

## LCQ19: Government outsourced service contracts

Following is a question by the Hon Kingsley Wong and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (December 4):

Question:

According to an information note of the Legislative Council Secretariat, many local governments around the world have in recent years implemented "reverse contracting" (i.e. the direct provision of some municipal services by the Government like before), partly due to the fact that outsourcing of services can hardly realise considerable cost savings, and the service quality and efficiency may be unsatisfactory, while the relevant authorities have hoped to improve the remuneration and job stability of outsourced workers. It is learnt that setting up a public municipal services organisation for direct long-term employment of workers outside the civil service establishment is one of the major modes of reverse contracting. In this connection, will the Government inform this Council:

- (1) of the current total number of outsourced workers responsible for government services;
- (2) of the annual value of outsourced contracts procured by the four major procuring departments of outsourcing services (i.e. the Food and Environmental Hygiene Department, Leisure and Cultural Services Department, Housing Department and Government Property Agency) since 2018, together with the respective numbers of outsourced workers involved under the relevant contracts;
- (3) of the average increase in expenditure for the same batch of service contracts upon introduction of various rounds of improvement measures on the outsourcing system by the Government since 2018;
- (4) given that a survey conducted by the former Efficiency Unit in 2010 revealed that government departments could incur costs as much as 11 per cent of the annualised contract value for the management and monitoring of outsourced service contracts, whether the Government has conducted afresh survey on such costs in recent years; if so, of the change in cost ratio; if not, whether it will do so; and
- (5) as there are views that the remuneration of government outsourced workers has improved in recent years, while exorbitant costs have been incurred by government departments for the management and monitoring of outsourced service contracts, whether the Government has studied if (i) the economic benefits brought by outsourcing, instead of direct employment of workers by the Government, has been diminishing, and (ii) greater economic benefits can

be brought by the setting up of a public municipal services organisation for reverse contracting; if it has studied, of the details; if not, whether it will do so?

Reply:

President,

In consultation with relevant bureaux and departments (B/Ds), a consolidated reply is as follows:

(1) We do not maintain information on the number of outsourced workers for all types of services in the Government. As at October 31, 2024, around 40 000 non-skilled workers were involved in the service contracts of the four major procuring departments (i.e. the Leisure and Cultural Services Department, Housing Department, Food and Environmental Hygiene Department and Government Property Agency) in total.

(2) As regards the service contracts involving non-skilled workers awarded by the four major procuring departments through tendering from 2018-19 to 2024-25 financial year, the total value of contracts and the numbers of non-skilled workers involved are set out at Annex.

(3) The Government has implemented a series of improvement measures in April 2019 and May 2023 respectively to further safeguard the rights and benefits of outsourced non-skilled workers in the procurement of services. These measures include enhancing the tender evaluation system, enhancing the remuneration of non-skilled workers and introducing a standardised regulatory framework to enhance the monitoring of non-skilled worker contracts. Generally speaking, these measures would lead to an increase in contract expenditure. However, changes in contract value (including increase or decrease) also depend on other factors, such as departments' possible adjustments to service requirements (e.g. service content, manpower requirement) of the new batch of contracts, the number of tenderers and their tendering strategies and inflation. Hence, changes in value of contracts awarded by government departments do not merely reflect the impact of improvement measures introduced, and it is not possible for us to make an independent assessment of such impact.

(4) The former Efficiency Unit (EU) conducted a survey on government outsourcing in 2012. According to the survey, on average, the contract management cost for all government departments is about 14 per cent of the annualised contract value. The former EU has not conducted any similar survey since then.

The Efficiency Office (formerly the EU) was merged with the Office of the Government Chief Information Officer to form the Digital Policy Office (DPO) in July 2024. The new office is responsible for formulating policies on digital government, data governance and information technology and consolidating information technology-related resources within the Government so as to accelerate the development of digital government. DPO has no plan at

this stage to relaunch relevant surveys.

While the Government no longer conducts similar surveys, all B/Ds should ensure efficient and effective use of resources under their charge and put in place appropriate procedures to monitor expenditure. The cost of supervising such expenditure should also be reasonable.

(5) Outsourcing is one of the ways adopted by the Government to deliver public services. Government departments will, having regard to operational needs, service nature and effectiveness, etc, adopt the most suitable mode of public service delivery (e.g. appointing civil servants or non-civil service contract staff, and outsourcing). Where departments decide to outsource their services, the relevant services should be procured in accordance with the Government's procurement procedures in a clear, open, fair and competitive manner.

Implementation of "reverse contracting" involves relevant administrative structure and expenditure, which may not necessarily be more cost-effective than outsourcing services. Financial analyses should be conducted having regard to circumstances of individual cases. Regardless of the mode of service delivery, as it involves the use of public funds, departments should ensure proper use of public resources. Departments have therefore made holistic considerations, including cost-effectiveness, when deciding to outsource their services.