

# How has outsourcing affected public service delivery in Hong Kong? Illustrate with relevant cases.

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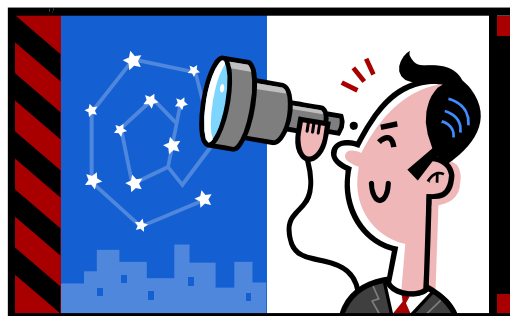


## “Outsourcing” through the eyes of...

- Government
- Contractor
- Civil Society

To see...

- Cost
- Quality of service
- Social Impact



## Outsourcing in Hong Kong

- Outsourcing in HK Government: whenever possible
- Outsourcing non-core services and routine execution processes
- Core functions and definition decisions remain in-house: policy formulation, public funds budgeting, regulatory and control measures, licencing and law enforcement
- Examples: public works, environmental hygiene, leisure and culture, transportation, security, property management, information and technologies



## Government Officials' View on Cost



## Cost Effectiveness

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- Lower service cost
- Downsizing of civil servants
- Transferal of operational risks
- Flexibility to meet fluctuating needs



## Lower service cost

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- Public service delivered by government: inefficient and ineffective
- Civil servants: employed in tenure; lack incentive to improve service



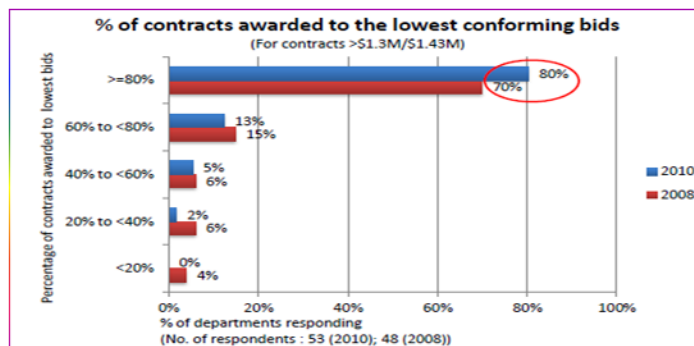
## Lower service cost (2)

- Market competition: same service lower cost
- Business cycle triggered improving quality of service: bids, tendering, contractual performance, assessment of bidder's past performance in future bids and tendering (e.g. FEHD's default notice)
- Increasing demands of public service met by limited resources



## Lower service cost (3)

- *Efficiency Unit 2010 Survey on Government Outsourcing*: 80% contracts go to lowest price bids



## Lower service cost (4)

- *Efficiency Unit 2010 Survey on Government Outsourcing*: overall cost saving 26%-35%

Service category	Average cost saving (%)	No. of departments
Community, medical and welfare services	90%	1
Call centres	60%	2
Printing and distribution	49%	5
Training and education	44%	7
Finance and accounting	42%	4
Policy advice and management consulting	38%	3
Environmental hygiene services	35%	4
Information technology	34%	29
Office support and administrative services	34%	26
Human resource management	31%	12
Others	28%	11
Building and property management services	28%	21
Plant and equipment maintenance	27%	11
Technical services	26%	11
Transport services	26%	8
Marketing, communication, publicity and public relations	22%	12
Infrastructure maintenance	22%	4
Capital works and construction	21%	4
Cultural and recreational services	20%	5
Legal services	N/A	0
	Overall average : 31% (2008: 29%)	

Note: 1. Of the 74 departments with outsourcing activities, 49 responded with estimated cost savings.  
2. Each department can respond in more than 1 service category.

## Downsizing of civil servants

- Contain or trim down the no. of civil servants
- Save resources on staff welfare (e.g. medical service and MPF contributions)
- Staff management is outsourced through outsourcing of public service delivery
- Fewer supervisory grade of civil servants
- Staff training to deliver public service performed by contractors

## Transferal of Operational Risk

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- Business market is more ready to cope with changing environment (e.g. fast to employ more part time / contract staff to handle increasing workload)
- Contractors have expertise and extensive experience in their own business field



## Flexibility to meet fluctuating needs

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- Avoid under-utilization of staff and other resources
- Not all public service required fixed set of staff (e.g. catering service and environmental hygiene)
- Project-based public service



## Government Officials' view on Quality



## Government's expectations

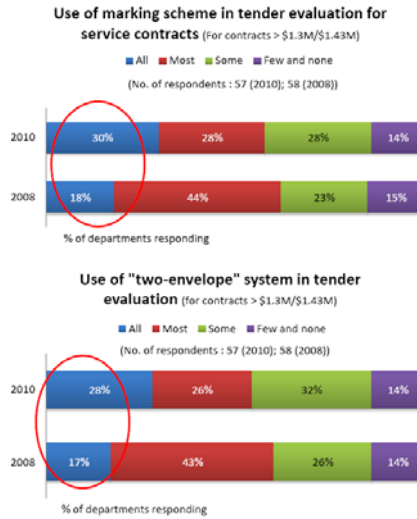
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- To improve existing services
- To meet increasing demands and new service requirements
- To gain access to new skills and technology



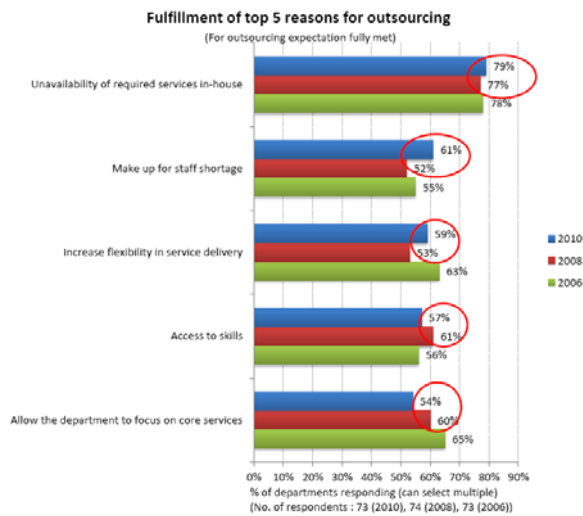
# Satisfaction Survey

- Effective monitoring system
  - Service Level Agreement
  - Key Performance Indicators
  - Marking Scheme and Two-envelope system (technical and cost) in tendering exercise



# Satisfaction Survey

- Fulfilled the key objectives



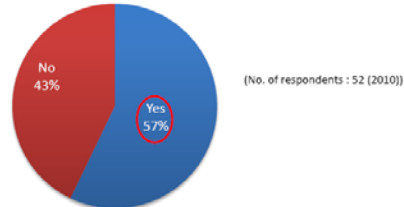


# Satisfaction Survey

- Technical weighing
  - Better quality solution

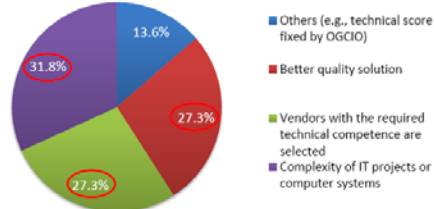
Percentage of departments preferring Technical weighing > 30%

(New Item. For contracts > \$1.43M)



Reasons for higher technical weighing for IT projects by % of departments

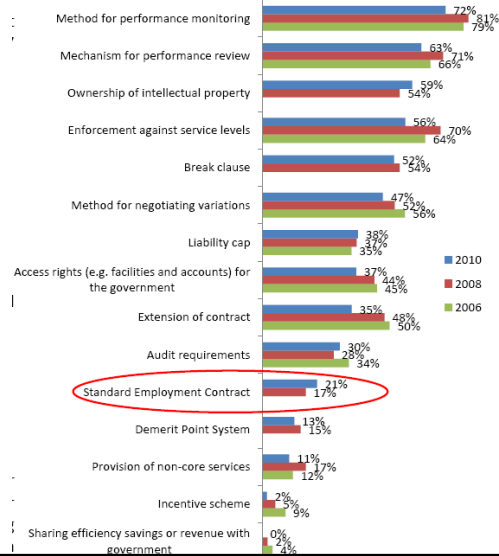
(New item. For contracts > \$1.43M)



# Satisfaction Survey

- B/Ds involve best practices in outsourcing activities

(For all or most of the contracts > \$1.3M/\$1.43M)

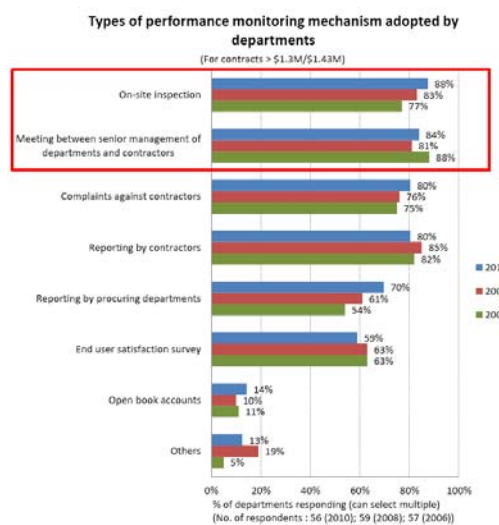


## Quality Assurance – established mechanism

- Before outsourcing
  - The decision-making framework
  - Terms and conditions, tendering procedures
  
- Tender Evaluation
- Contract Monitoring and Review
- Feedback from Contractors
- 3rd party monitoring



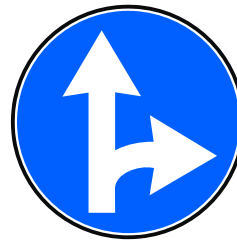
## Performance monitoring mechanism adopted by B/Ds



## Challenge Ahead

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- Lack of experience / experts ?
  - Diminished government capacity?
  - Downsizing the governance?
- Accountability on service quality?

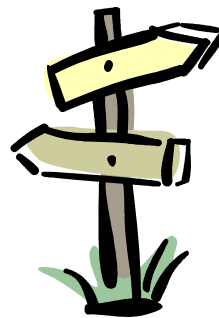


## Future Development

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Contract management

Concentration on core function



## Outsourcing IT service in Housing Authority

Three main types of IT  
outsourced project :

1. Application  
Maintenance
2. Operational Support
3. System Integration  
Project



## Outsourcing Cleaning Service in FEHD

A high quality service  
specification has three  
key characteristics:

- Primarily being  
output-based and non-  
prescriptive;
- Focusing on key issues  
and objectives to be  
addressed in the  
outsourcing initiative;



## Government Officials' Views on the Social and Economical Influences of Outsourcing



### Social, Economical and Political Influences of Outsourcing

- ◆ The Government outsourcing expenditure varied from \$44.1 billion to 52.0 billion from 2006 to 2010.
- ◆ Outsourcing is a very important mode of the Government spending.



- ◆ Hong Kong social, economical and political activities are under huge influence by the Government's outsourcing activities.

## Social, Economical and Political Influences of Outsourcing

- ◆ Execution of fiscal policy by the Government
- ◆ Pursuing policy goals as a market force
- ◆ Promoting law abiding behavior in the business sector as a market force



## Outsourcing – Execution of Fiscal Policy

- ◆ The Basic Law Article 107 implies that even in the adverse economic situation, the Government is legally obliged not to run a long-term budget deficit.
- ◆ The Government is usually not willing to increase its recurrent spending, so it has to turn to one-off expenditure items. Outsourcing seems to be the best option.



- ◆ During the adverse economic situation, the Government can initiate new projects or speed up the on-going one. This action might lead to budget deficit.

## Outsourcing – Execution of Fiscal Policy

- ◆ More people can be employed in these projects, alleviating the unemployment problem.
- ◆ Increasing outsourcing scale can improve the economic situation of the society.
- ◆ When the local economy gets improved, the Government can re-prioritise the on-going projects or even stop to run a deficit budget, meeting the balanced budget requirement in the Basic Law.



**Learning Flexibility**



## Outsourcing – Execution of Fiscal Policy

### *Possible Problems*

- ◆ Building white elephants with little social or economic values.
- ◆ Workers of outsourced public services would be fired if the Government terminated the outsourced services.



## **Outsourcing – Pursuing Policy Goals**

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◆ 2011/12 Policy Address, Para. 159:

*The Government will encourage the local industry to develop advanced cloud computing technologies and applications. In the next few years, we will develop a government cloud platform and procure public cloud services.*

◆ OGCIO Website:

*The primary objectives of the Government IT outsourcing policy are to enlarge the delivery capacity for IT services, to accelerate the delivery of IT solutions, and to create a market of sufficient size to encourage the further development of the IT industry locally.*

## **Outsourcing – Pursuing Policy Goals**

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- ◆ OGCIO has two main established outsourcing arrangements for Bureaux and Departments to procure ICT services:
- ✓ Standing Offer Agreement for Quality Professional Services 2 (SOA-QPS2)
- ✓ T22-Contracts
- ◆ Outsourcing for ICT services is considered as one of the Government tactics to encourage the growth of the Hong Kong ICT sector.





## **Outsourcing – Pursuing Policy Goals**

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- ◆ As announced and with effect from 1 September 2009 in CEDD's *Notice for Grab-mounted Dump Truck*, all the grab-mounted trucks working for **public works contracts** should be installed with suitable cover which can be operated safely and prevent the release of dust during transportation of construction wastes.



## **Outsourcing – Pursuing Policy Goals**

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- ◆ The aims of this policy:
  - ✓ To minimise the dust during the transportation of construction waste.
  - ✓ To prevent the truck from overloading.
  - ✓ To provide a safer working environment to the dump truck drivers.
- ◆ The dump truck drivers are discouraged to argue with their client (the Government) to deter the implementation of the scheme.
- ◆ This environmental and public-safety friendly measure can be implemented with minimum opposition.

## Outsourcing – Promotion of Law Abiding Behavior

From “Contractor Management Handbook – Revision B” issued by DevB, poor site safety records, poor environmental performance, court convictions (e.g. contravention of site safety legislation, Employment Ordinance and employment of illegal workers), violation of laws related to public safety and public health may lead to the taking of regulating actions by the Government against the Contractors.

- ✓ Anti-Pollution Legislation
- ✓ Occupational Safety and Health Ordinance (Cap. 509)
- ✓ Section 17I or 38A of Immigration Ordinance (Cap. 115)
- ✓ Employment Ordinance

## Outsourcing – Promotion of Law Abiding Behavior

- ◆ Possible regulating actions:
  - ✓ Suspension for bidding Government’s contracts.
  - ✓ Downgrading the vendor to probationary status.
  - ✓ Demotion the company to a lower group of Approved Supplier List which can only bid for lower value contracts.
- ◆ The business sector is discouraged to pollute the environment, ignore the health and safety of their employees, employ illegal workers or treat their workers unfairly.



## Contractors' Views



## Contractors' View for Outsourcing

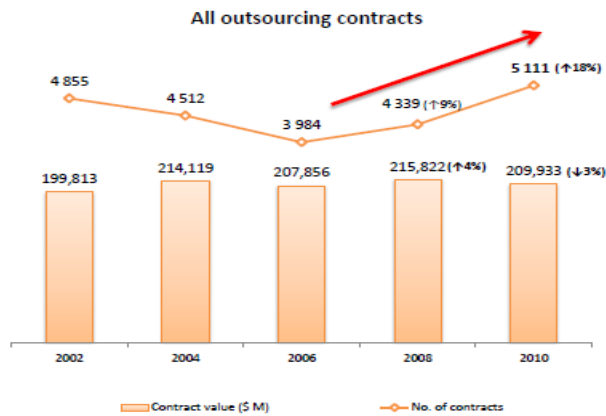
- As at 1 July 2010, there were 5 111 government outsourcing service contracts each costing over \$150,000, comprising 1 136 works contracts (22%) and 3 975 non-works contracts (78%).

	<u>Non-works</u>		<u>Works</u>		<u>Total</u>		<u>Overall</u>
	Contract value ≤ \$1.43M	Contract value > \$1.43M	Contract value ≤ \$1.43M	Contract value > \$1.43M	Non-works	Works	
No. of contracts	2 762	1 213	351	785	3 975	1 136	5 111
Contract value (\$M)	1,729	79,457	309	128,438	81,186	128,747	209,933
Average contract value (\$M)	0.63	66	0.88	164	20	113	41
Annualised expenditure (\$M)	1,729	14,168	309	35,770	15,897	36,079	51,976

- Extract from Report on 2010 Survey on Government Outsourcing (May 2010)

## Contractors' View for Outsourcing

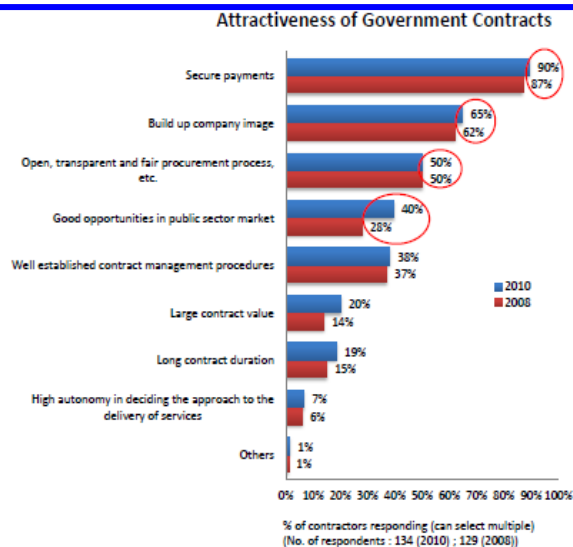
- The number of outsourcing contracts increase has continued to rise from 3 984 in 2006 to 4 339 in 2008 and further to 5 111 in 2010
- Welcome Outsourcing as "Business Opportunity"



- Extract from Report on 2010 Survey on Government Outsourcing (May 2010)

## Outsourcing – Top Three Attractions of Government Contract

- Secure payments (90%, ↑ 3%);
- Build up company image (65%, ↑ 3%)
- Open, transparent and fair procurement process (50%)
- NGOs & Interest Groups – Opportunity for Involvement in Public Management



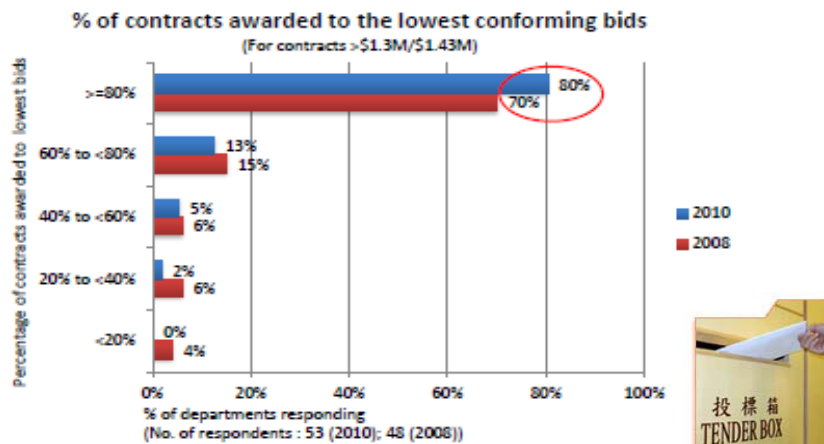
- Extract from Report on 2010 Survey on Government Outsourcing (May 2010)

## Outsourcing – Impact on cost of Public Services Delivery

Best method to save the cost & lower the overall expenditure	
No Bureaucratic procurement procedure	Purchase goods more quickly
Negotiate better prices	Maintain lower inventories
Flexible position to hire, dismiss and promote employees	Profit-oriented

## Outsourcing – Impact on cost of Public Services Delivery

### “Lowest Bidder” Practice



- Extract from Report on 2010 Survey on Government Outsourcing (May 2010)

## Outsourcing – Impact on cost of Public Services Delivery

- Cut cost → Exploitation of workers, Bid rigging (Collusion).
- Saving Financial Cost of Contractor → Passing Political Cost to Government
- Case – Contract CA in BD & EMSD



### 價低者得 政府外判工8折出糧

【本報訊】（記者 譚靜雯）特區政府已停止聘用非公務員合約員工，一旦部門人手不足，會公開招標透過外判公司增聘臨時員工。有工會指出，發現不少外判公司為賺取利潤，中標後剋扣員工1,200元至1,500元的月薪，變相8折支薪，惟現行沒有法例監管，估計目前受剝削的外判員工達8,000人。……



## Outsourcing – Impacts on Public Service Quality

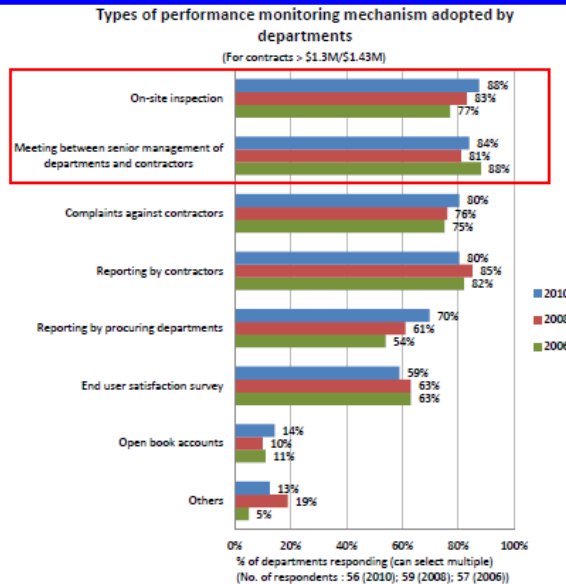
In 2007, the Audit Commission had conducted a review of government outsourcing, which covers three departments have had substantial outsourcing activities, they are FEHD, LCSD and HD

- Attainment of cost savings through outsourcing services.
- Little information on performance information on the service quality improvements achieved through outsourcing.
- Inadequate monitoring of the performance of outsourcing contractors by the departments



## Outsourcing – Impacts on Public Service Quality

- No contract termination due to unsatisfactory performance of the contractor during the period of 1 July 2009 to 30 June 2010
- Final responsibility of providing good outsourced public services remains with the department, which draws up the outsourcing contract and exercise effective monitoring role



## Outsourcing – Social & Economic Impacts

- Economic Development
- Development of a knowledge-based economy
- Oligopoly of particular service
- Bid Rigging & Collusion
- Increase involvement of Social Enterprise & Interest Groups



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## Civil Society's Views



### Civil Society expectation – Cost & Quality

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- Similar or even better service quality from private sector
- Lower tax with more public services





## Customer opinion survey - LSCD sports facilities

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## Customer opinion survey - LSCD sports facilities

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- Target: Users of facilities
- Compare the service of the Sports Centre and Swimming pool (Outsourced vs Self managed)
- The score for outsourced and LSCD managed centre are 7.5 and 7.65 points respectively ( 0-10 points scale)

## Customer opinion survey - Building management



Lei Cheng Uk Estate and Tai Hang Tung Estate

## Customer opinion survey - Building management

- Many residents agreed that the services of private company is better than Housing Department (around 40 - 50%) (e.g. Patrol frequency, Visitor registration, service hour, accessibility etc)
- The other services quality are roughly the same (e.g. Cleanliness, building repair works, building maintenance etc)

## Negative view - Cost & Quality

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- Small profit margin of the contract may lead to poor service
- Poor equipment and lacking contingency plan



## Negative view - Cost & Quality

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- Affect Government image
- Civil servant need to shoulder responsibility for poor quality of outsourced services

## Social impact

### Labour exploitation

- Under-pay
- No salary increase
- No career prospect









## Social impact

### Labour exploitation

- No job security
- Low staff morale
- Insufficient penalty to contractor
- Statutory minimum wage



## Conclusion

	Cost	Service Quality	Social impact
Government			
Contractor			
Civil Society	