

**LEGISLATIVE ASSEMBLY OF MANITOBA**  
**THE STANDING COMMITTEE ON**  
**PUBLIC UTILITIES AND NATURAL RESOURCES**

**Tuesday, November 7, 1989**

**TIME — 10 a.m.**

**LOCATION — Winnipeg, Manitoba**

**CHAIRMAN — Mr. Parker Burrell (Swan River)**

**ATTENDANCE - 10 — QUORUM - 6**

*Members of the Committee present:*

Hon. Messrs. Driedger (Emerson), Enns,  
Manness

Messrs. Angus, Burrell, Evans (Brandon East),  
Harapiak, Mandrake, Praznik, Uruski

**APPEARING:**

Mr. Rod Pennycook, Acting Vice-Chairman,  
Manitoba Data Services

Mr. Jim Chalmers, President and General  
Manager, Manitoba Data Services

**WITNESSES:**

Mr. Jim Jones, Vice-President, Client Support  
Services

Mr. Gary Campbell, Vice-President, Corporate  
Services

Norm Shakespeare, Vice-President,  
Operations Support Services

Mr. Ed Mandrake, MLA for Assiniboia

**MATTERS UNDER DISCUSSION:**

Manitoba Data Services Annual Reports for  
the periods ending March 31, 1987,  
December 31, 1987, December 31, 1988

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**Mr. Chairman:** I call the Standing Committee on Public Utilities and Natural Resources to order to consider the Annual Reports for Manitoba Data Services for the fiscal periods ending March 31, '87, December 31, '87 and December 31, '88.

I would invite the Honourable Minister to make his opening statement and to introduce the staff present here today.

**Hon. Clayton Manness (Minister responsible for Manitoba Data Services):** Mr. Chairman, thank you very much for the opportunity to make some opening remarks. Before I do though, I would like to introduce a member of the board and the acting vice-chairman at this point in time, Mr. Rod Pennycook, sitting here; also officials of the Manitoba Data Services, Mr. Jim Chalmers, president and general manager, sitting to my immediate left; Mr. Jim Jones, vice-president, Client

Support, sitting against the wall; beside him, Norm Shakespeare, vice-president of Operations, and; beside him, Gary Campbell, vice-president, Corporate Services.

\* (1005)

Mr. Chairman and Members of the committee, this marks the first occasion that Manitoba Data Services has been before this committee since its formation in 1979. It is sort of a unique Crown corporation, as the former Minister would probably recognize and maybe even like to give greater ramification to. This Crown corporation has certainly worked well and stayed outside of the public eye, so to speak, over its term, and I guess therefore has not been called upon in the past to give greater explanation to certain activities under its jurisdiction.

The aim and objective of the commission is to provide computer and data processing services to the Government of Manitoba, its agencies and other Government supported institutions and, subject to The Manitoba Data Services Act, other persons.

The major clients of Manitoba Data Services are: Manitoba Hydro, provincial Government departments, Manitoba Health Services Commission, Manitoba Telephone System and the Manitoba Public Insurance Corporation.

The nature of services provided include: large-scale mainframe computer-based shared service; facilities management of client-dedicated computers, for example, Unisys and Wang installations; acquisition of all computer equipment installed in provincial Government departments. I should indicate that Manitoba Data Services does not do programming; this function is performed by each client's own staff.

Continuing, Mr. Chairman, a measure of the scope of Manitoba Data Services' business is seen in the fact that it services over 6,000 terminals located throughout Manitoba connected by telecommunication links to its Norquay Building computer centre.

Some of the financial results in 1988, the report I guess that we are considering—is that fair? In 1988 the income was 30.1 million of this Crown corporation, expenses 27.9 million, leaving net earnings for the year of \$2.2 million. The significant events in 1988 include the Salvation Army Grace General Hospital and The Pas Health Complex becoming clients under the Unisys service offering.

Another significant event, the public offering of access to the following services in concert with various Government departments and the Manitoba Law Society, namely: Land Titles, Personal Property Registry, Provincial Statutes, companies registry, Hansard, mining recording, court scheduling. Mr.

Chairman, it is believed to be the most comprehensive service of its kind available in Canada.

I would say a significant event in 1988 was the Wang Facilities Management Agreement with the Department of Finance, directed and improved administrative efficiency throughout the Legislative Building, and no doubt Members and their caucuses will come to know in short order how it is that this facilities management technique will provide not only better service for those of us who sit around this table but more importantly will be used as a demonstration and a showcase model for imaging as a new activity within this industry and that it will be used as a selling feature not only to Wang but indeed to our whole province.

\* (1010)

**Mr. Leonard Evans (Brandon East):** I wonder if you could just go back a bit on that last point. We missed your point, I am sorry, we were interrupted.

**Mr. Manness:** On the Wang Facilities Management?

**Mr. Leonard Evans:** Yes.

**Mr. Manness:** Well, as Mr. Ernst has announced some several months in the past, I would think about three months ago, that there is an agreement, as between the provincial Government and Wang whereby they will showcase their imaging technology within the Legislative Building.

Of course, all our caucuses will be part of—part of it is supposedly the new technology that is to come, one of the new aspects of the next generation and we are showcasing it here within this building. Are not some of the facilities being built-in right now? I am led to believe.

**An Honourable Member:** That is the one that can put hair on your head.

**Mr. Manness:** Well, I do not think it can do that. No, I do not think it can put hair where it is supposed to be but, nevertheless, it is suppose to be the next generation.

Continuing, Mr. Chairman, 1989 projected financial results and these are projections, as we are now—I forget the date or the year end—

**An Honourable Member:** The end of December.

**Mr. Manness:** —the end of December, so we are basically three-quarters of the way through this fiscal year for Manitoba Data Services, projected financial results show income of 32.4 million, expenses of 29.2, leaving net earnings of \$3.2 million. I might indicate that business volume growth rate 1989 over 1988 increased by 13 percent.

Mr. Chairman, I would remiss if I did not talk a little bit about divestiture and the fact that the Government has called upon the industry to come forward with proposals in consideration that Manitoba Data Services

be considered as a candidate for divestiture. Let me say that process, in my view, has gone fairly well to this point in time. We have had 10 active proponents come forward and show various degrees of interest in the purchase of Manitoba Data Services.

The Government, as it has indicated on many occasions, is not considering the divestiture on the basis of any philosophical bent. I hear some guffawing, Mr. Chairman. I take it that word is not accepted at face value, but I can assure Members of the committee that certainly is the case. Let me also indicate that up to this point in time that the 10 proponents have been short listed down to four and there has been a further reduction in that number over the past week.

Government has met with representatives of the Manitoba Government Employees Association as recently as yesterday morning and shared with them the present status of some of negotiations and the present position that we find ourselves as we move along the path to a point of decision as to whether or not Manitoba Data Services is ultimately divested.

\* (1015)

Mr. Chairman, with those opening remarks I welcome questions put by Members of the committee. I hope before we move into a major philosophical discussion that may surround itself around the divestiture, that Members, if they have any questions dealing specifically with the report, that we complete those discussions, because indeed that is the reason why we have been called here for the most part today, to consider the annual report for the previous year. I would just beseech that Members of the committee if they can, direct the questions to the report in the first instance and then I will gladly move into any other discussions that they may so wish to enter into. Thank you.

**Mr. Chairman:** I would appreciate some guidance from the committee. This is on the reports. Will we consider these reports page by page or otherwise, or what kind of a procedure did we want to follow, did we want to look at the older reports, by report?

**Mr. John Angus (St. Norbert):** Thank you, Mr. Chairperson. Perhaps if I may be permitted to just make some minor opening remarks I might be able to give some direction at that time.

**Mr. Chairman:** Yes, that is coming. Okay, we will have Mr. Angus' opening remarks for the official Opposition.

**Mr. Angus:** I also, perhaps before we get into the specifics, after my remarks, and perhaps the remarks from the third Party, would like to hear the views from the board as to their degree of comfort and/or anxiety, and/or directions that they anticipate taking in the next year. There will be some specific questions to the board.

In relation to dealing with the reports, I find it difficult, other than from a historically interesting standpoint, to deal with reports that are in most part two years old. I am not familiar with why it has been 10 years or 12 years before the reports came before any sort of a standing committee to be discussed. Perhaps I can

get a bit of an explanation from somebody as to why it has taken this long to have any form of an open forum on what is happening.

More specifically, I suspect that we will deal with the reports in a global sense and that the issues will be the appropriate divestiture proceedings, the best interest of the employees. I have some specific concerns on marketing strategies and agreements with existing clients, hardware investments, property investments and potential developments, as well as specific questions of the board as to some of their audit committee functions, policy review functions, things of that nature, and then specific questions or requested explanations which I am sure can be given by the board on their statement of operations and retained earnings.

I appreciate what the Minister is saying in relation to being in a situation where we want to ask questions and at the same time do not want to compromise Cabinet privilege if you like and/or what could be sensitive negotiations. The Minister has been at this table and this set of circumstances with Manfor and is well versed.

I assure the Minister and the management that if I believe it is in the best interest of the province to proceed with the divestiture, then the questions that we would be asking would be based on that premise. We naturally have concerns about the benefits to Manitobans in relation to any opportunities whether they are retained within the Government umbrella and/or allowed to go beyond the Government umbrella.

\* (1020)

The matters of security and sensitive information are equally important regardless of who monitors them, who governs them. The employee security, the security of the employees is equally important, whether they are a private firm and/or a firm that is within the Government fold about to be removed from that fold and the success of the operation in the best interest of those players and the clients is the thrust of the line of questionings that we would be taking, Mr. Chairperson. So with those brief opening remarks I will let the third Party perhaps make some statements and see how we go.

**Mr. Chairman:** Mr. Evans, you are going to be the official critic for the New Democratic Party?

**Mr. Leonard Evans:** Yes, to answer your question specifically, I think we should just deal with the whole report as such rather than page by page, because knowing how the committees usually work, we normally get all over the place in spite of good intentions of covering Section A or B or C. I would propose and I think this is what the Member for St. Norbert (Mr. Angus) recommended.

**An Honourable Member:** One of the few politicians that is able to get the Government to come out and door knock in his area, talk directly to the people.

**Mr. Leonard Evans:** I think we can go in that respect and certainly we can ask questions about the operations

that are more appropriate to the staff and then get into the divestiture or giveaway, or whatever you want to call it later—a giveaway.

Just by way of a brief opening comment, I want to congratulate Manitoba Data Services, the management and staff. They have done an excellent job over the years; it is an admirable corporation. The people of Manitoba should be proud of this organization for what it has accomplished over its many years of existence, not only in terms of providing efficient, quality service to the various clients, namely the departments and the Crown corporations and other customers, but also in the fact that it has been able to consistently pass on the benefits of technological improvement and new efficiencies to the customers by way of rate reduction, noting in the annual report 10 years in a row, it seems to me where the rate reductions have been coming down and I think that is a credit to the organization.

I have a bit of knowledge of the organization and I know it is well run and we have nothing but compliments for it. Just by way of irony, I believe this was an organization that originally existed with the Department of Finance, and then maybe MTS, and then it spun-off, by Premier Lyon, I might add as a separate Crown corporation years back. He saw fit that it should run and be maintained as a public corporation. Of course, as you know, Mr. Chairman, this is our position as well.

We have some detailed questions to ask of current operations and certainly we will get into the matter of divestitures and the Minister very politely puts it, we would say really this is the sad thing that is hanging over this particular committee hearing. This is the first time that MDS has appeared before the committee. It has appeared because we brought in legislation a year or two ago that required all Crown agencies to come before a committee of the Legislature regardless. I guess MDS was overlooked because it was so well-run and as the Minister himself stated, seemed to not catch the public's eye because things were going well and have been going well. It is just unfortunate that this first hearing, first presentation, that we have this cloud hanging over the future existence of this organization -(interjection)- yes. Opportunity, this is something we will get into because we think the costs far outweigh the benefits of any divestiture. On that note, Mr. Chairman, maybe we could begin with some detailed questions.

\* (1025)

**Hon. Harry Enns (Minister of Natural Resources):** Mr. Chairman, I have no contribution of importance to make but simply the question has been asked why the corporation has not appeared before a legislative committee before. Its first four years of existence was as a subsidiary of the Manitoba Telephone System and as such was dealt with regularly before this very same committee. I just offer that as information.

**Mr. Angus:** Does the chairman of the board wish to make any opening statements or have any comments on his feeling about the operation of MDS?

**Mr. Manness:** Let me say, because I am sort of a veteran of these committee hearings too that I welcome

the opportunity for management and indeed for Mr. Pennycook to address the committee. Let me say that because we are moving into a sensitive political question, we are talking about divestiture, that I will have to hold it upon my responsibility to turn over a certain question. I do not think Mr. Harapiak's side comment does anything to promote the working activity of this committee when he makes a side comment as he has.

Let me say, I will try and help the proceeding of this committee to the best that I can but if I feel there are questions that are being posed which are going to compromise the integrity and bring into political discussion members of staff and officials, and indeed members of the committee, I am sorry I am going to have to exercise the right not to see that question be answered by officials.

**Mr. Chairman:** Would the committee like to—both Parties or official Oppositions have indicated that—would you like to go back to the oldest report first or are you just planning on going on?

**Mr. Angus:** I had hoped that the Minister would have had more confidence in the discretionary ability of his management team to be able to recognize the difference between policy interpretation and plans that are being carried out by the corporation and sensitive negotiations of political matters. It is a courtesy that at least as long as I have been here we have offered to and has been accepted by MPIC, McKenzie Seeds, the Liquor Commission and virtually every other Crown corporation that we have offered. We believe that the management and the direction from the Government is a hand-in-glove operation and you have to have confidence in these people to be able to do the job.

I appreciate that if the Minister feels that they are treading on areas that they should not be treading on that he obviously has the right to jump in and inhibit their conversations, so I will give Mr. Pennycook or Mr. Chalmers the opportunity to make some opening statements in relation to their degree of comfort, the feelings they have about the effectiveness of MDS and how it is working.

**Mr. Manness:** That is a fair request. Let me say though, when we are talking about sensitive negotiations, the divestiture team is comprised of individuals, not any of whom are members of the management team.

Mr. Pennycook is Government's, indeed, the people of Manitoba's representative on the board, is involved in those sensitive negotiations. Ultimately, the Government is responsible for them, and therefore, ultimately, I am responsible for them.

With respect to general operations, certainly, those questions are fair game to management and to Mr. Pennycook. So they are at liberty to make opening comments if they wish as to the operations of MDS.

**Mr. Rod Pennycook (Acting Chairman, Manitoba Data Services):** Mr. Chairman, Mr. Minister, gentlemen, I do not have opening remarks, but I would be the first to say that in my term as vice-chairman and now acting

chairman of Manitoba Data Services—and I base these comments on having been involved with matters of computer affairs for 40 years since I graduated, from punch cards on—that in my view the management and staff of Manitoba Data Services are extremely capable. The province is very fortunate to have a group of individuals that are dedicated to an efficient operation of MDS, and they have it. Within the constraints of Government environment with a certain set of customers, they run a very efficient operation. Now beyond that I have no opening comments, other than to give you my general impression of the organization. We are, despite the word “divestiture,” moving ahead on a day-to-day basis because there is, as the Minister has said a number of times, no bottom line that the MDS will be divested.

**Mr. Chairman:** Mr. Pennycook, they cannot hear you in Hansard. Could you pull that mike over a wee bit?

\* (1030)

**Mr. Pennycook:** I am almost through, Mr. Chairman, so it is probably too late to catch those words that I have spoken. I was merely going to say that we are, as a board, operating on the basis that we are an ongoing operation with customers to serve and that is being done. The other members of the board and the management of the corporation understand that through this period where there are question marks, everything has been done by the board and management, and, I might say, the Minister, to assure staff of the security of their positions, and that we encourage them to operate in their normal efficient manner.

**Mr. Angus:** Mr. Chairman, that is a wise and quite frankly expected position from you, Mr. Pennycook, and you can do nothing less than business as usual until you know differently. I appreciate that position.

I am just wondering, sir, if you can tell me when you suggested this is a well-run organization, what do you compare it to, or compare yourself to, and how do you draw those comparisons? Do you do comparisons to private sector organizations for instance? What sort of model do you use for verifying that in fact you are doing as well as you think you are doing?

**Mr. Chairman:** Mr. Pennycook, could you reach over into that microphone again? Give it a little pull there.

**Mr. Pennycook:** There are no two data processing centres that are identical. There are no two data centres that charge their customers for the services they provide on identical fashion.

One of the things that one attempts to do in making these comparisons is by observation, numbers of staff, the kind of services that are being provided, and the general efficiency. One of the advantages I have in this role is that one of my responsibilities at my other job is that the data centre for Great-West Life reports to me.

We have a comparably-sized data centre in Winnipeg that serves all our operations in Canada and the United

States. It is very fast growing, up-to-date technologically, many of the same attributes as MDS, but with a different customer base in terms of telecommunications and things of that kind.

Studies have been made in the past and President Chalmers can speak to these of making specific studies of inter data centre cost comparisons. MDS has proven to be efficient when those studies are taken. I am giving you my general global view of the overall efficiency and I think the other members of the board with their expertise come to the same conclusion that we have a well-run operation

When you come to something like unit costs you can have varying degrees of improvement in unit cost because there are a variety of factors, but there are three main functions. Mr. Chairman, am I being too long in this answer?

**Mr. Chairman:** Take as much time as you need.

**Mr. Pennycook:** There are probably three prime factors in dealing with a data centre's unit cost. They are the level and the payment of staff, equipment, and the software it takes to operate the equipment, and—I am not talking about only the mainframe but printers, and direct access storage and all the other equipment goes with it—the rate of growth.

I think in terms of staff and equipment and software, what you have is a technological change that has been going on for a great many years and continues to go on. What is happening is that the equipment and the software is improving every year. If a management is on its toes it will be introducing that new equipment which is more powerful, smaller in terms of the space on the floor it takes, and cheaper. This in itself is something that brings unit cost down.

One of the other interacting factors is that as your capacity grows because of this new technology and as your needs grow, your staff might remain relatively constant, because the same staff member can look after more equipment and more software. The variable that I see is growth, in some areas of the private sector. In my particular company we are going quite quickly so that if you grow faster you can introduce these changes in technology faster, some of the improvements faster, and your unit costs go down at a fairly rapid rate. If your growth rate is relatively high, but still relatively stable, then your unit costs will not go down as fast.

In MDS' case the growth has been quite good and I think the Minister in his opening remarks mentioned 13 to 15 percent. Great-West Life, this current year, is going to be over 40 percent in terms of computer transactions. So our unit costs are coming down quite quickly, under that scenario. Those are some of the factors at work in trying to measure, I think, Mr. Angus, the question you are raising. They are not exact. They cannot be because there are so many variables, but in terms of an assessment I think there are things you can point to.

**Mr. Angus:** One of the things, Mr. Pennycook, that you in your other life will look at perhaps more so than

you do in your current role here is return on investment. It is a very definite gauge to viability, if you like, and continued growth. You mentioned the advent of technology and you are talking I suspect about 386 machines, potentially 486 machines, larger disks, and various technical advancements that have been made in the computer industry, which does bring the cost down.

You mentioned staff being a relative constant, retraining, redeveloping the staff to be able to meet the technological changes so your equipment changes. You have mentioned sales growth. Are your sales growth—how do you explain the bottom line? I think the Minister had mentioned \$1.2 million net last year. Is that consistent? It seems to me that if private organization is growing at 25 to 40 percent utilization of its computer space, and with these costs coming down that the bottom line should be even bigger or better. Is there—are you in a technological vacuum?

**Mr. Chairman:** I am sorry, Mr. Pennycook, you have to be recognized by the Chair for Hansard.

**Mr. Pennycook:** Sorry, Mr. Chairman. I think the two are really quite unrelated. You refer to Great-West Life where we have comparably an internal service provided. The way we operate our service is that every dollar we spend is paid by the people who use the service in our various lines of business.

Now if we had set rates and did not try to reach that equilibrium then any net gain would in turn be returned to those people. The 40 percent that I mentioned, in terms of growth in computer transactions in Great-West Life, something of the same applies to MDS. It is made up of not pure business growth, but it is made up of growth in transactions of business growth. It is made up of new development of applications of systems, and various other things that enter into a more rapid use of automation and if every thing else was equal. The same thing applies to MDS that it is not just the increase in growth in the systems that they have in place at the start of the year; it is the new systems that are being developed and whatever. Those growth rates do not really equate to an ROI or return on investment. They are quite an internal type of thing.

**Mr. Angus:** Mr. Chairperson, let us start with staff and staff growth, I am not sure, it might be in the annual reports. I just have not specifically seen it. Can you give me a breakdown of the number of people you have this year currently? Perhaps Mr. Chalmers would be better for this question. Perhaps you can, if you can compartmentalize them, and that is we have X number of technicians and X number of trainers or marketing representatives, management.

**Mr. Chalmers:** At the present time there are provision for 237 employees on staff. There currently, as in any organization, are some vacancies and the actual staff complement at the present time is in the mid-220s, 225 say. As far as the breakdown of staff, something slightly less than half of that are in the operating side of the business. That is the people who run the computers, who maintain the computer programs that

enable the computers to work. In that side of the organization there are approximately 40 people in the operating side and 60 people who we call professional staff or management who are involved in the technical support of the computer operation.

\* (1040)

The other two divisions of the corporation are the client support services. It has approximately 60 staff. Those are all professional staff. They are involved in supporting our clients, marketing to our clients and supporting them in the use of the services and also in doing research and development in respect to new products and service offerings that the corporation is going to bring to bear.

Finally, we have the administrative component of the corporation which is corporate services. That has 40-some employees, close to 50 employees. They are, as the name implies, many of them are involved in clerical and administrative functions within the corporation, but we also through that side of the organization have a considerable number of people who are professional staff who are involved in training. We provide education to our clients and that is done through that division of the corporation. We also of course have financial people and so forth as you would expect in any corporation, the audit and so forth.

**Mr. Angus:** That is good and I thank you for that. Is the training software training, or just sort of hardware training support?

**Mr. Chalmers:** The training is twofold. It is in the use of products that are on the computer. It relates to training our own staff, which as I have indicated, there is a significant number of professional staff. We also provide courses to clients to enable them to use the services that we are providing. Those are all technical courses. They are not on how to operate computers; they are on how to use and develop applications on the computer.

**Mr. Angus:** Mr. Chairperson, this is valuable background information for me. Could I just get—I understand you have two mainframes, Unisys and IBM mainframes. Is that accurate and could you just give me a bit of an indication of the utilization of these two machines?

**Mr. Chalmers:** Yes, we actually have two IBM mainframes and two Unisys mainframes, two different manufacturers obviously. To start with, on the IBM side we have a 3090 is the type of machine. We have a model 400 and a model 200. To place that in scope, the model 400 is the second largest machine manufactured by IBM, who is the world's largest manufacturer of computer equipment. The 200 is approximately half the capacity of the 400, as the numbers would probably indicate. Those machines are in the range of 75 percent of capacity if you measure it in the actual load on the machines. That is a little deceiving, because that is essentially as far as you can go. Once you go above 75 percent the machines start to thrash and you can never get up to full utilization. Essentially the two IBM machines are fully utilized.

The Unisys machines, one of them is dedicated to St. Boniface General Hospital. That is used exclusively for the implementation of computer services to that hospital. That machine is heavily used. The second machine is a general service machine for the health care component. That is the machine that is being used for Brandon Hospital, which was implemented a year ago, for the Salvation Army Hospital, and shortly for The Pas Hospital.

It is also the machine that is available to Unisys itself for its initiative in Manitoba for the development of software products in support of the industry as a component of the agreement with that vendor. That machine would be, I would judge, in the range of 50 percent of capacity at the present time.

**Mr. Angus:** Are these "B" series machines?

**Mr. Chalmers:** No, they are "A" series machines. They are relatively small compared to the IBM machines but they are mainframe computers.

**Mr. Angus:** Can I just talk then and again get some background information on clients? The Minister mentioned a number of clients. I have a list of additional clients that—a complete list I think was provided to me. I do not believe this is confidential information. How do you come by these clients? I guess there is a general perception among the private industry that Hydro has to deal with their computer needs with MDS. Now is that accurate and what is that relationship?

**Mr. Chalmers:** The process by which Manitoba Data Services acquires clients is one in which as a corporation that is owned by the province we clearly are a preferred source of supply and as such we are given due consideration and appropriate consideration by all of the agencies within the public sector in respect to new applications that are implemented. We do not, as you will see from the Act, have a mandate monopoly. There is some process of competitive bidding that does take place and certainly there is ample evidence of organizations that have put in their own computer as opposed to using MDS, but the vast majority of situations in which there is a requirement for data processing in fact are addressed by Manitoba Data Services. I might add, in some instances, we actually go out and acquire a computer for a client and install it for them and let them run it themselves.

**Mr. Angus:** Let me see if I have this straight then. I will be XYZ Crown corporation, I want to run an application using the service bureau aspect of MDS so I have on-line terminals in my Crown corporation. I acquire the software that I want to fulfill my needs independently on the proviso that it will run on either your IBM or your Unisys equipment. It is run on your equipment and supported from that angle and we use it in my Crown corporation, but I am free to use any other service bureau that I want to use. Is that accurate?

**Mr. Chalmers:** That is essentially accurate, certainly within the central Government. You talked about Crown corporations, but departments require that their

proposals be vented through Treasury Board and of course due consideration is given to the various alternatives at that level.

**Mr. Angus:** So if a Crown corporation said that I would like to deal with XYZ company and here is my cost comparisons they would be required to get a comparable, if possible, investment alternative from MDS. Those two alternatives would go to the Treasury Board and Treasury Board would ultimately decide. Perhaps this should go to the Minister, Mr. Chairperson.

**Mr. Manness:** The answer I will give probably will not satisfy the Member. Within departments, as far as application and usage, any departmental request is evaluated by a sub-unit of the Department of Finance, that is the information of the System Support Branch. Very rarely though in the comparison to another outside alternative, it is looked at on its own requirement and department needs are for the most part correct if they are essential, and if it was deemed by Treasury Board that they should proceed, are almost always directed towards Manitoba Data Services.

Within the Crown field as we now are setting up a new system of monitoring and of a Crown corporation review through the Crown corporation council, at this point Treasury Board is not actively reviewing computing needs. There has not been a request by Crowns at this point in time, at least that has come to Treasury Board, whereby they have requested an alteration of the agreements they have signed or unsigned that they have with Manitoba Data Services developed over the years. So I do not know whether that is a full explanation to you. I can indicate that I came into office believing that there was some unwritten requirement that Crowns should deal with Manitoba Data Services in spite of no way of finding an edict that forced them to deal.

\* (1050)

I sense that certainly it was the former Government's wish that Crowns deal with Manitoba Data Services. I have left it at that, but I can indicate to you it is one of the reasons why the Government is looking at divestiture at this point. It maybe is a new point or maybe it is a debatable point, I do not know, but from time to time at Treasury Board we become cognizant that departments particularly might like to have a little bit more leeway, and from time to time some of the smaller Crowns have indicated to us they might like to have a little bit more freedom, so to speak.

So it is hard to know when you come in, certainly as a new Government, second, when you come in as a new Minister, to know what is right and what is wrong. We have taken a very open-minded approach to it, as a new Government, as to what lines of contact and what directives should be in place as to the departments of Government, plus Crowns, requiring services of Manitoba Data Services.

**Mr. Angus:** The Minister's explanation certainly explains the sales opportunities, the marketing opportunities to MDS; it does not explain what I would consider a relatively poor performance based on a

captured market. I would pass this observation that I believe that the Government should be establishing standards for interdepartmental communication in terms of logical designs and/or formats for "cross talk" if you like.

They should all be adopting a standard that allows them to produce budgetary figures that are comparable from department to department. Once they have established those standards they should be saying to the Crown corporations and to the different departments, here are the standards that you should be achieving and you can get the software and/or the hardware alternatives from whomever you want. I do not believe that the Government should be directing Manitoba Hydro, as an example, to be solely dealing with MDS.

**Mr. Manness:** Mr. Chairman, I do not disagree, and this Government has not directed any Crown to deal with Manitoba Data Services, and I am not saying that the former Government did. I was under the impression though that there were certain subtleties which required or led Crowns to believe that they should maybe deal with Manitoba Data Services. I have not uncovered anything by way of paper or indeed by way of verbal comments that can support that thesis of mine when I was in Opposition.

**Mr. Angus:** I would like to just discuss security of information, hear from the administration their explanation and then I just have some brief comments as to the types of things I would like to discuss as we progress and out of fairness will turn it over to the third Party.

So I would like to hear from the administration. Quite frankly, I think that it needs to be put on the record, the security of private and personal information, whether it be in the medical field, medical records and/or income financial information, or any of that information. What prevents hackers from getting in and/or anybody else from misuse, misappropriation of personal and confidential information?

**Mr. Chalmers:** In respect to security, Manitoba Data Services uses computer software programs that are embedded within the computer that are industry standard for the provision of security. The package is called RACF. Resource Allocation Control Features is what that stands for. It provides at the user end, in Health or the Motor Vehicles branch or wherever, the ability to administer their own security independent of Manitoba Data Services.

In other words, they maintain their own security codes and so forth, they determine who connects the computer. That is controlled at the user end, not within the administration, the corporation. Throughout the Manitoba public sector, the vast majority of applications that are running on the computer, and certainly those that are critical or highly confidential, are all covered by this package called RACF.

**Mr. Angus:** The user-end control is not uncommon. It is like having any form of a password to get into any

software program that you have on your own personal computer, and I appreciate that. I guess there is a concern amongst people in the real world about what might be in a layman's term referred to as backdoor access to mainframe information. Do you want to just address that?

**Mr. Chalmers:** Yes, we are cognizant of that as certainly an issue that is quite frequently referenced in the press. We feel that the provisions that we take, including administrative functions within the corporation, we have a security audit function within our corporation and we have a security administrator who is on a minute-to-minute activity in monitoring access to the computer.

The nature of the software that we have on the computer will immediately indicate if there is an unauthorized attempt to get at data. I say "attempt" because it does not mean that they get at data at all. The minute that from some site somebody tries to access the computer and violates the user's security code then we automatically get an indication of that. We then communicate with the user to indicate that there has been some attempt and the process is then handled by the user. Invariably, to my knowledge, in all instances those situations where there is a perceived violation of security is in fact an authorized individual who forgets his security code or gets his security code wrong and in fact is not an actual attempt to unauthorized access to the computer.

**Mr. Angus:** Do you have in place any form of an access audit trail log that suggests who, by access code, entered the computer, where they went, how long they were in? Does this print out on a daily basis as an example?

**Mr. Chalmers:** Yes, we maintain an ongoing log and every instance that is on that log is assessed and a determination of legitimacy of the situation is established with our clients in all those instances. There are no instances of anybody ever getting access to data on our computers. There have been attempts to dial in to our regular dial-in numbers but nobody to our knowledge—and I would suggest that in fact it has not happened—has ever accessed data that they are not legitimately entitled to on the facilities that we run.

**Mr. Angus:** Do you have all of your programs stored for backup purposes? Have you cost-shared time from a firm in Chicago and/or New York, somewhere in the States for backup security purposes?

**Mr. Chalmers:** Yes, there are two aspects to that. One is the provision of computing power in the event the facilities that we own are destroyed and that is the site in Chicago. At the present time we are moving to a facility in Toronto of the same supplier, but we are just currently testing the Toronto site. We do not store any data at those sites. All data is stored off-site. Here in Winnipeg it is stored in Brink's. All data and all programs related to the operation of our facilities, which includes client data and so forth, is stored off-site in the event of that type of eventuality. There is no data stored outside of the Province of Manitoba.

**Mr. Angus:** Mr. Chairperson, this is a private service bureau, a private company of some sort? It is not an affiliation of MDS in any way?

**Mr. Chalmers:** That is correct. Let me just again put this in perspective and make sure that I have it absolutely correct. The basic software programs are backed up probably on a time basis, on a regular basis, and hot-wired into Chicago. The information that is called program-specific information, that is, the personal and confidential financial information and/or medical records, are taken in globes off of the mainframe, onto tapes and stored on a regular basis at Brink's.

If the building is hit by lightning and all of the computers burn and blow up, then it is a matter of getting another piece of mainframe hardware from the suppliers, dialing into the Chicago firm, having the programs backed up and loaded onto the computer, reloading the personal information that you have stored, and the client is back in business? Is that accurate?

**Mr. Chalmers:** That certainly is essentially accurate. There is no data though stored at intervening times at that site, that only in the event of a disaster or in the event that we want to test our capability to reinvoke the service in the event of a disaster is any data ever, or programs ever, installed on that vendor's computer. It is then removed from their site immediately once the test is completed.

I must add that some of our clients who feel that they have very, very delicate data, from a security point of view, may opt not to use the Brink's site and may have their own vaults off-site of MDS in which they store that data. I do not think it is appropriate to discuss who keeps what where, but all data is maintained off-site in a secure environment.

**An Honourable Member:** A client should do that anyway regardless of what his responsibility is.

**Mr. Angus:** Mr. Chairperson, then in your mind there is—and this is not simply because it is MDS and a Crown corporation—but in the operation of the Manitoba Data Services the security of Manitobans has absolutely maintained its integrity?

**Mr. Pennycook:** I think that is an excellent question and one of course which the Board of Commissioners has spent considerable time over the last number of years.

I think we have dealt with a number of subjects in the questions that Mr. Angus has raised. We have dealt with security, confidentiality and privacy, we have dealt with backup, and we have dealt with disaster recovery. On all counts, in my personal estimation and the estimation of the board, MDS is using state-of-the-art facilities in order to do the things that have to be done in those four areas.

The controls and audits that they have in place and the tests that they make of their systems on an ongoing basis are completely in accord with what we as a board would expect them to do and is a matter that we review from time to time. I think that answers the question you asked me, Mr. Angus.

**Mr. Angus:** Mr. Chairperson, I have a number of questions in relation to a building that you may or may not be proceeding to build or buy. I have questions about the agreement between MDS and Wang Corporation and the concerns about the continuation of Wang Canada and what securities we have in their being able to deliver and why as a matter of fact you went with any form of that architecture, that is another question. I will leave that to your technical people to deal with.

I have questions in relation to the financial statements and some of the specifics as well, and following your lead, questions on the divestiture and the divestiture team that may best be fielded by the Minister.

In the meantime I will certainly turn this over to Mr. Evans from Brandon East and let him take his opening salvo. I thank the administration for their straightforwardness and answering the questions in my mind in a very positive fashion.

**Mr. Leonard Evans:** Mr. Angus has asked a number of questions that I was going to pose, but maybe we will be able to ask supplementary questions as we go along.

I have already said a few words by way of opening and congratulating the board, the management, and the staff of MDS, but I would like to ask some specific current questions as to the operations. Indeed we have many questions about the giveaway that has been proposed, later.

Specifically rate reduction, we have been given a projection of income for the year December 31, 1989. Can the staff, or the chair, or the president give us any indication of what they anticipate the rate reduction to be this coming year?

**Mr. Manness:** Mr. Chairman, I was involved in some offside discussion with the Member for the Interlake (Mr. Uruski). I wonder if the question can be repeated.

**Mr. Leonard Evans:** The question really was to the chairman or to the president, and that is, what is the anticipated rate reduction this year? We have the information on the income projection for December 31, 1989. Do we have any idea what kind of reduction in rates to the clients may occur this year?

**Mr. Chalmers:** We are currently in the budget process, as you would expect. However, I can indicate that the management of the corporation will be recommending to the board a budget which will provide for a rate reduction equivalent to what was given in the current year, namely 5 percent.

**Mr. Leonard Evans:** I wonder if Mr. Chalmers has any information as to how this compares with other companies in the field, whether in Manitoba or maybe outside of Manitoba, because there have been technological improvements, they have been accelerating. Certainly if anything, we have a revolution going on in communications and computers. Could he indicate, therefore, how did this compare with what is going on in other companies that do similar business to MDS?

**Mr. Chalmers:** Mr. Pennycook indicated that the way computer operations charge makes direct comparison somewhat difficult. Some organizations provide computer services on a usage sensitive basis others do it in blocks of computer time that are sold at fixed price for a year or so. What we do know is that we have indications from a number of major computer utilities who quite frankly have been looking at MDS, who have indicated it is their view that our prices are very competitive.

**Mr. Manness:** Mr. Chairman, I feel compelled to sort of jump in at this point, not with respect to the line of questioning, because I think it is a good line of questioning, but I think we are beginning to set the stage as to why there may have been philosophical differences between, particularly, the NDP and ourselves with respect to why there should be a sale or there should not be a sale. When we talk about rate reductions, if we listen to Mr. Pennycook he said the most important variable leading to that is growth, is actually the growth.

Now we have a situation where most of the activity provided by Manitoba Data Services is provided by Government departments and Crowns. As the former Minister would know, at Treasury Board level there is some restriction coming in as to the amount of computing services required and allowed by line departments. That is the very nature of the fiscal situation we find ourselves in as a province. Indeed there are constraints in place, and one could imagine if what you are going to constrain, whether it is wise to or not, that is beside the point, but if one is going to begin to constrain computing services leading to some restriction in growth, then obviously it is going to impact in some respect on ultimately the activity and the rate reductions that Manitoba Data Services will be able to provide back to the client user, i.e., the Government.

I just set that on the table as a basic tenet of the discussion, because obviously growth is an important element. Thank you.

**Mr. Leonard Evans:** I would hope that the Minister and the Treasury Board would look at incorporation of new methods of processing as a way of saving money, not just a matter of spending more money on computing services. You have to look at the other side of it, you are going to spend, but then hopefully you are going to save even more, and I would hope that therefore there is an opportunity for additional growth by MDS in the public sector.

\* (1110)

Having mentioned that, however, I would like to ask if Mr. Chalmers or Mr. Pennycook could indicate now what percentage of the clients, or what percentage of the businesses outside of the Government per se, for example, I see now by means of this news release issued on December 8, 1988, by the present Minister that the Legal Data Services Corporation which is a non-profit organization has now signed an agreement with MDS, so obviously there are outside Government agencies.

Could Mr. Chalmers indicate approximately what percentage is outside Government and whether there are any outside Crowns or departments or further opportunities for new private or non-profit clients?

**Mr. Chalmers:** If the question relates to how much private sector business do we do, then it would be less than 1 percent of the total volume of business at the present time.

**Mr. Leonard Evans:** Who in the private sector is your main competitor or main competitors in this area?

**Mr. Chalmers:** The main competitors are the vendors of computer equipment who market the opportunity for a potential client of MDS that, rather than using MDS, install their own equipment, and that is the nature of competition. We very seldom are competing against organizations equivalent of ourselves, in other words, a service bureau. It is almost unknown.

**Mr. Leonard Evans:** Well, as has been mentioned earlier, it is quite clear that MDS has to compete for the business with Crown agencies and departments. In other words, a Crown agency could go outside of MDS and obtain the service from somewhere out there, and yet the bulk of the agencies are using MDS. Does Mr. Chalmers know how many departments or how many Crown agencies use private mainframe services as opposed to MDS or how much of the business is outside of MDS for Government departments and agencies?

**Mr. Chalmers:** I do not know in terms of percentage or volume. There are a number of computers installed throughout the public sector that are in fact not run by Manitoba Data Services, but the vast majority of data processing in the province is done by this corporation.

**Mr. Leonard Evans:** In other words, you have been very successful, to your knowledge, in obtaining in a competitive way the business of the departments and the agencies, because you have had to compete for this business.

**Mr. Chalmers:** I indicated earlier that we certainly are a preferred source, and to suggest that it is a purely competitive environment I do not think is accurate.

**Mr. Leonard Evans:** Mr. Chairman, could Mr. Chalmers elaborate on that?

**Mr. Chalmers:** Well, in point of fact I guess the only thing I can reference is that we have been quite successful in acquiring business throughout the public sector in most components of agencies and in central Government. We do not, evidence would indicate that we do not, we are not the exclusive supplier of computer services in the public sector of Manitoba. Beyond that, I do not know what I could do to expand on the question.

**Mr. Leonard Evans:** What about the relationship with the Manitoba Telephone System? As I understand, there is some rivalry between MTS and MDS with regard to

providing services with specific kinds of equipment, and I know the Treasury Board has to be ever vigilant to make sure that there is no duplication between agencies, departments, other Crowns and MDS. Have there been any developments at MTS that you are unhappy about recently as it affects MDS?

**Mr. Chalmers:** No, the Manitoba Data Services accepts the fact that it must be able to demonstrate to its perspective users that in fact it is a desirable source of supply. As it relates to Manitoba Telephone System, they are in every fashion a valued customer of the corporation, as are the other Crowns that use MDS and as do central Government itself.

**Mr. Leonard Evans:** Mr. Chairman, is Mr. Chalmers satisfied there are no agencies or Government departments in Manitoba that are attempting to duplicate the service offered by MDS?

**Mr. Chalmers:** Not within the scope of the operation of Manitoba Data Services, no.

**Mr. Leonard Evans:** With regard to the question of break-ins, Mr. Angus had asked a number of questions about that. He has a lot of technical information on this area that I do not have. Mr. Chalmers indicated that there has been a security level he is satisfied with. Mr. Pennycook mentioned this as well but what about elsewhere, from his knowledge of this business of this industry. Does it never occur? Is that an impossibility? Are we led to believe that conclusion?

**Mr. Chalmers:** No, it is certainly not an impossibility, and there is ample evidence that we read in the news media from time to time of violations of security. I would suggest to you though that the vast majority of those are in the university networks and networks of that nature where it is functionally desirable to have as many people using the service as possible.

In order to do so, overly stringent security provisions such as we have make the education and usage very difficult for a broad range of users. I think that the vast majority of the hacker situations fall into the category of research machines in universities and like institutions. It is certainly an area that we are very vigilant about, as is Great-West Life, as is any organization that has a communications network connected to its computers.

**Mr. Leonard Evans:** So it can and does occur, but under various kinds of circumstances as you suggest, when you have many people using facilities.

At any rate, I wondered whether Mr. Chalmers could tell us whether the services provided by MDS now could be done if it were to be done by another company, whether that company could provide the service without maintaining operations in Manitoba. In other words, could a company operate, say, out of Asia or somewhere in United States or Europe or wherever or Ontario and provide the service that MDS is providing now? Could not the equipment—I think this is a technical question—be located in Toronto or Chicago or Taiwan or God knows where, and provided that we are using satellites and whatever, provide the mainframe computer service that MDS is providing?

**Mr. Manness:** Mr. Chairman, certainly Mr. Chalmers will answer that from a technical standpoint. Let me say that if the Minister is trying to build a spectre that indeed the Government of Manitoba may enter into some type of arrangement that would possibly in due time see activities now conducted within the Province of Manitoba by Manitobans, see those activities that are removed from the province, I can assure the Member that that would not occur. Another Member, his colleague, says, would you buy it back? That is not such a humorous statement because indeed those types of safeguards, I can assure the Members, will be built if there is a sale in some fashion into any agreement. The technical question I refer to Mr. Chalmers.

**Mr. Chalmers:** Yes, quite frankly, the service could in fact be provided through telecommunication links from any competent centre.

**Mr. Chairman:** Mr. Pennycook, do you have something to add to that?

**Mr. Pennycook:** Mr. Chairman, I would like to add that Great-West Life is a perfect example of the question you are asking because we, in Winnipeg, have all our computing power for the whole continent here and supply it by telecommunications to operations throughout the whole continent. I can go into the reasons we do that. There are advantages to us to do that in terms of economies of scale, the good people of Manitoba that we have here and so on. Technically, you can put your centre with today's telecommunications networks and the powers of the computers wherever it is most economical and convenient to do so. We are an exporter of computer services throughout the continent from Winnipeg.

\* (1120)

**Mr. Leonard Evans:** I thank Mr. Pennycook for that information. Obviously then it could be, and Mr. Chalmers has confirmed that you can have a company such as MDS, an organization such as MDS, located outside of Manitoba. I would hope to have more of what Great-West Life is doing. Unfortunately, it seems to be the reverse. We seem to be seeing industries slip out of this province and more and more consolidation, not just in computers but in all kinds—well, Campbell's Soups is consolidated, you know, Toro -(inaudible)- is moving down to Steinbach and Marr's Leisure Products has sold lock, stock and barrel to a South Carolina company.- (inaudible)- I am just saying that, Mr. Chairman, unfortunately for all of us, we have been losing these jobs and we have a grave concern on this side. I am sure it is shared by everyone but we maintain our maximum of jobs in this area.

**Mr. Angus:** Mr. Chairperson, can I just make a comment on that specific, please? Again, I do not want to challenge the loss of the jobs. We are obviously concerned about the closing and moving away of companies. I would like to just put on the record that Manitoba is ideally situated to run a computer service bureau corporation because for no other reason of the time zone advantage.

You can start work early in the morning in Manitoba and service both your eastern market and work through till late in the night and serve your business hour western markets during their business hours because of our time zone advantage. The advantage of telecommunication and the data transfer systems that are available make Manitoba and indeed central North America—Minneapolis would be our prime competitor in that regard—an excellent location to develop that type of an industry, just as a matter of information for people.

**Mr. Leonard Evans:** While Mr. Angus was speaking, it dawned on me that, yes, you could see this service being done just south of the border. They are in the same time zone if that is critical, or even in Saskatchewan, which half of the year, at least, is in the same time zone.

Maybe this is not a fair question to ask Mr. Chalmers, but I know he has extensive knowledge of this business, whether companies are in Manitoba, whether business in Manitoba is obtaining mainframe computer services from outside of the province, including outside of the country. I know you are in the business of selling your services all the time, your salesmen are out there all the time talking to your customers. Surely, you must have some idea of whether or not Manitoba businesses are being serviced by main-frame computers outside of the province.

**Mr. Chalmers:** Certainly, those branch offices in Winnipeg are quite frequently serviced from their computer facilities at the head office which is outside of Manitoba. I think that would be the vast majority of activity that relates to data processing being provided from some site outside of Manitoba.

I do not have any knowledge of the volumes of service bureau processing that is being done external to Manitoba for Manitoba organizations.

**Mr. Pennycook:** Mr. Chairman, I was just going to ask Mr. Chalmers, who is very familiar with the field, to elaborate on this point. At one stage of the game, 25 years ago, perhaps even more recently, mainframe computers were the only game in town. The answer was quite different, as to where you put your work.

Today with the advent of minicomputers, and microcomputers, the whole situation has changed. You still need mainframe computers to deal with the kind of large applications that major companies and Government have, where you have millions of transactions a day. There has been a movement down to local service, in terms of minis and micros, for things that do not have to be on the mainframe and not accessible to a large body of people at the same time. I think the answer is different today than it was a few years ago. Jim, I hope you agree with me on that.

**Mr. Leonard Evans:** There certainly are rapid changes. I do not know whether I interpret Mr. Pennycook's remarks correctly, but what it does is threaten this type of an organization, the existence of this kind of an organization, not only MDS, but similar organizations.

**Mr. Pennycook:** It was not my intention to do that because I think in anything I can see there is a continuing role for mainframes. I am just saying that the way that the parts of any organization are served by computers has changed over the years.

Many organizations have almost one-to-one terminals, in terms of their employees. They have personal computers at work. They have micro or minicomputers in a particular department that is plugged into the mainframe. Any large organization needs mainframe services, in order to contain their records, guard them, security, and make them readily available in a number of departments. I think the days of mainframe are here for many, many years, but the world is changing in terms of the architectural set up of computers.

**Mr. Leonard Evans:** I wonder if Mr. Chalmers could tell us whether there have been any problems created by the Government's announcement of looking at divesting itself of MDS? I think when a Government creates this kind of uncertainty, it is never very good for the corporation or the operation. Has there been any problems created by the Government's announced plan to give away MDS to some corporation? - (interjection)- It has got to be a giveaway, because otherwise why would they want to buy it?

**Mr. Manness:** I am afraid that question requires a political response from Mr. Chalmers. I do not think that is fair, and matter of fact, I have requested Mr. Chalmers not answer the question.

(Mr. Praznik, Acting Chairman, in the Chair)

As far as the impact that divestiture may have on some of the discussions surrounding it that are public maybe have on management, the morale of staff, and the support staff to Manitoba Data Services. I can indicate to the Member that obviously uncertainty causes some morale concerns, and I would be the first to admit that, Mr. Acting Chairman.

I will also indicate that there are members of the management team here who, from time to time, I sit down with. I provide some aspects of the divestiture, as to where we are and how it is going, but I know that there has got to be some concern in their minds also.

It is a given that if you bring into place the setting of uncertainty that there will be some time that is uncertain. There are people who are going to be affected by that. That is a given.

\* (1130)

**Mr. Leonard Evans:** I do not know whether Mr. Chalmers is allowed to answer any of that question in a non-political way or not. The Minister is saying he does not want him to answer. This is unfortunate. Is MDS changing its sales strategy at the moment, for example, because of the possibility of this divestiture?

**Mr. Chalmers:** No, the corporation is continuing to run identical to the fashion in which has run over the past number of years.

**Mr. Leonard Evans:** Mr. Acting Chairman, this gets me to a question I was going to ask. Mr. Angus made reference to it but this leads into it.

I know there has been a lot of thought given into building expansion. When I was Minister and this was discussed at some length, because the corporation, because it has grown, simply needs more space to be more efficient. There were various possibilities looked at and so on.

Is the corporation now continuing to proceed to acquire a building or some other suitable space in an existing building or in the business of contracting a new facility?

**Mr. Manness:** Mr. Acting Chairman, as Mr. Evans is fully aware, because Government ultimately is responsible for the Capital Program of any of its Crowns, and given that it has to seek support from the Legislature to borrow those funds, and beyond that, given that it has to be a decision ultimately by Treasury Board and Cabinet to proceed, I will indicate to the Members that the proposed building expansion in Manitoba Data Services at this point has been placed on hold pending some decision with respect to either a divestiture of MDS or indeed a decision not to sell, at which time of course a building, which need has been demonstrated beyond my desire at least, I am fully believing that MDS if it continues in its present vein, will require a building, but that decision will be made pursuant to a decision with respect to divestiture.

**Mr. Leonard Evans:** This is my very point. My impression was that a building was needed posthaste, and this was a couple of years ago. Now they are still in limbo in terms of adequate space, so—this is part of my question—has this negatively impacted on the operations of MDS? Is it caused to be less efficient than it could be otherwise, because it has been deprived of this additional space that has been required?

**Mr. Manness:** Mr. Acting Chairman, let me say to the Member that we have many situations in Government where buildings may be required. I can think of the health care system, I can think of the education system where we would prefer to have newer facilities rather than what we have. It is a qualitative decision basically as to whether or not the same level of service or a greater level of service could be provided if there were a new building or an improved building in place.

I would suggest that may very well be the case here, but there are resources, there is a finite level of resources available to Government, indeed there is a finite degree to which Government is prepared to borrow money, and all that comes into play. With respect to whether they are not entering into an agreement for building a new facility has caused day-to-day restrictions on the efficiency of Manitoba Data Services I think is not really a point that one should discuss at this point, knowing fully well that the Government is committed to seeing some type of a building go forward if Manitoba Data Services is not sold.

**Mr. Leonard Evans:** The Minister says we should not discuss it, but my impression was that this was a serious

matter, and I am wondering whether really the corporation has been adversely affected by this procrastination and the decision not to provide the adequate space.

We are told it is taking on new customers. The Winnipeg Land Titles Office, Court of Queen's Bench, Corporations and Business Names Branch and various other agencies of the Government are using the services now of MDS. We know that it moved into and is moving into hospital records which was an area that was badly needed for improved hospital efficiency, administrative efficiency. It has taken on all this work, it is growing; two years ago this space was inadequate. I would think that this is a serious problem right now.

**Mr. Manness:** Mr. Acting Chairman, I will ask Mr. Pennycook to give greater clarity possibly to the question, but let me say that the requirement of a new facility in Manitoba Data Services is probably as pressing today as it was when the former Government vacated office. It is real, this Government sees it as real. Let not the Member try and leave the impression that requirement for additional space is something that just has come into being over the last year and a half.

**Mr. Leonard Evans:** No, I am not suggesting that. Mr. Acting Chairman, let me clarify, absolutely not, it was pressing two years ago. It was pressing then, and I just simply point out that with two years since the MDS has acquired new customers, has more responsibilities, it has to be an even more serious problem today. Therefore I would like to know just what has it done to the efficiency level of the organization.

**Mr. Pennycook:** As we have said before, we are blessed with a capable management who can operate in less than - (interjection) - No, they are not, but I think they have a couple of things going for them. One in terms of technological change that permits you to have increased capacity with less floor space, those things are ongoing.

I can remember, I think it was probably seven years ago that direct access storage which is a very large user of computer centre space, one move in terms of technology gave you the same power in capacity overnight, a four to one multiple increase so that things like that are happening continually. I would not say to you that the efficiency of MDS, and I am sure management would agree, would be improved beyond what it is today with a new facility. I do not think there is any dispute in that. There is a need for a new facility, but in terms of impairing its ongoing day-to-day operations, I would say that while there is a concern it is not a major factor, certainly no question about the need for additional facilities.

**Mr. Leonard Evans:** We have a lot of interesting questions on this whole question of giveaway of MDS and the negative implications for the people of Manitoba. We will be asking those subsequently. I know Mr. Angus has some detailed questions and I believe my colleague, the Member for Interlake (Mr. Uruski), had a question or two to ask as well.

Before that and before we get into the larger divestiture debate subsequently, I would like to know from the Minister, who is on this divestiture committee?

**Mr. Manness:** Mr. Acting Chairman, let me indicate that Mr. Pennycook is on representing the board of directors; that Mr. Michael Bessey, former head of the policy secretariat, now the head of the Treasury Board is on the divestiture team; Mr. Chris Medland, corporate finance officer of Dominion Securities is also on the divestiture team, he is also a member of the board of directors; Dennis Mulvihill is also a corporate finance officer with Dominion Securities, is part of that divestiture team; and administratively, Brent Bottomley, my special assistant, and of course, myself.

**Mr. Leonard Evans:** Why Dominion Securities? There is one person from Dominion Securities who happens to be on the board so I can see that rationale, but there is another person, was it Dennis Mulvihill, did you say, who is from Dominion Securities but is also on the team? I do not understand why you have people outside of the board or governmental departments. Like your own assistant, I can see Mr. Pennycook, I can see other members of the board, but why someone not involved either in the board or the Government?

**Mr. Manness:** Mr. Acting Chairman, it is a good question and it is fair. Let me say when we went through the divestiture of Manfor, it became evident to us that we had to have a good balance not only of people close to the industry but individuals who were skilled in mergers and acquisitions who had an understanding that once we entered a contract, once we began developing a contract for sale, that we had a fuller understanding of the financial implications of the stream of cash flow, the streams of benefits, indeed, the security at risk, and all the elements of financial aspects. That is why we have reached out to people in the industry who have some understanding of this sector, but from a financial point of view.

\* (1140)

Mr. Acting Chairman, I make no apology for it. Matter of fact, I would never, ever, having gone through the Manfor divestiture, ever consider doing any type of larger activity, buy or sell, whether it is in Government, or whether it ultimately is in my own private life, without having that type of resource available. It is essential to safeguard the interests of the taxpayer.

**Mr. Leonard Evans:** Well, what is the cost of this exercise? There are costs obviously involved. Is there payment of fees to consultants or to individuals? I would not imagine to board members or Government staff, but anyone who is not in that capacity?

**Mr. Manness:** Mr. Acting Chairman, there will be fees entered into. At this point, I must indicate there is still some discussion and negotiating taking place with respect to fees, particularly for the outside individuals. I am trying to recall from memory whether or not the fee differentiates as to whether or not there is a sale, because very often that is the case within the industry.

(Mr. Chairman in the Chair)

If there is not a successful conclusion or completion, sometimes the fee changes, but all of that information

will be made available in due course if it is sought. I am not withholding information. I am just saying to you that naturally there is a contractual agreement that will be entered into between Manitoba Data Services and that outside resource that we require.

I can indicate also that with respect to Mr. Pennycook, although his time—he is giving us an awful lot of his time. We, too, are trying to enter into some fairer remuneration for his time and for his obvious skills in this area.

**Mr. Leonard Evans:** I would like to ask the Minister, by way of clarification, was he suggesting—I thought I heard him say, well, the fees, the charges, the costs, may be less if the sale does not go through and if a sale is consummated. In other words, are we looking at something of a set up where you have a broker, or some agent who earns a commission, because a sale takes place, who earns nothing, or very little, if a sale does not take place and you have got someone, really in an agency capacity, who has a vested interest in selling this?

**Mr. Manness:** Well, Mr. Chairman, that is another good question. I can indicate that when we divested of Manfor, for instance, the outside resources that we used were not given a fee for success. Certainly though, that was their first wish. In this case we are still yet discussing those terms. They have not been finalized—the Manitoba Data Service as a financial entity. When we first began the process, it did not appear to be a large candidate for value. That has changed somewhat, and so we will be putting greater attention to the agreements that we enter into with those from the outside. I can indicate that they have not been firmly locked into place yet.

I can also indicate that if the Government enters into an agreement, contractual agreement, with outside resources that pays higher amounts, given success, that in no way will prejudice this sale. Ultimately Cabinet, and myself as the Minister taking any potential agreement to Cabinet, will make that decision. We have a balance of resources on the committee, and we are watching each other's work very carefully. I know the Member could conjure up I guess a scenario whereby outside resources, naturally for their own gain, would try and make a presentation of a proposal in a much healthier light than otherwise. Well, let me assure the Member that will not happen in this case.

**Mr. Leonard Evans:** Well, can the Minister give us any estimate whatsoever? He must have some idea of a ballpark nature of what this process is going to cost, this particular aspect of divestiture.

**Mr. Manness:** Well, I have to admit a failing in this respect. I do not have a ballpark number to give the Member. I am sure it will cost—and I am reluctant therefore to even speculate—but certainly it is going to cost, by the time it is all in, I would have to think \$50,000 and maybe well over, but I am sorry, I cannot even give him a budgetary item, because of course the process keeps changing on a daily basis.

I mean the format is laid into place, but still the magnitude of the discussions, of course, keep adding

on a daily basis. It is very hard, as the Member should know because he has been in Government, at times to make firm estimates as to what the costs of any activity may ultimately lead to, certainly a divestiture of this nature.

**Mr. Leonard Evans:** Well, I want to reserve, I will have many questions on the divestiture process later, but I must ask one question right now. On the criteria for divestiture, unless I have read this wrongly, I do not see any requirement that the head office, an organization, that would assume MDS responsibilities would be maintained in the Province of Manitoba?

**Mr. Manness:** Well, that is fair enough. I guess we could have taken that criteria list and made it four or five times the length. I can indicate to all Members, to give greater comfort to the Member for Brandon East (Mr. Leonard Evans), that I can assure him that will be spelled out in clear detail in any agreement that is reached, that the Government would expect, beyond, that would require that any acquirer would locate human resources necessary to supply the Government or indeed its Crowns, that those human resources be located within the Province of Manitoba.

**Mr. Leonard Evans:** The Minister is telling us, Mr. Chairman, if a would-be buyer is not prepared to guarantee that the head office will always remain in the Province of Manitoba then there is no sale. Is that what the Minister is saying?

**Mr. Manness:** That is exactly what the Minister is saying.

**Mr. Leonard Evans:** Well, thank you, Mr. Chairman.

**Mr. Chairman:** Mr. Uruski, did you, on the same—

**Mr. Leonard Evans:** I just wanted to make one last comment.

**Mr. Chairman:** Okay, fine.

**Mr. Leonard Evans:** I am waiting for you to recognize me, I am trying to answer, that is why I am waiting each time.

I would just simply say this, you know the best of intentions are sometimes very difficult to pursue and to implement. I do not know how on earth any Government can guarantee that a head office of an organization will always stay within the province. I do not see how that can be at all achieved in the long run. The best of intentions, maybe on both parties, in the short run, in the long run, which may only be three or four years subsequent, may find different management, different personnel and you find that for all kinds of very efficient corporate reasons it pays that organization to move out of Manitoba. I think there are some other similar examples that I can point to, but I am, for one, not confident on that.

I should just say then I have other questions on this divestiture process, but I want to reserve those till later. I believe my colleague, Mr. Uruski, wanted to ask a few and I know Mr. Angus had a number.

**Mr. Bill Uruski (Interlake):** Mr. Chairman, I just wanted to get back a bit to the nature of business and the expansion that both Mr. Chalmers talked about and Mr. Pennycook spoke about it.

Mr. Pennycook, when you indicated that your activities in Great-West Life expanded some 30 percent or 40 percent in the last year, would that be equated to what is shown in the '88 Annual Report, that on-line transactions grew to 14.1 million transactions per month from 10 million. Would that be a comparison of MDS versus business in terms of the transactions that grew at MDS to the private sector entity that you are in charge of?

**Mr. Pennycook:** Mr. Chairman, that in a broad sense would be a comparable percentage increase that I was referring to. At Great-West Life I picked this year where we exceeded 40 percent. In the last five, we have been between 30 percent and 40 percent. The reason that I say in a general sense is that there are a number of services that any data centre supplies not just the transactions from the mainframe, there is the printing facilities that it provides, there is the storage and so on.

\* (1150)

I was giving a global growth number of all those facilities in talking about a particular reference I made to Great-West Life. I think probably the numbers that you have are probably a good reference for MDS. Would I be correct, Jim? A comparable number?

**Mr. Chalmers:** Yes, they are comparable for our on-line systems but as Mr. Pennycook indicates that is only a portion of the total services that we provided.

**Mr. Uruski:** Mr. Chairman, there were questions raised about the percent of business that MDS obtains and primarily all from Government or governmentally-funded agencies. The statement was made that about 1 percent of the present business volume is outside of Government.

Could Mr. Chalmers indicate what percent of the business is from what would be recognized in Government circles as Government-lined departments and not crown agencies?

**Mr. Chalmers:** Yes, I can. In the most recent year the percentage of provincial Government business volume was 21 percent of the total processing.

**Mr. Uruski:** Mr. Chairman, then the other 78 percent approximately would be of what would be considered as arm's-length agencies of the provincial Government, either Crown agencies in their own right with their own boards of directors, hospitals and other agencies, am I in essence correct in that assumption?

**Mr. Chalmers:** That is correct.

**Mr. Uruski:** I would like to ask the Minister because the whole question of deficits and governmental funding comes into play in terms of Government decisions as

to holding back on acquisitions and expansions in businesses and/or activities of MDS when just about 80 percent of the business volume, although it be with Crown or Crown agencies, really do not relate to and would not relate to direct Government deficit debt, am I correct in my assumption?

**Mr. Manness:** Well, in the very clear definition as to direct debt—and indeed that is what is guaranteed on behalf of the Crowns—the Member is right but still if I am responsible as the Minister of Finance for guaranteeing the capital debt of Manitoba Telephone System and/or Manitoba Hydro, I take that responsibility very seriously.

So I am keenly interested in the capital plans of our Crowns and beyond that the operational expenses of the Crown corporations which affect their bottom line because even though they appeal not to the taxpayer as much as to the ratepayer in some of our larger Crowns, nevertheless, in my view the Government is still ultimately responsible for the activities of the Crowns. So although they may be revenue contributors in the area of 80 percent or close to that to Manitoba Data Services, let me still say that a Government in all of its areas of responsibility still has to be absolutely sure before it confers upon Manitoba Data Services a renewed commitment to its role by way of a major expansion of building or whatever, that is the way that the industry is going to continue to exist in the short years forward.

**Mr. Uruski:** Mr. Chairman, and I say to the Minister, I recall comments of he and his colleagues in terms of deficit reduction, and direct and indirect debt, and discussions with respect to Manitoba Agricultural Credit Corporation and the borrowing and the like, that why would we not expand the borrowing when they were in Opposition and provide more funding for farmers. In fact, his colleague, the former Minister of Finance, Brian Ransom, at one time lead that type of debate.

So I ask the Minister, while I do appreciate his role as the Minister of Finance, having to take the total overview of governmental borrowings but the case and the argument that is generally made by Conservatives that the expansion or the allowance or non-expansion of MDS, and the purchase of those services by arm's-length agencies do not add directly to the provincial debt, is that correct?

**Mr. Manness:** Mr. Chairman, of course it is correct. It is correct in the sense of direct Government, but you must remember the definition of "debt" is now changing through greater consolidation. As the Provincial Auditor has forced this viewpoint, and indeed embraced by myself I might say, that Government cannot be separated from its Crowns when it comes to the total accounting and the total financial status of the whole Government and as you come to greater consolidation "debt" is becoming to be defined more differently too, so now that the total indebtedness of the province includes that which has been guaranteed on behalf of the Crowns. So I think we are into some changing times as to how we define the term "debt."

**Mr. Uruski:** Mr. Chairman, that may be so. The services that MDS provides or sells to arm's-length agencies

would have to be purchased from whomever at any given time, and the ratepayers per se may be one and the same as taxpayer in some instances and in some instances not, still would be required to pay for those rates.

Now, given the statements that have been made by Mr. Pennycook and others of the corporation in their assessment of the efficiency of the corporation, the corporation is in fact very efficient in modern-day standards. Given those kinds of statements that you have a very efficient corporation, why would the Government then decide to hold back any increase in expansion of business that the corporation could hold or could acquire?

**Mr. Manness:** Well, we move into the realm of the subjective, we constantly are dealing with it, particularly in Treasury Board. Let us break this discussion down into two points: direct Government, which measures roughly 20 percent, and the Crown area I should say right now, to get the 80 percent out of the way.

At Treasury Board level and at the Cabinet level we make no decisions or influence not any of the major Crown in their usage of computing time through Manitoba Data Services. I am talking about the direct usage time by the Crowns of Manitoba Data Services. If they select Manitoba Data Services as their service bureau, then after that the amount of time that they decide or the amount of revenue that they decide to commit to Manitoba Data Services in support of providing services to their users, whether it is Telephone or Hydro, is strictly an internal decision by the Crown.

But back to the other 20 percent, direct Government. As any Member on Treasury Board would know that we—I will not use the word “inundated” but there are many requests that come forward with respect to greater services and service usage within the area of computation. There is greater pressure from within departments now to break free of Manitoba Data Services. Given the new technology that we talk about, they would be able to do more of that in the mini-computer sense, not only within departments, but in some cases within divisions, in some cases within branches under divisions.

These pressures continue to come forward. Those of us who have to sit in judgment, who in many cases are not totally skilled in making these very subjective decisions, find ourselves having to wrestle with them, so at times we require or request of other human resources within Government, particularly from the Information System Support Branch in the Department of Finance, some input to help us make those decisions, but nevertheless we still are faced with the age old question, do we direct greater resources, given that the payback period in some respects is subjective? It is a human analysis.

\* (1200)

The case can always be made that in a three- or four-year span the pay back will be there, and yet the Government of the Day may not be willing to invest, because it has its own pressures on its own budget in terms of a year or two years or three years. These are

the real decisions that come to mind. I mean, this is the real world and these are the decisions that we have to make. I would say to you, when you have a deficit situation that we inherited in the area of \$500 million dollars a year—but dropping, granted, but dropping—we sense as a new Government that the taxpayers are wanting us to bring into greater balance more quickly revenues and expenditures. Part of that exercise may impact upon the number of dollars that are directed towards the Manitoba Data Services by departments.

**Mr. Uruski:** Mr. Chairman, could I ask Mr. Pennycook, being acting chairperson of this corporation now and in his capacity as vice-president of services for Great-West Life, would the type of service or activity that you would be responsible for in your private capacity be of a similar nature to that of MDS supplying Government? What I am getting at is, do you supply services to outside industry or are your services in the computer area in Great-West Life primarily internal in-house activities to all your arms? I mean, is there some parallel between the two?

**Mr. Pennycook:** Mr. Chairman, as I listened to the Minister's description of the Treasury Board's actions with regard to the selection of applications and automation, I felt I was at home, because it is exactly the same process that we go through—(interjection)—Well, we do make those deliberations in terms of cost benefits, payback and things of that kind, and we have a bottom line too.

It is a matter of, yes, there might be a clear request by a particular area of the company that says we can have a payback. We have to determine whether the company can afford to do it today, or maybe will do next year. I think there was probably another aspect to your question, Mr. Uruski, and that is, are the Great-West Life services provided almost internal to Great-West Life. I think Mr. Chalmers answered the question that less than 1 percent is for outside sources. We would have the same answer, but I think the nature of our environment is completely different from the Manitoba Data Services who are serving a relatively fixed community of interests, whereas Great-West Life is serving the whole continent in terms of all our operations. It is not fixed to one body of population, the economies throughout the continent are variable, some are in boom time and we are servicing those and getting a very high rate of growth. So the circumstance to that extent is quite different, but the general nature of the considerations are exactly the same. I hope that answers Mr. Uruski's question.

**Mr. Uruski:** Mr. Chairman, given the nature and profitability of the corporation and the kind of glowing remarks that Mr. Pennycook has made about his own firm and I accept, would Great-West Life entertain selling off their operations similar to those of MDS if their circumstances were the same?

**Mr. Pennycook:** Mr. Chairman, that is a hypothetical question that I would not be prepared to answer. I think—

**Mr. Chairman:** Mr. Angus, on a point of order.

**Mr. Angus:** Let me just make it absolutely clear that this is not the official Opposition's line of questioning. You are penetrating on private corporate board room business. I would be very surprised if Great-West Life has not considered many alternatives. I resent this line of cross-examination, if you like, in relation to the private affairs of a private corporation who is sitting on a board at the behest of the Manitoba Government. I just do not think it is a fair question and it should be ruled out of order.

**Mr. Manness:** Mr. Chairman, Mr. Angus makes the point so clearly. I was lax in letting the question go forward. I am certainly well aware that in the real world, in the real business world that Mr. Uruski does not really understand, at least he has never demonstrated to me he has understood, that I assure that whether it is Great-West Life indeed or whether it is Donald Trump himself, if somebody could come along and provide a service which is now being provided internally and can do it where it represented an incredible increase to the bottom line of the corporation, every alternative would be considered.

I mean that is the nature of business and it is the nature of outside people coming forward and trying to convince a company that they have, first of all, the ability, and second, that they can provide a cost component or a cost saving to any company.

That is the nature of business and therefore, I think that Mr. Uruski, if he understands that, does not really need to put the question at all to Mr. Pennycook. I would suggest that Mr. Pennycook has given the right answer and the responsible one.

**Mr. Chairman:** I would like to thank Mr. Angus for that point and say that we hope that the committee will not drift into a hypothetical battle and we will go back to Mr. Uruski. Maybe he can rephrase it so we can get on with the business.

**Mr. Uruski:** Mr. Chairman, I have no difficulty. I received the answer that I wanted from the Minister and it is very interesting to say that it is fine for a private company to expand and hold on business.

What has prevented MDS from and—other than Government policy and board policy—from in fact dealing or at least assessing the situations in the same manner as Mr. Pennycook assessed the situation for their own company? There are areas of the economy that they service that are booming and others are down. They have developed such a diverse set of operations that it is very profitable.

Hearing from both the Minister and from the chairman of the board that the efficiency of this corporation is second to none, the profitability is there, then the question is, why would we not allow MDS to operate with a free reign in order to in fact make the kind of test into the marketplace that the Minister is so disposed to?

**Mr. Manness:** Mr. Chairman, I can assure the Member that it is nothing that we have decreed as a new Government coming in that has prevented Manitoba

Data Services from servicing a larger client base, particularly a component of which would be private users.

Maybe the Member can tell me, having been a Member of the former Government, whether that control was placed upon Manitoba Data Services when he was—and he and his colleagues were in place and responsible for the activities of that Crown corporation, I sense that they did not have that type of curtailment placed either on Manitoba Data Services. The reality, as I view the history of this efficient Crown, is that they did not really have to look outside of Government in a major fashion. There were no pressures to do so because, of course, Government and its Crowns were coming with increasing requirements, service systems requirements.

Consequently Manitoba Data Services did not need to look outside in a real way servicing Government and its Crowns. That is not a fault of Manitoba Data Services, and I cast no criticism their way for that, but I am saying that nothing should be cast in stone forever. Once the Government of the Day received an unsolicited offer of purchase and once there was a decision in respect to a building, which would have caused the entities that now exist to have to continue, in my view, for some considerable number of years in the future in its present form, the Government deemed it was wise to look at the potential of sale at this point in time.

\* (1210)

**Mr. Uruski:** I have a number of other questions, but I will hold them for an opportunity for the Members of the Liberal Party.

**Mr. Angus:** Do you have any agreements, contracts with SystemHouse, Mr. Chalmers?

**Mr. Chalmers:** We have arrangements with SystemHouse that relate to implementation of new computer applications for Government departments. They develop those applications using services of Manitoba Data Services, then of course the application is installed in the department that has contracted with SystemHouse. To that extent we have relationships with SystemHouse.

**Mr. Angus:** Let me see if I have got this straight. The department, Crown corporation, or Government department, enters into an agreement with SystemHouse for them to provide some user specific software and then that software is in turn run on MDS' computers. What is the relationship with SystemHouse? I am just not sure.

**Mr. Chalmers:** The relationship is that during the process where SystemHouse is developing the system and requires computer time to test the new programs that testing is done on our facility by SystemHouse under contract to some department or agency of the Government.

**Mr. Angus:** So, you have no direct contracts with SystemHouse then?

**Mr. Chalmers:** No, not as such.

**Mr. Angus:** On the potential building, is there a conditional offer on the table that the department may be subject to time lapses? This may be something the Minister wants to address, I do not know. I do not want to compromise or jeopardize any of the negotiations in that area either, but I would be concerned if the board has made a decision to move, and have put a considerable amount of money down on a new piece of property and have potentially jeopardized that because of the Government's decision to put it on hold pending the outcome of the divestiture, whichever way that happens to be.

**Mr. Manness:** Mr. Chairman, let me begin by saying that there is nothing this Government would love to see more is another building be erected in this province, in this city. The contribution that it would make to the general economy—but to that end let me also say that until the Government has made some decision, with respect to the future of Manitoba Data Services, that Crown corporation would not be given, or granted, permission to initiate building. I know that the new board looked at the requirements of Manitoba Data Services and have passed judgment favourably as to a new building. To the best of my understanding at this point in time no contracts have been entered into as to land purchase, as to specific site location, indeed as to any agreement. Nevertheless, I know there has been a course of action that the board has supported, that being one, if the buildings should be built, second, if one is built I think there is a determination as to maybe the plans that would be put into place.

**Mr. Angus:** Is the Minister not aware and/or could it have happened and/or through him to the administration as a conditional sales arrangement agreement been entered into to acquire some land and/or indeed an existing building whereby a deposit has been made?

**Mr. Manness:** I will answer the question and say there have been no legal obligations entered into by Manitoba Data Services with respect to a new facility.

**Mr. Angus:** I appreciate the direct answer. I would like to discuss to a certain extent the Wang agreement. Perhaps I could just ask, so that I have my facts accurate, the administration to describe what the arrangement is and how they perceive it working, and then I can get into questions of fact.

**Mr. Manness:** Mr. Chairman, I certainly will ask Mr. Chalmers to give greater technical explanation, but let me say to Mr. Angus that this is first, a Government initiative. Manitoba Data Services comes into this only in the sense that they are going to be the deliverer of the service. They are the ones that we have asked Wang to go to so that their system can be built and made operational. Manitoba Data Services was not a party in any way to the agreement between the Government and Wang that this system should come forward?

**Mr. Chalmers:** That is correct. The Manitoba Data Services is operating the equipment and the application

of the service is being done by others. We are delivering Wang Computer Service to the organizations within the Legislative Building in the context of the agreement with Wang. We are not a party to the agreement in that sense and we functionally are operating the equipment only for a fee.

**Mr. Angus:** Does it require specific dedicated equipment of the Wang technology to deliver the services, or is this currently being run on either the IBM or Unisys mainframes?

**Mr. Chalmers:** There is dedicated Wang equipment installed in our facility and operated by our staff.

**Mr. Angus:** Is this some sort of a leasehold arrangement, or just a loaner type of equipment? I am not sure I understand.

**Mr. Chalmers:** The equipment has been acquired by Manitoba Data Services through purchase from Wang and has an agreement with the province to provide the service on a fee-for-service basis, which includes depreciation, interest costs and all aspects of operating the facility over an extended period of time.

**Mr. Angus:** Besides the mainframe computers that you have alluded to before, you now have Wang equipment on site as well?

**Mr. Chalmers:** That is correct. They are not mainframe computers, but that is correct.

**Mr. Angus:** They are minicomputers?

**Mr. Chalmers:** Yes, they would be defined as minicomputers.

**Mr. Angus:** The Minister will have to answer this. I recognize that I would not let any of my administrators answer this, but did you force Manitoba Data Services into supporting the Wang technology as a result of having the arm's-length Crown corporation computer system? If you did, why did you do that?

\* (1220)

**Mr. Manness:** I guess the question is, did we force Manitoba Data Services to provide the service at a fee? I think that is the question.

Mr. Chairman, I cannot answer that. I do not know why Manitoba Data Services was selected to be the carrier of that service. I guess it was just a natural thing to do because they have done it in so many other areas and they were the logical—and Mr. Chalmers indicates to me that they had made a proposal to Government to do it.

**Mr. Angus:** Perhaps then if the administration did make a proposal they can give a bit of an overview, not the specifics of course, of why they did it. The line of questioning is not subversive and I am not trying to trap or catch anybody. It is just that, if I am sitting there running a corporation and I look at the Wang

processing equipment and I look at what I have already got, and I listen to what the chairman of the board has said in relation to utilization of equipment and return on investment and I see that I have got underutilized Unisys equipment, I say to myself, why on earth am I going to introduce a whole new technology with all of the hardware and all of the technical difficulties of maintaining that system to try and compete with myself?. It just, I wanted to have a—

**An Honourable Member:** It was a business decision.

**Mr. Chalmers:** As was indicated earlier Manitoba Data Services was not a participant in the determination of the acquisition of the Wang equipment. However, once that determination had been made then the corporation saw it as a business opportunity and proposed to the Government that it would in the name of the Government acquire the equipment and develop a contractual arrangement with the Government which would return the cost of the investment and administrative overheads and so forth in a business proposition. That obviously was attractive to the Government and we proceeded with it.

As far as it being in conflict with our current business, that is not the case. We see it as an expansion opportunity and we in fact have already integrated the Wang Office System facility with existing office system services that we provide throughout the Government. There is an opportunity now for organizations within the public sector to use office systems transparent of the vendor, to which their particular unit is connected. It is a business opportunity from our perspective.

**Mr. Angus:** Who is responsible for doing the installations?

**Mr. Chalmers:** It is being done by the Department of Finance itself.

**Mr. Angus:** In conjunction with MDS?

**Mr. Chalmers:** Yes, quite closely linked with MDS. Obviously, we have to deliver the computer service to them before they can in fact install it and make it operational throughout the designated sites that are to be implemented.

**Mr. Angus:** I just want to paraphrase if I may, so that again I am talking from a factual base: a Deputy Minister or a Minister in a department within the Government puts in a request for word processing equipment of the Wang variety for X number of work stations. That is approved by the Department of Finance that says, yes, that is within what we projected as your growth and our budgetary constraints. The order then goes to MDS for shall we say 5 terminals. MDS orders them from Wang, configures them, brings them down and installs them, loads the software and gets them on-line. Is that an accurate appraisal of what happens?

**Mr. Chalmers:** Yes, that is essentially correct.

**Mr. Angus:** I guess Wang would bill MDS? MDS would bill the Department of Finance for that particular Minister's office area? Is that again accurate?

**Mr. Chalmers:** The billing for the services is directed by the Department of Finance, not with the individual agencies.

**Mr. Angus:** Who do you bill for your services?

**Mr. Chalmers:** The Department of Finance.

**Mr. Angus:** It seems to me that if it was my business I would be sending the bill to the guy that bought the product. If the Department of Finance pays for it I would be sending it to the Minister's office. I guess what I have said is that you do co-ordinate the bill for the Wang equipment. You buy it in and then you package it, you take it over and put it in the Minister's office and say to somebody, the Government Department of Finance who checks with the Ministry that got it, that this is what the bill is. What I am going to lead to is, do you mark up the Wang equipment?

**Mr. Chalmers:** No, we do not mark it up. The nature of the service agreement is a fully costed delivery of the service including administrative overheads. There are no profit margins incorporated in that service.

**Mr. Angus:** So it is a cost-plus, turnkey system that you are offering.

**Mr. Chalmers:** That is correct.

**Mr. Angus:** I have a number of questions about Wang and the technology that they use and about the direction that the Government has taken, including some concerns and hopefully unrealistic concerns about the financial viability of Wang International in particular, not necessarily Wang Canada, but as a subsidiary I have some concerns.

I would like to say that I do not know that this is the right place to be directing these questions. The question that I can ask and they can tell me about the technology, and I might be able to ask them about the image technology and the support and the costs and things of that nature, have nothing to do with the circumstances surrounding the administrative report that recommended or did not recommend this to whichever department.

**Mr. Manness:** Mr. Angus brings forward a good point. Let me assure him that this is not the place to put those questions.

**An Honourable Member:** Where is?

**Mr. Manness:** The place that it would be better put is to the Minister of Industry, Trade and Tourism (Mr. Ernst). It was his department that was the host initiator of the Wang proposal. He would be in a better position to explain in greater detail the circumstances under which the Government felt it was appropriate that this type of technology should be introduced, not only to the province, but into the building as a showcase. It is an economic development initiative by the Government. I would suggest that these questions would be better posed by the Member during the

consideration of the Estimates of the Department of Industry, Trade and Tourism.

**Mr. Angus:** I would like to move to the financial statements. I would like to say that I am having some difficulty doing year to year comparisons because of the change that was made in the year-end. As there are only three or four minutes left in this committee sitting, I would like to get an understanding of how I can draw some sort of comparison. The question may be asked, why did you change the year-end? That is the first question I might ask.

**Mr. Chalmers:** The year-end was changed a couple of years ago when there was a drive to provide more current reporting to the Legislature through moving the fiscal year-ends forward in the Crown corporation so the annual reports could be tabled at a more timely basis in the Legislature. Previously, when the year-end was March obviously the financial reports were produced too late for the current session. That was the reason for the change, and a number of Crown agencies changed at the same time as we did.

**Mr. Angus:** Okay, this is the first one I guess I have come across, so it makes it difficult now.

Is it fair to draw a year's services from March 31, 1987, in this report dated to the Annual Report 1987 to December 31, 1988, as being an equivalent 12-month period. I realize there is a three-month drop zone, if you like, that is not comparison, but for comparison's sakes so that I can—

**Mr. Chalmers:** If you pro-rated it to a full twelve months I think you would get a reasonable approximation of a comparative. If you took one-ninth of that and multiplied by twelve, yes, I think you would get a reasonable comparison.

**Mr. Angus:** Perhaps I did not make myself clear. The March 31, 1987, total revenue is indicated as \$24,814.00. I can assume that is a 12-month

accumulation of revenue. The December 31, 1988, figure is \$30 million. Can I assume that that is a 12-month accumulation of revenue?

**Mr. Chalmers:** Yes, those are both 12-month accumulations.

**Mr. Angus:** So now for comparison's sake I will be able to look at the outside column of this report and the inside column of this report, so that there is some logic to my question. I want to scrutinize this and say, why did salaries and administration go up by \$2.1 million over the same 12-month period. What the hell is going on?

\* (1230)

**Mr. Chairman:** It is now 12:30. Would you—

**Mr. Angus:** With respect, I do have questions on the financial statements and some questions of that nature. Questions will be along the lines of the audit committee and controls that they have and the operational audits as opposed to just the financial audits that they do; the Policy Review Committee, in relation to what the auditor when he was here, suggested how they measure performance; what do they expect as a criteria to be able to measure to, to be able to impress us with the fact that they are doing something worthwhile? Those will be the types of questions that I will have, Mr. Chairperson.

**Mr. Manness:** These are very legitimate questions. We look forward to the next sitting. I just hope though that the Member for St. Norbert will put his questions a little bit more temperately than he did his last one here.

**Mr. Angus:** The Minister was referring to my indiscretion with words, and I apologize.

**Mr. Chairman:** The time being 12:30, committee rise.

**COMMITTEE ROSE AT:** 12:30 p.m.