

Crown Corporations Council
A Manitoba Crown Corporation

Fourth Quarter Report 2002

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Crown Corporations Council

Fourth Quarter Report

For the Three Months Ended December 31, 2002

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March 25, 2003

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, 2002.

Yours truly,

ORIGINAL SIGNED BY
Arthur V. Mauro
Chairman

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Report on Activities of the Council

During the quarter, Manitoba Liquor Control Commission made a presentation to Council, focusing on its corporate goals, strategies and performance.

Council Reports

Crown Corporations Council (“Council”) reviews the mandate, strategic initiatives, governance and corporate performance of each of the Crown corporations under its purview. During the quarter reviews were completed on Manitoba Hydro, Manitoba Liquor Control Commission, Manitoba Lotteries Corporation and Venture Manitoba Tours Ltd.

Manitoba Hydro

One of Council’s key duties includes facilitation of the development of a clearly defined mandate and statement of purpose of the Crown corporations under its purview. Corporate objectives, strategies and activities are consistent with Hydro’s Board and management’s interpretation of the current corporate purpose. Hydro continues strong overall performance and progress in achieving its corporate goals.

Hydro’s Board and management have implemented a number of governance improvements modeled on a variety of best practices. Of particular note, is the incorporation of a disclosure statement to the Minister responsible as part of an annual review. This is distinctive among the Crowns’ current governance

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procedures and we consider this to reflect a model practice.

Our November 2001 review noted that an uncertainty regarding whether the governance and accountability framework set out in the Crown Corporations Public Review and Accountability Act applies to subsidiaries that Hydro creates or acquires. This also extends to Council's role and mandate. Annual financial statements for subsidiaries (other than Centra and Minell Pipelines) are unaudited for the fiscal years ending 2001 and 2002 due to cost considerations. As a result of our review, Hydro agreed to review the requirement for audited statements for all subsidiaries.

Hydro has appropriate policies and principles in place for sustainable development. The Corporation is in the final stages of implementing an environmental management system based on international standards. Generating and converter stations have been registered as ISO 14001. Hydro plays a key role and is an important contributor to the Province's Climate Change Action Plan, 2002, developed to address the challenges of climate change. Council supports Hydro's efforts to pursue a more aggressive strategy for Demand Side Management programming. One of the greater challenges that Hydro faces respecting DSM programming and promoting energy conservation is overcoming market barriers that exist in the Province. Hydro has engaged consultants to conduct a market potential study in Manitoba as part of taking a more aggressive strategy.

At the time of our review a new Aboriginal Relations division had been created and was in start up mode. Areas of focus are employment, training, business development and managing adverse community

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impacts. Key policies and programs are in place to achieve the goal.

The Corporation is on track to achieving its aboriginal employment target of 10% of the corporate overall workforce by 2005 and 33% of northern workforce. Current performance indicates an 8.5% aboriginal employment for corporate and 29.8 % for northern workforce.

Hydro's partnership with Aboriginal peoples in future development is precedent setting in its corporate history. Hydro and the Nisichawayasihk Cree Nation are considering the development of the Wuskwatim generating station. Both parties have signed non-binding Summary of Understanding on the Wuskwatim Project covering major aspects of the development. An environmental review and licensing of the generation and transmission projects will be conducted in 2003.

There continues to be evolving changes in the U.S. electricity market. The Federal Energy Regulatory Commission has issued a draft rule on Standard Market Design. Hydro has advised that the new draft order is a sweeping review of the rules governing wholesale trade in electricity. Analysis of the draft rule and its implications for Hydro were underway at the time of our review.

Industry changes have also resulted in considerable change to Hydro's operations and export markets. In addition, this important factor contributes to continuing increases in the complexity of the organization. It is important to note that Hydro's successful adaptation to these changes has enabled the Corporation to grow its business and maintain access to its markets.

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Manitoba Liquor Control Commission

MLCC successfully concluded fiscal 2002, delivering strong financial performance and advancing realization of corporate strategic goals. A One Year Review of amendments to The Liquor Control Act enacted August 1, 2001 confirms changes were favourably received.

MLCC focused intense activity on the LINK (Linking Ideas and Networking Knowledge) Implementation Project and on responding to MLCC's first comprehensive Workplace Quality Survey conducted in the fall of 2001.

MLCC developed the "With Child, Without Alcohol" awareness campaign, which is compatible with the Board's commitment to leadership and support of alcohol education. Response from the health care community and the public to date has been favourable.

MLCC recently updated its governance model with a new best practice Governance By-Law.

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

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ensuring that intended outcomes are achieved and that operations effectively safeguard public assets.

MLCC developed a risk management model in 1996 and has appropriate strategies and processes to identify and mitigate risk in its business operations. Board and management understand and implement risk mitigation strategies effectively.

MLCC's risk mitigation practices contribute significantly to overall corporate performance. Improved corporate-wide understanding of risk management and mitigation can contribute to improved corporate performance.

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.

Since our November 2001 review, MLCC took appropriate action to address areas where we believed mandate and policy clarification was warranted. MLCC is employing best project management and change management practices in implementing LINK. MLCC approved a business continuity strategy to be implemented later in 2003.

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Manitoba Lotteries Corporation

We characterize the past year as one of intense focus on rebuilding or building best practice organizational capacity, capability and infrastructure. MLC frequently engaged external assistance to assure best practices were, or could be adopted or implemented. For many internal processes, best practices were confirmed by independent third parties.

MLC is beginning the transition from a corporate focus on process planning, analysis and evaluation / validation, to a focus on performance measurement and management of intended outcomes. MLC successfully concluded fiscal 2002, delivering strong financial performance that exceeded corporate and Government expectations.

During the year MLC adopted a best practice governance framework to direct the affairs of the Corporation. MLC operationalized a new Corporate Security Division as well as a new First Nations Casino & Corporate Development Division.

MLC operationalized its Responsible Gaming Policy and continues its “Keep it a Game” responsible gaming advertising. MLC recruited a Responsible Gaming Officer and in partnership with the Addictions Foundation of Manitoba developed three levels of Problem Gambling Awareness Training, which is ongoing.

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

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responsibility. In discharging their governance and accountability responsibilities, MLC's Directors demonstrate an appropriate standard of care and diligence.

MLC continues to improve strategic, business and budget planning and control processes. MLC's planning processes and assumptions are appropriate to the Corporation's business environment. MLC continues efforts to ensure intended outcomes are achieved and operations effectively safeguard public assets.

MLC's investments in gaming and gaming amenities provide an entertainment experience that includes state of the art gaming, live entertainment and dining facilities. MLC continues its Casinos of Winnipeg advertising campaign promoting its restaurant operations with the full understanding of stakeholders and business partners. Customer comments and surveys show MLC is well regarded and the Corporation uses such information to enhance the gaming experience.

MLC concluded its annual Video Lottery Terminal redistribution program with sensitivity to stakeholders and MLC is committed to incorporating responsible gaming features in its VLT network. MLC was the first Canadian jurisdiction to introduce coinless gaming equipment, Ticket-In, Ticket-Out or TITO, in its casinos. These terminals mitigate customer inconvenience and the need for handling coin that contributes to risk of workplace injury.

MLC works diligently to implement Manitoba's First Nations Casino Project initiative. The Province signed Comprehensive Provincial Framework Agreements and

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MLC entered into Conduct and Management Agreements with two First Nations Casino proponents. The Aseneskak Casino on the Opaskwayak Cree Nation near The Pas opened February 15, 2002. MLC continues to work with proponents of the Brokenhead River Casino Resort Incorporated, north of Winnipeg.

MLC continues to implement measures that improve workforce culture and workplace quality and actions that strengthen communications with employees. Positive actions to develop improved Human Resource planning and policies are ongoing.

MLC recently formalized its risk management model and has appropriate strategies and processes to identify and mitigate risk in its business operations. MLC engaged external assistance to provide assurance the risk management model is appropriate. Board and management understand and implement risk mitigation strategies effectively.

MLC's risk mitigation practices contribute significantly to overall corporate performance. Improved corporate-wide understanding of risk management and mitigation can contribute to improved corporate performance.

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 remains favorable.

Since our October 2001 review, MLC took appropriate action to address areas where we believed mandate and policy clarification was warranted. A committee to

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develop an overall Gaming Strategy for the Government of Manitoba was established in December 2001. In response to our second Observation, MLC established a Performance Benchmark Steering Committee to develop key performance indicators. These matters are not fully resolved and work in these areas is ongoing.

Venture Manitoba Tours Ltd.

Efforts continue to address Venture's long term issues and important capital upgrades have been completed.

The Board has engaged legal counsel and with the assistance of Council staff has undertaken a governance review of its procedures and bylaws based on best practices.

Responsibility for the Corporation has been assigned to the Ministry of Culture, Heritage and Tourism.

Venture's long term challenges remain unchanged since the last review. The Corporation's debt position has grown due to financing necessary upgrades and weak financial performance.

Venture undertook a strategic planning session earlier this year. Its efforts continue to focus on improving corporate governance, operations, customer service and human resource matters pending long term policy and strategic direction from the Province.

The Corporation's interpretation of its mandate has been modified over time consistent with Government direction. Council is satisfied that the Corporation has defined the primary objective to guide near term

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operational activities. Further revisions will be made once a long term strategic direction has been determined. Venture's current activities are consistent with its interpretation.

The risk profile of the Corporation has not changed since previous reviews. \$1.2 million of capital upgrades that consisted of repair and upgrading the sewage system, construction of an above ground water plant building and relocation and renovation of laundry services and facility staff lounge have been completed. Further infrastructure upgrades are a key risk that can result in growing costs to modernize the facilities the longer it is deferred. The financial position of the Corporation continues to weaken and represents the second major key risk.

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.

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Overview

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Financial Statements

For the Year Ended December 31, 2002 (unaudited)

Operating expenses are recovered from the Crown corporations through 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.

Expenses for the twelve month period decreased by \$213 thousand compared to the same period last year. The decrease is primarily attributable to \$200 thousand of lower professional fees than the prior year in which consulting fees were incurred for two reviews undertaken.

Depreciation expense was \$15 thousand lower as amortization of computer equipment was completed in 2001.

Balance Sheet
(unaudited)

	December 31	
	2002	2001
	(thousands of dollars)	
Assets		
Current		
Cash	\$ 346	\$ 369
Accounts receivable	7	7
	<u>353</u>	<u>376</u>
Capital assets (note 2)	7	9
	<u>\$ 360</u>	<u>\$ 385</u>
 Liabilities and Reserve Reflecting Net Investment in Capital Assets		
Current		
Accounts payable and accrued liabilities	\$ 60	\$ 93
Levies received in advance	190	103
Due to Manitoba Crown corporations	50	147
	<u>300</u>	<u>343</u>
Retirement allowances and other benefits payable	<u>53</u>	<u>33</u>
	353	376
 Reserve reflecting net investment in capital assets	 7	 9
	<u>\$ 360</u>	<u>\$ 385</u>

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

	Year Ended December 31	
	2002	2001
	(thousands of dollars)	
Income		
Recoveries from corporations through levies	\$ 645	\$ 828
Recoveries from corporations through direct charges	\$ -	\$ 12
Interest	4	16
	<u>649</u>	<u>856</u>
Expenses	<u>651</u>	<u>866</u>
Excess of expenses over income	\$ (2)	\$ (10)
Reserve reflecting net investment in capital assets, beginning of period	<u>9</u>	<u>19</u>
Reserve reflecting net investment in capital assets, end of period	<u>\$ 7</u>	<u>\$ 9</u>

Notes to Financial Statements
December 31, 2002

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	
	2002	2001
	(in thousands of dollars)	
Cost		
Office furniture & equipment	\$58	\$58
Computer equipment	56	56
	<u>\$114</u>	<u>\$114</u>
Accumulated Depreciation		
Office furniture & equipment	52	50
Computer equipment	55	55
	<u>107</u>	<u>105</u>
Net Book Value	<u><u>\$7</u></u>	<u><u>\$9</u></u>

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.