

Crown Corporations Council
A Manitoba Crown Corporation

Third Quarter Report 2004

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Crown Corporations Council

*Third Quarter Report
For the Three Months Ended September 30,
2004*

Table of Contents	Page
Transmittal Letter	
Report on Activities of the Council	1
Council Reports	
Manitoba Hydro	1
Manitoba Lotteries Corporation	2
Submissions to Council	6
Overview - Crown Corporations Council Financial Statements	7
Financial statements for the six month Period ended September 30, 2004 (unaudited)	8

November 25, 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 September 30, 2004.

Yours truly,

ORIGINAL SIGNED BY
Arthur V. Mauro
Chairman

Report on Activities of the Council

During the quarter, Manitoba Hydro made a presentation to Council. The presentation focused on strategic issues 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 a review of Manitoba Hydro's tendering policy procedures and process regarding small value tenders and its annual review of Manitoba Lotteries Corporation.

Manitoba Hydro

During the quarter, Council conducted a review of Hydro's tendering policies, procedures and process related to a specific small value tender. Opportunities for improvements based on best practice were identified. Council made a number of recommendations that Hydro has accepted.

1. Review and revise its tendering policy and procedures to improve:
 - interpretation and consistency of tender methods to be used - consideration should include extensions and total value of work
 - transparency and disclosure
 - communication with bidders

The policy should clearly state that: "All bidders must have access to the same information and therefore receive consistent information and additional specifications to ensure fairness,

efficiency and maintenance of an environment in which all companies have an equal ability to compete throughout the process. Additionally, if specific questions are asked by a bidder, all bidders must be provided with the same information.”

2. Revise its tendering policy to require public release of all successful bids/pricing on tenders.
3. Incorporate sustainable development procurement principles into tendering policies and procedures and front end identification of environmental and safety issues.
4. Consider additional options to provide better guidance to small and medium size suppliers interested in securing potential work with the Corporation.
5. Internal Audit conduct an updated review of tendering controls and procedures.

Manitoba Lotteries Corporation

We reviewed MLC’s strategies and processes to mitigate risk (i.e., to reduce the uncertainty of achieving intended outcomes) and to influence and seize current opportunities. Council looked for 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.

Crown Corporations Council
Third Quarter Report 2004

3

Since Council's September 2003 Corporate Performance Report, MLC concluded a financially challenging fiscal 2003/04. MLC and Video Lottery Terminal (VLT) siteholders' compliance with The City of Winnipeg's September 2003 indoor smoking ban in public places was reflected in significant declines in casino attendance and gaming, and play at VLT sites. MLC cites these factors as the primary reason 2003/04 net income of \$235.4 million was \$24.1 million lower than budget and \$30.1 million lower than the prior year.

Sustaining MLC net income will be challenging as the Corporation manages within a dynamic and changing policy environment. As of October 1, 2004, Provincial legislation banning indoor smoking in all public places comes into force.

MLC continues to be a leader in responsible gaming. All new gaming initiatives in Manitoba are assessed within a responsible gaming context. Other gaming jurisdictions seek MLC's advice and expertise on Problem Gambling Awareness Training for staff.

Early in 2004 Government permitted Sunday VLT openings to address inconsistencies in the gaming environment where only the Casinos of Winnipeg were open on Sundays. MLC recently completed a virtually seamless replacement of its over 5,300 machine VLT network with new machines that incorporate leading edge responsible gaming features.

MLC's best practices approach to human resource management again received national recognition. The Canadian Council for Aboriginal Business awarded MLC the Bronze level for efforts to enhance business and employment relationships with the Aboriginal community.

MLC conducted its first employee Organization Excellence Survey. Survey results have been shared with staff and next steps to address identified issues and build on corporate strengths are being acted on. MLC continued to implement measures that improve workforce culture and workplace quality and actions that strengthen communications with employees.

MLC continues building best practices into its operations. Effort in the last year focused on improving organizational productivity and efficiency.

MLC concluded a Voluntary Separation Incentive Program that resulted in 269 employees committing to leave the Corporation and is projected to save MLC approximately \$8 million annually.

During the year MLC completed its best practice governance framework to direct the affairs of the Corporation.

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. 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, but has not established targets to measure its progress. 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 to introduce coinless gaming equipment 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 support Manitoba's First Nations Casino Project initiative.

MLC uses a formal risk management model and has appropriate processes and strategies to identify and mitigate risk in its business operations. Board and management understand, monitor, review and manage these strategies effectively.

MLC's risk mitigation practices contribute to overall corporate performance. Over 300 MLC supervisors and managers completed risk management concepts training.

MLC delivers service and value in a manner that is consistent with broad Government policy.

While our business condition assessment of MLC's operations remains favourable, MLC's business risks are increasing.

Since our September 2003 review, MLC took action to address areas where we believed mandate and policy clarification was warranted. Work is ongoing supporting development of an overall gaming strategy

for Manitoba and development of high-level corporate performance indicators.

MLC is a significant source of Government revenues, representing about 4.5% of Manitoba's total taxation and other revenue (29.56% of total other revenue). During our current review we identified opportunity for mandate and policy clarification in the following areas:

In different forums, Government Ministers have stated that Government is proud to be less reliant on gaming revenue than when it first assumed office. Absent clarification of the meaning of "less reliant," Council is concerned unintended consequences could affect MLC and Government.

Council believes MLC's Board should seek clarification of what it means to Government to be less reliant on gaming revenue. Clarity of direction would assist MLC in fulfilling Government's public policy objectives and MLC's commercial objectives.

Submissions to Council

During the reporting period, Council received a complaint regarding Manitoba Hydro's tendering policy, procedures and process. Council conducted a review of the matter and found no failure by the Corporation to comply with any Act or any policy of the Council. Our review identified opportunities for improvement based on best practice regarding Hydro's tendering policies, procedures and process. A summary of our review is provided earlier in this quarterly report.

Crown Corporations Council
Third Quarter Report 2004

7

Overview

**Crown Corporations Council
Financial Statements
For the Nine Month Period Ended September 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 \$40 thousand compared to the same period last year. The increase is primarily attributable to general salary increases and vacation accrual.

Balance Sheet
(unaudited)

	September 30	
	2004	2003
	(thousands of dollars)	
Assets		
Current		
Cash	\$ 391	\$ 455
Accounts receivable	\$ -	1
	<u>391</u>	<u>456</u>
Capital assets (note 2)	39	6
	<u>\$ 430</u>	<u>\$ 462</u>
Liabilities and Reserve Reflecting Net Investment in Capital Assets		
Current		
Accounts payable and accrued liabilities	\$ 63	\$ 50
Levies received in advance	129	167
Due to Manitoba Crown corporations	124	186
	<u>316</u>	<u>403</u>
Retirement allowances and other benefits payable	<u>75</u>	<u>53</u>
	391	456
Reserve reflecting net investment in capital assets	39	6
	<u>\$ 430</u>	<u>\$ 462</u>

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

	Nine Months Ended September 30	
	2004	2003
	(thousands of dollars)	
Income		
Recoveries from corporations through levies	\$ 515	\$ 439
Interest	4	5
	<u>519</u>	<u>444</u>
Expenses	<u>485</u>	<u>445</u>
Excess (deficit) of income over expenses	\$ 34	\$ (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>\$ 39</u>	<u>\$ 6</u>

Notes to Financial Statements
September 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:

	September 30	
	2004	2003
	(in thousands of dollars)	
Cost		
Office furniture & equipment	\$61	\$58
Computer equipment	53	56
	<u>\$114</u>	<u>\$114</u>
Accumulated Depreciation		
Office furniture & equipment	55	53
Computer equipment	20	55
	<u>75</u>	<u>108</u>
Net Book Value	<u><u>\$39</u></u>	<u><u>\$6</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.