



香港工業總會 Federation of Hong Kong Industries

11 June 2004

Mr Alan Wong
Director
Information Technology Services Department
15/F, Wanchai Tower
12 Harbour Road
Wan Chai
Hong Kong

~~Dear Mr Wong,~~ *Dear Alan,*

Consultation on the Information Technology Professional Services Arrangement (ITPSA)

Thank you for your letter of 15 May 2004 inviting our views on ITPSA. We are pleased to offer the views for your consideration.

Objectives of ITPSA

To start with, we very much appreciate the Government taking the initiative to solicit the views of the IT industry on ITPSA. This notwithstanding, we believe rather than confining the scope of the present review to just ITPSA, a better approach would be for the Government to thoroughly examine its outsourcing policy with a view to strengthening its support for Hong Kong's IT sector.

In line with the Government's aspirations to develop Hong Kong into the IT hub in the region, ITPSA or any other similar arrangements would be an important vehicle which the Government may use to promote the IT sector and nurture the manpower needed for its robust development in Hong Kong. Like elsewhere in the world, the Government is the single largest user of IT services and equipment in the SAR. Therefore, by carefully designing its outsourcing and procurement policy on IT, the Government would be able play a stronger role in propelling this sector forward.

The issue of local content in IT procurement of the Government has been a major concern of our members and we have raised this subject to the Government on several occasions over the past few years. While we fully understand that Hong Kong is a party to the WTO's Government Procurement Agreement (GPA) and should observe its rules and obligations, it has come to our attention that GPA only applies to contracts worth more than specified threshold values. For Hong Kong, the current threshold value for Annex I (goods

and services except construction) entities is HK\$1,351,000 and that for Annex III (goods and services except construction) entities is HK\$4,156,000. Hence, contracts below these threshold values are **NOT** subject to GPA sanction. In other words, the Government may specify whatever tender conditions including local content requirements, as it sees fit, for its outsourced IT projects with a value below the respective thresholds.

By this, we are not suggesting that the Government should discriminate against non-local IT companies in any manner. In fact, the specification of local content requirements in tender documents is until today common practice in many advanced countries, including the UK and Australia. To adopt the same practice in Hong Kong is merely to follow the world norm. Moreover, some of the Government's outsourced IT projects involve the handling of sensitive personal data and confidential information. Allowing only local companies to participate in such projects would help ensure the security of the systems and the continuity of support and maintenance in future.

We would like to emphasise that the Government has a crucial role to play in promoting Hong Kong's economic development and securing employment for Hong Kong people. In our view, the inclusion of local content in IT or other projects outsourced by the Government is an effective way to achieve these objectives. To enable Hong Kong's IT companies, in particular the SMEs, to grow, prosper and compete successfully, the Government must create a favourable environment and provide opportunities for our young IT professionals to participate in government projects so that they might acquire the needed experience and learn new skills.

Specific recommendations on ITPSA

Most of our members see the need to enlarge the pool of pre-qualified contractors in ITPSA. At present, there are only 12 such contractors, which undesirably limits the choice of government departments in selecting vendors. We recommend that both the number of service categories and the number of groups within each service category should be doubled to allow more companies to participate in the scheme. As regards the number of contractors in each group, it should be set at around five. We believe this arrangement would give government departments more choices, while keeping the costs and administrative work that may be incurred in the selection of suppliers at a reasonable level. We are also of the view that the number of groups each company may join in ITPSA should be limited to no more than two.

Under the present arrangement, ITPSA contractors are selected through public tendering and each contractor will enter with the Government a contract lasting for three years. While the contract length of three years is agreeable to us, we urge the Government to put in place a disqualification mechanism and open up a new round of selection every six months whenever there are vacancies. Through such a rotational system, companies that missed the last round of recruitment would still be able to obtain pre-qualification status at a short time without having to wait for three years until the existing contracts of all ITPSA contractors are completed.

In order to improve the sub-contracting arrangement under ITPSA and to provide more business opportunities for local IT companies, we recommend the Government maintain a register of qualified IT suppliers and require principal contractors who have successfully bid for a government project to only engage the registered suppliers if they need to contract out their assignments.

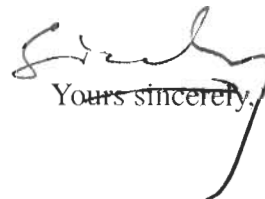
We also recommend that reputable industry leaders be invited to participate in the tendering process of government IT projects so that the merits of each tender can be assessed from a broader angle. The participation of industry representatives would also help the Government keep abreast of the latest developments in the IT sector and provide guidelines for the selection board to screen out tenders which offer unreasonably low bids. In order to ensure the integrity and impartiality of this arrangement, a mechanism should be put in place to avoid possible conflict of interests and undue disclosure of business secrets.

Other suggestions

There are two other suggestions we would also like to offer to the Government which are not directly related to the design of ITPSA.

1. The Government should set up and maintain a depository of the source codes of all outsourced IT projects. With this depository, it would enable the Government to retrieve the source codes readily, whenever system maintenance is required, even if the business of the original contractors is already closed down.
2. According to the information given in the consultation document, about 2% of man-year work of government outsourced IT projects are carried out by non-Hong Kong residents. The Government may need to analyse the profile of this 2% man-year work, in particular the skills required, so that any skill gaps in Hong Kong can be identified, and corresponding manpower training programmes formulated to fill these gaps.

We hope you will give our views and recommendations careful consideration. We also appreciate an opportunity to meet with you to further discuss ITPSA and other issues on the development of Hong Kong's IT industry.


Yours sincerely,


Paul Kan
Chairman
Hong Kong Information
Technology Industry Council