

HIRING OF SERVICE CONTRACTORS AND PROFESSIONALS

Executive Summary

1. Government bureaux and departments (B/Ds) hire service contractors and professionals regularly to perform services including cleansing, facilities management, security and diagnostic services. The Government's procurement policy is to obtain goods and services at the best value for money and award contracts for supplying goods and services through open, fair, competitive and transparent procedures. Controlling Officers, responsible for the management of services procured, should observe and uphold the culture of compliance with the requirements set out in the Stores and Procurement Regulations (SPRs) issued by the Financial Secretary/Secretary for Financial Services and the Treasury under section 11(1) of the Public Finance Ordinance (Cap. 2).

2. In the past decade, Government expenditure on hiring service contractors and professionals under Subhead 111 of the General Revenue Account had increased from \$2.62 billion in 2004-05 to \$7.18 billion in 2013-14. In view of the significant and increasing expenditure on the hiring of service contractors and professionals, the Audit Commission (Audit) has recently conducted a review of four B/Ds' processes and practices in the acquisition of such services. A number of contracts were selected from the four B/Ds, namely the Department of Health (DH), Education Bureau (EDB), Food and Environmental Hygiene Department (FEHD), and Leisure and Cultural Services Department (LCSD), for review.

Sourcing of service providers

3. *DH: Need to critically assess the tender price for the procurement of health screening service under single tenders.* According to SPR 325, limited (single or restricted) tender procedures shall only be used in circumstances when open competitive tendering would not be an effective means of obtaining the requisite stores or services. Since 2003, the DH has used single tenders to obtain

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health screening service for visitors at the Hong Kong International Airport from Contractor A. For the period from April 2012 to March 2016, there was a significant increase in the contract value (by 171% from \$30.6 million to \$82.9 million). The contract rate charged per man-hour for the screening services at the Airport was twice that charged for similar services obtained through open tenders at the boundary and the cruise terminal. Audit considers that the DH needs to critically assess all relevant factors during tender/contract negotiations with a view to obtaining the required services at the best value for money (paras. 2.4, 2.7, 2.9, 2.14 and 2.24).

4. ***EDB: Need to review the use of single tenders and explore the market of service providers for Student Assessment (SA) programme.*** Between December 2000 and January 2011, the EDB had entered into three consecutive single-tender contracts with Contractor B for the development of the Basic Competency Assessment (BCA) in Chinese Language, English Language and Mathematics. The current four-year contract was valued at \$319 million. The BCA comprises two programmes, namely the SA and the Territory-wide System Assessment (TSA). According to the EDB, the SA and TSA came as a package and, especially when the BCA was at an early development, engaging one single institution to implement the two programmes was considered more appropriate and effective in ensuring consistency. Besides, Contractor B is the only service provider who can provide the BCA service having regard to its knowledge about the local school curriculum and its ability to hold public examinations in school centres (paras. 2.25, 2.27, 2.28 and 2.38).

5. More recently, the EDB informed Audit that it had separately contracted out in 2012 certain tasks of the SA programme to another service provider as a pilot project to assess the feasibility of engaging other service providers in the development of SA items. Audit welcomes the EDB's initiative. Given that the SA programme mainly involves the development of competency assessment items and maintaining the SA system and database, Audit considers that the justification for the continued use of single tender for the SA programme (bundled with the TSA) may diminish with time and it is time to consider separating the SA programme for procurement by open competitive tenders (paras. 2.38 and 2.39).

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6. ***FEHD: Limited number of service providers for FEHD's cleansing contracts may increase concentration risks.*** As at June 2014, the FEHD had outsourced its street cleansing services in 19 districts under 25 two-year contracts at a total value of \$1,740 million. These contracts were awarded through open tenders to five contractors, one of which was awarded 10 contracts with a total value of \$653 million (38% of \$1,740 million). Whilst Audit noted that the situation had improved as at September 2014, Audit considers that the FEHD needs to continue monitoring the situation and take necessary measures, where appropriate, to enhance competition and reduce concentration risks in future tendering exercises (paras. 2.41, 2.42 and 2.44).

7. ***LCSD: Limited number of service providers for venue cleansing and supporting service contracts.*** As at March 2014, the LCSD had awarded through open tendering 41 contracts for the provision of cleansing and supporting services to its venues at a total value of \$1,913 million to eight contractors. Of these contracts, 32 contracts were awarded to two contractors with a total value of \$1,780 million (93% of \$1,913 million), with one having been awarded 20 contracts totalling \$1,236 million in value. Since a large majority of the LCSD's venue cleansing and supporting services are provided by two contractors, Audit considers that the LCSD needs to critically review its tendering strategy and consider the use of more contractors to reduce concentration risks (paras. 2.45, 2.46 and 2.48).

8. ***B/Ds: Procurement procedures not always adopted to enhance competition.*** According to the SPRs, B/Ds shall follow tender procedures when making purchases of services exceeding \$1.43 million. Audit examination of contracts selected from the four B/Ds found that while some contractors provided same/similar services with a total value exceeding \$1.43 million during the year, such services were not or could not be aggregated into a single contract to achieve better economy of scale and follow the tender procedures for procurement in accordance with the SPRs (paras. 2.49 and 2.50).

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Specification of service requirements

9. Tender specifications define the requirements of the procuring departments and what the tenderers are expected to provide. According to the SPRs, tender specifications shall meet the basic Government procurement principles of transparency, openness and fairness. In setting tender specifications, B/Ds should also guard against over-restrictive requirements which might have the effect of protecting existing service providers in the market from potential competition, thus reducing or limiting choices and potentially affecting prices (paras. 3.2, 3.10 and 3.11).

10. ***FEHD: Need to reflect street washing service requirements accurately in tender specifications.*** Audit noted that there were significant discrepancies between the service locations specified in the FEHD's tender documents and those specified in the work plans proposed by the successful tenderers, which formed part of the contracts. Audit considers that for fair competition, the FEHD needs to critically review the locations for street washing as specified in the tender documents to ensure that they are complete and well justified to meet the actual needs, ensure that the tenders received comply with the service requirements as specified in the tender documents, and take measures to incorporate all required locations into the contracts awarded to the successful tenderers (paras. 3.6 and 3.8).

11. ***LCSD: Setting of mandatory requirements specified in its venue management contracts.*** As at 31 March 2014, the LCSD outsourced the management support services for 14 sports centres through open tenders. All the contracts were awarded to one contractor. Audit found that according to the tender document, the tenderer needs to meet certain mandatory requirements on its year of experience in management support services at recreational or sports facilities. Audit considers that the LCSD needs to critically review whether it is possible to revise the mandatory requirements with a view to encouraging competition, increasing choices and avoiding over-reliance on a single contractor (paras. 3.12, 3.14 and 3.19).

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Monitoring service delivery

12. ***EDB: Monitoring of BCA contracts.*** Under the terms of the BCA contracts, no sub-contracting by Contractor B is allowed except with prior written approval of the EDB. Audit notes that Contractor B has sub-contracted part of the contracts without obtaining written approval of the EDB. Besides, the utilisation of the SA system was low. In the past three years from 2011 to 2013, under the third BCA contract, some 60% of primary schools and 80% of secondary schools had not logged into the system to create assessments for their students. The EDB needs to identify the reasons for the low utilisation and closely monitor the future utilisation of the SA programme (paras. 4.5, 4.6, 4.11 and 4.15).

13. ***FEHD: Requirements specified in its recyclables collection service contracts not effectively enforced.*** Since 2000, the FEHD has been outsourcing its recyclables collection service. The service contracts stipulated that the contractor shall not dispose of any recyclables in any landfill, refuse transfer stations or any other waste disposal facilities without prior consent of the FEHD. In May 2013, the media reported cases of improper disposal of collected recyclables by the contractor and similar cases were also found by the FEHD's surprise inspections in the same month. Under the terms of the new recyclables collection contract for the period from August 2014 to July 2016, the contractor is required to deliver plastic recyclables collected to "*recyclables recyclers*" (instead of "*recyclables collectors*") nominated by the contractors and approved by the FEHD. However, the requirement for the contractors to deliver non-plastic recyclables to "*recyclables collectors*" remained unchanged (paras. 4.16, 4.18 to 4.20).

14. ***FEHD: Monitoring of street washing services.*** Audit analysed the service locations specified in the daily work programmes approved by the FEHD for five districts and found that they varied significantly from those locations specified in the work plans which formed part of the contracts. Audit could not find documentation to ascertain that the Health Inspectors concerned had brought such variations from contracts to the attention of the Senior Health Inspectors (paras. 4.26 and 4.27).

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15. Audit review of the FEHD's inspection results revealed inadequacies in its monitoring of the contractors' services, such as conducting inspections on a fairly regular basis which might be anticipated by the street washing teams. Audit's on-site inspections in five districts to observe the actual operation of street washing by the FEHD's contractors in July and August 2014 also found irregularities. For example, in one district, Audit found, among others, that:

- (a) the street washing team had not carried out street washing at some of the scheduled service locations as specified in the daily work programmes;
- (b) the team spent much shorter than scheduled time in washing the service locations; and
- (c) the team returned to the water filling point for sign off much earlier than the scheduled time.

The FEHD needs to consider implementing a more effective mechanism for monitoring the contractors' delivery of services (paras. 4.31, 4.33 and 4.34).

Way forward

16. The audit review has identified room for improvements in a number of areas in the four B/D's hiring of service contractors and professionals. In particular, some of the procurements reported could have achieved better value for money through more determined and focused efforts to introduce competition among eligible tenderers and through closer monitoring of contractors' performance. Audit considers that B/Ds should be reminded to comply with the relevant Government regulations and guidelines on their hiring of service contractors and professionals from time to time (paras. 5.5 and 5.6).

Audit recommendations

17. **Audit recommendations are made in PART 5 of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that:**

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Sourcing of service providers

- (a) the Director of Health should critically assess all relevant factors during tender/contract negotiations with a view to obtaining the required services at the best value for money;
- (b) the Secretary for Education should consider whether other tendering options can be brought into the SA programme separately when opportunity arises so as to reap the benefits of competitive bidding;
- (c) the Director of Leisure and Cultural Services should critically review the LCSD's tendering strategy and consider the use of more contractors to reduce concentration risks;

Specification of service requirements

- (d) the Director of Food and Environmental Hygiene should critically review the service locations specified for street washing in the tender documents to ensure that such locations are justified and meet the actual needs;
- (e) the Director of Leisure and Cultural Services should critically review whether it is possible to revise the mandatory requirements for the provision of management support services at sports centres with a view to encouraging competition;

Monitoring service delivery

- (f) the Secretary for Education should identify the causes for the low utilisation of the SA programme and closely monitor the utilisation of the SA programme;
- (g) the Director of Food and Environmental Hygiene should consider implementing a more effective mechanism for monitoring the delivery of street washing services by the contractors;

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Way forward

- (h) **the Secretary for Financial Services and the Treasury should, in conjunction with the Director of Government Logistics, remind B/Ds to comply with the relevant Government regulations and guidelines on the hiring of service contractors and professionals; and**
- (i) **the Director of Government Logistics should take on board the audit observations mentioned in this audit review in the Government Logistics Department's reviews of B/Ds' compliance with the SPRs.**

Response from the Administration

- 18. The Administration generally agrees with the audit recommendations.