Crown Corporations Council
A Manitoba Crown Corporation

Fourth Quarter Report 2001

Crown Corporations Council

Fourth Quarter Report

For the Three Months Ended December 31, 2001

Table of Contents **Page**

March 12, 2002

The Honourable Gregory Selinger
Minister responsible for
Crown Corporations Council
103 Legislative Building
WINNIPEG, Manitoba
R3C OV8

Dear Minister:

The Council is required under the Crown Corporations Public Review and Accountability Act to provide a quarterly report. Enclosed is the Report for the three months ended December 31, 2001.

Yours truly,

Arthur V. Mauro
Chairman

Crown Corporations Council

Fourth Quarter Report
For the Three Months Ended December 31, 2001

Report on Activities of the Council

During the quarter, Communities Economic Development Fund and Manitoba Centennial Centre Corporation officials made presentations to Council on their strategic issues and corporate objectives.

Council also coordinated a governance training seminar for Crown corporation Board of Directors and senior management conducted by the David Brown of The Conference Board of Canada.

Council Reviews

During the quarter Council conducted reviews of Manitoba Hydro, Manitoba Liquor Control Commission and Manitoba Lotteries Corporation.

Report on Review of Manitoba Hydro's Corporate Subsidiaries and Business Investments

This year's review focused on Manitoba Hydro's ("Hydro") corporate subsidiaries and investments in related business ventures. These included:

Wholly Owned Subsidiaries

Centra Gas Manitoba Inc. ("Centra")
Centra Hydro Energy Services Limited ("CHES")
Minell Pipelines Inc.
Manitoba Hydro International Ltd. ("MHI")
Manitoba HVDC Research Centre Inc. ("the Centre")
Meridium Power Inc. ("Meridium")
12345 Delaware Inc.
Crocus Power (U.S.) Inc. (100% owned by 12345 Delaware Inc.)
Crocus Power (Canada) Inc.

Business Investments

Integrated Hydroelectric Machine Condition Monitoring
  Consortium, L.L.C. (10% ownership)
McLeod Harvest Inc. (28% ownership)
Northern Robotics & Technology Inc. (33% ownership)
Progressive Energy Solutions Inc. (50% ownership)

The review's scope included subsidiary governance, mandates, strategic objectives, and corporate performance and outlook. Although Centra Gas Manitoba Inc. ("Centra") is currently legally structured as a wholly owned subsidiary, its operations have now been functionally integrated with Hydro. Consequently, the review regarding Centra focused on the status of Hydro's activities to complete integration.

As part of the review, research was conducted to identify what, if any, weaknesses were evident in governance and accountability frameworks that may have contributed to difficulties encountered with Crown corporation subsidiaries in other jurisdictions. The research findings served as a guide in reviewing the appropriateness of Hydro's corporate subsidiary governance and accountability framework.

Reviews conducted by the Auditor General of British Columbia on governance and accountability identified weaknesses in a number of areas related to governance and accountability of Crown corporation subsidiaries. These included:

- The method of director appointments to Crown corporation subsidiary boards. Typically, authority to appoint subsidiary directors rests with the parent. This may cause oversights in ensuring appropriate governance principles are applied regarding appointments. For example, ensuring that a majority of a board's members are independent of management (unrelated directors).

- The need for subsidiaries of Crown corporations to develop strategic plans and financial reports separate from the parent corporation.

- Defined criteria for creating, dissolving, governance and oversight of subsidiaries including appropriate strategic planning and financial reporting thus ensuring that clear guidance exists. It is noted that other jurisdictions such as New Zealand, Australia and the U. K. have documented practice guidelines in this area.

The conclusions outlined below relate to subsidiaries reviewed other than Centra.

- Hydro's board has authority to make appointments to subsidiary Boards. The governance structure in place for the corporate subsidiaries has common directorship and executive management. Hydro's Board of Directors comprise the Boards for each corporate subsidiary and Hydro senior executive are the senior executive for each, therefore providing sufficient oversight and a majority of unrelated directors.

- There is some uncertainty that the governance and accountability framework set out in *The Crown Corporations Public Review and Accountability Act* (CCPRA Act), including Council's role and mandate, applies to subsidiaries that Hydro creates or acquires. This was confirmed by Hydro's internal legal counsel.

- Hydro voluntarily conforms to key provisions such as implementing conflict of interest policies, and establishing Audit Committees. Annual financial statements for subsidiaries (other than Centra and Minell Pipelines) are unaudited for the fiscal year ending 2001 due to cost considerations. Management will have Hydro's Internal Audit annually review the financial statements for reasonableness. This would be in addition to Internal Audit's normal role that would incorporate subsidiary reviews over the next few years into annual audit plans.

- The uncertainty results in a formal lack of applicability of the governance, accountability and disclosure framework set out in the CCPRA Act. It may be appropriate that Legislative Counsel clarify the application of the Act to Hydro's subsidiaries. Options to clarify the situation, if desired, could include amending the CCPRA Act or adoption by Hydro's Board of a policy covering key governing provisions and any other appropriate matters.

- Criteria and justification for forming subsidiaries is prepared on a case by case basis, then presented to the Hydro Board for approval. A formal policy and guidelines on criteria Hydro uses for recommending, establishing, governing, oversight, and dissolving subsidiaries was being developed at the time of the review.

- Hydro's Board approved a policy on the creation and monitoring of subsidiaries in January 2002.

- Hydro does not require Government approval to create, dissolve subsidiaries, etc. However, statutory requirements are set out in *The Manitoba Hydro Act* that require approval by Order in Council where the aggregate value exceeds $5.0 million. This includes investment, borrowing or guarantee of subsidiary borrowings by Hydro.

- Each subsidiary prepares separate business plans, strategic plans and financial reports quarterly and annually for the subsidiary Board of Directors. Budgets are reviewed and approved by Senior Management Executive Committee. Each subsidiary has corporate policies that mirror Hydro's corporate policies.

- Based on the information and financial projections provided by Hydro at the time of the review, there did not appear to be any significant risks that could be identified. However, there may be value in Hydro's enterprise risk manager assisting with creating corporate risk profiles for subsidiaries. MHI recently developed risk based decision making criteria for participation in business ventures that assesses three major risk areas.

- Creating new subsidiaries and developing them to profitability can be a difficult undertaking. To date, the profitability or losses of subsidiaries and other business interests reviewed have not been significant. The financial performance of the subsidiaries has been marginal. The outlook indicates no material financial impact on Hydro.

- The subsidiaries reviewed are not necessarily of great strategic significance other than CHES, whose activities (meter reading) are critical to core business and Minell Pipelines, which was acquired as part of the Centra deal. The strategic significance of the power marketing entities, which are not active, has lessened due to the signing of a coordination agreement with a Midwest regional transmission organization.

- Hydro has taken steps to protect intellectual property (IP) rights associated with corporate subsidiaries and research and development projects. An IP officer is assisting Hydro's business units and subsidiaries to identify opportunities for the development of intellectual property for strategic or commercial purposes.

- The majority of business investments have come about as secondary spin-offs of research and development (R&D) programs or projects that Hydro funded. They are not accounted for as investments in Hydro's financial statements; as research and development funds granted have been expensed in the year incurred. Hydro's annual R&D budget is approximately $3.9 million.

- The Corporation does not project any revenues from research and development projects funded or from shares that may be acquired since Hydro's objective is primarily focused on the benefits to internal operating costs or avoidance of capital expenditures.

Functional integration of Centra operations with Hydro is complete. Hydro's Board and management are discussing policy and mandate options with the Province on amalgamating the two organizations and establishing a unified gas-electric utility with a revised statutory mandate. Legal and practical issues present some difficulties to complete such an amalgamation.

Manitoba Liquor Control Commission

We reviewed MLCC's strategies and processes to mitigate risk (i.e., to reduce the uncertainty of achieving intended outcomes) and to influence and seize current opportunities. We sought citizen-focused outcomes that demonstrated client service satisfaction, capability to continue to improve and innovate, value for MLCC's stakeholders, and efficiency and effectiveness in MLCC's business practices. Effective performance in these areas is critical to MLCC's on-going success.

MLCC successfully concluded fiscal 1999/2000 and 2000/01, delivering strong financial performance and advancing realization of corporate strategic goals.

In this time period, MLCC successfully concluded a process of public consultation and review of The Liquor Control Act, which had not been publicly reviewed since 1981. Recommendations of the review were enacted by Government effective August 1, 2001 and have been favourably received.

Through the Responsible Server Committee, MLCC and its business partners and stakeholders developed a number of recommendations to address over service and over consumption in licensed premises. These recommendations also received broad public acceptance.

MLCC is currently developing a comprehensive Alcohol and Pregnancy educational and awareness campaign, targeted to commence early in 2002. The campaign is compatible with the Board's commitment to leadership and support of alcohol education.

The Commission is currently defending one legal action brought against it in June 2000 by Specialty Wine Store operators. A second legal action, by another group of Specialty Wine Store operators, commenced in mid-November 2001.

MLCC is in the scoping and planning phase of the most significant renewal of its information technologies. The Enterprise Resource Plan (ERP) will eliminate 25 different information systems when operational.

Manitoba Liquor Control Commission's mandate is to fulfil the purposes set out in The Liquor Control Act. MLCC pursues its mandate with appropriate commercial objectives that balance social purpose with fiscal responsibility. In discharging their governance and accountability responsibilities, MLCC's Commissioners demonstrate an appropriate standard of care and diligence.

MLCC's planning processes and assumptions are appropriate to the Commission's business environment. MLCC is concentrating its focus and efforts on ensuring that intended outcomes are achieved and that operations effectively safeguard public assets.

MLCC has appropriate strategies and processes to identify and mitigate risk. Subject to our Observations below, MLCC's Board and management are implementing these strategies effectively.

MLCC delivers service and value in a manner that is consistent with broad Government policy. MLCC manages its business operations with due regard for economy, efficiency and effectiveness.

Our business condition assessment of MLCC's operations remains favorable.

We view the risks confronting Manitoba Liquor Control Commission as Low with a Stable risk trend, unchanged from our November 1999 Risk Assessment.

During our review, we identified the following areas where we believe there is opportunity for corporate policy clarification:

> MLCC will be defining the quality assurance roles of the ERP Project Manager and Internal Audit. We encourage MLCC Board and management to ensure best project management and change management practices are employed during ERP implementation. In this regard, we note independent oversight or review at the conclusion of the scoping and planning phase can yield significant benefits.
>
> MLCC does not have a formal business continuity plan that can be referred to in the event of severe business disruption. We believe it imperative the Board cause a formal plan to be developed, thereby allowing the Board to make informed decisions about acceptable levels of risk and acceptable business resumption timeframes for which it will be accountable.

Manitoba Lotteries Corporation

We reviewed MLC's strategies and processes to mitigate risk (i.e., to reduce the uncertainty of achieving intended outcomes) and to influence and seize current opportunities. We sought citizen-focused outcomes that demonstrated client service satisfaction, capability to continue to improve and innovate, value for MLC's stakeholders, and efficiency and effectiveness in MLC's business practices. Effective performance in these areas is critical to MLC's on-going success.

Over the last 18 months MLC has been under intense scrutiny from within and from external sources, including the media. MLC was the subject of a Provincial Auditor's investigation into allegations of inappropriate spending practices and a Human Resources Review of management practices in the workplace.

MLC's Board and management successfully addressed significant matters raised in both reviews. Their actions, confirmed by the Provincial Auditor, have helped improve public confidence in MLC.

MLC has taken appropriate measures to improve workforce conditions and successfully concluded collective bargaining agreements with unions representing its employees. There have been positive actions to develop improved Human resource policies as well as improvements in MLC's strategic, business and budget planning and control processes.

MLC's gaming activities provide an entertainment experience that includes state of the art gaming, live entertainment and dining facilities. Customer comments and surveys show MLC is well regarded and the Corporation uses such information to enhance the gaming experience.

MLC commenced public advertising of its commitment to socially responsible gaming and its restaurant operations with the full understanding of stakeholders and business partners.

MLC has worked diligently to support Government's First Nations Casinos initiative. The Province has reached agreement with two First Nations to establish casinos, one on the Opaskwayak Cree Nation near The Pas and one on the Brokenhead First Nation, north of Winnipeg. MLC has entered into a Conduct and Management Agreement with both First Nations proponents.

MLC successfully concluded fiscal 2000/01, delivering strong financial performance that exceeded corporate and Government expectations. MLC improved the transparency and public accountability of its capital investments by adopting Loan Act funding.

Manitoba Lotteries mandate is to fulfil the purposes set out in The Manitoba Lotteries Corporation Act. MLC pursues its mandate with appropriate commercial objectives that balance social purpose with fiscal responsibility.

MLC's governance practices warrant improvement. While MLC's Directors demonstrate care, persistence and diligence in discharging their responsibilities, there is a need to define and clarify the Board / management relationship. Council believes it imperative that MLC adopt best corporate governance practices.

MLC's new planning processes and assumptions are appropriate to the Corporation's business environment. MLC is concentrating its focus and efforts on ensuring that intended outcomes are achieved and that operations effectively safeguard public assets.

MLC has appropriate strategies and processes to identify and mitigate risk. MLC's Board and management are implementing these strategies effectively.

MLC delivers service and value in a manner that is consistent with broad Government policy. MLC manages its business operations with due regard for economy, efficiency and effectiveness.

Our business condition assessment of MLC's operations is favourable.

We view the risks confronting Manitoba Lotteries as LOW with a Stable risk trend, unchanged from our February 1998 Risk Assessment.

During our review, we identified the following areas where we believe there is opportunity for mandate and policy clarification:

> In the context of rapid environmental changes in gaming, including competitive and technological advances, Council believes it important that MLC and Government assess gaming policy in Manitoba. Council believes clarity in gaming policy would serve MLC well in optimizing resources and contribution to public policy objectives.
>
> Council encourages Board and management to develop and agree on concise measures that appropriately reflect overall corporate performance.

Submissions to Council

There were no submissions made to Council during this reporting period concerning allegations or complaints against any Crown corporation under Council's purview.

Overview
Crown Corporations Council
Financial Statements
For the Year Ended December 31, 2001 (unaudited)

Expenses for year ended increased by $243 thousand compared to the same period last year. The increase is primarily attributable to filling a vacant staff position on a term basis and approximately $200 thousand in consulting fees for two reviews being undertaken on Crown remuneration policies and Ministerial roles regarding policy direction and operational oversight of Crown corporation activities.

Balance Sheet
(unaudited)

	December 31 2001	December 31 2000
	(thousands of dollars)	
Assets		
Current		
Cash	$ 369	$ 497
Accounts receivable	7	5
	376	502
Capital assets (note 1)	9	19
	$ 385	$ 521
Liabilities and Reserve Reflecting Net Investment in Capital Assets		
Current		
Accounts payable and accrued liabilities	$ 93	$ 45
Levies received in advance	103	177
Due to Manitoba Crown corporations	147	273
	343	495
Retirement allowances and other benefits payable	33	7
	376	502
Reserve reflecting net investment in capital assets	9	19
	$ 385	$ 521

Statement of Income and Reserve
Reflecting Net Investment in Capital Assets
(unaudited)

	Year Ended December 31 2001	2000
	(thousands of dollars)	
Income		
Recoveries from corporations through levies	$ 828	$ 591
Recoveries from corporations through direct charges	12	0
Interest	16	16
	856	607
Expenses	866	623
Excess of expenses over income	$ (10)	$ (16)
Reserve reflecting net investment in capital assets, beginning of period	19	35
Reserve reflecting net investment in capital assets, end of period	$ 9	$ 19

Notes to Financial Statements
December 31, 2001

1. Recoveries of expenses from Crown corporations

Operating expenses are recovered from the Crown corporations through the assessment of levies allocated on a pro rata basis determined by the revenues of each Crown corporation. The levies are recognized in these financial statements at the time the related costs are incurred. In addition, certain direct costs incurred on behalf of particular corporations are recovered directly from the respective Crown corporations.

2. Capital assets and depreciation policy

These are comprised of office furniture and equipment and computer equipment:

	December 31 2001	December 31 2000
	(in thousands of dollars)	
Cost		
Office furniture & equipment	$58	$52
Computer equipment	56	$55
	$114	$107
Accumulated Depreciation		
Office furniture & equipment	50	50
Computer equipment	55	38
	105	88
Net Book Value	$9	$19

Capital assets are recorded at cost. Depreciation is provided on a straight line basis over five years on the office furniture and equipment and over three years on the computer equipment.

3. Statement of cash flows

A statement of cash flows has not been presented in these financial statements as no additional useful information would be provided by its inclusion.