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Panel on Public Service
Meeting on 21 February 2011

Updated background brief on
contracting out government services

Purpose

This paper provides background information on the government policy on involvement of the private sector in the delivery of public services through outsourcing, and summarizes the concerns expressed by the Panel on Public Service (the Panel) on the impact of the contracting out programme on civil servants in past discussions.

Background

2. According to the Administration, it is the established policy that the Administration should use the private sector where possible, in keeping with its 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. Different contractual approaches, including outsourcing and Public Private Partnerships (PPPs), may be considered when providing new and expanded services, as well as to improve existing services.

Outsourcing

3. The Administration considers that outsourcing is an effective means of delivering services to the community and can help departments respond to increasing demands for better services of the community, while helping to achieve the cost-savings necessary to meet the Administration's budgetary and financial objectives.

Role of the Efficiency Unit (EU) in promoting/assisting outsourcing

4. EU is tasked with helping the Administration to transform the delivery of public services through better efficiency and productivity. One way to achieve this is to assist bureaux and departments (B/Ds) to look at different means to deliver public services, including through the private sector. Typically, this involves outsourcing and PPP approaches.

5. Since 2001, EU has established a dedicated team to assist B/Ds in enhancing involvement of the private sector in the delivery of public services. EU provides the following services to departments considering private sector involvement options –

- (a) Feasibility and business case studies;
- (b) Re-engineering/performance improvement studies;
- (c) Project planning, scoping studies, and implementation planning;
- (d) Development of procurement documents including contracts, service specifications and tender evaluation criteria;
- (e) Due diligence checks;
- (f) Establishment of contract administration and relationship management regimes;
- (g) Providing a range of guides;
- (h) Training courses, seminars and experience sharing sessions; and
- (i) Help desk services.

6. EU has published a number of brochures regarding the involvement of the private sector in the provision of public services, including “A General Guide to Outsourcing”, “An Introductory Guide to Public Private Partnerships”, “A User Guide to Contract Management”, “Government Outsourcing Practices by ICAC” and “Competition and Contracting: Learning from Past Experience”.

7. EU conducted outsourcing surveys on a biennial basis since 2000 to collate information on the number of contracts, total contract value and annual outsourcing expenditure of the Administration. A summary of findings is given below -

Year of survey	2000	2002	2004	2006	2008
Total number of contracts	4 389	4 853	4 512	3 984	4 339
Total contract value	(Not asked)	\$238 billion	\$214 billion	\$208 billion	\$216 billion
Annual outsourcing expenditure	\$32 billion	\$66 billion	\$46 billion	\$44 billion	\$42 billion

8. A wide spectrum of government services have been outsourced, with capital works and construction, building and property management, environmental hygiene, and infrastructure maintenance contracts continuing as the top four in terms of annual outsourcing expenditure since 2000. According to the Administration, departments usually outsource for pragmatic reasons, such as acquiring services unavailable in-house, the wish to focus on core services and the need to access skills, rather than for achieving cost savings.

Standard employment contract for non-skilled workers of contractors of government service contracts

9. On 6 May 2004, the Administration promulgated a mandatory requirement on wage rates for government service contracts for tender assessment. Under the mandatory requirement, a tender offer would not be considered if the monthly wage rates offered by the tenderer to their non-skilled workers were less than the average monthly 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 tenders were invited. In March 2005, the Administration proposed a new standard employment contract for non-skilled workers for use by contractors of government service contracts.

Panel discussions on the impact of government outsourcing on civil servants

10. The Panel first discussed the impact of government outsourcing programme on civil servants at its meeting on 20 May 2005. Members were in general concerned whether the Administration was trying to reduce the size of the civil service establishment through contracting out more and more of its services to private contractors, and reminded the Administration the importance of upholding the stability of the civil service. Hon WONG Kwok-hing queried whether the staff savings achieved through containing the size of the civil service would be offset by the cost for government outsourcing contracts.

11. The Administration explained that the primary objectives of outsourcing public services to the private sector were to achieve value for money and to ensure quality service delivery. The Administration pointed out that cost cutting was not a major consideration when departments took forward outsourcing exercises. The Administration also advised that it did not have accurate statistics on the amounts of savings achieved as a result of outsourcing over the years as this was not one of the measured deliverables for outsourcing contracts. It would be particularly difficult to derive this information for outsourcing contracts that had been in place for many years and for contracts for which the services outsourced had never been provided in-house.

12. Hon LEE Cheuk-yan considered that outsourcing had adverse impact on the promotion prospects of civil servants and succession planning in the civil service. He was concerned whether the Administration had fully assessed the impact of outsourcing on civil servants before pursuing outsourcing exercises. He also requested the Administration to assess the impact of the outsourcing programmes on civil servants and consult the staff concerned before procuring outsourcing services.

13. The Administration advised that it was the government policy that no staff would be made redundant due to contracting out, and it was expected that the outsourcing programmes would not have direct impact on civil servants. The Administration assured members that the Administration would give due consideration to the views of civil servants and make a decision on the way forward for the best interest of the community as a whole. The Administration pointed out that there had been precedents that the Administration had decided to shelve plans

for corporatization of public services after considering staff's views.

14. Hon WONG Kwok-hing requested information on the total number of staff employed by government contractors under the prevailing government outsourcing programmes. The Administration advised that government outsourcing contracts only specified the types and level of services to be delivered by the contractors, rather than the number of staff to be employed for the services. It was up to individual contractors to determine the number of staff to be employed. The Administration did not maintain statistics on the number of staff employed by contractors undertaking government outsourcing contracts.

15. At the Panel meeting on 14 October 2008, Hon IP Wai-ming and Dr Hon PAN Pey-chyou expressed concern about whether the prevailing economic climate would have any impact on the Administration's policy on outsourcing. The Panel invited civil service staff unions to express their views on government outsourcing at its meeting on 29 May 2009. Their views are summarized as follows –

- (a) Before further outsourcing public services, there was a need for the Administration to review the cost-effectiveness of outsourced government services, in particular the staffing costs incurred in managing outsourcing contracts and rectifying problems if such arose;
- (b) There was a need to ensure that outsourcing would not lead to brain drain of experienced civil servants and affect the establishment of the civil service. Proper communication channels should be established to ensure that civil servants affected would be made aware of the relevant outsourcing plans;
- (c) EU should not only focus on identifying new service areas for outsourcing regardless of the suitability of these services for outsourcing. In particular, attention should be paid to the implications of outsourcing tasks that involved law enforcement;
- (d) Government outsourcing had led to exploitation of non-skilled workers, and the relevant remedial measures were ineffective; and
- (e) Civil servants very often had to shoulder responsibility for

the poor quality of outsourced services. They also had to spend time on rectifying problems so arising and monitoring the performance of contractors' staff.

16. Sharing the views of the civil service staff unions, Panel members in general were concerned that workers employed under government service contracts, which were normally short-term contracts, were deprived of wage increase and career prospects. They considered that to secure government service contracts, contractors tended to cut staff salaries in order to minimize cost. They criticized EU for aggravating exploitation by promoting government outsourcing. Some Panel members also pointed out that outsourcing had deprived non-skilled workers of the opportunities of working for a stable job and had affected staff morale in the civil service.

17. Hon LEE Cheuk-yan suggested that EU should provide channels for gauging civil servants' views in the course of conducting the biennial outsourcing surveys to ensure that civil servants' views on outsourcing could be properly heeded. Besides, Dr Hon PAN Pey-chyou urged the Administration to conduct a comprehensive review of government outsourcing and critically review its cost-effectiveness.

18. In response to the views raised by Panel members and civil service staff unions, the Administration advised that –

- (a) The history of using the private sector to deliver public services could in fact be dated back to the pre-1997 days with the primary objectives of achieving value for money and ensuring quality service delivery, and not cost cutting or reducing the establishment of the civil service;
- (b) EU would only provide advice and assistance to those B/Ds which might wish to consider outsourcing their services. It was entirely up to the heads of B/Ds to decide on their respective outsourcing programmes having regard to public expectations and their service modes. The major considerations of outsourcing included the suitability of the services concerned for outsourcing, and legal and law enforcement considerations;
- (c) On the effectiveness of outsourcing, according to the outsourcing surveys, by and large B/Ds considered that they had achieved their objectives in using outsourcing. In fact,

the customer feedback received by four major user departments which had outsourced their services showed that improvements had been found in the services outsourced; and

- (d) To address concerns about exploitation of non-skilled workers, a two-envelope system had been adopted in vetting tenders to ensure lowest-priced tenders involving exploitation of staff would not be considered. Contract management had also been improved since 2005. A price adjustment mechanism had been adopted in some contracts to allow for adjustments to contract payments in accordance with market fluctuations in the labour cost to minimize the incentive to cut cost by exploiting workers. A Demerit Point System had further been introduced to sanction unscrupulous contractors.

19. At members' request, the Administration provided supplementary information in July 2010 (LC Paper No. CB(1)2598/09-10(01)) on the difficulties encountered by departments as revealed in past outsourcing surveys, and on the four cases highlighted in the submissions from civil service staff unions which attended the meeting on 29 May 2009. A sample of the questionnaire used by EU for conducting the biennial outsourcing surveys was also provided.

Latest development

20. The Administration intends to brief the Panel on the findings of the latest review on government outsourcing at the Panel meeting on 21 February 2011.

Relevant papers

21. A list of relevant papers is in **the Appendix**.

Council Business Division 1
Legislative Council Secretariat
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Contracting out government services

List of relevant papers on contracting out government services and topics related to private sector participation in the provision of public services

Date of Meeting	Committee	Minutes/ Paper	LC Paper No.
16.11.1998	Panel on Public Service	Minutes of meeting	CB(2) 901/98-99 Agenda items III & IV http://www.legco.gov.hk/yr98-99/english/panels/ps/minutes/ps161198.htm
17.1.2000	Panel on Public Service	Administration's paper on the feasibility study on corporatization of the Survey and Mapping office, Lands Department	CP 366/99-00(02) http://www.legco.gov.hk/yr99-00/english/panels/ps/papers/cp366e02.pdf
17.1.2000	Panel on Public Service	Information paper on greater private sector involvement in Housing Authority estate management and maintenance services - implementation and staffing arrangements	CB(1)790/99-00(02) http://www.legco.gov.hk/yr99-00/english/panels/ps/papers/a790e02.pdf

Date of Meeting	Committee	Minutes/ Paper	LC Paper No.
20.5.2005	Panel on Public Service	Administration's paper on Request for information on contracting out government services	CB(1)1460/04-05(01) http://www.legco.gov.hk/yr04-05/english/panels/ps/papers/ps0117cb1-1460-1e.pdf
		Minutes of meeting	CB(1)1768/04-05 http://www.legco.gov.hk/yr04-05/english/panels/ps/minutes/ps050520.pdf
29.5.2009	Panel on Public Service	Administration's paper on Use of outsourcing in the delivery of government services	CB(1)1646/08-09(03) http://www.legco.gov.hk/yr08-09/english/panels/ps/papers/ps0529cb1-1646-3-e.pdf
		Minutes of meeting	CB(1)2019/08-09 http://www.legco.gov.hk/yr08-09/english/panels/ps/minutes/ps20090529.pdf
		Administration's paper on issues about outsourcing (follow-up paper)	CB(1)2598/09-10(01) http://www.legco.gov.hk/yr08-09/english/panels/ps/papers/ps0529cb1-2598-1-e.pdf