Quarterly Financial Report for the quarter ended December 31, 2024

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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*.

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 CGC 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.

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 Canadian Grain Commission Financial Structure

The CGC's 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 re-spending of fees 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 CGC's revenue is mainly based on Canadian grain volumes handled, which can fluctuate from year-to-year due to external factors as described in Section 3.1 Cost Recovery and Revenue Uncertainty. The CGC accumulates surplus funds (shown as unused authority carried forward in *Public Accounts of Canada*) in years with higher-than-average grain volumes and draws down on accumulated surplus funds in years with lower-than-average volumes.

The baseline for existing service fees was based on a $62.5 million budget and annual average official inspection and weighing volumes of 34.4 million metric tonnes. This was based on the funding model established and implemented in fiscal year 2017-18 as identified in the 2017 User Fees Consultation and Pre-Proposal Notification and fees published in the Canada Gazette, Part II in March 2018.

From fiscal years 2013-14 through 2020-21, unprecedented increases in Canadian grain production and relatively stable operating costs led to an accumulated revolving fund surplus of $156 million as of March 31, 2021. On August 1, 2021, to limit further accumulation of surplus, the CGC adjusted its grain volume forecast upwards from 34.4 to 48.1 million metric tonnes and reduced major fees by 29%, as published in the Canada Gazette, Part II in July 2021. However, in recent years, the CGC has faced challenging financial conditions primarily related to drought conditions resulting in lower-than-forecasted grain volumes, and growing costs for labour, technology and materials. This, in addition to planned strategic investment spending, resulted in a drawdown on accumulated surplus for fiscal years 2021-22 through 2023-24, which decreased the surplus balance to $111.88 million as at March 31, 2024.

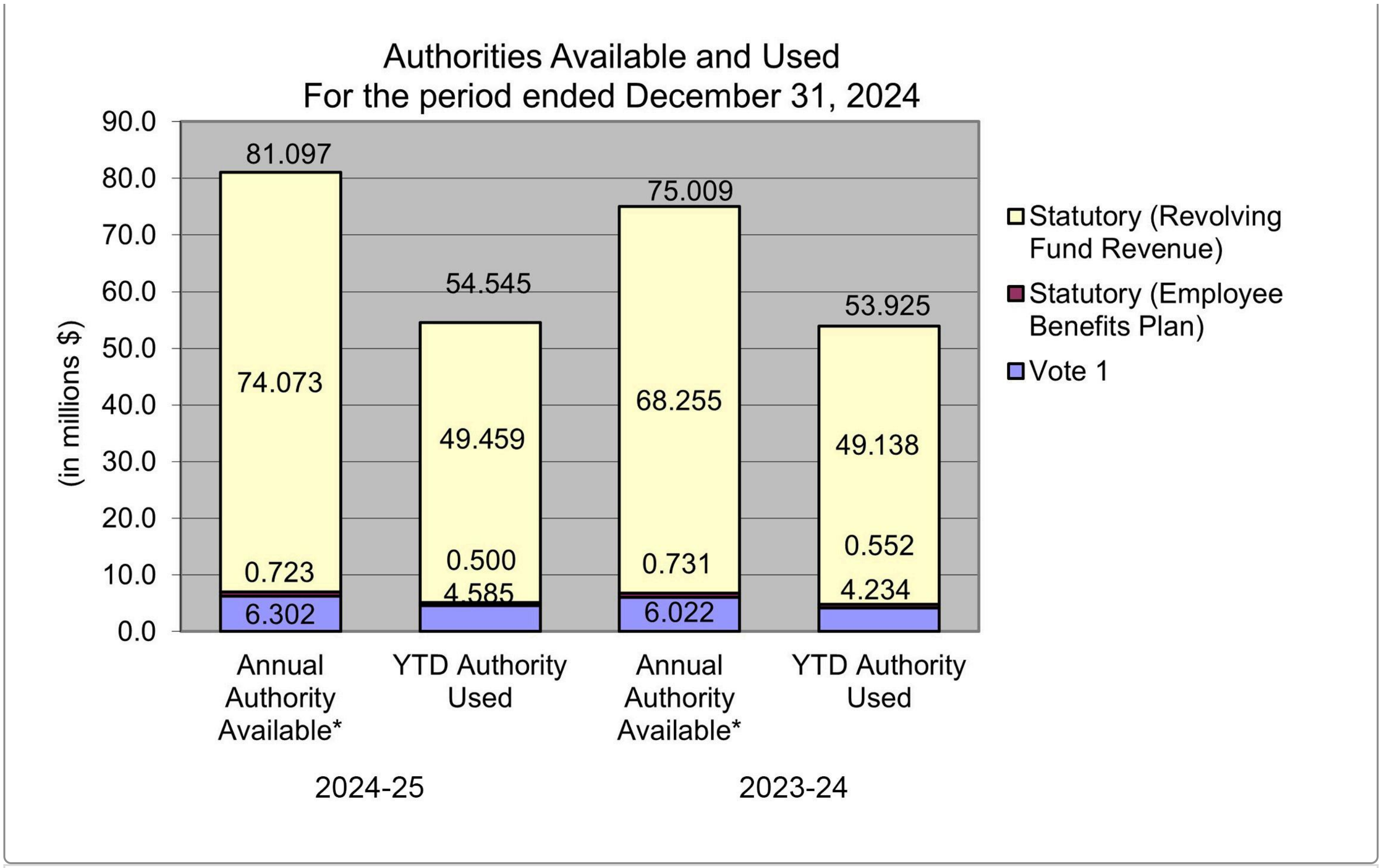
Since fiscal year 2019-20, the CGC has adjusted fees annually for inflation on April 1 in accordance with the *Canada Grain Regulations*, with the intention to limit the need for future fee amendments. The fiscal year 2024-25 fee adjustment is based on the April All-Items Consumer Index for Canada of 4.4%. Current fee amounts are located on the CGC's website.

Planned revenue projections and full-time equivalents (FTEs) for fiscal year 2024-25 and beyond are available in the CGC's 2024-25 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.

Authorities available and used for the period ended December 31, 2024



▶ Details

2.1 Authority Available Analysis

As reflected in the Statement of Budgetary Authorities, the department's total budgetary authority available for use (net of revolving fund revenue) in the fiscal year as at December 31, 2024, is $12.6 million, as compared to $9.4 million as at December 31, 2023. The change of $3.2 million in total budgetary authority available is primarily due to planned spending on strategic investments.

2.2 Authority Used Analysis

Used during the quarter

As reflected in the Departmental Budgetary Expenditures by Standard Object, the department's total net budgetary expenditures used during the quarter ended December 31, 2024, is $3.4 million, as compared to $8.8 million used during the quarter ended December 31, 2023. The change of $5.4 million in total net budgetary expenditures used can be attributed to the following:

- The increase of $4.7 million in revolving fund revenues received is primarily due to strong market demand at export position resulting in grain volumes exceeding prior year by 1.81 million metric tonnes, or 13.6%, most notably, for canola, amber durum, peas and soybeans.
- The overall decrease of $0.6 million in gross budgetary expenditures is primarily a result of the following variances:
    - The net decrease of $0.8 million in expenditures for professional services due to the timing differences of payments as compared to the prior year.
    - The net increase of $0.6 million in expenditures for repairs and maintenance due to investments in strategic priorities related to the Grain Research Laboratory investment plan, as compared to the prior year.
    - The net decrease of $0.4 million in expenditures for personnel due to collective agreement bargaining which resulted in substantial retroactive payments in the prior year.

Used year-to-date

The department's total net budgetary expenditures used year-to-date at quarter ended December 31, 2024, is $14.3 million, as compared to $20.1 million for the same period last year. The change of $5.9 million in total net budgetary expenditures used year-to-date can be attributed to:

- The net increase of $6.5 million in revolving fund revenues received primarily due to strong market demand at export position resulting in grain volumes exceeding prior year by 16.5%, most notably, for canola.
- The overall increase of $0.6 million in gross budgetary expenditures is a result of the following variance:
    - The net increase of $0.6 million in expenditures for repairs and maintenance due to investment in strategic priorities related to the Grain Research Laboratory investment plan, as compared to the prior year.
    - Variances in personnel, rentals, utilities, material and supplies, and acquisition of machinery and equipment due to the timing differences of payments, as compared to the prior year.

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 2024-25 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 unpredictable revenue generation; 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 4 key priorities to ensure domestic and international markets regard Canadian grain as dependable and safe, and that Canadian farmers are fairly compensated for their grain. These priorities are described in the CGC's 2024-25 Departmental Plan at a glance.

3.1 Cost Recovery and Revenue Uncertainty

A significant risk to the CGC's financial plan is revenue uncertainty due to grain volumes which can fluctuate from year-to-year due to external factors. Variances can arise between projected and actual revenues since grain handling volumes are estimated based on historical averages while operational costs are relatively fixed.

Climate change and extreme weather events, such as droughts, floods, or forest fires, can significantly impact grain production and consequently increase the CGC's revenue risk. The Canadian grain sector can also face export volume uncertainty regarding access to international markets due to market sensitivity to actual or perceived grain quality and food-safety issues.

Drought conditions across most of the western Canadian grain production area in 2021 significantly decreased grain production yields. This resulted in lower-than-anticipated grain volumes at export position of 32.6 million metric tonnes in fiscal year 2021-22, while the forecasted volume was 48.1 million metric tonnes. While grain production returned to expected levels in 2022, the volume of grain inspected and weighed by the CGC, in fiscal years 2022-23 and 2023-24, remained lower-than-anticipated at 38.0 and 38.8 million metric tonnes, respectively. This, coupled with lower fees that came into effect on August 1, 2021, and increased salary costs due to renewed collective agreements through fiscal year 2023-24, contributed to the CGC using its position as a revolving fund to draw down on accumulated surplus to cover the revenue shortfalls over the past 3 fiscal years.

Assuming a return to trend yields in crop year [2] 2024-25, production and supply for most crops are forecast to increase with total principal field crop production returning to normal levels of 94.62 million metric tonnes [3]. This represents approximately 5% and 4% increases over the 5-year and 10-year averages.

Although grain production is increasing, the forecasted 48.1 million metric tonnes that was used to adjust fees in 2021 has not been realized. This will result in drawing on the CGC's accumulated surplus, for the fourth year in a row, in fiscal year 2024-25.

In fiscal year 2024-25, the CGC completed a comprehensive review of its revenues, costs, grain volume forecasting model and service standards, and determined that its fees do not reflect the costs of providing the organization's services and licences. This is due to a combination of lower-than-expected grain volume exports, changed assumptions regarding licencing costs, outdated fee alignment, and growing costs for labour and digital service delivery. In fall of fiscal year 2024-25, the CGC informed the Minister of Agriculture and Agri-Food and stakeholders that it intends to access its accumulated surplus to fund expected revenue shortfalls, commitments to organization sustainability and strategic priorities in fiscal years 2024-25 through 2026-27.

The CGC plans to target proposing fee and grain volume forecast updates in fiscal year 2027-28 to ensure a sustainably funded organization into the future. The CGC will consult with stakeholders before implementing any fee amendments. The CGC recovers, on average, approximately 90% of its operating budget through service and licence fees, with the balance funded by parliamentary appropriations.

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% 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 fiscal year 2024-25 revenues.

3.2 Surplus and *Canada Grain Act* Review

From fiscal years 2013-14 through 2017-18, unprecedented increases in Canadian grain production and relatively stable operating costs led to an accumulated revolving fund surplus of approximately $130.7 million by March 31, 2018.

In 2018, the CGC established an Investment Framework focused on strategic investments in 3 key areas:

- strengthening safeguards for producers;
- investing in grain quality assurance, and
- enhancing grain quality science and innovation.

The Investment Framework committed approximately $40 million of the accumulated surplus for a contingency operating reserve to mitigate risks associated with declines in revenues, and $90 million for strategic investments. When the Investment Framework was announced in 2018, the CGC envisioned rolling out investments over a 2-year timeframe. However, this timeline was subsequently delayed because of Budget 2019's announcement of the *Canada Grain Act* review to ensure alignment between the 2 processes.

From fiscal years 2017-18 through 2020-21, 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 fiscal years 2017-18 through 2020-21, the majority of which occurred in fiscal year 2020-21 due to extraordinary grain export volumes. Prior to this, the CGC experienced 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.

Since 2021, the CGC has drawn down on the accumulated surplus to manage the growing gap between lower-than-projected revenues and increasing costs. This has resulted in lower fees to the sector than would have been the case in a full cost recovery scenario. Between 2018-19 and 2023-24, the CGC invested approximately $8 million of accumulated surplus funds into strategic investments. This includes:

- Harvest Sample Program enhancements - $3.1 million;
- Grain Research Laboratory investment plan - $1.5 million;
- MyCGC portal- $1.5 million;
- Investment in science capacity - $1.1 million;
- Mineral oil project - $0.4 million;
- Pulse Canada research project - $0.2 million.

In fiscal year 2024-25, the CGC intends to spend $4.7 million of accumulated surplus funds to continue the Harvest Sample Program, MyCGC portal, and Grain Research Laboratory investment.

In fall 2024, following the completion of its comprehensive service fees review, the CGC announced a plan to use the accumulated surplus to avoid new fee increases. The CGC will continue to use accumulated surplus to cover expected operating shortfalls, commitments to organizational sustainability, and strategic priorities in fiscal years 2024-25 through 2026-27. This is expected to draw a further $50 to $60 million from the surplus.

This plan will reduce funds available for other potential investments. Alternative sources of funds for these initiatives, such as appropriation, may be required.

After being paused for much of fiscal year 2020-21 due to the COVID-19 pandemic, Agriculture and Agri-Food Canada formally relaunched the *Canada Grain Act* 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 Agriculture and Agri-Food Canada through evidence-based analysis and advice for a modernized regulatory framework. Potential impacts of the *Canada Grain Act* 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 CGC's strategic plan, modernization initiatives, the *Canada Grain Act* review outcomes and any impacts of grain volumes on fee revenue.

4.0 Significant Changes to Operations, Personnel, and Programs

In October 2023, the CGC updated its strategic plan for fiscal year 2024-25. While most CGC resources continued to be dedicated to day-to-day delivery of programs and services, the remainder was dedicated to modernizing the CGC through the following 4 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;
4. Attract and retain employees in a competitive market.

The CGC is currently finalizing its strategic plan for fiscal years 2025-26 to 2027-28 which will draw on surplus funds and aim to modernize the CGC. Further details will be available in the CGC's 2025-26 Departmental Plan.

On November 21, 2024, the CGC announced the retirement of Michelle Dedieu, Executive Director of Human Resources, effective December 20, 2024. Patti Charach was appointed Executive Director of Human Resources, effective December 5, 2024.

Approval by Senior Official

Approved by:

David Hunt
Deputy Head
Winnipeg, Manitoba
February 28s, 2025

Cheryl Blahey
Chief Financial Officer
Winnipeg, Manitoba
February 25, 2025

Statements of Budgetary Authorities (Unaudited)

For the quarter ended December 31, 2024

(in thousands of dollars)	Fiscal Year 2024-25			Fiscal Year	
	Total available for use for the year ending March 31, 2025 *	Used during the quarter ended December 31, 2024	Year-to date used at quarter end	Total available for use for the year ending March 31, 2024 *	Used du the qua ended Deceml 2023
Vote 1					
Appropriation including ad hoc	6,302	1,771	4,585	6,022	
Statutory Authorities:					
Revolving Fund Gross Expenditures	74,073	17,661	49,459	68,255	
Revolving Fund Gross Revenues	(68,519)	(16,156)	(40,283)	(65,631)	(
Revolving Fund Net Expenditures	5,554	1,505	9,176	2,624	

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

Employee Benefit Plan	723	169	500	731
Total Statutory Authorities	6,276	1,673	9,676	3,355
Total Budgetary Authorities	12,578	3,444	14,261	9,377

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

Departmental Budgetary Expenditures by Standard Object (Unaudited)

For the quarter ended December 31, 2024

Expenditures (in thousands of dollars)	Fiscal Year 2024-25			Fiscal Ye	
	Planned Expenditures for the year ending March 31, 2025 *	Expended during the quarter ended December 31, 2024	Year-to date used at quarter end	Planned Expenditures for the year ending March 31, 2024 *	E d t q e D 3

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

Personnel	51,744	15,044	42,204	50,766
Transportation and communications	4,406	954	1,931	2,745
Information	232	74	179	366
Professional and special services	5,616	542	2,201	4,026
Rentals	8,492	1,418	4,159	7,558
Repair and Maintenance	3,015	896	1,854	2,379
Utilities, materials and supplies	2,087	220	1,096	1,882
Acquisition of machinery and equipment	5,505	451	962	5,287
Other Subsidies and payments	-	2	(40)	-
Total Gross Budgetary Expenditures	**81,097**	**19,601**	**54,545**	**75,009**

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

Revolving Fund Revenue (To be credited to Vote)	(68,519)	(16,156)	(40,283)	(65,631)
Total Net Budgetary Expenditures	12,578	3,444	14,261	9,377

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

Footnote

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, canary seed, canola, chickpeas, corn, faba beans, flaxseed, lentils, mixed grain, mustard seed, oats, peas, rapeseed, rye, safflower seed, soybeans, sunflower seed, triticale, and wheat.

2 Crop year is August to July.

3 Outlook for Principal Field Crops, December 19, 2024.

Date modified: 2025-02-28