

Statement by Teo Ho Pin on AIM Transaction

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1. On 28 December 2012, I issued a press release in response to Ms Sylvia Lim's statement on the website of the Aljunied-Hougang Town Council. Ms Lim had made various assertions in her statement. However, her statement was made without citing the relevant facts. I now make this further statement to set out fully the relevant facts.

2. I am the co-ordinating Chairman of all the PAP-run Town Councils ("theTCs"). The PAP TCs meet regularly and work closely with one another. This allows the TCs to derive economies of scale and to share best practices among themselves. This improves the overall efficiency of the TCs, and ensures that all the PAP TCs can serve their residents better.

3. In 2003, the TCs wanted to harmonise their computer systems. Hence, in 2003, all the TCs jointly called an open tender for a vendor to provide a computer system based on a common platform. NCS was chosen to provide this system. The term of the NCS contract ("NCS contract") was from 1 August 2003 to 31 October 2010. There was an option to further extend the contract for one year, until 31 October 2011.

4. In 2010, the NCS contract was going to expire. The TCs got together and jointly appointed Deloitte and Touche Enterprise Risk Services Pte Ltd ("D&T") to advise on the review of the computer system for all the TCs. Several meetings were held with D&T.

5. After a comprehensive review, D&T identified various deficiencies and gaps in the system. The main issue, however, was that the system was becoming obsolete and unmaintainable. It had been built in 2003, on Microsoft Windows XP and Oracle Financial 11 platforms. By 2010, Windows XP had been superseded by Windows Vista as well as Windows 7, and Oracle would soon phase out and discontinue support to its Financial 11 platform.

6. The TCs were aware of and concerned about the serious risks of system obsolescence identified by D&T, and wanted to pre-empt the problem. In addition, as the NCS Contract was about to expire, they sought a solution which would provide the best redevelopment option to the TCs, and in the interim would allow them to continue enjoying the prevailing maintenance and other services.

7. As Coordinating Chairman of the TCs, I had to oversee the redevelopment of the existing computer system for all TCs. It was clear to me that the existing computer software was already dated. The NCS contract would end by 31 October 2011 (if the

one year extension option was exercised). However, assessing new software and actually developing a replacement system that would meet our new requirements would take time, maybe 18-24 months or even longer. We thus needed to ensure that we could get a further extension (beyond October 2011) from NCS, while working on redevelopment options.

8. D&T also raised with the TCs the option of having a third party own the computer system, including the software, instead, with the TCs paying a service fee for regular maintenance. This structure was not uncommon.

9. We decided to seriously consider this option. Having each of the 14 individual TCs hold the Intellectual Property (IP) rights to the software was cumbersome and inefficient. The vendor would have to deal with all 14 TCs when reviewing or revising the system. It would be better for the 14 TCs to consolidate their software rights in a single party which would manage them on behalf of all the TCs, and also source vendors to improve the system and address the deficiencies.

10. The TCs thus decided to call a tender to meet the following requirements:

- a. To purchase the software developed in 2003, and lease it back to the TCs for a monthly fee, until the software was changed;
- b. To undertake to secure extensions of the NCS contract at no extra cost i.e. take on the obligation to get an extension on the existing rates, until the TCs obtained new or enhanced software. This was put in to protect the financial position of the TCs; and
- c. To work with the TCs to understand their enhancement and redevelopment needs and look for a suitable vendor to provide these upgrades.

11. Under the tender, the TCs sold only the IP in the old software. The ownership of the physical computer systems remained with the individual TCs. We wanted to sell the IP rights in the old software because it had limited value and was depreciating quickly. Had we waited until the new system was in place, the IP to the superseded old software would have become completely valueless.

12. The TCs advertised the tender in the Straits Times on 30 June 2010. Five companies collected the tender documents. These were CSC Technologies Services Pte Ltd, Hutcab Consulting Pte Ltd, NCS, NEC Asia Pte Ltd and Action Information Management Pte Ltd ("AIM").

13. I am aware that NCS considered bidding but in the end, decided not to do so as it was of the view that the IP rights to software developed in 2003 on soon to be replaced platforms were not valuable at all.

14. Another company withdrew after it checked and confirmed that it was required to ensure renewal of the NCS contract without an increase in rates. The company did not want to take on that obligation. The others may also have decided not to bid for similar reasons.

15. In the end, only AIM submitted a bid on 20 July 2010.

16. We evaluated AIM's bid in detail. First, AIM's proposal to buy over the software IP would achieve our objective of centralising the ownership of the software, consistent with the model suggested by D&T.

17. AIM was willing to purchase our existing software IP for S\$140,000, and lease it back at S\$785 per month from November 2010 to October 2011. The lease payments to AIM would end by October 2011, with the expiration of the original NCS contract. Thus after October 2011, the TCs would be allowed to use the existing software without any additional lease payments to AIM, until the new software was developed.

18. This meant that the TCs expected to gain a modest amount (about S\$8,000) from the disposal of IP in the existing software.

19. Second, AIM was willing to undertake the risks of getting an extension of the NCS contract with no increase in rates. This was the most important consideration for us, as it protected the TCs from an increase in fees.

20. Third, we were confident that AIM, backed by the PAP, would honour its commitments.

21. Given the above considerations, AIM had met the requirements of the tender on its own merits. We assessed that the proposal by AIM was in the best interests of the TCs, and thus awarded the tender to AIM.

22. Under the contract with AIM, the TCs could terminate the arrangements by giving one month's notice if the TCs were not satisfied with AIM's performance. Similarly, AIM could terminate by giving one month's notice in the event of material changes to the membership of a TC, or to the scope and duties of a TC, like changes to its boundaries. This is reasonable as the contractor has agreed to provide services on the basis of the existing TC- and town-boundaries, and priced this assumption into the tender. Should this change materially, the contractor could end up providing services to a TC which comprises a much larger area and more residents, but at the same price.

23. Since winning the tender, AIM has negotiated two extensions of the NCS contract until April 2013, at no increase in rates. The first extension was from November 2011 to October 2012, and the second from November 2012 to April 2013. The TCs received a substantial benefit in terms of getting the extensions from NCS beyond the original contract period, without any increase in prices.

24. AIM has also been actively working with several vendors to explore new software

options and enhancements for the TCs. AIM has identified software from a number of possible vendors, and has invited them to make presentations to the TCs in order for a suitable option to be chosen.

25. Following the expiry of the initial lease arrangement for the software from AIM on 31 October 2011, no further lease payments for the software were made to AIM. During the period of its contract extension from November 2011 to April 2013, the management fee payable to AIM for the whole suite of services it provided was S\$33,150, apart from what was payable to NCS for maintenance. In the end, inclusive of GST, each TC paid slightly more than \$140 per month for AIM to ensure continuity of the existing system, secure the maintenance of this system at no increased costs, and identify options for a new system to which the TCs could migrate.

26. We entered into the transaction with AIM with the objective of benefitting the TCs. Over the last two years, the intended benefits have been realised. There is thus no basis to suggest that the AIM transaction did not serve the public interest, or was disadvantageous to residents in the TCs.

Dr Teo Ho Pin
Coordinating Chairman
14 PAP Town Councils