

2002 Outsourcing Survey

In 2002, the Efficiency Unit conducted a survey on outsourcing of Government activities using a questionnaire and follow-up discussions with a view to assessing and improving the effectiveness of private sector involvement in public service delivery. The survey covered 78 bureaux and departments (B/Ds) and 19 service categories. For the purpose of this survey, an outsourcing activity was defined as a contractual arrangement whereby a government department paid a service provider for the delivery of specified service with contractual value exceeding \$150,000. The major findings are summarised in following paragraphs.

Extent of Outsourcing

2. Sixty-seven B/Ds (86%) reported that they were undertaking outsourcing activities. The remaining 11 B/Ds reported no prevailing outsourcing activities; hence they were excluded from further analysis.

Overview

3. As at December 2002, there were 4 855 outsourcing contracts at a total contract value of \$199 billion and annual expenditure of \$65 billion, representing 40% of total Government annual expenditure.

Number of Contracts

4. As shown in Figure 1, the top three categories are Capital works and construction (23%), Building and property management (22%) and Plant and equipment maintenance (12%) in terms of number of contracts.

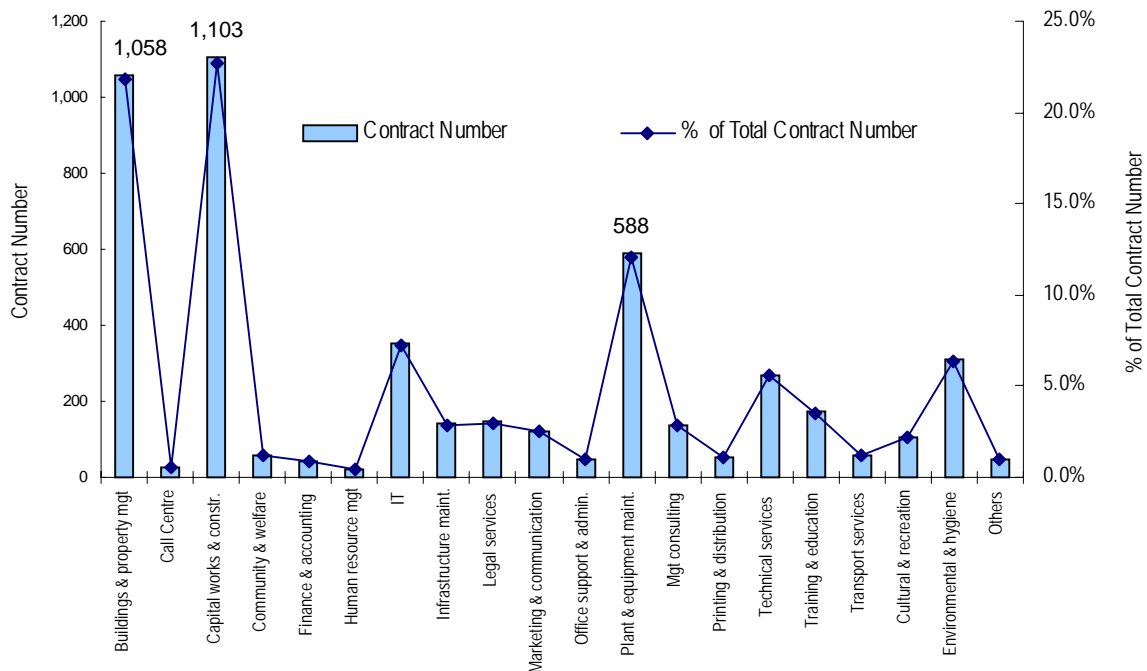


Figure 1 – Number of Outsourcing Contracts by Service Type

Contract Value by Category

5. As regards the contract value, Figure 2 reveals that Capital works and construction (81%), Building and property management (9%) and Infrastructure maintenance (3%) account for 93% of the total sum.

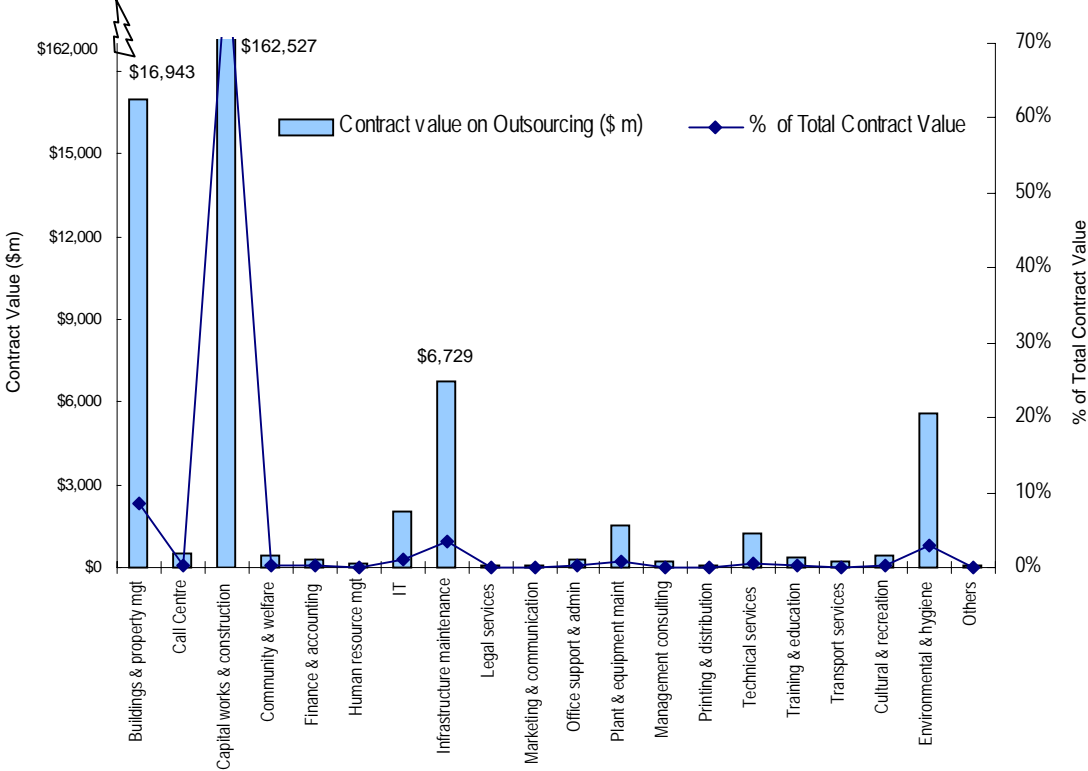


Figure 2 – Value of Outsourcing Contracts by Service Type

Contract Size

6. Because of the nature of service, the average contract value for Capital works and Infrastructure maintenance was large, i.e. \$147m and \$48m per contract respectively. Non-works contracts normally involved a significantly smaller sum, ranged from \$0.5m to \$21m per contract. More than 60% of these non-works contracts had an individual value of \$1.3m or less.

Contract Duration

7. The length of government outsourcing contracts varied from several months to over 5 years. The majority and particularly those for Buildings and property management and Plant and equipment maintenance services did not exceed two years. Some contracts were short because of the specific nature of the service concerned (e.g. length of a briefing out case, span of a consultancy service). In other cases, the civil service tends to keep the contracts short to allow for more flexibility to face possible changes in operational requirements.

Contract Management

8. 75% of respondents engaged dedicated staff for managing and supervising contracts while the remaining respondents required the respective operational staff to take up the contract management on part-time basis. Majority of these contract management resources were professional/general grades staff, as shown in Figure 3.

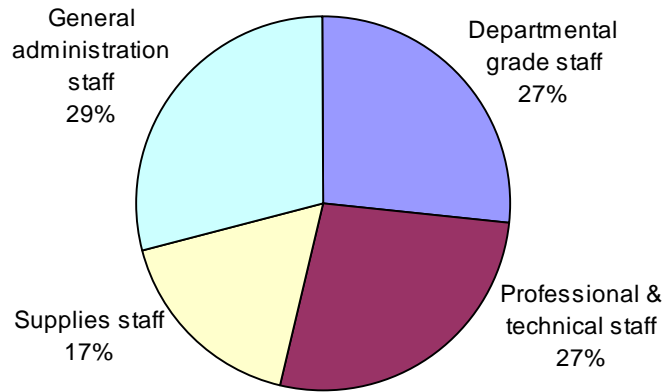


Figure 3 – Distribution of Contract Management Resources

Relationship with Contractors

9. B/Ds were generally more concerned about protecting Government interests than motivating service providers as reflected in Figure 4 below. Over 70% of B/Ds did not have an incentive scheme or efficiency/savings sharing arrangements included in the outsourcing contracts.

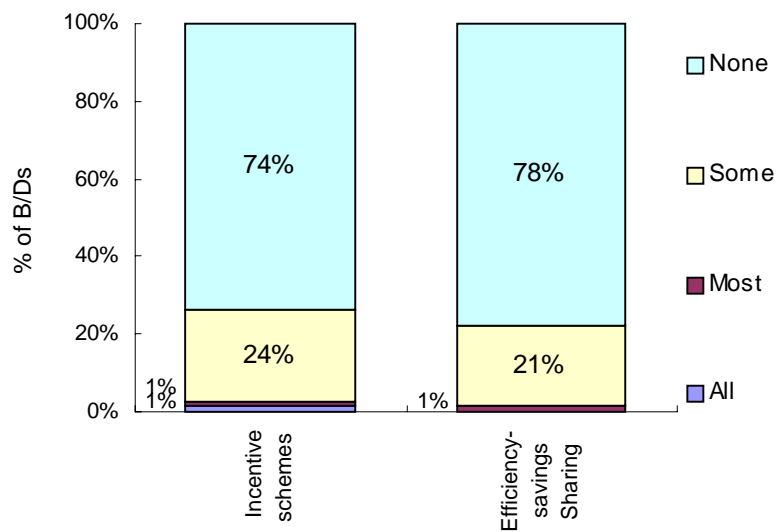


Figure 4 – Provision for Incentives

Benefits of Outsourcing

10. The average saving was 23% of the expenditure had the service been done in-house. Savings were realised mainly due to improved mode of operation, more efficient use of resources, and lower level of wages in the private sector. Follow-up discussions with B/Ds revealed that savings are redeployed in the following ways:

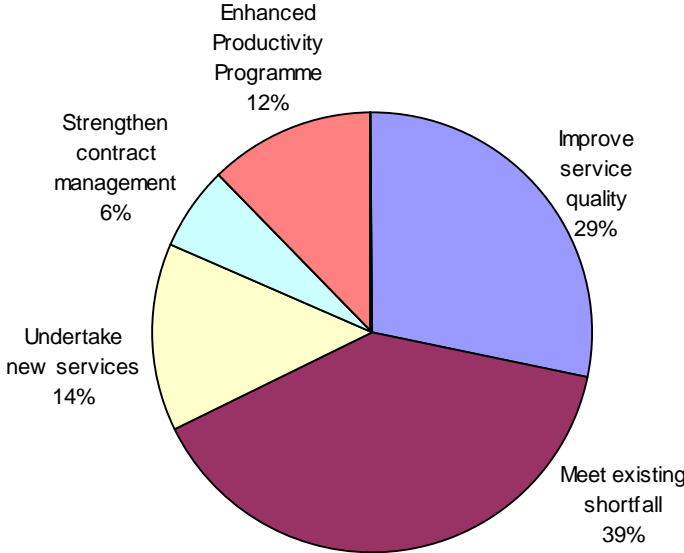


Figure 5 – Deployment of Savings

Support for Outsourcing Pursuits

11. 75% of responding B/Ds were aware of EU’s support in outsourcing through the following channels:

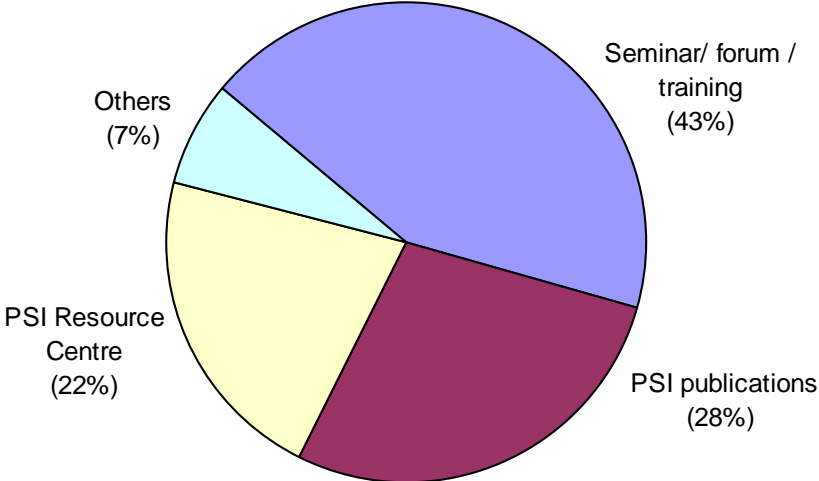


Figure 6 – Source to know about EU’s Support in Outsourcing

12. B/Ds were keen to receive support in the following services which are currently provided by the EU PSI Group:

- sample contract templates;

- training on specific outsourcing techniques and skills;
- local and overseas reference materials;
- Help Desk advice;
- experience sharing sessions amongst civil servants;
- development of service specifications; and
- market research on prospective service providers and benchmark price levels for evaluation of external outsourcing cost and market options.

Comparison of 2000 and 2002 Surveys

13. Another objective of the 2002 Survey is to examine the latest position of government outsourcing since the last Survey conducted in 2000. The following paragraphs describe the remarkable changes in the government outsourcing activities since 2000, excluding those B/Ds which did not respond to the 2000 Survey.

(a) Expenditure

Outsourcing expenditure had doubled, from \$32 billion in 2000 to \$63 billion in 2002, although government expenditure witnessed only an increase of 7%, i.e. from \$150 billion in 2000 to \$160 billion in 2002.

(b) Contract bundling

There had been a slight increase in contract number but a substantial increase in annual outsourcing expenditure and the average value of each contract.

	2000	2002	% (+/-)
No. of contracts	4,389	4,683	7%
Annual expenditure on outsourcing	\$32b	\$63b	97%
Average expenditure per contract	\$7.2m	\$13.4m	86%

Such change demonstrates that B/Ds realised contract bundling facilitates tendering and helps achieve greater economy of scale in contract administration and management.

(c) Core service

In 2000, outsourcing of core services was not popular in government. The 2002 Survey however had shown significant improvement. Growth was shown particularly in Building and property management, Training and education, Community and welfare services which had always been considered as “core” functions.

(d) Service level agreement

There had also been improvement in framing government outsourcing contracts. In 2000, 10% of B/Ds reported no provision for service level specifications and another 42% reported that such specifications were in place only for some contracts. Findings of 2002 survey showed that 66% of government contracts already had provisions for service level agreements.

Future Outsourcing Opportunities

14. Majority of B/Ds recognized the benefits of outsourcing and saw opportunities for outsourcing further. They estimated the potential for outsourcing in the next two years would be \$62b. Similar to the existing outsourcing pattern, Capital works and construction, Buildings and property management and IT services make up the bulk of future contracts.

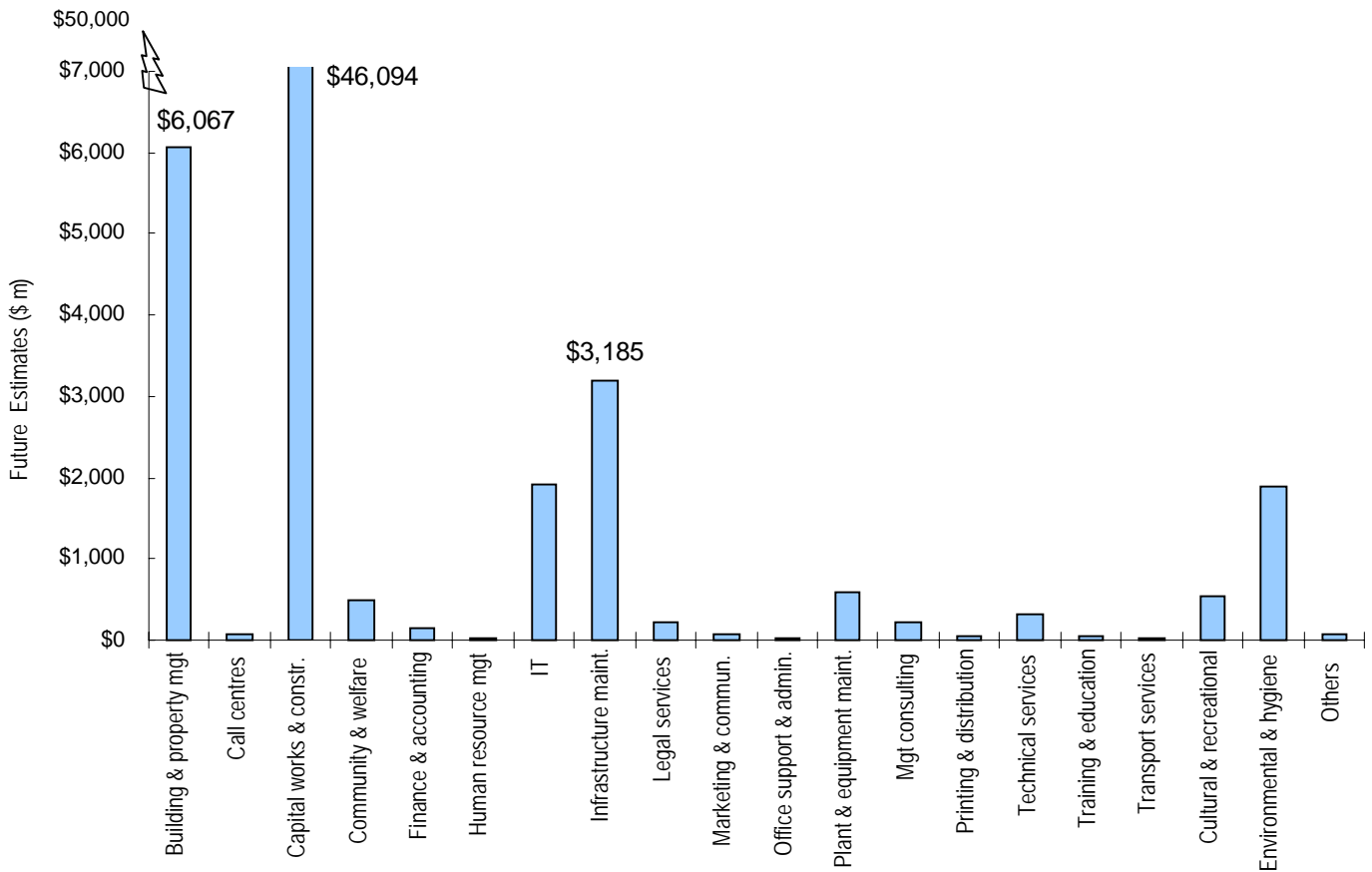


Figure 7 – Future Outsourcing Opportunities