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, 2022

Canada

Table of Contents

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 21 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 *CGA*. This includes barley, beans, buckwheat, canaryseed, 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 combination of revolving fund (based on service fees) and appropriation sources fund CGC programs and services. The CGC aims to recover, on average, approximately 90 percent of costs through fees and the balance through appropriation.

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. However, unprecedented increases in grain production and export volumes, and major private sector infrastructure investments in the grain handling system, resulted in increased revenue and continued accumulation of revolving fund surplus.

To address the continued accumulation of revolving fund surplus, in 2020-21 the CGC updated its model for forecasting the volume of grain that it expects to officially inspect and weigh upon discharge from terminal elevators. The CGC projected that the organization would officially inspect and weigh approximately 48.1 MMT of grain annually for the following 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 29% fee reductions were effective August 1, 2021.

However, excessively hot and dry growing conditions across most of the western Canadian grain production area in 2021 resulted in significantly decreased yields. This in turn resulted in reduced grain volumes at export position as, despite growing infrastructure capacity, there was simply not sufficient grain supply to match previous expectations. As such, CGC officially inspected and weighed 32.6 MMT for fiscal 2021-22. This was a significant decrease over the original forecasted volumes of 43.5 MMT and resulted in reduced revenues.

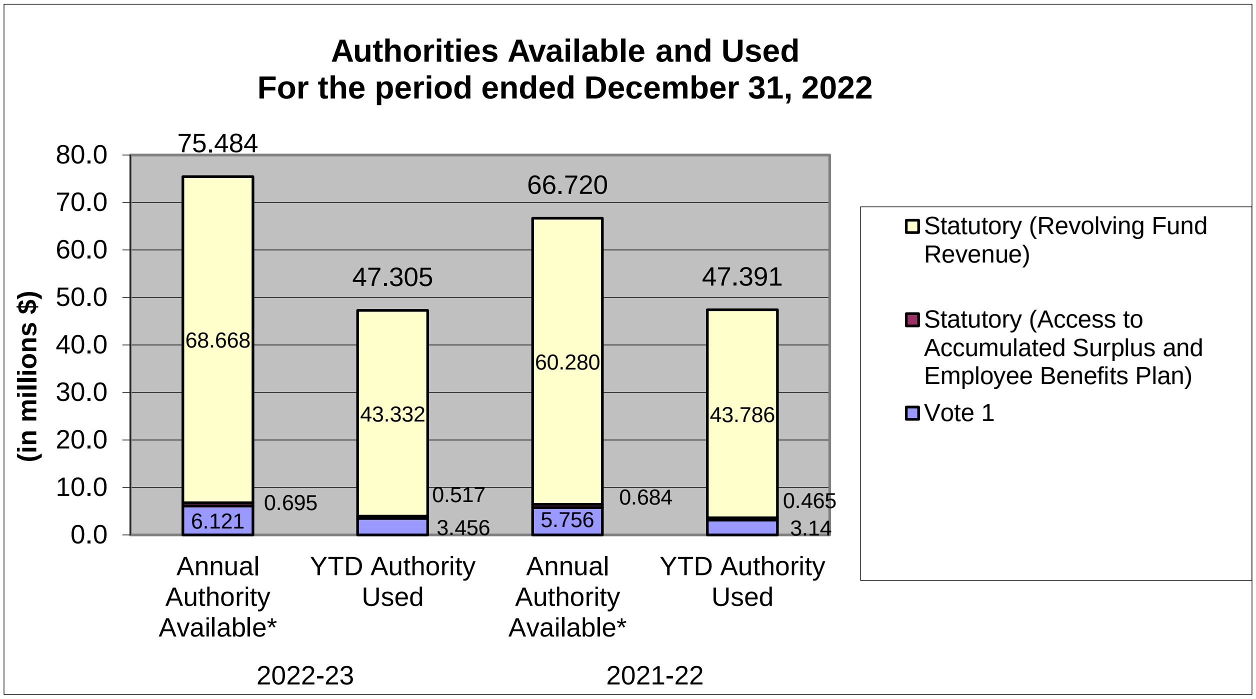
Under the current five-year cycle, all fees were to be reviewed and amended, as required on April 1, 2023. However, this comprehensive review is now targeted to be complete for April 1, 2025 to allow for the *CGA* Review process to advance and inform future work.

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 2022-23 adjustment is based on the April All-Items Consumer Index for Canada of 3.4 percent. Current fee amounts are located on the CGC website.

Planned revenue projections and full time equivalents (FTEs) for 2022-23 and beyond are available in the CGC's 2022-23 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, 2022 is $14.032 million, as compared to $7.288 million as at December 31, 2021. The increase in authority of $6.744 million is primarily the result of a planned spending increase on strategic initiatives to be funded by the accumulated surplus for projects such as Mobile Device Strategy and strengthening cyber security.

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, 2022 is $5.208 million, as compared to $5.926 million as at the quarter ended December 31, 2021. The change of $0.718 million in total budgetary authority used can be attributed to:

- The net increase of $1.222 million in revenues received is due to an increase in grain volumes inspected and weighed.

- The net increase of $0.504 million in expenditures, primarily a result of the following variances:

  - Personnel expenditures increased by $0.409 million as compared to the same quarter last year, primarily due to an increase in overtime resulting from inspecting and weighing higher grain volumes and retroactive payments.

  - Transportation and communication expenditures increased by $0.522 million primarily due to a gradual return to pre-pandemic levels of travel.

  - Rental expenditures decreased by $0.407 million primarily due to the timing of payments for license/maintenance fees for client software.

The total budgetary authority used in the year to December 31, 2022 is $22.604 million compared to $6.300 million for the same period last year. The change of $16.304 million in budgetary authority used can be attributed to:

- The net decrease of $16.390 million in revenues received in the period ended December 31, 2022, was primarily due to a significant decrease in grain volumes handled as a result of drought during the first six months of the fiscal year.

- Total expenditures are consistent with the prior year with no significant variances noted.

3.0 Risks and Uncertainties

Risk management is an essential part of strategic planning and decision making at the CGC. The CGC has an established process to identify, monitor, mitigate and manage corporate level risk. As identified in the 2022-23 Departmental plan, the top corporate risks that could affect achieving planned results under the CGC's Core Responsibility are:

- ensuring Canadian grain is dependable and safe while balancing rapidly evolving grain sector needs and managing the impacts of the COVID-19 pandemic;

- the CGC's aging grain research laboratory infrastructure and facilities; and

- the capacity to respond to opportunities while delivering upon the core mandate.

To mitigate program risk and ensure long-term success in delivering the departmental results, the CGC will work to deliver on its strategic plan which is described in detail in the "Plans at a glance" and the "Core responsibilities: planned results and resources, and key risks" section of CGC's 2022-23 Departmental Plan.

A significant risk to the CGC's financial plan for fiscal year 2022-23 is revenue uncertainty due to grain volumes which are not fully known prior to the commencement of the fiscal year. While 2022-23 financial risks associated with the *CGA* Review and the CGC's accumulated surplus are minimal, uncertainties are included as they have potential to impact the CGC's financial plan in future fiscal years.

3.1 Revenue Uncertainty

CGC 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 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.

Climate change and extreme weather events such as droughts and floods can significantly impact grain production, and consequently increase the CGC's revenue risk. In addition, 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.

Excessively hot and dry growing conditions across most of the western Canadian grain production area in 2021 resulted in significantly decreased yields. This resulted in reduced grain volumes at export position in the latter half of 2021-22. The reduced volume of grain inspected and weighed by the CGC in fiscal year 2021-22 contributed to a revenue shortfall of $13.99 million. This revenue shortfall was covered by revolving fund surplus accumulated since 2018.

The CGC anticipated that the impact of 2021 drought conditions on reduced export grain volumes would subside after the first quarter of 2022-23, yet those impacts continued through the first two quarters. Revenue received during this period was $7.40 million less than the same time last year. This was due to the reduced grain volumes inspected and weighed by the CGC and lower fees that came into effect on August 1, 2021.

Despite the reduced revenues received in the first half of 2022-23, the CGC anticipates that overall grain volumes and revenue received in 2022-23 will be comparable to 2021-22. This is due to a return to normal weather conditions in 2022 which aided an increase in export grain volumes. Revenue earned during the third quarter of 2022-23 was $1.222 million higher than the same time last year.

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. The CGC will continue to monitor and assess impacts and uncertainties associated with grain volumes and the potential impact on 2022-23 revenues. The CGC is targeting a comprehensive service fee and grain volume model review for adjustments effective April 1, 2025.

3.2 Surplus and *Canada Grain Act* Review

From 2013 to 2018, unprecedented increases in Canadian grain production and relatively stable operating costs led to an accumulated revolving fund surplus of approximately $130 million as of March 31, 2018. 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.

The Investment Framework commits $90 million of the accumulated surplus for strategic investments, while retaining $40 million for a contingency operating reserve to mitigate risks associated with declines in revenues. When the Investment Framework was announced in 2018, 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 timeframe. However, this timeline was subsequently delayed because of Budget 2019's announcement of the *CGA* Review to ensure alignment between the two processes.

Since 2018, Canadian grain export volumes continued to grow, and some of the factors leading to recent increases were not anticipated by the current grain forecasting model. Combined with relatively stable operating costs, this led to further surplus growth in 2018 to 2021, the majority of which occurred in 2020-21 due to extraordinary grain export volumes. Prior to 2020-21, the CGC realized relatively small surpluses which are reasonable in a revolving fund environment. The CGC addressed this situation, and mitigated the risk of further surplus growth, through updates to its annual grain volumes and revenue projections model and the August 1, 2021 fee adjustments as described in 1.3 CGC Financial Structure.

To date, the CGC has allocated funding to the following projects:

- enhancements to the Harvest Sample Program;
- pulse testing program to strengthen research and innovation;
- renewal of laboratory infrastructure to develop a workplace for a post COVID-19 working environment; and
- the MyCGC e-services platform, a suite of integrated program delivery systems to provide seamless digital service to CGC clients.

After being paused for much of 2020-21 due to the COVID-19 pandemic, Agriculture and Agri-Food Canada (AAFC) formally relaunched the *CGA* Review in January 2021 with public consultations closing on April 30, 2021. A resulting "What We Heard" report was published in August 2021 detailing consultation feedback.

The CGC continues to work with AAFC to analyse the various options presented through the consultation 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. It is too early to assess and determine potential impacts of the *CGA* Review on the CGC's funding model and accumulated surplus. Going forward, the CGC will consider investment initiatives within the broader context of the *CGA* Review outcomes and any ongoing drought impacts on grain volumes and fee revenue.

4.0 Significant Changes to Operations, Personnel, and Programs

In September 2021, the CGC established its strategic plan for the 2022-23 through 2024-25 planning horizon. While most CGC resources will continue to be dedicated to day-to-day delivery of programs and services, the remainder will be dedicated to modernizing the CGC through four areas of focus:

1. Modernize the CGC's regulatory framework, programs, and services.
2. Position the CGC as a global leader in grain science.
3. Strengthen the CGC's stakeholder relationships, with a focus on Canadian producer.
4. Establish the CGC as an employer of choice.

For additional information on the CGC's 2022-23 strategic plan, see the "Plans at a glance" and the "Core responsibility: planned results and resources, and key risks" section of CGC's 2022-23 Departmental Plan.

To continue to make progress on its strategic plan, the CGC will work in close collaboration with grain sector stakeholders, agriculture portfolio partners, and counterparts abroad.

During the third quarter of 2022-23, there were no significant changes in relation to operations, personnel, and programs. However, in December 2022 the Treasury Board of Canada Secretariat (TBS) issued a directive to a common hybrid work model for the Federal Public Service. The CGC will align with this directive and will see certain roles in the department work on-site at least two to three days a week, or 40-60% of their regular schedule. A phased introduction will begin January 16, 2023, with full implementation by March 31, 2023. The CGC will continue to invest in physical space; and equip staff with secure, state-of-the-art digital tools and mobile work solution so support this transition.

Approval by Senior Official

Approved by**:**

Chorney, Anthony Digitally signed by Chorney, Anthony DN: C=CA, O=GC, OU=CGC-CCG, CN="Chorney, Anthony" Reason: I am approving this document Location: your signing location here Date: 2023-02-22 12:45:09 Foxit PhantomPDF Version: 10.0.1	Cheryl Blahey Digitally signed by Blahey, Cheryl L DN: C=CA, O=GC, OU=CGC-CCG, CN="Blahey, Cheryl L" Reason: I am approving this document Location: your signing location here Date: 2023.02.17 11:58:23-06'00' Foxit PhantomPDF Version: 10.1.4
Doug Chorney Chief Commissioner Winnipeg, Manitoba	Cheryl Blahey Chief Financial Officer Winnipeg, Manitoba

Statements of Budgetary Authorities (Unaudited)

For the quarter ended December 31, 2022

(in thousands of dollars)	Fiscal Year 2022-23: Total available for use for the year ending March 31, 2023	Fiscal Year 2022-23: Used during the quarter ended December 31, 2022	Fiscal Year 2022-23: Year-to date used at quarter end	Fiscal Year 2021-22: Total available for use for the year ending March 31, 2022	Fiscal Year 2021-22: Used during the quarter ended December 31, 2021	Fiscal Year 2021-22: Year-to date used at quarter end
Vote 1						
Appropriation including Ad hoc	**$ 6,121**	**1,110**	**3,456**	**$ 5,756**	**1,019**	**3,140**
Statutory Authorities:						
Revolving Fund Gross Expenditures	68,668	15,410	43,332	60,280	15,011	43,786
Revolving Fund Gross Revenues	(61,452)	(11,477)	(24,701)	(59,432)	(10,255)	(41,091)
Revolving Fund Net Expenditures	**$ 7,215**	**3,933**	**18,631**	**$ 848**	**4,756**	**2,695**
Employee Benefit Plan	695	165	517	684	151	465
Total Statutory Authorities	**7,911**	**4,098**	**19,148**	**1,532**	**4,907**	**3,160**
Total Budgetary Authorities	**$ 14,032**	**5,208**	**22,604**	**$ 7,288**	**5,926**	**6,300**

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

Departmental Budgetary Expenditures by Standard Object (Unaudited)

For the quarter ended December 31, 2022

	Fiscal Year 2022-23			Fiscal Year 2021-22		
(in thousands of dollars)	Planned Expenditures for the year ending March 31, 2023	Expended during the quarter ended December 31, 2022	Year-to date used at quarter end	Planned Expenditures for the year ending March 31, 2022	Expended during the quarter ended December 31, 2021	Year-to date used at quarter end
Expenditures:						
Personnel	$47,286	12,353	35,882	$45,667	11,944	36,408
Transportation and communications	2,477	1,001	1,712	2,093	479	1,063
Information	618	76	164	366	78	172
Professional and special services	6,243	1,035	1,933	3,526	1,007	2,047
Rentals	7,220	1,292	4,297	5,392	1,699	4,553
Repair and Maintenance	2,684	482	1,099	1,803	188	666
Utilities, materials and supplies	2,065	158	748	1,507	371	1,013
Acquisition of machinery and equipment	6,891	290	1,483	6,366	381	1,376
Other Subsidies and payments	0	(2)	(13)	0	34	93
Total Gross Budgetary Expenditures	**75,484**	**16,685**	**47,305**	**66,720**	**16,181**	**47,391**
Revolving Fund Revenue (To be credited to Vote)	**(61,452)**	**(11,477)**	**(24,701)**	**(59,432)**	**(10,255)**	**(41,091)**
Total Net Budgetary Expenditures	**$ 14,032**	**5,208**	**22,604**	**$ 7,288**	**5,926**	**6,300**

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