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Panel on Information Technology and Broadcasting

Meeting on 10 November 2014

**Updated background brief on
Capital Works Reserve Fund
Head 710 Computerization Subhead A007GX (Block Allocation)
– New administrative computer systems**

Purpose

This paper summarizes the previous discussions by Members on the funding requirement for 2014-2015 for the implementation of computerization projects under the Capital Works Reserve Fund ("CWRF") Head 710 Computerization Subhead A007GX ("block allocation") – New administrative computer systems and related issues.

Background

2. CWRF Head 710 Computerization is the Head of Expenditure used for funding administrative computer systems, consultancies for feasibility studies and systems development. These projects serve to deliver the strategic outcome of the action area "Enabling the next generation of public services" under the Digital 21 Strategy. The projects can be broadly classified as projects each costing above \$10 million¹, projects each costing above \$150,000 but not exceeding \$10 million, and projects each costing \$150,000 or below².

¹ These projects are subject to the approval of the Finance Committee ("FC") and to be funded under separate subheads of Head 710.

² These projects are approved by individual bureaux/departments and funded through their respective operational expenses subheads under the General Revenue Account.

3. Projects each costing above \$150,000 but not exceeding \$10 million are funded through a block allocation under CWRP Head 710 Subhead A007GX. The Financial Secretary has delegated to the Government Chief Information Officer ("GCIO") the power to approve projects and authorize expenditure under the block allocation. Projects funded this way are normally called block vote projects. The block allocation for a given financial year will fund the estimated cash flow requirements arising from block vote projects proposed by bureaux/departments ("B/Ds") and approved or to-be approved by GCIO. Each year, the Office of the GCIO ("OGCIO") estimates the funding requirements for the block allocation in the following financial year by taking into consideration the cash flow requirements of approved block vote projects, new proposals submitted by B/Ds and anticipated new projects for various E-Government initiatives to be submitted, as well as the spending position of the block allocation.

Previous discussions

Panel on Information Technology and Broadcasting

4. At the meeting of the Panel on Information Technology and Broadcasting ("the Panel") on 11 November 2013, members discussed the funding requirement proposed under the block allocation of \$920 million for 2014-2015 for the implementation of computerized projects, which was \$30 million (about 3.4%) higher than the provision of \$890 million for 2013-2014. Members supported in principle the funding proposal. The major views and concerns expressed by members were summarized in the ensuing paragraphs.

Increase in block allocation

5. Some Panel members queried whether the proposed increase of \$30 million in block allocation (about 3.4%) in 2014-2015 would be sufficient for the implementation of computerization projects under the block allocation, given that the proposed increase appeared to be lower than inflation rate and might not be sustainable even for maintenance of existing information systems by relevant B/Ds. The Administration advised that the block allocation in 2010-2011 was \$715 million while the block allocation in 2013-2014 had been increased to \$890 million, already representing an increase of about 25%. Allocation only referred to the amount of cash flow allocated to a Bureau or Department with

reference to the estimated expenditure requirement of the approved project in a given financial year.

6. Some Panel members enquired about the low percentage of increase in contract staff (4.8%) when compared to software (5.6%) and hardware (5.8%) in the breakdown of the expenditure items for the proposed increase in block allocation for 2014-2015, and opined that the relatively low percentage of increase under the contract staff item might lead to a low salary increase of the staff concerned. The Administration explained that the contract rates of contract staff were stipulated in the relevant Standing Offer Agreements and would not be affected by the percentage increase in the block allocation. The increase in staff salary levels would also be subject to their relevant employment contracts and the adjustment of contract rates was an annual exercise independent of the block allocation.

7. At the Panel's request, the Administration had provided information on the relevant amount of allocation and expenditure by B/Ds under the block allocation in the past four years and the use of information and communications technology ("ICT") within the Government in comparison with other governments in advanced countries. The Administration's written response was issued to the Panel vide LC Paper No. CB(4)217/13-14(01) on 10 December 2013 and is attached in **Appendix I**.

Business opportunities for local small and medium sized enterprises

8. Some Panel members expressed concern that small and medium sized enterprises ("SMEs") had experienced difficulties in bidding for Government information technology ("IT") contracts as the contracts were usually awarded to those with low bidding price, thus creating intense competition among SMEs in the ICT sector. These members enquired about the criteria for awarding Government IT contracts and tenders. Some other members also enquired about the measures put in place to help SMEs to compete fairly in Government IT contracts and tenders, and whether a policy inclination for awarding Government IT contracts and tenders to SMEs was available.

9. The Administration advised that the Government procurement policy and the award of contracts were subject to the World Trade Organization Agreement on Government Procurement and the tendering requirements of individual project. When awarding Government IT

contracts and tenders, the Administration was guided by two policy objectives of achieving best value for money and maintaining open and fair competition. To achieve the best value for money, the Administration took into account in the tender evaluation not only the competitiveness in price, but also the technical and quality assessment, the weightings of which (ranged from 30% to 50%) would be considered in the evaluation of tenders, depending on individual project requirements.

10. The Administration further advised that a listing arrangement for the procurement of government public cloud services had recently been introduced. Out of the 40 listed service providers, about one-third of them were SMEs. The Administration had also invited some ICT award-winners to display their winning projects in areas next to the Wanchai Government Complex, and held seminars for these award-winners to introduce their products to government departments.

Tendering process for Government contracts and procurements

11. Some Panel members enquired about details of the technical and quality assessment in the tendering process for Government contracts and procurements, and the relevant body which performed the assessment. These members urged the Administration to observe the international norm of adopting a "reasonable price" approach in awarding Government IT contracts and procurements.

12. The Administration advised that the technical and quality assessment would include compliance with users' requirements, reliability of tenderer's performance, qualitative superiority of proposals, etc. Project steering committees formed by B/Ds responsible for individual projects would perform the relevant assessment. On adopting a "reasonable price" approach in awarding Government IT contracts and procurements, the Administration advised that a fair and reasonable tendering approach had been adopted in awarding contracts under the Standing Offer Agreement for the Procurement of Quality Professional Services ("SOA-QPS"). According to feedback collected by OGCIO, the companies under the SOA-QPS scheme considered the bidding prices reasonable.

Information technology audit and assessment

13. Some Panel members enquired whether the Administration had conducted any IT audit or assessment on B/Ds in the implementation of

computerization projects. These members also enquired about the criteria for selecting the relevant B/Ds for audit and assessment, and the timeframe for conducting such exercise on other B/Ds. The Administration advised that relevant security risk assessment and audit were conducted periodically on these B/Ds, usually by a third-party contractor, and the relevant report would be provided to OGCIO for reference. The relevant project information relating to the conduct of the audit and assessment on the B/Ds was available on the website of the OGCIO.

Finance Committee

14. At the special meeting of the Finance Committee on 2 April 2014, Hon Charles Peter MOK enquired about the expenditure incurred by B/Ds on purchasing commercial software and licences and related services under the CWRP Head 710 Computerization in the past three years, and the percentage of such expenditure against the annual IT expenditure. He also enquired about the expenditures incurred by the government on conducting security risk assessment and audit in the past three years. The Administration's replies are in **Appendices II** and **III**.

Latest position

15. The Administration will brief the Panel on 10 November 2014 on the funding requirement for 2015-2016 for the implementation of computerization projects under the block allocation.

Relevant papers

16. A list of the relevant papers with their hyperlinks is at:
http://www.legco.gov.hk/yr15-16/english/panels/itb/papers/itb_ef.htm
http://www.legco.gov.hk/yr13-14/english/fc/fc/w_q/cedb-ct-e.pdf

The approved provision and actual expenditure of the Capital Works Reserve Fund Head 710 Computerization Subhead A007GX (Block Allocation) in the past four years

	Capital Works Reserve Fund Head 710 Computerization Subhead A007GX (Block Allocation)		
	Approved Provision (\$M)	Actual Expenditure (\$M)	Unspent Amount (\$M)
2009 - 2010	600	588 (98%)	12 (2%)
2010 - 2011	715	645 (90%)	70 (10%)
2011 - 2012	780	697 (89%)	83 (11%)
2012 - 2013	860	815 (95%)	45 (5%)

CONTROLLING OFFICER'S REPLY

CEDB(CT)163

(Question Serial No. 1357)

Head: (47) Government Secretariat : Office of the Government Chief Information Officer

Subhead (No. & title):

Programme: (1) Use of IT in Government

Controlling Officer: Government Chief Information Officer (Daniel LAI)

Director of Bureau: Secretary for Commerce and Economic Development

Question (Member Question No. 4):

Regarding the use of information technology (IT) in Government, please inform this Committee of the following:

- (a) What was the expenditure incurred by government bureaux and departments (B/Ds) on purchasing commercial software licences and related services in the past 3 years? What was the percentage of such expenditure against the annual IT expenditure?
- (b) What is the estimated expenditure to be incurred by B/Ds on purchasing commercial software licences and related services in 2014-15? What is the percentage of such expenditure against the annual IT expenditure?
- (c) Does the Administration have any plan to use more open source software where feasible? If yes, what are the details as well as the manpower and expenditure involved?

Asked by: Hon. MOK, Charles Peter

Reply:

- (a) In the past 3 years, the expenditure incurred by bureaux and departments (B/Ds) on purchasing commercial software licences and related services for implementation of computer projects under the Capital Works Reserve Fund Head 710 – Computerisation as well as the percentage of such expenditure against the annual information technology (IT) expenditure are as follows -

	2011-12 Actual Expenditure (\$ million)	2012-13 Actual Expenditure (\$ million)	2013-14 Estimated Expenditure* (\$ million)
Purchase of commercial software licences and related services	171	194	235
Percentage in IT expenditure	14.5%	14.1%	14.3%

* Information on the annual actual expenditure of 2013-14 is not yet available as the financial year has not ended. The estimated expenditure is therefore provided.

- (b) In 2014-15, the estimated expenditure to be incurred by B/Ds on purchasing commercial software licences and related services for implementation of computer projects under the Capital Works Reserve Fund Head 710 – Computerisation as well as the percentage of such expenditure against the estimated annual IT expenditure are as follows –

	2014-15 Estimated Expenditure (\$ million)
Purchase of commercial software licences and related services	263
Percentage in estimated IT expenditure	14.2%

- (c) The Government has been adopting open source software (OSS), including server software, desktop software and office software, to set up government IT infrastructure and develop e-government services. The Office of the Government Chief Information Officer also continuously promotes and supports B/Ds in the wider adoption of OSS where feasible, such as in the development of departmental portals and government mobile applications. In general, the related expenditures have been included in the project cost or operating cost of the respective IT systems. Hence, we do not have a separate breakdown on the manpower and expenditure for the use of OSS.

CONTROLLING OFFICER'S REPLY

CEDB(CT)165

(Question Serial No. 1359)

Head: (47) Government Secretariat : Office of the Government Chief Information Officer

Subhead (No. & title):

Programme: (1) Use of IT in Government

Controlling Officer: Government Chief Information Officer (Daniel LAI)

Director of Bureau: Secretary for Commerce and Economic Development

Question (Member Question No. 5):

Regarding the measures on promoting network and information security, please inform this Committee of the following:

- (a) How many cases of non-compliance with government information security requirements and how many information security incidents were found in government bureaux and departments (B/Ds) in the past 3 years?
- (b) What was the expenditure incurred by B/Ds on conducting security risk assessment and audit in the past 3 years? What was the percentage of such expenditure against the annual IT expenditure?
- (c) What is the estimated expenditure to be incurred by B/Ds on conducting security risk assessment and audit in 2014-15? What is the percentage of such expenditure against the annual IT expenditure?
- (d) Does the Administration have any plan to conduct local and international information security incident response drill exercises in 2014-15 to mitigate information security risk? If yes, what are the details as well as the manpower and expenditure involved?

Asked by: Hon. MOK, Charles Peter

Reply:

The Government attaches great importance to cyber security and information security. The Office of the Government Chief Information Officer (OGCIO) has formulated comprehensive information security regulations, policies, guidelines and procedures, which are timely updated for compliance by bureaux and departments (B/Ds). OGCIO has also implemented a compliance monitoring and auditing mechanism to check B/Ds' compliance with the security requirements.

- (a) B/Ds have complied with government information security regulations and guidelines in the past 3 years. No serious violation of security requirements was discovered. The Government Information Security Incident Response Office received a total of 34 information security incident reports, including cases related to data leakage (20 cases), web defacement or implantation of phishing webpages on websites (8 cases), bogus websites or emails (5 cases), and unauthorised access to information technology (IT) services (1 case).
- (b) Information security risk assessment and audit conducted by the Government can be classified into 2 major categories: (1) those conducted for individual information systems; and (2) those conducted for B/Ds' overall information security management. B/Ds will conduct security risk assessment and audit on the relevant information system before its launch or major enhancements. The expenditure of these works is generally included in the development and maintenance costs of the relevant information system. Thus, we do not have separate figures for such audit work.

In general, B/Ds conducts comprehensive information security risk assessment and audit around every 2 years. The expenditures incurred by the Government on information security risk assessment and audit in the past 3 years are listed below.

	2011-12 (\$'000)	2012-13 (\$'000)	2013-14 (\$'000) (as at the end of February 2014)
Security risk assessment and audit expenditure	9,500	14,580	10,190
Total annual expenditure under Capital Works Reserve Fund Head 710 Computerisation	697,400	814,640	654,550
Percentage against annual expenditure	1.36%	1.79%	1.56%

- (c) The estimated expenditure to be incurred by B/Ds on conducting security risk assessment and audit in 2014-15 is around \$17.91 million, accounting for 1.93% of the total estimated annual expenditure under Capital Works Reserve Fund Head 710 Computerisation.
- (d) OGCIO collaborates with the Hong Kong Computer Emergency Response Team Coordination Centre (HKCERT), local critical Internet infrastructure service providers, mobile network operators and government departments to conduct cyber security drill annually for testing and raising the incident response capability of industry stakeholders and government departments against cyber attacks. HKCERT also participates in the cyber security drills organised by the Asia-Pacific Computer Emergency Response Team (APCERT) annually, and coordinates with APCERT and computer emergency response teams in other regions in handling cyber security issues and exchanging relevant intelligence. The manpower and expenditure incurred are already included in the recurrent expenditure of OGCIO, and no additional expenditure is involved. In 2014-15, we will continue to conduct both local and international information security incident response drill exercises.