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SELECT STANDING COMMITTEE ON
CROWN CORPORATIONS

Victoria

Wednesday, May 3, 2006

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IAIN BLACK, MLA, CHAIR

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**SELECT STANDING COMMITTEE ON
CROWN CORPORATIONS**

Victoria
Wednesday, May 3, 2006

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- Deputy Chair:* * Guy Gentner (Delta North NDP)
- Members:*
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 - * David Chudnovsky (Vancouver-Kensington NDP)
 - * Corky Evans (Nelson-Creston NDP)
 - Chuck Puchmayr (New Westminster NDP)
- *denotes member present*
- Clerk:* Craig James
- Committee Staff:* Jonathan Fershau (Committee Research Analyst)

Witnesses: Tamara Vrooman (Deputy Minister of Finance)

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WEDNESDAY, MAY 3, 2006

The committee met at 3:20 p.m.

[I. Black in the chair.]

I. Black (Chair): All right, folks. Let's get started, if we may. I call the meeting to order.

If I may get a motion to approve the agenda, please.

Meeting agenda approved.

I. Black (Chair): Welcome, ladies and gentlemen. The agenda today is pretty tight, so we're going to get clipping right through it. I have a couple of remarks to make in terms of some of the progress since we last got together. I'm going to save those for the end of our meeting today.

What I want to do first is welcome our two guests. We have Tamara Vrooman, who is our Deputy Minister of Finance and vice-chair of the Treasury Board, as well as Molly Harrington, who is our acting assistant deputy minister — that's a lot for a business card — as well as the Crown agencies secretariat. The purpose of their being here today is to get us started off in this committee, to put some context around our work by giving us an overview of governance planning and reporting for Crown corporations.

Ladies, welcome. Thank you for being here. Why don't we move right into your presentation. How would you like to do it? Do you want to take questions as you go, or do you want to walk all the way through it?

T. Vrooman: I do have a very brief overview presentation. Perhaps I could just quickly go through that, and then I'm happy to answer any questions the committee may have. I also have some additional information to leave with the committee members for your information — some information on the reporting principles as well as just brief summary sheets that we use internally in the Ministry of Finance that I thought you might find useful, describing the basic key facts of each of the Crown agencies for which we're ultimately responsible.

I. Black (Chair): Terrific. The floor is yours. Go ahead.

Crown Agencies Secretariat

T. Vrooman: As the Chair mentioned, I am Tamara Vrooman, the Deputy Minister of Finance. In June the Crown agencies secretariat became part of the Ministry of Finance. Before that, it had been part of the Office of the Premier, but in recognition of the sort of governance and financial oversight role that the Crown agencies secretariat plays, Molly and her staff are now, I am pleased to say, part of the Ministry of Finance and part of the finance team.

On to the second slide. In terms of the things that I am going to canvass, I understand that you have an interest in understanding the definition of a Crown agency that we use, why we pick the one we pick and some information around the financial reporting requirements and accountabilities, as well as some information on the reporting principles and the service plan report. Those are the key areas that I'm going to canvass in my presentation, but of course, I am happy to answer any other questions you may have.

The definition of a Crown corporation. The definition, as you probably know, is based in the two key financial statutes that we in the Ministry of Finance and government use: the Financial Administration Act — the older of the two — and the more recent Budget Transparency and Accountability Act. What those two pieces of legislation say is that a Crown corporation, as opposed to a Crown agency, is a corporation or organization. It must be a legal entity — i.e., a legal person. That's why, for example, things like the B.C. Utilities Commission, which is a tribunal, is not considered a Crown corporation — because it's not a legal entity in that same sense. It has to be within the government reporting entity.

As you know, the province of B.C. has a legislative requirement to comply with the generally accepted accounting principles, the famous GAAP. That means that all Crown corporations, as well as Crown agencies, which is the subset larger than Crown corporations, are part of our financial statements. A Crown corporation must also be part of those financial statements. They are required under the BTAA to present their service plans and annual reports, just like ministries are, to the Legislative Assembly. What it doesn't include are Crown agencies and tribunals. Crown agencies, again, are things like school boards, universities, colleges and hospitals — the so-called SUCH sector — as well as tribunals and adjudicative bodies like the B.C. Utilities Commission.

There are two types of Crown corporations that we commonly refer to: commercial Crown corporations and service-delivery or taxpayer-supported Crown corporations. Commercial Crown corporations, as the name suggests, would be B.C. Hydro, ICBC — the things that are of a commercial nature.

Service-delivery is things like the museum, the Transportation Financing Authority — ones that provide a service more than a commercial enterprise. Both of those are required to produce service plans and annual reports. There are about 27 of those corporations in total. Again, the material that I hand out to you as background will list for you all of the Crown corporations in each of those two categories.

[1525]

In terms of the governance model, a lot of what Molly and her staff do in the Ministry of Finance with the Crown agencies secretariat is to support both the Crown corporations and the ministers responsible, in terms of what their respective roles are.

I'm pleased to say that the Crown agencies secretariat has nothing to do with me. They were wildly

successful before they became part of the Ministry of Finance. They are recognized internationally, actually, as leaders in terms of articulating a clear relationship between the minister responsible, as the shareholder representative, and the Crown agency. Along with the United Kingdom and New Zealand, they are recognized pretty much internationally for the work that they've been doing around transparency reporting, clarity of roles and responsibilities, and service planning. I just wanted to make sure that was on the record.

In terms of the governance model, you can see that the model we have is one of what we call a "strong board, strong minister." There is a minister designated as responsible for each of the Crown corporations. That minister is actually the shareholder representative — the shareholder for Crown corporations being the executive council of government, or cabinet, which is accountable, ultimately, to the Legislative Assembly and to the public.

Crown corporations themselves have their own governance structure, which covers the operational requirements. Key policy advice is provided through the shareholder representative to that Crown corporation. That's basically the model that we have. In the past sometimes that model has been blurred by having government's involvement more direct into the day-to-day operations of Crown corporations. Best practice suggests that's not optimal in terms of giving clear governance accountability to those boards that govern those Crown corporations. So we've spent quite a bit of time making sure that that separation is clear and that everybody knows what their roles and responsibilities are.

I. Black (Chair): Can I ask a question? That left chart is one of the more confusing charts I've seen, but having said that, I don't know how you could simplify it. The arrow direction. I noticed in some cases they're unidirectional, and in some they're bidirectional. Is that implying authority? Information flow?

T. Vrooman: It's implying flow of information. Sorry. I should have made that clear. Maybe the next chart is a little bit clearer in terms of the balancing.

The two things that are important in terms of Crown corporation accountability is the balance between independence, which is why we establish Crown corporations versus making them direct ministries of the Crown, and accountability. Ultimately we are talking about taxpayer dollars, and there does need to be some clear accountability in reporting, which is why we have the requirement under the BTAA to table the service plan and the annual reports and financial results in the Legislative Assembly.

Again, you can see some of the hallmarks that I was talking about. "Strong minister, strong board" is reflected in terms of those two functions of independence and accountability. What that means, just to give you an example, is that, in the case of B.C. Hydro, you clearly have a board that is responsible and accountable for the operation and performance of B.C. Hydro.

The chair stands behind their service plan as well as their annual reports. However, the minister — in this case of Energy, Mines and Petroleum Resources — is ultimately the one who tables the service plan and the annual report for that Crown corporation in the House in recognition of the fact that it is that minister's responsibility to ensure that strategic policy direction is communicated to that board and that their accountability requirements are ultimately met in terms of any statutory or regulatory requirements that the government may have.

That's basically the relationship. It's not the role of the Minister of Energy and Mines to run B.C. Hydro or to be involved in the day-to-day operations. That's for the board and the management.

In terms of the annual business cycle, we do have an annual cycle. Because their financial results are consolidated into the books of the province, be it the province's budget or the province's public accounts, we do communicate very regularly with Crown corporations in terms of getting their budget forecasts in place and getting their actuals in place. We monitor and report on that through our quarterly reports and the public accounts at the end of the year. They're very much a part of the general business planning cycle of government, because their financial results are a part of our financial results.

[1530]

We do review. For example, Treasury Board does review the financial results of the large Crown corporations, not with an eye to provide direct operational guidance but, again, to make sure that there are no surprises in terms of what the financial statements and the budget looks like for the government.

In terms of the minimum requirements, you can see that the minimum requirements are just that: fairly minimal. They have to say which minister is ultimately responsible to provide the shareholders with representative direction. They have to have a three-year time frame consistent with government's overall budget and service plan reporting time frame. They have to be consistent with government's fiscal plan and overall strategic direction. They have to conform with GAAP because, again, they are consolidated in our books. They have to compare actuals with planned results. It's sort of a basic requirement in terms of annual reports. They have to identify major capital projects, as specified under the BTAA for projects in excess of \$50 million, in the same way that ministries do. It's part of a statutory reporting requirement. They must be tabled by the minister responsible, as I mentioned earlier.

The Crown agencies secretariat serves as sort of the service bureau to assist ministries and Crown corporations in terms of meeting those requirements and to provide guidance, and the BTAA provides the overall statutory authority.

I understand there was some interest on the part of the committee in hearing more about the reporting principles that have been jointly developed between the Office of the Auditor General and the government,

on the key things that both Crown corporations and ministries should be reporting on in order to ensure maximum value in terms of transparency and accountability for the public. As you probably know, the Office of the Auditor General tracks progress against these reporting principles, and in the annual report it puts out each year, it talks about how well either Crown corporations or ministries are doing in terms of meeting these requirements. That report is tabled in the Public Accounts Committee for your information.

As to the kinds of reporting principles that you can see here — there are eight of them — they're fairly basic, but their consistent application is important. One of the things that we need to be able to do internally, but also externally, is to compare the progress of our major hydroelectric utility, for example, against the progress of those same utilities in other jurisdictions. We need to be able to compare financial information consistently within the government reporting entity.

These principles and the application of these principles, while they're not uniformly adopted across the country, certainly suggest sort of a basic data set of things that people have identified as best practice in terms of these kinds of reports. You can see them listed here.

- (1) Explain why they exist.
- (2) Link the goals with results.
- (3) Focus on a few critical areas of performance rather than many non-critical areas.
- (4) Risk and capacity to manage that risk should be clearly identified.
- (5) Linking resources, strategies and results. What that really means is: have you made a direct link between the human resources and the capital resources you have — the money that you spend — and the results that you achieve? That principle, of all of them, is the most difficult, historically, to achieve.
- (6) Comparative information — so we can make those comparisons that I referenced earlier.
- (7) Credible information. Is it prepared in accordance with best practice in terms of GAAP and other standards?
- (8) What are your assumptions in terms of how you calculated those results? Those are, as I said, audited by the Office of the Auditor General.

Just a little bit about the role of the Crown agencies secretariat. As I mentioned, they provide guidance and assistance to both ministries and Crown corporations in terms of how to apply these principles. They also do a lot of research in terms of best practice in governance. They work with the board resourcing and development office in terms of supporting boards in terms of their role and any kind of training and additional resources they may require. They work, clearly, with the Office of the Auditor General in terms of monitoring and enforcing these reporting principles.

That, simply put, is a high-level overview of the structure of the Crown corporations system in the province, the role of Crown agencies and some of the key reporting requirements. I'd be happy to take any questions you might have.

I. Black (Chair): Questions?

[1535]

C. Evans: Thanks for the presentation. Can you explain to the committee, as you've explained to me, how it comes to pass that it was determined the principles of GAAP required the government to change the board of the Columbia Power Corp.?

T. Vrooman: One of the major changes that the government introduced back in 2001 was that by the 2004-2005 fiscal year we would, by legislation, have to comply with generally accepted accounting principles. These generally accepted accounting principles are identified nationally by an independent board, the Public Sector Accounting Board. They provide guidance on how to maximize transparency in terms of who reports where and on what should be consolidated in the government's financial statements and what shouldn't.

One of the things that came out of that was a need to take a look at the current constellation of agencies that we have in the Crown and say: "Are we, in fact, consolidating the results of those Crown corporations or agencies appropriately?" In the case of a ministry it's pretty clear that we have direct control over the ministry. Their day-to-day operations are directly influenced by government direction, so it makes sense that they would be included in the overall financial results of government.

For some other agencies — particularly in the Crown agency sector, because they have their own boards and operate at this arm's-length relationship, as I talked about — that becomes less clear. What the accounting guidance says is that one of the things you look for is the degree of control. Does government appoint the majority of the members of the board of governors? Does government have the ability, ultimately, to remove that board and appoint a public administrator? Is the management of that board key to the day-to-day operations of government? Is this something that government used to do internally and has recently been transferred out?

There's a whole list, a checklist, of criteria that you use to determine whether or not you have to show the results of an agency on your books or you allow their books to, sort of, stand alone, independently.

In the case of the Columbia Basin Trust there was some concern that if we didn't clearly show that government controlled the board of that agency, there is a risk that the Auditor General would determine that they should be outside of the government's books. What that would have meant is that we would have had to write down the assets of that particular agency as we move it from within government to out. That would have resulted in a hit of several hundred million dollars.

Based on that guidance, we not only went through the CBT, we looked at every single Crown corporation and Crown agency. You know, there are a number of trusts and agencies that, over time, had developed with

all sorts of unique requirements and governance structures that made sense at the time they were developed. But we needed to apply against these criteria. This was one of them that we looked at and determined that, in order to be absolutely clear, we needed to ensure that we had control of the governance structure.

C. Evans: So the variable on which.... Well, firstly, when you use the word "we," who do you mean?

T. Vrooman: In terms of who is doing the work, member, or...?

C. Evans: No, in terms of "we advised" or "we determined."

[1540]

T. Vrooman: There are two parties that comment on these kinds of matters — you know, the interpretation of accounting. There is the comptroller general, who is the chief accountant of government, is an ADM in the Ministry of Finance and reports to me. It was his and his staff's job, at the time, to do the preliminary look. We then ask the Auditor General if he, in this case, and his staff agree with our interpretation, because it's their job to comment to the Legislative Assembly and, ultimately, to the public on whether or not we're doing the right thing.

We did that work — "we" in this case being the comptroller general, i.e., the Ministry of Finance. It fell, very clearly, within the guidelines. The Auditor General was not asked if he specifically agreed with that individual decision, but he and his staff, in reviewing all of the decisions that we made at that time, didn't indicate they disagreed. That's really their key job — right? — to take a look at it and say: "Oh, no, you didn't do that right. We're going to put a note on your financial statements." They didn't do that. That's who the "we" is, in that case.

I. Black (Chair): Bear in mind that we've got to watch our mandate just a little bit, because we're now wandering outside of it in terms of reviewing service plans and mandates of the corporations.

C. Evans: Perhaps you'd like to instruct me in what my job is.

I. Black (Chair): No, I'm also watching the time. The main focus of this committee is to review the annual reports and the service plans, as opposed to looking at how government has altered the governance models of the various Crown corporations and whatever policy directives may or may not be behind that. So we have to keep that within the goal posts. We've wandered outside of that a little bit, but if you want to finish off your line of questioning with that caution, on you go.

C. Evans: Thank you very much for the caution, and I do wish to finish off my line of questioning.

However, I have no idea how quickly it might happen, so you caution me again if it occurs to you that I'm wandering. For the benefit of members, I don't wish anybody here, especially the Chair, to wonder what the deputy and I are engaged in, just so you understand.

One of the agencies on which she is commenting is the Columbia Basin Trust. It has a sister organization called the Columbia Power Corp. The one is an agency of the Crown; the other is a Crown corporation. They hold assets in common, which is why I think it has to do with this presentation. As the deputy tells us, in 2001 there was a review about how those boards fit within the generally agreed principles of accounting.

That review resulted in a request or a suggestion to the government that the board be changed to reduce its local representation by half, or slightly more than half. Prior to that time the trust had a regional theme. The Crown corporation had a Victoria principal. The trust, therefore — as any of you might, where you live — had a board with two-thirds of the representatives chosen by the local government. The deputy's process resulted in a recommendation that the two-thirds majority of local people be eliminated so that there would be a provincial majority. Understand that there are two agencies; one is not a Crown. It's a — what do you call it? — association.

T. Vrooman: Just to be clear, they are both Crown corporations. It's just that one is a service-delivery Crown, and one is a commercial Crown.

I. Black (Chair): They're both on our list of eligible Crowns. By the way, all of your comments are absolutely valid, and the topic around them is a perfectly pertinent discussion to have, but the method by which all of that happened is not in the purview of this committee. That's the reason for my cautionary comments.

That's not in any way to diminish the importance of the history or your concern for that history and how it all came about. I would encourage you to, perhaps, pursue that conversation off-line with the deputy minister, just because it's not the mandate of this committee.

C. Evans: Okay. I have no interest in history either, nor do I have any blame for the deputy, the agency, the Auditor General or the government. Right now I believe that the terms under which that decision was made have changed.

I. Black (Chair): Generally accepted accounting principles?

C. Evans: Yes. The deputy makes the argument that what was assessed in requiring the board to change was risk. Is that correct?

[1545]

T. Vrooman: Risk is one of the key.... Risk and control are the two things that we looked at.

C. Evans: At the time that the recommendation was to cut regional representation, there was a risk that the

Columbia Basin Trust would buy out the assets of the commercial Crown, Columbia Power Corp. I spoke to the Auditor General, and the Auditor General said: "Yes, that risk was part of my consideration." The risk has now been removed, and Columbia Basin Trust has announced that it will not acquire commercial assets belonging to the Crown.

Right now, in the present day, not history, I wish to review or to ask questions related to the review of that decision, because I believe the risk has been removed.

I. Black (Chair): That's a perfectly legitimate thing to want to do, but this committee is not the venue for doing it, because that's not the mandate of our committee. I'm not trying to diminish your point. It's a great question, wrong forum.

C. Evans: What would you suggest might be the appropriate venue?

I. Black (Chair): I would suggest a conversation, perhaps, with the Ministry of Finance as a starting point. You've been here longer than I have, Corky. You've been better versed in how to answer that. What I do know is that the mandate of this committee, in terms of reviewing annual reports and service plans, does not take us into the territory of how the governance models of those have changed and how they came about from a historical standpoint — or indeed how they might change going forward based on....

C. Evans: Well, I like the Ministry of Finance, and I like their staff, and I have talked to them, and obviously we're having a conversation. It is not the first. I've talked to the Auditor General, and I've talked to the other general guy, whatever his job is. What is it?

T. Vrooman: Comptroller general.

C. Evans: Comptroller general. And now I'm talking to my colleagues about governance, because that's what I thought was....

I. Black (Chair): I think there may be some line of questioning which could be addressed once we bring them in front of our committee.

C. Evans: These guys are coming back?

I. Black (Chair): The Columbia River guys.

C. Evans: Okay. I just have a couple more questions, then. Would the deputy agree that with the removal of the Columbia Basin Trust option agreement to purchase the assets of the commercial Crown, the nature of the risk has changed?

T. Vrooman: What I would say in answer to that is that certainly the circumstances have changed. Whether it's sufficient to change the opinion.... As I

said when we talked about this last time, we have not been asked to sort of rerun our criteria against current guidance, against the current governance structure.

C. Evans: Right. That is what you said to me, and I was hoping to ask this organization to ask the deputy to rerun the consideration. I have no blame for what happened. I just think the situation is different and that the GAAP, the generally agreed principles of accounting, now dictate that there's a different situation. We may be directing our Crown to a governance model that's inappropriate for the risk of the times. I think every single one of us here, being people who represent regions as well as the province, would not want to kick regional people off a board if the accounting principles didn't require it.

I'll just say on the record, hon. Chair: could we consider, as a group, at some point asking the Ministry of Finance to reconsider the decision, given the present-day situation?

I. Black (Chair): I would suggest that it's also not within our mandate to make requests to the Minister of Finance, but I will have a look at that and get back to you.

C. Evans: Thank you very much.

And thank you for your answers to the questions.

T. Vrooman: You're welcome.

C. Evans: I very much appreciate the dialogue. It will go on till it gets better.

I. Black (Chair): Your interest and passion on that topic is legendary, by the way. It's well known and well documented.

Any other questions?

Work of the Committee

I. Black (Chair): Just a couple of remarks, if you'll indulge me for just a moment. Since we had our initial meeting, I have met with the vice-Chair. I would offer the editorial that we actually have some fairly similar views with respect to the different corporations that would be of value to us as a committee. On that basis, I will have a preliminary schedule which I will forward to the Clerk — for the input of committee members back to Craig — with respect to what we might do between now and the end of the year.

[1550]

I felt that it would be a good start to identify four or five different corporations that we might bring before us prior to Christmas and then look at the 2007 schedule as we get closer to the Christmas time frame. I'll be sending that around in the next little bit. The other thing I'll send around, through the Clerk of Committees, is three documents. One is a copy of the reporting principles that Tamara mentioned a moment ago, as well as 11 questions that kind of fall out of that based on those eight principles which were used by this committee in the previous session of the Legislature.

They were used as guidelines for the committee members in terms of getting them ready for the different ministries. It basically served as a template as we were preparing for a given meeting, to match the information you've been given relative to questions you might ask the Crowns.

Along the same vein, there's a data checklist that was also used last time and that I thought was quite useful. I've developed quite an archive of material in the last few months on this committee, and that was on there. I thought that was actually quite useful. Use it at your discretion or don't, but it basically gave a little checklist to help you get kind of a read on: are we getting sufficient information from the given Crown to properly prepare us for the discussions? Again, use it or don't, at your discretion. I'll get that sent around as well.

I neglected, at the beginning of our meeting today, to introduce Jonathan Fershau. I'm not sure if all of you know Jonathan. He is our committee research analyst. One of the documents that I came across in the last few months was one that he produced. It was a summary of the procedures, terms of references and meeting process that this committee has followed. Again, I thought that would be useful as well — really to our previous conversation, Corky, with respect to: how does this committee focus? What does it typically do? Where are the goalposts within which we want to conduct ourselves? I think that would be of interest and use for all of us as well. You'll see that, hopefully, within the next week or so.

C. Evans: Are we allowed to ask him questions and engage research?

I. Black (Chair): I'm not actually sure. That's a very good question.

Craig, can I get some guidance on that?

C. James (Clerk Assistant and Clerk of Committees): No.

A Voice: You almost had a full-time job.

I. Black (Chair): And then some — another full-time job, I suspect.

C. James (Clerk of Committees): Sorry to interrupt, but if I could just add.... Jonathan's very much an expert in this area now, having shepherded the committee's predecessor over the last four years — which did some very valuable work, I thought.

I. Black (Chair): Any other questions? Comments?

T. Vrooman: I'll just offer that, maybe through the Clerk, we also have those summary sheets, which the committee may find useful, on each of the Crown corporations, for distribution.

I. Black (Chair): That would be very useful, I suspect. Thank you.

Motion for adjournment?

Motion approved.

The committee adjourned at 3:53 p.m.

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