

Crown Corporations Council
A Manitoba Crown Corporation

Second Quarter Report 2004

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Crown Corporations Council

*Second Quarter Report
For the Three Months Ended June 30, 2004*

Table of Contents	Page
Transmittal Letter	
Report on Activities of the Council	1
Council Reports	
Manitoba Centennial Centre Corporation	1
Manitoba Public Insurance	4
Consistent Practices	9
Submissions to Council	10
Overview - Crown Corporations Council Financial Statements	11
Financial statements for the six month Period ended June 30, 2004 (unaudited)	12

September 29, 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 June 30, 2004.

Yours truly,

ORIGINAL SIGNED BY
Arthur V. Mauro
Chairman

Report on Activities of the Council

During the quarter, Manitoba Lotteries Corporation made a presentation to Council. The presentation focused on governance, strategic issues, risk management and corporate performance.

Council Reports

As part of its mandate, Crown Corporations Council (Council) annually reviews the mandate and strategic initiatives of each of the Crowns under its purview. During the Quarter Council conducted its annual reviews of Manitoba Centennial Centre Corporation (MCCC) and Manitoba Public Insurance (MPI).

Manitoba Centennial Centre Corporation

We reviewed MCCC's processes and 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 improve and innovate, value for MCCC's stakeholders, and efficiency and effectiveness in MCCC's business practices.

Effective performance in these areas is critical to MCCC's on-going success.

Since Council's April 2003 Corporate Performance Report MCCC successfully concluded fiscal 2003/04, showing favourable financial performance and organizational accomplishment in relation to plan.

During this period, MCCC implemented enhancements to customer and corporate security and made

investments in workplace quality initiatives. MCCC management and staff focused on updating human resource policies, procedures and practices. Technology investments are delivering improved utilities usage and constraining costs. Improvements in these areas positions MCCC for future effectiveness.

We reported last year that MCCC's Board and the Minister responsible supported a review of the Centennial Centre Corporation Act. Legislative changes prepared, but not yet introduced, are intended to enhance mandate clarity, modernize commercial and administrative practices and enhance governance and accountability practices.

During the year MCCC supported Government initiatives to address and ameliorate the challenges faced by the Winnipeg Symphony Orchestra.

MCCC's mandate is to fulfill the significant socio-economic purposes set out in The Centennial Centre Corporation Act. MCCC's business activities remain relevant within identified public policy frameworks and respond to needs of targeted populations for access to premier performance facilities. MCCC pursues this mandate with commercial objectives that balance social purpose with fiscal responsibility. In discharging their governance and accountability responsibilities, MCCC's Directors demonstrate an appropriate level of diligence.

MCCC's planning processes are inclusive and consultative. MCCC strives to achieve specific goals in five broad areas: Support Arts and Culture in Manitoba, Social Responsibility, Customer Satisfaction, Workplace Quality and Business Effectiveness. In its

Crown Corporations Council
Second Quarter Report 2004

3

2002/03 Annual Report MCCC began reporting accomplishments related to these goals.

MCCC is not yet able to comply with Council's April 2001 Corporate Performance Measurement and Reporting framework. MCCC is committed to improving outcome reporting that demonstrates the benefits and effectiveness of its activities to Government.

MCCC is currently developing an Emergency Response Procedures Guide. MCCC is reviewing its comprehensive insurance coverage for administered properties and contents which are valued at over \$100 million. MCCC's capital investments are intended to mitigate deterioration of facilities while maintaining premier performance and exhibition conditions.

MCCC focuses its efforts on ensuring that operations effectively safeguard public assets. MCCC manages its assets and business operations with due regard for economy, efficiency and effectiveness.

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

Since our last review, MCCC's Board has taken action to address Observations related to policy and performance based governance and development of a formal business continuity plan. While not fully resolved, work in these areas continues.

Council emphasizes the importance of MCCC and Government communication on expectations and intended outcomes in the areas of public policy and commercial activities. Clarity is critical in defining MCCC's mandate and statement of purpose, developing

appropriate goals and strategies to achieve intended outcomes and assessing MCCC's progress in advancing overarching Government goals.

Opportunity for policy clarification continues in the following areas:

As part of proposed legislative changes to the Centennial Centre Corporation Act, clear expectations of public policy and commercial outcomes for core business and ancillary services are established by Government.

MCCC and Government develop long-term capital requirements necessary to maintain the physical integrity and aesthetics of Centennial Centre complex facilities and commit to funding the necessary investments.

Manitoba Public Insurance

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. Council looked for 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.

Consistent with best practices, MPI reports high-level corporate performance in relation to goals and targets in its Annual Report using a "dashboard" format. Internally, MPI shares "dashboard" performance

reporting with employees on a quarterly basis through its Intranet.

MPI successfully concluded fiscal 2003/04 with better than expected financial results in Basic Autopac and competitive Extension Insurance and Special Risk Extension Insurance. With transfers of excess of target retained earnings from competitive lines effective March 1, 2004, the Basic Insurance Rate Stabilization Reserve (RSR) stood at \$72.2 million, below MPI's RSR target level of \$80 million to \$100 million.

Government announced April 19, 2004 that the Driver and Vehicle Licencing Division (DDVL) of Manitoba Transportation and Government Services would be amalgamated with MPI. The merger is intended to improve customer service, reduce overlap and duplication of services, improve operating and technological efficiency, enhance road safety and increase accountability.

MPI and the Province concluded a Management Agreement that enables MPI to operate DDVL until legislative change is enacted. The Agreement further requires a Memorandum of Understanding that will address matters relating to transfer of employees, sharing of benefit costs, remuneration paid to MPI and transfer of capital assets.

MPI has consistently demonstrated ability to effectively implement complex organizational change. Our preliminary assessment of DDVL integration processes, stakeholder engagements and accomplishments to date is favourable. MPI's Project Management approach and practices provide an effective framework for due diligence, consultation, integration and accountability.

During the year, MPI delivered strong customer service performance and earned high levels of customer satisfaction. MPI's Customer Services Standards (CSS) were assessed and validated by external consultants who concluded MPI's "current standards would meet or even exceed the service that most Manitobans expect or need..." and MPI "has adopted a CSS that meets industry standards." Throughout the year MPI met or exceeded nearly every service standard.

MPI's continuing focus on addressing issues arising from a November 2000 Employee Opinion Survey is reflected in improved corporate relationships with employees as measured by the November 2003 Employee Opinion Survey.

During the year MPI's Board and management continued to enhance best governance and business practices. Corporate planning processes, policies and risk management practices were enhanced to improve alignment with MPI's Corporate Strategic Plan.

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.

MPI's planning processes and assumptions are appropriate to the Corporation's business environment.

MPI focuses its efforts on ensuring that intended outcomes are achieved and that operations effectively safeguard public assets.

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.

These objectives are the foundation of MPI's Corporate Strategic Plan. Council's annual reviews confirm that MPI continues to achieve these objectives.

MPI is relentless in its focus on controlling costs, providing adequate insurance coverage and ensuring Autopac rates are fair and equitable. MPI's business processes and service delivery is customer focused, balanced with fiscal prudence and supported by strategic investments in information technology. MPI has provided Manitobans with low-cost, high-quality automobile insurance for nearly 33 years.

MPI has appropriate processes and strategies to identify and mitigate risk in all areas of its business activities. MPI monitors, reviews and manages these strategies effectively.

MPI's risk management and mitigation practices contribute significantly to overall corporate performance. Improved corporate-wide understanding

of risk management and mitigation contributes to improved corporate performance.

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 overall business condition assessment of MPI's operations is favourable.

Since our June 2003 review, MPI took appropriate action to address areas where we believed mandate and policy clarification was warranted. These matters are substantially resolved. During our current review, we identified opportunity for mandate and policy clarification in the following areas:

Disentanglement of DDVL functions in The Highway Traffic Act is a complex undertaking. Council supports the allocation of resources to ensure the process of enacting new legislation is timely and meets the needs of Government and MPI.

Council believes achievement of intended outcomes related to integration of DDVL functions within MPI can be enhanced through expeditious transition to MPI's corporate governance model. Openness, transparency and accountability through one Minister responsible and one governing body best serves the public interest.

With the addition of accountability for DDVL functions, Council believes there is opportunity to improve legislative and mandate clarity in The Manitoba Public Insurance Corporation Act. We

believe MPI and Government should modernize MPI's financial, administrative and regulatory provisions to reflect the significant and dynamic changes in MPI's operating environment.

Consistent Practices

During the quarter, Council commenced work on consistent practices to enhance Crown corporation accountability. Council intends to develop a best practices framework in this area.

In addition, Council reviewed findings of research conducted on best practices in Corporate Social Responsibility (CSR). The objective of this work is to contribute to enhancing corporate accountability in this area by the Crowns.

The research found considerable overlap of corporate social responsibility guidelines/principles and sustainable development principles/guidelines as established by Manitoba's Sustainable Development Act (Act). The principles and guidelines set out in the Act encompass the key elements found throughout CSR standards and practices.

This overlap can be attributed to a lack of clarity in definition, best practice and interpretation that currently exists regarding CSR. Companies typically adopt CSR voluntarily. CSR integrates social and environmental concerns into overall business operations while recognizing stakeholders' interest to varying degrees.

The body of CSR knowledge has grown in recent years. However, significant gaps remain. CSR does not have a standard definition, recognized set of specific criteria or interpretations of best practice.

Sustainable development is not a voluntary responsibility for the Crowns under Council's purview. It is a statutory obligation and the Crowns are subject to requirements set out in the Act. The principles of sustainable development and guidelines are outlined in considerable detail as Schedules A and B of the Act and encompass common elements of good corporate social responsibility that we identified through our research.

Best practice guidelines based on the legislation and current practice will be reviewed with the Crowns.

Submissions to Council

During the quarter a formal complaint was made to Council concerning Manitoba Hydro's tendering policy, practices and process. A review is underway and is scheduled to be completed in the third quarter.

Overview
Crown Corporations Council
Financial Statements
For the Six Month Period Ended June 30, 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 the six month period increased by \$27 thousand compared to the same period last year. The increase is primarily attributable to general salary increases and vacation accrual.

Balance Sheet
(unaudited)

	June 30	
	2004	2003
	(thousands of dollars)	
Assets		
Current		
Cash	\$ 424	\$ 430
Accounts receivable	\$ -	1
	424	431
Capital assets (note 2)	43	6
	\$ 467	\$ 437
 Liabilities and Reserve Reflecting Net Investment in Capital Assets		
Current		
Accounts payable and accrued liabilities	\$ 55	\$ 46
Levies received in advance	160	190
Due to Manitoba Crown corporations	134	142
	349	378
Retirement allowances and other benefits payable	75	53
	424	431
Reserve reflecting net investment in capital assets	43	6
	\$ 467	\$ 437

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

	Six Months Ended June 30	
	2004	2003
	(thousands of dollars)	
Income		
Recoveries from corporations through levies	\$ 357	\$ 291
Interest	3	3
	<u>360</u>	<u>294</u>
Expenses	<u>322</u>	<u>295</u>
Excess (deficit) of income over expenses	\$ 38	\$ (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>\$ 43</u>	<u>\$ 6</u>

Notes to Financial Statements
June 30, 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:

	June 30	
	2004	2003
	(in thousands of dollars)	
Cost		
Office furniture & equipment	\$61	\$58
Computer equipment	94	56
	<u>\$155</u>	<u>\$114</u>
Accumulated Depreciation		
Office furniture & equipment	54	53
Computer equipment	58	55
	<u>112</u>	<u>108</u>
Net Book Value	<u>\$43</u>	<u>\$6</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.