

**For discussion
on 3 February 2020**

Legislative Council Panel on Financial Affairs

**Funding Proposal of the Official Receiver's Office for the
Implementation of an Electronic Submission System**

PURPOSE

This paper briefs Members on a funding proposal of the Official Receiver's Office (“ORO”) for the implementation of an Electronic Submission System (“ESS”).

BACKGROUND

2. The ORO performs various statutory duties relating to bankruptcy and winding-up, including being the provisional trustee on making of bankruptcy orders, a trustee in bankruptcy and the trustee of last resort pursuant to the Bankruptcy Ordinance (Cap. 6), as well as being the provisional liquidator or the liquidator of last resort in court winding-up cases pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32).

3. The ORO administers close to one half of bankruptcy cases in-house, including the creditor-petitioned cases and non-summary self-petitioned cases. At the same time, to cope with the case load, the ORO has been outsourcing self-petitioned summary bankruptcy cases¹ and summary court winding-up cases² to Private Sector Insolvency Practitioners (“PIPs”) since 2008 and 2000 respectively. In addition, PIPs may also be appointed as trustees or liquidators in non-summary cases by creditors’ resolution or by court order. The statistics of bankruptcy and

¹ Under Section 12(1A) of the Bankruptcy Ordinance (Cap. 6), the Official Receiver (“OR”) may appoint any person to act as the provisional trustee in those cases with bankruptcy order made on debtor’s own petition and value of the property of the bankrupt not likely to exceed \$200,000.

² Under Section 194(1A) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32), the OR may appoint any person to act as the provisional liquidator in those cases with winding-up order made by court and value of the property of the wound-up company not likely to exceed \$200,000.

court winding-up cases administered by the ORO and PIPs for the past five years are at **Annex A** for reference.

4. For in-house cases administered by the ORO, creditors and bankrupts are obliged to submit various documents and forms to the ORO (e.g. proofs of debt and annual statements). Similarly for outsourced cases, ORO would monitor the work of PIPs by examining documents and forms submitted by PIPs, conducting audit by sampling, and carrying out investigation into any complaints lodged against PIPs. Throughout the administration of outsourced cases, PIPs are obliged to submit various documents and forms (e.g. accounts, statements and reports) to the ORO regularly for checking and auditing.

5. At present, there is no electronic system to automate the processing of documents and forms submitted by various stakeholders including creditors, bankrupts and PIPs. The ORO accepts documents and forms submitted physically to its office or sent to the ORO's designated email address in accordance with the Electronic Transactions Ordinance (Cap. 553). The ORO staff would then manually process the documents and forms received. The work flow is paper file-driven, time-consuming, and prone to errors.

JUSTIFICATIONS

6. The ORO receives an average of 180 000 documents and forms annually from various stakeholders. In order to improve efficiency, the ORO completed a feasibility study in 2018 to assess the business case and technical feasibility of implementing an ESS. The study recommended the implementation of an ESS, which would make use of information technology to enhance the ORO's overall operational efficiency, allow better utilisation of the ORO's resources, support more efficient and timely communication between the ORO and various stakeholders through status tracking and notifications, offer a convenient e-option to various stakeholders including creditors, bankrupts and PIPs in pursuance of the "Smart Government" initiative, and facilitate the discharge of the regulatory role of the ORO.

7. In view of the recommendation, the ORO proposes the implementation of an ESS, which will provide a one-stop portal to receive and time-stamp electronic submissions of documents and forms from various stakeholders. The ESS will bring about the following benefits –

(a) *Enhance public services provided by the ORO*

The ESS is a piece of insolvency infrastructure that provides an efficient and effective means of handling insolvencies as an essential and integral part of the economy. By switching from traditional manual processes to automated processes, information could be provided to various stakeholders in a more timely and efficient manner. Specifically, stakeholders can, on their own, perform online enquiries of documents and forms submitted and conduct status tracking. To respond to enquiries made by creditors, bankrupts and PIPs, the ORO staff can easily retrieve the relevant documents and forms, instead of locating the physical files, hence shortening the response time. The automated process would enhance the overall user experience and is in line with the “Smart Government” initiative;

(b) *Strengthen the monitoring of the conduct of PIPs*

The ESS would automate several monitoring processes, including requesting monthly returns from PIPs, generating and sending reminders, and where necessary, issuing warning letters to PIPs for outstanding documents and forms that fall due. The ORO would also take timely remedial actions whenever irregularities are noted in PIPs’ performance, thereby better discharging its regulatory role. The ESS facilitates compliance of statutory requirements by PIPs and the corresponding monitoring and regulatory work of the ORO;

(c) *Help create a more automated working environment and improve efficiency*

The ESS would provide an efficient tool for the ORO staff to handle the documents and forms received and monitor the progress of insolvency cases in an automated way. With the ESS, electronically-submitted documents and forms would be filed automatically and relevant ORO units notified. The ESS would also enhance collaboration and coordination across various ORO units (e.g. case management unit and legal advisory unit) where necessary. In addition, the ESS would be embedded with auto-validation so that documents and forms, particularly accounts, could be automatically checked upon electronic submissions, thereby reducing errors at source and saving resources for follow-up rectifications; and

(d) Supporting electronic payments as a complementary feature

The ESS would also support electronic payments as a complementary feature, so that PIPs, creditors and bankrupts can complete the whole submission process online.

8. As part of the feasibility study which was completed in 2018, stakeholders, including PIPs and major creditors (e.g. banks), were consulted on the ESS. They generally supported the proposal.

IMPLEMENTATION PLAN

9. Subject to the approval of the Finance Committee (“FC”) of the Legislative Council (“LegCo”), a tendering exercise for the ESS will be carried out with an aim to awarding the contract by mid-2021. The ESS will be implemented in phases, with phase 1 covering relatively simple documents and forms submitted by bankrupts and phase 2 covering other documents and forms submitted by PIPs and creditors. A tentative implementation schedule is at **Annex B**.

FINANCIAL IMPLICATIONS

10. The implementation of the ESS will incur a total capital expenditure of \$37.986 million from 2020-21 to 2024-25. Details are at **Annex C**. In addition, the implementation of the ESS will require a project team for tendering, project management, system analysis and design, site preparation, quality assurance, acceptance testing and implementation control. The project team will entail a non-recurrent staff cost of \$5.247 million from 2020-21 to 2024-25, which will be absorbed within the existing resources of the ORO.

11. After the implementation of the ESS, it will require an indicative annual recurrent expenditure of \$10.094 million from 2025-26 onwards. The cost breakdown of recurrent expenditure is at **Annex D**. The recurrent expenditure includes expenses relating to hardware and software maintenance, cloud services, system maintenance and hiring of contract staff.

Savings

12. The ESS will bring about an annual notional savings in staff effort of \$8.987 million from its full implementation in 2025-26 onwards.

Notional savings will be achieved through staff efficiency gain due to processes automation and the use of the ESS.

ADVICE SOUGHT

13. Members are invited to offer comments on the funding proposal for the implementation of an ESS. Subject to Members' views, we will seek the necessary approval from LegCo FC.

**Financial Services and the Treasury Bureau
Official Receiver's Office
January 2020**

The statistics of bankruptcy and court winding-up cases administered by the ORO and PIPs for the past 5 years

Year	Cases administered by ORO		Cases administered by PIPs		Total	
	Bankruptcy	Court winding-up*	Bankruptcy	Court winding-up	Bankruptcy	Court winding-up
2015	4 358	3	5 392	302	9 750	305
2016	3 837	5	5 082	320	8 919	325
2017	3 238	1	4 389	295	7 627	296
2018	3 381	1	3 765	254	7 146	255
2019	4 215	15	3 547	229	7 762	244

* Under normal circumstances, ORO would not accept appointment as liquidator in court winding-up cases.

**Implementation Schedule
for the Electronic Submission System**

Key Activities	Target Timing
(a) Tender preparation, tendering and award of contract	By mid-2021
(b) System analysis, design and development for phase 1	By mid-2022
(c) User Acceptance Test and Trial Run for phase 1	By October 2022
(d) Live run of phase 1	By November 2022
(e) System analysis, design and development for phase 2	By December 2023
(f) User Acceptance Test and Trial Run for phase 2	By April 2024
(g) Live run of phase 2	By May 2024

**Non-recurrent Expenditure
for Implementation of the Electronic Submission System
(in \$'000)**

Item	2020-21	2021-22	2022-23	2023-24	2024-25	Total
(a) Hardware				146	340	486
(b) Software		1,413	3,297	102	237	5,049
(c) Communication network		75	175			250
(d) Implementation services		2,171	2,897	2,318	1,009	8,395
(e) Contract staff	107	970	1,360	520	217	3,174
(f) Site preparation			300			300
(g) Interface Enhancement		905	905	527	527	2,864
(h) Security Risk Assessment and Audit & Privacy Impact Assessment		50	50	50	50	200
(i) Training			324		324	648
(j) Cloud Services		703	4,158	4,147	4,158	13,166
(k) Contingency	11	629	1,347	781	686	3,454
Total	118	6,916	14,813	8,591	7,548	37,986

Note:

Item (a): comprises hardware required for implementation of the new system. The hardware includes scanning workstations, scanners, etc.

Item (b): comprises system software for servers, database, content management software, antivirus software, e-form software, reporting tool, etc.

Item (c): comprises network security assessment, etc.

- Item (d): comprises implementation and support services from service providers. Main implementation activities include system analysis and design, application development, system installation and configuration, infrastructure implementation at data centres, production rollout and nursing, etc.
- Item (e): comprises engagement of services of contract information technology professional staff to supplement the in-house project management team on development of application, infrastructure, and enhancement of other systems interfacing with the new system.
- Item (f): comprises setup of site preparation (e.g. cabling works) at the Official Receiver's Office.
- Item (g): comprises enhancement of the Official Receiver's Management Information System and Insolvency Estate Funds and Accounting System interfacing with the new system.
- Item (h): comprises the consultancy service for conducting Security Risk Assessment and Audit and Privacy Impact Assessment for the new system.
- Item (i): comprises the training service for external and internal stakeholders.
- Item (j): comprises the Cloud Services for the new system.
- Item (k): represents about 10% of the costs required for items set out in Items (a) to (j).

Annex D

**Annual Recurrent Expenditure
for the Electronic Submission System**

(in \$'000)

Item	Total
(a) Hardware and software maintenance	873
(b) Cloud Services	4,147
(c) System maintenance	1,278
(d) Contract staff	3,514
(e) Miscellaneous (accommodation, etc.)	282
Total	10,094

Note:

Item (a): comprises hardware and software maintenance required for supporting the new system.

Item (b): comprises Cloud Services.

Item (c): comprises maintenance and support services from service providers for the new system.

Item (d): comprises engagement of contract clerical staff to scan the paper documents submitted, information technology professional staff to supplement the in-house maintenance team on maintenance of application, infrastructure, and enhancement of the new system and contract accounting staff to handle the prepayment accounts.

Item (e): comprises miscellaneous costs such as accommodation cost for new contract staff.