

Crown Corporations Council
A Manitoba Crown Corporation

First Quarter Report 2004

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Crown Corporations Council

*First Quarter Report
For the Three Months Ended March 31, 2004*

Table of Contents	Page
Transmittal Letter	
Report on Activities of the Council	1
A Review of Crown Corporations Council by the Auditor General	1
Council Reports	
Review of Crown Corporations 2004/05 Capital Expenditures	16
Communities Economic Development Fund	17
Submissions to Council	20
Overview - Crown Corporations Council Financial Statements	21
Financial statements for the three month Period ended March 31, 2004 (unaudited)	22

May 26, 2004

The Honourable Gregory Selinger
Minister responsible for
Crown Corporations Council
103 Legislative Building
WINNIPEG, Manitoba
R3C 0V8

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 March 31, 2004.

Yours truly,

ORIGINAL SIGNED BY
Arthur V. Mauro
Chairman

Crown Corporations Council

First Quarter Report 2004

Report on Activities of the Council

During the quarter, Manitoba Centennial Centre Corporation and Manitoba Public Insurance made presentations to Council. Presentations focused on governance, strategic issues, risk management and corporate performance.

A Review of Crown Corporations Council by the Auditor General

The review examined Council's performance in delivering its legislated mandate, relationship building and utilization of best practices in strategic planning and management. The complete report including Council's response is available from the Office of the Auditor General. The Executive Summary from the report follows.

Executive Summary

A. Objectives, Scope and Approach

The objectives of our review were to assess Crown Corporations Council's performance in:

- *delivering its legislated mandate;*
- *relationship building; and*
- *utilizing best practices in strategic planning and management.*

*In examining performance in relation to these objectives, we did not include a review of the results or outcomes of Council's operations. Our review of performance is based on criteria we developed in relation to a set of key areas that cover the objectives of the review (**Appendix 1**).*

Crown Corporations Council

First Quarter Report 2004

*Evaluating the performance of an organization such as Council poses certain challenges by virtue of the fact that its work is essentially advisory in nature monitoring, developing recommendations, and building working relationships with its client and stakeholders. Nevertheless, it is important to attempt to do so in order to make a determination as to whether advisory bodies such as Council are well positioned to fulfill the purpose for which they were created. In this regard, we have developed a set of guiding practices that can assist other organizations who have responsibilities that are similar in nature to those of Council (**Part 3**).*

The review covers the two-year period January 1, 2000 to December 31, 2002.

B. Background

Council was established in 1989 in response to a need to strengthen the accountability mechanisms for the Province's crown corporations. The Crown Corporations Public Review And Accountability Act (The Act) designates the crown corporations (crowns) under Council's purview. Currently, the seven crowns under Council's purview are:

- *Manitoba Hydro*
- *Manitoba Public Insurance Corporation*
- *Liquor Control Commission*
- *Manitoba Lotteries Corporation*
- *Communities Economic Development Fund*
- *Venture Manitoba Tours Ltd. and*
- *The Centennial Centre Corporation.*

Collectively, these crown corporations generate approximately \$3.3 billion annually. Thus it is understandable that the Government would want to

Crown Corporations Council

First Quarter Report 2004

ensure adequate accountability and monitoring of the health of the crowns sector. Essentially Council through its monitoring role provides advice and recommendations to the designated crowns and Government.

Council carries out its work through a seven member board of directors appointed by the Lieutenant Governor in Council (L.G. in C.), and five staff persons. Its annual operating budget for the year January 1, 2001 to December 31, 2002 was \$649,000, largely financed through levies from the designated crowns.

C. Overall Conclusions and Findings

Council's strengths in delivering its legislated mandate and in relationship building are identified below. In common with most organizations, there are opportunities for Council to enhance its practices in these areas. As well, we believe that strengthening of strategic planning and management practices would produce benefits both in terms of implementing our recommendations and in positioning Council to respond to changes in its operating environment as these present themselves.

More specifically, we found the following strengths in Council's performance:

- fostering two-way communication with the designated crowns and government ministers, and building trust and positive working relationships with them;*
- building-up a good knowledge base regarding the general operations of the designated crowns, the issues they face and more broadly, sectoral trends that affect them;*

Crown Corporations Council

First Quarter Report 2004

- *remaining current on best practices in governance, planning, performance management and administration, in order to provide government and the designated crowns with up to date advice and assistance;*
- *showing leadership in developing guidelines and recommendations for the designated crowns to follow in relation to performance measurement and reporting; and*
- *preparing reviews of the capital expenditure proposals of the designated crowns.*

Mandate and the Legislation

Unlike other legislation, The Act governing Council does not require Council to undergo five year reviews of its performance. Incorporating into The Act this type of provision would ensure that Government is provided with valuable information that would assist it to evaluate at regular intervals matters including: the suitability of Council's mandate and performance in carrying out its responsibilities; the need for any changes to the list of crowns designated under Council's purview; and how best to utilize Council's strengths in the future to assist the crown sector in Manitoba. In fact, from work we conducted and reported on in December 2002, Performance Reporting in Annual Reports: Current Practices Among Crown Entities, we found that the smaller entities would benefit from capacity building in areas of governance, planning, performance measurement and reporting yet lacked sufficient resources to fully undertake such capacity building. Thus periodic legislated reviews of Council could also identify opportunities for building on Council's advisory and facilitator role to benefit other public sector organizations.

Crown Corporations Council

First Quarter Report 2004

We believe that our findings identify symptoms rather than problems. Our findings underscore a more fundamental question, that of whether The Act is providing an appropriate framework for the current times? At issue are questions such as:

- *What are the current and projected needs of the crown sector?*
- *What performance expectations does Government have of the crown sector?*
- *What safeguards does Government want in place to ensure the health of crowns and appropriate accountability of the crowns?*
- *Do the current purpose, mandate, and powers of Council continue to meet Government's needs?*
- *How have Council's activities under the current mandate contributed to improvements in the crown sector?*

Thus we suggest that, in order to properly address this report's conclusions and recommendations, Government should consider initiating a comprehensive examination of The Act in relation to the issues we raise. The ultimate objective of such an examination is to ensure that Government and crown resources are focused as strategically as possible in fulfillment of clear performance expectations to be established by Government.

During the course of conducting our review we found that certain provisions of The Act are open to interpretation. These are the requirement for Council to carry out its mandate through facilitation in co-operation with the designated crowns, and its responsibility to ensure consistent practices among two or more corporations where appropriate.

Crown Corporations Council

First Quarter Report 2004

Council has interpreted its role in the area of facilitation to mean: providing the designated crowns with an opportunity for feedback and discussion in relation to the observations and recommendations that Council makes in its annual reviews that it prepares on each of the designated crowns; making sure that the designated crowns know about the projects that Council is working on that may affect them; requesting the designated crowns to identify a contact within their organization who can answer questions that Council has; and fostering trust to ensure co-operation by the crowns in responding to Council's information requests. However, another potential interpretation is that facilitation should also include seeking input from the designated crowns with respect to the criteria that Council will use to determine whether the designated crowns have: clear mandates and statements of purpose; and consistent and effective criteria for measuring the performance of the designated crowns. Seeking such input from the designated crowns could contribute to relationship building between Council and the designated crowns.

Moreover, The Act is inconsistent in its requirements on facilitation. It requires facilitation in regard to the development of a clear mandate and statement of purpose, and the development of consistent and effective criteria for measuring performance. By contrast, the legislation does not place any expectation of facilitation in regard to Council's mandate to ensure consistent practices among two or more designated crowns.

Similarly, in relation to its legislated mandate to ensure consistent practices, Council has interpreted its role to mean encouraging the designated crowns to adopt best industry practices within their sector and sharing with

Crown Corporations Council

First Quarter Report 2004

them information on current policy procedures among the designated crowns. Here again, another potential interpretation of The Act is that Council should develop guidelines on consistent practices, and should have a strategy for monitoring that actual practices within the designated crowns is consistent with Council's guidance.

There are a number of provisions in The Act (sections 13, 14 and 24) which place certain obligations on the crowns. Currently compliance with these provisions is not monitored by Council. The Act does not assign to any particular entity the responsibility for monitoring crown corporations' compliance with these provisions. Given the context in which The Act was adopted and the fact that the designated crowns collectively generate approximately \$3.3 billion in revenues annually, we believe that there needs to be monitoring of whether the designated crowns are complying with various obligations placed on them by The Act.

Relationship Building

Periodic surveying of an organization's clients and stakeholders is an accepted best practice aimed at providing organizations with opportunities for making continuous enhancements to their performance. Adding this practice would offer Council a rigorous method for obtaining feedback from its client and stakeholders on: their perspective regarding the contribution that Council is making to them; and their views with respect to how Council is interpreting and carrying out its legislated mandate. Ultimately, we believe this approach would build on Council's efforts in the area of relationship building and would reinforce its facilitator role.

Crown Corporations Council

First Quarter Report 2004

Strategic Planning and Management

Council demonstrates several aspects of being a continuous learning organization such as providing on-going opportunities for professional development and training for its staff and taking steps to remain current in the area of best management practices and knowledgeable in the various sectors that affect the crowns under its purview. Council needs to build on these practices by benchmarking its performance and collecting and analyzing information from other organizations who have functional responsibilities similar to its own i.e., responsibilities to monitor, analyze, advise, promote leading practices in planning and management, and make recommendations. We believe that the application of more robust strategic planning and management practices by Council, particularly in the establishment of, and reporting on, outcomes, would offer Council opportunities to further strengthen its performance. Beyond these conclusions, we have provided Council for its consideration with a management letter that contains detailed observations regarding its strategic planning and management.

D. Recommendations

- 1. That Government consider undertaking a comprehensive review of The Crown Corporations Public Review and Accountability Act. A comprehensive review would include examination of such questions as:
 - a) What are the current and projected needs of the crown sector?*
 - b) What performance expectations does Government have of the crown sector?**

Crown Corporations Council
First Quarter Report 2004

- c) *What safeguards does Government want in place to ensure the health of crowns and appropriate accountability of the crowns?*
 - d) *Do the current purpose, mandate, and powers of Council continue to meet the needs of Government?*
 - e) *How have Council's activities under the current mandate contributed to improvements in the Crown sector?*
2. *If Government decides not to undertake a comprehensive review of The Act that it consider amendments to The Act to:*
- a) *clarify:*
 - *the meaning of "facilitate in co-operation with"; [Clause 6(1)(a) and (b)]; and*
 - *expectations relative to the requirement to "ensure" consistent practices. [clause 6(1)(c)]*
 - b) *provide for facilitation under clause 6(1)(c) in relation to Council's mandate to ensure consistent practices.*
 - c) *assign to Council or another entity responsibility for monitoring and enforcing compliance by the designated crowns with the various obligations placed on them under The Act namely, monitoring whether crowns are complying with the statutory requirement:*

Crown Corporations Council
First Quarter Report 2004

- *to conduct a review of their strategic plan and performance under that plan at least once every 5 years [clause 13(1)(d)];*
- *to hold a public meeting at least once in each year in Winnipeg and at least two other centers, including one in northern Manitoba and one elsewhere in Manitoba, as determined by the board [clause 13(1)e)];*
- *that every board of a corporation shall develop and adopt guidelines respecting conflicts of interest for employees of the corporation in accordance with general guidelines developed by Council [subsection 13(2)];*
- *that the chairperson of a corporation forward to the minister responsible for the corporation after each meeting of a board, the chairperson's report on the business transacted at the meeting with supporting documentation for every decision recorded in the*

Crown Corporations Council
First Quarter Report 2004

minutes of the meeting
[subsection 14(3)];

- *that designated crowns maintain a record of each complaint received from the public, how it was investigated, the resolution and the reasons for resolving the complaint in the manner selected [subsection 24(1)]; and*

d) add a new provision that requires at least once every five years an independent review of Council in accordance with guidelines provided by the minister. This review could include consideration of the appropriateness of the crowns designated under Council's purview and the suitability of Council's mandate and practices in relation to current needs among the crowns.

3. While Government gives consideration to the above legislative amendments to The Act, we recommend that Council consider the merits of:

- a) Taking a more proactive approach to facilitation in co-operation with the designated crowns. For example, Council could develop, in consultation with the designated crowns a set of criteria reflecting best practices in writing mandates and statements of purpose that build on Council's current practice of*

Crown Corporations Council
First Quarter Report 2004

assessing whether the mandate is consistent with the crowns' legislation and other directives or priorities of government. Council could also develop and implement a strategy of on-going initiatives to promote the use of performance measurement by the designated crowns and to assist them in their efforts to apply best practices in this field. This could include the development of a common set of performance indicators in consultation with crowns.

And

- b) Adopting a more robust approach to ensuring consistent practices among the designated crowns.*
- 4. That Council develop a formal protocol for dealing with instances in which a designated crown does not wish to disclose information to Council that Council believes it needs in order to maintain its ability to fulfill its advisory role.*
- 5. That Council develop and implement a process for periodically surveying government and the designated crowns on their satisfaction with how Council interprets and carries out its mandate.*
- 6. That Council develop a performance measurement framework that enables it to focus on public reporting of its outcomes.*

Crown Corporations Council
First Quarter Report 2004

E. Response to Recommendations from Council's Board

Council has a budget of \$649,000 and a total staff of five people. Within the limits of current fiscal and human resources Council is satisfied our goals have been achieved. Needless to say there are areas that could be enhanced if resources are made available.

Recommendations 1(a) to (e) and 2(a) and (b)

Council has no comment on these recommendations to Government. A comprehensive review has been conducted on many of the issues enumerated in these recommendations. This was conducted under Order in Council 38/2001 where Council was requested to review issues with regards to Manitoba's Crown corporations. This review, which encompassed ministerial roles with respect to policy direction and operational oversight of Crown corporation activities, included cross-jurisdictional best practices. The review also considered the context of ministerial public accountability for actions of Crown corporations and Crown corporations' accountability to the public.

Recommendation 2(c)

The Auditor advocates an additional level of oversight to Crown activities. The current structure of the Act relies on Board of Directors reporting through an accountable Minister to the Legislative Assembly. With regards to records of complaint, it should be noted in subsection 24(2) of the Act that Council or any person authorized by Council may review at any reasonable time these records. Council staff did

Crown Corporations Council

First Quarter Report 2004

such a review in 2000 and concluded that the Crowns are maintaining appropriate records in resolution of complaints as required in subsection 24(1).

Recommendation 3

The development of a set of performance indicators applicable to all Crowns regardless of size or structure would be of little value. As an alternative Council has approached such issues as Board governance, audit committees, performance reporting, strategic planning and risk management as deemed appropriate to the specific Crown.

Recommendation 4

The Act provides the formal protocol if Council concludes that material provided is inadequate. Under Section 6(2) of the Act, "Council may request through the Minister responsible for the particular corporation, reports to the Council at any time on matters considered by Council likely to have a material effect on the performance of the corporation in terms of its objectives". Our view is that the statute is adequate to deal with this issue.

Recommendation 5

Council has not utilized a formal survey or interview process for gathering client and stakeholder satisfaction. It is felt that with seven Crowns, direct feedback is a more prudent methodology. Council, through Board and staff, have ongoing contact with the Crowns and will continue personal contact as the means of

Crown Corporations Council

First Quarter Report 2004

assessing satisfaction with Council's performance.

Council meets periodically with the Minister, invites the Minister to meet with Council and also meets with each Minister to whom the Crowns report. It is Council's opinion that current methods provide appropriate opportunities for the Crowns to express any concerns related to how Council interprets and carries out its mandate.

Recommendation 6

Council's most recent annual report reflected a response to the Auditor General's annual public reporting requirements on outcomes.

F. Comments from Government

We note with interest the Auditor General's recommendations which we will consider over our current mandate. Guiding our consideration of this will be our view that Manitoba crowns are subject to many forms of accountability: to the legislature through annual reports and committees and to the public through each electoral mandate.

With respect to the role and activities of the Council related to performance measurement, the Government believes recent initiatives of the Council address these areas of concern. Specifically, the Council has developed and published a set of corporate performance measurement and reporting guidelines for Crown Corporations, and is actively building the capacity of Crowns in respect of key issues

Crown Corporations Council

First Quarter Report 2004

such as board governance, risk management and performance reporting.

The recommendation that the Council develop common performance indicators would be very difficult to implement effectively given the diverse roles and scope of Manitoba's Crowns.

Further, the Council has recently implemented changes to its own annual report to address the concerns highlighted in recommendation #6.

* * *

Council Reports

Review of Crown Corporations 2004/05 Capital Expenditures

Council completed its annual review of the Crown corporations capital expenditure programs. Total capital expenditures of \$768 million are budgeted by the Crowns for fiscal year ending 2004/05. Manitoba Hydro's capital budget of \$605 million comprises the most significant portion of the capital expenditures.

Hydro's 2004/05 capital program is consistent with its mandate and strategic plan. Projects and expenditure levels are deemed necessary to continue proceeding with generation development opportunities and maintain system reliability, public safety, environmental sensitivity, sustainable development principles, service and power quality, and export sale commitments.

Overall, the 2004/05 capital expenditures reviewed are consistent with the Crowns' mandates, corporate plans

Crown Corporations Council

First Quarter Report 2004

and strategies and in most cases reflect replacement, maintenance of business, customer growth needs and safety, legal and environmental related expenditures.

Based on the capital budget information provided by the Crowns, no major factors were identified at that time that reflect significant risk for each Crown.

Communities Economic Development Fund

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

Since Council's March 2003 Corporate Performance Report, CEDF successfully concluded fiscal 2002/03 and is well positioned for a successful conclusion to fiscal 2003/04. CEDF's overall financial performance complements progress in advancing attainment of non-financial strategic goals.

CEDF is a significant source of capital for northern Manitoba entrepreneurs and the Manitoba commercial fishery. Loans of more than \$9.0 million in both fiscal 2002/03 and 2003/04 (11 months) supported CEDF's northern economic development mandate, measured in part by economic and social outcomes in the areas of direct job creation / retention, clients' business revenues and direct wages and fishers' incomes.

Crown Corporations Council

First Quarter Report 2004

Effective Business lending attributes included broad diversity in loan size, industry sector and community distribution of loans, all contributing to a healthy loan portfolio. Fisheries lending is linked to a fisher's productive capability; the portfolio remains healthy, reflecting strong commercial fish harvests. Microenterprise TEAM program business training and marketing assistance supported "Creating a Culture of Commerce" and economic opportunity in many remote communities.

CEDF's Consulting Services Division delivered certain Manitoba Agriculture, Food and Rural Initiatives community and economic development programs and services in northeastern Manitoba. Through liaison with Community and Economic Development Committee of Cabinet, CEDF's General Manager & CEO chaired economic development initiatives in support of Government's Northern Development Strategy.

During the year, CEDF developed a new 2003-2008 Strategic Plan that includes high-level performance targets and measures. CEDF's 2002/03 Annual Report included strategic business unit outcomes in relation to business unit plans.

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

CEDF's mandate is to fulfill the significant socio-economic purposes set out in The Communities Economic Development Fund Act. CEDF's business activities remain relevant, responding to the needs of targeted populations for access to capital and other assistance, within the identified public policy framework. CEDF pursues this mandate with

Crown Corporations Council

First Quarter Report 2004

appropriate commercial objectives that balance social purpose with fiscal responsibility. In discharging their governance and accountability responsibilities, CEDF's Directors demonstrate an appropriate level of diligence.

CEDF's planning processes are inclusive and consultative, resulting in planning assumptions appropriate to CEDF's business environment. CEDF continues to focus its efforts on ensuring intended outcomes are achieved and operations effectively safeguard public assets.

CEDF is effectively delivering its mandate to provide financial and other assistance to entrepreneurs and Government in support of enterprise development and expansion in northern Manitoba through the Business Loans and TEAM Programs.

CEDF is effectively delivering the Fisheries Loan Program in support of both Manitoba's commercial fishery and community enterprise development.

CEDF manages its lending portfolios and business operations with due regard for economy, efficiency and effectiveness.

CEDF delivers exceptional service and value to Government. In comparing 2002/03 year end results with 1992/93's, CEDF's net lending portfolios of \$20.0 million are \$6.6 million, or 49.3% larger and the quality and condition of the portfolios (accounts in arrears and allowance for doubtful accounts) is significantly improved. Current annual funding assistance supports higher numbers of jobs created / retained and CEDF also delivers a broader range of economic development assistance programs. CEDF's 2002/03 net cost to

Crown Corporations Council

First Quarter Report 2004

Government of \$1.5 million was \$193,064, or 14.85% higher than in 1992/93.

The higher risk inherent in CEDF's lending portfolios reflects the nature of its mandate. CEDF has appropriate strategies to identify and mitigate credit and concentration risks in its lending portfolios. The Board and management are employing these strategies effectively.

CEDF's risk management and mitigation practices contribute significantly to overall corporate performance.

In our March 2003 review, we commented on CEDF's concept for a new business model to enhance organizational effectiveness and performance as an emerging mandate-related issue.

Since then, CEDF took appropriate action to seek mandate and policy clarification. Select elements of the proposed concept have been implemented into CEDF's ongoing operations. While not fully resolved, CEDF and Government continue to review the concept.

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.

Crown Corporations Council
First Quarter Report 2004

Overview
Crown Corporations Council
Financial Statements
For the Three Month Period Ended March 31, 2004
(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 this three month period increased by \$20 thousand compared to the same period last year. The increase is primarily attributable to general salary increases and vacation accrual.

Balance Sheet
(unaudited)

	March 31	
	2004	2003
	(thousands of dollars)	
Assets		
Current		
Cash	\$ 448	\$ 372
Accounts receivable	1	6
	449	378
Capital assets (note 2)	5	7
	\$ 454	\$ 385
 Liabilities and Reserve Reflecting Net Investment in Capital Assets		
Current		
Accounts payable and accrued liabilities	\$ 67	\$ 50
Levies received in advance	119	168
Due to Manitoba Crown corporations	188	107
	374	325
Retirement allowances and other benefits payable	75	53
	449	378
Reserve reflecting net investment in capital assets	5	7
	\$ 454	\$ 385

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

	Three Months Ended March 31	
	2004	2003
	(thousands of dollars)	
Income		
Recoveries from corporations through levies	\$ 154	\$ 135
Interest	2	1
	<u>156</u>	<u>136</u>
Expenses	<u>157</u>	<u>137</u>
Excess of expenses over income	\$ (1)	\$ (1)
Reserve reflecting net investment in capital assets, beginning of period	<u>5</u>	<u>7</u>
Reserve reflecting net investment in capital assets, end of period	<u>\$ 4</u>	<u>\$ 6</u>

Notes to Financial Statements
March 31, 2004

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:

	March 31	
	2004	2003
	(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	54	52
Computer equipment	55	55
	<u>109</u>	<u>107</u>
Net Book Value	<u>\$5</u>	<u>\$7</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.