Extract from Minutes of meeting of
Panel on Information Technology and Broadcasting
held on 9 December 2002

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III　Capital Works Reserve Fund
Head 710 Computerization Subhead A007GX
– New Administrative Computer Systems

LC Paper No. CB(1)421/02-03(03) -- Information paper provided by the Administration

4.　　At the invitation of <u>the Chairman</u>, <u>the E-government Coordinator, Commerce, Industry and Technology Bureau (EGC/CITB)</u> briefed members on the Administration's paper.　He reported that the estimated funding requirement of $690 million for the implementation of computerization projects under the Capital Works Reserve Fund ("CWRF") Head 710 Computerization Subhead A007GX for 2003-04 was the same as the approved allocation for 2002-03.　The Administration considered the proposed funding requirement an appropriate balance between the need for fiscal prudence and the need to sustain the momentum for the E-government programme.　He also highlighted that the Administration had required all bureaux and departments to explore the feasibility of business process re-engineering when implementing computerization projects in order that the benefits of computerization could be fully realized.　<u>Members</u> noted that the relevant funding request would be put to the Public Works Subcommittee and the Finance Committee for consideration in early 2003.

System design

5.　　Referring to public works projects in which the "design and build" approach might be used, <u>Mr Albert CHAN</u> asked whether a similar approach was appropriate for computerization projects.　He said that as it often took a long time from project inception to implementation, the relevant technology might have changed over time.　Therefore, he considered it more cost-effective to tender the project in its entirety, from system design to implementation.　He nevertheless cautioned that the specification in the tender documents should not be too general so as to avoid discrepancies among bidders' submissions.　On the other hand, such specification should not be too restrictive as this might result in unnecessary delay in delivery.

6.　　In response, <u>the Assistant Director of Information Technology and Services (AD/ITS)</u> confirmed that at present, all new projects were outsourced.　The tender documents only specified the basic requirements and open standards were adopted to enable bidders to incorporate the latest technology.　The

Administration would nevertheless ensure that certain basic industry standards must be met.

New administrative computer systems

7.　　Noting that the total cost of the proposed Health Portal System and Cervical Screening Information System for the Department of Health topped $18 million, Mr CHAN Kwok-keung asked whether the two systems could be integrated to achieve greater cost-effectiveness.　He questioned why the latter system only involved cervical disease and not other diseases.

8.　　In response, EGC/CITB said that they the two systems under the Department of Health served different purposes.　The Health Portal System was open to the public.　It contained generic health information aimed at arousing the public's awareness about healthy life style and disease prevention.　The Cervical Screening Information System, on the other hand, was an internal system to collate, evaluate and manage cervical screening results collected from hospitals under the Hospital Authority and clinics of the Department of Health.　At present, different sets of data on cervical screening results from about 50 screening centres were not fully computerized and linked.

9.　　Regarding the implementation of the Knowledge Management Force-wide - Stage One for the Hong Kong Police Force ("the Force"), EGC/CITB was pleased to note that the project would result in considerable notional savings. The Force was required to share the technology in knowledge management with other departments as a condition of funding support.　AD/ITS added that funding support for implementing further stages of the Knowledge Management Project would be considered in the context of the cost-effectiveness of stage-one implementation.

Funding requirement

10.　　Since the prices of computer hardwares and softwares had declined over time such that the cost for individual projects might drop 20% to 30% by the time of implementation, Mr Albert CHAN said that members might find it difficult to decide on the appropriateness or otherwise of the currently proposed level of allocation.

11.　　The Chairman welcomed the proposal.　He remarked that unlike capital works projects for which a tender price index was available for reference, tender prices for information technology ("IT") projects had been subject to considerable fluctuation in the past few years.　He asked whether additional projects could be funded for 2003-04 in order to exhaust the total allocation of $690 million in case the tender prices continued to fall.

12.   In response, <u>EGC/CITB</u> acknowledged that the project estimates which reflected the current price level might be different from the tender outturn price. Money thus saved, if any, in one year could not be carried over to the next year because the block vote was a time-limited annual provision. In case the approved allocation for the year was not fully spent, active consideration would be given to taking forward new IT projects in the same year.

13.   Regarding the use of the approved allocation for 2002-03, <u>EGC/CITB</u> reported that todate, 60% of the block vote had been committed and it was estimated that eventually, 85% of the approved allocation would be spent. On the remaining 15%, <u>EGC/CITB</u> pointed out that it had always been difficult to fully exhaust the block vote allocation as the actual expenditure of some projects might be less than the estimated cost. As such, spending 85% to 90% of the total allocation was considered a reasonable level. For past practice, 86%, 89% and 79% of the approved allocation was spent in 2001-02, 2000-01 and 1999-2000 respectively. <u>EGC/CITB</u> further explained that under the block vote system, it was not permissible to issue allocation warrants in excess of the approved provision but an over-commitment for a given financial year was allowed. As the implementation period of computerization projects could be longer or shorter than 12 months, and some might not commence implementation at the beginning of a financial year and thus might straddle more than one financial year, there were always a number of projects carried over from the previous year. For instance, the proposed amount of $690 million for 2003-04 included 166 approved projects carried forward from 2002-03. It also included another 174 projects of urgent bids made in last year and new projects approved for 2003-04. Since these projects might incur expenditure in more than one financial year, there was a need to approve the full commitment of these projects to ensure smooth progress without disruption. Thus the total cost of all projects in hand at any one time must exceed one year's approved expenditure.

14.   To ensure the cost-effectiveness in the use of funds, <u>EGC/CITB</u> stressed that stringent effort had been made to manage the block vote. For instance, individual departments had to exercise due prudence in preparing their project estimates as they were not allowed to budget for the usual 5% to 10% contingencies, but were required to put up another bid if necessary. Besides, those departments whose projects lagged behind schedule would be reminded in writing to expedite their work. In this regard, <u>the Chairman</u> urged the Administration to make the best effort to utilize the approved allocation which would in turn enable the implementation of more computerization projects.

15.   In this connection, <u>Dr LAW Chi-kwong</u> opined that as the tender outturn prices were often lower than the original estimates, it was reasonable for this type of projects to exhaust only 80% to 90% of the approved allocation. <u>EGC/CITB</u> further pointed out that the bulk of the approved funding was usually spent in the last quarter of a financial year. As it was close to the end of a financial year, it was difficult to take forward new IT projects to absorb the unspent allocation. To

put the approved funding into most effective use and avoid under-spending, the Administration would spread out the planned expenditure evenly throughout a year.

16.　　Summing up, the Chairman concluded that the Panel supported the proposal.

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