

**Dangers in using price competitive bidding and the use of private sector  
in providing social welfare services in Hong Kong SAR**

**Discussion points submitted to the Welfare Panel, Legislative Council  
March 5, 2001**

By

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**1. Overseas experience in contracting out through competitive bidding mixed**

Although contracting out public services through competitive bidding is a worldwide trend among developed countries, results of such practice have been mixed at best. It is not clear as to whether competitive bidding would necessarily improve cost effectiveness. Nor is there conclusive evidence to show that contracting out social welfare services could increase accountability, enhance innovation, improve quality, or even save money.

**2. Lack evidence that price competitive bidding saves costs**

Although SWD reports that the contracted amount for home care and meal service is about 80% of the budgeted amount based on the conventional subvention mode, there are a lot of hidden costs that are not reflected in the contracted amount. These hidden costs include the setting up and operation of the Contract Management Unit (CMU) within SWD, the preparation of tender documents and the need for supervision and training on the part of the contractors (Non-Governmental Organizations), and other administrative overheads such as office space, equipment, and automobiles that are needed to implement the service.

**3. Shift of costs from production to transaction**

Overseas experience reveals that when social care services are provided through contracting, the overall costs are similar to in-house provision. However, significant costs are shifted from direct service production to the administrative process for the contractual transaction, including contract preparation, selection, monitoring, and overheads. Local experience as documented in my recent research suggests the same phenomenon.

**4. Lack evidence that price competitive bidding improves quality**

There is no evidence at this point that the price competitive bidding conducted in home care has fostered improvements in the quality of service. It is encouraging to see a high customer

satisfaction feedback documented by a recent survey commissioned by SWD. However, a stand-alone customer satisfaction survey on Home Care has very limited usage, unless it is compared with Home Help service. It is common knowledge among professional providers that our senior clients usually give very positive feedback to services.

**5. Lack evidence to support further involvement of the private sector in welfare services**

SWD has recently announced its intention to involve the private sector to compete for service contracts that are targeted for the elderly. Overseas experience has shown that there are many down sides to this policy, including the potential monopoly of large for-profit corporations (such as multi-national corporations), conflict of interest, danger of fraud, and deterioration of trust and mutual help among service providers. Recent scandals in several private (for-profit) residential care facilities for the elderly in Hong Kong are good warning signs.

**6. The social responsibility of business is to increase its profits**

Milton Friedman has made the above statement to demonstrate the foolishness in any expectations that the private sector would perform social duties. The private sector moved into the field of long-term care for the elderly not because it cares. The only reason was profit. In the UK, for example, private long-term care operators have recently found that selling their facilities could generate more profits than running them. Therefore, many private elderly homes are now closing down, leaving the elderly, their families, and the government stranded. Rapid decline in real estate value in Hong Kong in recent years has attracted the business to convert many properties into elderly homes. If the property market picks up again, who is to say that the situation happening in the UK will not happen in Hong Kong?

**7. Recommendations**

- **Use fixed-price competitive bidding**
- **Increase transparency**
- **Consult the public, users, and NGOs**
- **Enhance Continuity**
- **Foster collaborations**
- **Allow users to define their own needs**
- **Guide by principles such as social inclusion, empowerment, and equity**
- **Evaluate private residential care services before involving the private sector in bidding for welfare services**