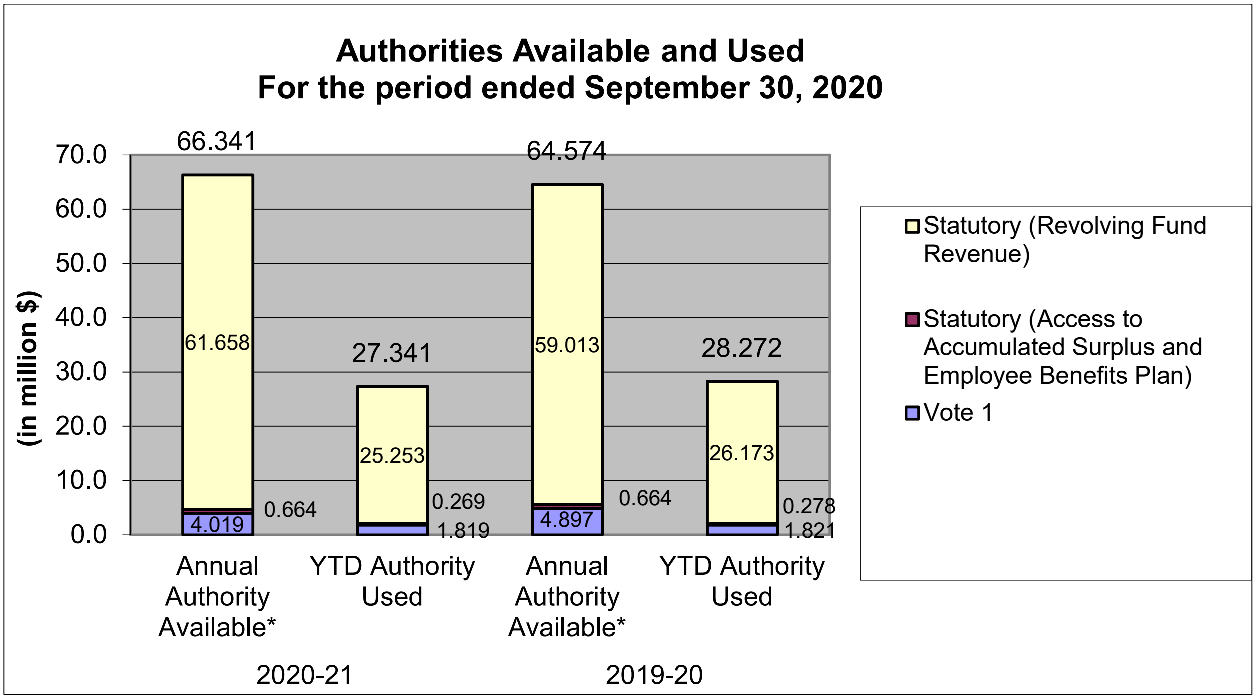
From 2013 through 2018, CGC fees were based on a funding model that used a historical average grain volume to forecast revenue projections. However, the actual volume of grain inspected and weighed was underestimated due to an unprecedented increase in production. Combined with relatively stable operating costs, this led to an accumulated revolving fund surplus of approximately $134.334 million as of March 31, 2019 in the Public Accounts of Canada.

In response to the surplus situation, the CGC implemented a new model for forecasting annual grain volumes and revenue projections that uses an updated time-series analysis model. The updated model mitigates the risk of significant accumulation of additional surplus and better aligns fees with the cost of service provision. 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 next fee review in the five-year fee review cycle is scheduled for 2023.

The CGC's revenue projections for 2020-21 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 of the Canada Grain Regulations. Planned revenue projections and full time equivalents (FTEs) for 2020-21 and beyond are available in the CGC's 2020-21 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 requested 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, 2020 is $6.790 million, as compared to $6.191 million as at September 30, 2019. The increase in authority of $0.599 million is primarily the result of enhancement of the Harvest Sample Program funding, additional ongoing funding received to respond to the settlement of collective agreements and the addition of operating budget carryforward. To the period ended September 30, 2020, the CGC has received 9/12ths of its amounts requested through the Estimates process.

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, 2020 is ($5.435 million), as compared to $0.743 million as at the quarter ended September 30, 2019. The change of ($6.178 million) in total budgetary authority used can be attributed to:

1. The overall increase of $5.890 million in revenues received in the quarter ended June 30, 2020 primarily due to increased grain volumes handled; and

2. The overall decrease of $0.288 million in expenditures, primarily a result of the following variances:

   a. Personnel expenditures increased by $0.283 million as compared to the same quarter last year, primarily due to payments of accumulated overtime and accumulated leave for departing employees;

   b. Transportation and communication expenditures decreased by $0.266 million as compared to the same quarter last year, primarily due to a significant reduction in travel as a result of COVID-19 restrictions on non-essential travel;

   c. Professional and special services expenditures decreased by $0.371 million as compared to the same quarter last year, primarily due to a decrease in training costs as a result of COVID-19 and timing differences for legal costs; and

   d. Utilities, materials and supplies expenditures increased by $0.109 million as compared to the same quarter last year, primarily due to increased cost of Harvest Sample Program grain envelopes.

The total budgetary authority used in the year to September 30, 2020 is ($6.935 million) compared to $0.134 million for the same period last year. The change of ($7.069 million) in budgetary authority used can be attributed to:

1. The overall increase of $6.138 million in revenues received in the period ended September 30, 2020 primarily due to higher grain volumes handled; and

2. The overall decrease of $0.931 million in expenditures, primarily a result of the following variances:

   a. Personnel expenditures decreased by $0.249 million as compared to the same period last year, primarily due to suspensions of temporary staffing;

   b. Transportation and communication expenditures decreased by $0.494 million as compared to the same period last year, primarily due to a significant reduction in travel as a result of COVID-19 restrictions on non-essential travel;

c. Professional and special services expenditures decreased by $0.401 million as compared to the same period last year, primarily due to a decrease in training costs as result of COVID-19 and timing differences for legal costs; and

d. Rentals expenditures increased by $0.247 million as compared to the same period last year, primarily due to the increased rental costs for the Thunder Bay Service Center.

3.0 Risks and Uncertainties

Certain financial, economic and environmental conditions may impact the CGC and its financial results. COVID-19, the CGC’s accumulated surplus, and revenue uncertainty have been identified as current risks. Strategies have been identified to mitigate these uncertainties.

3.1 COVID-19

Due to the onset of the COVID-19 pandemic in March 2020, the CGC invoked its Business Continuity Plan. Departmental resources were focused on the critical services of inspection and licensing and new service delivery approaches were adopted so that some mandated services could be provided while ensuring the safety of the CGC employees and the Canadian public. All CGC employees were initially required to work remotely except for those engaged in critical service delivery whose duties could not be performed remotely. The deployment of expanded and enhanced video conferencing and digital collaborative tools throughout the organization allowed CGC employees to continue to work effectively away from CGC offices during the COVID-19 pandemic. CGC employees quickly adapted to the new realities and the organization has continued to deliver on its strategic priorities and fulfill program commitments.

The CGC began implementing its Business Recovery Plan in August 2020, to provide for a gradual return of services that were suspended or modified due to the pandemic. This includes resumption of incremental analysis of export cargoes at terminal locations, which had been limited, and delivery of the Harvest Sample Program in August 2020. Additionally, in September 2020, Weighing Services resumed on-site device examinations and auditing at terminals and the GRL resumed a number of previously suspended laboratory activities. Adjustments have been made to program delivery processes to ensure physical distancing and mitigate risk of virus transmission in accordance with public health direction, which varies provincially and at the federal level. For those continuing to work remotely, the CGC’s remote work strategy will better support employees to effectively complete their assigned tasks remotely.

The business recovery process presents an opportunity to improve and streamline CGC programs and services based on lessons learned from the pandemic. This includes initiatives to move to more virtual engagement and service delivery (e.g. online audits) and electronic documentation. As a result of the COVID-19 pandemic, typical stakeholder communication channels such as in-person consultations, trade shows, scientific conferences and new crop missions are not currently possible. The CGC is developing new approaches to effectively communicate with stakeholders and plans to enhance the CGC's virtual presence with increased use of video, interactive tools, and social media. The CGC will look to further integrate these and other innovations that have been implemented through the pandemic period into the CGC's post-pandemic operating environment. The CGC's goal is to establish a safe, modern and flexible work environment that promotes innovation and productivity.

3.2 Surplus and Canada Grain Act

To address the accumulated surplus, the CGC announced a Surplus Investment Framework on August 1, 2018. The investment framework proposes to retain $40 million as a contingency operating reserve to prepare for the possibility of future declines in grain volumes, while allowing for strategic investment of $90 million in three key areas:

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

As part of the investment framework, the CGC made enhancements to the Harvest Sample Program beginning in the 2018-19 crop year. The Harvest Sample Program now provides 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 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. However, this timeline was subsequently delayed as a result of Budget 2019's announcement of a Canada Grain Act review to ensure alignment between the two processes. In 2019-20, the CGC completed extensive analysis and work in support of the AAFC-led review. These efforts focused on priority areas of interest, such as official inspection and weighing service delivery, elevator and grain dealer licensing and farmer payment protection. Formal launch of the stakeholder consultation was paused as a result of the COVID-19 pandemic. Moving forward, the CGC plans to further develop initiatives under the Investment Framework as opportunities arise and will ensure investments align within the broader context of the CGA review.

3.3 Revenue Uncertainty

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

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

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.

During the first quarter, the CGC has handled above average grain volumes resulting in a first quarter surplus in the revolving fund. Even though CGC's revenue risk is reduced, the Canadian grain sector continues to face uncertainty regarding access to international markets due to heightened market sensitivity related to 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.

As noted in Section 1.3, in 2017-18, the CGC implemented a new model for forecasting annual grain volumes and revenue projections. The updated model mitigates the risk of significant accumulation of additional surplus and better aligns fees with the cost of service provision. However, higher than expected grain volumes since March 31, 2018 has resulted in a further accumulation of surplus. The projected revenue for 2020-21 is higher due to increased grain volumes handled for the first two quarters. Under the current five-year cycle, fees are to be amended as required on April 1, 2023. Due to higher than forecasted grain volumes, the CGC is assessing the feasibility of adjusting fees early.

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 streamlined operations and become a financially sustainable organization.

Planned operational spending has stabilized at approximately $66 million. Planned human resource requirements are approximately 450 FTEs. As part of its Business Continuity Plan, the CGC implemented temporary changes to its service delivery at its waterfront or regional offices to reduce the amount of staff onsite but still allow CGC to still deliver its mandate. Activities directly associated with official inspection and weighing of grain for export and submitted samples service delivery model were modified. However the CGC continued to provide grading results, Certificates Final, and other documentation with no changes.

Effective June 26, 2020, Patricia Miller retired as Chief Commissioner. Douglas Chorney, the Assistant Chief Commissioner, assumed the role of Acting Chief Commissioner. A formal Governor in Council process is underway to fill the vacant Chief Commissioner position. There was no change to the Executive Management Committee structure during the 2nd quarter of 2020-21.

In response to the COVID-19 pandemic, the CGC invoked its Business Continuity Plan in March 2020. This meant that some programs and services were put on hold or service delivery models adjusted so that mandated services could be provided while keeping employees safe. In August 2020, the CGC initiated its Business Recovery Plan, which is a phased recovery that gradually expands focus beyond critical services and return of services that were suspended or modified due to the pandemic. As part of its recovery planning, the CGC is drawing on innovative practices adopted during the pandemic to move towards a more mobile and dynamic workplace. The business recovery process presents an opportunity to improve and streamline our business and includes initiatives to move to more virtual engagement and service delivery, greater use of electronic documentation, and a more modern and flexible workplace with a potentially smaller physical footprint. The CGC plans to build on the innovations that have been implemented over the past few months and integrate these as part of the future of our work.

Approval by Senior Official

Approved by:

Doug Chorney
Digitally signed by Doug Chorney
DN: C=CA, OU=Executive, O=Canadian Grain Commission, CN=Doug Chorney, E=doug.chorney@grainscanada.gc.ca
Reason: I am the author of this document
Location: your signing location here
Date: 2020-11-23 10:45:52
Foxit PhantomPDF Version: 9.7.2

Doug Chorney
Acting, Chief Commissioner
Winnipeg, Manitoba
November , 2020

Blahey, Cheryl L
Digitally signed by Blahey, Cheryl L
Date: 2020.11.22 19:30:04 -06'00'

Cheryl Blahey
Chief Financial Officer
Winnipeg, Manitoba
November , 2020

Statements of Budgetary Authorities (Unaudited)

For the quarter ended September 30, 2020

	Fiscal Year 2020-21			Fiscal Year 2019-20		
(in thousands of dollars)	Total available for use for the year ending March 31, 2021*	Used during the quarter ended September 30, 2020	Year-to date used at quarter end	Total available for use for the year ending March 31, 2020*	Used during the quarter ended September 30, 2019	Year-to date used at quarter end
Vote 1						
Appropriation including Ad hoc	$ 4,019	901	1,819	4,897	873	1,821
Statutory Authorities:						
Revolving Fund Gross Expenditures	61,658	13,425	25,253	59,013	13,741	26,173
Revolving Fund Gross Revenues	(59,551)	(19,894)	(34,276)	(58,383)	(14,004)	(28,138)
Revolving Fund Net Expenditures	$ 2,107	(6,469)	(9,023)	$ 630	(263)	(1,965)
Employee Benefit Plan	664	133	269	664	133	278
Total Statutory Authorities	2,771	(6,336)	(8,754)	1,294	(130)	(1,687)
Total Budgetary Authorities	$ 6,790	(5,435)	(6,935)	$ 6,191	743	134

* Includes only Authorities available for use and requested by Parliament, at quarter-end the CGC had received 9/12 of the amounts requested in the Estimates process.
Due to rounding, totals may not add to totals shown.

Departmental Budgetary Expenditures by Standard Object (Unaudited)

For the quarter ended September 30, 2020

(in thousands of dollars)	Fiscal Year 2020-21			Fiscal Year 2019-20		
	Planned Expenditures for the year ending March 31, 2021*	Expended during the quarter ended September 30, 2020	Year-to date used at quarter end	Planned Expenditures for the year ending March 31, 2020*	Expended during the quarter ended September 30, 2019	Year-to date used at quarter end
Expenditures:						
Personnel	$45,103	11,067	21,396	$44,348	10,784	21,645
Transportation and communications	3,113	370	564	2,979	636	1,058
Information	289	130	173	190	76	98
Professional and special services	2,728	450	526	2,868	821	927
Rentals	8,516	1,555	3,141	6,536	1,503	2,894
Repair and Maintenance	1,365	177	355	1,552	243	464
Utilities, materials and supplies	2,496	431	494	2,207	322	565
Acquisition of machinery and equipment	2,731	295	706	3,894	365	584
Other Subsidies and payments	0	(16)	(14)	0	(3)	37
Total Gross Budgetary Expenditures	**66,341**	**14,459**	**27,341**	**64,574**	**14,747**	**28,272**
Revolving Fund Revenue (To be credited to Vote)	**(59,551)**	**(19,894)**	**(34,276)**	**(58,383)**	**(14,004)**	**(28,138)**
Total Net Budgetary Expenditures	**$ 6,790**	**(5,435)**	**(6,935)**	**$ 6,191**	**743**	**134**

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