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

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

Lower service cost

- 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%

<table>
<thead>
<tr>
<th>Service category</th>
<th>Average cost saving (%)</th>
<th>No. of departments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community, medical and welfare services</td>
<td>50%</td>
<td>1</td>
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<tr>
<td>Call centres</td>
<td>60%</td>
<td>2</td>
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<tr>
<td>Printing and distribution</td>
<td>40%</td>
<td>3</td>
</tr>
<tr>
<td>Training and education</td>
<td>80%</td>
<td>7</td>
</tr>
<tr>
<td>Finance and accounting</td>
<td>82%</td>
<td>8</td>
</tr>
<tr>
<td>Facility and management consulting</td>
<td>80%</td>
<td>3</td>
</tr>
<tr>
<td>Environmental hygiene services</td>
<td>80%</td>
<td>4</td>
</tr>
<tr>
<td>Information technology</td>
<td>54%</td>
<td>29</td>
</tr>
<tr>
<td>Office support and administrative services</td>
<td>36%</td>
<td>26</td>
</tr>
<tr>
<td>Human resource management</td>
<td>33%</td>
<td>12</td>
</tr>
<tr>
<td>Others</td>
<td>26%</td>
<td>11</td>
</tr>
<tr>
<td>Building and property management services</td>
<td>25%</td>
<td>21</td>
</tr>
<tr>
<td>Plant and equipment maintenance</td>
<td>27%</td>
<td>11</td>
</tr>
<tr>
<td>Technical services</td>
<td>20%</td>
<td>11</td>
</tr>
<tr>
<td>Transport services</td>
<td>20%</td>
<td>8</td>
</tr>
<tr>
<td>Marketing, communication, publicity and public relations</td>
<td>22%</td>
<td>13</td>
</tr>
<tr>
<td>Infrastructure maintenance</td>
<td>24%</td>
<td>8</td>
</tr>
<tr>
<td>Capital works and construction</td>
<td>31%</td>
<td>4</td>
</tr>
<tr>
<td>Cultural and recreational services</td>
<td>20%</td>
<td>5</td>
</tr>
<tr>
<td>Legal services</td>
<td>N/A</td>
<td>0</td>
</tr>
<tr>
<td>Overall average</td>
<td>31% (2005: 29%)</td>
<td></td>
</tr>
</tbody>
</table>

- **Note:** 1. Of the 24 departments with responding activities, 1 department not responded to survey.
- 2. Data has been reviewed according to criteria.

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

- 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

- 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

• 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

- Better quality solution
  - (56.4%) of respondents prefer technical weighing over other factors.
  - Reasons for higher technical weighing:
    - Better quality solution
    - B/Ds involve best practices in outsourcing activities

- B/Ds involve best practices in outsourcing activities
  - 43% of respondents consider B/Ds as the best practice in outsourcing.

- Other factors include:
  - B/Ds with the required technical competence
  - Complexity of IT projects or computer systems
  - Outsourcing best practices
  - Offering a better quality solution
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

• Lack of experience / experts?
  – Diminished government capacity?
  – Downsizing the governance?

• Accountability on service quality?

Future Development

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

- 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.

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

◆ 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

◆ 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

◆ 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

◆ 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

### 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

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%).

<table>
<thead>
<tr>
<th>Non-works</th>
<th>Works</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contracts value $1.45M</td>
<td>Contract value &gt; $1.45M</td>
<td>Non-works</td>
</tr>
<tr>
<td>No. of contracts</td>
<td>2,762</td>
<td>1,123</td>
</tr>
<tr>
<td>Contract value (SM)</td>
<td>1,729</td>
<td>79,457</td>
</tr>
<tr>
<td>Average contract value (SM)</td>
<td>0.83</td>
<td>66</td>
</tr>
<tr>
<td>Annualised expenditure (SM)</td>
<td>1,729</td>
<td>14,148</td>
</tr>
</tbody>
</table>

* 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”

![Graph showing outsourcing contracts increase from 2002 to 2010](image)

- 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

![Bar chart showing attractiveness of government contracts](image)

- 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**

<table>
<thead>
<tr>
<th>Method</th>
<th>Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>No bureaucratic procurement procedure</td>
<td>Purchase goods more quickly</td>
</tr>
<tr>
<td>Negotiate better prices</td>
<td>Maintain lower inventories</td>
</tr>
<tr>
<td>Flexible position to hire, dismiss and promote employees</td>
<td>Profit-oriented</td>
</tr>
</tbody>
</table>

### Outsourcing – Impact on cost of Public Services Delivery

#### “Lowest Bidder” Practice

#### Graph:

- **% of contracts awarded to the lowest conforming bids**
  - For contracts >$1.3M/€1.43M:
    - 80% awarded to the lowest bid
  - For contracts ≤$1.3M/€1.43M:
    - Distribution of contracts awarded

#### Notes:

- 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

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
Civil Society’s Views

Civil Society expectation
– Cost & Quality

• Similar or even better service quality from private sector

• Lower tax with more public services
Customer opinion survey - LSCD sports facilities

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

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

Negative view - Cost & Quality

- 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

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Service Quality</th>
<th>Social impact</th>
</tr>
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<td><img src="thumb_up.png" alt="Thumb Up" /></td>
<td><img src="question_mark.png" alt="Question Mark" /></td>
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<td>Civil Society</td>
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<td><img src="question_mark.png" alt="Question Mark" /></td>
<td><img src="thumb_down.png" alt="Thumb Down" /></td>
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