

Legislative Council Panel on Trade and Industry

Outsourcing of Services of the Intellectual Property Department

INTRODUCTION

This note describes a proposal to outsource certain services of the Intellectual Property Department (IPD). It also outlines the implementation programme for the outsourcing project.

BACKGROUND

2. Outsourcing of information technology and business operations in the private sector in Hong Kong has become common. This follows the trend among private and public sector organisations in other developed economies such as the USA, UK and Australia.

3. In March 1998, we conducted a consultancy study of activities in IPD which might be candidates for outsourcing to the private sector. The study explored the benefits that could be derived from involving the private sector in some of the activities of IPD. The consultancy report was completed in July 1998.

4. The consultancy identified a number of non-core IPD activities which could be conducted in the private sector. These activities include :

- (a) front office and information management and processing;
- (b) IT systems development and administration; and
- (c) publication.

The project identified the following activities as not appropriate for private sector involvement:

- (d) departmental management and co-ordination;
- (e) legal, judicial and development of law and policy; and

- (f) examination of applications for trade marks, patents and designs.

Activities (d) - (f) are policy, statutory and quasi-judicial functions which must be reserved to the Government

5. In May 1999, we issued a public invitation to private sector service providers to express their interest in the provision of outsourced services to IPD. There was an encouraging response from potential bidders.

THE PROPOSAL

6. We propose to contract out the non-core activities of IPD in paragraph 4(a) - (c) with a view to –

- (a) tapping the expertise of the private sector in electronic commerce to improve the quality of service through the use of advanced technology and the adoption of best private-sector practices;
- (b) providing a more cost-effective and flexible service to customers through improved efficiency and greater use of electronic service delivery; and
- (c) allowing IPD to channel its resources for development of its own core functions and new activities.

Project Scope

7. We propose to phase the implementation of the outsourcing project. It comprises a variety of services to be outsourced so as to achieve economies of scale and increased cost-efficiency. The details are as follows –

- (a) **Phase I**
Management and maintenance of existing systems, i.e.,
 - (i) Trade Marks (TM) and Patents Registration IT Systems;
 - (ii) Trade Marks Imaging System;
 - (iii) Local Area Network Management;
 - (iv) Computerised File Management System; and
 - (v) Interactive Voice Processing System.

(b) Phase II

- (i) Development of a new computer system for TM registration including electronic transactions.
- (ii) Internet access to computer systems for the TM and patents registries.
- (iii) Electronic submission of trade marks applications.
- (iv) Electronic publication of statutory advertisements.
- (v) Office operation including customer service counter, public search and shroff and clerical staff support.
- (vi) Information technology management including data disaster recovery.
- (vii) Potential enhancements to TM registration systems to cater for future international developments.

(c) Phase III

- (i) Development of a new computer system for Designs Registry (DRAS) including electronic transactions.
- (ii) Electronic submission of applications for design and patents registration.
- (iii) Internet access to DRAS.

8. It can be seen that trade marks registration features prominently in the project, especially for Phases I and II. New computer systems are urgently required for IPD's Trade Marks Registry because –

- (a) the existing trade marks computer system, designed in the early 1990s, has reached its full capacity. It is technologically out-of-date and some parts of it can no longer be maintained effectively; and
- (b) the new Trade Marks Bill now before the Legislative Council will, if passed, give rise to new operational methods which cannot be carried out on the present system.

If the new Trade Marks Bill is passed, a new computer system will be urgently required to bring it into operation. Even discounting the requirements of the Bill, the existing system would have to be renewed urgently as it is nearly ten years old.

Approach

9. The outsourcing project will be guided by the following considerations –

- (a) the contract with the service provider should be of a reasonable length;
- (b) the service provider normally expects to achieve cost recovery in five years;
- (c) the remuneration to the service provider should be by lump sum payment at regular intervals; and
- (d) arrangements for transit in and out of the outsourcing contract should be built into the terms of contract. There should be flexibility for premature termination of contract.

10. We envisage that the computer systems would be located in the premises of the service provider. On completion (or termination) of the contract, the assets would revert to IPD and be housed in the Department's premises. Modern, modular computer equipment makes this procedure feasible.

Benefit

11. Outsourcing permits the private sector or other non-Government agencies to provide services that the Government would otherwise undertake internally. The benefits are –

- (a) certain business or IT services may be more within the core competencies of private sector businesses than the government departments who traditionally supply them;
- (b) the private sector may be able to react more flexibly to changes in the business or information technology environment; and
- (c) the private sector may be able to consolidate a number of activities efficiently and offer economies of scale.

12. The project will bring about a saving of \$6.9 million in a full year. A major part of this saving comes from staff cost as a result of deletion of 32 posts

(\$6.2 million). The deletion of posts from IPD's budget does not imply that all these staff will become redundant (please see paragraph 15). With an even cashflow of \$24.4 million each year for five years (please see paragraphs 13 and 14 below), the annual net outlay to government would be \$17.5 million.

Cost

13. We estimate that a total of about \$122 million over a 5-year period starting from 2000/2001 is required to meet the annual expenditure for the project. We have derived the rough estimate taking account of the capital and recurrent costs of the computer systems of the trade marks and designs registries which are the key items in the project. The costing assumptions are set out at the Annex.

14. Assuming an even distribution of cash flow, the annual cost of the project in the first 5 years would be \$24.4m. With the experience after implementation, we may propose in the future to secure funding on an on-going basis.

Redeployment of staff

15. We estimate that no more than 30 general and common grades staff in IPD will be affected. The surplus staff will be redeployed to other posts and there will be no redundancy.

WAY FORWARD

16. Subject to any comments which Members may have, a submission will be made to the Finance Committee of the Legislative Council for approval of the commitment required. The implementation programme will be as follows –

(a)	Invitation to tender	February 2000
(b)	Tender submissions	8 weeks
(c)	Assessment of tender submissions	7 weeks
(d)	Submission to Finance Committee	June 2000
(e)	Award of tender	July 2000
(f)	Phase I completion	late 2000
(g)	Phase II completion	early 2001
(h)	Phase III completion	late 2001

ADVICE

17. Panel Members are invited to discuss the proposal in this note.

Trade and Industry Bureau
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[panel(a)]

Costing Assumptions

In arriving at the cost, the following assumptions have been made –

- (a) due to developing technologies and competition in the private sector, the capital costs of the trade mark and design registry computer systems would be 70% of the estimated costs of \$75 million for in-house development of the systems;
- (b) the capital costs will be recovered by the service provider at 20% per year over 5 years;
- (c) the recurrent costs including operating, maintenance and staff costs would be 10% of the capital costs; and
- (d) there would be a profit margin of 15% on top of the capital and recurrent costs for the service provider.

2. On the basis of the above assumptions, the annual expenditure requirement is as follows –

	\$million
(a) Capital costs: $\$75\text{m} \times 70\% = \52.5m	
(b) Annual requirement	
(i) cost recovery: 20% of (a) 10.5m	
(ii) recurrent costs: 10% of (a) 5.25m	
(iii) profit: 15% of [(a)+(b)(ii)] 8.67m	<u>\$24.42m</u>