

LC Paper No. CB(1)1357/01-02

**Legislative Council Panel on Public Service And
Legislative Council Panel on Planning, Lands & Works
Information Paper**

Re-engineering of Architectural Services Department

Purpose

This paper informs Members of Government's actions following the joint panel meeting on the re-engineering of Architectural Services Department (ArchSD) on 22 February 2002, and sets out the information on cost in the delivery of works projects by ArchSD in-house resources and outsourcing as compiled by the management consultants during the business review.

Background

2. At the above joint panel meeting, Members were briefed on Government's decision to re-engineer the ArchSD which involves, among other things, outsourcing the bulk of the work currently handled by the Department to the private sector. Following the meeting, the Clerk to Panels wrote and invited the Administration to provide the two Panels with an information paper covering :

- (a) the follow-up action taken by the Administration on the motion carried by the two Panels; and

- (b) the required information as stated in the list at the annex to the letter.

A copy of the letter from the Clerk to Panels is annexed.

3. The ArchSD re-engineering initiative has been developed following a business review of the future roles and functions of the Department. To facilitate ArchSD to perform its new strategic roles and functions, it has been planned to outsource the bulk of building and maintenance work currently undertaken by the Department to the private sector, which has the necessary expertise and capacity to take on the work. This decision is also in line with Government's policy objective of enhancing service quality and raising public sector productivity through increased partnership between the public and the private sectors.

4. Government appreciates the concerns expressed about possible impacts of the re-engineering programme on ArchSD staff. During the business review of ArchSD, views from ArchSD staff have been collected and taken into account when drawing up the re-engineering initiative. On 22 January 2002, the Director of Architectural Services (DArchS) briefed ArchSD staff associations and informed staff in writing of the re-engineering programme. Since then, DArchS has also personally met all ArchSD staff by batches, explained the initiative and sought their views. He has also set up a dedicated Staff Relations Unit and an electronic bulletin board on the intranet to enhance communication with staff.

Follow-Up Actions

5. Following the joint panel meeting on 22 February 2002, ArchSD will continue to take action as follows:-

- (a) consult staff on various aspects of the re-engineering programme, including the staffing arrangements and progress of the outsourcing programme;
- (b) pursue dialogue with staff unions and individual staff on re-engineering programme via the Staff Relations Unit;
- (c) set up four separate staff consultation groups, covering the various grades in ArchSD, and convene the first round of formal staff consultation meetings in mid-March 2002; and
- (d) post up-to-date information on the re-engineering programme on the Department's intranet for staff's information.

Arrangements for Staff

6. As a result of Government's commitment to significantly increase the investment in minor works in the coming two years, which has a positive effect on job creation, there will be no staff surplus to requirement in ArchSD in the next two years. An inter-departmental working group comprising relevant Heads of Grades and Departments has been set up to work out the detailed staffing arrangements and related issues such as staff transfers, retraining,

redeployment ... etc. The work of the working group is currently in progress.

7. Government will explore all possible options to ensure that the best arrangements, such as retraining, redeployment, etc. will be offered to those staff who will be affected by the re-engineering programme. Additionally, Government has already explained to staff that there will be no forced staff redundancy arising from this re-engineering programme.

Regular Review of the Outsourcing Programme

8. Government will adopt a flexible and step-by-step approach in implementing the re-engineering programme. We will conduct regular reviews on the implementation of the programme, with due regard to the performance of the industry in taking on the increased work, the impact on ArchSD staff, the staffing arrangements, as well as the standard and quality of the outsourced works.

Cost Comparison

9. The works projects undertaken by ArchSD are far from homogenous: each has its unique attributes in terms of location, purpose, scale, complexity, nature and timeframe. The consultants engaged by Government to conduct the business review of ArchSD have cautioned that it is not possible to use any simple indicator to reflect the cost-effectiveness of ArchSD's services and that any data collected for such purpose should be interpreted with care.

10. In an attempt to estimate the relative costs of delivering new projects

by ArchSD in-house resources and outsourcing, the consultants chose 39 projects that covered projects of different nature, modes of delivery and complexity. These projects included buildings for purposes such as medical, education, recreation and security. Based on the findings of the study, the average cost of delivery by in-house resources and outsourcing is summarized below –

<u>Mode of delivery</u>	<u>No. of projects</u>	<u>Average cost/fee (As a percentage of project value)</u>
In-house	16	7.6%
Outsourced to consultants:	23	
Fees of consultant		7.7%
Cost of ArchSD in monitoring and related work		2.0%
Total		<u>9.7%</u>

11. The above figures suggest that based on the limited number of selected samples, the cost of those projects where architectural and related services were delivered by consultants is broadly comparable to the cost of those where these services were delivered by ArchSD staff. If the cost of ArchSD’s monitoring of consultants is included, the professional services costs were higher in those projects where some of the professional services were outsourced. The consultants have pointed out that these average figures are contrary to the common experience elsewhere that outsourcing will generally give rise to reduced or at least no higher costs. They attributed this phenomenon to a number of possible reasons:

- (a) the very small number of cases and potential distortions;
- (b) the high variability of the fees of the consultants, reflecting prevailing market conditions when the selected projects were outsourced;
- (c) well-defined and standard outsourcing is usually most cost efficient and will give rise to savings, but requirement for specialist skills in many of the outsourced projects may have led to an increase in the relative costs;
- (d) the private sector's little or no knowledge and understanding of various government departments and their requirements may have made outsourcing less cost-effective; and
- (e) ArchSD through monitoring a large portfolio of public building work can achieve significant economy of scale, but when projects are dispersed to a large number of consultants, the economy of scale would be limited.

Moreover, the average picture conceals a range of very different cases. Stressing that the relatively small amount of relevant and comparable data and the high variability suggest that the comparisons need to be treated with great care, the consultants concluded that the available data do not suggest strongly whether outsourcing or in-house provision is always more cost-effective.

The Way Forward

12. Government will pursue the follow-up actions outlined in paragraphs 5 to 8 in consultation with ArchSD staff.

Works Bureau

20 March 2002

Annex 附件

By Fax : 2524 9308

CB1/PL/PS
2869 9244
2869 6794

22 February 2002

Secretary for Works
(Attn: Mr Jack CHAN)
Works Bureau
11th floor, Murray Building
Garden Road
Hong Kong

Dear Mr CHAN,

**LegCo Panel on Public Service
and LegCo Panel on Planning, Lands and Works**

Follow-up to the joint meeting on 22 February 2002

At the joint meeting held this morning, the following motion moved by Hon CHEUNG Man-kwong was carried:

"政府應就建築署九成工務工作外判及八成維修工程外判的計劃正式諮詢員工。在諮詢未有結果前，應擱置計劃。"

The Administration is invited to provide the two Panels with an information paper covering:

- (a) the follow-up action taken by the Administration on the motion carried by the two Panels; and
- (b) the required information stated in the attached list.

I should be grateful if you would let me have the information paper (in both Chinese and English, and with softcopy) **by 21 March 2002**.

Yours sincerely,

(Miss Salumi CHAN)
Clerk to Panels

Encl.

c.c. Hon TAM Yiu-chung, GBS, JP
(Chairman of the Panel on Public Service)

Dr Hon TANG Siu-tong, JP
(Chairman of the Panel on Planning, Lands and Works)

Mr Peter MAK, WB

Secretary for the Civil Service
(Attn: Mr Stephen SUI)

**LegCo Panel on Public Service
and LegCo Panel on Planning, Lands and Works**

Follow-up to the joint meeting on 22 February 2002

**Information to be provided by the Administration on the
Re-engineering of Architectural Services Department**

Cost comparison of the delivery of works projects of the Architectural Services Department (ArchSD) by in-house resources and outsourcing

According to the joint submission from 20 relevant staff associations and grade representatives of ArchSD to the two Panels, the consultancy study conducted by PricewaterhouseCoopers in 2001 affirmed the cost-effectiveness of ArchSD. The cost of provision of professional service by in-house resources of ArchSD constituted 7.6% of the project cost, while the cost of outsourcing the same service constituted 7.7% of the project cost. As the cost in project coordination and managing outsourced projects constituted another 2%, the total cost in outsourcing ArchSD projects constituted 9.7% of the project cost. To facilitate Members' consideration of the cost-effectiveness of the proposed outsourcing programme, please provide a detailed cost comparison of the delivery of ArchSD's works projects by in-house resources and outsourcing.

Legislative Council Secretariat

22 February 2002