

Third Session - Fortieth Legislature
of the
Legislative Assembly of Manitoba
Standing Committee
on
Crown Corporations

Chairperson
Mr. Bidhu Jha
Constituency of Radisson

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MANITOBA LEGISLATIVE ASSEMBLY
Fortieth Legislature

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**LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON CROWN CORPORATIONS**

Tuesday, October 28, 2014

TIME – 2 p.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Mr. Bidhu Jha (Radisson)

**VICE-CHAIRPERSON – Mr. Ted Marcelino
(Tyndall Park)**

ATTENDANCE – 11 QUORUM – 6

Members of the Committee present:

Hon. Mr. Lemieux

*Messrs. Altemeyer, Cullen, Dewar, Ewasko,
Friesen, Jha, Maloway, Marcelino, Saran,
Smook*

APPEARING:

Hon. Jon Gerrard, MLA for River Heights

*Mr. Winston Hodgins, President and Chief
Executive Officer, Manitoba Liquor & Lotteries
Corporation*

*Ms. Corrine Scott, Director of Compliance,
Liquor and Gaming Authority of Manitoba*

MATTERS UNDER CONSIDERATION:

*Annual Report of the Manitoba Liquor Control
Commission for the fiscal year ending
March 31, 2012*

*Annual Report of the Manitoba Liquor Control
Commission for the fiscal year ending
March 31, 2013*

*Annual Report of the Manitoba Lotteries
Corporation for the fiscal year ending
March 31, 2013*

* * *

Mr. Chairperson: Good afternoon. Will the Standing Committee on Crown Corporations please come to order.

This meeting has been called to consider the following reports: Annual Report of the Manitoba Liquor Control Commission for the fiscal year ending March 31st, 2012; Annual Report of the Manitoba Liquor Control Commission for the fiscal year ending March 31st, 2013; Annual Report of the

Manitoba Lotteries Corporation for the fiscal year ending March 31st, 2013.

Before we get started, are there any suggestions from the committee as to how long we would sit this afternoon?

Mr. Cliff Cullen (Spruce Woods): I know we've already reviewed two out of the three reports at previous committee meetings. I'm suggesting we sit 'til 3:30 and then review at that time.

Mr. Chairperson: Three thirty has been suggested. Is that agreed? *[Agreed]*

Are there any suggestions as to the order in which we should consider the—*[interjection]* Yes, Mr. Marcelino? Thank you.

Are there any suggestions as to the order in which we should consider the reports?

Mr. Cullen: With tradition, if we could review these in the global manner, I think that would be certainly welcoming on our side of the House.

Mr. Ted Marcelino (Tyndall Park): We would like to confine it to the reports—globally, as to the reports.

Mr. Chairperson: Okay. So that has been suggested, we confine to the reports and we go global on these reports. *[Agreed]*

Does the honourable minister wish to make an opening statement? And would you please introduce the officials in attendance.

Hon. Ron Lemieux (Minister responsible for Manitoba Liquor and Lotteries Corporation): Good afternoon and thank you for the opportunity to speak to you today on the business activities of Manitoba Liquor & Lotteries Corporation. It's my pleasure to introduce to you the board of—the board chair and members of our executive: Tannis Mindell is to my left, she's the board chair; Winston Hodgins, President and CEO; Tracy Graham, chief financial officer; Peter Hak, chief Corporate Services officer; Robert Holmberg, vice-president of Liquor Operations; Susan Olynik, vice-president, Corporate Communications and Social Responsibility; Marilyn Robinson, vice-president, Integration; Corrine Scott,

Director of Compliance with the liquor gaming authority.

But, before we proceed to questions from members opposite, I'd like to take the opportunity to review some of the milestones the province's newest Crown corporation has realized since its last appearance here.

This was a key year for Manitoba Liquor & Lotteries' journey towards full integration, starting with the new legislation taking effect on April 1st of this year. It's worth looking back sometimes to see the path you've travelled. It was in 2012 that our government gave direction to begin the merger of Liquor and Lotteries. We had three objectives. Those objectives were to find ways to reduce administrative spending, to identify and go after efficiencies and synergies across the two Crowns, the two Crown corporations, by merging them into one; improve services to Manitobans by cutting red tape; improve customer service. In essence, our objective was to modernize the two Crown corporations for the 21st century. The principle of efficiency that drove this process was simple: Where there's duplication, where there are two things, we can find—and can find—savings by reducing it to one. For example, where there are two boards of directors, we can reduce it to one. Where there are two sets of senior executives, we could do just with one. We said, yes, we can, and we proceeded to do so.

Further, in modernizing the two Crowns, we took this opportunity to update our old liquor laws that had not been changed much since the 1950s. Part of the modernization of liquor laws was about cutting red tape. It was about also enhancing customer service and creating customer choice while striking a balance to ensure a strong, ongoing commitment to social responsibility and to solid funding for programs that encourage modernization and the programs that provide good information about alcohol and gaming and that support families dealing with addictions.

To help achieve that high standard for social responsibility, the new Manitoba Liquor and Lotteries Corporation Act, we included a clause that requires 2 per cent of net revenue to be directed to social responsibility as part of the corporation's new mandate. We believe that this 2 per cent commitment in law is unprecedented in our country and provides a solid basis for moving forward as a modern Crown corporation in the 21st century.

We were confident in 2012 that we could achieve all the above goals through the merger process. Results, to date, show that we are on track to do just that.

Last month Manitoba Liquor & Lotteries Corporation received an interim report on the merger from independent consulting firm Meyers Norris Penny. The Meyers Norris Penny report confirmed that the savings associated with the merger to the end of March 2014, after merger-related operating capital costs, are approximately \$6.6 million. There are more to come. Total merger savings less merger costs to the end of March 2015 are anticipated to be and to exceed \$36.6 million.

Savings have been achieved by finding efficiencies and reducing duplication, including consolidating vendor service contracts as well as staffing and administrative inefficiencies—or administrative efficiencies, sorry.

Streamlining includes reducing to one board of directors from two, eliminating nine executive and senior management positions and other redundant positions. At the same time no one has been laid off—no one has been laid off. Every impacted employee has been offered, had been or will be offered alternative responsibilities or opportunities. As Manitobans, we can all be proud of this ongoing success.

*(14:10)

The business integration of the former MLCC and Manitoba Lotteries has continued to realize many savings and efficiencies. From a workplace perspective, the two companies have already been taking steps to ensure that they grow together. The benefits of working together under one roof will be fully realized when a suitable location for a downtown head office is chosen and all corporate staff will be together in one centralized location. An RFP process is currently under way to achieve this important merger milestone. In terms of business performance, Manitoba Liquor & Lotteries has continued to provide quality gaming entertainment and beverage alcohol products in a socially responsible manner.

Recent initiatives include the newest Liquor Mart Express open in the Real Canadian Superstore located at the corner of Gateway Rd. and McLeod Ave., bringing the total Liquor Mart Express locations in the province to five, with another five planned to open within retail grocery locations by the

end of the year. Also reflective of our modernizing initiatives, 99 hotel beer vendors are now selling coolers and ciders as of October 1st this year; a change that provides customers with a greater product variety, gives vendors greater access to market share.

Liquor & Lotteries has also just recently launched a six-month pilot project for growler bars: refillable beer stations where 1.89-litre bottles can be refilled with craft beer from local breweries Fort Garry and Half Pints. Further to craft beers, the Province will be moving forward to develop a co-ordinator strategy to support the Manitoba-based craft brewing industry, working in consultation with brewing, hospitality and other beer industry stakeholders including Liquor & Lotteries and the Liquor and Gaming Authority.

With respect to the casinos of Winnipeg, gaming industry trends continue to providing customers with an all-inclusive entertainment experience that includes gaming, dining and live entertainment. Exciting new amenities are sometimes—sorry—exciting new amenities are something our customers expect from their gaming and entertainment experience in Winnipeg. With that in mind, the Club Regent Event Centre opened its doors this past May and just earlier this month was a host venue for the Western Canadian Music Awards. The evening was one of three major music industry events this year in Winnipeg as part of the—Manitoba's Year of Music, which Manitoba Liquor & Lotteries was a proud presenting sponsor.

Recent financial results from the first quarter of 2014-15 indicate that VLT revenue has increased by 14 per cent or \$5.6 million over the same period as last fiscal. Our customers are enjoying playing the latest generation of machines and leading-edge games that were rolled out over the last couple of years. VLTs continue to provide a significant revenue stream for public programs serving all Manitobans, as well as income for site holders. It's my pleasure to report that the organization's combined net revenues for the most current fiscal year totalled \$562 million which was returned to the Province to support vital programs, government programs, services and initiatives that benefit Manitobans.

I'd also like to note and congratulate Manitoba Liquor & Lotteries for earning the highest level of certification from the World Lottery Association, the WLA, for achieving a best-practices approach for the

development and continuous improvement of responsible gaming strategies and programs in Manitoba. The level 4 responsible gaming framework certification is granted only after rigorous evaluation across 10 program areas by an independent panel of experts from around the globe.

I also wanted to mention that the Manitoba gaming research program continues to build capacity in the province for gambling research. To date, the program's funding commitments have totalled over \$1.2 million. The corporation was recognized again for excellence in financial management as it received its 10th consecutive government financial officers association—the GFOA—award for excellence in financial planning with special recognition for performance measures.

I'm also pleased to tell you that Manitoba Liquor & Lotteries was recently nominated by the Children's Rehab Foundation for the outstanding philanthropic organization of the year award for 2014, which is awarded annually from the Manitoba chapter of the Association of Fundraising Professionals.

In closing, Mr. Chairman and members of the standing committee, I'd like to once again express my sincere thanks to the board of directors and staff of Manitoba Liquor & Lotteries for all their hard work and dedication to enriching our communities through responsible delivery of beverage alcohol and gaming entertainment in the province, and their continued commitment to fiscal prudence and reinvesting in their properties—or—and people. It goes without saying that Manitoba Liquor & Lotteries is a stellar example of modern Crown corporation that offers both excellence and efficiency.

I want to acknowledge Winston Hodgins, who is here with us today, his great work in the past two and half years as CEO and—in bringing together and modernizing these two major Crown corporations and finding so many efficiencies and savings. As well, as we all know, in the new year the new CEO comes on board to assume the day-to-day operations and advance the strategic objectives of the new Crown corporation while Winston shifts his focus over the next 18 months to driving home the major new projects I have, including the establishment of the downtown head office and the consolidation of over 400 staff, modernizing our casinos and advancing the craft beer industry in Manitoba. Thank you, Winston, for all your hard work to date and for agreeing to tackle these big projects.

That concludes my statement, Mr. Chair, and thank you to the members of the committee.

Mr. Chairperson: We thank the honourable minister.

Does the critic for the official opposition have an opening statement?

Mr. Cullen: Thank you, Minister, for those comments. I appreciate those comments.

I briefly want to welcome the chair of the board here today and certainly the CEO. I understand now that there's some changes ahead for the CEO, so certainly congratulations on that. It's—I'm sure it's been some challenges over the last couple of years with the amalgamation moving forward. But I do want to welcome you, and certainly all your staff as well today, and I look forward to a good discussion on Liquor & Lotteries.

Mr. Chairperson: We thank the member.

Does the representative from Manitoba Liquor & Lotteries Corporation wish to make an opening statement?

Mr. Winston Hodgins (President and Chief Executive Officer, Manitoba Liquor & Lotteries Corporation): No.

Mr. Chairperson: Thank you.

Now the floor is open for questions, and what I would recommend, anyone who asks the question and answers, please raise your hands clearly so that I can recognize you and then we'll proceed.

We'll go ahead now. Let's just start asking questions.

Mr. Cullen: Clearly, in the reports there's a lot of reference to the changes in legislation, changes in regulation, and I just want to get a sense if all of the legislation that was enacted, if that—all of that legislation has—actually has been enacted.

Mr. Hodgins: Well, there's—I guess there's two elements to it. There's the legislation that applies to Manitoba Liquor & Lotteries, and then there's also the legislation that applies to the Liquor and Gaming Authority of Manitoba, the—kind of the regulatory oversight group. So I can speak to the, you know, the legislation that relates to Manitoba Liquor & Lotteries, and we are well advanced in dealing with all of the legislation that has been, I guess, approved related to ourselves.

Mr. Cullen: Maybe the minister, then, could comment on the gaming—the regulatory side of it in

terms of the legislation, where things are at and when we can expect that to be enacted.

Mr. Lemieux: Yes, to address that question, we'll ask Corrine Scott, the director of compliance with the Liquor and Gaming Authority, if we could ask leave from the committee to allow Corrine to make a couple comments or ask the question or follow-up questions as well.

Mr. Chairperson: Is there leave? *[Agreed]*

Go ahead.

Ms. Corrine Scott (Director of Compliance, Liquor and Gaming Authority of Manitoba): Could you repeat the question? I couldn't hear from back here, please.

Mr. Cullen: I'm just trying to get a sense of, you know, we had passed legislation. I'm trying to find out where we are in terms of having the legislation enacted, and, obviously, the gaming component is one side of the—gaming control is one component of it. Can you explain to the committee where things are at in terms of the legislation? *[interjection]*

Mr. Chairperson: Sorry. Ms. Scott, kindly raise your hand before answering questions and go through—yes, Ms. Scott, go ahead.

Ms. Scott: The Liquor and Gaming Control Act was in force—proclaimed and in force and in effect on April 1st of this year, with suitable regulations as well.

* (14:20)

Mr. Cullen: I know when we had our last committee meeting there were certainly discussions about the proposed regulations at that time, and there was an oversight committee struck to make recommendations on the regulations. Is that particular committee still operative?

Ms. Scott: Are you referring to the hospitality industry committee and the representatives? Yes.

Mr. Cullen: Is—have all the regulations, then, that have been enacted at this time, are they—they're all in place now. Is there any other outstanding regulations that you're looking at bringing into force?

Ms. Scott: Not at this time.

Mr. Cullen: Okay, I appreciate that, and, obviously, the work of that oversight committee, then, will be ongoing. And has there been any feedback from that oversight committee back to Liquor & Lotteries in terms of regulations?

Ms. Scott: With respect to feedback from the local industry group to the Liquor and Gaming Authority, we've had very positive feedback from the participants. I can't speak to if they've given any feedback to Liquor & Lotteries.

Mr. Hodgins: We are a participant in—on the committee, and—so it's chaired by, I believe, the Liquor and Gaming Authority organization. But my understanding is that there has been informal feedback from participants on it, and at this point in time, it's similar to what Corrine was mentioning. We have also received positive feedback from the industry with respect to the regulations that apply to us.

I should say that, you know, regulations, you know, will evolve over time and there could be changes in the future, but at this point in time we're not contemplating any further regulatory changes.

Mr. Cullen: The minister referenced the Meyers Norris Penny report on the amalgamation. Is there going to be any other independent report brought forward on the amalgamation?

Mr. Hodgins: The report that the minister mentioned, it's an interim report. It's—we're expecting that we'll have Meyers Norris Penny come in when we finish our work on the merger.

One of the things that Meyers Norris Penny did mention to us when they submitted this interim report was that they said that they felt that by the end of this fiscal year or, say, by the summer of 2015, they felt that we should bring this exercise to, I guess, an end. We probably could go on indefinitely, looking for other merger savings and that, but they felt that we probably will have captured the bulk of the savings that we'll achieve through this exercise. So we're expecting that Meyers Norris Penny will come in towards the end of this fiscal year or in the summer of 2015 to do a final report that we'll table with our board of directors.

And I would mention to you that the interim report is available online or we can get you a hard copy if you'd like to have one.

Mr. Cullen: So in terms of reports, I know we have the '13-14 annual reports from both Lotteries and Liquor already in front of us, not under consideration, but we do have copies of. Now, I am assuming, then, there will be a report, then, next April 1st for the amalgamated organization. Is that how—that's how it will work?

Mr. Hodgins: That is correct. The report you got for '14-'13-14 for the Liquor and Lotteries and for the Manitoba Liquor Control Commission are the final separate reports that will be tabled.

Mr. Cullen: Given that it'll be quite some time before we get a sense of the annual report of the amalgamated organization, would you be able to provide a SIA, for a lack of a better term, kind of a flow chart of the organization in terms of the, like, the committees under the corporation, some of the management groups and how the organization is organized?

Mr. Hodgins: Yes, we could certainly do that. If it would be helpful, what we can do is we can show the committees of the board of directors and we could also show the organizational structure. This'd be at a high level because it's of—I mean, we have 3,000 employees working in the corporation now. But, if you're looking for something at a high level to see how it all kind of comes together, we can certainly provide you with that.

Mr. Cullen: Yes, I would appreciate that very much.

In terms of the, I guess, the logo and the branding of the new organization, can you give us a bit of a sense in terms of how that came to be? Was there independent consultants hired, or how was that process undertaken?

Mr. Hodgins: Yes, we actually did that some time ago. It was—we started work on it not long after the merger was announced, and I can't remember the exact date—maybe there's somebody here with us that could give me the date of when we actually introduced the new logo for the merged corporation—but we did have a consulting company—I believe it was McKim that come in and assisted us with developing the new logo that we're using for the corporation.

Mr. Cullen: I guess that's all part of the rebranding strategy. Was there—do you have a budget amount that you had set aside for the—I'll call it a branding strategy?

Mr. Chairperson: Mr. Hodgins, go ahead.

Mr. Hodgins: I have way too much paper here. We didn't have a specific budget that was set aside for branding. We do have a marketing budget that, you know, if we feel there's some initiatives that we need to undertake with respect to branding the new corporation, we will take it out of the budget, yes, the marketing budget, but we didn't have a branding

budget per se that was allocated in the new corporation.

Mr. Cullen: The minister mentioned office space. I get a sense that you've got an RFP out there at this point in time. Maybe you could give us a bit of sense of the time lines on that and what we can expect down the road in terms of—and what you're actually looking at in terms of amalgamation of office space.

Mr. Hodgins: Sure, and maybe just to go back a little bit and give you some information in terms of the process that we've gone through up to this point in time, initially what we did, and this goes back to June, we issued what was called an expression of interest, and what we were looking for were development companies that would be interested in providing us space for this merged office accommodation. So the—it went out. There were two mandatory requirements for companies to put forward a proposal on the—as part of this process. One was that they had to be able to provide us with 60 to 80 thousand square feet, and we used that range because we were looking at what we felt would be the final staffing component that would be brought to this new head office. The other mandatory requirement was—is that the development companies had to provide space in the downtown area.

So those are the two mandatory requirements. So we went through that process. We had 22 proposals that were submitted as part of that process, and I believe there was about 14 development companies that were involved in those 22 proposals. So there were some companies who submitted more than one option to us.

So we did look at the—at each of the proposals. There were two that were disqualified, and they were disqualified because they did not meet the downtown requirement. So then we issued a RFP which is currently out with the development companies now, and they have until November the 7th to submit their tender proposals to us. And once we receive those tender proposals, we will then be evaluating them to shortlist them and we will be taking back a recommendation to our board of directors, hopefully shortly—well, I would say the earliest would probably be in December sometime that we'd be able to get back to our board with a recommendation.

I would also mention to you that we did contract with two companies to assist us with this exercise. One is Deloitte, and the other one is Prairie Architects, and we—Deloitte were actually the company that developed the tender proposal that we

sent out as part of the—or, I should say, the RFP, and Prairie Architects have been helping us with the design of the space and what our space requirements will be or should be as part of this process.

So we're looking at lease options, lease-own options or possibly a purchase as part of this, so it's giving the development companies lots of flexibility to come back with proposals, and we're anticipating that when we go through this process that we're going to be able to achieve some further savings as a result of that.

* (14:30)

Now the staff that are going to be consolidated as part of this process will be coming from our staff over— what we call our corporate campus—over on Empress Street. We own the building on Empress Street and then we lease space in behind there, and we also have staff over at Buffalo Place that will be moved to the new head office as well. There's a few staff that will be coming from our warehouse facility over on Pacific, but the bulk of the staff will be coming from Empress and Buffalo. So that's kind of where we're at right now.

We're—while the RFP's out on the street, what we're doing is that we're developing the evaluation criteria that we'll be using to evaluate proposals when they come forward.

Mr. Cullen: So the existing offices you have now, you said you own the one on Empress. The one at Buffalo Place, do you own that as well or is that a leased arrangement?

Mr. Hodgins: You're quite right. We own the building on Empress, but we also lease space in behind on St. James and on Milt Stegall way. The building over on Buffalo Place, we own that. Now that's also—we have not only office staff there but we also have our distribution centre at Buffalo Place, as well. So the intent is to keep that distribution centre where it's located now. We also have a warehouse over on Pacific and Weston which, prior to the merger, was serving the Lotteries' operation and we'll be retaining that as well. We own that building as well.

Mr. Cullen: So you mention that the new corporation is about 3,000 staff, total. What number of staff, just approximate numbers, would you see moving down to the head office location?

Mr. Hodgins: What we're targeting is 440.

Mr. Cullen: Then you will find accommodations for the rest of those staff, certainly Buffalo Place or wherever that—wherever is required.

Mr. Hodgins: Well, the bulk of the staff are actually at the two casinos and at our Liquor Marts. So that's where the bulk of the staff are.

Mr. Cullen: In terms of staff, I don't think the annual reports reflect the number of staff that the existing corporations have. Would you be able to provide the committee the number of staff under each of the corporations prior to the amalgamation for the last three years? And then, if you could, give us a sense of where you're at now in terms of total staff?

Mr. Hodgins: Yes, we could provide you with that information. I can tell you just roughly what it is, but we'll provide you with more details over the three-year time frame that you're asking for. It's roughly 2,000 that are in the heritage lottery corporation and about 1,000 in the heritage liquor.

Mr. Cullen: Obviously, with the amalgamation, there's probably going to be issues within staff. I know there's a lot of different unions involved in that, too, and trying to bring all this together under one umbrella is probably a challenge.

Could you comment on how those—that part of the operation is going? Obviously, you know, there's going to be contracts in place with existing unions and there could be some overlap. Can you kind of give us a sense to the committee how that process with staffing is coming together?

Mr. Hodgins: We have five unions and seven contracts that we're dealing with. There was one union, one contract at Liquor and the rest of them are at—on the Lotteries side, and certainly that's what we're going to be working on over the next couple of years as the contracts mature.

We are currently in negotiations now with the MGEU on the liquor side, but there's others that are going to be—I think there's one other contract that's going to be—that we're going to be working on here shortly. But there's—they kind of mature over the next year, year and a half, as I recall it now.

Mr. Cameron Friesen (Morden-Winkler): If I may, I'm having some difficulty hearing the discussion, and I know there's a couple of government members here who are actively engaged in conversation. And, while I acknowledge that there's probably a lot for them to talk about today,

there's a lot of chatter in the hallways and there's a lot of chatter behind closed doors, and we understand they might have lots to share, I wouldn't mind being privy to their information. But, if they would like to have that conversation, I'm going to ask that they take a seat or chair. If you could please direct them to take a seat somewhere else so that some of us at the table could hear more clearly the discussions taking place.

Mr. Chairperson: Thank you, Mr. Friesen.

Now, as suggested, if any private conversations are going on, please feel free to sit in the chairs and continue that.

So point is taken and people have been informed. So let's resume the questioning here.

Do you have any questions, Mr. Friesen—Mr. Cullen?

Mr. Cullen: The other, I think, key part of this amalgamation, and the minister touched on it, was the whole red tape reduction. Can you explain some of the measures you're taking to reduce red tape, I guess, probably both within the corporation and as well to the people that are using the services of the corporation? Do you have a strategy laid out or somewhere you can direct us to provide us that sort of information?

Mr. Hodgins: I think what I'll do is I'll ask Corrine if she could come and speak to that because a lot of the red tape that you're referring to really relates to the regulatory side or the licensing and inspection side. So I'm sure Corrine can speak to that.

Mr. Chairperson: Honourable Minister?

Mr. Lemieux: It's okay?

An Honourable Member: Yes.

Mr. Chairperson: Mr. Cullen?

Mr. Cullen: Yes, good.

Mr. Chairperson: Ms. Scott?

Now, let me just kindly—[*interjection*]

Yes, Ms. Scott.

Ms. Scott: I'll give you a couple examples of red tape reduction.

First, it's in our licensing area where we're streamlining our processes where you, if you're

applying for a liquor licence and you want VLTs, that would be done at the same time, and instead of going through the licensing board, it's done administratively through the corporation, so the turnaround time is quicker.

The second piece is with respect to disciplinary matters. Any breaches that used to go before the board are, again, done administratively without waiting for the board's once-a-month time frames.

So those are two examples that I can give you.

Mr. Cullen: Speaking of—I'm assuming that's the licensing board you're referring to?

Floor Comment: Yes.

Mr. Cullen: Yes, the licensing board, then, it's still in place as it exists as per the previous annual report? *[interjection]*

Mr. Chairperson: Kindly address through the Chair.

Yes, Ms. Scott.

Ms. Scott: The licensing board is no longer in existence. With new legislation—it was not part of the new legislation.

Mr. Cullen: Then the licensing board does not exist; there's just staff there to address the licensing issues?

Ms. Scott: Correct, and things that were previously done through the board, like applying for a licence, is done in an administrative manner, as opposed to a formal appearance before the board.

Mr. Cullen: Thank you for that.

I'm just going to refer to the—an annual report now and talk about something on the liquor side of things for a few minutes, if I could.

I know, in this particular annual report—this is the '12-13 annual report—there was \$260 million of net profit was turned over to the Province. And I'm trying to get my head around what—how do you set that target and how do you determine what amount is going to be transferred over to the provincial government?

Mr. Hodgins: I'm not sure that I'm necessarily the best person to speak to this because it's a process that was in place in the heritage lottery corporation prior to my getting involved in it. What I can speak to, though, is the process that we go through now, which, I assume, is probably similar to what was used in Liquor, and I can also talk about, you know,

the process we use at Lotteries, and in the new corporation, you know, what I'll talk about, it's a similar kind of process to what we used previously in the heritage lottery corporation. Will that answer the question that—

An Honourable Member: Sure.

Mr. Hodgins: So—okay.

So it's kind of a multi-faceted process that we do go through, and, Mr. Gerrard, I apologize for not speaking louder. If I'm not speaking loud enough, just give me the thumbs up, and I'll try and—

An Honourable Member: Or down.

* (14:40)

Mr. Hodgins: No, just—up's okay.

So it's a multi-faceted process that we go through in the corporation, and it starts off with a strategic planning exercise that we go through with the board of directors in the corporation. And that has taken place in the fall, but what we do is that we want to move that to the spring because that kind of kicks off the process for the business planning cycle that we—that comes out of, I guess, the strategic planning exercise.

So the—we'll meet with our board of directors, we'll go through a strategic planning exercise with them and we kind of set out the goals and priorities for the corporation through that process. We will then—at the staff level, we will then start our business planning process where we will go through and review. We will ask each of the business units to put together proposals based on the goals and objectives that have come out of the strategic planning exercise.

That process usually takes place over the summer and the fall, and there's two elements to it. There's the operating budget that we review and there's also the capital budget that we deal with as well. So, when we have gone through that, we will then go to our board of directors and—through our finance committee and make recommendations as to what the operating and the capital budget should be for the corporation. And the—we will then—usually there's a call from the government as to, you know, what our—what we expect our net profit to be for the year.

And, on the capital side, what we do is we submit our capital budget to the Crown Corporations Council, who review that, and they will then take

that to the government for approval through that process, and ultimately, then, it's approved through The Loan Act process that is tabled in the Legislature.

So that's kind of a overview of the process that we use. And I guess one other thing that Tracy just mentioned to me, 100 per cent of our net income does go to the Province. We do not keep eating retained earnings; we pass all of our profits on to the government.

Mr. Cullen: So that will be the same going forward too, so it'll be the net income of both on the liquor and the lottery side will be transferred over to the Province.

Mr. Hodgins: That's correct.

Mr. Cullen: I guess—since this report that we're discussing, on the liquor side at least, the prices were increased. And I can't remember the exact time of those price increases, but they were fairly substantial, and certainly it adds a lot to the bottom line of the corporation and ultimately to the Province.

Can you give us a flavour in terms of how those prices are set? And I know there was a few years in between prices, but can you give us an idea of who sets that, if there's a request from the Province to set those prices or how those prices are set?

Mr. Hodgins: I guess the two that you're referring to, there was—that was about a year ago that there was a increase in beer prices and there was also an increase in spirits.

Generally, well, each year, as part of the budget process that I was just describing to you, we do take a look at the prices of, you know, our liquor products, and we will then compare those prices to the prices that exist in other jurisdictions across the province. That's one of the, I guess, the reviews that we undertake to determine whether our products are priced appropriately.

We generally get a call from Treasury Board to submit proposals on revenue options, and so we will take a look at the prices of our liquor products; plus, there's maybe other initiatives that we are looking at as part of our annual business planning process that we'll take forward for consideration.

I should say that before we do that, we take this to our finance committee and we take it to our board of directors for them to review it, and so if they are in agreement with taking the report to the government, we will do that.

Mr. Cullen: So there is some discussion, then, with Treasury Board on looking at different options, including the pricing option.

Mr. Hodgins: Yes.

Mr. Cullen: The other item that I know the minister talked about too was the whole social responsibility side of things. I know the annual report mentioned the 0.2 per cent of gross profit. Is that something that the corporation, then, is going to expand on in terms of both liquor and lotteries? It'll be that 0.2 per cent of gross profit?

Mr. Hodgins: Yes. In fact, the 2 per cent for social responsibility is ingrained in the legislation, so each year we do budget 2 per cent of our estimated net income for the social responsibility area.

Prior to the new corporation being put in place and the new legislation being approved, we did have a policy within Manitoba Lotteries where we allocated 2 per cent of our net income for social responsibilities that related to the gaming side of our business. But, with the new corporation being put in place and the approval of the legislation, we now approve 2 per cent for both the gaming side and the liquor side. And so there was an increase in that allocation from what it was prior to the merger to what it is today. It's in—I can get you the exact figure, but it's in a order of about—I think about—I think it's \$11.7 million that we budgeted this year for social responsibility, and there was additional money that was allocated for some projects with that additional money.

Mr. Cullen: And I would appreciate a breakdown of where you're spending that money in terms of the different programs as well, and certainly both on the lotteries side and the liquor side. If you could provide that to us at some time, it might be of value.

And I guess the question I have at this point in time, then, is who makes that decision? Is that a board decision or is that an executive decision where that money is allocated?

Mr. Hodgins: I can give you the breakdown for '14-15 if you'd like to have it, or I can send it to you later; whichever you prefer, or both.

An Honourable Member: Both.

Mr. Hodgins: Okay. So there's—so the budget was for—for '14-15 it was \$11.7 million, so there was the Addictions Foundation of Manitoba, there was \$4.1 million that was allocated for that. The—that was on the liquor side. There was \$3.2 million that was

budgeted for—on the gaming side. The Community Financial Counselling Services, which is—on the gaming side of our operations, there was \$0.2 million. Research and program development, there was \$1.5 million that was allocated for research and program development. We have a research fund that was approved a couple years ago where there's funding that's made available for independent research in the province. There's also \$2.2 million for our staff and operating costs in the program, so I believe that adds up to the \$11.7 million.

Now, for the Addictions Foundation of Manitoba, I can give you a breakdown of that. That was Marymount, there was a \$2.7 million that was approved for Marymount; River Point, \$1 million; and Eaglewood, which is an operation in Thompson, there was a \$400,000. So that adds up to the—I think it's about \$4.1 million.

Mr. Cullen: I appreciate that, and I guess the question is, we're certainly spending quite a bit of money in these areas, but do you have some way to go back and actually test the value and the effectiveness of those programs to make sure that you—and again, whoever is making that decision, we're getting value for the money?

Mr. Hodgins: Yes. You had asked me—I'm sorry—about the process for approving those funds, and I talked to you about the—you know, the budgetary process that we use in a corporation. And, when we put together our annual business plans, part of what we do is we do take a look at this area to see how the funds should be allocated. And that is something that the—we take, you know, a final recommendation back to our board of directors through our finance committee to get final approval for the allocation of those funds.

*(14:50)

In terms of some of the programming that we have in place, we do evaluations on the—I guess, the programming that is delivered. It's a small but important program that we have the Community Financial Services, which is an independent group that does financial counselling for people that have problems with gaming. And we have done evaluations on that program. In fact, when it started, it just started as a pilot project, and we did do some evaluations of that program when they came forward and asked us if we would increase our funding for that particular program.

The research that's—the independent research is done through our research program. There is peer review done of that research, so it's also—there's also reviews done on it. And in the past we have done evaluations of some of the programming delivered by the AFM as well.

Mr. Cullen: Appreciate your response to that.

The—I guess I'll look under the heading of community support, and that's other money that goes back into various communities around the province. And it certainly looks like those numbers have been increasing over the last few years, and I'm just wondering how do you decide what amount of money will be going back into community support and how you decide which communities will benefit from that. And, again, it's a process question as much as anything. So is there a set percentage of revenue that's set aside, or how do you make that decision?

Mr. Hodgins: Unlike the social responsibility program, which has the 2 per cent that's, you know, enshrined in the legislation, we have a policy in the corporation which was taken to our board of directors that we would allocate roughly about 2 per cent of our net income for the community support programs. So the dollars that we have allocated to that under the new corporation have been increased somewhat because on the liquor side they did not allocate as much as what we have allocated under the new corporation.

So we—what we do try and do is that we try and look at opportunities to allocate the funding across the province so it's not just concentrated in one area. So we are—and, quite frankly, you know, we always seem to have difficulty trying to find opportunities for the, you know, for programming outside the city. I can tell you that one of the programs that's really quite popular outside of Winnipeg—and we looked at it specifically because we thought it would be popular—and that's the festivals program, and there's probably communities that you represent where funding is made available through the community for the festival program; it's up to a maximum of \$2,000 for a community. But it is a very popular program outside the city.

The other one is our Flight Deck Program where we make tickets to the Jets and the Bombers available to youth between, I believe it's the age of eight and 17 years old. What we do to assist the rural communities in that case is we do provide a travel subsidy. So the further you are away from Winnipeg, the larger the travel subsidy to assist the com-

munities to bring the children in to go to the, you know, to these activities. And it's proven to be extremely popular with youth because there's a lot of youth; they're having the opportunity to go to, you know, particularly the Jets game that otherwise probably wouldn't be able to do that.

Mr. Vice-Chairperson in the Chair

But—so we do have a number of programs that we deliver under the community support program. There's our Bingo Volunteer Program, which is one that we have at the casinos, and there's about 400 communities throughout the province that receive funding through the Bingo Volunteer Program. And there's the amount of money that is—has been expended, and this is one that's been in place for a long time, is about \$4 million. It's proven to be very popular with organizations across the province.

There is also the community relations program. We have a variety of different, I guess, organizations that we support through the community relations program, and it's also roughly about a \$4-million program. There's just a variety of different, I guess, events that are approved through this program. I can name a few of them that—just to give you kind of a flavour, and I can tell you that, you know, the criteria for applying for these are online. If organizations want to see if they would be eligible to apply and, you know, receive funding from us, they certainly can go on our website and all of this information is available to them.

So, you know, and we also have staff that will work with communities if they're uncertain whether they, you know, they meet the criteria. But we—it's—the Dauphin CountryFest, for example, is one that is approved through there. There's the Manitoba Liquor & Lotteries 55 Plus Games; we provide support to that. One of the other initiatives is the Habitat for Humanity program, which is one that is across the province. There's a number of different houses are built not only in Winnipeg but in communities outside of Winnipeg. There's the MS Walk, and again there's—certainly, it's—it takes place in Winnipeg, but there's—I think there's about nine communities across the province that also take part in the MS Walk. There's the Manitoba Marathon that we support. The Royal Manitoba Winter Fair in Brandon is one; I'm not sure if you've attended, but they have the SuperDogs is the event that we sponsor there. Special Olympics in Manitoba—we're very active with Special Olympics.

So there's quite a list of them that—and I will tell you that in the legislation that has been approved for the new corporation that, as part of our annual report in future, we're going to be providing a list of all of the support that we provide to the—to different organizations across the province. So when you—you know, if you're interested in having a look at what support we're providing, it'll be all included in our annual report. So, hopefully, that will help.

I mentioned the Flight Deck charitable program which is very, very popular. We have an asset donation program, so if we have assets in the corporation that, you know, have reached the end of their useful life, rather than just auctioning them off and usually you don't get very much for them, we will turn those assets over to community organizations if they're of some value. Just to give you an example, Rossbrook House, we had some discussions with them about another project, but while we were there talking to them they were telling us that they were having some difficulties with the security of the facilities that they have, and so what we did is some of the old cameras that we took out of the—out of our—primarily out of our casinos, we installed those at Rossbrook House, and, certainly, it's helped to improve their, you know, the security of their facilities.

So we—[interjection] Oh, yes. The minister reminds me that Rainbow Stage, we were taking some old sound equipment out of the—I shouldn't say it was old, but it was—had reached the end of it—out of—it was McPhillips casino and we installed it at Rainbow Stage, and they were very, very happy with the fact that it certainly improved the quality of the sound at the performances there. So those are some of the kinds of things. We've donated computer equipment to the, oh, harvest—Winnipeg Harvest. So that's just some examples of some of the things that we do.

We have a new program. It's a small capital program. It's application based. We—it's available to the non-profit and charitable organizations where they can come in and request capital funds. We've never had a program where we can provide capital funding. It's usually—if we ever do, it's on a one-off basis. But we used to get a significant number of requests from communities to provide funding for small capital projects, and so we had our first application process last spring. We've gone through and we've evaluated the proposals, and I'm not sure if we've gone back to advise those communities that are successful but, if we haven't, we will be very—

[interjection] Apparently, we have, so communities are now aware of—but it'll be—there'll be applications that will be done twice a year and we'll—you know, we set aside—it's a half-a-million-dollar allocation that we make for the small capital projects. So it's—usually they're in the order of about \$5,000, five to 10 thousand dollars. So it can be up to as much as \$25,000, but that's the exception. So it's very popular with the rural communities.

So that's just some examples of some of the things that we're doing in that community support program.

* (15:00)

Mr. Cullen: I appreciate that response. So the support allocation is a separate line on your budget, I assume. You still have a line for advertising and promotion?

Mr. Hodgins: Yes, we do.

Mr. Cullen: I would appreciate—maybe if we can go back probably two budget years for the line that's showing as advertising and promotions, if you could provide us a breakdown of that. I don't need it today, but in due course if you could provide us, you know, where the advertising dollars are going, what kind of sponsorships you're providing, what you may be purchasing in terms of tickets under that particular line item, if you could provide that for me for the last two years. And then, if you have a budget line this year for the new corporation going forward and some of the allocations that you may be looking at under there, I would appreciate that breakdown.

Mr. Hodgins: Yes, we can provide that.

Mr. Cullen: The annual report here talks about some customer service issues, and I just want to talk about maybe some of the new things that you're undertaking here and in terms of, the minister mentioned it, this—the growler bars. And it appears to me—it looks like a pilot project, and again I'm wondering about process here, why you selected certain locations, why you're selecting certain products under that particular project.

Mr. Hodgins: I probably should let the minister talk about this one because he was the one who announced it and I think he filled either the first or second growler that we have.

Mr. Chairperson in the Chair

But it is a pilot project and we felt that, you know, we should test it to see if it would be

something that would be popular with Manitobans, and the sites that we selected, we—I should say that we did partner with the Manitoba Hotel Association in the development of this. We selected Liquor Marts in both Winnipeg and Brandon to conduct this pilot and what we tried to do when we selected the sites in Winnipeg is to select those that would provide coverage across the city. We did pick two hotel sites in Winnipeg to supplement the Liquor Marts and one in Brandon.

So for this pilot, the product that is going to be offered is through two local breweries; it's Half Pints and Fort Garry.

If the, you know, the pilot is successful, and we're certainly expecting that that will be the case, we'll broaden out the coverage for, you know, to cover several different, I guess, communities, broaden it in Winnipeg and several other communities. The other thing that will happen if we move it beyond the pilot stage, and that is that there'll be craft beers available beyond just what is available currently through our local suppliers. We'll be expanding it to include other craft product as well.

I can tell you for the first weekend there were 1,600 units that were sold, and so it was very, very successful. It certainly exceeded our expectations.

Mr. Cullen: I appreciate the response.

The other thing the minister mentioned was five more express stores; I believe that was the number used. Can you give us an idea of where you're going to put those, why you're going to those locations, and the time frame?

Mr. Hodgins: As much as I'd like to give you the locations, we're currently in negotiations right now, so I think probably I shouldn't really divulge that. I can tell you it is with Sobeys and Loblaws that we're having discussions. And the locations that we're choosing, again, we're trying to provide, I guess, these Liquor Mart Express stores in the areas where, you know, there's, I guess, a need for it, based on, you know, business requirements, and we do market surveys to find out where the best locations would be, and so those locations that we're choosing are, you know, based on, you know, that market research that we do.

We did run into a little bit of a delay because of the Sobeys-Safeway consolidation. So we were moving along and then this announcement was made, and so we had to put things on hold while they were going through those negotiations. But we're

working very actively at the moment to finish the final five stores that, you know, were announced as part of the hospitality strategy. And so we're hopeful that by the end of this fiscal year that we'll have all of them in place, or virtually all of them in place.

Mr. Friesen: I thank Mr. Hodgins and the Chairperson and the various members of senior management team for being here this afternoon as well.

I have a question pertaining to your goal of increasing efficiencies. A number of times this afternoon we have heard from the minister and yourself talking about the—that being a corporate goal. I've read that both in the 2011-12 annual report and the '12-13; I understand '13-14 is not under discussion for the purposes of this afternoon. But I wanted to ask Mr. Hodgins if he would comment on the means by which the corporation is pursuing this goal of increasing efficiencies and I wonder if you could point to specific cost-containment strategies that the corporation is undertaking to achieve that objective.

Mr. Hodgins: Sure. I—if I could just mention it from two perspectives, there's the merger that, you know, that we have been working on for the last two and a half years, and certainly we have achieved a lot of efficiencies as a result of that exercise.

We have been able to reducing our—reduce our staffing complement as a result of the, you know, the merger. We have reduced our staffing complement by about 38 FTEs as part of the merger. We've also been able to, as I think the minister had mentioned that we've reduced the number of boards from two down to one. There's been senior management reductions that are included in that 38 as a result of, you know, the exercise. We've also been able to save a lot of contract savings as—what we're finding is that, you know, just to give you an example, heritage lotteries would have a snowplowing contract and heritage liquor would have one. So now, then, when those contracts mature, what we're able to do is we're able to go out and put out a tender to provide, you know, those services for both, and what we're finding is, because of, I guess, just economies of scale, we can achieve, you know, some savings as a result of that.

So I'm just asking Tracy about what we have been able to achieve to this point in time. We've achieved about 7 and a half million dollars in contract savings, of which about half of it relates to the merger. So those are—well, one other thing that I

mentioned earlier that we're hoping to achieve some efficiencies, and that's related to the consolidation of our head office space. So we're hoping that we can achieve some additional savings as a result of that.

So that's on the merger side, and then I can go into more details if you like. But we—in total we've saved about just over \$36 million in savings. Now, a big chunk of that, of course, relates to the pension adjustment, but there's still \$10 million over and above that we have saved. Since that report's come out we have achieved some further savings which we'll report as part of our final savings in the, I guess, in the final report that comes out next summer.

I guess, in terms of our regular operations, we, you know, we do devote a lot of time to looking at how we can, you know, generate more revenue, but equally as important is looking at our operations to try and achieve, you know, savings on our—on the expenditure side of our operations because that goes straight to your bottom line.

*(15:10)

And so we've done a number of things, then, in the corporation to try and address that. One of the, I guess, areas that, you know, we devote a lot of time and energy to, and it comes back to a point you were asking us about, Mr. Cullen, and that was on the budget review exercise. We have a budget review committee that exists in the corporation, and we spend a lot of time each year going through, you know, the review of our business plans, but we don't—none of it just to—going through our business plans, we also will meet throughout the year to look at specific items where we feel that there's some economies that can be achieved.

We have—and I can mention to you the people we—you know, the people that we have on the committee. I chair that committee. We have Tracy Graham, who's our chief financial officer, sits on that committee; Peter Hak, who's behind me here, he's our chief corporate services officer; Marilyn Robinson, who's a VP of integration; and Robert Holmberg, who's our VP of liquor operations. So we take this very seriously. We have senior people who are sitting on it that are reviewing, you know, potential opportunities for savings on an ongoing basis.

We also have what we call our FTE committee. We've had that committee in place at Lotteries for quite a number of years now. And what we do is that

every vacancy that comes up in the corporation comes to this committee to receive approval to have the position filled. And I would mention to you that, you know, going back to—this is great, goes back quite a number of years ago—but back in 2002-03, we had about 1,861 FTEs in the corporation. In 2003-04, we reduced that to 1,800, and then in '04-05 we reduced it down to 1,630. So that was about—what's that add up to, Tracy? That's 237 FTEs. Now, that is roughly about—in terms of people working in those positions, probably about, I'd say, 350 to 400 people.

So we reduced our staffing complement. We used several different techniques to do that so that we wouldn't be laying anybody off. We haven't laid anybody off, as a practice. We do redeploy people in our organization. There's people that leave just through natural attrition, and so we have operated at this level, the 1,630 FTEs, since 19—since 2004-05. And so what we have done—and we're going to continue to use this committee in future, and what we have done is that any vacancies that come up that where we don't have to fill positions, that we will put those positions into a pool so that when we are—when we expand a program, we then use people from this pool as opposed to going back to the—to our board and asking for approval for additional FTEs. So we—that's one of the tools that we use.

And what we found in the past, too, is through the use of technology, that we have been able to achieve a lot of efficiencies as well, which—yes. The—I can tell you that when we reduced the—our staff down to the 1,624 from what it was previously, that we were able to save about \$8 million in salary costs as a result of that. Now, we did something similar to that in—just this past fall, where we went through another review of our staffing complement to see if there were some efficiencies that we could achieve, and we were able to reduce our staffing complement by 108 at that time, and that amounted to about \$4.8 million. So that's one of the ways that we're able to, you know, keep our operating costs in line.

I mentioned just a minute ago about some of the contractual savings that we have been able to achieve. We have a central procurement route that is responsible for looking at all contracts that—where we go out to the market with an RFP, and so they're also looking at ways in which we can achieve efficiencies as well. So we're—I mentioned to you we've achieved about 7 and a half million dollars in savings through these—this procurement process that we're using.

We do, believe it or not, some tax planning in the corporation. We did set up a holding company a few years ago where we transferred all of our assets over to the holding company, and we were able to achieve about a \$20-million input tax credit that we were able to take that and apply that to our outstanding debt. And so that reduces our interest costs on about a—about \$1.4 million on an annual basis.

So, again, and—well, there's one other thing I would mention, and that's we do look at, you know, the sustainable operation of our corporation. We're always looking for ways that we can achieve savings through the use of sustainable practices, so we change our light bulbs, and our food and beverage operations. We look at ways in which we can reduce the amount of, I guess, waste that's going to the landfill. So there's different ways that we look for efficiencies that way. Our building practices, you know, we look for energy-efficient ways for our—the construction of our facilities and that, which also saves us money.

I guess the final thing I'd mention to you, that we do look at insourcing some of our activities. We have an internal security and surveillance group of staff who have some specialized skills, and so what we had been doing prior to insourcing this work is that—I don't know if you've ever been to our casinos and that, but all of our slot machines are—they're all connected together by wire, and so when we're moving equipment around, we have to pull wire from one location to another. We used to hire external resources to come in and do that, and it was very expensive. We can get our own staff to do that now, but we have to provide them with some training, and we have been able to save about \$1.8 million as a result of, you know, insourcing that. We have insourcing in, you know, electrical and HVAC areas and also carpentry and painters, so to—those are other areas that we've insourced.

So those are some of the things that we do to try and achieve efficiencies in our operation.

Mr. Friesen: I thank the CEO for that answer.

Mr. Hodgins referred to, in his response, an additional savings derived from a reduced workforce complement of another 108 positions. I believe he referred to that just now. Of those 108 positions, I'm going to ask the CEO to comment: How many of those individuals would have been redeployed within the corporation, and how many of them would have ceased to work for the corporation?

Mr. Hodgins: I don't have the specific breakdown. I could get it for you. I don't have—but I would mention to you that there were no layoffs and we are currently going through how we're going to deal with some of those positions that currently have staff in them, how we're going to redeploy them. So we haven't completely finished that exercise; that'll probably take us a few months to complete that. But we have identified the positions, and, as opportunities come up for staff to be redeployed to other areas that are, you know, impacted by this exercise, they will then be moved. So it'll take us a few months to finish it, but we are well on our way to doing it. But I can try and provide you with the details that you're looking for.

Mr. Friesen: Thank you. I'd appreciate receiving that information.

While the CEO may say there were no layoffs or there will be no layoffs, still, I know the minister this afternoon, and the CEO as well, stated that there were 38—I believe the term was 38 positions that were determined to be redundant. So, even in that case, I think what I'm getting at is, when it comes to these positions, and I believe it's been the intent of the corporation to reintegrate these people in some way, even without layoffs, those 38, would some of those have voluntarily, not by layoff but otherwise, have left the corporation instead of being redeployed somewhere inside?

Mr. Hodgins: I don't—in answer to your question, I'll double-check this, but I don't think anybody left as a result of being identified as part of this 38. Generally, what ends up happening is that people will, you know, look for other opportunities in the organization, and we'll certainly work with them to help them to find alternative employment within the corporation.

* (15:20)

Mr. Friesen: I thank the CEO for that information. I'm wondering, additionally, just on the same topic then—and the CEO states that he's not aware of anyone who has left the employment, but I wonder when he's reporting back that information if he could also provide at the same time information pertaining to if he determines that anyone did leave at a senior management level, whether there would have been any payout to that individual or whether there might have been any severance that he would be able to report. So, as he's endeavouring to report back, of those 38 positions and of the 108 that he spoke previously about, whether he could determine at the

same time whether there had been any inducement or incentive to those employees who were going out the door and what the full complement of those severance funds would have been.

My question, though—my new question would then be, as part of the FTE committee's mandate and as part of the overall corporation's goal to achieve cost savings and to drive efficiencies, would there also be at this point in time any discussion or any enactment of a clause around hiring freezes?

Mr. Hodgins: I guess to this point in time we haven't really felt there's a necessity to have a hiring freeze, just because of the mechanisms that we have in place to manage our FTEs. We don't fill positions unless we actually need them, and I think that, you know, what I described to you, I think it's been, you know, demonstrated that we have been reducing our complement. It's not that we have been increasing, and if there's a requirement for additional resources in an area, we do that through redeployment of existing FTEs. But I'd been in, I guess, previous positions where there's actually been a hiring freeze and you can't hire, period. We don't have that, per se, in our organization. So at this point in time we don't—we haven't really instituted anything that—as I understand what you're suggesting.

Mr. Friesen: And subsequent to that, I wanted to also ask the CEO that as a result of that cost savings initiative whether there is any discussion or any policy in place about a restriction on travel by senior management within the corporation or a ban on travel or a reduced target for travel.

Mr. Hodgins: We—maybe what I could do is just describe the process that we use to deal with travel in the corporation. All travel outside the province has to be approved by the senior person responsible for the individual that is requesting to travel, and then that comes to me for final approval. We do scrutinize the—you know, the requests quite, you know, rigorously. It's not uncommon for, you know, a request to come forward where there's a request for maybe more than one person to go, and at the end of the day that would be reduced back to maybe a smaller number of individuals to travel. I don't personally think that our travel budget is excessive. We don't have a—again, we don't have a freeze on travel much like what you're talking about around the FTE.

We—our travel is primarily related to—well, I'd say it's two areas. One is business related and the second is for training of our staff. Our industry is

really very dependent on IT for—you know, to operate both on the gaming side of our business and also on the liquor side as well. On the liquor side, of course, it's important that our staff are having the opportunity to, you know, go out and find new product for our Liquor Mart stores and for the liquor vendors, so it's important that they travel for that purpose. But I think that we do scrutinize our travel pretty closely, and so to this point in time we haven't felt that there's a necessity to put a travel restriction in place. I personally would be really concerned if we started to restrict travel to the point where we are compromising our business operations.

Mr. Friesen: The CEO states that the travel isn't excessive, and I'm just wondering if Mr. Hodgins could also express what would be the percentage of operating costs pertaining to travel in the corporation and would it be markedly up or down from the year previous, even if we're just talking about the last two past years, because I understand that we're not discussing tonight the '13-14 operating budget.

Mr. Hodgins: I have the annual report for '12-13. If you just go over to page 37, there's, under the—footnote 13, there's a item called travel. And you'll note there that the travel in '11-12 was \$377,000 and it went down to \$312,000.

Now, that's on the liquor side. I don't—do we have a similar figure for the gaming side? The comparable figures for—the comparable figures on the gaming side was 217 in '11-12, and it was 250 for '12-13. I would mention in '13-14 it went down to 227.

Mr. Friesen: Okay, I thank the CEO for that response. So he's saying that for the past concluded fiscal year, just so I can hear these numbers correct, is he stating that the travel budget from the lotteries side is actually up more than \$30 million year over year?

Mr. Hodgins: No, that would be \$30,000.

Mr. Friesen: Thank you for that clarification. It's \$30,000 year over year. Good.

I want to ask the CEO for a little bit more specificity pertaining to a question that my colleague Mr. Cullen asked. It had to do with the relocation of operations. The minister spoke earlier of the fact that the corporation is going ahead to centralize some operations; I believe that human resources, payroll and other will be housed in this shared office environment in the downtown.

I missed this. It could have just been because of volume, but I wondered if the—if Mr. Hodgins could indicate, what is the preliminary cost estimate that the corporation has articulated for a redevelopment or for the renovations and full expenditure pertaining to this initiative?

Mr. Hodgins: I'm not sure I can really comment on that at this point in time. We—I'll tell you the process that we're going to be using to, I guess, make a final recommendation to our board.

We do know what our, you know, what our costs are now for the areas that we occupy. I'll tell you that one of the challenges that we have and that is—and I'll just use Empress as an example. We own that space, so we'd have to use an imputed cost of what it would be if we were leasing it, I guess. But what we will do is we will compare the proposals that come forward to us with what, you know, we're currently paying or what we would if we were leasing space, and we won't know what that is until, you know, we actually get the proposals in from the developers, which is—we won't get those in until November the 7th. So at that point, then, we will evaluate what it will be.

But the ways in which we'll be able to hopefully achieve some savings, you know, there's a few things. One is that currently we have a space allocation on average for our staff of about 170 square feet per person, and the standard that we're going to is one that the federal government uses and that's 155 square feet per staff, so that will save us space by going to that lower standard.

* (15:30)

And I can tell you that, you know, that we consulted with our staff on it. We had a—mock offices that were set up, and we took our staff to take a look at them to see what their reaction was, and some of our staff did have some recommendations for us that we altered the—you know, the final space allocation. So we thought that was important to engage our staff in that.

So that's one way we can save staff. The other—one of the other ways that we'll be able to achieve some efficiencies is the fact that we'll be able to reduce our staffing complement by this consolidation. You know, when you have multiple operations, there's generally duplication in some of the—you know, the services that are being provided now. So we should be able to reduce the—you know, some of our staffing, again through some—I guess

you could say, some efficiency. So we can reduce our staffing as a result of that exercise.

I guess the other thing is that we'll have to be fairly astute in our negotiations so we can get good lease rates, and so through those mechanisms we're hopeful that we can achieve some cost savings through this exercise.

Mr. Chairperson: The time being 3:30, what's the will of the committee?

Mr. Cullen: I know we've got members with more questions. We've got members that want to be other places here fairly quickly. Maybe if we can keep our questions and answers concise we could review at 10 to 4, and, hopefully, we're done by 10 to 4.

Mr. Chairperson: Ten to 4 has been suggested. Is it agreed? *[Agreed]*

Mr. Friesen: I wonder if I could ask the CEO, with respect to renovations that took place before the merger of the corporations, could the CEO indicate did either of the corporations prior—in the year or two prior to the merger—refresh my memory, please—did either of them undertake some significant renovations to their existing space, and what was the value of that renovation?

Mr. Hodgins: Yes, there was some renovations that were under way at Buffalo Place, and it involved, I guess, the exterior cladding of the building and also some work that was done to the interior of the building. And that work was under way when the merger was announced, and because it was at such a stage we felt that it was important to complete that work. I mean, this facility is going to be, you know, utilized after, you know, we—you know, we relocate our staff to the head office. So we felt it was important that we continue to complete that work.

Mr. Friesen: And could the CEO indicate, what was the cost that was incurred in that renovation?

Mr. Hodgins: I'll get the actual figure for you, but I think it was in the order of about four to five million dollars.

Mr. Friesen: Subsequent to the merger of the two corporations—so in a time since as these entities have come together—there was also renovations that took place after the merger, I believe. What is the value of the renovations that have taken place post-merger to accommodate the workforce in the various locations outside of casinos, of course, and liquor stores?

Mr. Hodgins: I think the most significant one that comes to mind—and again I'll check this for you. I can get—I'll get back to you with some further details, but I think the most significant one was the co-location of staff. And what we felt was important to try and integrate the two corporations, because one of the biggest challenges we had as part of this merger was, you know, there's two distinct cultures within the organizations, and to try and bring those cultures together, we felt that it was important. And I should also mention that, you know, from an operational perspective, it was important that we co-locate staff.

And I'll just give you a couple of the examples. Tracy, for example, was located at Empress, and we had a finance function at Empress and we had a finance function at Buffalo Place, so we felt that it was important to co-locate similar functions. And so we did that with several different areas in our head office areas, and the cost of that was roughly about—I think it was in the order of about \$966,000.

Mr. Friesen: I just also wanted to ask you to briefly comment. I know a year ago when we met at this committee you indicated that your e-lottery revenue had fallen short of the target. I know we're not commenting on '13-14, but based on the '12-13 operation, I was endeavouring to look at the numbers that were supplied today and see how did the e-lottery targets fare this year, the actual as opposed to the target?

Mr. Hodgins: So, when you say this year, are you asking about '14-15?

Mr. Friesen: I understand that '14-15's outside of the discussion. I'm referring to the closed year-end for '12-13 from target to actual. Did you achieve the number you were hoping to achieve as an expression of the overall revenue generated from operations?

Mr. Hodgins: I think that you're looking for the bottom-line figure for e-gaming, or just the revenues that were generated?

Mr. Friesen: Yes. I'm looking—just to clarify, I'd be looking for the—I think—I forget the actual name of the—of that division. It's PlayNow. PlayNow, and I was looking to see the corporation has indicated targets for revenue they hope would be generated, so maybe you would state it as a gross revenue.

Mr. Hodgins: We're just trying to find that number for you. Would it be okay if I got the number for you and passed it along?

Mr. Friesen: I thank Mr. Hodgins for looking for that information. I'll ask one more question. It just has to do with another question I asked a year ago at committee, and it had to do with competition. I know there's a long discussion, and we've had group discussions around the committee table about that. But, specific to private wine stores, I want to know if there are, at this time—I know that you are both the regulator and also competing with private wine stores, but I understand, in part, this might be an answer for the minister. I don't want to get us away from where we're directing conversation. I wonder if there was any initiative there to open up, but, aside from that, I just want to know, with respect to—I believe we refer to them as bottle and cork stores, or they might be the wine kit stores. At one time we had asked about whether there was a willingness at the corporation level to entertain an expansion there, so they could also vint on site and not just sell the boxes, and at the time I believe the CEO indicated it was an item under discussion. Is there an update he could provide to this committee today?

Mr. Hodgins: I think you had several questions in there, so, in terms of the wine stores, if I could just clarify, we're not in competition with them; they're our partners. And so we've been working hard to build our relationship with them. They're good partners.

But I think you'd asked a year ago if there was, I guess, any expansion. As far as I am aware, there's not. The U-Brew, U-Vin, which is the question, I think, you also had asked last year, that really falls under the Liquor and Gaming Authority. They have to register them, so I am—I really can't respond to that question. I'm not sure if there was a third part of your question. *[interjection]* Okay.

Hon. Jon Gerrard (River Heights): Now, you had mentioned that there was some considerable savings from the pension adjustment, and it might have been—I wonder just how much there was, and could you clarify how the savings were made through the pension adjustment?

Mr. Hodgins: I'll try my best. I'm not an accountant. Tracy's trying to train me, but she's having a lot of trouble. But I'll try my best to explain this to you.

Each of the corporations did belong to the Superannuation Fund, so both corporations had defined benefit plans. But there was two different models. In the case of Manitoba Lotteries, we had what was called the fully funded program, so we—both the corporation and employees were

contributing to the pension plan as, you know, on an ongoing basis, so it was fully funded. There was no liability that was outstanding.

Now, the MLCC had a, like a pay-as-you-go program, if you like. It was—the employees were contributing, but the corporation didn't pay its portion until a person actually retired and then they would start paying, and so it was really based on a cash basis.

* (15:40)

So, as a result of that, there was a liability that built up for Manitoba Liquor & Lotteries. And I don't know if you have a copy of the most current—I know we're not dealing with this today, but if I could refer you to page 32. If you look at the top there, it says, defined benefit obligation, end of year, \$86.6 million, eight six five five six. Do you see that figure? That's the liability that the corporation had at March 31st of '14.

So what we did is that we had our actuary to do a calculation of what the—what it would cost if we were to move to a fully funded basis for Manitoba liquor corporation, similar to what we have for the Manitoba Lotteries Corporation. And so our actuary, in conjunction with the superannuation board, did do a calculation of what it would cost us to—if—to become a fully funded employer. And it—the—and I'll—if I can, I'll just use round figures. The calculation was \$60 million. Now, it was at a point in time—and these, you know, calculations are based on market conditions and a variety of other factors, so, you know, they fluctuate a lot, but it—the calculation of when the new merged corporation was to come into effect, the calculation was it would be \$60 million for us to become a fully funded employer. And so that meant that we had \$86-million obligation on the books, but it was only going to cost us \$60 million to—that we would have to pay to the superannuation board to become a fully funded program or employer.

So the difference, \$26 million, was a gain for the corporation; it's a one-time gain, and so accounting rules are that you take that back into net income. And so that's how we achieved this \$26-million gain that is now reported as part of our merger saving.

So, hopefully, I—

Mr. Chairperson: Dr. Gerrard.

Mr. Gerrard: Could that have been achieved with the two corporations separate? It seems to me that

that could just as easily have been done by making that change within the corporation that was not fully funded.

Mr. Hodgins: It potentially could have, but the corporation, to that point in time, had never chose to go that direction.

Mr. Gerrard: So, in a sense, it's not strictly a benefit of amalgamation, but it's something that happened after the amalgamation and around the amalgamation and the decisions that were made, because it could've been achieved in the individual corporation.

Mr. Hodgins: They could've made that choice at any time.

Mr. Gerrard: Okay. I just wanted to get that crystal clear.

Now, in the area of social responsibility, you mentioned a budget of \$11.7 million, and you mentioned that within that \$11.7 million there is a budget of \$2.2 million for administration. That seems quite high to have \$2.2 million out of \$11.7 million for administration.

Mr. Hodgins: It's—included in there is a sizable amount for research and other programming that goes on. Probably what I should do is give you a breakdown of what makes up that 2.2 because it isn't just staffing and operating costs associated with that operation, but there's other programming that's going on in that area. I don't have the breakdown with me, but I could get it for you if you'd like to have it.

Mr. Gerrard: I'm just wondering where the programming Be Undrunk, Be With Child Without Alcohol, Be Safe and Sober, Be the Influence, Report Impaired Driving, et cetera, which you were running before, where are they being funded, because they were being funded under social responsibility area. Are they still, and in which category?

Mr. Hodgins: It's still being funded out of our social responsibility budget, and I might be—it is part of that \$2.2 million. That's where those programs are being funded. So there's several different programs that are being funded out of that source, and I can provide you with a breakdown, if you like.

Mr. Gerrard: It would be useful to have that breakdown.

Could you tell me—one of the things that—I know at least one of these programs is related to—and that is prevention of fetal alcohol syndrome in infants and

in children. How much of the \$11.7 million would go to the prevention of FASD?

Mr. Hodgins: There's two elements to what you're referring to, the FASD. There's the Be UnDrunk, is one of the components to it, but there's also the research initiative that we have with the University of Manitoba. And, again, that would also be funded out of that money that we were talking about earlier. I'm just trying to get you the breakdown of what that is.

Mr. Gerrard: Yes, while you're getting that, and maybe at the same time you could clarify the process for the research. Was there a request for proposals that went out, or how was the research that was—you mentioned as peer review—how were the research projects decided?

Mr. Hodgins: The project out of the University of Manitoba had started, I guess, a few years ago, and it was being funded by the Province and I'm not sure who all the other funding partners were. I forgot the details now, but they then approached us about, you know, the continuation of that research. So they actually approached us with a proposal, and I guess we felt that there was some significant value in proceeding with that research. So there was some evaluation that was done by our social responsibility people, and there was a proposal taken forward to our board for approval. It was a 1.35-million proposal that was approved for this research, and it's—I'm sure you're probably familiar with it, but it's a joint research project with the University of Manitoba and the Hebrew University in Israel.

Mr. Gerrard: You were approached by the Province or by the university in terms of taking this over?

Mr. Hodgins: By the university.

Mr. Gerrard: Can we go for five more minutes?

Mr. Cullen: Mr. Chair, I think Mr. Gerrard would like five more minutes of questions, if that's the will of the committee.

Mr. Chairperson: Is that agreed, five more minutes?

Mr. Gregory Dewar (Selkirk): What time, Mr. Chair, five to?

Mr. Chairperson: That's what I would imply, five to 4. Five to 4, yes. *[Agreed]*

Dr. Gerrard, go ahead.

Mr. Gerrard: Thank you.

So, just to clarify, in terms of the research, the University of Manitoba approached you. You mention that this was peer reviewed. Do you do peer reviewing of proposals?

* (15:50)

Mr. Hodgins: What I'm told is that the research that is being done will be peer reviewed, but it hasn't been. Like, it wasn't peer reviewed prior to the approval for the project, if that was your question, but it will be when the research is, I guess, finished.

Mr. Gerrard: Okay.

The—is there any plan to do more funding of research and—in the future would there be peer reviewing before the project is funded, which is the more normal mechanism?

Mr. Hodgins: Are you talking about the FASD project or just in general? Because the reason I ask that is because we do have the Manitoba Gambling Research Program, and it is peer reviewed as well. But I wasn't sure whether you were referring more generally or just about the FASD.

Mr. Gerrard: I did want a general understanding in terms of the process that you went through for peer review, and it seems to be a little bit different for the gambling versus the alcohol, fetal alcohol syndrome. Is that correct or is it the same? Do you fund the project and then peer review both afterwards?

Mr. Hodgins: My understanding is is that both processes are the same, and so I guess you're suggesting maybe we should revisit that and maybe do some peer review in advance as opposed to when we get the research itself.

I guess if I could just mention that there was, when we developed the Manitoba Gambling Research Program, we did a lot of research on the different models that were out there to determine, you know, what would work best for us, and on the basis of, I guess, the different models that we looked at—and we looked at Australia, the US, Canada—it

was—I guess the process that was put in place was based on what we thought was best practices and that the peer review would take place, I guess, when the, I guess, the research was done.

Mr. Gerrard: Just one last comment. I mean, as a scientist, I've been involved in a great deal of peer review over the years, and it's always been peer reviewed before the research is done rather than after. So, I mean, what you're doing is unusual for most scientific proposals. But, that being said, I'm glad that I've got the clarification, and I appreciate that.

Thank you, Mr. Chair.

Mr. Hodgins: The one thing I will do—I'm not an expert in this area as you are—but I will check and make sure that what I relate to you is correct, and if it's not, then I'll certainly clarify it in a follow-up to you.

Mr. Chairperson: Thank you.

Seeing no other questions, Annual Report of the Manitoba Liquor Control Commission for the fiscal year ending March 31st, 2012—pass.

Annual Report of the Manitoba Liquor Control Commission for the fiscal year ending March 31st, 2013—pass.

Annual Report of the Manitoba Lotteries Corporation for the fiscal year ending March 31st, 2013—pass.

Now, this concludes the business we have before us.

The hour being 3:55, what is the will of the committee?

Some Honourable Members: Rise.

Mr. Chairperson: Committee rise. Thank you very, very much.

COMMITTEE ROSE AT: 3:55 p.m.

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