



First Session - Thirty-Fifth Legislature
of the
Legislative Assembly of Manitoba

STANDING COMMITTEE
on
PUBLIC UTILITIES
and
NATURAL RESOURCES

39 Elizabeth II

Chairman
Mr. Ben Sveinsen
Constituency of La Verendrye



VOL. XXXIX No. 3 - 8 p.m., WEDNESDAY, NOVEMBER 7, 1990



MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Fifth Legislature

Members, Constituencies and Political Affiliation

NAME	CONSTITUENCY	PARTY
ALCOCK, Reg	Osborne	Liberal
ASHTON, Steve	Thompson	NDP
BARRETT, Becky	Wellington	NDP
CARR, James	Crescentwood	Liberal
CARSTAIRS, Sharon	River Heights	Liberal
CERILLI, Marianne	Radisson	NDP
CHEEMA, Gulzar	The Maples	Liberal
CHOMIAK, Dave	Kildonan	NDP
CONNERY, Edward, Hon.	Portage la Prairie	PC
CUMMINGS, Glen, Hon.	Ste. Rose	PC
DACQUAY, Louise	Seine River	PC
DERKACH, Leonard, Hon.	Roblin-Russell	PC
DEWAR, Gregory	Selkirk	NDP
DOER, Gary	Concordia	NDP
DOWNEY, James, Hon.	Arthur-Virden	PC
DRIEDGER, Albert, Hon.	Steinbach	PC
DUCHARME, Gerry, Hon.	Riel	PC
EDWARDS, Paul	St. James	Liberal
ENNS, Harry, Hon.	Lakeside	PC
ERNST, Jim, Hon.	Charleswood	PC
EVANS, Clif	Interlake	NDP
EVANS, Leonard S.	Brandon East	NDP
FILMON, Gary, Hon.	Tuxedo	PC
FINDLAY, Glen, Hon.	Springfield	PC
FRIESEN, Jean	Wolseley	NDP
GAUDRY, Neil	St. Boniface	Liberal
GILLESHAMMER, Harold, Hon.	Minnedosa	PC
HARPER, Elijah	Rupertsland	NDP
HELWER, Edward R.	Gimli	PC
HICKES, George	Point Douglas	NDP
LAMOUREUX, Kevin	Inkster	Liberal
LATHLIN, Oscar	The Pas	NDP
LAURENDEAU, Marcel	St. Norbert	PC
MALOWAY, Jim	Elmwood	NDP
MANNES, Clayton, Hon.	Morris	PC
MARTINDALE, Doug	Burrows	NDP
McALPINE, Gerry	Sturgeon Creek	PC
McCRAE, James, Hon.	Brandon West	PC
McINTOSH, Linda	Assiniboia	PC
MITCHELSON, Bonnie, Hon.	River East	PC
NEUFELD, Harold, Hon.	Rossmere	PC
ORCHARD, Donald, Hon.	Pembina	PC
PENNER, Jack, Hon.	Emerson	PC
PLOHMAN, John	Dauphin	NDP
PRAZNIK, Darren, Hon.	Lac du Bonnet	PC
REID, Daryl	Transcona	NDP
REIMER, Jack	Niakwa	PC
RENDER, Shirley	St. Vital	PC
ROCAN, Denis, Hon.	Gladstone	PC
ROSE, Bob	Turtle Mountain	PC
SANTOS, Conrad	Broadway	NDP
STEFANSON, Eric	Kirkfield Park	PC
STORIE, Jerry	Flin Flon	NDP
SVEINSON, Ben	La Verendrye	PC
VODREY, Rosemary	Fort Garry	PC
WASYLYCIA-LEIS, Judy	St. Johns	NDP
WOWCHUK, Rosann	Swan River	NDP

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC UTILITIES
AND NATURAL RESOURCES
Wednesday, November 7, 1990

TIME — 8 p.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. Ben Sveinson (La Verendrye)

ATTENDANCE - 11 — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Gilleshammer, Manness, Mrs. Mitchelson

Messrs. Alcock, Evans (Brandon East), Gaudry, Laurendeau, Mrs. Render, Messrs. Rose, Sveinson, Ms. Wowchuk

APPEARING:

Mike Bessey, Secretary of the Treasury Board

Tony De Luca, Director of Information Technology Review Office, Treasury Board

MATTERS UNDER DISCUSSION:

Annual Reports of Manitoba Data Services for the years ended March 31, 1987, December 31, 1987, December 31, 1988, and December 31, 1989

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Mr. Chairman: I call the Standing Committee on Public Utilities and Natural Resources to order. This evening, the committee will be considering the March 31, 1987, the December 31, 1987 and the December 31, 1988, Annual Reports for Manitoba Data Services. Is there unanimous consent to also consider the 1989 Annual Report? Agreed. At this point, I invite the Honourable Minister responsible, the Minister of Finance, to make his opening statement and to introduce staff members who may be present this evening.

Hon. Clayton Manness (Minister responsible for and charged with the administration of The Manitoba Data Services Act): Mr. Chairman, I do not have any opening remarks to make in detail. Certainly Manitoba Data Services has drawn a lot of attention over the last year to year and a half. The

Government, in its wisdom, has divested of this service bureau to Government. I am sure Members will have a series of questions dealing with that divestiture, so I will save my remarks for them.

As far as staff at this time, I would like to introduce Mike Bessey, who is the Secretary of the Treasury Board, and an individual by the name of Tony De Luca of our Treasury Board who has been with us now, basically, for three or four months and who is providing to us major resources in the area of computer technology.

* (2005)

Mr. Chairman: We thank the Minister for those remarks. Does the critic from the official Opposition Party have any opening comments?

Mr. Leonard Evans (Brandon East): My only opening comment is really one of procedure, which we have been discussing informally, and that is that I think we are willing to pass the two earlier reports, '87 and '88, and confine our remarks on the basis of approving the '89 report with the thought that the questions we have are fairly basic. We ask whether we can consider the '87 or '88 or '89 reports. At least as far as we are concerned, we are prepared to pass '87 now, and then '88, and then have our discussion based on the 1989 report, prior to passing that.

Mr. Chairman: Do we have unanimous consent to pass 1987 and '88?

Mr. Reg Alcock (Osborne): I concur with the Member for Brandon East and would be prepared to pass '87 and '88 without extensive review or debate. I would ask the Minister though, before we do that, to comment, if he has any comments, on the fiscal statements for those two years or on the Annual Reports for those two years. Is there anything specific that the Minister feels should be pointed out? I feel a little uncomfortable, even that the corporation is gone, simply blowing through two years of operations.

Mr. Manness: Mr. Chairman, certainly the '87 report, I believe that for the most part of that fiscal

year most of the activity was undertaken by the former administration, so I have nothing really to report with respect to '87 at all. I think it was just a normal year in the context of Manitoba Data Services. They again reported some positive gross profits, however one wants to define that, and we will not get into that right now.

With respect to the Annual Report of 1988, again it was a normal year of growth of application, reducing rates to Government. I suppose the most meaningful aspect that I can remember is that I asked Manitoba Data Services in that year to not pay dividends to the Government. I asked them to hold them, and I did so because at that time they were lobbying very hard for the construction of a new building, and I sensed it might be wise indeed, if the Government were going to maintain the entity of Manitoba Data Services, that they should be prepared to direct that in towards capital. I think that is the only noteworthy comment that I can recall from the Annual Report of 1988.

Mr. Chairman: Shall the March 31, 1987, Annual Report of Manitoba Data Services be passed—pass.

Shall the December 31, 1987, Annual Report of Manitoba Data Services be passed—pass.

Shall the December 31, 1988, Annual Report of Manitoba Data Services be passed—pass.

I would appreciate some guidance from the committee—shall we consider the 1989 report on a page-by-page basis or otherwise?

Mr. Leonard Evans: We will discuss the report as a whole rather than on a page-by-page basis, because we have certain basic questions that are really all-pervasive rather than in detail.

* (2010)

Mr. Alcock: It is good.

Mr. Chairman: Fine. We will do it on an overall basis.

Mr. Leonard Evans: Mr. Chairman, first of all, as the Minister well knows and some of the other Members of the committee will know, our Party was very much opposed to the sale of the Manitoba Data Services Corporation, because we felt it was a very successful Crown agency that had, over the years, given excellent service to the people of Manitoba, to the Government departments and agencies that it serviced. I believe—was it the 1987 or 1988 report, I forget which—there was a statement in the Preface

to wit, that nine years in a row the company had made profits while at the same time reducing the rate of charges by over 50 percent, I think 54 percent or something like that. I say that in itself is indicative of the efficiency and the usefulness of that corporation to the Province of Manitoba, where you can have a company that steadily, year after year, reduces the rates and at the same time earns a profit.

I know the argument is, well it has a ready-made market, namely Government departments and agencies, although I was always told when I was Minister that it had to fight and compete with outside agencies, it was not necessarily carte blanche that they would get the business. Regardless, the Government of today in its wisdom has sold the company, and we have some concerns about that transaction and about the commitments made at the time the transaction was made, indeed, the indications and the commitment that the Minister made prior to the sale taking place, when we debated this last year in the Session in the last Legislature in Manitoba when we discussed various kinds of legislation and so on.

I have one question I would like to start off with, what I consider to be a basic question. Exactly who really purchased Manitoba Data Services and who now controls that entity? We were told in a news release that it was STM Systems Corporation with head office in Toronto, but ultimately who controls STM Systems, and ultimately therefore, who owns this company?

Mr. Manness: Mr. Chairman, the Member is correct. STM Systems are the purchaser. They are owned by International Semi-Tech, the acronym, ISTM, which is also a Canadian company.

Mr. Leonard Evans: I know it is portrayed as a Canadian company, but my information is that the Chairman of the Board of International Semi-Tech is a Mr. Ho who also controls many multinational companies around the world, as we know from newspaper reports, that he virtually controls not only International Semi-Tech but also therefore STM Systems Limited, that backing him is Hong Kong money, and that virtually this is owned by a foreign enterprise. Really we have not sold Manitoba Data Services to a Canadian company but really a foreign-owned company.

Mr. Manness: Mr. Chairman, nothing could be further from the truth. I will ask Mr. Bessey in due

course to present the detail of the ownership of ISTM, International Semi-Tech Machines, to Mr. Evans through the course of the evening. I want to indicate that the largest owner is Mr. Stanley Ho who is a Canadian, yes, does have large multinational interests in many companies. He spends most of his time in Toronto, but certainly is a Canadian. His family, I believe, are the largest group of shareholders. We have asked a lot of questions around this. Members of the committee should know that we delved in behind the corporate veil to the extent that we could, and we are satisfied that 80 percent of ISTM, the parent of STM, is owned by Canadians.

Mr. Leonard Evans: I just want to have it clarified, Mr. Chairman. Even though Mr. Ho may now be a Canadian citizen and resident of Canada, does he and his family—first of all, I am not sure where his family lives, whether they are all here or whether they are in Hong Kong—but are you telling me that he holds the majority of stock, that the majority of the stock is not held outside of the country?

* (2015)

Mr. Manness: Mr. Chairman, we will go through our material and try and provide that detail. I do not believe—it is not privileged information. I am not sure to the extent, as I sit here, what shares the Stanley Ho family own. I can say with certainty that 80 percent of ISTM is Canadian owned. There is no question though that a significant portion of the funding that at one time came in to making ISTM—and I cannot even quantify that, but certainly some share was Hong Kong money, and I am not going to deny that. I just wish we had a greater share of Hong Kong money in Manitoba as compared to other parts of Canada.

Mr. Leonard Evans: The point is, Mr. Chairman, that the announcement, at least as far as I can make out through the media, portrayed that we were selling MDS to a purely Canadian company, and in reality I have the impression that it is really foreign controlled. That to me is a concern, particularly when we get into the whole matter again and question about the confidentiality of records and utilization of records. That is something else we can pursue.

Mr. Manness: Mr. Chairman, we will undertake to provide that. I can tell the Member for Brandon East that some professional group in Britain, their pension funds are 5 percent owners of ISTM. I forget

now whether it is teachers or—the British Navy is a 5 percent owner of ISTM, so the 20 percent that is owned outside of Canada, 5 percent from memory I can recall, is beneficially owned by a pension group in England.

We had looked at that and we will share that information with the Member, but I can tell him that there are no horror stories. There are no newsworthy events behind the ownership. I can indicate that when we sold it to STM, we wanted to make sure that it was wholly Canadian owned. We are convinced that it is, and we are convinced that ISTM which owns amongst other activities Singer sewing machine, also owns—and this is Singer sewing machine in the world or world affairs, also Consumers Distributing in eastern North America, eastern U.S., and now Canada. It was one of the reasons why we selected STM, because the parent is more than a computer company. The parent is an integrated supplier of computing services, plus it deals in durable goods. It has a cash flow, and it is a cash flow that we wanted. We did not want to see Manitoba Data Services become part of an entity which was subjected to the vagaries of the market.

* (2020)

As the Member knows if he has studied the industry, the computing technology industry right now is undergoing an awful lot of difficulty. In having sold to STM—and the Member may want to debate with me—we have sold to a company that has durables, cash flow, and is able to marry the best of both worlds. Today as I sit here after the fact, I can assure Members of this committee I am more confident today than I was even when we signed the deal that we have done a good thing on behalf of Manitoba and economic development in this province.

Mr. Leonard Evans: We shall see, Mr. Chairman. I would like to ask the Minister now if he is prepared to table a copy of the agreement signed between the Province of Manitoba and this company. I watched the Minister sign this on television. I thought I was watching a deal being signed on television, and then we try to get a copy of it and we are told, “well, really, that is not the agreement,” or “it has not been finalized,” and that it was not ready to be sent out or given out to people. I think that this is a matter where the public of Manitoba have a right to a copy of this agreement, and I therefore at this time ask the Minister for a copy of that agreement between the

province and this company and STM Systems Corporation.

Mr. Manness: I am under some impression—it is obviously mistaken—that we had supplied copies to the caucuses. I thought we had, because there was no reason to keep that private. Indeed, I had indicated that we were going to make that public. There was no reason to keep it private, so I feel badly that the Member feels that he has not received a copy, and I will undertake to find out what happened. I take some encouragement -(interjection)- Well, I feel badly if we are going to stay here until two in the morning because I have not been able to—Mr. Evans has not secured a copy, and that may be our fault. I will try to look into it.

I only have Mr. Bessey's copy with me here tonight and, of course, if you ask questions, we would like to have our copy. It is 150 pages. We do not even have the full copy. We certainly will provide that, absolutely, and I will give you an overview right from it if you so wish.

Mr. Chairman: Mr. Evans, just one minute, please, just to give Mr. Alcock a chance to have an opening statement here too, and then we can continue if you do not mind.

Mr. Leonard Evans: As a point of information, that was not an opening statement. I did not make an opening statement, I just asked questions, but go ahead if you want to make an opening statement.

Mr. Chairman: It was not that. He mentioned that he wanted an opening statement, so I would like to give him that chance.

Mr. Alcock: I am sorry, to the Member for Brandon East, if I misunderstood his preamble to his question as an opening statement, but it did spur me to say something also, because I find, as the Member for Brandon East is the critic for Finance, that the two of us find ourselves in agreement on a great many things relative to this Government; however, this is not something that we are in agreement on, and we have not been. I would like to be very clear in putting on the record our support for this sale. Right from the beginning, right from the time it was proposed, I felt it was a good thing.

It is an area that I do know something about. It is a business that, if you look at the development of data processing throughout North America, you see that these sorts of big data processing centres were developed by Governments at a time when main

frame technology was very expensive and very difficult to manage, and that over time, because they were sprung by Governments, there was a tendency to do exactly what happened here, and that is to force contracting through them at very high costs to departments and users of the service. At the same time, the organizations did not have the operational flexibility to keep up to date with an industry that is changing at a tremendous rate. We did some studies last year that indicate that the product life for technology in this industry is about 28 months, so it takes a very active aggressive industry to stay abreast of that. I think this change is in the best interests of Manitoba and in the best interests of all concerned with this facility.

* (2025)

We had two concerns at the time the sale took place. One was that the confidentiality of the records, the sensitive records that were held, would be preserved. There were a number of meetings with the Minister and with Mr. Bessey and others to satisfy us that would indeed take place, and we were satisfied that the agreement that was reached contained within it greater security for that information than existed prior to the sale.

The second thing was that we were concerned about what would happen to the staff, because we felt, as the Government and as this was a public facility, we had to be satisfied that the staff were provided for appropriately. We feel that the opportunities that were offered both to continue with the company and grow with the company or to seek retirement or employment otherwise were—I think somebody on the negotiating team described it as something better than a golden handshake. I certainly concur on that. All in all, we think it was well handled and in the best interests of the province.

I do have a couple of question areas for the Minister that I will want to talk about when the Member for Brandon East is finished, and that has to do with those agreements with the staff and the implementation of the confidentiality requirements in the contract.

Mr. Leonard Evans: Where we left off, I recall being very concerned that I was not able to obtain a copy, and I asked several times of my staff, our caucus staff, and right until this meeting. My impression was that we had not received a copy, and I have no knowledge of a copy available to our caucus. Therefore, we feel we are at a disadvantage by not

being able to read the document, as apparently the Member from Osborne has been able to. We were given some highlights in a news release, but nevertheless we wanted to see the document itself.

I gather then that the Minister will make a copy available to the official Opposition as soon as possible.

Mr. Manness: Mr. Chairman, I am prepared to do that. This is one of the dilemmas I have. We are waiting for final legal copies to be bound. We will be paying a goodly price for that. I certainly will run off copies. The trouble is, this document is hundreds of pages long and it is full with all the appendices. There is quite a cost of doing that, so I am wondering whether we can find a better way, although I will do it, to run off one copy. The reason I would not want to run off a number of copies is we have the legal—

Mr. Leonard Evans: One is enough.

Mr. Manness: The Member says one is enough. Yes, we will do the one even though that will be at considerable cost, unless I can think of another way to deliver him a copy. If I can, certainly he will, I am sure, be accepting of that.

Mr. Leonard Evans: I am surprised that the Minister did not have a few copies prepared initially, you know. Somewhere in his file there should be an extra copy.

Mr. Manness: Mr. Chairman, we did and we sent them out. We sent a few of them out and we are almost positive we sent one of those copies to the NDP Caucus room, but let us not dispute that now. We will do our best to provide a copy to the NDP.

Mr. Leonard Evans: One detail I have, a question I have: Am I correct—I do not have the information in front of me—that the company was sold for \$18 million?

Mr. Manness: That is not correct. The company was sold for a value very close to \$22 million, \$21.8 million to be exact. Eighteen million of it was cash, \$3.8 million was the value of computer credit time.

Mr. Leonard Evans: The Minister made a point of indicating that the cash proceeds from the sale would go into the Fiscal Stabilization Fund, which they did, but the Fiscal Stabilization Fund indicates an amount of \$17 million. Why is there a difference of \$1 million between the \$18 million cash item figure that the Minister mentioned and the \$17 million shown in the budget document?

Mr. Manness: That can be explained in two ways. Firstly, off the \$18 million we had significant divestiture costs, certainly not a million dollars, but significant, I would say several hundreds of thousands of dollars, maybe as much as a third of a million dollars. The remaining amount was a hold-back that we held in case there was liability associated with the Superannuation Fund. It seems to me that there is one schedule that deals with determining the future liability associated with the Superannuation Fund. The actuaries are Turnbull and Turnbull, and they are involved in giving us a little bit of, not disagreement, but there is a little bit of uncertainty with respect to some wording. If it goes one way, fine, the two-thirds of a million dollars, roughly, will not be needed. If it goes the other way, it may be needed in support of a future liability. That is why it is being maintained, I understand, in an open ledger or something until that determination is made by an outside company.

Mr. Leonard Evans: Could the Minister elaborate a bit on the one-third of a million dollars spent on divestiture costs? Could he enlighten the committee as to some examples of those costs?

Mr. Manness: They break down into two or three parts. I do not have that detail here, but I can provide it another day or another time. Certainly the vast majority of that would be related to legal costs, tremendous legal costs at the end, once it was realized that the existing Manitoba Data Services had no contracts with the service users.

Imagine a situation where entities of Government, particularly so many of the health organizations, had a gentlemen's agreement, to use the term, with MDS. Nothing was on the basis of contract, so you had \$30 million worth of activity not protected by contract. Some would say that these entities were not forced to deal with Manitoba Data Services. I wonder how one would believe that, on the basis of being no contracts in place. That is why, by the way, this was delayed. It was delayed several months beyond what we had hoped, because we had to prepare all of these contracts, I believe 34 in total, so there was a large outstanding legal bill against that.

We also required financial advice as to evaluating the true value of the company, and we needed to go outside for that, and then, of course, the lead. The lead company that helped us in bringing together all of these various facets was the divestiture cost itself, and that was Richardson Greenshields, their

corporate finance. We were very satisfied with the support that we received from Richardson Greenshields. They are a local company and we were happy that they were there to help lead us through this process. Of course, the fourth item is Turnbull and Turnbull, the actuaries. There were a lot of professionals who we called upon to help us through this, and I am glad that we did, because so far everything has gone extremely well.

Mr. Leonard Evans: To proceed to the topic of confidentiality, we had some debate on this in the last Legislature, and we expressed a lot of concern about confidential information, economic information, medical, financial, all kinds of data. For instance, in the field of health there is a vast array of information that is on file at MDS, doctors, master files, diabetic files, hospital in-and out-patient files, births, deaths. There is a whole host of information, nursing survey files, files on all kinds of prosthetic and orthotic claims, the MHSC payroll file and all kinds of confidential information. These are just some examples from health care. There are other examples in the area of motor vehicle licences and many other departments.

I know Manitobans are very sensitive about the matter of confidentiality. They do not want an outside agency to be controlling confidential data. This was one argument used for naught by some people for not selling MDS. They felt it was not in the public interest, because massive volumes of confidential information would be accessible to a private company, whether it be a Canadian owned company or, ultimately, an international company.

Just how is the Government now, who in Government, what people, what group, what agency in Government is ensuring that there is this confidentiality maintained? Who decides what information is okay, what information is a no-no, what information can be made public and so on? Just where do we stand on the confidentiality which was a very major issue? There was a survey done in Winnipeg in October of 1989 by the Winnipeg Sun where it was reported that more than 50 percent of the people surveyed at that time did not think MDS should be sold, and one of the main reasons, one of the big problems they had was the confidentiality. According to this report, more than 88 percent of the respondents thought that the Government had a responsibility to ensure confidential information about Manitobans, that it does not get into the hands

of a private company. At any rate, can the Minister answer this question?

Mr. Manness: Mr. Chairman, there are so many comments I want to answer. Can you imagine anybody doing a survey and saying: Do you not agree that something should be not sold? I mean, talk about double negatives and leading questions. I know that was the survey, but nevertheless, let us not get into that.

Mr. Chairman, confidentiality was a great concern to the New Democratic Party. I can tell you it was as great, if not a greater concern to the Government. In that end, first of all, I am going to give some broad overview in that specific area, and then I am going to ask Mike Bessey, my colleague, to provide greater detail.

As the lead Minister with respect to this divestiture, I insisted that certain aspects be put into the contract. I said that there had to be rigid program and procedures in place at what exists today. I can tell the Member that MDS did have good security systems but certainly not the best in the industry. To that end, we insisted that we have greater comfort as Government with respect to the handling of information. Remember, the ownership is still retained by Government and its entities, and for anybody to try and make somebody else believe that somehow, now, in this case, STM is going to become the owner of this information or somehow have access to it to use it or abuse it, is awfully misleading.

We built in an even more rigid system which I will ask professional staff to comment on if the Member so wishes, but what we have today is more rigid security than exists today within the RCMP and the Department of National Defense. We have created security managers, and ultimately if something goes wrong and there is a determination as to STM being responsible for something going wrong, we have the golden share, something never to be seen before in a divestiture of this type. Of course, that golden share gives us the right, at significant loss it seems to me to STM, to take back the company.

Mr. Chairman, those are the broad outlines. I would not sign that deal on behalf of the people of this province unless I was satisfied and had some comfort that those commitments were entered into by the purchaser. This golden share aspect, by the way, added on considerable time, because when you have the ability by way of contract and covenant

to enter into an agreement to take back a company where somebody has put out \$18 million cash, \$22 million of value, then you better make sure, first of all, that the agreement is sound and you actually can do it; secondly, that the criteria allowing you to do it is in your favour and that the bankers, who have given STM some of the funding, also understand that. I can tell you on this point it took yet considerable additional time, and it was on this point alone that the deal almost was lost, because the golden share that we have brought into this contract has given Manitoba more weight than any other governmental jurisdiction that we know anywhere in the world, power to take over something if confidentiality is breached and/or if some other elements are breached.

Mr. Leonard Evans: The Minister made reference to security managers. The information, of course, comes from a variety of departments. Are you telling me that there are security managers now assigned in these various departments? They would surely be somewhere within the Government, not within the private company.

Mr. Manness: There are managers within various departments, all under the guidance of central control. Central control is housed within the Information Technical Review office that is housed within the Treasury Board. The director of that is Mr. Tony De Luca, and he is here with us this evening.

* (2040)

Mr. Leonard Evans: The Government has had some experience with this now. Are you satisfied that the system is working?

Mr. Manness: Mr. Chairman, we are very much into the evolutionary stage of a new system tenure. Unquestionably, there is an awful lot of restructuring going on within new Manitoba Data Services, or STM as we should call it henceforth. There is an awful lot of dialogue going on with respect to the more professional understanding as between STM and the client user base. All the reports that we have so far are that things are going well. That does not mean that there is still going to be another year of evolution and some degree of flux.

Mr. Leonard Evans: The fact is that in the meantime there is an enormous amount of confidential information being processed through this private company, and I would have thought that the Minister and the Government would right now, before one piece of information is processed under

the private ownership, that there would be a full security system in place, and that the Government would feel very comfortable that this confidentiality aspect was fully looked after. I know the Minister has protested that he has spent a lot of time on this and would be very concerned and very upset if something went awry, but I guess the only way you will know is if information did get out.

People do not like their confidential medical records to get out. They do not like information on their finances to get out. There is a great deal of information that we have on the people of Manitoba as they relate to the provincial Government, and it is now being processed by a private company. The problem is to make sure that we take every step to require that company to treat this information confidentially and in no way let it out for any commercial purpose.

Mr. Manness: Mr. Chairman, when the Member asked that question before, I thought he was talking with respect to the whole divestiture, and I did not realize that he was still focusing on confidentiality. Let me say that Mr. De Luca apprises me of the fact that there is a confidentiality or security committee. It has met at least once or maybe several times. It is representative of the Crowns, indeed of the departmental and outside users. The full focus of that committee is confidentiality and security, and to this point certainly there have been no concerns as expressed by the users. Let me go further and say that nothing has really changed. The departments and the entities of Government want this information processed in a certain way. They are the owners. When they want to make alterations to programs, they are the ones who have access to them and change those programs. They ultimately are inputting the information and they are in control of it.

STM is simply providing a processing function. Nothing has changed, except now there is a formal committee in place to come together and ask the question on a periodic basis, and frequently periodic, in this first beginnings of this new company. This committee comes together and the question is specifically asked. It is not a matter of fact, it is not an ad hoc question, it indeed takes into account.

Furthermore, the Member was in the House when the Bill was passed late last Session. It was Bill 98, The Manitoba Data Services Disposition and Consequential Amendments Act, and I refer him to Clauses 10 and 11 which deal with information

storage and processing, provisions regarding confidentiality required, offence and penalty.

We have much greater confidence today than we ever did that we have control systems in place. The Member seems to think because it was owned, it was a Crown corporation, that everybody was trustworthy and there would never be any leakage of information. What a foolhardy assumption to make. It is absolutely nonsense to make that. You are dealing with the very same people today who are the active people dealing with the data on a day-to-day basis, and so I say to the Member, confidentiality is important to us, but nothing has changed. I would be prepared to stand here and say there was much greater risk under the old system than there is under the new system with respect to data going astray, much greater opportunity before.

Mr. Leonard Evans: The fact is though that there never seemed to be any problem in the past, but now you have a company that is owning it, its motive is not service to the public, its motivation is profit. What company is not set up to earn profit? There are concerns related to that commercial utilization of the data. How does the committee monitor? Okay, so they meet, but how does the committee monitor this? What information do they have to ensure themselves that confidentiality is being respected?

Mr. Manness: I will ask Mr. De Luca to answer that, but I cannot believe my ears. What the Member said was if your objective is to profit, then obviously you will provide poor service, then obviously you may be tempted -(interjection)- well, yes, you did. You said that the service would be poor because the main objective was to profit. That must be spoken by somebody who has never tried to profit in their life, because the people who try to profit generally try to provide the greater service, because with greater service goes better profit. I cannot believe I heard Mr. Evans say that.

Mr. Evans: I did not say that. You are putting words in my mouth.

Mr. Manness: Yes, you did.

Mr. Tony De Luca (Director of Information Technology Review Office, Treasury Board): There are several ways in the industry to provide confidence in the data that is being produced or processed. There are procedures in place that one must take in order to ensure that the data that is being processed is confidential data. There are

passwords that one, in order to get into it—on that aspect, there is accessibility that is controlled. There are several things. I do not know to what extent you want me to go into the detailed aspects of the confidentiality portion.

When someone accesses a program, that program must be authorized with several passwords to get into it. If you are not authorized, you cannot get into that program. If the individual gives the passwords away, then it is the individual who does whatever they want to do, but it is essential that those passwords—there may be several of them rather than one—are kept to the individual who is authorized to access that particular information.

There is no way that in industry—we process all kinds of data everywhere, and these techniques are used in all aspects of data processing. They are very safe and have been proven several times of their integrity. It is not that easy, especially a private organization who wants to be in the business of selling data processing, to have a perception from a user that data can be easily accessed by someone else. It is not like, for example, you hear on the news that someone got into the computer. These things are directly connected. They are not a dial-up type of system. You do not go to a central place where there are several switches to get into that area. This is directly connected. Your terminal connects to the computer there, so the port is directly connected. It is not the same as when one hears on the news that someone got into the computer from something. My manager, who is a professional person on the security side, is well aware of all these things. The Crowns, like Manitoba Hydro who wants protected data, WCB who wants protected data, they are all satisfied. We went over this with all the Crowns, Manitoba Telephone System as well.

* (2050)

Mr. Leonard Evans: Let me put it a different way. I am not suggesting for one moment that any company that is in the business would not want to make sure it is as confidential as possible, that no one can get into the system and steal an effect or whatever, however you want me to describe it. Let me put it through you, sir, to Mr. De Luca. Is there any commercial value? Let me put it this way, a very simple question, is there any commercial value in some of that data? Can you envisage that being of commercial value, to be utilized in whatever way,

lists of information for companies wanting to sell their products or whatever?

Mr. Manness: Mr. Chairman, again Mr. De Luca can answer that question, but we are the owners of the data, and the only way somebody can gain access to that data to sell, for whatever ulterior motives they may have, is if they break the law, no differently than indeed an employee might have under the former system, as long as we understand what we are talking about.

Mr. De Luca: That question was posed when we were doing the negotiation, and it was agreed that the data is owned by the client. STM or MDS does not have any ownership of that data and they must respect, as a custodian of that data, that legality. That was made a priority, yes.

Mr. Leonard Evans: Mr. Chairman, that was my concern, not that the company itself did not know how to keep it confidential and would not use its expertise. Of course, I am sure it will do a good job, but that was my concern, that the data could be utilized by the company itself for whatever commercial purpose other than what we wanted the data to be for. Mr. De Luca has now said that this question was asked, so it is not only me asking it. The staff themselves were asking this question, that STM could not use the data for their own commercial purposes. That was the concern I was expressing.

Mr. Manness: It was not the staff who asked it, it was the Government who took the representation, not only from the Opposition, but from their own concern that indeed the sanctity of this data be maintained. The ownership question was very clear, so let not Mr. Evans, let anybody walk away from here with the belief that the Government was not also concerned about this question and asked very specifically, and because we drove the process, demanded that the ownership of the data stay with the Government.

Mr. Leonard Evans: I am glad to hear the Minister say that. He is repeating a bit, but I understood Mr. De Luca to say that the staff were asking those questions, and I thought the staff also had those concerns, but regardless, that was the question that was asked.

Mr. Alcock: I understand in this whole question of confidentiality there were three concerns, and they are outside of the kind of concerns that Mr. De Luca has been answering. They are not concerns over

access, because that concern exists whether MDS or STM or anybody else is managing the facility.

One was whether or not the corporation, STM, had access to the data, and I think that one has been answered. The second one was whether or not there was indeed a greater penalty for violating confidentiality now than existed before, and I think that has been answered through the golden share, as the Minister is wont to call it. I think, in a sense, there is greater risk to accompany one individual in releasing the data now there was, that existed under MDS. The third question was the assurance that confidential Manitoba data would not be processed outside of the boundaries of Manitoba, because this is a large system and data could be transmitted and processed in other locations, that there was an assurance that confidential Manitoba data not be shipped out of province for processing.

Mr. Manness: Mr. Chairman, it is written into the agreement. Every aspect of our needs using our data and our software has to be processed within the province.

Mr. Alcock: So the company has no access to the data for their own use, there is a serious penalty, and it is not being processed out of the province. In addition to the technical locks on the system, I think it is a fair and a very creative way to manage it.

Mr. Manness: I thank Mr. Alcock for that vote of support. I say this, that also as part of the deal, STM had to bring in immediately \$4 million worth of processing from outside of Manitoba. That is just the beginning, because we know that they are involved in a lot of other activities, and so they tell us, they are very impressed with their acquisition. They are just beginning to look around as to what could be brought here because they like the workplace.

Mr. Leonard Evans: I was going to go on, and I am not sure whether I heard the complete answer to the last question, but I was wanting to go on to the matter of spin-off effects. The Minister made a great to-do about it in his—just before I go on to that, again I want to make sure that I am going to get a copy of this agreement as soon as possible, because we are at a disadvantage. You may have thought that you sent it to us, but I have not received a copy of that, and maybe I would not have asked some of these questions.

Mr. Chairman: Mr. Evans, the assurance has been given before this.

Mr. Leonard Evans: But when?

Mr. Manness: Mr. Chairman, we will make every effort to deliver a copy tomorrow, and failing that, certainly by the beginning of next week.

Mr. Leonard Evans: I thank the Minister for that. Getting onto the question of spin-off effects, the Minister made quite a to-do about the rationale of the sale being the spin-off effects, that there were going to be additional jobs created in Manitoba, that it was going to act as a catalyst to new job creation. Can he enlighten us on whether anything has been occurring in that respect?

Mr. Manness: With respect to the covenant of the agreement dealing with a building—and I will try and find the summary.

Building: Construction of a technology tower, \$15 million to \$20 million. If they do not do that, the contract would say there would be a reduction in the revenue guarantee that we have provided. I can indicate to the Member today that I have just become knowledgeable that there are architectural drawings that have already been done, so that they will be moving on this very—matter of fact, the company has told us that they have seen some of the bids that have come in and are very impressed, incredibly impressed—of course, they come from Toronto—as to some of the levels of the bids, major contractors here prepared to build a facility for them. That is the building.

Employment: They have guaranteed to maintain existing employment of not less than 230 persons, and again if they do not perform in that area, if the level drops below 230, we can invoke the golden share, we can take over the company. They will also, on top of the guarantee of 230, guarantee new job creation of between 170 and 220, 80 percent of which will be professional positions, total employment of between 400 and 450. Again, if they do not achieve these goals, the revenue guarantee will be reduced, and I believe that is in the formula within the agreement. What we are talking about is a revenue reduction guarantee. The revenue guarantee reduces by \$3 million a year if they do not work towards these employment numbers.

Local benefits: They will seek to purchase goods and services locally, and there is a caveat with respect to that, commitment to spend \$20 million in excess of present Manitoba Data Services purchases on software components from Manitoba small businesses. Mr. Chairman, this is why so many of the smaller local firms were so supportive

of this divestiture. They had worked out many—I think the term is alliances, it is a term within the industry—one-on-one side deals, so to speak, STM and themselves, and it is going extremely well.

* (2100)

Other economic activity: Research and Development. They are going to relocate their vice-president, technology, research and development to Winnipeg. They will commit at least \$2 million to Research and Development applications, a goodly portion of which is going to the university, \$800,000, and again I will give a little detail here. They must provide guest lecturers and consulting services to the University of Manitoba with an estimated value of \$800,000, assist in establishing a co-operative study program by providing employment opportunities having an aggregate value of \$100,000 per year for five years. They have funded selected projects: \$100,000 a year for five years for both the Departments of Computer Science and Business Administration at the University of Manitoba, scholarships for a total of \$30,000 a year for five years for the Departments of Computer Science and Business Administration, a commitment to fund business case studies within Manitoba to the sum of \$1 million. This is not the last one on the list, but it is the last one I will provide now: they are also providing training and development to their staff to a value of not less than \$300,000 a year.

Mr. Chairman, when one adds up just that portion, and again I did not go through the whole list, one can see why we consider this a total commitment, economic benefit package of anywhere from \$100 to \$115 million. I say to anybody that wants to listen seriously, it is almost a textbook divestiture case that is going to provide a non-polluting system, an environmentally-sound development approach, and we could not be prouder of it as Government having entered into the agreement.

Mr. Leonard Evans: Mr. Chairman, MDS, as the Minister knows, was wanting to put up a building, would have put up a building, could have expanded, and that has been the nature of this business—expansion. The whole point of it is where does the private company earn its revenue? That is the question, and my question was related more to expansion of the business beyond Manitoba, because if all the revenue comes from the Government departments and agencies, ultimately the revenue received by that company is going to be paying for this. They are not going to be doing all

these things with additional monies. I would not think so. They are going to ultimately pay their way, and their paying their way will be based on the rates that they charge the Government of Manitoba and its agencies, so that a lot of this money spent on universities and so on, fine, but ultimately they are dependent on the revenue that they receive, the income that they are going to earn by selling to the province.

I am not sure what time frame the Minister was talking about, 400 to 450 in total jobs. I do not know what time frame we are talking about, but regardless, you had originally said the building, I think in an earlier news release, was going to be \$22.5 million or thereabouts. Apparently, early indications are that it will be considerably less. I would like to ask specifically on the building, because you mentioned that it was in architectural drawing stages. What kind of a bid system are they going to follow? Does the Minister know what kind of a system they are going to be following? The Member can laugh, but I have had people phone me about this, yes.

Mr. Manness: There were no stipulations placed upon Manitoba Data Services or indeed any of the proponents. Everybody asked about a building, and we said we wanted to see a building built because we wanted to move Manitoba Data Services out of the Norquay Building. It had to happen, so they needed a new facility whether they were sold off or not. We said as a prior condition that there was no expectancy by the Government that they had to build anywhere other than their choice, and that they had to select any contractor or developer other than their choice. I can indicate that they went to the market for bids on a 100,000-square-foot building. That is what we I think put into the contract, that there had to be commitment to a 100,000-square-foot facility and 20,000 of that for the computer installation itself.

Mr. Chairman, I understand that they went to the market and received 13 bids from developers and contractors in the province and in the City of Winnipeg. They were overwhelmed at the levels at which the bids came in, and who they select from that, I have no idea. That is their decision. Mr. Chairman, this was an open process. I do not know whether I necessarily inherited that, but it is an open process, and I am very proud of that aspect.

Mr. Leonard Evans: I am glad to hear the Minister confirm that it is an open, normal, competitive

process that we are used to in the Province of Manitoba. I gather from his remarks however that the decision has not been made as to who will be constructing the facility.

Mr. Manness: Mr. Chairman, it has nothing to do with us. They are doing it completely on their own. I think they may have decided today, but if it has not been done by now, I expect that it will be done, from what I can recall, certainly before the end of this year and maybe even before the end of this month. I know they are at that point right now.

Mr. Leonard Evans: I appreciate that the Minister is not directly responsible, but I thought he might have general information on that.

Mr. Manness: Mr. Chairman, I had some information. I did hear two weeks ago that there were 13 bidders and that STM was very happy with the level of tenders that came in. That is the last I have heard.

Mr. Leonard Evans: We have discussed the agreement. I wonder if the Minister can elaborate on a clause which I believe he referred to either in his press release or maybe in a question I had asked last year or last Session about the length of the contract. I believe it is a five-year monopoly contract, in other words, the Government of Manitoba or its agencies cannot attain the services of anyone else except STM; we have guaranteed them a market for five years. Is that correct? In fact they have a monopoly. We have to buy services from them. Manitoba Hydro or Department of Health cannot go to another company and say: We want to have our data processed by you.

Mr. Manness: We have guaranteed Manitoba Data Services \$32,109,000 of revenue for the next five years, per year, starting in January 1, 1990, to December 31, 1994. Our last calendar year, '89, we believe agencies and Government departments used somewhere around \$33 million, so we allowed ourselves in the first year a \$1 million float. We also allowed ourselves to buy out, if we so wish, the revenue around Manitoba Telephone System at our call, for a price. Those are the basic guidelines.

As the growth and the demands of the departments grow, we still are frozen at \$32 million. If we so wish we have the flexibility, at \$1 million now and I would expect a few more million in a couple of years beyond the \$32 million threshold, to move out certain activities at our choice. Our only guarantee is the global at \$32,109,000.

Mr. Leonard Evans: In effect approximately the Government of Manitoba is guaranteeing \$160 million worth of business to that company in a matter of five years, four years or five years. I am not sure whether you have built in an inflation clause here or not, but you said \$32 million a year minimum, and you have guaranteed that \$32 million until 1994.

* (2110)

Mr. Manness: Mr. Chairman, no inflation is built in. His multiplication is correct.

Mr. Leonard Evans: One concern I have then is how do we assess the specific rates charged for the service rendered? This is always a question. MDS bragged in its previous reports that it was able to bring the rates charged to the various consuming departments and agencies down year after year after year for nine years, they said in their 1988 report, I believe it is, that they brought it down for nine years and at the same time they maintained their profit. How can we be sure that the rates that this—I will call it a monopoly. As far as we are concerned if it is not a full monopoly, it is getting close to it, it is a quasi-monopoly. How can we be sure that the rates that they charge for given services are not out of line?

Mr. Manness: The Member is probably right when he uses the term quasi-monopoly, but the Government wanted it that way. I do not know if the Government would have wanted to be free of an obligation in a time frame shorter than five years. What happens for instance if STM were to develop a whole host of world or export contracts and bring it to Manitoba for processing, and all of a sudden three years from now we find ourselves as a Government not a preferred client? Yes, it is quasi-monopoly, but the Government had to have protection.

With respect to his question, rates, the Member indicates that rates have been dropping over the years as offered by Manitoba Data Services. He is correct. The rationale and the ability for Manitoba Data Services to offer those rate reductions was only as a result of ministries of which he was the head demanding more and more service application of Manitoba Data Services. The efficiencies that allowed those rate reductions did not result because of new technology. They resulted because he as a Minister and all of his colleagues, our predecessors, and indeed ourselves since we have come into Government, demanded more activity on those

computers. That allowed greater efficiency and therefore the rates dropped, but when you look at the rates dropping in the Government under Manitoba Data Services as compared to outside of Government, they dropped, but in outside private industry they dropped another 10 or 15 percent a year or more. The argument could be made that there were greater efficiencies developed outside of Government, because the rate drops there were even greater. With respect to this new agreement and the sense that the Government of the Day has the resources or in its wisdom decides to increase the rate of activity at which it does data processing, then the rates will continue to drop. That is built into the contract.

Mr. Leonard Evans: I think the Minister does a disservice to the Manitoba Data Services as a Crown corporation. It seemed to me everyone was waxing eloquent last year saying what a terrific organization it was and how well the staff performed and how efficient it was, it was a great asset to Manitoba, and that was why it was so easy to be sold. Again if you look at their reports—and I do not have the detailed knowledge. I was the Minister for a relatively short period of time and I am certainly no expert in this field, but I was quite impressed by the fact that there was continued efficiency, improved installed capacity per employee all in all. My impression was that it was because of improved technology plus the general improvement in efficiency, however it might occur. Surely the Minister is not suggesting that MDS was given extra work just for the sake of being given extra work.

Mr. Manness: The word "efficiency" is so abused. Horses were a lot more efficient than oxen, and people said so. Of course, one-lung tractors came along and they were more efficient than horses. Let us be careful how we use the word "efficient." Nobody questioned that Manitoba Data Services was not providing a fair degree of efficient service, but let us not put our ideological blinders on and believe that private industry also was not providing service that was even more efficient as compared to the numbers.

Nobody is wanting to hang a criticism on Manitoba Data Services. They were working for Government. They were Government. They were immune from the marketplace and they never had the pressures. That does not mean the people who were guiding it, the management and the staff, were not of the highest quality. Indeed, they are. Indeed, I have said

several times the value of \$18 million net, \$22 million gross value is as a result of the human resource element. It has nothing to do with the machinery there. There were good people there, and that is where the value of the company was.

Mr. Leonard Evans: I am surprised to hear the Minister say that they wanted to have a quasi-monopoly situation for the protection of the Government, because it seems to me that there is this inclination on the part of all kinds of agencies to go out and buy equipment. There was forever competition, maybe still is, between Manitoba Telephone System and Manitoba Data Services. There was competition, and one of Mr. De Luca's jobs, I believe, was to ensure, as a member of the Treasury Board, that there was not unnecessary duplication between Government agencies. That was a very important function. How can you be assured now that some agency of Government may decide or may wish to buy new equipment and start getting into this main frame business? What I am getting back to is the whole point of protection that the Minister said he wanted. That did not seem to me, as a layman, to be a problem, because the equipment is there to be bought. There are companies willing and quite happy to sell Government and its agencies new equipment.

Mr. Manness: Mr. Chairman, the Member is so correct. They are knocking on our doors every day with either a new scheme and/or new equipment. Mr. Chairman, I surveyed what we had in place for control, and it was housed in my Department, Information Support Systems Branch, ISSB. I watched how it dialogued with departments, ultimately how ISSB's recommendations came to Treasury Board, and how those of us who sat on the board tried to make wise decisions with respect to purchasing hardware. I was not impressed with the system. I did not think control was being practiced nearly good enough, and that is why, if the Member has been in my Estimates, it would have told him that ISSB, the policy side, in other words the control side, is now being moved much more closely to Treasury Board. Now this information will not be coming from two areas. Under Mr. De Luca's guidance, there will be a much stricter control function in place than there ever was before.

Mr. Leonard Evans: I am glad to get reassurance from the Minister. Getting back to the charges levied by STM of the Government and its agencies, the charges related to a certain schedule of rates, how

can we be assured that the rates are reasonable, given the change in technology, given other factors that might change, affecting the real cost of delivering the service?

Mr. De Luca: Within the contract, they cannot go beyond a 5 percent increase per year. That is the only allowed level of increase that they can have.

Mr. Leonard Evans: I was under the impression that MDS reduced the rates each year.

Mr. De Luca: It does reduce the rate, depending on the application and the amount of application that one does, that is correct, but it does it after the fact. There is a published rate which is attached to the contract, and that rate can only go up 5 percent per year at the maximum, if they choose to do so.

Mr. Leonard Evans: I understand what Mr. De Luca is saying, but what I am not clear on is why we would not expect STM to year after year come up with lower rates, because that has been the trend in the industry, not only in MDS but in the private sector. You would think that there would be a reversal, that instead of putting a cap of 5 percent increase figure, that we should want a minimum reduction of 5 percent per year, year after year or whatever.

* (2120)

Mr. Manness: What Mr. Evans fails to understand is that the rate reductions he has referred to in the past only came as a result of tremendous increased usage, the only way that we could guarantee ourselves reduced rate. We are no different than Great-West Life, indeed when Rod Pennycook was here. The only reason that Great-West Life has rates internally is that they charge their profit centres. It can only occur because they are processing and transmitting so much more data. Their internal needs demand that there be so much more processing time, and only on that basis can they, and indeed only on that basis could old MDS, provide these reduced rates.

The only way then we will be able to, as a Government, guarantee ourselves reduced rates is if we buy an awful lot more processing time at historical levels. Let us say that we do not want to buy more processing time. Then obviously we cannot get a rate reduction, because the rate reductions come through buying more processing time. We do not want to be tied to an agreement which forces the \$32 million to start to grow to \$35 million even though the rates go down. On that basis, of course, we could not guarantee rate

reductions. If the Government is flush with money, which it is not today, and we decide that we have a lot of application and we want to go out and buy \$40 million of processing from new Manitoba Data Services, yes, our rates will go down significantly.

Mr. Leonard Evans: Again, I come at this strictly as a layman. I have no technical knowledge, but I am surprised by the Minister's statement that technology has no bearing on the rate reductions. I have always been under the impression—I am not arguing with the fact that you might say well, there is more through-put and that is the reason the average rates could come down, but I always thought that the improved technology had a lot to do with reducing the rates.

Mr. Manness: Mr. Chairman, I should let the experts probably answer this, but sure, new generation technology has some saving, but that is more than eaten up with the cost of inflation and around wages. The wage bill—I have not looked at the numbers lately, but I am sure is still 80 or 90 percent of the total operating cost. Yes, the new technology is bringing down maybe the cost, if indeed all the other costs were staying constant. They did not. They went up, and therefore the only way that you could decrease the rates was to demand more processing time.

Mr. Leonard Evans: Will we be able to in future find out exactly what the Government is spending with STM? The \$32 million is a floor. It could be the following year or the year after that, more is being spent, so somewhere, I do not know where we would find out, but that information should be available I would think.

Mr. Manness: We have central control on that. Every department that purchases from STM has a separate code, and when they put a purchase order in support of buying those services, it all comes down to a central number, so we have an on-line measure of the activity we have. Right today we are forecasting doing \$33 million. I think all the departments have come in, and we are forecasting \$33 million. That is straight processing. Before that, of course, under the contract we also have a lot of developmental time I understand.

Mr. Leonard Evans: As I said, this is a key concern, to make sure that the charges that are being levied in the future are competitive, that they are reflecting true costs in the future. I do not know how you do that, whether Mr. De Luca and his staff are in a

position to do all that, or whether you have to get another agency aboard, say, a public utilities board or some agency who would sit back independently and assess to make sure that the rates being charged are reasonable, that we are not being ripped off, let us put it that way, that the taxpayers, the Government are not being ripped off.

Mr. Mike Bessey (Secretary of the Treasury Board): In addition to the guaranteed rate reduction and clauses we have in the agreement contingent upon growth at historical levels, we have a covenant in the agreement that states very specifically that the Government will not be charged prejudiced rates. We have a fairly easy way to measure that rate within the city here from other clients like Great-West Life which is a major user. We also have a director on the board of directors, so we have very good access both in terms of our own managing system for accountability plus at the board level.

Mr. Leonard Evans: I am not trying to ride this out all night, and the reason we passed the two reports quickly and expeditiously is because we are not intending to try to ask questions unnecessarily or filibuster or anything like that. Perhaps if I had had a copy of the agreement, some of these questions might not have had to be asked. I do not know—regardless that is, if I could have understood the agreement. Maybe I need a Philadelphia lawyer.

I feel that this company, which has promised to do various things and so forth, is able to do it because it has this guarantee of business with the Manitoba Government. That is a given base, so they can afford to say well, okay, we will do these things at the university, have these training programs and so forth.

Therefore, it revolves around whether we are getting our money's worth. That is what I want to be assured of, that we are satisfied that we have the systems in place to ensure that we are not going to be ripped off. If the Minister is satisfied and he is going to tell us that, if he is going to say that he is totally satisfied that we are not going to get ripped off, that is fine, but remember you are dealing with a monopolistic type of situation, you are not in a competitive market, you are dealing in a monopoly type of situation. Obviously you have set it up deliberately that way. The company obviously wanted it that way too for its own purposes.

What I am also concerned about is to the degree—and when I was really asking about

spin-off effects, I was trying to get at what additional work. It is supposed to be a catalyst. Are there any signs so far of it bringing additional work into the province? Has it been able to sell its services outside of Manitoba, which was one of their arguments that was used, one of the basic fundamental arguments used for the sale of the company, that it could sell its services outside of Manitoba, whereas MDS would be limited in doing that. Therefore, here was an opportunity to bring work into Manitoba, which we all agree with. Hallelujah! Thank goodness! We want more. If they can do it, fine, but have we seen any evidence so far of this additional work being brought into Manitoba?

Mr. Chairman: Mr. Evans, we have about five questions there right now. I am not trying to be funny or anything, I am just saying that if we could kind of keep track of these questions to give the Minister a chance to answer them.

Mr. Manness: Mr. Chairman, it must be late. I only heard one. I will try and do my best. I will let Mr. Bessey respond specifically to the question dealing with what might be coming, because he has been in recent conversation with Mr. Leo Belanger, president of STM.

With respect to the monopoly situation, let me say firstly, the Government wanted five years just as much as the company. The Government has to protect what it is doing.

In the first instance, I thought something like the Member. I thought seriously about driving it down to three years, very seriously, to make sure that the Government, if it were ripped off and if our golden share did not work, to use his term, had a contract that expired. I began to realize the foolishness of that, because Governments do not act very quickly, and if it had to rebuild or if it had to go out and source another supplier, it would take considerable time. Five years is safe to both of us, but remember this is a contract. After five years it comes due, and I would think a company that was receiving \$30 million-plus revenue from a big client would not want to jeopardize that very much at all. They have a huge investment. They have offered twice book value for this company, because they believe in the people and they believe in their ability to bring work to it. We believe in them, and that is why the deal was done. Mr. Bessey will indicate and maybe share parts of his conversation with Mr. Belanger.

* (2130)

Mr. Bessey: If I could just glance at some of the covenants, I could tell just a very quick status of where we are on those in terms of the building, which would probably be an investment of \$15 million to \$20 million. Architectural plans have been drawn, bids and tenders have been put out to the public, they have received detailed drawings and bids from Manitoba developers who are looking at a site to purchase in downtown, and are proceeding with plans for the selection for the building. With respect to some of the educational commitments, they have been very active with the president of the University and the dean of the Science Faculty and proceeding along, structuring scholarship funds and those kinds of things.

With respect to the covenants of bringing existing business that they have outside of the province into the province, I had Mr. Belanger in my office a week ago detailing how they anticipate to do that. Interestingly enough, one of the ways they anticipate doing that is moving their entire disaster-recovery business from Toronto. There are only two companies in Canada today that can provide that service, both of them in Toronto. They are not bound to this by the agreement. This is kind of over and above the \$4 million of business they expect to move. What that would do is provide a disaster-recovery presence in western Canada to then draw a substantial amount both from the private sector plus from the federal Government which does not do any disaster-recovery today and is moving in that direction. They would be the only western Canada company doing that in big fashion, so they are proceeding on that front as well.

When we speak of the \$30 million revenue guarantee, just to ground ourselves, we should recognize that in receiving \$30 million of revenue, there is \$28 million of costs involved. If you look at the net profit MDS has had, it has always been \$1 million and \$2 million, and at that a million or two net profit that you would expect to see to go to STM over a five year period will not even come close to recovering the \$100 million they are investing in the economy over the same period. They need to be here longer than that, which is another comfort that we structured into the agreement.

In addition to the golden share and in addition to all those structural things and penalties we wanted to put in there, we knew damn well that they need

to be here for longer than five years, and that is as big an incentive as well to perform.

Ms. Rosann Wowchuk (Swan River): I just wanted to ask a couple of questions on the jobs. What time line are we looking at as far as the jobs? Is there a time line when we expect that the new jobs will be created?

Mr. Manness: Mr. Chairman, the first 60 or 70 were within the first two years, and the remaining 150 are within five years.

Ms. Wowchuk: The other question I wanted to ask was on the building. When you were talking about the contracts, did you say that there was no guarantee that it would be Manitoba contracts, anybody could be bidding on it?

Mr. Manness: No, Mr. Chairman, what I said was that there was no requirement that the Government had to have an involvement, and certainly there was a covenant within the agreement that it had to be Manitoba firms that were bidding on it. Indeed, their competitive advantage would be such that there would be nobody outside of Manitoba that could possibly erect a facility of this size.

Mr. Chairman: Are there any further questions?

Mr. Alcock: Just a follow-up on the concerns that the Member from Brandon East (Mr. Leonard Evans) had raised. I appreciate the Minister's comments about the staffing earlier, but this five-year position really on both sides is in part to build more of a competitive process into the bidding for various jobs. I mean it is conceivable that there is certainly more competition in the system now than there was. It is conceivable that some parts of that could be contracted out elsewhere if STM does not perform to standard.

Mr. Manness: We have provided for that. That is why we set the floor we did for a number of reasons. One, if we saw better deals in small pieces outside, we were not obliged to have to keep all of our activity within this agreement. We have that flexibility. We have work substitution clauses as long as we maintain the guarantee. We can substitute any mix of activity leading to the \$32 million, but specific bites of it, if we sense we can source its completion outside of this agreement, we will.

Mr. Alcock: Would it be fair to say that in a sense we are not perpetuating a monopoly, we are moving from a monopolistic situation to one where there is indeed a greater element of competition and a greater ability to follow changes in the technology?

Mr. Manness: Mr. Chairman, it is a very good comment. Beyond that, what we have given is a backstop to some of our own fledgling computer companies, and giving them a backstop then is going to allow them to hopefully grow through these difficult times and be there to provide a competitive service to the Government. I think we are all winners in this, I really do. I look at it, and I do not see a downside.

Mr. Alcock: I will just conclude with a final statement, which is simply to say—and I am feeling increasingly uncomfortable sitting here saying this tonight. I will have to get even just so that I can sleep over the weekend. I do think that the Government has gone the extra mile with this one, and I do think we have concluded an agreement that is in the best interest. I spent some time in the department, as the Member for Brandon East knows, and I know how, under the previous policy, in order to support that very large system, we were forced to acquire technology that we felt was unnecessary for the job that was being envisioned, and we were forced—in one job where we had costed it at \$25,000 came in at \$250,000, because we were forced to go to MDS. I tell the Minister now, as we were going through Finance Estimates, I kept saying I want to wait till we get to ISSB, the real deciders, because I think Government is wrong to do that. I think this move is an important one, I think it is a creative one, and I think you have handled the legitimate concerns about confidentiality and the staffing in a remarkably efficient and effective manner. I might even say surprisingly so.

Mr. Leonard Evans: I am surprised a bit by what the Member for Osborne has said about forcing, because I was forever being told by the chief officers of this organization that Government agencies did not have to use MDS, that they could go anywhere. They could go to the private sector, they could go wherever they wanted to. This is what I was told almost ad nauseam, that it was not a monopoly. If what you tell me is correct, it is a very interesting revelation, to say the least. The point is, when you talk about monopoly, there is a great difference between a publicly-owned monopoly and a private monopoly. In our economy when you have public monopolies—I am not talking about the efficiency levels or whatever, but whatever profits are made, they are available for the public. A private monopoly can take excess profits, and as a monopoly can indeed get away with excess profits. That is why we

have public utilities boards to protect ourselves, whether it be in this province or the State of Minnesota or whatever jurisdiction.

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The Member for Osborne (Mr. Alcock) says he is pleased that the Government and the Minister seem to have gone the extra mile. I like to think that in Opposition, by asking questions—this is for some of the new people, they may be a little exasperated by this, but they should have been back here a few years ago—this is a function in our parliamentary system of the Opposition, to ask questions. They may seem unreasonable, but we have to keep everybody on his or her toes and ensure that all the i's are dotted and the t's are crossed.

I have confidence in the staff. I know ISSB has done an excellent job in the past and I have no complaints, but I have had these concerns that we want to be very, very careful that we do not pay excessively for the services from this private company. If we can be assured that we are not being ripped off, or whatever term you want to use, great. I would very much like to see additional jobs in Manitoba. I hope they are successful in obtaining contracts outside of the province, because God knows we desperately need the work, and this is a good type of industry to have expand.

Therefore, Mr. Chairman, I said we were not planning to drag this out. The fact that we passed the first two reports expeditiously indicated that to you. We have expressed some points tonight that the Minister has heard many a time before, but I think they were legitimate concerns. I hope that we have caused the Minister to do extra homework on this account because of our questioning and our past criticisms, so we all look forward to seeing how STM functions, and hopefully it will do the job that

the Minister—such a glowing picture he paints. It is like Christmastime. We are getting everything, and all good things are going to happen. I am a bit of a doubting Thomas. I hope he is right, I want him to be right, because I want the people of Manitoba to be well-served, but we will be watching. We will be doing our job for the taxpayers as Her Majesty's Loyal Opposition.

Mr. Manness: I am not going to in any way rebut anything the Members said. I too just want to express some sincere thank you's to both Opposition Parties. Certainly the Liberals have been supportive of the process. The NDP, of course, had an ideological difference, and I do not quarrel with that, but throughout it all I think when we had to bring in these major legislative changes there was an accommodation reached. I think there was good will exuded all the way through this process. To the new Members that were not here, it is unfortunate, because it does not happen very often. It is unfortunate you did not see it, because it does not happen very often. It did over the course of the last year, even though there were hard-hitting questions with respect to important matters, confidentiality and treatment of the existing staff. I think we have all learned through this. I have certainly learned a lot of things, not the least is the financial side, but as importantly, the political side and how it is that if you work together, you can get something done. That was exhibited, and I thank representatives of the other Parties. It has been a good process.

Mr. Chairman: Shall the December 31, 1989, Annual Report of Manitoba Data Services be passed—pass.

The time is now 9:45. What is the will of the committee? This committee will rise.

COMMITTEE ROSE AT: 9:45 p.m.