

**For discussion
on 31 January 2005**

LegCo Panel on Health Services

Contracting out of work / services and Public-Private Collaboration in the Hospital Authority

Purpose

This paper informs members of the contracting out of work / services and public-private collaborative initiatives in the Hospital Authority (HA).

Background

2. Pursuant to the Hospital Authority Ordinance (Cap 113), the HA is empowered to do all such things that are necessary for, or incidental or conducive to, the better performance of its functions. These include the engagement of outside contractors to undertake certain work / provide certain services that are related to HA's functions.

3. The HA, like many other public sector organisations, has contracted out part of its non-core work / services. There are advantages of contracting out non-core work / services –

Cost-saving

- where the cost of contracting out the work / services for the same or higher quality of output is less than that of operating the work / services by HA itself, the resources saved can be more meaningfully used in providing core services;

Quality enhancement

- in some areas, the private sector has better expertise than the

HA in providing the service, e.g. car park management, pest control service and biomedical engineering services. Contracting the work / services to the private sector can bring about enhancement in the quality of service, and in some circumstances, partnership development in the longer term in technology enhancement;

Containing the size of the organization

- by contracting out some non-core work / services, the size of HA can be contained, giving rise to more efficient internal administration.

With effective contract management measures put in place, these collaborative efforts with the private sector have achieved win-win outcomes for the HA and its contractors.

4. Public-private partnership (PPP) also involves the provision of certain services by the private sector. The difference between PPP and standard contracting out is that the former usually involves an input by both sides (hence “partnership”). The input by the public sector partner can take the form of hardware or other resources like land or facilities. Another difference between PPP and standard contracting out is that the former achieves benefits by ensuring a comprehensive approach to the delivery of services over a long time frame. The benefits of adopting a PPP approach, in addition to those of standard contracting out, include -

- allowing HA more room to focus on its core business functions;
- achieving through a quicker and less costly way to upgrade existing public service by utilizing the expertise of a specialist service provider, and its technology and better practices;
- gaining better value for money including quality improvement compared with internal provision.

5. The HA has in place rigorous vetting and selection systems for

identifying the best provider of the service for both standard contracting out and PPP projects. HA adopts an open tender system with full compliance to the Agreement on Government Procurement of the World Trade Organization. Approval of tender selection and recommendations is subject to the tender boards established in HA.

6. When the HA considers launching any projects, being a caring and accountable organization, we are conscious about the possible impact to staff and will balance the pros and cons of every option. In view of staff relations, the HA always makes its best effort in strengthening staff communication and consultation, listening to staff concerns and offering timely care and support to staff throughout the process.

Public-Private Partnership in food services in the NTW and KC Clusters

7. A background note of the latest large-scale PPP initiative, viz. the provision of food services to hospitals in the New Territories West and Kowloon Central Clusters, is at the Annex.

Advice Sought

8. Members are invited to note the content of this paper.

**Hospital Authority
Health, Welfare and Food Bureau
January 2005**

Public-Private Partnership Project on Food Services

Background

Most public hospitals under the Hospital Authority (HA) operate their own kitchens to provide meals for patients. At present, HA has three central kitchens, which are located in the Pamela Youde Nethersole Eastern Hospital, North District Hospital and Castle Peak Hospital, to provide centralised food service to certain public hospitals on Hong Kong Island, Kowloon and the New Territories respectively.

2. In view of the successful overseas experience in the provision of public services through public-private partnership (PPP), the HA formally commissioned an outside consultant in 2000 to conduct a comprehensive study to explore the feasibility of operating food services, one of its non-core services, through PPP, and to gauge the potential market response. The study concluded that not only was the idea feasible, it could also enable the HA to achieve more efficient use of existing resources and facilities. In September and November 2003, the Supporting Services Development Committee of the HA Board decided to conduct a study on the introduction of a PPP project in the New Territories West (NTW) and Kowloon Central (KC) Hospital Clusters. In the study, the HA would take into account various relevant factors, including the strength of prospective contractors, their economies of scale and potential risks, and balance those factors against the possible impact on HA staff.

The PPP Project

3. The idea of the PPP project is to take advantage of the technology know-how and professional knowledge of the private sector, so as to bring continuous improvements to the standard of food services for patients while achieving greater cost-effectiveness and operational efficiency.

4. The PPP project will be piloted in the NTW and KC Clusters only. Under the project, the HA would request its private sector partner to purchase and put to full use all of the cook-chill facilities¹ at the Castle Peak Hospital.

5. In drawing up its invitation for proposals and the selection criteria, the HA had taken into account the special needs of patients and made reference to the experience of both the government and overseas organisations in PPP projects. The HA will carefully and meticulously examine the proposals submitted by prospective contractors on the basis of the selection criteria and ensure that the vetting process is conducted in an equitable and fair manner.

6. In vetting the proposals, HA will make full assessment of the contractors' capability and experience in cook-chill technology, their background, the feasibility of their proposals, staff arrangements and pricing, etc. As regards the service period, it is tentatively set at ten years, in view of the huge investment in facilities and infrastructure involved as well as the relatively long payback period. If the project is successful, the HA would look to establish a long-term relation with the contractor.

7. To facilitate the Vetting Committee in examining the proposals and selecting a suitable service provider, prospective contractors are required to submit the following information:

- a. Company background and other relevant information;

¹ The cook-chill technology refers to the use of advanced equipment, such as water/air-cooled chillers to maintain food freshness by rapidly cooling down cooked food from 75°C or above to 3°C or below within two hours. Rapid cooling helps prevent cooked food from being exposed to the hazardous temperature range of 4°C to 60°C, which promotes bacterial growth. The chilled food will then be stored at chillers where the temperature is kept at a level close to the freezing point. As such, food can be stored safe for up to more than a month, and can be fit for consumption when required after reheat. This technology has been widely adopted by the catering industry.

- b. Details of their proposal:
 - arrangements for the supply of meals to patients in the NTW and KC Clusters;
 - Risk management and contingency measures;
 - Quality assurance and inspection;
 - Maintenance of equipment and facilities;
 - Human resources strategies (including relevant policies and arrangements for absorbing existing HA staff, etc.);
- c. Performance and effectiveness assessment;
- d. Food Pricing; and
- e. Others: investment plan, contingency plan, insurance and intellectual property, etc.

8. The HA would proceed with the PPP project only if the proposals submitted by prospective contractors can meet the original targets of the HA. Meanwhile, the HA would continue to improve the standard and efficiency of its own food services. It would carefully and objectively compare the cost effectiveness of providing such services internally against the engagement of a private partner. At this stage, the merit of the PPP project is being evaluated. The HA maintains an open mind on its implementation and no final decision has been made.

9. The HA has always attached great importance to the patients' needs, the quality and safety of patients' food, and the standard of its food services. Irrespective of whether the PPP project would be implemented, the HA will ensure that the standard of its food services in the future would not be lower than the current standard. In this connection, the HA has already put in place a stringent monitoring mechanism. This would provide assurance to the service standard and food quality under the PPP project, if it is implemented. The HA would also continue to make improvements to the monitoring mechanism from time to time.

Latest developments of the PPP Project

10. The Vetting Committee is in the process of examining the proposals submitted by prospective contractors. Due to the complexity of the proposals, it is expected that the Committee will need some time to make a detailed evaluation before being able to decide on whether to implement the PPP project.

Impact on staff

11. The PPP project, if taken forward, will only be piloted in the NTW and KC Clusters. In addition, general grade staff (such as Workmen, Foremen, Clerical Officers) of the catering department of HA would not be directly affected. If the PPP project is implemented, it is expected that Chefs and Cooks will be the only staff who would be directly affected and the number of such staff will be quite small.

12. If a suitable partner for the PPP project can be successfully identified after stringent vetting of the proposals as planned, the HA will, after the contract has been formally awarded, make appropriate arrangements for the affected Chefs and Cooks.

- a. Chefs and Cooks who are civil servants would be transferred to hospitals clusters not covered by the PPP project. They would continue to serve the HA in the same capacity;
- b. Chefs and Cooks who are HA staff may opt for the Voluntary Early Retirement Programme which is specifically offered to them (Chefs and Cooks in Clusters not covered by the PPP project may also opt to join the Programme). This Programme offers ex-gratia payment and terms to attract staff interest;
- c. Chefs and Cooks, who are HA staff and opt not to join the Voluntary Early Retirement Programme, will be transferred to other suitable posts to fill existing vacancies. Retraining will be provided, where necessary;

- d. Staff employed under the permanent establishment will retain their status as “permanent staff” after the transfer;
- e. According to the existing human resources policy of the HA, staff who are required to transfer due to redundancy may retain their present salary, if the pay of their new post is lower than their existing salary. However, they will not be entitled to any annual salary increment or incremental point resulting from the pay trend survey. In addition, their salary will be adjusted to the maximum pay point of the new post after 3 to 5 years.

The HA will continue to discuss and explore other feasible options with staff. The HA believes that the above arrangements strike an appropriate balance amongst the interests of all parties concerned. In addition, the HA will explore different measures with its PPP partner, with a view to encouraging staff to seek better career development. The HA hopes that there would not be any need to dismiss staff.

13. Since 2002, the HA has always maintained communication with staff and relevant staff groups through various channels, including briefings, staff consultative committees, cluster communication groups, newsletters and meetings, to provide staff with the latest information about the PPP project and help them understand the HA’s rationale in considering such a proposal. This also enabled the HA to collect staff feedbacks. The HA will continue to maintain communication with staff in the remaining phases of the PPP project.