

Legislative Council Panel on Public Service

Information on Issues about Outsourcing

Background

At the Legislative Council Panel on Public Service meeting held on 29 May 2009, the Administration was requested to provide the following information:

- (a) the number of workers employed under some 4 000 contracts for the delivery of public services awarded to the private sector over the past eleven years, and information on the wages of these workers;
- (b) a paper to set out the difficulties encountered by departments as revealed in past outsourcing surveys;
- (c) the outcome of the Administration's consideration of the Panel Chairman's suggestion that the Efficiency Unit (EU) should provide channels for gauging civil servants' views in the course of conducting the biennial outsourcing reviews, such as by consulting civil service staff unions/associations and Departmental Consultative Committees, so as to ensure that civil servants' views on outsourcing could be properly heeded. A sample of the questionnaire used for conducting the surveys should also be provided; and
- (d) the Administration's written responses to the following cases:
 - (i) the case highlighted in the submission from the Land Inspectors Union tabled at the meeting;
 - (ii) the case regarding use of security guards employed by contractors to perform the duties of court ushers as highlighted in the submission from the Hong Kong Federation of Civil Service Unions. In particular, the response should explain how concerns about court security so arising would be addressed; and

- (iii) the two cases regarding the Lands Department and the Marine Department respectively as elaborated in the submission from the Public Services Committee of the Hong Kong Confederation of Trade Unions.

The Administration's Response

2. The Administration has carefully considered the views raised by Members and deputations during the meeting in May 2009. Our response is set out below.

3. The Government is conscious of the need to deliver public services in the most cost-effective and efficient manner. It is an established policy that the private sector should be engaged to provide services where appropriate, in keeping with the economic and fiscal objectives of maintaining a small and efficient government, containing the size of the civil service, encouraging innovation in service provision, and promoting business opportunities and jobs in the private sector.

4. Turning now to the specific request at paragraph 1(a) above, the Administration does not maintain complete records on the number of staff employed by contractors undertaking outsourcing contracts. Departments are advised to follow best practices in outsourcing by establishing service levels using outcomes – such as cleanliness of streets – as a measure of performance rather than inputs – such as number of staff allocated to a task. To serve the community better, we focus on the service quality and value for money, not a contractor's staffing requirements. Departments are not asked to estimate or ascertain the number of staff involved in outsourcing contracts. In any case, this may not always be practical and will rarely be of value for assessing the quality of services.

5. Similarly, departments normally do not specify the wages of contractors' staff in outsourcing contracts, except with regard to the wages of non-skilled workers and in the case of procurement of service to supply manpower (commonly known as agency workers). As a measure to protect non-skilled workers, the Administration promulgated a mandatory requirement on wage rates for government service contracts in May 2004. Under this requirement, a tender offer will not be considered if the

wage rates offered by the tenderer to its non-skilled workers are less than the level of the average wages for the relevant industry/occupation as published in the latest Census and Statistics Department's Quarterly Report of Wages and Payroll Statistics at the time when the tender documents were issued (the latest Quarterly Report). As regards the use of agency workers, the Administration promulgated in April 2010 that apart from the need to observe the wage requirement in respect of non-skilled workers mentioned above, a new requirement is imposed on bidders of contracts to provide agency workers. Their bids will not be considered if the wage rates to be offered to agency workers (other than non-skilled agency workers) are less than the average monthly salary of miscellaneous non-production workers in all selected industries published in the latest Quarterly Report. The Administration briefed Members on this new arrangement in its paper on 'Use of Agency Workers' discussed on 18 January 2010.

6. With regard to the request at paragraph 1(b) above, please refer to the paper at **Annex A**.

7. With regard to the request at paragraph 1(c) above, the EU last conducted a survey on outsourcing activities in August 2008. All departments and about 16% of private companies involved in outsourcing were surveyed. The survey methodology followed well-established practice. The group surveyed was representative of those involved in outsourcing. The data derived was reliable and enabled issues to be tracked over time. This, and the comments given, allowed significant concerns to be identified. A copy of the questionnaire used in the 2008 Outsourcing Survey is at **Annex B**.

8. In the course of conducting various outsourcing studies, the EU also has had close contact with many departmental staff at different levels. Feedback from staff is taken seriously and given due consideration in identifying improvement opportunities. Contact with departmental staff also adds to the understanding of practical issues and staff side concerns, and helps the EU to reflect on the arrangements for outsourcing.

9. With regard to the request at paragraph 1(d) above, please refer to Annex C.

Efficiency Unit

Hong Kong Police Force

Lands Department

Marine Department

July 2010

General Issues in Government Departments' Outsourcing Practices

Introduction

To help carry out its task of securing improvement in the quality and efficiency of public services, the EU has conducted biennial outsourcing surveys since 2000, to collect general information on outsourcing practices and issues that have arisen for departments. The EU has also helped departments in a variety of outsourcing studies. The problems, solutions and opportunities identified during these studies are disseminated widely by means of seminars, new editions of guides, etc.

2. The general issues reported by departments in the outsourcing surveys are summarised below. All the survey reports are published on the EU website.

General Issues in Outsourcing

Concerns about outsourcing

3. Departments have reported the following concerns about procurement issues in outsourcing:

- (a) the amount of preparation work needed (e.g. tender preparation and evaluation);
- (b) difficulties in ensuring the quality of work by contractors;
- (c) procurement procedures and processes; and
- (d) difficulties in defining service requirements.

Contract management issues

4. Similar to experience elsewhere, performance management is an on-going challenge. The top three issues reported by departments in managing outsourcing contracts are: monitoring service delivery and compliance, enforcing performance against service levels, and evaluating and reporting performance.

Skills and capabilities

5. Departments are also conscious that they lack some of the contract management skills and experience they need to ensure that they can achieve the service levels and value for money they require. The contract management skills and capabilities that they say they need to enhance most are business case analysis skills. Negotiation skills and partnering skills are also frequently cited.

Outcomes

6. Notwithstanding the above concerns, departments are generally satisfied with the results of their outsourcing, in particular in meeting their objectives of acquiring services and skills which are unavailable in-house and allowing departments to focus on their core services.

Improvement Measures

7. The EU continues to promote best practices to enhance the quality of outsourcing. The results of past surveys and the lessons learned from management consultancy tasks have been most useful in identifying problems and potential difficulties and improving support services to departments, such as best practice guides and training programmes.

8. Over the last three years, the EU has updated its best practice guides and introduced new ones to provide practical, relevant and up-to-date information and guidance for civil servants involved in procuring, funding and overseeing outsourcing. These include:

- (a) The Policy and Practice Guide (2nd edition, January 2007);
- (b) The User Guide to Contract Management (February 2007);
- (c) The Public Sector Reform Report on Competition and Contracting: Learning from Past Experience (January 2008);
- (d) The General Guide to Outsourcing (3rd edition, March 2008);
- (e) The Government Business Case Guide (May 2008); and

- (f) The User Guide to Post Implementation Reviews (February 2009).

All the above publications are available on the EU website (www.eu.gov.hk).

Conclusion

9. Outsourcing is just one of the many service delivery tools and should be approached in that manner. In other words, care should be taken to ensure that an outsourcing approach is appropriate for a particular situation. Once that decision has been taken, the outsourcing contractor should be procured and monitored in line with best practices. As with other service delivery models and approaches, regular review is necessary in order to learn from experience and improve future exercises. The EU will continue to conduct appropriate surveys, studies and reviews to help departments improve their capacity to manage outsourcing well for the benefit of the public.

Survey on Outsourcing of Government Activities in 2008

GUIDANCE NOTES

A. Purpose of the survey

The purpose of this survey is to understand the nature and the extent of outsourcing within the Hong Kong SAR Government. The information collected will be used to update the service-wide database on outsourcing. It will also help us design the support services that best meet the requirements of departments (we use this term to cover all bureaux, departments, agencies, etc).

B. Scope of the survey

For the purpose of this survey, an outsourcing activity refers to any contractual arrangement whereby a department **pays a service provider to deliver specified service outputs** with a contractual value exceeding **\$ 0.15M**. One-off service contracts should also be included.

Apart from the private sector, services procured from the trading fund departments, (e.g. EMSTF, OFTA, etc.), consultants, tertiary and research institutions are considered as outsourcing services and are included in the scope of this survey.

Outsourcing does not include contracts for procurement of goods, leasing or rental of accommodation and telecommunication lines, or employment contracts for individual staff (Note).

Note:

- (1) Employment contract which department pays salary direct to individual staff should be excluded.
- (2) Contracts which the manpower agent employs the staff direct for provision of service to a department should be included, e.g. T contracts of OGCIO for provision of IT staff should be included.
- (3) For (2) above, the service category (see (C) below) should be based on the nature of services being provided by the staff, e.g. the services category for provision of IT staff through T contracts should be "Information Technology".

C. Description of service category

Service category	Examples
Building and property management services	<ul style="list-style-type: none"> ◆ Cleansing of office, building, school ◆ Building maintenance services ◆ Security guarding services ◆ Leasing agency services ◆ Property management
Call centres	<ul style="list-style-type: none"> ◆ Provision of telephone/computer-based centres for managing interface with customers
Capital works and construction	<ul style="list-style-type: none"> ◆ Construction of public housing ◆ Building of infrastructure (e.g. road construction) ◆ Feasibility study/technical research for construction works
Community, medical and welfare services	<ul style="list-style-type: none"> ◆ Home help/care ◆ Medical services ◆ Hospital services ◆ Elderly care services ◆ Laundry services for care/attention homes
Finance and accounting	<ul style="list-style-type: none"> ◆ Advice on finance, accounting or investment ◆ Bill payments ◆ Maintenance of accounting records ◆ Preparation of financial statements

Annex B
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Human resource management	<ul style="list-style-type: none"> ◆ Recruitment of staff ◆ Payroll processing ◆ Staff counselling service
Information technology	<ul style="list-style-type: none"> ◆ Management, operation, support and maintenance of information technology infrastructure ◆ Applications development and maintenance
Infrastructure maintenance	<ul style="list-style-type: none"> ◆ Road maintenance ◆ Road painting ◆ Slope maintenance
Legal services	<ul style="list-style-type: none"> ◆ Legal advice, briefing out cases ◆ Preparation of legal documents ◆ Legal aid
Marketing, communication, publicity and public relations	<ul style="list-style-type: none"> ◆ Public relations services ◆ Publicity, media campaigns (e.g. public awareness) ◆ Editorial services ◆ Market research ◆ Opinion survey
Office support and administrative services	<ul style="list-style-type: none"> ◆ Data entry, collection and analysis services ◆ Secretarial and clerical support ◆ Despatch and delivery services ◆ Recording and transcription services ◆ Translation and interpretation services
Plant and equipment maintenance	<ul style="list-style-type: none"> ◆ Maintenance of motor vehicles, vessels etc ◆ Maintenance of office automation equipment ◆ Maintenance of electrical and mechanical equipment
Policy advice and management consulting	<ul style="list-style-type: none"> ◆ Advice on policy/ programme development, organisational improvements ◆ General management consultancy
Printing and distribution	<ul style="list-style-type: none"> ◆ Printing of stationery ◆ Printing and design of publications (reports, examination papers, etc) ◆ Photo finishing services, photographic services ◆ Logistic support and storage service
Technical services	<ul style="list-style-type: none"> ◆ Scientific research ◆ Laboratory services ◆ Mapping and surveying ◆ Aerial photography ◆ Property valuations ◆ Assessment of compensation for land resumption
Training and education	<ul style="list-style-type: none"> ◆ Staff training and development ◆ Provision of educational services/ research
Transport services	<ul style="list-style-type: none"> ◆ Management of government tunnels ◆ Vehicle examination ◆ Provision/ maintenance/ management of transport fleet including land and marine
Cultural and recreational services	<ul style="list-style-type: none"> ◆ Management of community venues, recreational facilities, club houses ◆ Organisation and delivery of cultural events ◆ Horticultural and landscape maintenance services
Environmental hygiene services	<ul style="list-style-type: none"> ◆ Waste collection/ disposal and waste management ◆ Management of public bathrooms/ toilets ◆ Management of public markets/ cooked food centres ◆ Street, gully cleansing ◆ Pest control
Others	For services not covered above, please provide details.

D. Other guidelines

Guidelines are provided for items that may require further explanation. These items are marked in blue with a red indicator on the upper-right corner of the cell (as illustrated in this cell). You can place the cursor over the cell to reveal the guideline.



The majority rule applies if it is required to generalise answers provided by different sections.

E. Enquiry

For any questions, please contact Mr Simon Cheng at 2810 2620 or Miss Yvonne Yip at 2810 3483.

SECTION 1 – EXISTING OUTSOURCING CONTRACTS (CONT'D)

1.2 For contracts which were in force as at **1 July 2008** with contract value **exceeding \$0.15M but not more than \$1.3M**, please provide the aggregate information by service category:

Service Category (see Notes (C))	Number of Contracts (No.)	Total Contract Value (HK\$M)	Tendering Procedure
1. Building and property management services			
2. Call centres			
3. Capital works and construction			
4. Community, medical and welfare services			
5. Finance and accounting			
6. Human resource management			
7. Information technology			
8. Infrastructure maintenance			
9. Legal services			
10. Marketing, communication, publicity and public relations			
11. Office support and administrative services			
12. Plant and equipment maintenance			
13. Policy advice and management consulting			
14. Printing and distribution			
15. Technical services			
16. Training and education			
17. Transport services			
18. Cultural and recreational services			
19. Environmental hygiene services			
20.			

SECTION 2 - OUTSOURCING PRACTICE

THIS SECTION APPLIES TO CONTRACTS VALUED OVER \$1.3M ONLY. For each of the following questions please select only **one** answer that most generally applies to outsourcing contracts **valued over \$1.3M**.

2.1 Strategy and business case

- (a) Do you have a departmental outsourcing strategy or goal? Yes No
- (b) Do you explore outsourcing opportunities extensively, e.g. by conducting market research / testing? All Most Some Few None
- (c) Do you conduct "business case" studies for new projects? All Most Some Few None
- (d) Do you conduct risk assessment and establish appropriate risk allocation arrangements? All Most Some Few None
- (e) Do you estimate the full cost of delivering the service in-house assuming the service is not to be outsourced? All Most Some Few None

2.2 Specifications of services to be provided

- (a) Are the services defined on an output/outcome basis? All Most Some Few None
- (b) Do you use service level agreements? All Most Some Few None
- (c) Do you assess performance using measurable indicators? All Most Some Few None

2.3 Tender evaluation

- (a) Do you use a marking scheme? All Most Some Few None
- (b) Do you use the "two-envelope system"? All Most Some Few None
- (c) What is the most commonly used ratio of technical to price score? Technical: Price: 100%
- (d) What is the % of tenders awarded to the lowest price bids?

2.4 Pricing arrangements embodied in the contract

- (a) Would there be incentive payments for good performance? All Most Some Few None
- (b) Would there be payment deductions for performance deficiencies? All Most Some Few None
- (c) Can prices vary with quantitative changes in services? All Most Some Few None
- (d) Can the annual contract prices be varied in accordance with adjustments in market indices (e.g. Consumer Price Index)? All Most Some Few None

2.5 Deployment of resources after outsourcing

- (a) How are the affected posts being deployed?
 - (i) No affected posts (if your answer is "all", please go to (b) below) All Most Some Few None
 - (ii) Redeployed to conduct contract management All Most Some Few None
 - (iii) Redeployed to other areas All Most Some Few None
 - (iv) Deleted All Most Some Few None
 - (v) Others (please specify) All Most Some Few None

(b) What has been the staff response(s) to outsourcing of in-house services? (check all items that apply)

- (i) Accept the changes readily
- (ii) Negotiate with management on future arrangements (e.g. redeployment)
- (iii) Seek assistance from staff union
- (iv) Object strongly
- (v) Others (please specify)

2.6 Contract provisions

Do the contracts include provisions for the followings -

- (a) Liability cap? All Most Some Few None
- (b) Break clause? All Most Some Few None
- (c) Extension of contract? All Most Some Few None
- (d) Method for performance monitoring? All Most Some Few None
- (e) Mechanism for performance review? All Most Some Few None
- (f) Enforcement against service levels? All Most Some Few None
- (g) Method for negotiating variations? All Most Some Few None
- (h) Incentive scheme? All Most Some Few None
- (i) Provision of non-core services? All Most Some Few None
- (j) Sharing efficiency savings or revenue with government? All Most Some Few None
- (k) Audit requirements? All Most Some Few None
- (l) Access rights (to facilities and accounts) for the government? All Most Some Few None
- (m) Demerit Point System? All Most Some Few None
- (n) Standard Employment Contract? All Most Some Few None
- (o) Ownership of intellectual property? All Most Some Few None

2.7 Termination arrangement

Do the contracts include provisions for the followings -

- (a) Exit provisions (for either party)? All Most Some Few None
- (b) Roll-over of contract? All Most Some Few None
- (c) Transfer of assets / skills? All Most Some Few None

2.8 Contract management arrangements

(a) What is the estimated cost of your contract management and monitoring (as a % of the annual contract value)?

(b) What types of performance monitoring mechanisms are in use? (check all items that apply)

- Performance reporting by contractors
- Performance reporting by the procuring departments
- Performance review meetings between senior management of both parties
- Open book accounts
- On-site inspection / supervision
- End user satisfaction survey
- Complaints against the contractors
- Others (please specify)

(c) Any arrangement for rectifying non-performance of contractors?

 Yes No

(d) How do you handle disputes with the service providers?

(i) Issue default notices, withhold incentives, etc. as per the contract terms and conditions

 All Most Some Few None

(ii) Solve the problems in collaboration with service provider

 All Most Some Few None

(iii) Resolve through mediation, conciliation or arbitration

 All Most Some Few None

(iv) Take legal action

 All Most Some Few None

(v) Terminate the contract

 All Most Some Few None

(vi) Others (please specify)

 All Most Some Few None

(e) During the period from 1 July 2007 to 30 June 2008, how many outsourcing contracts have been terminated before contract expiry because of unsatisfactory performance of the contractor?

(f) What skills / capabilities required to manage outsourced services are lacking in your department? (check all items that apply)

- General contract management skills
- Specialists skills for business analysis
- Negotiation skills
- Investigation skills
- Partnering skills
- Understanding of contract terms
- Others (please specify)

(g) What are the major issues experienced when managing the outsourced contracts?
(check all items that apply)

- | | |
|---|---|
| <input type="checkbox"/> Transition to new operation model | <input type="checkbox"/> Enforcing performance against service levels |
| <input type="checkbox"/> Resistance to change | <input type="checkbox"/> Expectation management |
| <input type="checkbox"/> Service delivery and compliance | <input type="checkbox"/> Managing changes to service requirement |
| <input type="checkbox"/> Performance evaluation and reporting | <input type="checkbox"/> Capability of contract management staff |
| <input type="checkbox"/> Others (please specify) | |

(h) Are contract managers provided with formal contract management training?

- All Most Some Few None

(i) If you have conducted contract management training course(s) (excluding those organised by EU and CSTDI), what topics are covered? (check all items that apply)

- | | |
|--|--|
| <input type="checkbox"/> Have not organised such course before | <input type="checkbox"/> Tender selection and evaluation |
| <input type="checkbox"/> Business case development | <input type="checkbox"/> Contract enforcement |
| <input type="checkbox"/> Managing contractor relationships | |
| <input type="checkbox"/> Others (please specify) | |

2.9 Others

(a) Do you conduct post-implementation reviews, particularly on outsourcing effectiveness?

- All Most Some Few None

(b) If you have conducted such review, what areas were covered by the review(s)? (check all items that apply)

- | | |
|--|--|
| <input type="checkbox"/> Achievement of outsourcing objectives | <input type="checkbox"/> Commercial arrangements (e.g. contract length, pricing mechanism) |
| <input type="checkbox"/> Views of end users | <input type="checkbox"/> Tender selection and evaluation |
| <input type="checkbox"/> Cost-effectiveness | <input type="checkbox"/> Staffing for contract management |
| <input type="checkbox"/> Service scope and requirements | <input type="checkbox"/> Opportunity for further outsourcing |
| <input type="checkbox"/> Others (please specify) | |

(c) Based on your experience, what are the main concerns when considering / embarking on outsourcing activities?
(check all items that apply)

- Difficulties in defining the contract requirements/service level agreements, deliverables & performance measures
- Lack of service providers in the market
- Amount of preparation work required for the outsourcing exercise (e.g. tender preparation & evaluation, contract management)
- Staffing issues
- Difficulties in ensuring quality of work
- Procedures and processes involved in procurement (e.g. seeking tender board approval & contract terms clearance)
- Lack of expertise and/or guidelines on outsourcing
- Constraints in settlement of payment (e.g. payment by the end of financial year; reimbursement procedures)
- Redeployment of affected staff and posts
- Difficulties in managing malpractice of contractors (e.g. exploitation of non-skilled workers)
- Others (please specify)

(d) Based on experience gained, what changes will your department make next time to improve new outsourcing arrangements? (check all items that apply)

- Better define the contract requirements/service level requirements, deliverables & performance measures
- Conduct market research on service providers and costs
- Allocate sufficient time and staff resources for the preparation work
- Develop a realistic and planned tendering process
- Carefully consider the objectives of outsourcing
- Improve communications within the organisation and between user/service provider
- Make sure the right people are involved as early as possible (e.g. end users)
- Set up a dedicated management team to oversee the tender exercise and manage the contract
- Undertake due diligence check on service providers/seek independent advice or advice of departments with similar experience
- Seek external support and advice on procuring/managing the outsourced activities
- Provide prior training to staff to be redeployed to contract management and monitoring
- Others (please specify)

SECTION 3 - OUTSOURCING EFFECTIVENESS

3.1 Why do you outsource services and to what extent are these expectations met under the existing outsourcing arrangements?

Reasons for Outsourcing	Ranking of Reasons	Fulfilment			
	(Please rank <u>only</u> the reasons that apply, with '1' representing the highest priority.)	Fully met	Partially met	Not met	Not applicable
		(Where you have ranked a reason, please select one of these boxes)			
(a) Access to information		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(b) Access to technology		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(c) Access to skills		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(d) Achieve defined service levels		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(e) Allow the department to focus on core services		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(f) Change fixed costs to variable costs		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(g) Reduce costs		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(h) Make up for staff shortage / Meet establishment ceiling		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(i) Facilitate other organisational changes		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(j) Imposed by policy changes		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(k) Increase the flexibility in service delivery		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(l) Improve service quality (e.g. transform operations and drive improvements in efficiency, productivity and reliability)		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(m) Improve service output		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(n) Legacy system (IT) necessity		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(o) Risk diversification		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(p) Unavailability of required services in-house		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(q) Others (Please specify) <div style="border: 1px dashed black; height: 20px; width: 100%; margin-top: 5px;"></div>		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(r) <div style="border: 1px dashed black; height: 20px; width: 100%; margin-top: 5px;"></div>		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

3.2 When compared with the original contract value, are the contract payments within budget?

(a) Works contracts

All Most Some Few None

(b) IT contracts

All Most Some Few None

(c) Other service contracts

All Most Some Few None

3.3 (For works & IT projects only) When compared with the original schedule stated in the contract documents, are the projects completed on time?

All Most Some Few None

3.4 What cost savings are achieved as a % of the expenditure under in-house provision?

% of cost saving

1	Building and property management services
2	Call centres
3	Capital works and construction
4	Community, medical and welfare services
5	Finance and accounting
6	Human resource management
7	Information technology
8	Infrastructure maintenance
9	Legal services
10	Marketing, communication, publicity and public relations
11	Office support and administrative services
12	Plant and equipment maintenance
13	Policy advice and management consulting
14	Printing and distribution
15	Technical services
16	Training and education
17	Transport services
18	Cultural and recreational services
19	Environmental hygiene services
20	

3.5 Do the cost savings meet the original expectations? If not, what are the reasons?

3.6 Are there any constraints that prevent your department from achieving better value for money by outsourcing services?

SECTION 4 - EXTERNAL SUPPORT

4.1 Do you know about the Private Sector Involvement (PSI) support services (outsourcing and public private partnerships) provided by the Efficiency Unit?

Yes Through what channels? (Please select where appropriate)

- Seminar/forum/training course
- PSI publications
- Public Sector Reform Information Centre (at <http://eu.host.ccgo.hksarg/psric/eindex.html>)
- Others (please specify)

No

4.2 Have you used the "A General Guide to Outsourcing", "A User Guide to Contract Management", or "A Government Business Case Guide" published by the Efficiency Unit to facilitate your outsourcing?
(The guides have been posted at http://eu.host.ccgo.hksarg/psric/english/publication/pub_bp/pub_bp.html)

Yes No

4.3 Are there any aspects of the guides that could be improved? Please specify.

4.4 Does your department need support to take forward your PSI initiatives?

Consultancy

- | | |
|--|--|
| <input type="checkbox"/> Identification of outsourcing / PSI opportunities | <input type="checkbox"/> Tendering and evaluation |
| <input type="checkbox"/> Market research and testing | <input type="checkbox"/> Advice on contract management |
| <input type="checkbox"/> Development of service specifications | <input type="checkbox"/> Safeguards to ensure probity, information/data security |

Professional advice/sample documents

- Help desk
- Sample on contract templates
- Reference materials (please specify)

Training

- | | |
|--|--|
| <input type="checkbox"/> Management talks on PSI | <input type="checkbox"/> Training in contract management |
| <input type="checkbox"/> Training in business case analysis | <input type="checkbox"/> Experience sharing |
| <input type="checkbox"/> Training in outsourcing / PPP techniques & skills | |

Others (please specify)

4.5 Any suggestions to improve the Efficiency Unit support for your department in PSI initiatives?

SECTION 5 - PARTICULARS OF RESPONDENT

Name of Bureaux/Department	<input type="text"/>
Name of Contact Person	<input type="text"/>
Post	<input type="text"/>
Tel. No.	<input type="text"/>
Fax. No.	<input type="text"/>
Lotus Notes Mail Address	<input type="text"/>
Internet Email Address	<input type="text"/>

~ END ~

Thank you for taking the time to complete this questionnaire

**Please SAVE this file and send it to Yvonne YIP at
Yvonne SW YIP/EU/HKSARG through Lotus Notes.**

Responses to Issues Raised on Outsourcing Projects

The EU has consulted the departments concerned regarding the issues raised by Members and deputations. Their responses are detailed below.

Case (1) Outsourcing of the work of Land Inspectors

[LC Paper No. CB(1)1796/08-09(04)]

Issues raised by the Land Inspectors Union (LIU)

2. The LIU considers that the outsourcing of various projects by the Lands Department (LandsD) has contained the growth of the Land Inspector Grade. Despite the very limited manpower provision, Land Inspectors are required to complete the outstanding work of contractors and patch things up. The LIU has cited the example of the Guangzhou-Shenzhen-Hong Kong Express Rail Link project. Officers with delegated authority had to help the railway operator (Mass Transit Railway Corporation) gain access to private properties to resume land, which had given rise to various issues. Similarly, in the outsourcing of inspection of short term tenancy/modified lease, civil servants were held accountable for the work of the contractor. The LIU also opposed outsourcing the management of non-commercial publicity materials.

Response

3. The issues raised by the LIU involve three different projects, viz. land resumption work for the Guangzhou-Shenzhen-Hong Kong Express Rail Link project, management of roadside non-commercial publicity materials, and inspection of sites held under short term tenancies.

Guangzhou-Shenzhen-Hong Kong Express Rail Link

4. The Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link is one of the ten major infrastructure projects announced in the 2007-08 Policy Address. The land acquisition work is subject to an extremely tight schedule. The Highways Department, being the Project Department, has entrusted the

design and site investigation work to the Mass Transit Railway Corporation (MTRC). According to the entrustment agreement, the MTRC has to provide staffing support to the LandsD in land acquisition matters such as land record searches, structure and crop surveys, preparation of draft clearance/resumption plans, liaison with private lot owners (e.g. for commencement of ground investigation field works), assessment of compensation and site clearances. In addition to performing their normal acquisition duties, Land Inspectors assume a supervisory role in monitoring the supporting work performed by the MTRC staff including checking of reports and requesting them to rectify or provide supplementary information. The Land Inspectors also lead and collaborate with the MTRC staff in performing field work.

5. The LandsD wishes to clarify that the MTRC is not a contractor of the LandsD in the project and that the MTRC staff have not been delegated with any statutory authority pertaining to land resumption work, which rests with public officers. In brief, the LandsD has not outsourced any of its statutory land resumption functions to the MTRC.

Management of Roadside Non-commercial Publicity Materials

6. Non-commercial publicity materials include banners and posters displayed by Members of the Legislative Council and District Councils, and other public/non-profit making organisations. The LandsD is delegated with the authority for approving posting of banners and posters at designated spots. The Food and Environmental Hygiene Department is the enforcement authority responsible for removing unauthorised banners and posters, with the assistance of LandsD staff in identifying the unauthorised materials.

7. At present, some Non-Civil Service Contract (NCSC) staff undertake, in the New Territories (NT) districts, the processing of applications for display of roadside non-commercial publicity materials for approval by designated LandsD officers, and the identification of unauthorised banners and posters. In the urban districts, since August 2009, the LandsD has outsourced, under a pilot scheme, the work to two consultants, one for Hong Kong Island and one for Kowloon, for a period of two years. Under the pilot scheme, designated LandsD officers remain responsible for considering and approving the applications vetted by the consultants' staff. The

engagement of the consultants has enabled the LandsD to step up its field work and extend this work outside normal office hours.

8. The LandsD will consider whether the outsourcing arrangement under the pilot scheme should be continued and extended to the NT districts, having regard to the effectiveness of the pilot scheme and other considerations such as the availability of in-house resources and staff sentiments.

Inspection of Short Term Tenancy Sites

9. In response to the Value-for-Money Audit Report issued in 2006 and the subsequent Public Accounts Committee enquiry, the LandsD had introduced various measures to strengthen the administration of short term tenancies, including the introduction of a pilot outsourcing scheme in two districts (Kowloon West and Shatin). The management of the LandsD informed the staff side of the Departmental Consultative Committee of this outsourcing scheme in March 2007. This issue was also brought up at two subsequent meetings held in August 2007 and January 2008. The two contracts concerned were granted to the same consultant and commenced in January 2008 for a term of two years, with a provision for extension by six months. The work outsourced includes inspection of sites held under short term tenancies, processing of complaints and enquiries on breaches of tenancy conditions, assistance in taking enforcement or regularisation action and handling of other administrative work. Generally speaking, these duties are performed by Land Inspectors and Land Executives in the case of NT districts and by Survey Officers and Estate Surveyors in urban districts. However, due to their heavy workload, inspections are only carried out occasionally. Under the outsourcing scheme, approval of recommendations and litigation work in Kowloon West and Shatin are carried out by designated LandsD senior officers and Survey Officers/Land Inspectors conduct sample checks of the cases prepared by the consultant's staff.

10. The LandsD is satisfied with the performance of the consultant and has extended the contract period to July 2010. The frequency of inspections of short term tenancy sites has increased from every three to five years to once a year. Breaches of tenancy conditions are detected more quickly. The LandsD's manpower is more effectively deployed for tackling the more complicated cases and other priority tasks.

Case (2) Outsourcing of Crowd Management Services at Magistrates' Courts
[LC Paper No. CB(1)1796/08-09(05)]

Issues raised by the Hong Kong Federation of Civil Service Unions (HKFCSU)

11. According to the newspaper article tabled by the HKFCSU, barristers and magistrates expressed concern over their own safety following the outsourcing of security services at magistrates' courts. They were worried that security guards had not received sufficient training to handle emergencies and were not capable of replacing uniformed police.

Response

12. The partial outsourcing of crowd management services at magistrates' courts is part of the police civilianisation programme. It aims to release police officers for core police work for which their expertise can be put to best use.

13. Previously, there were a total of 242 police constables (PCs) on duty in the magistrates' courts, of whom 89 were responsible for crowd control duties. Since April 2009, the Hong Kong Police (HKP) has engaged three security contractors to provide crowd management services in the public areas as well as the courtrooms of the magistrates' courts. Following the outsourcing exercise, 31 (of the previous 89) PCs remain to perform crowd control work at courts such as Plea Courts that have large numbers of attendees and execute their constabulary powers when necessary. Therefore, in addition to the security guards, there are still 184 PCs stationing at the magistrates' courts, responsible for maintaining law and order and other functions such as calling witnesses into the courts when required, and escorting defendants to sign recognizances as ordered by the courts, etc.

14. Prior to their taking up of duties, the security guards undertake a familiarisation programme with emphasis on crowd management. In their daily work, the security guards work alongside the PCs who are always on hand to provide advice and assistance when required.

15. Special arrangements are put in place to handle high risk cases. All Chief Court Inspectors/Senior Court Inspectors have regular communications with the

court staff to address any law and order issues. Whenever necessary, judiciary staff will liaise with their police counterparts on security issues.

16. In the event of any serious incident that cannot be dealt with by the security guards and the police officers stationed in court, local divisional police officers and/or Emergency Unit police officers will render assistance.

17. The HKP is satisfied with the security arrangement of the magistrates' courts. Since the deployment of security guards to crowd management duties in April 2009, there have been no security incidents in the magistrates' courts.

Case (3) Outsourcing of the Programming Work for Conversion of Digital Map Data [LC Paper No. CB(1)1796/08-09(03)]

Issues raised by the Hong Kong Confederation of Trade Unions (HKCTU) Public Services Committee

18. According to the submission of the HKCTU Public Services Committee, the contractor responsible for the programming work for conversion of digital map data had failed to complete the project on schedule. To help the contractor fulfil the contractual obligations, the LandsD had asked its staff to provide the source codes of its in-house programme for the contractor's reference. Subsequently, the LandsD staff found that the new programme failed to achieve the intended results of the programme and the input mode could not be modified. In the end, the LandsD shelved the new programme and asked its staff to use the old one.

Response

19. In November 2005, the LandsD outsourced the development of a new data conversion engine (DCE) for conversion of various types of digital map data from the native format to other formats for use by the public and government departments. The contractor was required to develop the DCE for conversion of digital map data including B1000, C1000, G1000, B5000, B10000, B20000 and B100000. The contractor completed the work on schedule.

20. In system redevelopment projects, it is a reasonable practice to provide the contractor with the original source code since it helps the contractor understand the technical requirements of the existing operations. It also helps speed up the system development work. For the conversion of B1000, C1000, G1000 and B5000 map data, the source codes of the original programmes were provided, in accordance with the contract, to the contractor for reference because some technical information essential for the conversion was not published in the respective data dictionaries. Despite this arrangement, the contractor was still required to modify and expand the programme codes of the existing conversion sub-routine as necessary for reuse in the DCE. It was the contractor's responsibility to design, develop and implement an integrated solution of the DCE in full compliance with the technical requirements under the contract.

21. As to the conversion of the other types of digital map data (i.e. B10000, B20000 and B100000), no source code was provided to the contractor. These are smaller scale maps with less complicated database structures (i.e. less ground features are shown) and the contractor should be able to develop the new converters without the old source codes.

22. When the contractor submitted the DCE to the LandsD for acceptance, the Department conducted a comprehensive quality check on every map series output from the DCE and requested the contractor to undertake any necessary refinement before that particular part of the DCE was accepted for production use. This is in line with the normal user acceptance process. In the present case, the contractor, after receiving the LandsD's feedback on the checking result, modified and enhanced the relevant programmes of the DCE.

23. The new DCE is now in production for conversion of all the map data including B1000, C1000, G1000, B5000, B10000, B20000 and B100000 and the replacement process has taken place in two batches. As a prudent quality assurance step, the new DCE has been allowed to run in parallel with the original converters so that a dual set of data is available for comparison. This may have given rise to the misunderstanding that the original converters are still in use despite the completion of the new DCE. Overall speaking, the parallel runs have been useful and successful leading to the acceptance of the new DCE. The parallel run of the first batch

involving B1000, C1000, G1000 and B5000 started in September 2007 and the old converters were phased out in January 2008. The parallel run of the second batch involving B10000, B20000 and B100000 started in April 2009 and the converters for B10000 and B20000 were phased out in October 2009. The remaining converter for B100000 was phased out in April 2010.

24. The new DCE has not been shelved. It is now in operation. It has achieved the following benefits:

- (a) streamlining workflows and enhancing operational efficiency by centralising the conversion activities for a series of maps which were originally carried out by two different sections (namely the Mapping Section and the Information and Service Promotion Unit) and on three different systems;
- (b) reducing the repetitive manual editing efforts needed in the original in-house developed data converters in producing different data formats;
- (c) acquiring the latest technology and skills in the spatial data conversion from the market so as to enhance the knowledge of our staff; and
- (d) providing a more productive and flexible tool for conversion of map data which provides technical flexibility for the Survey and Mapping Office in handling changes of data structures in digital maps and ultimately benefits users of digital map data.

Case (4) Hiring of Commercial Patrol Launches and Outsourcing of Marine Cleansing Services [LC Paper No. CB(1)1796/08-09(03)]

Issues raised by the HKCTU Public Services Committee

Hiring of Commercial Launches for Patrol

25. According to the submission of the HKCTU Public Services Committee, the Marine Department (MD) spent over \$8 million to hire two launches for two years despite the underutilisation of government patrol launches (e.g. launch MD28 only operated in day time and launch MD23 at night). This resulted in inefficient use of

resources and wastage of public money. The hiring of launches for law enforcement work also gave rise to issues relating to the fairness and integrity of law enforcement.

Outsourcing of Marine Scavenging Service

26. The submission stated that the MD has let out its \$20 million mechanical refuse scavenging fleet, Sea Cleaners 1 to 6, to a contractor at a price of \$1. It mentioned that the bid offered by the contractor was only 2% lower than the Government's operating expenditure on the vessels. Taking into account the staff and administrative costs for the tendering exercise, outsourcing the marine cleansing services might not achieve the cost-effectiveness as claimed. On top of that, extra manpower was required for monitoring of the outsourced work.

Response

Hiring of Commercial Launches for Patrol

27. The operating hours of the MD-crewed patrol launches range from 9 to 24 hours. On the usage of the two MD launches in question, MD23 operates from 9:00 p.m. to 8:30 a.m. while MD28 operates from 8:00 a.m. to 7:45 p.m. The scheduling of operating hours of the MD launches has taken account of the original design of the vessel facilities and the availability of crew staff. Any extension of operating hours would require extra funding for enhancement of facilities, additional manpower, and maintenance and repair.

28. The MD has hired two commercial launches to replace two decommissioned MD launches since April 2002. The service contracts were procured through competitive tenders to ensure value for money. Compared with the operating cost of a similar government launch, the hiring of a commercial launch achieves average cost-savings of about 50%. The MD is satisfied with the services provided by the contractors.

29. The law enforcement work of the MD includes deterrence of speeding and other reckless boating behaviour, prosecution against marine littering, enforcement of vessels' height restrictions under bridges, inspection of locally licensed and river trade vessels for compliance with marine legislation, and investigation of

marine accidents. The launch contractor is only responsible for the transportation of MD staff and operates under the instructions of the MD law enforcement officer on board. MD officers do not discuss with the crew staff or inform them in advance of the patrol routes or inspection details. Outsourcing of the transportation services does not compromise the law enforcement work.

Outsourcing of Marine Scavenging Service

30. The MD has outsourced most of its marine refuse cleansing/collecting services for many years. (The MD started outsourcing part of the marine refuse cleansing services when it took up the responsibility of marine refuse cleansing in 1967.) In July 2005, the MD rationalised the previous fragmented approach for the provision of marine scavenging service whereby about 70 vessels were provided and operated by eight private contractors and six Sea Cleaners were operated by the MD.

31. The MD consolidated the fragmented contracts into two contracts. Under each contract, three Sea Cleaners were also chartered to the contractor to facilitate early delivery of service. A nominal rent was charged to reduce the operating cost of the contractor and hence the contract price. The contractor is responsible for repair and maintenance, fuel cost, licence fees and insurance, etc. of the Sea Cleaners and for its crew salaries at its own cost.

32. The consolidation of the fragmented contracts has resulted in better control on contract management. The annual expenditure on marine scavenging service has been reduced from \$38 million in 2004/05 to \$35 million in 2006/07 under the reformed approach.

33. The MD has upgraded the service standards under the reformed approach. It has introduced a cleanliness index (a score of 10 means no floating refuse at all) in the contracts. When the cleanliness index of a particular area falls below 7 (the satisfactory level), the contractor is required to restore the cleanliness condition within a specified time frame (varying from 30 minutes to 120 minutes). So far, the system has been working satisfactorily. The general cleanliness of Hong Kong waters has been improved: the average cleanliness index has increased from 7.6 in 2005 to 8.3 in 2008 while the amount of marine refuse collected has increased by 15% during the same period.

34. In brief, the reformed approach has reduced the annual operation expense and improved the cleanliness of the harbour.