

**Subcommittee to Study the Subject of Combating Poverty
Information on Outsourcing Government Services**

This paper presents an overview of the use of the private sector in the delivery of public services through outsourcing.

Current State of Outsourcing

2. Government is always conscious of the need to deliver high quality services in the most cost-effective manner. It is therefore a long established policy that departments should use the private sector to deliver public services where possible. This policy has progressively generated a “win-win-win” outcome, in keeping with our objectives of maintaining a small and efficient government, promoting business and job opportunities in the private sector, and delivering high quality government services to the general public.

3. A service-wide survey on government outsourcing, conducted by the Efficiency Unit (EU), has shown that the community is benefiting from the provision of services by the private sector. The survey also showed that there were in force about 4,500 contracts valued at over \$214 billion with an annual expenditure of \$46B in August 2004. About 62% of the value was for capital works and construction, 19% was for environmental hygiene and 10% for building and property management.

Measures to Tackle the Issues

4. The Government has implemented a series of measures since 2004 with a view to deterring government service contractors from using any malpractices to undermine the rights and benefits of their non-skilled workers:

- (a) Mandatory requirements for tender assessment introduced in April 2004 and tightened in April 2006 – (i) Demerit Point System (DPS), a default notice will be issued to the contractor concerned for each breach of the obligations in respect of

wages, working hours, signed written contracts with non-skilled workers and payment of wage by means of autopay. Each default notice will attract a demerit point; (ii) Conviction record for relevant offences under the Employment Ordinance, Employees' Compensation Ordinance, Immigration Ordinance, Criminal Procedure Ordinance and the Mandatory Provident Fund Schemes Ordinance. A tenderer with three demerit points or one conviction will not be considered for tender award for five years.

- (b) Mandatory wage level requirement introduced in May 2004 – a tender offer shall not be considered if the monthly wage is less than the average monthly wage rate for the relevant industry/occupation under the latest Census and Statistics Department's Quarterly Report of Wages and Payroll Statistics at the time when tenders were invited. Recent studies conducted by the EU showed that the mandatory requirement has raised the wage level of most non-skilled workers. In some cases, the increase amounted to about 27%.
- (c) Standard Employment Contract introduced in April 2005 – government service contractors are required to sign a standard employment contract with their non-skilled employees. The contract stipulates the monthly wages, working hours, method of wage payment and other conditions of employment.

5. In addition, procuring departments have set up monitoring mechanisms, including complaint hotlines, to ensure that contractors comply with the terms of their contracts. They also conduct regular wage and attendance checks and interview the workers to ensure they are not being exploited. The Labour Department has also investigated complaints to safeguard the workers' rights and benefits under labour laws. Over 70 summonses were issued in 2005 to government services contractors on breaches of labour laws although most of these relate to contract that were signed before the introduction of the mandatory requirements for tender assessment. Both the Police and Independent Commission Against Corruption will investigate complaints that fall within their ambits.

Way Forward

6. Outsourcing is a developing programme that must be kept under constant review so that each successive exercise can benefit from the experience gained from those that precede them. The EU is now working to produce an “user guide” for outsourcing contract managers. This will be available towards the end of the year. In addition, together with Civil Service Training and Development Institute, the EU is organising a series of training courses to enhance civil servants’ contract management skills.

7. We will continue to review departmental outsourcing experiences, to learn how we can do better. The EU will conduct a survey in the coming months to update our database on government outsourcing as well as to enhance our understanding of the outsourcing practices and concerns of departments.

Efficiency Unit
June 2006