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, 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. 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 $137.298 million as of March 31, 2020 in the Public Accounts of Canada.

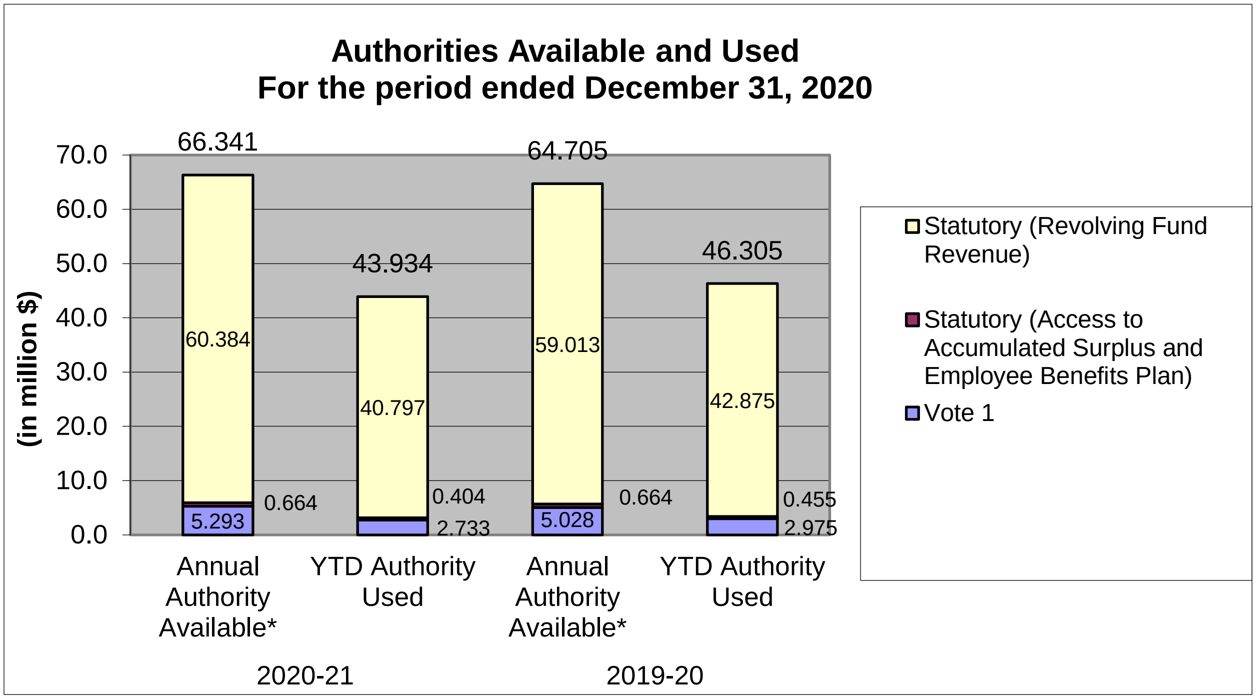
To mitigate the risk of further surplus accumulation, the CGC implemented a new model for forecasting annual grain volumes and revenue projections that uses an updated time-series analysis model. Additionally, the CGC better aligned fees with the cost of program delivery and reduced fees for official inspection and official weighing effective August 1, 2017 and further fee updates came into effect April 1, 2018. As a result, the CGC significantly reduced the rate of surplus accumulation. Under the current five-year cycle, fees are to be amended, as required on April 1, 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. Beginning in 2019-20, the Canadian Grain Commission started adjusting fees annually for inflation each year on April 1 to be consistent with the new *Service Fees Act* (SFA). The 2020-21 adjustment is based on the April All-Items Consumer Index for Canada of 2.0 percent. This annual increase limits the need for fee amendments going forward. Current fee amounts are located on the CGC website.

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 December 31, 2020 is $6.790 million, as compared to $6.322 million as at December 31, 2019. The increase in authority of $0.468 million is primarily the result of enhancement of the Harvest Sample Program (HSP) funding, additional ongoing funding received to respond to the settlement of collective agreements and the addition of operating budget carryforward.

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, 2020 is ($1.469 million), as compared to $1.414 million as at the quarter ended December 31,

2019. The change of ($2.883 million) in total budgetary authority used can be attributed to:

1. The overall increase of $1.444 million in revenues received in the quarter ended December 31, 2020 primarily due to increased grain volumes handled; and

2. The overall decrease of $1.439 million in expenditures, primarily a result of the following variances:

    a. Personnel expenditures decreased by $0.486 million as compared to the same quarter last year, primarily due to the inclusion of retroactive payouts in Quarter 3 of 2019-20;

    b. Transportation and communication expenditures decreased by $0.344 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 increased by $0.352 million as compared to the same quarter last year, primarily due to timing differences in payments for legal and pay services;

    d. Repairs and maintenance expenditures decreased by $0.736 as compared to the same quarter last year due to work completed on terminal fit up projects in Quarter 3 of 2019-20, and

    e. Acquisition of machinery and equipment expenditures decreased by $0.617 million compared to the same period last year primarily due to COVID-19 processing delays.

The total budgetary authority used in the year to December 31, 2020 is ($8.404 million) compared to $1.548 million for the same period last year. The change of ($9.952 million) in budgetary authority used can be attributed to:

1. The overall increase of $7.581 million in revenues received in the period ended December 31, 2020 primarily due to higher grain volumes handled; and

2. The overall decrease of $2.370 million in expenditures, primarily a result of the following variances:

    a. Personnel expenditures decreased by $0.734 million as compared to the same period last year, primarily due to suspensions of temporary staffing and the inclusion of retroactive payouts in 2019-20;

    b. Transportation and communication expenditures decreased by $0.839 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. Rentals expenditures increased by $0.444 million as compared to the same period last year, primarily due to annual rate increases;

d. Repairs and maintenance expenditures decreased by $0.845 as compared to last year due to work completed on terminal fit up projects in 2019-20; and

e. Acquisition of machinery and equipment expenditures decreased by $0.496 million compared to last year primarily due COVID-19 processing delays.

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 areas of inspection and licensing, as well as aiding in producer protection through the HSP. New approaches were implemented to provide critical mandated services while ensuring the safety of CGC employees. All CGC employees were initially required to work remotely except for those engaged in critical program 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.

In August 2020, the CGC initiated a phased business recovery approach for the return of services that were suspended or modified due to the pandemic. This included the resumption of incremental analysis of export cargoes at terminal locations, which had been limited, and delivery of the HSP. Additionally, in September 2020, the grain weighing personnel 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. The CGC's remote work strategy, will continue to support employees to effectively complete their assigned tasks in the remote workplace, laboratory, or licensed terminal elevators through strategies designed to ensure the health and safety of all employees and to support the continuation of remote work.

The business recovery process presents real opportunities to improve and streamline business processes in all CGC operations, including stakeholder engagement program delivery. This includes initiatives to move to more virtual engagement and program delivery (e.g. online audits), and electronic documentation. As a result of the COVID-19 pandemic, typical stakeholder communication mechanisms 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 a continuing priority will be to enhance the CGC's virtual presence with increased use of video, interactive tools, and social media. The CGC will continue to draw on innovative practices adopted during the pandemic and integrate them as part of the future of CGC work. 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 accumulation of surplus funds, the CGC announced a Surplus Investment Framework on August 1, 2018. The investment framework retained $40 million for a contingency operating reserve to guard against 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 HSP beginning in the 2018-19 crop year. The HSP 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 in order to maximize returns. The CGC has allocated $4 million to fund these enhancements to the HSP over five years.

In 2019-20, in addition to the HSP enhancements, the CGC invested in end-use functionality research on the impacts of the application of food-grade white mineral oil as a dust suppressant on grain. Based on this research, the CGC made the decision to permit the broad-based application of food-grade white mineral oil to grains. Additionally, an investment was made in a voluntary testing program for small-lot pulse exports. Initial plans are for the program to be administered for a two-year period.

When the investment framework was announced, the CGC committed to consulting the sector on further surplus 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 the 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 grain weighing, 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

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

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 programs and licences 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 would be required to draw on its surpluses.

The CGC’s revenue risk is reduced when above average grain volumes result in revolving fund surplus. However the Canadian grain sector continues to face uncertainty regarding access to international markets due to heightened market sensitivity to actual or perceived grain quality and food-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. However, continued grain export volume growth, and record grain volumes in 2020-21 have further increased the surplus accumulation. In addition, local and global circumstances stemming from the pandemic since March 2020 have resulted in significantly increased grain movement. Current 2020-21 crop year to date overall exports are about 30% higher than the same time last year, and there are no signs of abatement in the trend. Recent changes in the grain handling industry, made by both railways and the grain companies, will sustain these higher volumes. The projected revenue for 2020-21 is higher due to increased grain volumes handled for the first two quarters. To mitigate the risk of further surplus growth, the CGC will undertake a targeted fee review and will update the grain volumes model for fee calculations to reflect recent changes in the grain handling industry.

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 program 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 were modified. However the CGC continued to provide grading results, Certificates Final, and other documentation with no changes.

Douglas Chorney, was appointed to the position of Chief Commissioner effective December 18, 2020. Patty Rosher was appointed to the position of Assistant Chief Commissioner, effective February 15, 2021. There was no change to the Executive Management Committee structure during the 3rd quarter of 2020-21.

In response to the COVID-19 pandemic, the CGC invoked its Business Continuity Plan in March 2020. Departmental resources focused primarily on the critical areas of inspection and licensing, as well as aiding in producer protection through the HSP. New approaches were implemented to provide critical mandated services while ensuring the safety of CGC employees. In August 2020, the CGC initiated its Business Recovery Plan, which is a phased business recovery approach for 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 real opportunities to improve and streamline business processes of all CGC operations, including stakeholder engagement and program delivery. 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 CGC work.

Approval by Senior Official

Approved by**:**

Doug Chorney Chief Commissioner Winnipeg, Manitoba February , 2021	Cheryl Blahey Chief Financial Officer Winnipeg, Manitoba February , 2021

Statements of Budgetary Authorities (Unaudited)

For the quarter ended December 31, 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 December 31, 2020	Year-to date used at quarter end	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
Vote 1						
Appropriation including Ad hoc	$ 5,293	915	2,733	5,028	1,155	2,975
Statutory Authorities:						
Revolving Fund Gross Expenditures	60,384	15,544	40,797	59,013	16,702	42,875
Revolving Fund Gross Revenues	(59,551)	(18,063)	(52,338)	(58,383)	(16,619)	(44,757)
Revolving Fund Net Expenditures	$ 833	(2,519)	(11,541)	$ 630	83	(1,882)
Employee Benefit Plan	664	135	404	664	176	455
Total Statutory Authorities	1,497	(2,384)	(11,137)	1,294	259	(1,427)
Total Budgetary Authorities	$ 6,790	(1,469)	(8,404)	$ 6,322	1,414	1,548

* Due to rounding, totals may not add to totals shown.

Departmental Budgetary Expenditures by Standard Object (Unaudited)

For the quarter ended December 31, 2020

	Fiscal Year 2020-21			Fiscal Year 2019-20		
(in thousands of dollars)	Planned Expenditures for the year ending March 31, 2021*	Expended during the quarter ended December 31, 2020	Year-to date used at quarter end	Planned Expenditures for the year ending March 31, 2020*	Expended during the quarter ended December 31, 2019	Year-to date used at quarter end
Expenditures:						
Personnel	$45,103	11,633	33,030	$44,479	12,119	33,764
Transportation and communications	3,113	595	1,159	2,979	939	1,998
Information	289	54	227	190	75	174
Professional and special services	2,728	1,342	1,868	2,868	990	1,917
Rentals	8,516	1,549	4,690	6,536	1,353	4,246
Repair and Maintenance	1,365	118	473	1,552	854	1,318
Utilities, materials and supplies	2,496	343	837	2,207	253	817
Acquisition of machinery and equipment	2,731	800	1,505	3,894	1,417	2,001
Other Subsidies and payments	0	160	146	0	33	70
Total Gross Budgetary Expenditures	**66,341**	**16,594**	**43,935**	**64,705**	**18,033**	**46,305**
Revolving Fund Revenue (To be credited to Vote)	**(59,551)**	**(18,063)**	**(52,339)**	**(58,383)**	**(16,619)**	**(44,757)**
Total Net Budgetary Expenditures	**$ 6,790**	**(1,469)**	**(8,404)**	**$ 6,322**	**1,414**	**1,548**

*** Due to rounding, totals may not add to totals shown.**