Annual Report 2001

Crown Corporations Council

A Manitoba Crown Corporation

Annual Report 2001

Crown Corporations Council

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Letter of Transmittal

The Honourable Greg Selinger
Minister responsible for
Crown Corporations Council
Province of Manitoba
103 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Minister:

I am pleased to submit for your consideration the Annual Report of the Crown Corporations Council for the year ended December 31, 2001.

Yours truly,

ORIGINAL SIGNED BY
Arthur V. Mauro
Chairman

April 18, 2002

Mandate

The Crown Corporations Council's duties are defined under The Crown Corporations Public Review and Accountability Act.

Facilitate, in cooperation with each corporation, the development of a clearly defined mandate and a clear statement of purpose for the corporation.

Facilitate, in cooperation with each corporation, the development of consistent and effective criteria for measuring the corporation's performance.

Review long term corporate plans and capital expenditure proposals; ensure consistent practices among two or more corporations where appropriate.

Provide any advice to the Lieutenant Governor in Council on those plans, proposals and practices or any other matter of policy affecting corporations that may be requested by the Lieutenant Governor in Council.

Receive and hear submissions from any person who, in the opinion of the Council, has knowledge respecting any aspect of a corporation's activities regarding alleged failures by the corporation to comply with any Act or any policy of the Council.

Chairman's Message

Early in the year Council was directed under Order in Council #38/2001 to:

"1. Undertake a review of and provide a report to Manitoba on remuneration policies in each of Manitoba's Crown corporations for the purpose of assisting Manitoba in setting realistic and appropriate remuneration policies for all of Manitoba's Crown corporations.

2. That the Council undertake a review of and provide a report to Manitoba on ministerial roles with respect to Policy direction and operational oversight of Crown Corporation activities including cross-jurisdictional best practices. The review and the report should consider the matter within the context of ministerial public accountability for actions of the Crown Corporation and the Crown Corporation's accountability to the public.

3. That the Council undertake a review of and provide a report to Manitoba on the appropriate level of documentation each Crown Corporation should maintain regarding policy decisions."

The formal reports of Council have been presented to the Minister as required under the Order in Council. We want to thank the responsible Ministers and Senior Executives at the various Crown Corporations for their participation and assistance in this undertaking.

During the past year Council has also completed a "best practice" report on Corporate Performance and Measurement Reporting of Crowns. That report outlines specific criteria that can be used to assess achievement in the various areas identified. The fundamental purpose of this report was to focus attention on key business strategies and processes while allowing management freedom to operate within Board approved guidelines.

I am pleased to report that the past year has seen a continuing improvement in the operation of the various Crown Corporations. This is a reflection of the skill and diligence of the Boards and staff at the respective corporations.

During the year Jan Lederman was appointed Vice-Chair and her leadership will be of great assistance to the Board.

Council acknowledges with thanks the service of Mel MacRae who has retired after six years as a member of Council including chairmanship of the Audit Committee.

Respectfully submitted,

ORIGINAL SIGNED BY
Arthur V. Mauro
Chairman

President's Message

In February Manitoba Centennial Centre Corporation was placed under Council's purview. The Centennial Centre manages the Centennial Centre complex in Winnipeg.

Council conducted two reviews upon request of the Government. The reviews on remuneration policies and policy direction of Crown corporations were completed in early 2002.

Council completed a special project on Corporate Performance Measurement and Reporting. Criteria based on best practices will be used to assess each Crown in these areas.

Council coordinated a governance training seminar for Board members and senior management of the Crowns.

Council's review of Manitoba Hydro focused on corporate subsidiaries and investment and related business ventures.

Council's review of Manitoba Public Insurance indicated the business risk faced by MPI is Low with a Positive trend, unchanged from the previous year. Little has been done to modernize MPI's legislated financial, administrative and regulatory environment. In the context of significant environmental changes which influence its current operations, it may be timely and appropriate to initiate a comprehensive review of MPI's governing legislative frameworks.

Council's review of Manitoba Lotteries Corporation indicated the business condition is favourable and that risks are Low with a Stable risk trend. Council believes there is opportunity for mandate and policy clarification in the context of rapid environmental changes in gaming. It is important that MLC and Government assess gaming policy in Manitoba.

Manitoba Liquor Control Commission continues to have a Low risk profile with a Stable risk trend, unchanged from a previous review.

As noted earlier, Manitoba Centennial Centre Corporation was placed under Council's purview. Our initial review indicated MCCC activities are within its legislative mandate and corporate purpose. Challenges exist to mitigate economic dependency on funding from the Province.

Venture Manitoba Tours Ltd. continues to face High risk with a Negative trend. Venture is pursuing clarification with the Province on its existing interpretation of the mandate, objectives, strategies and shareholder expectations and options regarding its debt.

Our financial statements indicate expenses were up significantly from the previous year. $200 thousand in consulting fees and expenses were incurred for the two reviews noted earlier. $12 thousand in governance training costs was recovered directly from participating corporations. Salaries and benefits increases reflect employment of students on special projects.

ORIGINAL SIGNED BY
Garry M. Hoffman
President and Chief Executive Officer

Major Activities in 2001

Special Reviews

The Provincial Government formally requested Council to undertake two reviews in 2001.

The reviews focused on remuneration policies of Crown corporations to which The Crown Corporations Public Review and Accountability Act applies and Minister's roles regarding policy direction and operational oversight of Crown corporation activities. The reviews will assist Government in setting realistic and appropriate remuneration policies for all Manitoba's Crown corporations and provide advice on best practices on ministerial public accountability for Crown corporation actions and accountability to the public.

Council engaged independent expertise and strategic advice to undertake both reviews. Reports were completed in early 2002 and provided to the Minister responsible.

Corporate Governance

In 2001, Council coordinated a governance training seminar for Crown corporation Board members and senior management. The seminar was conducted by David Brown of The Conference Board of Canada and covered topics such as the shareholder/Board relationship, role of the Board and senior management and Board functions, independence and development.

Crown Corporation Presentations

Senior officials of each Crown corporation under Council's purview met with Council to review corporate objectives, strategies, opportunities and issues facing their business.

Review of Crown Corporations 2001/02 Capital Expenditure Programs

Council's review of Crown corporations' capital expenditure programs is undertaken to meet a required part of Council's mandate outlined in The Crown Corporations Public Review and Accountability Act. The review considers each program within the context of a Corporation's mandate, strategic plans, financial condition and budgeting process. The Corporations in total budgeted $477 million in capital expenditures for the fiscal year

2001/02. Manitoba Hydro's capital program comprised the major portion of the expenditures.

Overall, programs were consistent with the Crowns' mandates, corporate plans and strategies. In most cases they reflect replacement, maintenance of business, customer growth needs, safety, legal and environmental related expenditures. Expenditures related to the conversion of the Selkirk thermal plant to natural gas were not included in Hydro's forecast at the time of the review.

Hydro's forecast indicated that it would achieve its three key financial targets in F2002. The key targets include funding capital expenditures from internal sources (except during periods when major generation and/or major transmission facilities are being added to the system).

Manitoba Lotteries Corporation's preliminary F2002 capital budget included approximately 50% or $10 million related to gaming initiatives. The investment is estimated to generate an approximate equivalent amount in incremental revenue.

The Communities Economic Development Fund (Development Fund) F2002 lending program of $10.4 million is consistent with its legislated mandate and strategic plan. The program provided for a level of lending activity similar to the current fiscal year and would enable the Development Fund to meet anticipated demands for financial assistance.

Corporate Performance Measurement and Reporting Special Project

Council is required as part of its mandate and corporate strategy, to ensure that Crowns under its purview monitor progress against plans and measure performance through consistent and effective criteria. Council undertook a special project on corporate performance measurement and reporting.

Council developed a matrix of key components critical to an effective, functional and valuable corporate performance measurement and reporting system based on best practices. The components formed a framework upon which each selected Crown's existing measurement and reporting was assessed.

The components comprise the key findings for best practices and consequently encompass the overall recommendation that Crown corporations should consider. Flexibility is given to the unique business and corporate environments to which each Crown is subject.

Manitoba Hydro's performance measurement system is extensively integrated within its management processes. The foundation, linkages and culture solidly support performance measurement and allow it to be used as a valuable company tool. Improvements are being planned on public reporting and feedback from government – both concluding stages of the cycle. Notwithstanding these improvements, the system in place sufficiently meets most of the key components identified for an effective system. This is an important tool Hydro has implemented to assist in ensuring it sustains its successful performance.

At the time of the review, Manitoba Liquor Control Commission was proceeding to improve its corporate performance measurement and reporting. It is establishing a system that coordinates strategic planning and corporate performance measurement functions with strong linkages. The conceptual framework chosen was modeled on the Balanced Scorecard.

At the time of the review, Manitoba Lotteries Corporation was reorganizing and had contracted an external consultant to redevelop its strategic planning and governance framework. As part of the project, a performance measurement and reporting function that complements the improved system was being redeveloped.

Based on the key component criteria derived by Council, each Crown corporation is in a unique state, pertaining to its corporate performance measurement and reporting. While there is not one best framework for all corporations, the key components provide a guideline for the Crowns to consider in customizing a system to their own distinctive needs.

Members of Council approved the framework of components as the consistent and effective criteria that Crowns should consider adopting and that will be used to assess each Crown. Council staff facilitated the adoption of the criteria by presentations to Boards of Directors and shared the study with each Crown.

Matrix Key Components

Public Policy Goals

1. Public policy goals should be the basis for the strategic plan and performance measurement and reporting system.

Strategic Planning and Performance Measurement System

2. Performance measurement should be linked to strategic planning processes and its cycles.
3. Corporate mission, vision and goals should be stated at a high-level clearly with a long-term focus.
4. The system should show a clear cause-and-effect control loop to provide accountability and usefulness to the measures and outcomes.
5. Strategic corporate, business unit and individual plans and measures should be translated and communicated internally (horizontal and vertical).
   a. Cascade and hierarchy of strategic plans and measures.
   b. Communication of strategic plans and measures.
   c. Accountability and empowerment of the workforce.

Components of Performance Measurement System

6. Measures should be prioritized and short-listed to 8 to 15 key corporate measures.
7. Measures should comprise a balanced set of components.
   a. Outcome, output and input measures.
   b. Financial and non-financial measures.

8. Measures should fulfill best practices.
9. Measures should have targets in place to measure progress against, as well as stated actions to achieve goals or sustain the target level.

Analysis, Implementation & Use

10. The performance measurement system should be continuously reviewed, modified, evolved and implemented every planning period.
11. Results should be benchmarked against industry-related corporations (private or public) with acknowledged best practices.

Performance Reporting and Accountability

12. Performance goals, measures, targets, actions and outcomes should regularly be reported in an integrated simplified format, like a dashboard or brochure.
13. Results should be regularly reported to the Crown Corporation's Board of Directors and used to monitor the corporation's performance.
14. Results should be regularly reported to the Crown's Minister Responsible and the Legislative Assembly with proper feedback provided to complete the communication loop.
15. Results should be regularly reported to public.

Manitoba Hydro

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 amalgamation.

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 or 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 Public Insurance (MPI)

MPI's mandate and strategic initiatives were reviewed. We reviewed MPI'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 MPI's stakeholders, and efficiency and effectiveness in MPI's business practices. Effective performance in these areas is critical to MPI's on-going success.

MPI successfully concluded fiscal 2000/01, delivering strong financial performance and advancing realization of corporate strategic goals. The results of an Employee Opinion Survey served notice that MPI needs to improve its relationship with employees.

MPI sold its discontinued Reinsurance Assumed runoff exposure effective February 28, 2001 at a cost to MPI of $4.4 million, allowing complete exit from this book of business.

Manitoba Public Insurance's mandate is to fulfill the significant socio-economic purposes set out in The Manitoba Public Insurance Corporation Act. MPI's business activities remain relevant, responding to the needs of Manitobans for access to universally affordable automobile insurance, within the identified public policy framework. MPI pursues its mandate with appropriate commercial objectives that balance social purpose with fiscal responsibility. In discharging their governance and accountability responsibilities, MPI's Directors demonstrate an appropriate standard of care and diligence.

Among its original objectives, MPI was to: offer compulsory universal auto insurance; return at least 85% of premium revenue in the form of claim benefits; operate at a lower cost than private insurers; offer lower rates than private insurers; provide comparable or superior coverage to that available in other jurisdictions; provide convenient and accessible service to all Manitobans; invest primarily in securities issued in Manitoba and earn comparable yields to private insurers; pursue loss prevention and traffic safety programs; and operate as a self-sufficient entity.

Council's annual reviews confirm that MPI continues to achieve these objectives. The growth and diversification of MPI's investment portfolio and available Manitoba investment opportunities results in investments that are not primarily in securities issued in Manitoba, although investment yields are comparable to private insurers.

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

MPI has appropriate strategies and processes to identify and mitigate risk in its compulsory Basic Autopac and competitive lines of business, Extension and Special Risk Extension insurance. MPI's Board and management are implementing these strategies effectively.

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

Our business condition assessment of MPI's operations remains favourable. In summary, we view the risks confronting Manitoba

Public Insurance as Low, with a Positive risk trend, unchanged from the previous year.

Since our previous review, MPI took appropriate action to address areas where we believed mandate and policy clarification was warranted. Not all are fully resolved and continuing action is being taken.

As MPI approaches its 30th Anniversary we reflected on some of the key changes in MPI's environment which influence its current operations. During our current review, we identified the following areas where we believe there is opportunity for mandate and policy clarification:

Council believes it important that MPI and Government assess practical, sustainable and transparent actions that clarify public policy imperatives where these might conflict with rate setting considerations and processes.

Little has been done to modernize MPI's legislated financial, administrative and regulatory environment. In the context of significant environmental changes which influence its current operations, it may be timely and appropriate to initiate a comprehensive review of MPI's governing legislative frameworks.

Manitoba Lotteries Corporation (MLC)

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

Manitoba Lotteries' mandate is to fulfill 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 the prior year.

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.

Manitoba Liquor Control Commission (MLCC)

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 fulfill 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 favourable.

We view the risks confronting Manitoba Liquor Control Commission as Low with a Stable risk trend, unchanged from our previous review.

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 Centennial Centre Corporation (MCCC)

Application of The Crown Corporations Public Review and Accountability Act was extended to the Manitoba Centennial Centre Corporation (MCCC).

MCCC was established in 1968 for the development and management of the permanent arts centre in the City of Winnipeg. The centre includes the Centennial Centre complex and is the Province's principal memorial of the centennial anniversaries of the Confederation of Canada and the inclusion of Manitoba as a Province.

The buildings and properties include the Concert Hall, Manitoba Museum and Planetarium (Centennial Centre), Manitoba Theatre Centre (MTC), MTC Warehouse Theatre, Artspace, three surface parking lots and an underground parkade, and 11 Lily Street which houses the Museum's Extension Services. The Province of Manitoba holds registered titles to the properties.

The Concert Hall is home to Manitoba's signature cultural organizations, the Winnipeg Symphony Orchestra, the Royal Winnipeg Ballet and the Manitoba Opera.

MCCC's activities include administration of the Concert Hall and related services as well as maintenance and development of the buildings and properties of the Centennial Centre. New, cost-effective opportunities to constrain energy use and costs are pursued wherever possible. MCCC also has an annual service contract with Pantages Playhouse to book events into that facility.

The Corporation's activities are generally consistent with its legislated mandate and corporate purpose.

MCCC's financial position has deteriorated in recent years due to significant increases in the cost of natural gas, other operating costs and declining own source revenues. Capital expansion at the Manitoba Museum is also a contributing factor.

In 1990, the Museum instituted a capital campaign to upgrade and refurbish its facility resulting in a 40,000-sq. ft. addition to the complex to house the Hudson's Bay Company collection. The costs of heating and maintaining the Museum and its expanded facility are the responsibility of MCCC.

The Corporation is economically dependent on funding from the Province. Operating grants provided through the Department of

Culture, Heritage and Tourism have ranged between $2.2 million and $2.4 million annually in the last five years. In three of these years additional, special grants, including deficit reduction grants were provided, ranging from $0.1 million to $0.5 million. Government's annual capital investments to maintain and enhance Centennial Centre assets have ranged between $0.3 million and $1.6 million in the last five years.

Venture Manitoba Tours Ltd. (Venture)

At the time of the previous review, Venture's short-term outlook was not favourable. Occupancy levels had been materially impacted by two incidents of guest illnesses from an unidentified source. In addition, infrastructure deficiencies were identified as a result of two independent engineering inspections conducted to reduce property and liability risks.

Some progress has been made to address these issues. A Departmental Working Group headed by a representative of the Community and Economic Development Committee of Cabinet was established to develop options to address the problems at the Resort. The Working Group anticipates potential options will be completed for consideration in the latter part of this year.

Venture was authorized to proceed with priority upgrades to the Resort and to engage expertise to conduct a market research survey/study that would assist in determining any lingering impact the past outbreaks may have along with a general examination of Resort awareness and customer expectations and attitudes.

The Corporation is pursuing clarification with the Province on its existing interpretation of the mandate, objectives, strategies and shareholder expectations and options regarding its debt.

There have been no developments since the last review that would increase the likelihood that Venture will be able to retire its debt obligations in the future and fund the ongoing need for capital investment.

Council's overall assessment of risk remains High with a Negative trend. There have been no significant developments that warrant a change at this time. Venture continues to face long term operational and financial challenges.

Members of the Council

The governing body of Council consists of eight members appointed by the Lieutenant Governor in Council. Members are chosen to serve based on statutory provisions outlined in The Crown Corporations Public Review and Accountability Act.

One member is the Dean of the Faculty of Management of the University of Manitoba or designate from that Faculty. One member is nominated by the Institute of Chartered Accountants of Manitoba. One member is a person who, in the opinion of the Lieutenant Governor in Council, represents organizations of consumers in Manitoba.

At least three members are persons who, in the opinion of the Lieutenant Governor in Council, have demonstrated management or technical expertise.

Members of the Council

Arthur V. Mauro, O.C., Q.C. Chairman since 1997
Counsel
Aikins, MacAulay & Thorvaldson

Janice Y. Lederman Vice-Chair
Partner Appointed February 2001
Thompson Dorfman Sweatman

Candace L. Bishoff Member since 1999
Senior Associate Counsel
Manitoba Telecom Services Inc.

Harry Fehr Member since 1999
President
Quarry Oaks Golf and Country Club

Dr. Jerry L. Gray Member since 1997
Dean, Asper School of Business
University of Manitoba

Bidhu S. Jha Member since 2000
President & CEO
Optimum Trading Corporation Ltd.

Mel A. MacRae, CA Member since 1995 *
Executive Vice-President & COO
Rice Financial Group Inc.

Judy A. Murphy, CA Member since 2000
Executive Director
Folk Arts Council of Winnipeg Inc.

Garry M. Hoffman Ex-Officio Member
President and Chief Executive Officer

* Retired November 2001

Financial Statements

Responsibility for Financial Statements

The management of the Crown Corporations Council is responsible for the preparation and presentation of the financial statements and accompanying notes. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles, reviewed by the Audit Committee of the Board of Directors and approved by the Board of Directors. The statements have been examined by Ernst & Young, LLP, independent external auditors, whose opinion is included herein.

The preparation of the financial information contained in the annual report necessarily involved the use of certain estimates and judgments which have been reached based on careful assessment of data available through the Council's information systems.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Council. Management maintains an appropriate system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements.

The Audit Committee of the Board of Directors meets periodically with officers of the Council and the Council's auditors. The auditors have free access to this Committee, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

Auditors' Report

To the Members of
Crown Corporations Council

We have audited the balance sheet of **Crown Corporations Council** as at December 31, 2001 and the statement of income and reserve reflecting net investment in capital assets for the year then ended. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Council as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Winnipeg, Canada,
February 14, 2002

Chartered Accountants

BALANCE SHEET

	December 31 2001	December 31 2000
	(thousands of dollars)	
ASSETS		
Current:		
Cash	$ 369	$ 497
Accounts receivable	7	5
	376	502
Capital assets (note 4)	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 (note 3)	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

Approved by the Board

ORIGINAL SIGNED BY — Chairman

ORIGINAL SIGNED BY — Director

(see accompanying notes)

STATEMENT OF INCOME AND RESERVE
REFLECTING NET INVESTMENT IN CAPITAL ASSETS

	Year Ended December 31 2001	2000
	(thousands of dollars)	
Income		
Recoveries from corporations through levies	$ 828	$ 591
Recoveries from corporations through direct charges	12	-
Interest	16	16
	856	607
Expenses		
Salaries and benefits	450	409
Professional fees	210	9
Board remuneration and expenses	77	67
Rent	62	62
Depreciation	17	18
Office supplies and printing	15	17
Governance training costs	12	-
Automobile expense	7	7
Equipment rental and maintenance	7	6
Telephone and courier	6	6
Travel	2	6
Insurance and miscellaneous	1	1
Corporate governance conference	0	9
Moving expenses	0	4
Professional development	0	2
	866	623
Excess of expenses over income	$ (10)	$ (16)
Reserve reflecting net investment in capital assets, beginning of year	19	35
Reserve reflecting net investment in capital assets, end of year	$ 9	$ 19

(see accompanying notes)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

1. **Nature of organization**

The Crown Corporations Council (the "Council") is a body corporate established on June 5, 1989 under the Crown Corporations Public Review and Accountability Act.

The mandate of the Council is to facilitate clear mandates, development of performance measures and consistent practices and to review corporate plans of Crown corporations under its purview.

2. **Significant accounting policies**

a) 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.

b) Reserve reflecting the net investment in capital assets

The purchase of capital assets is funded through operating expense levies assessed to Crown corporations. The reserve reflects levies assessed to the Crown corporations with respect to the Council's capital assets.

c) Capital assets

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.

d) Retirement allowances

Retirement allowances are provided to certain qualifying employees. The costs of benefits earned by employees are charged to expenses as services are rendered. The cost reflects management's best estimates of the length of service, salary increases and ages at which employees will retire. In addition, the actuarial present value of the accrued entitlement as at January 1, 2000 is being amortized to income on a straight line basis over the expected average remaining service life of the employee group.

3. **Due to Manitoba Crown corporations**

These amounts represent a retroactive adjustment to levies based on Council's actual expenses.

4. **Capital assets**

These are comprised entirely of office furniture and equipment and computer equipment.

	December 31	
	2001	2000
	(in thousands of dollars)	
Cost		
Office furniture and equipment	$58	$52
Computer equipment	56	55
	$ 114	$ 107
Accumulated depreciation		
Office furniture and equipment	50	50
Computer equipment	55	38
	105	88
Net book value	$ 9	$ 19

5. **Pension costs and obligations**

Employees of the Council are provided pension benefits by the Civil Service Superannuation Fund ("the Fund"). Under paragraph 6 of the Civil Service Superannuation Act, the Council is described as a "matching employer" and its contribution toward the pension benefits is limited to matching the employees' contributions to the Fund. In addition, one employee is entitled to enhanced pension benefits. The cost of the benefits earned by the employee is charged to expenses as services are rendered. The cost reflects management's best estimate of salary increases and the age at which the employee will retire.

6. **Lease commitments**

The Council is committed under a premises lease expiring on April 30, 2005 to annual basic rental payments of approximately $32,400 and annual common area and operating costs of approximately $26,300.

7. **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.