

**For discussion on
29 May 2009**

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Legislative Council Panel on Public Service

Use of Outsourcing in the Delivery of Government Services

Purpose

This paper provides Members with an overview of the use of the private sector in the delivery of public services in particular through outsourcing.

Background

2. The Government has a long history of using the private sector to deliver public services. Services such as the construction of infrastructure and buildings have always relied heavily on the private sector. These projects often come under the arrangements of Design and Build, Build-Operate-Transfer (BOT) and Design-Build-Operate (DBO). In the past ten to 15 years, there has been more use of outsourcing for services, in line with the international trend. As of today, information technology system development, facilities management, waste management, environmental hygiene and security services are commonplace areas of outsourcing. They usually come in the form of service contracts that are procured through competitive tenders.

3. Local and international experience demonstrates that well prepared, implemented and monitored projects using the private sector can bring significant benefits to the Government and the community, including –

- (a) enhanced service quality and value for money;
- (b) increased capacity in the provision of new or expanded public services;
- (c) strengthened civil service management focus on core services and effective resource utilisation; and
- (d) development of the wider economy, with the promotion of private sector job creation and development of experience and expertise.

Policy on Using the Private Sector

4. Government has always been conscious of the need to deliver public services in the most cost effective and efficient manners possible. It is established policy that we should use the private sector where appropriate, in keeping with our economic and fiscal objectives of maintaining a small and efficient government, containing the size of the civil service, and promoting business opportunities and jobs in the private sector.

5. Outsourcing is just one of the service transformation tools adopted by individual bureaux and departments. Over the years it has established itself as one of the effective means of delivering value for money services to the community. The Government will continue to outsource government services as appropriate and monitor service quality against established parameters. In determining the best approach for delivery of services, particularly new services, bureaux and departments are encouraged to conduct business case studies to evaluate the options available and select the most appropriate and value for money one.

Outsourcing Survey 2008

6. The Efficiency Unit (EU) has been conducting surveys on government outsourcing activities on a biennial basis since 2000. The latest survey was completed in 2008.

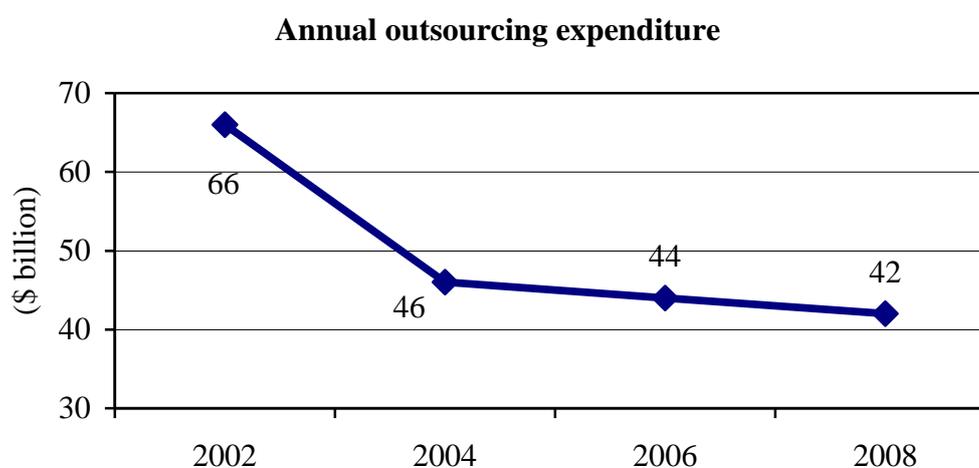
Major survey findings

7. The survey provides a “snapshot” of the Government’s outsourcing activities as at July 2008 covering 75 bureaux and departments and 19 service categories.

8. In July 2008, there were 4 339 contracts valued at over \$216 billion, with an annual expenditure of \$42 billion. The outsourcing profile is similar to that of 2006. Over 80% of the annual outsourcing expenditure was on capital works and construction, building and property management, and environmental hygiene contracts.

Service category	% of annual outsourcing expenditure	
	2006	2008
Capital works and construction	67%	63%
Building and property management	14%	15%
Environmental hygiene	5%	6%

9. As shown in the trend analysis below¹, the annual outsourcing expenditure decreased sharply in 2004 and plateaued off thereafter.



10. The main reasons why departments outsource include unavailability of required services in-house, getting access to skills, allowing them to concentrate on core services and priorities as well as increasing flexibility in service delivery.

11. By and large, departments are content that they are achieving their objectives when using outsourcing. Most departments are using good practices such as focusing on outputs/outcomes, using measurable performance indicators, service level agreements, and more sophisticated pricing/payment mechanisms.

12. Departments always approach the subject of service transformation with prudence, seeking value for money, customer satisfaction, staff support, etc. This may involve a variety of approaches including the better use of technology, business process re-engineering, and promoting a more customer-centric approach. Another means to achieve this is to deliver public services by using the private sector.

¹ The response to the 2000 survey was incomplete, providing insufficient information for comparison.

13. It is clear from the outsourcing survey and other studies that the community is benefiting from the provision of services of equal or better quality to those previously provided by departments themselves and often at lower cost. In recent years, departments have emphasised improving the quality, not quantity, of government outsourcing.

14. Areas where quality improvement have been encouraged include the use of output-based specifications, setting appropriate levels of services, avoidance of poor quality lowest priced tenders, providing greater flexibility in the way in which services are delivered, and careful review of existing contracts before renewal.

15. The Efficiency Unit (EU) will continue to conduct biennial surveys to update, and share amongst bureaux and departments, government experience on outsourcing.

16. In the past two years, the EU has updated its best practice guides and introduced new ones on private sector involvement. These include the new User Guide to Contract Management (February 2007), the new Government Business Case Guide (May 2008), the third edition of the Outsourcing Guide (March 2008), and the new User Guide to Post Implementation Reviews (February 2009). We also organised a number of training sessions to promote the best practices of outsourcing and contract management, and assisted in the training on development of government business case.

Use of Agency Workers

17. The Administration does not regularly collect information concerning the use of agency workers by bureaux and departments, and therefore does not have ready information on the recent trend of government resorting to the use of agency workers in service delivery. The Administration is collating the information and will submit it to the Panel in due course.

The Way Forward

18. Private sector involvement is a developing programme that must be kept under constant review so that each successive exercise can benefit from the experience gained from those that precede them. We will continue to review international

practices and departmental outsourcing experiences, to learn where we can do better and incorporate these lessons in our training seminars and guides.

Efficiency Unit

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