

Proposal
for the
Consultation on Future Arrangement !
of the Standing Offer Agreement for !
Quality Professional Services !
in the Government of the HKSAR !

By !
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1 INFORMATION SUMMARY

In response to the request from the Government Chief Information Officer (OGCIO) for providing comments of the Standing Offer Agreement for Quality Professional Services (SOA-QPS) for the Government of the Hong Kong Special Administrative Region (HKSARG or the Government). Arcotect Limited is pleased to submit our comments for your consideration.

ITPSA and QPS has been launched in 2002 and Arcotect has awarded 47 Standing Offer Agreements (SOA) since then. Arcotect has provided Cat 1, 2, 3 and 4 IT services for 80 D/Bs. Under OGCIO's continue effort, we are very happy to see QPS has been improved upon every tender exercise.

In this paper Arcotect will describe the current situation and make suggestion on some potential improvement areas. Our top four main concerns are 3.1.1) huge project ceiling difference between major and minor groups 10M vs 1.43M, 3.2) too many contractors, 3.3) not considering technical marks in selection criteria, and 3.5.3) staff turnover.

2 OBJECTIVES

We understand the Government has steadily increased annual IT budget. However, the total contract sum spent on IT Services particular in Minor group has declined, which is not benefit to local small and medium IT contractors. The consultation is to carry out the review and identify ways to improve the QPS3 for the Hong Kong Special Administration Region (HKSAR or the Government) to meet the operational needs of the D/B and benefit the IT industry as a whole. Hopefully our suggestions can reflect the contractor's problem and recommendation to the Government.

3 IMPROVEMENT AREAS

On top of the current arrangement, there are rooms for a few improvement areas:

3.1 ! Categorisation of Services and Ceiling Price

3.1.1 ! Currently, there is a big gap on ceiling HK\$1.43M for Minor Group and HK\$10M for Major group, we think it is not fair. Particular for Minor Group Cat 3, HK\$1.43M is too little for current payroll. A lot of projects that could be fulfilled by local IT companies in Minor group had switched to Major group due to over budget. This is not helping the local IT companies.

Limited to HK\$1.43M ceiling contract price also caused inconvenience to contractors of the Minor group when there are additional requirements. WAB usually gives high level requirement description and usually stated 'not limited to...', B/D should be allowed more room to cater for 'out-of-scope' work that found in SA&D stage.

We hope the new SOA can reconsider the ceiling for Minor group. We suggest to keep HK\$1.43M as a bidding ceiling but allow 100% Assignment Change Request.

We don't agree increasing the demarcation limit will attract more medium-large size companies to enter Minor group, as long as the limit is not too high i.e. below 3M, since entering Minor group also means they have to give up Major group at the same time.

3.1.2 ! QPS3 services are following the SDLC and technology independent, we believe that there is no need to separate technology groups i.e. Social Media or anything upcoming, which may lead to change on Service Category whenever there is a new technology raises. The skill and experience shall be addressed in staff requirement. We will comment on human recourses in later section.

3.1.3 ! Privacy Impact Analysis is under Cat 1, we found it is more likely belong to Cat 4.

3.2 ! Number of Contractors

The increase of Government IT expenditure didn't go directly to QPS3 services, Cat 3 Minor has least benefit. QPS3 increased 1/3 of contractors, too many contractors within a service category and group will reduce the attractiveness to the contractors to submit bids as the competition will be increased, which result in price war that eventually led to bad quality.

Our QPS2 experience 6 contractors per Cat per group were all active whereas now so many contractors some are not active. We believe 6 contractors are better. If not much benefit was found for an increase in the number of contractors in each service category-group, we suggest new QPS4 to have no more than 6 contractors per cat per group.

3.3 ! Duration of Contracts

3.3.1 ! For SOA, the current 48-months arrangement is good. However, increasing the contract period to 60 months can further save the tender effort.

3.3.2 ! For Service Contract, some Cat 2 On-going maintenance WAB specified 5-years project period, which is longer than the SOA itself. The annual maintenance multiplied by more years manipulated the service from Minor swapped to Major. Major staff rates are in general higher than minor, so this is not just not fair to local Minor SME but also misused of taxpayers' money.

3.4 ! Categorisation of Human Resources

3.4.1 ! The existing staff categorization mainly based on the years of experience and ranking and not technology specific, which is flexible and well served the purpose. We think this is good as new technologies can be customized by B/D. E.g. a Cat 6 QA Analyst with experience in writing Test Plan, Specification, Cases and Report

can be also qualified as a 'Testing Analyst'. A Cat 4 Analyst Programmer with experience in conducting unit test and SIT can be qualified as a 'Tester'. EIM Consultant/Specialist can fit into Cat 11 or 12. Cat 5 or 6 SA still applied but may need additional experience in Mobile App.

3.4.2 ! We found staff requirements by some WABs can sometimes be too specific to a particular expertise or experience that are generally not available in the market. This can cause non-compliance even though contractors may have tried their best efforts to source for such expertise in the market. We suggest OGCIO to set a guideline for B/D to put those staff desirable features in marking scheme for technical scores instead of mandatory staff requirements.

3.4.3 ! Project Manager and System Analyst effort

More and more B/D refused to accept PM effort in system enhancements. Some B/D even said AP can do everything without PM or SA. It is important for users to understand PM is responsible for negotiation, draft and revise PIR and ACR, monitor progress, liaise testing and acceptance, checking document update, etc. SA is responsible for design and quality check. In our company, AP is forbidden to change any program without revised design by SA and approved by PM. If an AP is observed capable to do design job, he will be promoted to SA, otherwise we cannot keep him/her. We hope OGCIO will give clear guideline to B/D that PM and SA effort shall not be ignored.

3.5 ! Sub-contracting

Using sub-contractor is also one factor that leads to poor quality. We also suggest subcontractors have separate marking so if they perform badly, they will be affected in general QPS3 quality as subcontractors. This information shall be released to all 'related' prime contractors and users.

3.6 ! Time for Proposal Submission

3.6.1 ! In general we think 2 weeks and 4 weeks for Minor and Major to prepare proposal submission is sufficient.

3.6.2 ! It is against the Government's environment protection policy for all contractors to submit 2 sometimes 3 sets of proposals and CDs. In order to save paper & CD, submission by pdf via email should be allowed. If necessary for audit record, only awarded proposals need to be printed with clarifications.

3.7 ! Payment Milestones

3.7.1 ! Regarding the regular payments on no more than 50% of fixed price, we appreciate the Government's understanding and support to ease local IT Contractor's cash flow on payroll. Discard the well intention from the Government, most B/Ds still don't accept it. We hope clear guideline can be given to B/D and encourage them to adopt such arrangement as a Caring Organization and support local IT industry.

3.7.2 ! Regarding the Stage payment, we also appreciate OGCIIO provide clear guideline to B/Ds that milestone payment should in proportion to the estimated effort i.e.10% PID, 20% SA&D, 50% UAT, 10% Production and 10% PER.

3.8 ! Selection Criteria and Quality Consideration

For tender 70% quality and 30% price is used to select pre-qualified contractors in order to emphasis on the quality of the contractors. However, in WAB stage, 60% on price is used and 40% only based on higher, medium and lower ranking in CPAR, no technical score is considered. Contractors have to bid with lowest cost eventually compromise the quality. Since quality is priority concern on delivering a service, we recommend a standard marking scheme of 60% technical score comprises of 30% on technical marking scheme and 30% on continuous quality monitoring score CPAR and 40% price to be adopted during WAB stage.

3.9 ! Continuity of Project Staff

As the Government often mentioned, IT industry is pillar for all pillars in HK. Staff turnover is unavoidable, particular when B/D are hiring staffs in much higher rates under T contract to implement IT projects. QPS is not T Contract, the staff continuity has already covered by CPAR, and marks shall not be deducted as long as the overall service performance is not affected. To correct fundamental problem, B/D should outsource IT projects to local IT companies instead of poaching our staffs.

3.10 ! Project Delay

Every IT Services Contractor hates project delay which is bad for cash flow because we have payroll to fulfil every month.

As mentioned in prior section 3.1.1, WAB usually gives high level requirement description and usually stated 'not limited to...', more complex use requirements will come up in SA&D stage and require longer development time. We also noted that B/D users are not concern about project schedule, they rather contractor to deliver additional requirements than on schedule.

Project delay was also due to unreasonable schedule under mandatory requirement that cannot be altered.

A lot of B/D asked contractors to provide ballpark for budget purpose, in order to make sure both the ballpark and schedule are accurate and encourage more Cat 1 Work Assignments, B/D should put budget for Feasibility Study so the estimated price and implementation schedule can be formulated in a realistic way.

3.11 Contractor's Liability

Many banks do not want to insure unlimited liability and we end up paying much higher premium to one bank. We suggest using a formula for B/D to come up with a project specific liability cap to provide better risk management for Contractors. A general of x1.5 - x3, etc shall be set under SOA to expedite the negotiation on WA.

4 CONCLUSION

QPS has been an excellent arrangement for government purchase of IT outsourcing services which benefits the government, the user departments and the contractors. It is a Win-Win-Win situation. To contractors, QPS3 created a trust worthy environment and a mid/long term relationship between itself and the user departments so that lower assignment cost with high quality works can be maintained.

To keep the government as (the biggest) winner, the arrangement should continue to provide similar mechanism/environment to contractors. That is, steady recurring of small to medium sized jobs (under \$10m) which can be managed and monitored under a standing offer agreement like QPS3.

5 ENQUIRY

For any enquiry and clarification for the proposal, please contact !

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