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, 2021

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 90 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.

The baseline for existing service and licence fees was established in 2017-18 for the five-year period ending March 2023 and was based on a $62.5 million budget and an annual average official inspection and weighing volume of 34.4 million metric tonnes (MMT). The expenditures for inspection services can vary from year to year according to the quality and volume of the crop. Since fees were implemented in 2017-18, costs have remained relatively stable, but unprecedented increases in grain production and export volumes, and major private sector infrastructure investments in the grain handling system, have resulted in increased revenue and continued accumulation of revolving fund surplus.

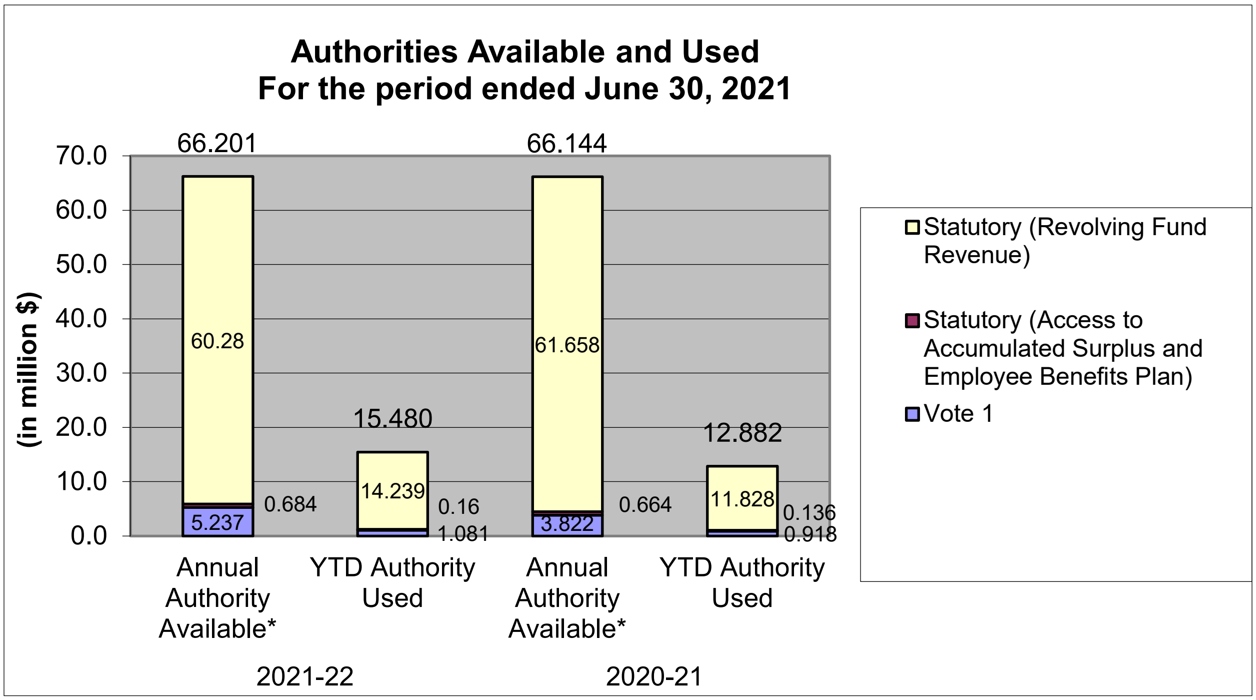
To address this, the CGC updated its model for forecasting the volume of grain that it expects to officially inspect and weigh upon discharge from terminal elevators and is projecting a level of approximately 48.1 MMT annually for the next three fiscal years (2021-22 to 2023-24). In May 2021, the CGC proposed a realignment of four fees for official inspection and official weighing services with the adjusted grain volume forecast. These fee amendments are effective August 1, 2021. Under the current five-year cycle, all fees were to be reviewed and amended, as required on April 1, 2023. However, this comprehensive review is now targeted for April 2025 to allow for the *Canada Grain Act* review process to advance and inform future work.

The CGC's revenue projections for 2021-22 and beyond are based on the funding model identified in the 2017 User Fees Consultation and Pre-Proposal Notification, fees published in the Canada Gazette, Part II in March 2018, and updated fees published in the Canada Gazette, Part II in July 2021. This includes a revised annual grain volume projection of 48.1 MMT and fees as set out in Schedule I of the Canada Grain Regulations. Beginning in 2019-20, the CGC started adjusting fees annually for inflation each year on April 1 to be consistent with the *Service Fees Act* (SFA) and to limit the need for fee amendments going forward. The 2021-22 adjustment is based on the April All-Items Consumer Index for Canada of negative 0.2 percent. Current fee amounts are located on the CGC website.

Planned revenue projections and full time equivalents (FTEs) for 2021-22 and beyond are available in the CGC's 2021-22 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 June 30, 2021 is $6.769 million, as compared to $6.593 million as at June 30, 2020. The increase in authority of $0.176 million is primarily the result of additional funding received to support collective agreement settlements.

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, 2021 is ($0.723 million), as compared to ($1.500) million as at the quarter ended June 30, 2020. The change of ($0.777 million) in total budgetary authority used can be attributed to:

1. Although grain volumes were lower this quarter than in the prior year, revenue is higher by $1.820 million primarily due to the timing of revenue recognition and a decrease in the balance of Accounts Receivable.

2. The overall increase of $2.597 million in expenditures, primarily a result of the following variances:

    a. Personnel expenditures increased by $1.784 million as compared to the same quarter last year primarily due to the addition of 21 FTEs (4 terms and 17 indeterminate) and retroactive payouts during the first quarter of 2021-22. These FTEs were hired to maintain grain inspector capacity and for supporting strategic initiatives such as the Mobile Device Strategy, MyCGC Portal and Future of Work;

    b. Acquisition of machinery and equipment expenditures increased by $0.375 million compared to the same quarter last year primarily due to the timing of payments on purchases that were not received by year-end.

    c. Utilities, materials and supplies increased by $0.285 million compared to the same quarter last year primarily due to the timing of purchasing of lab supplies; and

3.0 Risks and Uncertainties

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

3.1 COVID-19 and the Future of Work

In 2020-21, in response to the COVID-19 pandemic, CGC resources were focused primarily on the critical areas of inspection and licensing, supporting producers through the Harvest Sample Program, adapting the workplace to support remote work, and implementing new approaches to provide mandated services while ensuring the safety of employees.

However, as provinces announced plans to reopen and gradually lift public health restrictions, the CGC continued to undertake the necessary steps to transition towards a work environment that meets current operational needs and delivers on its strategic priorities and program commitments. To date, most grain export inspection and weighing services have now returned to regular pre-pandemic service levels, with additional safety measures in place. Similarly, most activities that were temporarily suspended, such as GRL research work and voluntary sample testing, have resumed while ensuring the health and safety of employees, grain sector colleagues, and the general public.

Moving forward, the CGC will continue to draw on the innovative practices adopted during the pandemic and integrate these into the CGC's post-pandemic operating environment and vision for the future of work. The CGC 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. Effective June 2021, the CGC appointed a Future of Work/Reintegration Director to lead a project team tasked with creating a plan to ensure the CGC can continue to effectively achieve its mandate through an engaged, dynamic, empowered and healthy workforce, using advanced and innovative digital services and technology and supported by optimal infrastructure.

3.2 Surplus and Canada Grain Act Review

In 2018 the CGC established an Investment Framework focused on strategic investments in three key areas: strengthening safeguards for producers, investing in grain quality assurance, and enhancing grain quality science and innovation. To date, the CGC has allocated $4 million to fund ongoing enhancements to the Harvest Sample Program over five years. In addition, an investment was made in a voluntary testing program for small-lot pulse exports. Initial plans were for this program to be administered for a two-year period, but it has been extended to July 2022 to account for lost time associated with the temporary suspension due to the COVID-19 pandemic.

All other spending initiatives under the Investment Framework have been on hold since the Budget 2019 announcement of the AAFC-led *Canada Grain Act* (CGA) Review in order to ensure alignment between the two processes. After being paused for much of 2020-21 due to the COVID-19 pandemic, AAFC formally relaunched the CGA Review in January 2021 with public consultations closing on April 30, 2021. A “What We Heard” report will be published detailing consultation feedback.

In the coming months, the CGC will work with AAFC to analyse what was heard and determine how best to move forward with the modernization of the Canadian grain regulatory framework to ensure it meets the needs of the evolving grain sector. Any future initiatives under the Investment Framework will be informed by, and align with, the outcomes of this process.

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 continually faces export volume uncertainty regarding access to international markets due to market sensitivity to actual or perceived grain quality and food-safety issues. Restricted market access has the potential to result in lower-than-expected grain volumes and revenues. The CGC 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, since fees were amended and implemented in 2017-18, operating costs have remained relatively stable, but the CGC has consistently inspected and weighed higher-than-forecast grain volumes resulting in increased revenue and additional in-year surplus accumulation. Although the 2017-18 changes significantly reduced surplus accumulation, in-year surplus growth has continued. For fiscal year 2020-21, the CGC had an in-year surplus of $18.64 million. This is in addition to the approximately $15.51 million in surplus accumulated from fiscal years 2017-18 to 2019-20.

The last several years have seen a continued growth in grain export volumes, with record tonnages reported by CN and CP railways and port authorities in 2020-21. To date, overall exports are about 30% higher than the same time last year. Although local and global circumstances stemming from the COVID-19 pandemic since March 2020 have contributed to the increased grain movement, recent expansion in the grain handling sector along with improved farming techniques and grain variety development will continue to sustain these higher volumes and the potential for further surplus accumulation.

To address this situation and mitigate the risk of further surplus growth, the CGC has updated its model for forecasting annual grain volumes and revenue projections. Effective August 1, 2021, the four fees for official inspection and weighing that are generating the majority of the surplus will be reduced significantly and realigned with the adjusted grain volume forecast. The intention is to generate no material surpluses or deficits over the next five-year cycle.

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 482 FTEs. The CGC continued to effectively deliver its mandated functions such as grain export inspections and producer safeguards using adjusted approaches and remote work solutions. Most grain export inspection and weighing services have returned to pre-pandemic service levels. Regular inspector capacity is in place at the majority of waterfront locations to provide onsite incremental analysis. There continues to be a small number of waterfront locations where it is not possible to resume regular inspector capacity because these locations are unable to accommodate health and safety physical distancing requirements. However, the CGC continued to provide grading results, Certificate Finals, and other documentation with no changes. Similarly, many activities that were temporarily suspended, such as research work and voluntary sample testing, have resumed while ensuring the health and safety of our employees, grain sector colleagues, and the general public.

There were several changes to the Executive Management Committee structure during the 1st quarter of 2021-2022. Gino Castonguay was appointed to the position of Director of Industry Services, effective April 1, 2021. Derek Bunkowsky was appointed to the position of Chief Grain Inspector for Canada effective June 24, 2021. Patti Charach continues to act as the Director of Human Resources while Michelle Dedieu assumes the role of the Future of Work/Reintegration Director. Effective May 1, 2021, science oversight and accountability for all CGC Analytical Services was moved under the GRL Director General. All functions have been maintained and no jobs were lost as a result of this change. The CGC's legal counsel changed due to retirement.

Approval by Senior Official

Approved by**:**

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

Statements of Budgetary Authorities (Unaudited)

For the quarter ended June 30, 2021

(in thousands of dollars)	Fiscal Year 2021-22: Total available for use for the year ending March 31, 2022*	Fiscal Year 2021-22: Used during the quarter ended June 30, 2021	Fiscal Year 2021-22: Year-to date used at quarter end	Fiscal Year 2020-21: Total available for use for the year ending March 31, 2021*	Fiscal Year 2020-21: Used during the quarter ended June 30, 2020	Fiscal Year 2020-21: Year-to date used at quarter end
Vote 1						
Appropriation including Ad hoc	**$ 5,237**	**1,081**	**1,081**	**3,822**	**918**	**918**
Statutory Authorities:						
Revolving Fund Gross Expenditures	60,280	14,239	14,239	61,658	11,828	11,828
Revolving Fund Gross Revenues	(59,432)	(16,202)	(16,202)	(59,551)	(14,382)	(14,382)
Revolving Fund Net Expenditures	**$ 848**	**(1,963)**	**(1,963)**	**$ 2,107**	**(2,554)**	**(2,554)**
Employee Benefit Plan	684	160	160	664	136	136
Total Statutory Authorities	**1,532**	**(1,803)**	**(1,803)**	**2,771**	**(2,418)**	**(2,418)**
Total Budgetary Authorities	**$ 6,769**	**(723)**	**(723)**	**$ 6,593**	**(1,500)**	**(1,500)**

*** Includes only Authorities available for use and requested from Parliament. At quarter-end in 2020-21 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 June 30, 2021

(in thousands of dollars)	Fiscal Year 2021-22 Planned Expenditures for the year ending March 31, 2022*	Fiscal Year 2021-22 Expended during the quarter ended June 30, 2021	Fiscal Year 2021-22 Year-to date used at quarter end	Fiscal Year 2020-21 Planned Expenditures for the year ending March 31, 2021*	Fiscal Year 2020-21 Expended during the quarter ended June 30, 2020	Fiscal Year 2020-21 Year-to date used at quarter end
Expenditures:						
Personnel	$45,148	12,114	12,114	$44,906	10,330	10,330
Transportation and communications	2,093	225	225	3,113	194	194
Information	366	60	60	289	43	43
Professional and special services	3,526	312	312	2,728	76	76
Rentals	5,392	1,479	1,479	8,516	1,587	1,587
Repair and Maintenance	1,803	154	154	1,365	177	177
Utilities, materials and supplies	1,507	348	348	2,496	63	63
Acquisition of machinery and equipment	6,366	785	785	2,731	410	410
Other Subsidies and payments	0	2	2	0	2	2
Total Gross Budgetary Expenditures	**66,201**	**15,480**	**15,480**	**66,144**	**12,882**	**12,882**
Revolving Fund Revenue (To be credited to Vote)	**(59,432)**	**(16,202)**	**(16,202)**	**(59,551)**	**(14,382)**	**(14,382)**
Total Net Budgetary Expenditures	**$ 6,769**	**(723)**	**(723)**	**$ 6,593**	**(1,500)**	**(1,500)**

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