

CHAPTER 2

THE GOVERNMENT OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION

GENERAL REVENUE ACCOUNT

GOVERNMENT DEPARTMENT

Government Property Agency

**Management of government properties
by the Government Property Agency**

MANAGEMENT OF GOVERNMENT PROPERTIES BY THE GOVERNMENT PROPERTY AGENCY

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MANAGEMENT OF GOVERNMENT PROPERTIES BY THE GOVERNMENT PROPERTY AGENCY

Summary and key findings

A. **Introduction.** The Government Property Agency (GPA) is responsible for the provision of property management services to government joint-user buildings and staff quarters. The GPA has outsourced to private sector contractors the property management services. In March 2000, the Management Services Agency (MSA) completed a review of the GPA's delivery of property management services. The MSA recommended that the GPA should change from the then input-based contract arrangement to an outcome-based contract arrangement which would focus on outcomes and performance. In March 2001, the GPA awarded three new three-year outcome-based property management contracts at a total sum of \$516 million. The GPA plans to award the fourth outcome-based contract by 31 March 2002. Audit has recently carried out a review to examine the performance of the GPA in the management of government properties. The audit has revealed that there is room for improvement in a number of areas (paras. 1.1, 1.2, 1.4, 1.5, 1.7 and 1.8).

B. **Tendering procedures of new outcome-based contracts can be improved.** Audit reviewed the tendering of the three new outcome-based contracts. The audit findings are as follows:

- (a) ***Inadequacies of the tender evaluation method.*** For the three outcome-based contracts, tenders were invited for each of the three contracts. The evaluation of tenders was based on a marking scheme with weightings of 70% for the quality score and 30% for the price score. Each of the three outcome-based contracts would be awarded to the tenderer whose tender achieved the highest total score (sum of price score and quality score). While tenderers might submit tenders for any one, two or all of the three contracts, no tenderer would be awarded more than one contract. If one tenderer achieved the highest total score in more than one contract, the award of the three contracts would be selected by choosing a combination of three tenders with the highest overall aggregated score. In Audit's view, the total scores obtained by the tenderers under each of the three contracts only reflected their relative total scores for each contract, and these scores were not directly comparable among the three different contracts. Therefore, the combination of tenders with the highest overall aggregated score may not be the combination that gives the best value for money (paras. 2.3 and 2.14);
- (b) ***Need to provide full justifications for the weightings adopted in the marking scheme.*** The GPA had not obtained documentary evidence showing that the 70% weighting for the quality score was actually based upon overseas practices and experiences (para. 2.16); and
- (c) ***Need to seek clarification from the tenderer who submitted the lowest bid.*** The GPA considered that the lowest bid of \$155.25 million for one of the three contracts was

unrealistically low in the context of delivery of reasonable levels of services to meet the quality requirements. However, the GPA did not seek explanations from the tenderer about his bid (para. 2.19).

C. **Administration of new outcome-based contracts can be improved.** Audit notes that the contractors of the three outcome-based contracts are required to deliver 19 service items under four areas of services. However, according to the contract, if the contractor cannot achieve the required performance level, only ten service items are subject to payment deductions by the GPA. Audit notes that the other nine service items are also key items specifying important services which the contractors are required to deliver. However, these nine items had not been subject to the service charge adjustment mechanism (paras. 3.2, 3.7 and 3.10).

D. **Service Level Agreements (SLAs) between the GPA and the Electrical and Mechanical Services Trading Fund (EMSTF).** Since August 1996, the GPA had entered into five fixed-fee SLAs with the EMSTF. However, Audit noted that all the five SLAs had not been finalised before their commencement dates. Audit also noted that the EMSTF had not submitted annual reports of actual performance to the GPA (paras. 4.3, 4.7 and 4.8).

E. **Need to assess the cost-effectiveness of untying the GPA from the services provided by the EMSTF.** According to Financial Circular No. 9/99 issued by the Finance Bureau of the Government Secretariat, from 1 August 2001 onwards, the GPA would be free either to retain the services of the EMSTF or to choose alternative service providers from the market. However, the GPA did not have information about the details of the services provided and the fees charged by the EMSTF for each government building. Audit considers that there is a need for the GPA to take prompt action to obtain all relevant information from the EMSTF and to assess whether better value for money could be obtained by untying the GPA from the services provided by the EMSTF (paras. 4.14 and 4.15).

F. **Need to improve performance measurement and management information system.** The existing performance targets and performance indicators in the GPA's Controlling Officer's Report (COR) in the Estimates do not include those on the quality of property management services. Audit notes that, in the GPA's COR, reasons are not provided for the much higher target management costs of government properties managed by private management companies than those managed by the GPA's contractors. Notwithstanding that a computerised management information system was implemented in October 2000, as at the end of March 2001, the gross floor areas of four government buildings were not captured by the system, and the gross floor areas of 25 buildings captured by the system were different from those specified in the three new outcome-based contracts (paras. 5.4 to 5.7).

G. **Audit recommendations.** Audit has made the following major recommendations that the Government Property Administrator should:

- (a) in devising a tender evaluation method, ensure that the evaluation method can help identify the tender that gives the best value for money (para. 2.22(a));
- (b) for any substantially high or low bid received, consider seeking explanations from the tenderer so that his tender can be fully evaluated (para. 2.22(b));
- (c) provide complete and accurate information to the Central Tender Board to enable it to make an informed decision on a tender proposal and tender evaluation method (para. 2.22(c));
- (d) critically review the justifications for excluding the nine service items from the service charge adjustment mechanism and, in the forthcoming outcome-based contract to be awarded by 31 March 2002, consider making all the service items specified in the contract subject to the service charge adjustment mechanism (para. 3.11(a) and (b));
- (e) to ensure that the EMSTF will provide the services required, take expeditious action to clearly lay down the GPA's service requirements and incorporate them into future SLAs before their commencement dates (para. 4.9(a));
- (f) request the EMSTF to provide all relevant information in order to monitor its performance and to evaluate the cost-effectiveness of its services (para. 4.9(b));
- (g) take prompt action to obtain all relevant information from the EMSTF and assess whether better value for money can be obtained by using alternative service providers from the market (para. 4.16(a));
- (h) in line with the use of outcome-based contract arrangement, include in the COR performance targets and performance indicators on the quality of property management services and provide in the COR the bases used to set the performance targets on property management (para. 5.8(a) and (b)); and
- (i) ensure that the correct gross floor areas of government buildings are input into the computerised management information system (para. 5.8(c)).

H. **Response from the Administration.** The Administration agrees with most of the audit recommendations. The Government Property Administrator has said that she will review the existing tender evaluation method including the relative weightings for quality score and price score in the light of the experience gained.

PART 1: INTRODUCTION

The Government Property Agency

1.1 The Government Property Agency (GPA) is responsible for the provision of property management services to government joint-user buildings and staff quarters. As at 31 March 2001, the GPA managed 50 joint-user buildings (Note 1), about 21,000 staff quarters, and 32 other accommodation units (Note 2). The property management services include:

- (a) cleaning services;
- (b) security services;
- (c) services provided by caretakers and supervisory staff in dealing with day-to-day management matters and complaints from occupants; and
- (d) routine services for building service installations (e.g. lifts, escalators, lighting, air-conditioning, drainage, water and gas supply, and fire fighting devices).

1.2 Since 1998, the GPA has outsourced to private sector contractors all the cleaning, security and day-to-day management services for government properties under its responsibility (Note 3).

Contract arrangements for the management of properties

Property management contracts before April 2001

1.3 Before April 2001, all property management contracts entered into with private sector contractors were commonly known as input-based contracts because the resources input level (such as the number of cleaners and security guards) for the tasks to be performed was specified in the contracts. In 2000-01, the total payment to private sector contractors amounted to \$199 million.

Note 1: *A joint-user building is a building occupied by more than one user department. Where a building is occupied by only one department, its management is the responsibility of the Head of Department concerned.*

Note 2: *These accommodation units were mainly ex-military sites and sites pending re-development.*

Note 3: *For those government properties in private developments, they are managed by property management companies of the private developments.*

New outcome-based property management contracts since April 2001

1.4 In September 1999, the GPA commissioned the Management Services Agency (MSA) to undertake a review of its delivery of property management services with a view to achieving productivity gains in the context of the Enhanced Productivity Programme (Note 4). One of the objectives of the review was to identify practical measures for improving contract arrangements and procedures.

1.5 In March 2000, the MSA completed the review. The MSA considered that the input-based contract arrangement was inherited from the past and was developed on an evolutionary and piecemeal basis rather than as a result of strategic planning. Consequently, some of the benefits available from outsourcing were not fully exploited. The MSA made the following major recommendations that the GPA should:

- (a) change from the then input-based contract arrangement to an outcome-based contract arrangement based on a new customer-oriented service delivery model focusing on outcomes and performance;
- (b) devolve the day-to-day management issues handled by the GPA to contractors;
- (c) **merge the then 20 property management contracts into four larger size contracts (i.e. two contracts for Hong Kong Island, one contract for Kowloon and one contract for the New Territories) in order to give the contractors better economies of scale;** and
- (d) devolve the administration of cleaning and security services in departmental buildings to user departments.

1.6 The MSA expected that an annual saving of \$33 million could be achieved by implementing the recommendations. The \$33 million included savings of \$9 million resulting from the merging of the contracts, \$5 million from devolving the administration of cleaning and security services in departmental buildings to user departments, \$11 million from strengthening the controls on energy management, and \$8 million from untying the GPA from the services provided by the Electrical and Mechanical Services Trading Fund (EMSTF — see PART 4 below). In July 2000, with the endorsement of the Finance Bureau (FB) of the Government Secretariat, the GPA accepted the MSA's recommendations for implementation.

Note 4: *The Enhanced Productivity Programme, launched in 1998, aims at improving productivity and efficiency across the Government with a view to releasing resources from the baseline expenditure to fund new initiatives.*

1.7 In August 2000, the GPA appointed a consultant to draw up and implement the outcome-based contracts. In March 2001, the GPA awarded three new three-year outcome-based property management contracts for Hong Kong Island (covering part of the government properties on Hong Kong Island), Kowloon and the New Territories. These new contracts, at a total contract sum of \$516 million as shown in Table 1 below, came into effect on 1 April 2001 upon the expiry of the then input-based property management contracts. The GPA plans to award the fourth outcome-based contract covering the rest of the government properties on Hong Kong Island by 31 March 2002.

Table 1
Outcome-based contracts awarded
for the period 1 April 2001 to 31 March 2004

Contract	Contract sum (\$ million)
Hong Kong Island (Note)	115
Kowloon	241
The New Territories	160
Total	<u><u>516</u></u>

Source: GPA's records

Note: This contract only covers part of the government properties on Hong Kong Island. Another contract covering the rest of the government properties on Hong Kong Island will be awarded by 31 March 2002.

Audit review

1.8 Audit has recently carried out a review to examine the performance of the GPA in the management of government properties. The audit has revealed that there is room for improvement in a number of areas.

PART 2: TENDERING OF NEW OUTCOME-BASED CONTRACTS

2.1 For the input-based contracts, the GPA conducted pre-qualification exercises to shortlist qualified tenderers. The GPA invited the qualified tenderers to submit tenders and evaluated their tenders on the basis of price. **For the three new outcome-based contracts, the GPA adopted an open tendering strategy. The evaluation of tenders was based on quality and price.** The key differences between the input-based contracts and the outcome-based contracts are shown in Table 2 below.

Table 2

Key differences between input-based contracts and outcome-based contracts

Tendering and contract arrangement	Input-based contracts	Outcome-based contracts
Basis of tendering	Pre-qualified tendering (to shortlist qualified tenderers and invite them to submit tenders)	Open tendering (to invite all interested parties to submit tenders with their technical proposals and price proposals enclosed in two separate envelopes)
Evaluation of submitted tenders	Price (to select lowest conforming tender)	Quality and price (to select tender with the highest total score based on a marking scheme with predetermined relative weightings for the technical and price proposals)
Basis of payment	Reimbursement basis with some lump sum items	Lump-sum fixed price
Requirement specification	Activities and tasks to be carried out with detailed specifications	Outcomes and performance to be attained
Resources specification	Input levels of the tasks involved, such as the number of cleaners and security guards	Required service quality levels with no input levels specified

Source: GPA's records

Appointment of consultant to draw up and implement outcome-based contracts

2.2 In August 2000, the GPA appointed a consultant to draw up and implement the outcome-based contracts. In September 2000, a Steering Committee consisting of representatives of the GPA, the FB and the MSA was set up to monitor and direct the work of the consultant.

Tendering strategy and evaluation method

2.3 In November 2000, the GPA submitted the tendering strategy for the three new outcome-based contracts to the Central Tender Board (CTB — Note 5) for consideration. Unlike the tendering of input-based contracts in which a pre-qualification exercise was conducted to shortlist qualified tenderers, the GPA proposed to include the pre-qualification exercise in an open tendering exercise. Tenders, with technical and price proposals enclosed in two separate envelopes, would be invited from interested parties for each of the three contracts. Tenderers might submit tenders for any one, two or all of the three contracts. However, no tenderer would be awarded more than one contract. The GPA proposed to use a marking scheme to evaluate the tenders, as follows:

Step 1: Evaluation of quality

- (a) for the evaluation of the technical proposals of tenders, each non-price attribute (shown at Appendix A) would be marked on a point scale from zero (completely inadequate) to 100 (excellent);
- (b) any tender which was marked 50% or less for any non-price attribute, or on aggregate was marked less than 75% for all the non-price attributes, would be excluded from further consideration;
- (c) for each tender, a weighting of 70% would be adopted for computing the quality score, which was used to compare the non-price attributes among the tenders for each contract, using the following formula:

$$\text{Quality score} = 70 \times \frac{\text{Total mark for non-price attributes of each tender}}{\text{The highest total mark for non-price attributes among all tenders for each contract}}$$

Note 5: *The CTB is appointed by the Financial Secretary to advise the Secretary for the Treasury on the acceptance of all tenders exceeding the financial limits of subsidiary tender boards. The CTB is chaired by the Secretary for the Treasury. The Director of Government Supplies, the Secretary for Works or his representative, a member of the Department of Justice and a Deputy Secretary for the Treasury are members of the CTB.*

Step 2: Evaluation of price

- (d) for each tender, a weighting of 30% would be adopted for computing the price score, which was used to compare the price attribute among the tenders for each contract, using the following formula:

$$\text{Price score} = 30 \times \frac{\text{The lowest tendered price among all tenders for each contract}}{\text{Tendered price of each tender}}$$

Step 3: Selection of successful tenders

- (e) the total score for each tender would be equal to the sum of the quality score and the price score. Each of the three outcome-based contracts would be awarded to the tenderer whose tender achieved the highest total score on the condition that no tenderer would be awarded more than one contract. If one tenderer achieved the highest total score in more than one contract, the award of the three contracts would be selected by choosing a combination of three tenders (each tender must be from a different tenderer) with the highest overall aggregated score (i.e. sum of total scores of the three tenders in the combination).

2.4 In November 2000, the FB requested the GPA to provide more justifications to the CTB on why a weighting of 70% was assigned to the quality score because normally a weighting of only 30% was assigned to the quality score.

2.5 **In response, the GPA said that:**

- (a) **the 70% weighting for the quality score was proposed by the consultant on the basis of practices and experiences overseas where performance-based contracts were used; and**
- (b) **the new service delivery model was outcome-oriented and involved the transfer of the GPA's day-to-day management functions to the contractors. The GPA required an assurance that the contractors under the new system would be able to perform the GPA's current managerial functions and to produce the outcomes prescribed.**

In December 2000, the CTB gave approval to the GPA to proceed with the tender exercise on the basis of the proposed tender evaluation method.

Evaluation of tenders

2.6 Up to the close of the tender period in January 2001, the GPA received 44 tenders, submitted by 21 tenderers, for the three outcome-based contracts. Twelve tenders, submitted by six tenderers (i.e. nine tenders from three tenderers for all the three contracts, two tenders from two tenderers for the Hong Kong Island contract, and one tender from one tenderer for the Kowloon contract), met the GPA's quality requirement (i.e. they were marked at least 50% for each non-price attribute and 75% overall for all non-price attributes).

2.7 **Financial vetting.** The GPA then conducted financial vetting of the tenderers. One tenderer was considered to be financially incapable of performing the contracts and his three tenders were excluded from further consideration. The remaining nine tenders, submitted by five tenderers, were further evaluated according to the marking scheme with weightings of 70% for the quality score and 30% for the price score (see para. 2.3 above). A summary of the tendered prices of these nine tenders is shown in Table 3 below.

Table 3

Summary of the tendered prices of the nine qualified tenders

	Contract for Hong Kong Island	Contract for Kowloon	Contract for the New Territories
Number of tenders received (Note)	4	3	2
The highest tendered price (\$ million)	138.29	264.84	163.17
The lowest tendered price (\$ million)	115.75	155.25	159.84

Source: GPA's records

Note: Nine tenders were submitted by five tenderers. Two tenderers submitted tenders for all the three contracts, two tenderers submitted tenders for the Hong Kong Island contract, and one tenderer submitted one tender for the Kowloon contract.

2.8 **Ten combinations.** Out of the five tenderers who had submitted these nine tenders, one tenderer obtained the highest total scores in all the three contracts. However, according to Clause 9.3 of the tender conditions, no tenderer would be awarded more than one contract. Clause 9.4 of the tender conditions stated that, in the case that one tenderer achieved the highest total score in more than one contract, the desired outcome would be to identify the combination with the highest overall aggregated score for all successful tenders. Using the nine tenders submitted by the five tenderers, ten combinations of tenders could be made (i.e. each combination would be made up of three tenders from different tenderers for the Hong Kong Island, the Kowloon and the New Territories contracts) which would satisfy the tender condition that no tenderer would be awarded more than one contract. Details of the ten combinations, ranging from Combination 1 with the highest score of 277.25 to Combination 10 with the lowest score of 262.6, are shown in Table 4 below.

Table 4

Total tendered sums and overall aggregated scores of the ten combinations of tenders

Combination	Total tendered sum (\$ million)	Overall aggregated score (Note)
1	540.43	277.25
2	553.97	274.90
3	444.38	274.07
4	554.68	274.05
5	562.97	273.55
6	453.37	272.72
7	501.43	266.00
8	510.43	264.65
9	557.30	263.95
10	566.30	262.60

Source: GPA's records

Note: This is the sum of the total scores of three tenders from the different tenderers in the combination (see para. 2.3(e) above).

As shown in Table 4 above, Combination 1 with a total tendered sum of \$540.43 million had the highest overall aggregated score of 277.25. In comparison, Combination 3 at the lowest tendered sum of \$444.38 million had an overall aggregated score of 274.07. While the total tendered sum of Combination 1 was \$96.05 million (or 22%) more than that of Combination 3, the overall aggregated score for Combination 1 was only 3.18 marks (or 1.2%) more than that of Combination 3.

2.9 ***Estimated contract price.*** For the Kowloon contract, in view of the substantial difference between the highest tendered price of \$264.84 million and the lowest tendered price of \$155.25 million (see Table 3 in para. 2.7 above), the GPA worked out its own estimated contract prices of the three new outcome-based contracts on the basis of the expenditure pattern of the former input-based contracts. Details are shown in Table 5 below. A comparison of the total tendered sums of the ten combinations of tenders with the GPA's total estimated contract price is at Appendix B.

Table 5

GPA's estimated contract prices

Contract	Amount (\$ million)
Hong Kong Island	101
Kowloon	212
The New Territories	<u>185</u>
Total	<u>498</u>

Source: GPA's records

Note: The GPA considered that its own estimated prices might not reflect the wider scope of contractors' responsibilities and the higher service levels required under the three new outcome-based contracts, but they were used as an additional benchmark for comparison purposes.

2.10 ***Evaluation of three combinations.*** In February 2001, the GPA informed the CTB that, out of the ten combinations, it had identified the following three combinations for further consideration:

- (a) ***Combination 1.*** This combination had the highest overall aggregated score. However, the total tendered sum of \$540.43 million (or \$180 million a year) exceeded the GPA's budget of \$498 million (or \$166 million a year) by \$42.43 million (or \$14 million a year). **The GPA considered that Combination 1 was not good value for money;**

- (b) ***Combination 3.*** This combination had the lowest total tendered sum of \$444.38 million and included the lowest bid of \$155.25 million for the Kowloon contract. However, for the Kowloon contract, the GPA considered that the lowest tendered price at \$155.25 million was unrealistically low in the context of delivery of reasonable levels of services to meet the quality requirements because the tendered price was 26.8% below the GPA's estimated contract price of \$212 million as shown in Table 5 in paragraph 2.9 above; and

- (c) ***Combination 7.*** **The GPA considered that Combination 7 was the most cost-effective and the best value for money in the remaining eight combinations.** The total tendered sum for Combination 7 of \$501.43 million was the lowest one among the tender combinations (after excluding Combination 3 and Combination 6 which included the lowest bid for the Kowloon contract) and was broadly comparable to the GPA's total estimated contract price of \$498 million as shown in Table 5 in paragraph 2.9 above. According to Table 4 in paragraph 2.8 above, the overall aggregated score of 266 marks for Combination 7 was only 11.25 marks (or 4.1%) less than that of 277.25 marks for

Combination 1. However, the total tendered sum for Combination 7 of \$501.43 million was \$39 million (or 7.2%) less than that of \$540.43 million for Combination 1.

2.11 *GPA's views on Combination 1 and Combination 7.* The GPA recommended to the CTB that Combination 7 should be accepted on cost-effectiveness and value for money grounds, and advised the CTB that it had reservations about the lowest bid for the Kowloon contract. The GPA also informed the CTB that, if the conditions of the tender had to be strictly followed, the GPA would have to consider recommending acceptance of Combination 1 instead of Combination 7.

2.12 *Tender negotiations.* The CTB noted that the GPA's recommendation did not follow the conditions of the tender that the combination of tenders with the highest overall aggregated score for all successful tenders would be identified. As the total tendered sum of \$540 million for Combination 1 exceeded the GPA's budget by \$14 million a year (see para. 2.10(a) above), the CTB asked the GPA to negotiate a reduction in the total tendered sum for Combination 1, advise the CTB the outcome of the negotiations, and submit further recommendations.

2.13 *Acceptance of Combination 1.* On 7 March 2001, the GPA informed the CTB that, following negotiations, the total tendered sum for Combination 1 was reduced from \$540 million to \$516 million. The GPA recommended that Combination 1 should be accepted. On 12 March 2001, the Secretary for the Treasury, on the recommendation of the CTB, approved the award of the three contracts to the tenderers in Combination 1.

Audit observations on tendering of new outcome-based contracts

Inadequacies of the tender evaluation method

2.14 **Audit has reservations about the method of using the highest overall aggregated score as a means of identifying the combination of tenders that gives the best value for money.** According to the formulas for computing the quality and price scores mentioned in paragraph 2.3(c) and (d) above, the quality score for a tender was computed with reference to the highest total mark for non-price attributes, and the price score was computed with reference to the lowest tendered price among all tenders for each contract. **The total scores (i.e. the sum of the quality scores and the price scores) obtained by the tenderers under each of the three contracts only reflected their relative total scores for each contract, and these scores were not directly comparable among the three different contracts. The overall aggregated score, being the sum of the relative total scores of the three tenders in a combination (see Table 4 in para. 2.8 above), did not take into account the relative value of the tendered sums for the three contracts. Therefore, the overall aggregated scores for the different combinations were not directly comparable, and the combination of tenders with the highest overall aggregated score may not be the combination that gives the best value for money.**

2.15 **In June 2001, in response to Audit's enquiry about the tender evaluation method, the GPA said that it agreed with Audit's view that the total scores for each tender were not directly comparable among different contracts.**

Need to provide full justifications for the weightings adopted in the marking scheme

2.16 As mentioned in paragraph 2.5(a) above, the GPA explained to the CTB that the 70% weighting for the quality score was proposed by the consultant on the basis of practices and experiences overseas where performance-based contracts were used. In response to Audit's enquiry about whether documentary evidence had been obtained showing that the 70% weighting for quality score was based on overseas practices and experiences, the GPA said that the Agency considered it unnecessary to obtain documentary evidence for the use of a 70% weighting for quality score. This accorded with the GPA's view that more emphasis should be paid to the contractors' capability and quality of services. **To enable the CTB to make an informed decision, Audit considers that the GPA should have critically vetted the justifications for the 70% weighting for the quality score before submitting them for the CTB's consideration.**

Tenders had already been vetted on quality requirements

2.17 With regard to the quality concern of the GPA as mentioned in paragraph 2.5(b) above, Audit noted that all tenders had to meet the quality requirements in respect of all non-price attributes (i.e. they had to be marked at least 50% for each non-price attribute and 75% overall for all non-price attributes). Out of the 44 tenders submitted by 21 tenderers, only 12 tenders submitted by 6 tenderers met the quality requirements as mentioned in paragraph 2.6 above (Note 6). In Audit's view, tenderers selected based on the GPA's evaluation criteria should have already provided the GPA with an assurance that they would be able to produce the expected outcomes.

2.18 In Audit's view, the choice of a 70% weighting for the quality score has significant financial implications. In this case, had the GPA adopted a 30% weighting for the quality score, Combination 3, instead of Combination 1, would have achieved the highest overall aggregated score as shown in Audit's computation at Appendix C. The total tendered sum of Combination 3 was \$96 million (i.e. \$540 million - \$444 million) less than that of Combination 1.

Need to seek clarification from the tenderer who submitted the lowest bid

2.19 The GPA considered that the lowest bid of \$155.25 million for the Kowloon contract was unrealistically low in the context of delivery of reasonable levels of services to meet the quality requirements (see para. 2.10(b) above). However, the GPA did not seek explanations from the tenderer about his bid. In response to Audit's enquiry, the GPA said that there was no point in seeking explanations, after comparing his bid with the other bids and evaluating the likely contract price (see para. 2.9 above). **In this connection, Audit noted that, according to the tender evaluation procedures for government works contracts, the Engineer responsible for the evaluation of a tender was required to communicate in writing to each relevant tenderer concerning any substantially overpriced or underpriced items. Audit noted that the tender met all the quality requirements and the tenderer passed the financial vetting. Audit considers**

Note 6: *The GPA excluded the three tenders submitted by one tenderer (out of the six tenderers) because he failed to pass the financial vetting. Therefore only nine tenders, submitted by five tenderers, were eligible for further evaluation (see para. 2.7 above).*

that there are merits for the GPA to seek explanations from the tenderer in order to fully evaluate his tender proposal.

Expected savings not achieved by merging the contracts

2.20 In March 2000, the MSA study estimated that a 5% saving (or \$9 million a year) could be achieved by merging the then 20 property management contracts into four contracts (see paras. 1.5(c) and 1.6 above). However, Audit estimated that, under the three newly awarded outcome-based contracts, the total annual payments for the properties concerned would be \$17 million more than those under the former input-based contracts. In response to Audit's enquiry, the GPA said that:

- (a) the expected savings should have been achieved because, if the contracts were not merged, the total cost would have been higher;
- (b) there were other factors offsetting any savings that were achieved, such as additional duties undertaken by the contractors under the new contracts; and
- (c) the quality assurance provisions of the new contracts had alerted the tenderers not to sacrifice quality for a very low bid.

2.21 According to the MSA study, increases in costs due to additional duties undertaken by the contractors would be offset by economies of scale achieved by merging the contracts. Based on overseas experience, savings ranging from 5% to 25% could be achieved. A modest projection of 5% net savings was adopted to account for factors including market capability.

Audit recommendations on tendering of new outcome-based contracts

2.22 **Audit has recommended that the Government Property Administrator should:**

- (a) **in devising a tender evaluation method, ensure that the evaluation method can help identify the tender that gives the best value for money;**
- (b) **for any substantially high or low bid received, consider seeking explanations from the tenderer so that his tender can be fully evaluated; and**
- (c) **provide complete and accurate information (e.g. full justifications for the weightings assigned to the quality and price scores) to the CTB to enable it to make an informed decision on a tender proposal and tender evaluation method.**

Response from the Administration

2.23 The **Government Property Administrator** agrees with the audit recommendations on the tendering of new outcome-based contracts. She has also said that:

- (a) it has always been the GPA's objective to devise a tender evaluation method that would enable the identification of tender that would give the best value for money. Since the three new outcome-based contracts are the first ones introduced throughout the Government, she will review the existing evaluation method including the relative weightings for quality and price scores in the light of the experience gained;
- (b) the GPA considers that a higher than 30% weighting for the quality score in the evaluation of tenders for the three new outcome-based contracts is appropriate because the outcome-based contracts contain no specifications on resource input. The GPA has to rely entirely on the quality score to ensure that the contractor is capable of delivering the services and producing the outcomes prescribed. (For an input-based contract, the quality score serves to provide additional quality assurance as the level of output is in some way defined by the resource input specification already);
- (c) the advice given to the CTB about the 70% weighting for quality score was proposed by the GPA's consultant on the basis of practices and experiences overseas where performance-based contracts were used. The GPA's proposal was based on what the consultant had advised the GPA verbally in discussions;
- (d) it should not be automatically presumed that, if the weighting for the quality score was changed to 30%, the tenderers' proposals and price bids would remain the same;
- (e) in the case of the lowest bid for the Kowloon contract, the GPA did not seek explanations from the tenderer because it considered that the tenderer could not, at the price tendered, deliver the service as specified in his technical proposal. In any event, the GPA was obliged to follow the tender selection rules as specified in the tender document, and this was confirmed by the CTB's decision to go for Combination 1;
- (f) as pointed out in the MSA's study, the limitations and constraints that the GPA had to face in implementing the new outcome-based contracts include factors such as market capability, progress of government reform and restriction under the Stores and Procurement Regulations. While these factors had broadly been taken into account in the MSA study, the expected savings were necessarily estimates. At the time of the MSA study, the contractual framework (including service requirements, outcomes desired and

performance assessment) to be adopted, the tendering strategy, evaluation method, marking scheme and other implementation details had yet to be decided, developed and formulated. All these would impact on the estimates of savings made at the conceptual stage; and

- (g) it has always been the GPA's approach to provide all relevant and necessary information to the CTB for a decision. It is however a judgement call as to what constitutes "complete" information. In recommending the higher weighting for the quality score for the three new outcome-based contracts, the GPA had provided supporting reasons. The GPA had also explained the financial implications of the different combinations of tenders to the CTB.

2.24 The **Secretary for the Treasury** fully supports the Government Property Administrator to review the existing tender evaluation method. She has also said that:

- (a) to avoid monopoly, it is not unusual, where multiple tenders are invited, for departments to restrict the number of contracts to be awarded to a single tenderer. Under such circumstances, it is not unusual for departments to specify in the tender documents how tenderers would be selected for each contract. The CTB encourages departments to do this to enhance transparency and certainty to potential bidders; and
- (b) depending on the relative importance attached to quality versus price, departments may either go for the combination that gives the highest combined score for price and quality for all contracts or the lowest price for them. Usually the former approach is recommended where greater importance is attached to quality, while the latter approach is recommended for contracts where greater importance is attached to price.

PART 3: ADMINISTRATION OF NEW OUTCOME-BASED CONTRACTS

Service level specifications

3.1 The three outcome-based contracts adopted a customer-oriented service delivery model focusing on achieving the predetermined outcomes. The contracts specified the services to be delivered, the minimum levels of services required and the processes required to support the delivery of these services.

3.2 The contractors are required to deliver 19 service items under four areas of services shown at Appendix D. The outcome and level of specific performance required for each service item are specified in detail. For example, the service details and the required service levels for the service items “cleaning” and “compliance” are at Appendices E and F respectively. The standards of services required are measured in terms of the following aspects of performance:

- (a) **Availability.** It refers to the availability of services required by the GPA. Failure is deemed to have occurred when the service or a defined component of the service is not available;
- (b) **Reliability.** It refers to the extent to which the GPA accepts the non-availability of a service. Failure is deemed to have occurred if the actual number of failures has exceeded the number of acceptable failures specified in the contract;
- (c) **Corrective action.** It refers to the acceptable time frame for a service to return to full availability. Failure is deemed to have occurred if the actual time taken for corrective action has exceeded the time limit specified in the contract; and
- (d) **Response time.** It refers to the predetermined time required for the contractor to provide a service in response to a request for service. Failure is deemed to have occurred if the actual time taken is longer than the predetermined time specified in the contract.

Monitoring of the contractors’ performance

3.3 **Self-reporting by the contractors.** The performance of the contractors for the delivery of services is measured against the service levels set for the service items in the contracts. For monitoring of their performance, the contracts require the contractors:

- (a) to report monthly performance for nine service items shown at Appendix D;
- (b) to certify quarterly compliance with the requirements of six service items shown at Appendix D; and
- (c) to meet monthly with the GPA to review the performance of the previous month.

3.4 ***Regular review of performance.*** The contracts also specify that:

- (a) within six months of the service commencement date, the GPA and the contractors should carry out a post-implementation review:
 - (i) to confirm and revise the service levels, if appropriate;
 - (ii) to review the quality of services and the achievement of service levels;
 - (iii) to ascertain any breaches of the terms of the contracts; and
 - (iv) to report all findings of the review to a Management Committee for each contract, which comprises representatives of the GPA and the contractors, for consideration and action; and

- (b) the Management Committees should meet at least once every six months:
 - (i) to review and monitor the progress under the contracts;
 - (ii) to determine or verify whether the service levels are achieved;
 - (iii) to consider and review performance objectives and measurements on an annual basis; and
 - (iv) to review and determine the appropriate baseline services and service levels for the following 12 months.

3.5 ***Guidance Manual for contract administration.*** The GPA's consultant, who was responsible for drawing up and implementing the outcome-based contracts (see para. 2.2 above), was also tasked with the development of contract administration procedures in the form of a Guidance Manual to assist the GPA's staff in managing the new contracts. The Guidance Manual would include supervision and performance assessment procedures, such as site visits and customer surveys, for verifying the contractors' reports and the contractors' certification on their performance. **The GPA considered that the in-house procedures on contract management should be completed prior to the commencement date or in the early months of the new contracts. The scheduled completion date was April 2001. However, up to the end of May 2001, the Guidance Manual had not been finalised.**

3.6 ***GPA's explanation.*** In June 2001, in response to Audit's enquiry about the delay in the finalisation of the Guidance Manual, the GPA said that:

- (a) the tender required the contractors to propose reporting and monitoring methodologies in their tender submissions. As the contracts were only awarded in March 2001, the GPA required more time to complete the documentation, including the Guidance Manual; and
- (b) the basic contract administration procedures were already set out in the contracts. The consultant was tasked to compile, during the ongoing communication and training sessions, manuals that would be needed as support materials for the GPA's staff and the contractors.

3.7 *Service charge adjustment mechanism.* As mentioned in paragraph 3.2 above, the contractors of the three outcome-based contracts are required to deliver 19 service items. However, according to the contract, only ten service items are subject to payment deductions by the GPA as shown at Appendix D. The performance of the contractor is assessed monthly against the points allocated for the ten service items. If the contractor cannot achieve 90% of the required performance levels in any one month, the GPA will deduct 1% from the monthly payment for each two percentage points below standard. The maximum deduction shall not exceed 5% of the monthly payment.

3.8 In June 2001, in response to Audit's enquiry about why only 10 (instead of all 19) service items were subject to the service charge adjustment mechanism, the GPA said that:

- (a) payment deductions for the ten service items were provided on the basis that under-performance in these items would result in the users suffering losses in terms of comfort and enjoyment, and would result in the users and the GPA having to spend time and effort to rectify the situation; and
- (b) the other nine service items were not subject to payment deductions because these items were either relatively unimportant, or under-performance in these items would not lead to real, significant or quantifiable losses.

The GPA also said that in the assessment of extension of the contract period (Note 7), the performance of the contractor in all 19 service items would be taken into account.

Audit observations on the administration of new outcome-based contracts

3.9 Audit considers that, under the outcome-based contracts, it is essential for the GPA to have available all the contract administration procedures to monitor the contractors' performance effectively. **Audit noted that supervision and assessment procedures had not been drawn up to**

Note 7: *The new outcome-based contracts are of three-year term (from 1 April 2001 to 31 March 2004) and can be extended for a maximum of two years. According to the terms of the contract, extension will be based upon the contractor's performance as measured by the standards included in the service level specifications.*

assist the GPA staff to monitor the contractors' performance, including the procedures for verifying the contractors' reports and the contractors' certification on their performance (see para. 3.3 above). On 18 June 2001, Audit suggested to the GPA that expeditious action should be taken to finalise the Guidance Manual. The GPA informed Audit that the Guidance Manual was issued on 28 June 2001.

3.10 In Audit's view, all the 19 service items specified in the outcome-based contracts should be treated as key items in assessing the contractors' performance because the contractors are required to deliver at least the minimum levels of these important services. Audit notes that, under the existing service charge adjustment mechanism, a payment deduction will be made if the contractor cannot achieve 90% of the required performance levels for ten service items (see para. 3.7 above). **Audit considers that the other nine service items should also be subject to the service charge adjustment mechanism because they are also key items specifying important services which the contractors are required to deliver. For these nine items, failure in achieving the required performance levels will inevitably require the users and the GPA to spend time and effort to rectify the situation. For example, the service item "compliance" as shown at Appendix F is an important one. It requires time and effort to rectify the situation if the contractor fails to deliver the expected service.**

Audit recommendations on the administration of new outcome-based contracts

3.11 **Audit has recommended that the Government Property Administrator should:**

- (a) **critically review the justifications for excluding the nine service items (see Appendix D) from the service charge adjustment mechanism; and**
- (b) **in the forthcoming outcome-based contract covering the rest of the government properties on Hong Kong Island to be awarded by 31 March 2002 (see para. 1.7 above), consider making all the service items specified in the contract subject to the service charge adjustment mechanism.**

Response from the Administration

3.12 The **Government Property Administrator** agrees with the audit recommendations in paragraph 3.11 above. She has also said that the prospect of making all service items subject to the service charge adjustment mechanism could not be prejudged. This would depend on the outcome of the review of the service items which are currently not subject to the service charge adjustment mechanism.

3.13 The **Secretary for the Treasury** has said that the GPA will need to conduct a review of the nine service items which are currently not subject to the service charge adjustment mechanism before the audit recommendations on the administration of new outcome-based contracts can be taken on board.

PART 4: PROVISION OF SERVICES BY THE EMSTF

The EMSTF

4.1 Before 1 August 1996, the Electrical and Mechanical Services Department was responsible for providing routine services for building service installations (e.g. lifts, escalators and air-conditioning plants) in government properties managed by the GPA. The provision of such services has been taken over by the EMSTF with effect from 1 August 1996.

4.2 Under the trading fund arrangement, the EMSTF has to charge user departments for the services provided. The EMSTF offers user departments service packages for a range of services provided, assesses and negotiates charges with them, and defines the conditions of services in Service Level Agreements (SLAs). The SLAs usually cover a financial year with quarterly billing arrangements.

SLAs between the GPA and the EMSTF since August 1996

4.3 Since August 1996, the GPA had entered into five fixed-fee SLAs with the EMSTF. According to the SLAs, the EMSTF should provide comprehensive operation and maintenance services for engineering systems and equipment installed in government properties managed by the GPA. The service period and the fees under the five SLAs are shown in Table 6 below.

Table 6

Service period and fees under the five SLAs

Service period	Date of finalisation of SLA	Fees for attended venues (Note 1) (\$ million)	Fees for unattended venues (Note 1) (\$ million)	Total fees (\$ million)
1 August 1996 to 31 March 1997 (Note 2)	5 February 1997	57	23	80
1997-98	27 August 1997	114	37	151
1998-99	20 May 1998	125	37	162
1999-2000	21 February 2000	119	46	165
2000-01	31 January 2001	121	41	162

Source: GPA's records

Note 1: Attended venues are those venues with EMSTF resident staff. Unattended venues are not attended by EMSTF resident staff.

Note 2: The EMSTF was established on 1 August 1996 and the first SLA only covered eight months.

4.4 Audit noted that up to 31 July 2001, the 2001-02 SLA had not been finalised. In response to Audit's enquiry, the GPA said that the EMSTF had issued a proposal for the 2001-02 SLA on 22 May 2001. Discussions were held with the EMSTF to resolve disagreements on the proposed fees. The GPA had set 30 September 2001 as the target date for the finalisation of the SLA.

4.5 **Performance standards.** Performance targets for the EMSTF were specified in the five SLAs. The performance targets for the 2000-01 SLA are shown at Appendix G. The performance targets included the service availability of major systems, response time to fault call and time taken for fault rectification. According to the SLAs, in order to ensure high standards and quality of services, the EMSTF should submit annual reports of actual performance to the GPA and hold quarterly meetings with the GPA to discuss progress. **However, Audit found that the EMSTF had not submitted annual reports of actual performance to the GPA.**

4.6 **Explanation of the GPA.** In response to Audit's enquiry, the GPA said that:

- (a) the GPA had not requested the annual reports of actual performance from the EMSTF. The annual reports of actual performance, even if issued, would not provide meaningful monitoring of performance unless the cost-effectiveness of the services provided was also measured; and
- (b) in order to measure the cost-effectiveness of the services provided, the GPA should be provided with a breakdown of the budget and resource deployment for each building. The GPA had requested the EMSTF to provide such information.

Audit observations on the SLAs between the GPA and the EMSTF

Delay in finalising the SLAs

4.7 The SLA is an important document governing the terms of services provided by the EMSTF to the GPA. In Audit's view, the terms of services covered by the SLA should be finalised before its commencement date. However, as shown in Table 6 in paragraph 4.3 above, all the five SLAs covering the service period 1 August 1996 to 31 March 2001 had not been finalised before their commencement dates. In particular, the 1999-2000 and 2000-01 SLAs were only finalised near the end of the relevant service periods. The target date for the finalisation of the 2001-02 SLA was 30 September 2001. **Audit considers that there is a need for the GPA to take expeditious action to clearly lay down its service requirements and incorporate them into the SLA with the EMSTF. The GPA should also take expeditious action to finalise the 2001-02 SLA.**

Need to monitor the performance of the EMSTF

4.8 As mentioned in paragraph 4.5 above, the EMSTF had not submitted annual reports of actual performance to the GPA. As a result, the GPA did not know whether the EMSTF had met the required performance standards. **Audit considers that the GPA, which is accountable for the expenditure on the charges levied by the EMSTF, should have taken more proactive action to monitor the EMSTF's performance by requesting the submission of annual reports of actual**

performance in accordance with the SLAs. Moreover, to enable the GPA to measure the cost-effectiveness of the services provided, the GPA should have requested the EMSTF to provide all relevant information, including the maintenance schedules for engineering systems and equipment, and details of the EMSTF's budget and resource allocation for each building (see para. 4.6(b) above).

Audit recommendations on the SLAs between the GPA and the EMSTF

4.9 **Audit has recommended that the Government Property Administrator should:**

- (a) **to ensure that the EMSTF will provide the services required, take expeditious action to clearly lay down the GPA's service requirements and incorporate them into future SLAs before their commencement dates; and**
- (b) **request the EMSTF to provide all relevant information, such as annual reports of actual performance and the maintenance schedules, in order to monitor its performance and to evaluate the cost-effectiveness of its services.**

Response from the Administration

4.10 **The Government Property Administrator** agrees with the audit recommendations on the SLAs between the GPA and the EMSTF and will work together with the EMSTF towards implementing the audit recommendations. She has also said that the GPA has now received the EMSTF's report of actual performance for 2000-01. The GPA intends to revamp the SLA such that the required service levels and resource input are set out, and that performance and cost-effectiveness can be measured, on the basis of each building. To this end, the GPA has been requesting the EMSTF to provide the required data in the SLA.

4.11 **The Director of Electrical and Mechanical Services** has said that:

- (a) the EMSTF notes the need to expedite the finalisation of the SLAs and would be most willing to develop with the GPA further workable mechanisms for more speedy finalisation of future SLAs, in particular the 2001-02 SLA;
- (b) the EMSTF will submit annual reports of actual performance to the GPA in future;
- (c) in the past, the GPA and the EMSTF held frequent liaison/working group meetings to exchange views on the EMSTF's performance, with follow-up improvement actions where needed. These meetings served the purpose of making the EMSTF accountable to the GPA for the quality of services provided;

- (d) the EMSTF is carrying out the necessary compilation work to meet the GPA's request for a breakdown of the budget and resource deployment for each building. The EMSTF would be pleased to discuss further with the GPA to meet its needs and would be happy to submit the required information as soon as possible; and
- (e) the EMSTF is committed to providing quality services, has implemented worldwide recognised quality and environmental systems, and is in the process of implementing an occupational health and safety management system on a department-wide basis. The EMSTF is accredited by an external accreditation agency for these systems. The accreditation agency conducts surprise visits regularly, and will also conduct full-scale accreditation exercises after three years in order to ensure that the EMSTF maintains the quality of services.

Untying the GPA from the services provided by the EMSTF

4.12 Up to 31 July 1999, user departments were tied to using the services provided by the EMSTF. Financial Circular No. 9/99 of June 1999 issued by the FB stated that:

- (a) with effect from 1 August 1999, user departments would be untied from the services provided by the EMSTF by four phases over a three-year period. From 1 August 2001 onwards, the GPA would be untied from the services provided by the EMSTF;
- (b) upon untying, user departments would be free either to retain the services of the EMSTF or to choose alternative service providers from the market to meet part or all of their electrical and mechanical service needs; and
- (c) **government departments should take this opportunity to review their service requirements and plan ahead.**

4.13 To prepare for untying the GPA from the services provided by the EMSTF, the GPA has made the following provisions in the three new outcome-based contracts:

- (a) the contractor may be required to subcontract the servicing of selected electrical and mechanical installations if the GPA so determines. The contractor will then be required to conduct proper tendering and negotiation with the new service providers, control payments and maintain accounts on these subcontracts; and
- (b) through subcontracting, the contractor will also be required to arrange smooth handover of duties from the EMSTF's existing contractors to the new subcontractors.

Audit observations on untying the GPA from the services provided by the EMSTF

4.14 According to Financial Circular No. 9/99, from 1 August 2001 onwards, the GPA would be free either to retain the services of the EMSTF or to choose alternative service providers from the market. The Financial Circular states that user departments should take this opportunity to review their service requirements and plan ahead. Audit noted that, under the contract provisions of the three new outcome-based contracts, the contractors might be required to subcontract the servicing of selected electrical and mechanical installations. However, the GPA did not have information about the details of the services provided and the fees charged by the EMSTF for each government building. The GPA also had not performed any customer satisfaction survey to assess the quality of the services provided by the EMSTF.

4.15 Audit noted that the MSA study had indicated that a saving of \$8 million a year could be achieved if the GPA was untied from the services provided by the EMSTF (see para. 1.6 above). In Audit's view, the GPA should have taken prompt action to obtain all relevant information from the EMSTF and should have assessed whether better value for money could be obtained by untying the GPA from the services provided by the EMSTF.

Audit recommendations on untying the GPA from the services provided by the EMSTF

4.16 Audit has *recommended* that the Government Property Administrator should:

- (a) take prompt action to obtain all relevant information from the EMSTF and assess whether better value for money can be obtained by using alternative service providers from the market;
- (b) if it is cost-effective to use alternative service providers, request the contractors of the three outcome-based contracts to subcontract, on a trial basis, the servicing of electrical and mechanical installations of the buildings under their management; and
- (c) perform post-trial evaluation exercises to assess whether the subcontracting of servicing of electrical and mechanical installations should continue.

Response from the Administration

4.17 The Government Property Administrator agrees with the audit recommendations on the issue of untying the GPA from the services provided by the EMSTF. She has also said that it has been the GPA's objective to seek better value for money, where possible. The GPA will seek the EMSTF's co-operation to this end.

4.18 **The Director of Electrical and Mechanical Services** has said that:

- (a) the EMSTF is prepared to work together with the GPA regarding the untying arrangement following the requirements of Financial Circular No. 9/99 and the provisions in the three new outcome-based contracts;
- (b) the EMSTF had given the GPA a reduction in fees of \$8.1 million in 1999-2000 and a further reduction of \$8.25 million in 2000-01. By retaining the services of the EMSTF, the GPA had already achieved a total saving of \$16.35 million since 1999-2000. This amount far exceeds the MSA's estimated saving of \$8 million a year if the GPA was untied from the services provided by the EMSTF. The reduction in fees had enabled the EMSTF to maintain approximately the same level of charges for the GPA despite the fact that a major venue, the North Point Government Offices, came into operation in 1999-2000 and another major venue, the Cheung Sha Wan Government Offices, came into operation in 2000-01;
- (c) it is the EMSTF's goal to continue to invest in training, tools and equipment, and other means for productivity improvements and to share the benefits of productivity improvements with its clients in the form of charge reductions and enhanced quality service to mutual benefit; and
- (d) the EMSTF has worked very closely and co-operatively with the contractors of the three new outcome-based contracts. The EMSTF had given three presentations to the contractors in April and May 2001 during which the EMSTF and the contractors exchanged views on how to co-operate better in daily work. The EMSTF would remain co-operative with the contractors. If the contractors find the EMSTF's services are of good quality, they may feel that it would be better to continue using the EMSTF's services.

PART 5: PERFORMANCE MEASUREMENT AND MANAGEMENT INFORMATION SYSTEM

Performance measurement

5.1 The GPA measures its operational performance by means of performance targets and performance indicators. The key performance targets and performance indicators concerning property management set out in the GPA's Controlling Officer's Report (COR) in the 2001-02 Estimates are at Appendix H. In 1999 and 2000, the GPA achieved all its performance targets which were the average monthly management costs of different government properties as shown in Table 7 below.

Table 7

GPA's performance targets in the 2001-02 Estimates

Property type	Target average monthly management cost (\$ per square metre)
(a) Non-domestic accommodation in private developments (managed by property management companies of the private developments)	45
(b) Major joint-user buildings (managed by the GPA's property management contractors)	10
(c) Quarters in private developments (managed by property management companies of the private developments)	16.5
(d) Government wholly-owned quarters (managed by the GPA's property management contractors)	8

Source: GPA's records

5.2 According to the COR, the GPA would seek to further improve the efficiency and effectiveness of its property management services by introducing performance-based management agreements and consolidating the then 20 contracts into four contracts for better economies of scale.

Management information system

5.3 In October 2000, the GPA, with the assistance of the Information Technology Services Department, implemented a new computerised management information system known as the Integrated Government Property Information System (IGPIS). Concerning property management, the objectives of the IGPIS are:

- (a) to integrate the existing computer systems and maintain a comprehensive database of government properties and accommodation;
- (b) to provide up-to-date, accurate and comprehensive property information (e.g. names, addresses and floor areas of buildings) for management of government buildings; and
- (c) to facilitate data sharing and provide comprehensive management reports for planning, control and operational purposes.

Audit observations on performance measurement and management information system

Need for additional performance targets and performance indicators

5.4 The existing performance targets and performance indicators in the COR do not include those on the quality of property management services (such as the required level of customer satisfaction). **As the GPA has adopted an outcome-based contract arrangement focusing on the contractors' performance, it would be useful for the GPA to include in the COR performance targets and performance indicators on the quality of property management services.**

Need to explain the bases used to set the performance targets

5.5 As shown in Table 7 in paragraph 5.1 above, the target management costs of properties in private developments were much higher than those of properties managed by the GPA's property management contractors. According to the GPA, the higher costs were mainly due to the inclusion of the following three additional cost items:

- (a) the costs for maintenance of electrical and mechanical systems and equipment;
- (b) the costs for maintenance of buildings; and

- (c) electricity charges for common areas.

5.6 **Audit notes that the GPA has not given the reasons for the much higher target management costs in the COR. In Audit's view, to enable the users of the COR to better understand and interpret the performance targets for property management, it would be useful for the GPA to provide in the COR the different bases used to arrive at the target management costs of different types of government properties.**

Need for improvement of the IGPIIS

5.7 **Audit considers that the GPA needs to ensure that the correct gross floor area of a building (an essential piece of information for property management) is captured by the IGPIIS and specified in property management contracts.** Notwithstanding that the IGPIIS was implemented in October 2000, Audit noted that as at the end of March 2001:

- (a) the gross floor areas (a data field under the IGPIIS) of four government buildings (Note 8) were not captured by the IGPIIS; and
- (b) the gross floor areas of 25 buildings captured by the IGPIIS were different from those specified in the three new outcome-based contracts. Details are at Appendix I.

Audit recommendations on performance measurement and management information system

5.8 **Audit has recommended that the Government Property Administrator should:**

- (a) **in line with the use of outcome-based contract arrangement, include in the COR performance targets and performance indicators on the quality of property management services (e.g. the required level of customer satisfaction);**
- (b) **provide in the COR the bases used to set the performance targets on property management (e.g. the different bases used to determine the target management costs of properties in private developments and those of properties managed by the GPA's contractors); and**

Note 8: *The four buildings were Cheung Sha Wan Government Offices, Citylink Plaza, Kai Tak Government Building and Western Magistracy Building.*

- (c) **ensure that the correct gross floor areas of government buildings are input into the IGPIIS.**

Response from the Administration

5.9 The **Government Property Administrator** agrees with the audit recommendations on performance measurement and management information system. She has also said that:

- (a) she will review the existing performance targets and performance indicators in the COR to see what changes could be made in the wake of the changeover to the outcome-based property management contracts; and
- (b) the gross floor areas of government buildings input into the IGPIIS during the data conversion/capture stage were arrived at by applying a standard multiplier to the net floor areas, and are meant to be indicative figures only. The areas used in the GPA's property management contracts are actual gross floor areas. The GPA will arrange to input the actual gross floor areas into the IGPIIS to replace the indicative figures.

Appendix A
(para. 2.3(a) refers)

Non-price attributes for evaluation of tenders

Non-price attribute	Brief description	Weighting
Corporate capability	Financial capability, organisational structure, qualifications of management staff and capability of proposed subcontractors	20%
Service delivery methodology	Methodology of service delivery, quality assurance standards, performance monitoring and reporting, interfaces with the GPA and key benefits to flow to the GPA	35%
Service delivery improvements	Commitments to continuous improvement, proposals on benefit sharing and incentive schemes	10%
Tenderer's experience	Experience in property management, customer base and job references	20%
Helpdesk	Experience in helpdesk services and proposal on service delivery using a helpdesk arrangement	10%
Transition arrangement	Details of migration plan and capability of transition-in management team	5%
		<hr/> <hr/> 100%

Source: GPA's records

Appendix B
(para. 2.9 refers)

**Comparison of total tendered sums of the ten combinations
of tenders with the GPA's total estimated contract price**

Combination	Total tendered sum	GPA's total estimated contract price	Percentage increase/(decrease) over the GPA's total estimated contract price
	(a)	(b)	(c) = $\frac{(a) - (b)}{(b)} \times 100\%$
	(\$ million)	(\$ million)	
1	540.43	498	8.5%
2	553.97	498	11.2%
3	444.38	498	(10.8%)
4	554.68	498	11.4%
5	562.97	498	13.0%
6	453.37	498	(9.0%)
7	501.43	498	0.7%
8	510.43	498	2.5%
9	557.30	498	11.9%
10	566.30	498	13.7%

Source: GPA's records

Appendix C
(para. 2.18 refers)

**Audit's computation of the overall aggregated scores
of the ten combinations of tenders based on a weighting
of 30% for quality score and a weighting of 70% for price score**

Combination	Total tendered sum (\$ million)	Overall aggregated score
3	444.38	282.90
6	453.37	278.99
1	540.43	266.60
7	501.43	263.58
8	510.43	259.67
2	553.97	259.61
4	554.68	259.14
5	562.97	255.70
9	557.30	253.75
10	566.30	249.84

Source: Audit's computation

Appendix D
(paras. 3.2, 3.3, 3.7 and
3.11(a) refer)

Reporting requirements for the 19 service items specified in the three outcome-based contracts

Service item	Monthly report by the contractor required	Quarterly certification by the contractor required	Weighted points applicable to items subject to the service charge adjustment mechanism
Area 1: Property management			
<i>(a) Site management</i>			
1. Building operations*		√	-
2. Monitoring and reporting of building operations	√		17
3. Compliance*		√	-
4. Management of shared facilities*		√	-
5. Soft landscaping*		√	-
<i>(b) Tenancy management</i>			
6. Undertake inspections and coordinate tenant moving in/out	√		5
7. Carparking spaces, passes and permits	√		5
<i>(c) Tenant/resident service</i>			
8. Contractor availability and responsiveness	√		8
9. Emergency response service	√		13
10. Notice to tenants/residents*		√	-
11. Tenant/resident complaints	√		10
Area 2: Cleaning			
12. Cleaning	√		13
13. Waste disposal*		√	-
Area 3: Security			
14. Security protection	√		17
15. Entry and exit of persons and vehicles	√		5
Area 4: Administration			
16. Management reporting			7
17. Utility and power management*			-
18. Site management and support services*			-
19. Transport and mobile telephones*			-
			<u>100</u>
Total number of service items	9 items	6 items	10 items

Source: GPA's records

Note: "*" denotes that these service items are not subject to the service charge adjustment mechanism. "√" denotes that the contractors are required to report performance on or certify compliance with the requirements of these service items.

**The service item “cleaning”
— its service details and required service level**

Service details

- (a) The contractor is required to provide a general cleaning service in accordance with a schedule provided by the contractor and approved by the GPA.
- (b) The contractor is responsible for replacing toilet consumables as provided by tenants/residents.
- (c) The contractor is required to clean all swimming pools (including filters) and undertake water sample testing for review by the Leisure and Cultural Services Department.
- (d) All cleaning service should be provided in accordance with the GPA Cleaning Quality Manual.

Service level

	Availability	Reliability	Corrective action	Response time
Required service level	As per agreed schedule with the GPA	2 complaints per site per month and 8 complaints per contract per month	(a) Health, safety and urgent matters: immediately (b) Routine matters: within 12 hours	—
Service point of delivery	Site			
Measurement period	Monthly			
Responsibility for measurement	Contractor			
Reporting frequency	Monthly			
Measurement method/rules and/or calculations	(a) Total number of tenant/resident complaints (b) Customer satisfaction survey			

Source: GPA's records

**The service item “compliance”
— its service details and required service level**

Service details

- (a) The contractor is responsible for ensuring that all statutory requirements which the GPA are obliged to meet in providing services to tenants/residents are complied with.
- (b) The contractor is responsible for ensuring that all GPA compliance matters are met, including organising one fire drill for each tenant/resident in offices per year and enlisting the attendance of the Electrical and Mechanical Services Department when doing so.

Service level

	Availability	Reliability	Corrective action	Response time
Required service level	24 hours per day and 365 days per year	All compliance matters are met	In accordance with the GPA’s required time frame	—
Service point of delivery	Site			
Measurement period	Monthly			
Responsibility for measurement	Contractor			
Reporting frequency	Quarterly			
Measurement method/rules and/or calculations	Certificate of compliance			

Source: GPA’s records

Performance targets specified in the 2000-01 SLA between the GPA and the EMSTF

Service	Attended venues	Unattended venues
1. Service availability of major systems		
(a) Electricity supply distribution	> 98%	> 98%
(b) Air-conditioning installation	> 98%	> 98%
(c) Stage lighting and engineering system	> 99%	> 99%
(d) Fire service installation	> 99%	> 99%
(e) Lift and escalator installation	> 99%	> 99%
(f) Electronic system	> 98%	> 98%
2. Response time to fault call		
2.1 For electrical and mechanical engineering services		
(a) Urgent fault call	< 15 minutes	< 3 hours
(b) Non-urgent fault call	< 1 hour	< 3 hours
2.2 For building services		
(a) Fire service installation	< 1 hour	< 1 hour
(b) Lift and escalator installation	< 30 minutes	< 30 minutes
(c) Burglar alarm and security installation	< 1 hour	< 1 hour
(d) Liquefied petroleum gas and town gas installation	< 3 hours	< 3 hours
(e) Communal aerial broadcasting distribution installation	< 3 hours	< 3 hours
(f) Gondola installation	< 3 hours	< 3 hours
(g) Building automation system installation	< 3 hours	< 3 hours
(h) Floodlighting installation	< 3 hours	< 3 hours
2.3 For electronic services	< 3 hours	< 3 hours

Service	Attended venues	Unattended venues
3. Fault rectification		
3.1 <i>For electrical and mechanical engineering services</i>		
(a) Urgent fault	<24 hours	<24 hours
(b) Non-urgent fault	<7 working days	<7 working days
3.2 <i>For building services</i>		
(a) Urgent fault	<24 hours	<24 hours
(b) Non-urgent fault	<7 working days	<7 working days
3.3 <i>For electronic services</i>	<7 working days	<7 working days
4. Technical advice on projects and procurement services		
(a) Checking a document against engineering standards and statutory requirements	<10 working days	<10 working days
(b) Drafting and commenting specification	<21 working days	<21 working days
(c) Evaluating and recommending a tender	<28 working days	<28 working days
(d) Attending an acceptance test	<10 working days	<10 working days

Source: GPA's records

Appendix H
(para. 5.1 refers)

GPA's performance targets and performance indicators in the 2001-02 Estimates

(A) Performance targets

Property type	Target average monthly management cost (\$ per square metre)	1999 (Actual) (\$ per square metre)	2000 (Actual) (\$ per square metre)	2001 (Plan) (\$ per square metre)
Non-domestic accommodation in private developments	45.0	44.2	44.9	45.0
Major joint-user buildings	10.0	9.7	10.0	10.0
Quarters in private developments	16.5	16.1	15.7	16.5
Government wholly-owned quarters	8.0	7.9	8.0	8.0

(B) Performance indicators

	1999 (Actual)	2000 (Actual)	2001 (Estimate)
Management of government estates			
(a) Number of government/institution/community non-domestic properties in private developments managed by the GPA	148	158	168
(b) Number of residential flats managed by the GPA	21,771	21,871	25,838
(c) Number of government joint-user buildings managed by the GPA	52	50	49
Other accommodation managed by the GPA			
(a) Number of sites	29	30	32
(b) Area (square metres)	1,132,220	983,225	852,777

Source: *The 2001-02 Estimates*

Appendix I
(para. 5.7(b) refers)

Comparison of gross floor areas of government buildings

Name of property	Gross floor area captured by the IGPIS	Gross floor area specified in the three new outcome-based contracts	Difference
	(a)	(b)	(c) = (a)–(b)
	(square metres)	(square metres)	(square metres)
<i>Hong Kong Island contract</i>			
1. Aberdeen Fisheries and Marine Office	2,340	1,484	856
2. Central Government Pier Building	3,451	3,768	(317)
3. Harbour Building	30,524	38,200	(7,676)
4. Mui Wo Government Building	3,260	1,760	1,500
5. Peng Chau Government Building	294	620	(326)
6. Queensway Government Offices	78,194	70,460	7,734
7. Southorn Centre	37,386	38,226	(840)
Subtotal	<u>155,449</u>	<u>154,518</u>	<u>931</u>
<i>Kowloon contract</i>			
8. Canton Road Government Offices	19,065	24,000	(4,935)
9. Homantin Government Offices	24,764	16,502	8,262
10. Kowloon East Government Offices	8,110	7,784	326
11. Kowloon Government Offices	13,837	13,109	728
12. Mongkok Government Offices	12,879	12,330	549
13. Ngau Tau Kok Government Offices	1,787	2,042	(255)
14. San Po Kong Government Offices	8,655	11,200	(2,545)
15. Tokwawan Government Offices	4,053	6,341	(2,288)
16. Trade Department Tower	23,450	18,013	5,437
Subtotal	<u>116,600</u>	<u>111,321</u>	<u>5,279</u>
<i>The New Territories contract</i>			
17. Sai Kung Government Offices	11,548	12,339	(791)
18. North District Government Offices	11,715	10,660	1,055
19. Ta Kwu Ling Rural Centre Government Building	797	620	177
20. Tai Hing Government Offices	1,874	3,128	(1,254)
21. Tai Po Government Offices	8,312	7,611	701
22. Kwai Hing Government Offices	9,494	7,595	1,899
23. Tuen Mun Government Offices	9,541	13,522	(3,981)
24. Yuen Long District Office Building	5,088	5,124	(36)
25. Yuen Long Government Offices	11,356	13,632	(2,276)
Subtotal	<u>69,725</u>	<u>74,231</u>	<u>(4,506)</u>
Total	<u>341,774</u>	<u>340,070</u>	<u>1,704</u>

Source: Audit's analysis

Appendix J

Acronyms and abbreviations

COR	Controlling Officer's Report
CTB	Central Tender Board
EMSTF	Electrical and Mechanical Services Trading Fund
FB	Finance Bureau
GPA	Government Property Agency
IGPIS	Integrated Government Property Information System
MSA	Management Services Agency
SLAs	Service Level Agreements