



Canadian Grain Commission
Commission canadienne
des grains

Potential use of accumulated surplus

Canadian Grain Commission

March 2017

About the Canadian Grain Commission

The Canadian Grain Commission is a federal agency. We administer and enforce the Canada Grain Act and the Canada Grain Regulations.

Under the Act and Regulations, we establish and maintain Canada's grain quality standards. We also regulate the grain industry to protect producers' rights and to ensure the integrity of grain transactions.

Because of our programs, shipments of Canadian grain are of a consistent quality, safety and quantity and they are able to meet the specifications of customers.

Table of contents

ABOUT THE CANADIAN GRAIN COMMISSION.....	2
1. INTRODUCTION.....	4
2. PURPOSE OF DISCUSSION DOCUMENT.....	4
3. PROVIDING YOUR INPUT.....	4
4. BACKGROUND INFORMATION.....	5
5. SUGGESTED USES OF AVAILABLE SURPLUS.....	7
6. CONSIDERATIONS.....	8
7. NEXT STEPS.....	9

1. Introduction

As a result of higher than expected grain volumes and lower than expected spending, as of March 31, 2016 the Canadian Grain Commission has accumulated a surplus of \$95.9 million in its revolving fund. User fees for official inspection and weighing services have generated approximately two-thirds of the surplus. As of the September 30, 2016 Canadian Grain Commission Quarterly Financial Report the accumulated surplus is \$107.2 million.

We have operated as a revolving fund since 1995. The Government of Canada's revolving fund policy requires that we balance our revenues and expenses over a five-year time horizon. A revolving fund is a fund or account whose income is available to an organization to finance its operations and is not limited to any fiscal year.

As a result of the atypical surplus level in our revolving fund, the Canadian Grain Commission is examining potential ways to use the accumulated surplus and is seeking input from stakeholders. Any proposal on how to use the surplus is subject to the approval of the Treasury Board of Canada. Stakeholder input will contribute to ongoing efforts to modernize our operations and provide value to the sector.

The consideration of potential proposals for using the accumulated surplus is a separate process from the review of our user fees for the five-year period from 2018 to 2023.

2. Purpose of discussion document

The purpose of this document is to provide several high-level proposals for the use of the accumulated surplus. Specific financial or implementation details for each proposal are not included. We are soliciting input from stakeholders on potential uses for the accumulated surplus that provide value to the grain sector. This document:

- explains how to submit input and how it will be used
- explains the current surplus situation
- provides policy considerations for using the surplus

We also value your input related to any other potential approach not talked about in this document.

3. Providing your input

We value your input. We want to hear your:

- views about the proposals outlined in this document
- views on if or how these proposals impact your operation
- views on other potential uses for the surplus

3.1 How to submit your input

Your input must be received in writing between March 1, 2017 and midnight on May 1, 2017 to be considered within this process. Input may be submitted electronically, by fax or via post mail. Your input may be submitted in either English or French.

You may provide your input by:

-
- email to discussions@grainscanada.gc.ca
 - fax to 204-983-2751
 - mail

Input submitted by mail can be sent to the following address. Please include a return address.

Accumulated Surplus Comments
Canadian Grain Commission
600-303 Main Street
Winnipeg, MB R3C 3G8

The following information is recommended when submitting your input:

- your full name
- your phone number
- your complete mailing address
- your email address
- the reason for the input
- how the proposals affect your interests, or those of the group you represent
- any additional information that is relevant

This document is also available on our website www.grainscanada.gc.ca. If you have any questions, please contact us.

Thank you in advance for your contribution.

3.2 How we use your input

We will study your input while considering:

- input received by other stakeholders on the same subject
- the legal or policy implications of your proposals if applicable
- consistency with broader Government of Canada policies and priorities

We are committed to an open and transparent process. Your input will be summarized in a report, and so cannot be considered confidential. However, if you have submitted input as an individual and do not represent a business, group or organization, your name will be protected pursuant to the *Privacy Act*.

4. Background information

The Canadian Grain Commission establishes its fees based on the grain volumes that we officially inspect and weigh at licensed terminal elevators. In 2013, we increased our user fees for the first time in over 22 years.

The updated fees for the 2013 to 2018 user fee cycle were based on anticipated operating costs divided by projected grain volumes. Specifically, the fees were based on a \$60-million budget, and an annual average official inspection and weighing volume of 23.3 million metric tonnes of export grains. A simple 15-year average linear regression model of grain volumes inspected and weighed was used to establish the average of 23.3 million metric tonnes.

Since the implementation of our new user fee schedule on August 1, 2013, we have inspected and weighed significantly higher than projected export grain volumes while our operating budget has remained relatively constant. In 2013, there was a record high crop production, with the 2015 crop being the second highest and the 2014 crop being the third highest on record. This trend of higher than projected export grain volumes is continuing in the 2016 to 2017 fiscal year. As illustrated in the table below, we have officially inspected and weighed higher than projected grain volumes.

Table 1: Estimated versus actual grain volume serviced (in million metric tonnes)

Fiscal year	Estimated grain volume requiring service	Actual grain volume serviced	Accumulated surplus balance at year end (millions)	In-year surplus* (millions)
2013-2014	23.3	30.4	\$44.8	\$10.0
2014-2015	23.3	37.6	\$69.2	\$24.2
2015-2016	23.3	38.4	\$95.9	\$26.9

*Surplus amounts based on balances published in the public accounts for the CGC's revolving fund. Adjusted according to Treasury Board Secretariat requirements.

As a consequence, the Canadian Grain Commission has accumulated a surplus of over \$95.9 million as of March 31, 2016. As of the September 30, 2016 Canadian Grain Commission Quarterly Financial Report, this surplus has grown by an additional \$11.3 million. The surplus will continue to grow until the current user fees cycle ends on March 31, 2018, if fees for official inspection and weighing remain at their current levels and grain volumes continue to remain higher than originally projected.

Recognizing this situation, we updated our model for forecasting grain volumes for the upcoming 2018 to 2023 user fees cycle. The updated forecasting model for recalculating fees is expected to limit the accumulation of further surplus in our revolving fund and better align user fees with the operational costs of providing our services.

4.1 Surplus reserve requirement

The Canadian Grain Commission is required to retain an identified amount of surplus of approximately \$36 million. This surplus is required in order to address variabilities in our revenues due to cyclical fluctuations in grain volumes as well as to pay employee severance obligations.

Retention of \$30 million as an operating reserve from the revolving fund surplus would cover potential revenue variabilities due to fluctuations in grain volumes over the next five-year fee cycle (2018 to 2023). The \$30 million represents an approximate six-month operating reserve, or a 50% carry forward. The Federal Grain Inspection Service, our

counterpart in the United States, strives to maintain a three-to-six month operating reserve to cover grain volume fluctuations over a five-year period¹.

Approximately \$3.6 million of the accumulated surplus must be retained for future labor contract settlements and severance payments for some employees. An additional \$2 million is frozen for the Canadian Grain Commission's draw down authority (similar to a line of credit), as approved when our revolving fund was initially established.

Table 2: Potentially available surplus (\$ millions)

Surplus as of September 30, 2016	\$107.2
Draw down (frozen)	\$2.0
Surplus for labor contracts and severance	\$3.6
Contingency operating reserve	\$30.0
Potentially available surplus	\$71.60

5. Suggested uses of available surplus

We are examining the following areas as potential uses for the existing revolving fund surplus.

5.1 Investing in producers and the industry

A. Provide initial funding for a Producer Compensation Fund

Some of the surplus could be used to invest in producer payment protection. This would entail using a portion of the surplus as a one-time investment to set-up a Producer Compensation Fund that would be available to compensate producers in the event that a licensed elevator or grain dealer fails to pay for a grain delivery. Using a portion of the surplus to establish the Producer Compensation Fund would mitigate the amount of initial contributions required from our licensees. Licensees are the stakeholder group most directly responsible for generating the surplus.

A Producer Compensation Fund could improve the Canadian Grain Commission's producer payment protection model as the risk of non-payment would be pooled across all Canadian Grain Commission licensees. The Producer Compensation Fund would include a transparent risk model, reduced security costs, reduced claim processing times for producers, and fewer reporting requirements for licensees.

Amendments to the Canada Grain Act would be required to permit the establishment of a Producer Compensation Fund and allow the Canadian Grain Commission, with Treasury Board approval, to use some of the revolving fund surplus as a one-time investment for the Producer Compensation Fund.

B. Reduce the Canadian Grain Commission's prescribed fees for a fixed period of time.

Our user fees are listed in Schedule I of the Canada Grain Regulations.

¹ GIPSA Financial Update, United States Department of Agriculture, May 17, 2016
<https://gipsa.usda.gov/fgis/advcommittee/May2016/financial-update.pdf>

A pre-determined portion of the surplus could be used to reduce user fees over a specific fixed time period. For example, \$25 million from the revolving fund surplus could be committed for use during the upcoming 2018 to 2023 user fees cycle. Over the five-year cycle, user fees would be reduced by \$5 million per year. This proposal would provide the grain sector with a clear projection of their user fees costs over a fixed period. Once the fixed time period is over, user fees would return to regular cost recovery levels.

Reducing user fees for a prescribed period of time would require an amendment to the Canada Grain Regulations.

5.2 Investing in infrastructure and the future

A. Upgrade the Canadian Grain Commission Grain Research Laboratory, office space and base building systems.

A portion of the Canadian Grain Commission's accumulated surplus could be used as a capital investment in science, innovation, infrastructure and laboratory services. This proposal aligns with the Government of Canada's priority to invest in infrastructure.

Existing Canadian Grain Commission laboratories, office space and base building systems are old and inefficient. Over the years, our laboratory and process functions have evolved placing increased demands on the physical infrastructure, particularly technology usage and specialized equipment requirements. A major refit and upgrade of our laboratory spaces is needed in order for the Grain Research Laboratory to continue to efficiently and effectively deliver its programs.

B. Establish laboratories and real-time analytical testing at licensed terminal elevators or other locations to improve and enhance services to the industry.

In order to satisfy grain sales contracts, grain handlers and producers frequently require testing from the Canadian Grain Commission for a number of factors, including mycotoxins, pesticides, heavy metals, falling number and genetically modified organisms. A portion of the surplus could be used as a capital investment to improve our capacity to provide real-time testing services at key locations in the grain handling system.

Investing in increased Canadian Grain Commission services would result in a direct positive impact for the grain sector. Benefits would accrue back to those stakeholders who have been directly or indirectly paying Canadian Grain Commission official inspection and weighing fees.

6. Considerations

The following financial and legal limitations should be acknowledged when considering any potential uses of the accumulated surplus.

Two statutory authorities, the Canada Grain Act and the Appropriation Act, set out the legal framework for determining how the accumulated surplus can be used.

The Canadian Grain Commission does not have independent authority to spend the accumulated surplus without approval from the Treasury Board of Canada. The surplus may only be spent on programs and activities that are related to services that the

Canadian Grain Commission is authorized to provide under the Canada Grain Act. We are continuing to clarify relevant procedures regarding the use of the accumulated surplus.

The possibility of refunding or rebating a portion of previously incurred official inspection or weighing fees to producers and the grain handling industry was also examined. However, the Canada Grain Act and Canada Grain Regulations do not provide for refunds or rebates.

7. Next Steps

Once this stakeholder engagement is completed, we will compile the input received. The suggestions will be assessed against the relevant legal requirements and Government of Canada policies and priorities.

Options for use of the surplus will be presented to the Minister of Agriculture and Agri-Food for his consideration before any decision is taken by the Treasury Board of Canada.