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, 2023

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 handling in Canada and to establish and maintain science-based standards for Canadian grain. The Commission regulates the handling 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 were 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 for the following three fiscal years (2021-22 to 2023-24). Effective August 1, 2021, the four fees for official inspection and weighing that generate most of the surplus were reduced by 29% and realigned with the adjusted grain volume forecast of 48.1 MMT.

Drought conditions across most of the western Canadian grain production area in 2021 significantly decreased yields. This resulted in reduced grain volumes at export position and reduced revenues in both 2021-22 and 2022-23. Grain volumes were 32.6 MMT and 38.0 MMT, respectively, which was a significant decrease over the original projected volume of 48.1 MMT. The CGC used its position as a revolving fund to draw down on surplus revenue accumulated since 2018 to cover revenue shortfalls of $21.787 million for both fiscal years.

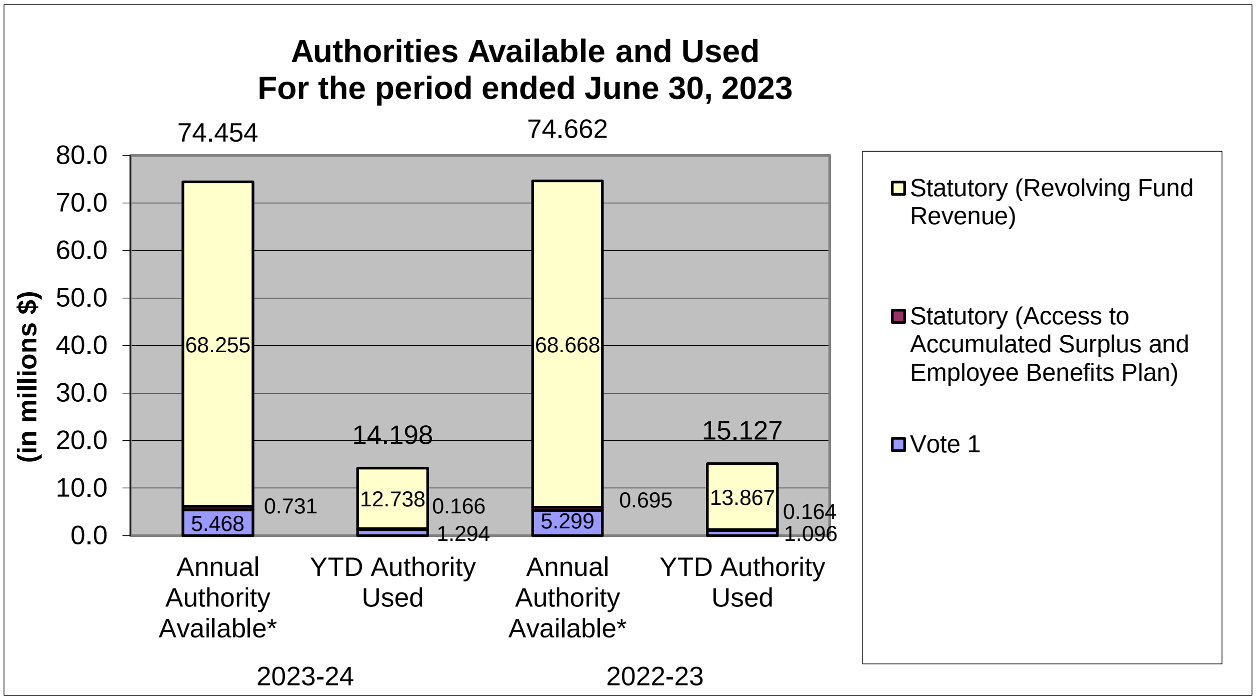
Under the current five-year cycle, all fee levels were to be reviewed by April 1, 2023, with any changes taking effect at that time. However, this comprehensive review is now targeted to be complete for April 1, 2025, to allow for the *CGA* Review process to advance and inform future work. The purpose of this review is to assess the CGC's current fee framework against program delivery costs going forward.

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 and to limit the need for fee amendments going forward. The 2023-24 adjustment is based on the April All-Items Consumer Index for Canada of 6.8%. Current fee amounts are located on the CGC website.

Planned revenue projections and full time equivalents (FTEs) for 2023-24 and beyond are available in the CGC's 2023-24 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, 2023, is \$8.823 million, as compared to \$13.210 million as at June 30, 2022. The decrease in authority of \$4.387 million is primarily due to anticipated drought recovery and focused spending on key strategic initiatives.

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, 2023, is \$1.220 million, as compared to \$9.132 million as at the quarter ended June 30, 2022. The change of (\$7,912) million in total budgetary authority used can be attributed to:

- The net increase of \$6.983 million in revenues received is due to a return to more typical grain volumes. However, due to the Public Service Alliance of Canada (PSAC) labour action and less-than-average grain stock carryover, the CGC inspected and weighed less grain than forecasted during the first quarter.

- The net decrease of \$0.501 million in expenditures for acquisition of machinery and equipment is primarily the result of timing of payments on purchases that were not received by year-end.

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 2023-24 Departmental Plan, the top corporate risks that could affect achieving planned results under the CGC's Core Responsibility are:

- the capacity to respond to opportunities and evolving sector needs due to resource constraints; and
- The ability to attract and/or retain a skilled workforce.

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 responsibility: planned results and resources, and key risks" section of CGC's 2023-24 Departmental Plan.

A significant risk to the CGC's financial plan for fiscal year 2023-24 is revenue uncertainty due to grain volumes which are not fully known prior to the commencement of the fiscal year. While 2023-24 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. Grain volumes are not fully known prior to commencement of the fiscal year which can result in significant variances between CGC projected and actual revenues. The CGC could accumulate surpluses (shown as unused authority carried forward in Public Accounts) in years with higher-than-average grain volumes and may be required to draw down on its accumulated surplus funds in years with lower-than-average volumes.

Climate change and extreme weather events, such as droughts and floods, can significantly impact grain production and consequently increase the CGC's revenue risk. 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 and caused 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 resulted in a need to draw on our surplus of $7.356 million.

Grain production returned to expected levels in 2022, allowing for exports to increase in the last half of the fiscal year. However, throughout 2022-23, the volume of grain inspected and weighed by the CGC was lower than the forecast due to the carryover effects of the 2021 drought on export volumes. This, coupled with lower fees that came into effect on August 1, 2021, contributed to a draw on surplus of $14.431 million.

The CGC's 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 2023-24 revenues.

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 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.

From 2018 to 2021, 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 net relatively small surpluses which are typical 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.

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 provided technical and policy support to AAFC through evidence-based analysis and advice for a modernized regulatory framework. Potential impacts of the *CGA* Review on the CGC's funding model and accumulated surplus are unknown at this time. Going forward, the CGC will consider investment initiatives within the broader context of the *CGA* Review outcomes and any impacts of grain volumes on fee revenue.

The CGC continues to position itself as a global leader in grain science and has developed options for investments that will ensure organizational capacity to provide innovative and science-based programs and services. To ensure the Grain Research Lab functions efficiently until a new location is identified, the CGC has developed a five-year investment plan to make required improvements to maintain and improve research capacity.

To date, the CGC has allocated Investment Framework 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.

4.0 Significant Changes to Operations, Personnel, and Programs

In June 2022, the CGC updated its strategic plan for the 2023-24 and beyond. 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 grain producers; and
4. Attract and retain employees in a competitive market.

For updated information on the CGC's strategic plan, see the "Plans at a glance" and the "Core responsibility: planned results and resources, and key risks" section of CGC's 2023-24 Departmental Plan.

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 fully implemented this directive by March 31, 2023. The CGC continues to invest in physical space, and equip staff with secure, state-of-the-art digital tools and mobile work solutions to support this model.

Between April 19 and 30, 2023, approximately 65% of CGC staff were on strike, including almost all grain inspectors, as part of the PSAC labour action. The CGC derives the majority of its funding from official inspection and to date has issued $1.215 million in credit notes to clients. No inspection fees were charged on exempted vessels and fees charged on priority cargos were reduced because full service was not provided.

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: Date: 2023.08.30 07:21:32-05'00' Foxit PDF Editor Version: 12.1.3	Peters, David Digitally signed by Peters, David DN: C=CA, O=GC, OU=CGC-CCG, CN="Peters, David" Reason: I am approving this document with my legally binding signature Location: Date: 2023.08.29 09:28:34-05'00' Foxit PDF Editor Version: 12.1.3
Doug Chorney Chief Commissioner Winnipeg, Manitoba	David Peters Acting, Chief Financial Officer Winnipeg, Manitoba

Statements of Budgetary Authorities (Unaudited)

For the quarter ended June 30, 2023

	Fiscal Year 2023-24			Fiscal Year 2022-23		
(in thousands of dollars)	Total available for use for the year ending March 31, 2024	Used during the quarter ended June 30,2023	Year-to date used at quarter end	Total available for use for the year ending March 31, 2023	Used during the quarter ended June 30, 2022	Year-to date used at quarter end
Vote 1						
Appropriation including Ad hoc	**$ 5,468**	**1,294**	**1,294**	**$ 5,299**	**1,096**	**1,096**
Statutory Authorities:						
Revolving Fund Gross Expenditures	68,255	12,738	12,738	68,668	13,867	13,867
Revolving Fund Gross Revenues	(65,631)	(12,978)	(12,978)	(61,452)	(5,995)	(5,995)
Revolving Fund Net Expenditures	**$ 2,624**	**(240)**	**(240)**	**$ 7,215**	**7,872**	**7,872**
Employee Benefit Plan	731	166	166	695	164	164
Total Statutory Authorities	**3,355**	**(74)**	**(74)**	**7,911**	**8,036**	**8,036**
Total Budgetary Authorities	**$ 8,823**	**1,220**	**1,220**	**$ 13,210**	**9,132**	**9,132**

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

Departmental Budgetary Expenditures by Standard Object (Unaudited)

For the quarter ended June 30, 2023

(in thousands of dollars)	Fiscal Year 2023-24 Planned Expenditures for the year ending March 31, 2024	Fiscal Year 2023-24 Expended during the quarter ended June 30, 2023	Fiscal Year 2023-24 Year-to date used at quarter end	Fiscal Year 2022-23 Planned Expenditures for the year ending March 31, 2023	Fiscal Year 2022-23 Expended during the quarter ended June 30, 2022	Fiscal Year 2022-23 Year-to date used at quarter end
Expenditures:						
Personnel	50,212	11,391	11,391	46,460	11,565	11,565
Transportation and communications	2,745	397	397	2,478	401	401
Information	366	13	13	619	78	78
Professional and special services	4,026	223	223	6,244	378	378
Rentals	7,558	1,476	1,476	7,220	1,505	1,505
Repair and Maintenance	2,379	135	135	2,684	202	202
Utilities, materials and supplies	1,882	362	362	2,065	316	316
Acquisition of machinery and equipment	5,286	205	205	6,893	706	706
Other Subsidies and payments	0	(4)	(4)	0	(24)	(24)
Total Gross Budgetary Expenditures	**$ 74,454**	**14,198**	**14,198**	**$ 74,662**	**15,127**	**15,127**
Revolving Fund Revenue (To be credited to Vote)	**(65,631)**	**(12,978)**	**(12,978)**	**(61,452)**	**(5,995)**	**(5,995)**
Total Net Budgetary Expenditures	**$ 8,823**	**1,220**	**1,220**	**$ 13,210**	**9,132**	**9,132**

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