

Legislative Council Panel on Home Affairs

13 December 2002

**Consultancy Study on the Future Development of
Hong Kong Public Libraries**

PURPOSE

This paper reports on the findings and recommendations of a consultancy study on the future development of Hong Kong Public Libraries.

BACKGROUND

2. The Leisure and Cultural Services Department (LCSD) commissioned GML Consulting Limited and GHK (Hong Kong) Limited (the Consultants) in November 2001 to conduct a study on the future development of Hong Kong Public Libraries (HKPL). It aims to formulate a strategic plan for the development of the LCSD public library services upon a review of its existing performance; and to recommend the most appropriate institutional arrangement and organizational strategy for the public library services. The terms of reference of the study are set out at **Annex A**.

PRESENT POSITION

3. The Consultants have delivered their final report recently. A copy of the Executive Summary of the report is at **Annex B** and the full report will be made available to the LegCo Secretariat. Major findings and recommendations of the study are summarized in paragraphs 4 to 13 below.

Summary of Findings and Recommendations

Performance Review of HKPL

4. The HKPL system provides a network of 69 public libraries, including mobile libraries. Services provided include free lending of library materials, children library, newspapers and periodicals services, reference and information

services, students' study room, computer and information centre, outreach programmes and block loan services. Advances in Information Technology (IT) have made it possible for HKPL to offer state-of-the-art multi-media information services. The recently enhanced Library Automation System offers 24-hour Internet library services including catalogue search, renewal and reservations of library materials. A recent opinion survey has shown that 81.2% of those surveyed are satisfied with the overall facilities and services of public libraries and 16.2% rated them average. Close to 98% of the users of the Central Library were satisfied with overall services.

5. The Consultants considered that, since the establishment of the LCSD to take over the management of public libraries in Hong Kong from the two former Provisional Municipal Councils, the HKPL have delivered good and efficient public library services consistent with the United Nations Educational, Scientific and Cultural Organization (UNESCO) and the International Federation of Library Associations and Institutions (IFLA) principles. The Consultants researched into the operation of overseas public library systems in London, New York, Toronto, Sydney, Tokyo and Singapore, and concluded that HKPL have facilities and services that meet high international standards, particularly those at the Hong Kong Central Library.

6. The Consultants, however, considered that there are restrictions on library operations under the present direct Government control such as inflexibility in staff engagement as well as limited opportunities for marketing and promotion of HKPL services, and fund-raising.

Strategic Plan

7. At present, HKPL serve the community with the following roles:
- (i) as an information centre and gateway to knowledge where information and the latest development on all subject disciplines are freely and readily made available to the public;
 - (ii) as an effective tool in support of life-long learning and for self-education and continuing education, providing means for self-development by individuals at whatever stage of education and enhancing the knowledge level of community;
 - (iii) as a source for the enrichment of everyday living and for the provision of opportunities for personal creative development;
 - (iv) as a community cultural centre where a balanced range of resource-based library activities are organized to provide information, recreation and

- relaxation for patrons of all age groups;
- (v) as a centre for the promotion of reading, literary arts and literary research in Hong Kong; and
- (vi) as a source of enjoyment for the profitable use of leisure time where library materials may be borrowed for use at home.

8. From a strategic viewpoint, the Consultants suggested that HKPL should derive a mission statement and a set of objectives. A strategic plan covering the following five Key Service Areas should be developed for the next ten years, taking into account community needs, staff and stakeholders' concerns:

- (i) serving the community;
- (ii) supporting lifelong learning;
- (iii) bringing culture to the public;
- (iv) leveraging the use of IT; and
- (v) offering value-added services.

9. The Consultants also recommended that HKPL should prepare a five-year and an annual business plan as well as develop a performance management system, in order to measure the performance of libraries with a view to further improving the organizational effectiveness of the library system.

Institutional Arrangement

10. The Consultants conducted a review of four options of institutional arrangements i.e. Government, Corporatization, Privatization and Contracting-out.

11. The four institutional models were evaluated using cost benefit analysis to determine their efficiency gains. The Consultants cautioned that the figures so derived are economic costs illustrating the relative costs involved with different institutional arrangements and in no way should they be taken as the actual expenditure of HKPL. One of the main assumptions of the Consultants in the assessment of options is that the public library function would remain an expenditure item to the Government though new sources of income are allowed. External costs such as staff compensation, which may arise from the transfer of staff from the current organization to the proposed institutional arrangement, have not been factored into the calculations.

12. The Consultants favoured the option of Corporatization with gradual contracting out of non-core services for the following reasons:

- (i) minimum disruption to HKPL services;
- (ii) more acceptable to staff and legislators;
- (iii) cost savings but without loss of core services and quality of services;
- (iv) continuity in provision of free public library services; and
- (v) consistency with worldwide trends.

13. The Consultants emphasized that though corporatization is the right direction for HKPL to go, additional feasibility studies have to be conducted by the Department before making any decisions. The Consultants recommended the setting up of a Task Force to look more closely into factors around corporatization especially staff issues. External expert services should be engaged, in particular to review the institutional arrangements. The Consultants also recommended the undertaking of a detailed cost analysis on corporatization and cautioned that forced redundancy should be avoided.

PUBLIC CONSULTATION

14. A public consultation forum has been scheduled for 14 December 2002 during which the Consultants will present the findings and recommendations of the study.

15. The Executive Summary of the study will be made available on LCSD's website (<http://www.lcsd.gov.hk>) and on request at all HKPL. Views and comments can be forwarded to the Consultant before 31 March 2003 by the following means:

By Post : GML Consulting Limited
Room 2204, Chinachem Leighton Plaza
29 Leighton Road, Causeway Bay, Hong Kong
(Tel. No.: 2827 2166)

By Fax : 2827 2011

By E-mail : info@gml.com.hk

16. Wide publicity including press release, advertisement, radio programmes, invitation letters, posters and library homepage announcements have been arranged to invite members of the public, District Councils, as well as the related stakeholders to attend the public forum.

WAY FORWARD

17. The Government will take into account the findings and recommendations of the Consultancy Study as well as comments from staff and the public and other relevant factors before formulating a strategic plan for the development of public libraries and deciding on the future direction regarding the institutional arrangement of HKPL.

Leisure and Cultural Services Department
December 2002

Terms of Reference of the Consultancy Study

The appointed consulting firm has been tasked to undertake the following areas of work –

- (a) to review the performance of the Hong Kong Public Libraries (HKPL);
- (b) to research into the operation of overseas public library systems in London, New York, Toronto, Sydney, Tokyo and Singapore;
- (c) to review the existing roles, functions and services of HKPL, with a view to defining the roles and functions of public library services in the next 10 years, and formulating an appropriate strategic plan;
- (d) to identify and evaluate the feasibility of corporatization and alternative institutional/management options for the future public library services in Hong Kong and make recommendation on the preferred options;
- (e) to analyze the implications of the recommended option for the future public library services in Hong Kong on human resources, legislative requirements, funding requirements and cost effectiveness.

EXECUTIVE SUMMARY

1. INTRODUCTION

- a. This **Final Report** presents the findings of the Consultancy Study on the Future Development of Hong Kong Public Libraries (HKPL) commissioned by the Leisure and Cultural Services Department (LCSD). The Study has been carried out by GML Consulting Limited in association with GHK (HK) Limited.
- b. The objectives of this Study are to:
 - Formulate a strategic plan for the development of the LCSD public library services in terms of how it could best meet the demand of future generations, enhance library facilities and services, strengthen interface with other local libraries, and respond effectively to the challenge of the new information technology, and
 - Assess the feasibility of corporatizing the LCSD's public libraries and recommend the most appropriate institutional arrangement and organization strategy for the public library services.
- c. This report has been organized as follows:
 - **Part One: Development of Strategic Plan**
 - **Part Two: Institutional Options**
 - **Part Three: Conclusions**
- d. We have taken the following factors into account in developing our findings:
 - The continued availability of adequate resources from the Hong Kong SAR Government (Government) to the libraries must be secured in order to meet the principle of free public library services according to the IFLA/UNESCO Manifesto for Public Libraries;
 - Existing expertise for managing the libraries should be retained and staff redundancy should be avoided wherever possible;
 - International standards on public library services (such as those proposed by IFLA) should be used for guidance to fit Hong Kong's unique position and satisfy requirements; and
 - Different institutional options for the public library system in Hong Kong were identified and assessed to look at efficiency gains as well as alternative means for the management of the public library services.
- e. Our calculations of efficiency gains for the different institutional options are economic costs expressed in HK\$. They should not be taken out of context (i.e. they are not the actual costs involved in running HKPL under the different arrangements.) We have also conducted some cost estimation of the proposed improvement measures and the costs of restructuring. These costs are initial rough estimates and should not be taken as absolute costs. There is a high degree of uncertainty in the final calculations due to unknown variables like staff compensation and other costs. Further cost studies should be done in order to achieve more reliable estimates, which are not within the scope of this study.
- f. In developing our recommendations, we have paid close attention to the implications for funding and staffing in all cases to ensure minimum disruption to services as well as preserving existing HKPL staff salaries and promotion privileges. Forced redundancy should be avoided. Where possible, operationally acceptable staffing arrangements and the implications on cost have been factored into the choice of options although our estimates are empirical of necessity at this stage and a more detailed future study should be conducted in this area.

PART ONE: DEVELOPMENT OF STRATEGIC PLAN

2. HKPL PERFORMANCE REVIEW

- a. HKPL's delivery of services over the past four decades has been through the building of modern library facilities and introducing new services. The achievements of HKPL since LCSD taking over the management of public libraries from the two ex-Municipal Councils have been impressive and are on the rise in terms of stock and services. Compared to other international public library systems, HKPL have facilities and services that meet high international standards, particularly those at the Hong Kong Central Library.
- b. The recent LCSD Benchmark 2000 survey indicates that the users, on the whole, are satisfied with the current public library services. This has been substantiated by a recent opinion survey on public library users and non-users that has been undertaken in 2001 as a separate exercise to this study which showed that overall 81.2% of those surveyed were satisfied with the overall facilities and services of public libraries and 16.2% rated them average. Close to 98% of the users of the Central Library were satisfied with the overall facilities. However, about half of the public sampled in the Benchmark Survey 2000 do not use public library services regularly. The survey also shows that the majority of users are satisfied with the current arrangements for opening hours.

Staffing Issues

- c. Within HKPL, there is a difference in the staff size of Librarian grade staff as compared with IFLA's standard. Non-professional Government clerical grade staff who have little or no formal library training before joining the libraries are engaged for front-line counter operations. There is also the problem that posts are frozen and part-time (Service Bureau) staff have to be employed to make up the shortfall and cope with new services introduced in recent years. The employment of a larger proportion of these part-time staff has brought about lack of continuity and disruption to regular staff having to develop part-timers to do their jobs effectively.
- d. Current Civil Service regulations prevent the promotion of professional Librarian grade staff recruited on contract terms. As almost all new staff are being recruited on contract terms, morale is affected. Direct recruitment into the higher ranks would alleviate the need for more professional staff.

Funding Issues

- e. In terms of costs and efficiency, the current policy of hiring non-civil service staff on contracts is cost efficient but not the extensive use of hourly Service Bureau staff and, to a degree, permanent Clerical Officer and Cultural Services Assistants. At non-professional grade level, the introduction of Library Assistant staff for new libraries is a positive step towards greater efficiency.
- f. Costs are incurred through a number of activities that are contracted out (like cleaning, security, laundry, and computer systems), contract maintenance, workshop costs and Trading Fund costs. These activities are considered as secondary activities i.e. non-core activities and the practice of contracting out such activities is a cost-effective way of fund allocation. Economies of scale should be sought wherever possible (e.g. by grouping contracts together for certain services) and better ways of contract management explored to ensure value for money.
- g. HKPL could look at alternative means of funding to supplement Government subvented funds. Funding could also be solicited from private sponsors to build up collections of special subject materials which could be shared with the Hong Kong public, provided the sponsors receive returns in kind.

Institutional Arrangement

- h. As part of LCSD, HKPL are under Government control thus ensuring that public policies are enforced and that community welfare is maintained as a priority. Whilst

there are benefits through resource sharing with other Divisions in LCSD, the same arrangements impose constraints on the operation of HKPL, as well as hindering the introduction of any new initiatives that might be slightly out of line with Government procedures. Other disadvantages include the restrictions in staffing and procurement. There are also limited opportunities for the marketing and promotion of HKPL services.

3. PROPOSED MISSION AND OBJECTIVES

a. Proposed Mission Statement

HKPL will service the needs of local communities i.e. people of all ages, educational levels and stages of life, individuals and groups of people with special needs and institutions within the wider community network.

HKPL will align with the greater needs of Hong Kong to become Asia's World City through a stronger cultural identity, hosting collections that reinforce Hong Kong's position in the international arena and networking with other major public library systems in the region.

b. HKPL Objectives

(i) Internal Objectives

- To ensure that public funding for library services is spent in the most cost-effective manner
- To develop alternative means of independent funding outside of public funds
- To attract, develop and reward skilled professional and non-professional staff
- To provide internal IT systems that will enhance productivity and enrich professional jobs
- To market and promote HKPL services to existing users and to attract non-users.

(ii) External Objectives

- To serve the community needs by locating libraries within easy access of the public
- To promote a reading community
- To promote civic education and values
- To complement the education programmes in schools
- To provide a gateway to information for members of the public
- To form partnerships to support and encourage lifelong learning
- To promote culture through developing a rich collection reflective of Hong Kong's Chinese identity and pluralistic outlook¹
- To promote local literature and studies
- To harness IT to help build the new knowledge economy
- To offer additional non-core library services at reasonable charges that will yield enhanced benefits to users.

4&5 STRATEGIC PLAN

a. HKPL's Strategic Plan is based around five key service areas as follows:

b. Key Service Area 1 – Serving the Community

- (i) In view of the increasing users' needs for more facilities, HKPL should in future aim at providing major and district libraries to accommodate a full range of library services and facilities, while small or mobile libraries should only be considered as interim facilities until the completion of the planned facilities.
- (ii) Public library provision is currently based on the planning standard of one district library for every 200,000 population. HKPL, by this numeric scale, appear adequate for most of the districts. By lowering the provision to one district library to 150,000

¹ See Culture and Heritage Commission Consultation Paper (March 2001) – *Consensus of the Commission* (page 8)

though, there is a noted shortage of libraries in areas like the Southern, Kwun Tong, Tai Po and Wong Tai Sin districts.

- (iii) Accessibility is the most frequently discussed element between the Government and district councilors in terms of the provision of library services. Improving accessibility, where funds permit, would certainly help build a reading culture by enticing non-users into libraries as a first step. Other than building more public libraries, another way of increasing accessibility is to provide remote access to public libraries through Internet technology i.e. the use of “virtual libraries” or “wall-less libraries”. While it is important to develop along this area, nonetheless the role of physical libraries will continue to play an equally vital role in society and there should be a balance between the traditional and electronic approaches, which should be complementary.
- (iv) Our proposed guidelines for the planning of HKPL comprise:
- Lower the ratio of population served per district library from 1:200,000 to 1:150,000
 - Look at the existing library allocation serving the population; if the population served is more than 150,000 then either a new library should be built or the floor space of the existing library should be expanded keeping to a floor space ratio of 19.3m² per 1,000 capita (based on a typical district library of 2,900m² serving a population of 150,000)
 - If the current library cannot be expanded due to space constraints then look at neighbouring libraries where there is scope for expansion keeping to the floor space ratio of 19.3m² per 1,000 capita
 - Accessibility to the library facilities should be kept to an area range of between 8.9 and 42.2 km² or a range of travelling distance between 1.68 and 3.67 km (this is derived by taking the areas served in Hong Kong Island and the New Territories)
 - Where premises are available, a district library (mobile libraries are not included) for every 42.2 km² (maximum) area should be provided. Otherwise, mobile library services could be considered as an interim measure for (1) district libraries under planning, (2) areas where a suitable site is unavailable or (3) areas where libraries cannot be located within the required distance due to lack of available premises.
 - The allocation of space within the library for the different activities e.g. adult lending, extension activities, reference and newspapers and periodicals should be determined by the demographic profile of the population of that area.
- (v) The presence of a strong stock collection that caters to the needs of the community is very important. The current ratio of items (books and non-printed materials) per capita is 1.3:1. A stock development plan through which 23% more items are processed per annum compared to the current rate demonstrates that for an additional cost of roughly HK\$19.96 million, a ratio of 1.56:1 can be achieved within 5 years and 1.67:1 in 10 years. The acquisition of more English books could also be considered as these books are valuable sources of current information and not always within the means of the public to afford them.
- (vi) HKPL could work closely with community groups like NGOs to foster stronger links with the community. A benefit from these types of partnership would be a sharing of resources where volunteers may be available to support HKPL in extension activities or running community-based schemes at public libraries. HKPL could also play an important role in distributing civic information in the form of brochures and leaflets.
- c. **Key Service Area 2 - Supporting Lifelong Learning**
- (i) HKPL could consider setting up joint-use libraries and outreach programmes to support reading clubs and parent education schemes. In conjunction, HKPL could also work closely with school librarians to identify reference books to be purchased

and provide copy cataloguing services to school libraries.

- (ii) HKPL could explore means to support students pursuing continuing education courses. HKPL could stock appropriate reference books to meet with continuing education needs. The availability of these books could be promoted through the HKPL web page and by other means.
- (iii) For students with significant reading requirements e.g. distance learning students, HKPL could consider expanding borrowing rights to allow users to take home more books and overnight loan of certain reference books. In addition, e-learning facilities could be developed particularly for adults who have the means to afford personal computers and who would prefer doing distance learning courses tailored to a busy lifestyle. On-line programmes could be developed as well to provide quick search to popular disciplines like business studies or accounting. The HKPL web-site could be a gateway to link users up with different academic bodies or institutes as well as providing a Home Page for students on, say, homework help.
- (iv) Government should coordinate the resources available from both academic libraries and HKPL so that an effective partnership arrangement can be developed. HKPL and Government funded libraries could work with the Government to jointly negotiate territory-wide licences for online databases.

d. Key Service Area 3 - Bringing Culture to the Public

- (i) HKPL could coordinate a collection strategy with other cultural centres to support specific collections of cultural interest and encourage research of literary works.
- (ii) The HKPL document collection campaign has gathered a wide collection of old and rare books. HKPL could continue the development of special collections of historical and cultural interest through regular exchanges of collections with other public libraries in the region e.g. developing a Pearl River Delta collection.
- (iii) HKPL could collaborate with the Public Records Office to set up a common archive collection.
- (iv) HKPL could consider providing broadcast search to facilitate a one-stop shop for information research covering different library systems.
- (v) HKPL could consider digitisation of books and a wider range of materials in collaboration with local museums (copyright issues notwithstanding).
- (vi) HKPL could partner with other libraries to share knowledge and resources. The common method is to draw up a Memorandum of Understanding enabling free exchange of collections, access to each other's catalogues and collaboration on different library projects.
- (vii) An alternative approach would be for HKPL to take on a leading role within a regional library association (such as Singapore's position as secretariat for the Congress of Southeast Asian Librarians), and get involved in dealing with international counterparts on this basis.

e. Key Service Area 4 - Leveraging the Use of Information Technology

- (i) IT is an enabler to deliver HKPL's mission through:
 - Increasing efficiency of processes;
 - Greater access to HKPL resources through the Internet;
 - Providing usage patterns and user data for planning new services; and
 - Providing means of creating new services that may be a source of revenue.
- (ii) HKPL could as an on-going exercise, enhance the contents level of the bibliographic records to facilitate users.
- (iii) HKPL could consider 24-hour remote access to an "Online Reference Desk"
- (iv) HKPL could investigate the use of smart card technology for book borrowing purposes.

- (v) Other examples of technology include:
- “Octopus” card version for payment of library fees and charges;
 - Use of 3G mobile telephones to access public library systems and order books or obtain loan updates; and
 - SMS notification for borrowers.
- (vi) On-line registration for the public and payment of library fines and charges would be an eventual possibility through the HKPL home page. HKPL’s web portal could incorporate e-commerce functions/purposes.
- (vii) HKPL could consider wider use of e-books to be lent to users. In the usage of Chinese language e-books, there is a function that enables the reader to use versions portraying either the simplified Chinese script or the traditional script; the reader has the option of toggling between the two forms. This function can encourage wider use of Chinese books written in different forms, thus expanding the scope of choice and promoting reading for library users of different ages.
- (viii) HKPL could consider the use of RFID for self checking and tracking books on the shelves. The major disadvantage of RFID technology is its cost.

f. Key Service Area 5 - Offering Value Added Services

- (i) HKPL could offer book delivery services to households or to commercial premises. The charges could be compiled based on the nature of the transaction or type of book.
- (ii) HKPL could look into the possibility of providing advertising space for commercial enterprises e.g. offer this service via media such as web sites, library cards and on library walls.
- (iii) HKPL could outsource the operation of CICs to private service providers, who would supply the hardware so that upgrades would be possible as technology advances.
- (iv) HKPL could consider transferring the marketing function to a private company or work in collaboration with non-profit organizations in the promotion of certain activities like reading programmes. HKPL could also look at using a PR service provider to set up an aggressive marketing campaign to promote HKPL brand and services to entice non-users into libraries.
- (v) HKPL could engage professional events firms who would run programmes on behalf of HKPL. In this manner, programmes, like literary events, could be tailored and delivered according to community needs.
- (vi) HKPL could establish more franchises within HKPL facilities. Subject to space constraints, these could include coffee shops, gift shops, bookshops (new and second-hand), music shops, and other lifestyle type services.
- (vii) HKPL could look at partnering arrangements with other bodies such as book or software vendors and publishers. Provided commercial self-interest is carefully controlled so that the availability of partnering is not exclusive or biased, there are opportunities for HKPL in “borrowing” popular books from publishers (i.e. the materials are returned after a certain period) or obtaining free products like software. In return the partnering body gets exposure of its products and potential sales from library users who want their own private copies of books or software.
- (viii) HKPL could consider a public private partnership (PPP) scheme, which makes use of private funding for new projects for which the private organisation receives a payment for making available the facilities and providing maintenance and building services in return over an agreed period (usually between 10 to 20 years). HKPL could assess whether there is scope for setting up a modified form of PPP to build new libraries in the long term.

6. PERFORMANCE MEASUREMENT

- a. HKPL should develop a performance management system to further improve organizational effectiveness, link organizational goals with individual targets and demonstrate accountability.

PART TWO: INSTITUTIONAL OPTIONS

7. INSTITUTIONAL OPTIONS FOR HKPL

- a. In identifying options for HKPL, different institutional arrangements have been considered: Government Model, Corporatization Model, Privatization Model and Contracting-Out Model.
- b. The **Government Model** has the advantages of civil service stability, regular funding, consistency in policies and low risk. The Model is constrained in recruitment and further development of professional staff, ability to test new ideas to attract more users and exploring innovative means of offering new services that would incur user charges.
- c. The **Corporatization Model** has the advantage of more flexibility in staffing and access to products and services in the market. Less restrictions would be encountered in raising funds through other activities and, aligned with a greater awareness of community needs, performance based incentives could be set together with increased accountability for spending and fund raising. Private arrangements with vendors could also be considered. Possible disadvantages would be having to bid for funds with stringent conditional targets being established and performance standards set that are unrealistic.
- d. **Privatization** has had mixed results. On one hand privatized bodies have shown great enterprise in diversifying into other business areas thereby enriching the availability of different services to the public and the various stakeholders. On the other hand, privatization has sometimes led to the compromising of operational standards in pursuit of commercial gain.
- e. We consider contracting out in the context of corporatization. (Please note contracting out can also be applied to a Government body.) The advantages in the **Contracting-Out Model** are principally the ability to use the best resources in the market to ensure cost-effectiveness and shared risks. Conversely, it is feasible that core expertise may be lost if not carefully planned and poorly structured service contracts may lead to locked-in arrangements with a sole vendor. If contract periods are not long enough, the need to constantly have to go for competitive tendering could also prove disruptive whenever a new service provider is engaged each time.
- f. All of the Models would be able to meet HKPL's mission depending on staffing, funding, procurement procedures and ability to provide free services.
- g. The Corporatization and Privatization Models show the best fit with HKPL's Objectives although it is noted that the Privatization Model may have conflicting principles with Government policy objectives i.e. commercial principles would prevail over utilitarian values.

8. ASSESSMENT OF INSTITUTIONAL OPTIONS

- a. The four institutional models were further evaluated using cost benefit analysis to determine efficiency gains. The latter are expressed in HK\$ and it should be noted that these are economic costs and should not be taken out of context i.e. these would not be the actual costs involved in running HKPL under the different institutional arrangements.
- b. One of the main assumptions in the assessment of options for HKPL is that the public library function is an expenditure item to the Government. Even after contracting out, corporatization or privatization, it is not expected to generate

income that can cover its costs but will continue to have most of its costs funded by the Government. Our analysis of cost efficiencies focuses on possible cost savings to the Government funding under the new options over the existing Government Body Model. A ten-year period from 2002/03 to 2012/ 2013 is taken.

c. Corporatization Model

- (i) The major cost savings in corporatization arise from:
- Lower salary packages, as the permanent jobholders are gradually replaced by contract staff receiving rates closer to market value; and
 - Improved efficiency of library staff, which will be shown in the model as reduced staff costs based on overseas experience (whilst in reality, this represents more deliverables with the same number of staff).
- (ii) Under corporatization, new sources of income will be sought as the restrictions in seeking sponsors and setting up private procurement arrangements will be relaxed.
- (iii) As a result of the difference in costs between permanent staff and contract staff, cost savings arise from greater use of contract staff. Corporatization of HKPL will result in a mix of civil servants and non-civil servants in the initial years. It is the Government's intention that corporatization should not result in existing civil servants losing their jobs or having their existing terms and conditions of service changed involuntarily, so it is assumed that all staff will be retained on the existing terms and be seconded to the new corporation. There will be a natural turnover rate due to retirement and other reasons for employment separation, as well as redeployment of some staff within the civil service (e.g. clerical officers). Upon the retirement/departure of civil service staff, the post will be replaced by another post on contract terms.
- (iv) The analysis includes an estimate of the staffing of HKPL in the coming ten years. HKPL has an expansion plan for 13 library projects through 2009/10. Information on the new projects, such as their completion date and creation of new posts, is used to estimate the manpower requirements during this period. From then onwards to 2012/13, the manpower growth is projected based on the 2001/02 to 2009/10 data by assuming linear growth. A sensitivity test on the assumption that there will not be any expansion plans after 2009/10 is also conducted.
- (v) The mid-point salary of the various posts is used to estimate the average salaries. For the permanent staff, an on-cost rate of 31% to 57% is added to indicate the fringe benefits of the staff. For the contract staff, a gratuity rate of 15% is added in calculating the staff costs. It is assumed that the average (mid-point) salaries and the on-cost rates will not change over time. . Inevitably, there would be a level of compensation paid out to staff opting to stay out of the Corporatized Body. This amount has not been factored for, as compensation cannot be determined at this stage. Please note that we have not factored in civil service staff salary cuts effective from October 2002. For the purposes of our calculations, the case models are direct comparisons and any cuts would be applied across all of the models to derive the cost efficiencies, hence not including them does not affect our findings.

d. Privatization Model

- (i) Cost savings for the Privatized Body are expected to be similar to the Corporatized Body, but in a more extreme form. For instance, corporatization of HKPL will result in a mix of civil servants and non-civil servants in the initial years, after which the civil service staff will gradually be replaced by contract staff. Under privatization, all the staff will be converted into private sector staff on formation of the Privatized Body.
- (ii) In the extreme case of Privatization, all permanent posts would be converted to contract posts and the jobholders paid a gratuity of 15% instead of fringe benefits indicated by the on-cost rates. As in the Corporatized Body, there would be compensation paid out to staff opting to stay out of the Privatized Body. This amount has not been factored for.

- (iii) In addition to changes in salaries, cost savings can be achieved through improvements in efficiency based on overseas experience. These efficiencies can arise from labour shedding and from improved budget allocation. In the former case, the privatized HKPL is expected to produce the same output with fewer staff. In the latter case, the privatized HKPL is expected to produce more output with the same number of staff.
- (iv) The findings of a recent study on 85 cases of privatization from 28 countries are used to estimate the efficiency factor. The study considered the performance of privatized firms in a range of industries including banking, telecommunications and airlines. It should be noted that library services were not included within the industries looked at so the findings can only be extrapolated for the purposes of deriving an efficiency gain for our calculations. Whilst the study found insignificant changes in employment after privatization, the sales efficiency, measured as sales per employee, increased by 23% in the first three years of privatization. For the same deliverable as before privatization, this would mean 18.7% less staff, or cost efficiencies of 18.7%. We have taken the sales efficiency as an indicator for HKPL as this reflects a highly performance oriented environment which a post-corporatized or privatized HKPL would be in. The percentage therefore represents a value that can be applied to a service provider like public libraries at a reasonable level assuming that performance incentives are wholly embraced by staff and there is a willingness to change - though it must be noted that the existing HKPL already have a very tight and efficient staff force.

e. **Contracting-Out Model**

- (i) HKPL management may contract out technical support services such as technical processing (stock procurement and cataloguing), facilities management and IT. While more detailed investigation is needed to determine which services are suitable to be contracted out, the evaluation highlights the order of cost savings that may be achieved through contracting out various services.
- (ii) In considering the Contracting-Out model, a cost saving of 20% is applied to salaries currently incurred by the various services. Expenses and capital investment such as book and material costs are excluded from the calculation as there is no evidence that they can be saved by outsourcing and the Government should maintain the same level of commitment after the change. The order of 20% is commonly used as a rule of thumb as indicated by many UK studies in the early stage of contracting out services.

f. **Cost Efficiencies**

- (i) Using the projected growth from 2002/03 to 2012/13, the Net Present Value of total Government Funding for the ten-year period was calculated for each model. The calculations covered both operating expenses as well as staff costs and took into account the assumed efficiency gains of 18.7% for the corporatization and privatization models. The results are shown below for a linear growth scenario and a non-growth scenario from 2009/10 to 2012/13. The calculation has not taken into consideration the amount of compensation to be paid out to staff opting to leave the government services.

Our assumptions include:

- HKPL is an expenditure item and will not generate sufficient revenue to cover costs i.e. Government funding is still a pre-requisite
- Cost efficiencies reflected as cost savings are based on lower salaries (replacement of permanent staff with contract staff) and efficiency gains (18.7%)
- Under the corporatized and privatized models, new sources of income are allowed
- External costs such as compensation are not factored into the calculations

Scenario	Linear growth after 2009/10	No growth after 2009/10
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	NPV (HK\$ million)	% change from Govt. Model	NPV (HK\$ million)	% change from Govt. Model
Government Model	7,454	-	7,236	-
Corporatization Model	6,307	15.4%	6,117	15.5%
Privatization Model	5,688	23.7%	5,507	23.9%
Contracting Out Model (high level)	6,953	6.7%	6,743	6.8%

Summary of Cost Saving on Government Funding for the Corporatization, Privatization and Contracting Out Models over the Government Body Model for the period 2002/03 – 2012/13

- (ii) The estimates show that the Privatization has the highest cost efficiencies (represented by cost savings), followed by the Corporatization, while the Contracting Out Option is expected to provide cost efficiencies of a lesser scale depending on the amount of activities contracted out.
- (iii) The greatest efficiencies would apparently be achieved through the Privatization Option, but this would not be a suitable option given the current economic climate, political sensitivities and the need to abide by the IFLA/UNESCO principle of free library services. In practice, it is likely that the savings would be reduced by the amount of compensation to be paid out should there be staff not wishing to join the privatized body and opting for early retirement. The level of compensation would have to be determined by an independent Task Force.
- (iv) We emphasise that the cost savings highlighted in the table above denote the efficiency gains expressed in HK\$. As mentioned earlier, these are economic costs and should not be taken out of context, i.e. these are not the actual costs involved in running HKPL under the different institutional arrangements. Actual costs would involve the expenses on structural changes in corporatization (such as the recruitment of a Chief Executive) and compensation sums for staff. The comparison of efficiency gains, expressed as cost savings, has been made on an indicative basis in order to ascertain which, if any, option is more attractive than the others.
- (v) From a practical perspective, forced redundancy should be avoided and it would be necessary to work out the manpower requirement and staff arrangement under each option before knowing the potential surplus situation. This would form the basis for dealing with potential surplus staff situation, including redeployment, retraining, and provision of special package for civil servants to transfer to the new institution, to retire, or to opt to retain as civil servants taking into account projected staff wastage and staff turn-over. The manpower requirements may need to be adjusted/refined in the light of such on-going discussions. The working out of satisfactory staffing arrangements and the implications on cost may affect the choice of options.
- (vi) Given the caveats, the favoured option therefore is **Corporatization** with gradual contracting out of non-core services for the following reasons:
- Minimum disruption to HKPL services;
 - Politically more acceptable to staff and legislators;
 - Cost savings but without loss of core services and quality of services;
 - Continuity in provision of free public library services; and
 - Consistency with worldwide trends.

9. SETTING UP THE CORPORATIZED BODY

a. The proposed structure of the corporatized HKPL would be as follows:

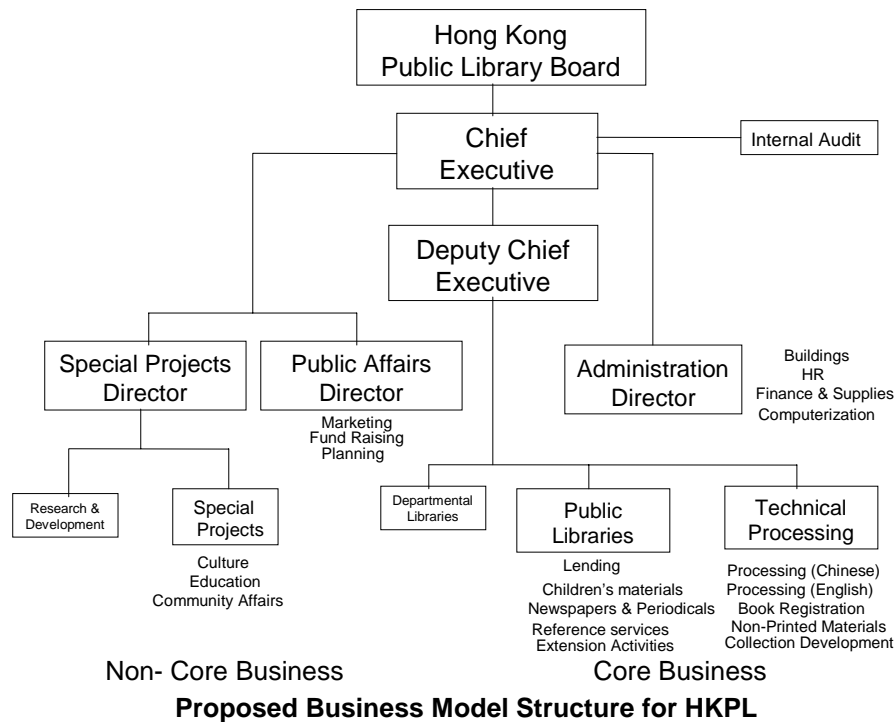


Figure 3

- b. A statutory authority, the HKPL Corporation, would be established by law so that the assets of the Government can be transferred into a company structure. The Library Corporation, which is outside of Government, would be headed by a Board, which is vested with the authority to form policy. This structure makes policy and operations freer under the Board's control, thereby enabling the organisation to liberalise itself from the major bureaucratic and procedural constraints of the existing situation in the areas of operations and staffing.
- c. The Board of the Corporation would be comprised of representatives from Government (e.g. LCSD and Education Department), academic institutions (e.g. tertiary institutions) and from the private sector with varying professional backgrounds and interests (e.g. arts and culture, literary works and IT, corporate management and finance). The Board would also have representation from Corporation management staff through the Chief Executive and a Deputy to ensure that operational concerns are reflected, as required.
- d. Once legally constituted with Board members in place and appropriate policies and regulations have been drafted to prevent any possible abuse of authority, the HKPL Corporation would have to enter into agreements with the Government on the terms and arrangements for funding, staffing, accommodation and assets. The Corporation's role should be the strategic planning for and the overall management of the administration and business of HKPL.
- e. On formation, the first task of the Board would be to appoint the Chief Executive who, in the initial years, would be responsible for driving the major changes through the new HKPL. The role of the Chief Executive would be to interface between the Board and the overall management of HKPL. The Chief Executive would be responsible for annual budget preparation with senior management for the Board's approval. Apart from the skills needed to deliver these services, the Chief Executive would need to possess strong leadership and management skills as well as experience in running large public library systems in metropolitan cities. He or she would be supported by a Deputy whose role will be to manage the operational

- functions of HKPL i.e. the core business areas. In addition, Directors would be appointed for Administration, Public Affairs and Special Projects.
- f. The Public Libraries and the Technical Support would form HKPL's core business and can be taken from the existing HKPL structure. The new additions are the Service Units, which are charged with the delivery of projects within HKPL headings. There would also be a Public Affairs Unit and an Administration Unit.
- g. Regarding the funding of HKPL, the Board would have overall responsibility for seeing that adequate funding is available for HKPL operations. Government would continue to fund free public library services (as per the UNESCO/IFLA principles) and other library-related activities including marketing and promotion. HKPL would be given the flexibility to pursue innovative applications with the intention of enhancing library services as well as revenue generation.
- h. Prior to corporatization, a suitable period would have to be allowed for staff consultation, working out transfer packages, drafting of the legislation and identification of appropriate members to form the Board.
- i. During this period of implementation, it would be necessary to evaluate the need to re-train staff to undertake new roles in the new structure. In all cases, emphasis would be placed on retaining the best staff and minimising disruption. In the staff consultation programmes, librarian staff at different levels would be appointed to be Change Ambassadors so that they could be involved in the process.
- j. **Once** the Body is formed, measures would have to be established to transfer staff and retain their former salaries and benefits from the old Government body. There would also be the option for staff to remain as civil servants and work for the HKPL Board without forfeiture of rights. Should staff choose not to join the Corporatized Body and opt for early retirement, then compensation would be allowed for. Staff redundancy should be avoided to maintain business continuity and prevent disruption. In addition, promotion prospects for staff under the corporatized regime would have to be maintained and compensation provided if promotion entitlements could not be fully met. Further study is recommended in this area.
- k. As part of corporatization, systems would be introduced that measure and reward performance to incentivise existing staff and attract talented candidates particularly in key public interface areas such as the frontline staff. This would undoubtedly involve a shift in staff culture and attitudes, which would have to be carefully managed during the transition period and post-corporatization.
- l. We have considered the business case for HKPL under the proposed structure. The purpose of this exercise is to determine if corporatization would yield cost benefits, once we have incorporated approximate costs within the model. We would point out that the costs are rough and have not taken into consideration of a number of factors (such as the compensation packages) and a more detailed analysis should be conducted in order to refine these costs at a later stage, which is outside the scope of this current study.
- m. We assume that permanent staff could be replaced with contract staff with salaries at a market rate which should be lower than civil servants, for instance: replacement of Assistant Clerical Officers with Library Assistants or replacement of Cultural Services Assistants II with Library Assistants. Either scenario is possible under the corporatized model, although in practice they would be difficult to implement as they rely on the availability of positions arising elsewhere (either in the Department or in other parts of Government) to be able to redeploy staff, as well as the acceptance of staff to be redeployed. Without a detailed process study to identify which staff could be redeployed, there is a likelihood of compensation issues, which would offset any financial gains. Hence we reiterate our caution in adopting this approach.
- n. Other cost savings could also be achieved through the following:
- Private funding offsetting the costs

- Government's enhanced productivity programme to achieve greater efficiencies through streamlining and natural wastage.

	Minimum (HK\$ million)	Replacement of permanent staff with contract staff (HK\$ million)
Efficiency gains (5%)	17.76	17.76
Savings from ACOs	-	15.72
Savings from CSAs	-	3.49
Income	20.4	20.4
Total	38.16	57.37

Cost savings through Corporatization

- o. The costs associated with corporatization come to \$30.6 million and comprise:
- Hiring of new staff i.e. the Chief Executive, Deputy Chief Executive, three Directors, an Auditor and four support staff.
 - Additional administration costs (i.e. legal services, accounting, personnel and central administration services) will have to be borne by the corporatized HKPL.
- p. The business case for corporatization in very rough estimates is:

	Minimum (HK\$ million)	With replacement of permanent with contract staff (HK\$ million)
Net gains p.a.	\$7.56	\$26.8
% 2002/03 expenditure	0.9%	3.1%

Business Case for Corporatization

- q. The period by which these savings could be achieved is deliberately not defined. It is possible that staffing issues may hinder HKPL in pursuing certain measures and compensation sums may arise that offset any net gains. As mentioned earlier our calculations are empirical and would require a more detailed analysis for an accurate projection. This task should be performed by a Task Force, with inputs from Government.

PART THREE: CONCLUSIONS

10. CONCLUSIONS AND RECOMMENDATIONS

Review of HKPL

- a. The review of HKPL performance shows that the Hong Kong public has benefited from the delivery of good and efficient public library services consistent with UNESCO/IFLA principles and high international standards. As in any other service sector, the provision of public library services has to continue to both meet increasing demands from users and to capitalise on opportunities offered by technology and other advanced means. In this context, HKPL have scope to broaden their services and to move confidently to a position where they will form the cornerstone of certain Hong Kong key future initiatives.
- b. Chiefly, these initiatives concern the role of public libraries to promulgate lifelong learning, to establish Hong Kong as a city rich in tradition and culture, and to support and nurture its local communities in adverse as well as buoyant times.
- c. In HKPL, there is a difference in the staff size of Librarian grade staff as compared with the IFLA's standard.
- d. From an institutional perspective, policies, which are necessary to safeguard Government interests and maintain Government systems, are not necessarily conducive to a progressive library organization, which could be leveraging off partnerships with different parties and pursuing innovative ideas unfettered by bureaucratic rules and procedures.
- e. Use of technology is a crucial factor in Hong Kong's transformation into a knowledge economy. Further adoption of IT would enable HKPL to take full advantage of the many novel applications available in the market to improve efficiency and enhance user services.

Strategic Plan

- f. From a strategic viewpoint, HKPL should derive a mission and a set of objectives. Our strategic plan for HKPL has taken into account the needs of users for the next ten years with the building of new libraries and the provision of enhanced services.
- g. We have identified the following five key service areas for HKPL to meet their objectives:
 - Serving the community;
 - Supporting lifelong learning
 - Bringing culture to the public;
 - Leveraging information technology; and
 - Offering value-added services.
- h. We recommend that HKPL adopt a Mission Statement which addresses the two main goals of serving Hong Kong's community and positioning Hong Kong as Asia's World City.
- i. We recommend that HKPL prepare a Strategic Plan and put it on the web-site for public consultation.
- j. We recommend that HKPL should prepare a five-year and an annual business plan addressing the five key service areas by outlining:
 - Key Result Areas
 - Actions
 - Milestones
 - Roles and responsibilities
 - Resources needed
 - Timing

- k. Specific recommendations are presented for consideration. In the discussions that have followed concerning HKPL's institutional arrangements, it is apparent that the choice of arrangement will influence not just the rate of implementation but, in some cases, whether the implementation of our recommendations can take place or not. Nonetheless, whilst the discussion on the preferred institutional arrangement persists, we have outlined below our recommendations under:
- Short-term (1-2 years)
 - Medium term (3-7 years)
 - Long-term (More than 8 years)
- l. Our criteria are based on criticality to meeting HKPL's mission statement and objectives, availability of resources and the feasibility of being implemented within HKPL's institutional arrangements, assuming that a suitable arrangement is determined within the next ten years.
- m. We recommend that HKPL introduce a performance management system based on tailored indicators to measure the performance of the libraries. Current data collection should be re-aligned to match these indicators, once they have been agreed by staff.

Institutional Arrangements

- n. Corporatization is the favoured option as it offers the following possibilities:
- Independence in policy setting and decision-making
 - Flexibility in staffing to meet user demands
 - High emphasis on performance standards and measurements
 - Greater awareness of the commercial implications of fund allocation and cost-effectiveness
 - Freedom to enter into partnerships where benefits can be mutual
 - Greater sensitivity to stakeholder needs
 - Increased levels of accountability
- o. Corporatization will enable HKPL to achieve greater efficiencies through the right organizational structure as well as a rich work environment for staff that recognises and rewards high performance.
- p. We recommend that HKPL look more closely into the factors around corporatization through the setting up of a Task Force comprising Chief and Senior Librarians. The remit of this Task Force is to look at the issues identified in this study in more detail with a view to breaking down the tasks ahead and monitoring the teams assigned to complete the tasks. The Task Force may include non-librarian staff such as legal experts, accountants and HR advisors. External expert services should also be used, in particular to review the institutional arrangements.
- q. Staff behaviour is pivotal in whether institutional changes are accepted or not and we recommend extensive consultation with staff to identify their concerns. We recommend that the Task Force devote special attention to staff issues. To avoid forced redundancy, it is necessary to work out the manpower requirement and staff arrangement before knowing the potential surplus situation.
- r. We further recommend that a detailed cost analysis be made on the costs of corporatization.
- s. Based upon these findings, we recommend that HKPL should only then make the decision as to whether the timing is appropriate to corporatize or not. Aside from cost issues, corporatization should also be viewed from other aspects such as greater flexibility in policy, staffing and commercial opportunities in sponsorship and strategic alliances. The emphasis on performance standards and measurements, aligned with improvements in service provision, should also be taken into consideration.