

LEGISLATIVE COUNCIL PANEL ON WELFARE SERVICES

Allocation of New Social Welfare Service Units Provision of Residential Care Home Services for the Elders through Open Tender

Purpose

This paper updates Members on the Administration's plan to adopt competitive bidding in selecting operators for new residential care homes for the elders (RCHEs) and informs Members of the details of the first such open tender in respect of the RCHE in the Sai Ying Pun Complex located at High Street (hereinafter referred to as the High Street RCHE).

Background

2. At its meeting on 5 March 2001, Members discussed the Administration's revised framework for the allocation of new social welfare services units, namely a quality-based fixed-price allocation system amongst NGOs, direct allocation to existing NGO operator on an in situ expansion basis and competitive bidding on quality and price involving both NGOs and private sector. Members expressed the following concerns -

- (a) competition was not applicable to the provision of elderly service as the users were the socially-disadvantaged who lacked the capability to assert their rights. The plan to open up the bidding to private sector on the basis of price should be replaced by a fixed price, quality based allocation system involving competition amongst only NGOs;
- (b) private sector firms, in order to maximise profits, would employ staff at low salary and with long working hours and the quality of service would suffer;
- (c) there was no need to include private sector in the bidding of welfare services in order to have open and fair competition as NGOs could compete amongst themselves on the same basis;
- (d) the demerits of implementing competitive bidding in overseas

experience should be recognised; and

- (e) it was important to ensure services of a high quality and the Administration should not implement competitive bidding in welfare services in haste as NGOs still needed to adjust themselves to the new Lump Sum Grant subvention system.

3. Members also took note of a position paper submitted by the Hong Kong Council of Social Service on the subject.

The Administration's Response

4. Since March 2001, we have further consulted with stakeholders with a view to obtaining their support for this new mode of allocating elderly service units and accommodating the stakeholders' concern in the actual tendering process. We have also taken into account guidelines issued by Finance Bureau on safeguarding the wages on non-skilled workers in government service contracts. Views and comments expressed by Members of LegCo Panel on Welfare Services, SWAC and EC have also been taken on board, as reflected in the tender specifications and process as discussed below. We believe that we have come up with a framework that should adequately address the main concerns about ensuring service quality, preventing cost-cutting and safeguarding terms and conditions of employment for non-skilled or low-skilled workers. We have also clarified that competitive bidding has not been ruled out in overseas experience; it remains a responsible form of financial arrangement for arranging human services. Finally, the mode competitive bidding will be applied to only elderly services and within this area, confining to residential care homes for elders in the next 12 months. In government funding terms, the six residential elderly homes to be subject to competitive bidding account for only about \$41 million annually, as compared to some \$512 million worth of new services to be allocated exclusively to NGOs. A detailed point-by-point response of the Social Welfare Department to the position paper of the Hong Kong Council of Social Service is at the Annex.

5. We hope that with the above and the goal to deliver more cost-effective elderly services to meet the needs of an ageing population, Members will support our approach, appreciating the detailed and robust framework for quality assurance and service monitoring that we are going to put in place as described in the tendering of the High Street RCHE below.

Tendering of the High Street RCHE

6. The High Street RCHE is a purpose-built RCHE within a government-

owned Community Complex, occupying the Lower Ground, 1st and 2nd Floors. It is fitted out by the Architectural Services Department with a total capacity of 150 places, viz. 120 places in 24 5-person rooms, 20 places in 2-person rooms and 10 places in single rooms. This RCHE is configured with the objective of trying out a mixed provision of subsidised and non-subsidised places. Tendering of the High Street RCHE will take the form of a Government service contract to operate both the subsidised and non-subsidised places. SWD will provide recurrent subsidy to the subsidised places (at the full committed level) in the form of a fixed annual contract sum whereas the operator is allowed to operate the non-subsidised places on its own subject to a committed fee schedule.

7. The tendering will be conducted in strict accordance with the Government Stores & Procurement Regulations. It is open to bidders from the NGO or private sector so long as they fulfil certain criteria. Approval of the Central Tender Board chaired by the Secretary for the Treasury has been obtained for the use of the tender documents and a marking scheme to evaluate tenders. The main features of the service contract are as follows -

- (a) the services will be provided through a management contract between SWD and the Operator at a fixed contract sum and a tenancy agreement between the Government Property Administrator and the Operator at a nominal rent;
- (b) the Operator is required to operate the Subsidised Service (up to the committed level in its bid) on the fixed contract sum;
- (c) the Operator is required to operate the Non-subsidised Service with no recurrent subsidy from SWD. The Operator will charge for use of the Non-subsidised Service subject to a fee schedule (no more than the committed levels in its bid);
- (d) the contract will last for five years and the Operator may apply for renewal for another five years subject to satisfactory performance and at the sole discretion of SWD;
- (e) the contract stipulates clear service specifications to be complied with by the Operator. In addition, any value-added proposals in the bid will become part of the contract requirements;
- (f) the contract contains clauses for Government directions and monitoring and sanctions against breaches of contract conditions; and
- (g) in line with the spirit of recent Government directive on safeguarding remuneration of non-skilled staff employed in Government contracts,

the Operator is required to enter into written employment contracts with its staff on those terms and conditions as committed to in its bid.

The Selection Process

8. The assessment of tenders will be broadly divided into three parts, including mandatory requirements, quality assessment and price assessment. Only bids meeting the mandatory requirements in full may proceed to further quality assessment which will be conducted *separately* and *in advance* of the price assessment. To reflect our emphasis on quality, the Central Tender Board has accepted our recommendation for a 80/20 split in respect of quality/price¹. Furthermore, in response to NGOs' concern about severe price competition and cost-cutting, the price assessment will take the form of volume comparison against a fixed contract sum. These three parts of assessment are discussed in turn in the following paragraphs.

Mandatory Requirements

9. Tenders must demonstrate its compliance with **all** of the mandatory requirements including current experience of operating RCHE, nursing home or hospital in Hong Kong licensed under the respective legislation, no record of convictions during the past five years under the licensing ordinances and no more than three convictions during the past 12 months under the Employment Ordinance and the Immigration Ordinance. The tenderer must also supply all the necessary information and documents. Failure to comply with any of the above will lead to disqualification.

Quality Assessment

10. The tenderers have to include in their technical proposal the proposed mode of service delivery meeting all requirements stipulated in the Service Specification. Essential areas include the scope of services provided; formulation of comprehensive individual care planning, quality management system(s), customers satisfaction survey; development of Clinical Practice Guidelines; human resource management including staff development and training as well as staff mix and remuneration package for low-skilled workers.

11. Specifically, the quality assessment will be conducted against **six**

¹ A 80% weighting for quality in Government service contracts is quite exceptional. In recent directive to adopt marking scheme for the evaluation of tenders that rely heavily on the deployment of non-skilled workers, normally only a 30% to 40% weighting is allocated to quality assessment.

major quality aspects of (1) care setting; (2) clinical intervention and personal care and other services; (3) management support; (4) human resource management; (5) relevant experience; and (6) value-added proposals. Each of these aspects will be assessed in detail. The scoring assigned to each of these aspects reflects their weighting in the quality aspect of service delivery. The tender has to achieve a pass mark of 50% in each of the first five aspects (i.e. with the exception of value-added proposals) before it could enter the next stage of assessment. In addition, tenders with a total score of less than 60% in the quality aspect will also be rejected.

12. The 80% weighting assigned to the quality evaluation is further composed of 70% for technical service proposals and 10% for the fee charging proposals for the Non-subsidized Service. The scoring of the fee charging proposals will take a simple form of higher scores to lower fees proposed to ensure that the Non-subsidised Service will be provided at more affordable prices to benefit elders and their families. The level of fees proposed once accepted would form part of the management contract.

Price (Volume) Assessment

13. The tenderer is requested to propose the volume of service (i.e. the number of places for the Subsidised Service at a minimum of 95 and a maximum of 120 places) that he commits to provide at the fixed contract sum. If there remains capacity to provide a greater number of places in the Subsidised Service over and above that committed by the successful Operator, SWD will pay the Operator additional sums for the extra subsidised places on a per capita basis, using the unit rate as calculated in his volume of services committed. The volume score will take the simple form of higher scores to a greater number of pledged places. The volume of service proposed once accepted would form part of the management contract.

14. The successful tender recommended to the Central Tender Board for the award of contract will normally be the one with the highest total mark, and which is assessed as financially sound and viable upon financial vetting.

Service Monitoring

15. To ensure effective quality assurance, the successful bidder will be subject to vigorous monitoring by the Social Welfare Department upon commencement of service to secure a full compliance of contract terms and the agreed level of performance indicators and standards. Measures such as regular service reviews, spot checks, surprised visits and user satisfaction surveys etc. will

be employed to ensure that the operator provides quality services to the benefit of users on a continuous basis.

Financial Implications

16. The fixed contract sum for the High Street RCHE is set at an inclusive sum of **\$7 million per annum** for a minimum of providing 95 places in 5-person rooms. The sum may be adjusted for inflation/deflation annually thereafter. This contract sum represents a maximum per capita cost of \$6,140 per place per month. In addition, the successful Operator will be provided with a non-recurrent grant to procure the necessary furniture and equipment for the Subsidised Service.

17. Unlike conventional bidding for Government service contracts, the present arrangement requires very little business start-up cost or financing by the successful operator. This helps ensure that non-profit-making NGOs will not be prohibited to tender because of financing.

Tendering Timetable

18. A Tender Notice will be published in the Government Gazette on 27 July 2001 with tender closing date set on 7 September 2001. Similar notices will be carried in local newspapers. DSW will personally hold a briefing for all interested bidders from NGOs and the private sector in the afternoon of 27 July 2001. A Vetting Committee with members from the Health and Welfare Bureau, Social Welfare Department and the Hospital Authority will be formed to evaluate the tenders and make a recommendation to DSW for onward submission to the Central Tender Board for approval. We plan to complete the tender exercise by November with a view that the High Street RCHE may be put into operation by February 2002.

Further implementation

19. A further five RCHEs premises will be physically available for allocation within the next 12 months. We will put these out for tender based on similar tendering process and arrangements. The only difference is that a couple of these RCHEs include also a day service component and three of them require the selected operator to carry out fitting out works.

Advice Sought

20. Members are invited to note the Administration's plan on the allocation of new RCHEs and the open invitation to tender for the provision of services at the High Street RCHE.

Social Welfare Department
July 2001

**Social Welfare Department's Comments of
Hong Kong Council of Social Service
On
Allocation of New Social Welfare Service Units
Provision of Residential Care Home Services for the Elders through Open Tender**

HKCSS : **There is a need for the Administration to clarify the policy direction and intention behind the introduction of competitive bidding in the year 1999**

- SWD :**
- No policy directive to open up all welfare services for competitive bidding.
 - The policy intent is to achieve value for money in the use of public resources to help those in need. With finite public resources, better value for money enables us to provide more services.
 - Only part of elderly services will be allocated by the mode of competitive bidding. The bulk of preventive, supportive, intervention and remedial services will continue to be allocated to NGOs on a fixed-price quality-based system.
 - The estimated annual value of the six homes for competitive bidding is about \$41 million, as compared to a total subvention of \$512 million worth of services to be allocated to NGOs.

HKCSS : **Competitive bidding as a strategy to enhance accountability and flexibility deploying resources to meeting evolving priorities and changing community needs : more time should be given for a thorough review of the positive effects of Service Performance Monitoring System and Lump Sum Grant towards the welfare service delivery before further moving on**

- SWD :**
- Service Performance Monitoring System and Lump Sum Grant are only part of the objectives in achieving the overall objectives in meeting emerging community needs.
 - Competitive bidding involving private sector with cost assessment is a complementary prong to the overall strategy.
 - Through the pilot exercise on the contracting out of home care and meal services, competitive bidding has been identified as being useful in achieving more cost-effective deployment of public resources and enabling creation of a level playing field where potential operators from the NGO and private sectors are given an equal opportunity to bid for the provision of services under a fair, open and objective environment.

HKCSS : Why elderly services are chosen?

- SWD :**
- Elderly services have expanded rapidly in recent years (increasing from \$1.6 billion in 1997-98 to \$3.2 billion in 2001-02).
 - There remains a long waiting list of some 29 000 elders for residential services and a general preference for purpose-built subvented RCHEs and premises constraint is one of the reasons for not choosing subsidised place in a private home under Enhanced Bought Place Scheme (EBPS).
 - We are therefore embarking on a premises-led approach for supply of purpose-built RCHE premises to engage operators to run them on subsidised or non-subsidised basis. Competitive bidding for the operation of these homes will ensure that we are getting best value for money for Government resources for the subsidised services and a better deal for members of the public using the non-subsidised services.
 - Giving private sector operators an opportunity to participate in the tendering process on par with NGO operators will provide an opportunity for existing private operators to further upgrade their quality.

HKCSS : The service quality control and price level involved in the bidding

- SWD :**
- Service quality control can be achieved by setting clear service specifications, conducting vigorous tender assessment and undertaking vigilant monitoring and regulation.
 - The service contract will be awarded on the basis of 80% for quality and 20% for volume assessment.
 - The tender evaluation has included specific provision and scores for remuneration for care workers and ancillary staff.
 - Marking scheme will be used to ensure service quality.
 - Successful bidder is subject to vigorous monitoring to ensure full compliance of contract terms and agreed performance standards.

HKCSS : Subsidised welfare service being open up to private for-profit corporations

- SWD :**
- Private operators are already performing a role in delivering subsidised welfare services through the EBPS.
 - The issue should be whether private sector participation could achieve the desired benefits of greater flexibility and innovation, higher cost-efficiency and better value for money.

- Denying the private sector involvement in the delivery of social services is not conducive to the development of partnership between social service agencies and business enterprises.
- Instead of discouraging volunteerism, there is already an enhanced involvement of private sector in volunteerism and many local volunteer groups are already extending their services to some private RCHEs.

HKCSS : Time defined contracts

- SWD :**
- New welfare service units are now allocated on a time-defined basis regardless of whether they are subject to competitive bidding to enable both sides to review the needs and mode of a particular type of service and renewal is often preferred where the service performance is satisfactory.
 - Taking account the need for continuity, the RCHE putting out for competitive bidding will be a five-year contract plus a contract renewal for another five years.

HKCSS : Experiences gained from local and overseas in applying competitive bidding in subsidised welfare services

- SWD :**
- In Victoria of Australia, the competitive bidding in community care is replaced by a range of funding options which still include competitive bidding. The revised funding mechanism as announced by the Department of Human Services in its document “Stronger Citizens, Stronger Families, Stronger Communities”, can take one of the four different processes : (1) Competitive bidding; (2) Advertised submission process; (3) Invited submission process; and (4) Direct allocation. The three broad principles governing the criteria for deciding which of the processes to use include best value outcomes, financial responsibility and partnership. Specifically on best value outcomes, this may mean “securing cost savings by minimising the purchase price for a given provision”. The document acknowledges that the policy framework provides “a more balanced approach to funding human services and offers a wider set of options which recognise the value of contestability”.
 - Our framework for allocation of new welfare service units including competitive bidding in some carefully selected areas is generally in line with the form of Victoria Government’s revised policy framework.
 - The structuralized contracting process in UK for purchasing welfare services from the voluntary and private sector has over the years generated benefits including greater security, longer-term funding agreements, more concerns with outputs than inputs, greater equality between funders and the funded, with users’ involvement becoming more of a priority.