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LEGISLATIVE COUNCIL PANEL ON WELFARE SERVICES

Social Welfare Subvention Reform : Allocation of New Welfare Service Units

With the implementation of the Lump Sum Grant (LSG) from 1 January 2001 in over half of the subvented Non-Government Organisations (NGOs) and the Service Performance Monitoring System already put in place in the sector, we now have a solid foundation to improve the quality, efficiency, responsiveness and planning of welfare services. This paper outlines the Administration's plans for the future allocation of **new** welfare service units in furtherance of the above objective.

The Strategic Objectives of the Subvention Reform

2. The majority of direct social welfare services are now delivered by NGOs through Government subvention. In 2000-01, they account for \$6.4 billion of total Government recurrent expenditure. The subvention system has been criticized as inflexible, complex and bureaucratic. There is also insufficient competition in the provision of services. It is no longer meeting in full the needs of present day social welfare development which should place emphasis on the effective use of public resources, innovation, responsiveness and performance management to meet changing community needs in a timely manner.

3. The strategic objectives we aim to achieve are -

- (a) enhancing accountability in the use of public funds through the introduction of more sophisticated and stringent service monitoring;
- (b) shifting emphasis from input control to output and outcome and allowing NGOs the flexibility to deploy resources to meeting evolving priorities and changing community needs; and

- (c) facilitating the process of service re-prioritisation and re-engineering and ensuring value for money.

The tool developed for achieving this is the enhanced Service Performance Monitoring System (SPMS) comprising the Funding and Service Agreements (FSAs) and Service Quality Standards (SQSs), the LSG mode of subvention and a process of competitive bidding in allocating new service units involving the private sector as far as possible. The progress of the first two is reported briefly below.

The Service Performance Monitoring System

4. With the co-operation of the sector, we have introduced the SPMS with effect from 1999-2000. The SPMS is now applied to all service units operated both by Social Welfare Department (SWD) and NGOs. Under SPMS, service documents and FSAs have been drawn up for each of the subvented services; they are evaluated against a set of well-defined SQSs. For the subvented sector, there are 113 FSAs covering the entire range of welfare services and a total of 19 SQS to be implemented in three phases. The final phase of nine SQSs will be put in place in 2001-02. The SPM team in SWD comprises staff from both SWD and NGOs. With the experience gained and in the light of the LSG operation, it has increasingly been recognized that the current generation of service-specific FSAs and process-based SQS will need to be re-examined and streamlined to provide a more agency-specific basis for collaboration between SWD and NGOs in the future planning and delivery of welfare services.

The Lump Sum Grant

5. After extensive consultations and the making of concessions to address the concerns of existing staff, the new LSG mode of subvention was implemented as from 1 January 2001. 95 NGOs have switched to LSG in the current financial year. They represent 55% of subvented NGOs and account for 75% of the total Government recurrent subvention to welfare NGOs. Those opting for LSG include large and small NGOs. Another 38 will join LSG in 2001-02 and 2002-03.

6. We are aware that switching to LSG is the first step in an

important process of change in both SWD and the NGO sector. Whilst the Department will no longer micro-manage the NGOs' affairs their boards and management must be strengthened to assume this role, particularly in the areas of financial and human resources management. To assist with the process of change, we have set up a Lump Sum Grant Steering Committee, which includes NGO management, staff representatives and users, under the chairmanship of DSW. The Committee has held its first meeting and endorsed the need for it to work with maximum transparency. We will shortly establish a Help Centre to provide advice, guidance and support to NGOs to cope with the changes.

Competitive Bidding

Experience To-Date

7. Competitive bidding in welfare services was introduced in the context of a changing mode in the delivery of public services. In his 1999 Budget Speech, the Financial Secretary announced, inter alia, that instead of allocating new service units to NGOs who would have to operate under rigid subvention rules and procedures, the Government intended to open up new welfare service units for competitive bidding, on a price and quality basis, starting with the home help service for the elderly. This pilot project commenced in the latter part of 1999. It involved the re-engineering of new home help teams into separate meal and home care service contracts. The meal service contracts were awarded through an open tendering process based on price and quality; nine contracts were awarded to eight operators comprising six NGOs, one NGO/private company alliance and one private company. The home care service contracts were awarded through competition on price and quality amongst NGOs. A vigorous assessment system was adopted with a weighted scoring system placing emphasis on quality (60% on quality and 40% on price). For both groups of contracts, the contract sum was about 80% of the budgeted amount based on the conventional subvention mode.

8. We have conducted a comprehensive review of these contract services. Having regard to the feedback received from the Sector, we have introduced measures to improve the bidding procedures including, enhancement of the transparency of the vetting process, and

introduced clearer bench-marking and more user-friendly documentation. As regards the performance of the contractors to-date, information collected through the monitoring mechanisms and the initial findings of user surveys indicate that the contractors of the home care service and meal service have been delivering the service promised and to a satisfactory quality. A detailed report on the monitoring and evaluation of the meal service is at Annex A.

9. This contracting exercise has had the following advantages –
 - (a) The flexibility given to the operators in using the resources available, has enabled them to widen the scope of the home care services provided to better cater for the users' needs. For example, greater attention is paid to nursing care, health assessment and disease prevention etc.
 - (b) The increased flexibility also allows contractors to employ the part-time staff who are needed to operate extra services at irregular hours, to fit in with service users' schedules.
 - (c) There is evidence that the stringent requirements specified in the meal service contract has helped to improve the quality of the service in terms of nutrition, food temperature, as well as meal delivery time.
 - (d) Improved cost-effectiveness for the service has been achieved.

10. Pending a decision on the way forward, the allocation of new welfare service units has proceeded on the following basis -
 - (a) the direct allocation of new units to designated NGOs to absorb surplus staff arising from the rationalization of Children and Youth Centres under the Fundamental Expenditure Review on Youth;
 - (b) in situ expansion in existing in rehabilitation and elderly residential service facilities, as announced in the 2000 Budget Speech. By definition, these new places have been allocated to the NGO operating the facility; and
 - (c) the implementation of the Service-oriented Strategy

announced in the 2000 Budget Speech including the special on the job attachment programme, the extended child care centre hour, the after school care, the single parent centres, the post-migration centres and the enhanced home and community care for the elderly programmes, on the basis of the submission of quality proposals.

11. Members may wish to note that all the above new services/units have been allocated to NGOs on *time-defined contracts*. For units allocated under para. 10 (c), an improved allocation system has been implemented. This takes the form of inviting NGOs to submit quality proposals at a price fixed by the Department, placing emphasis on output, outcome and evaluation, avoiding over-prescription on the mode of delivery and encouraging innovation and value-added services. Another variation was adopted for the allocation of new units (a total of 18 teams each serving one of the 18 District Council districts) under the Enhanced Home and Community Care programme. In this case, NGOs were invited to bid on both quality and the volume to be delivered (using a 80/20 weighting) of elders served under a fixed price contract. As a result, we have been able to serve 15% more elders than was originally required and ensure the quality of service provided to the clients.

12. Despite some initial resistance to the time-defined nature of the service agreement and complaints about the additional work required in preparing and submitting bids, this approach is now generally accepted by individual NGOs. Each allocation exercise has attracted a strong response from the sector and resulted in quality proposals. For example, the Enhanced Home and Community Care Service Programme attracted 61 proposals from 30 NGOs, notwithstanding the fact that each NGO was not allowed to bid for more than five teams.

13. As a first step in our strategy, we would like to confirm our definition of “competitive bidding” as the commissioning of a service through a bidding process open to both the NGO and private sectors on the basis of quality and cost-effectiveness. In the evaluation of bids a higher weighting will be given to quality as opposed to price. The price bids will also be assessed to ensure that they are viable to deliver the quality expected. We see merit in maintaining a system of subvention to NGOs delivering specific types of public services on behalf of the Government. The process of selecting the most suitable NGOs should,

however, continue to meet the objectives of fairness, openness, transparency, service quality and value for money.

The Way Forward

14. In devising a framework for the future allocation of service units, we have taken account of the following -

- (a) NGOs have made and continue to make a very important contribution to the provision of welfare services in Hong Kong. As long as they are operating under a facilitating environment, they are able to mobilize community resources and support through their own networks;
- (b) not all welfare services could achieve the desired gains in terms of enhanced cost-effectiveness following private sector participation;
- (c) to allow for private sector participation, we must create a sufficient critical mass that would interest them and lead to more competition. We should therefore only target a few areas especially, those where economies of scale and synergy can be readily achieved; and
- (d) the sector has accepted the need for change and increased productivity and many will face, in the next few years, the challenge of major managerial changes required under LSG.

15. In the light of our recent contracting out experiences with the meal and home care services, we believe that all elderly services, from home care to residential care, are suitable for private sector participation. We intend, therefore that competitive bidding should be applied to these services.

16. Different approaches in the allocation of new service units will be adopted as follows -

- (a) competitive bidding based on quality and cost-effectiveness for new elderly residential units, with the exception of those new units already allocated or required for service rationalization purposes;
- (b) a quality-based allocation system, at a price to be fixed by SWD involving competition amongst NGOs for all other welfare services; and
- (c) allocation to individual NGOs for in-situ service expansion.

Service units under both (a) and (b) and as far as possible those under (c) will be awarded on the basis of time-defined contracts. This will give both the Administration and the sector, an opportunity to review and re-engineer the service in the overall context of welfare service planning.

— A summary of the proposed framework is at Annex B.

17. Within the overall framework, we may need to make modifications, as we proceed. But generally speaking, competitive bidding will take the form of an open tender in accordance with the Government's Stores and Procurement Regulations with a higher weighting being given to quality as opposed to price. In seeking competitive bids for new residential care homes for the elderly, the contract may take the form of either a management contract for subsidized homes or a tenancy agreement in the case of premises-led approach for non-subsidised places.

18. As regards day care services for the elderly, a recently completed review points to the need for greater integration of day and residential services. We may not be able to open up all new centres for competitive bidding if we need to use these to re-engineer existing facilities operated by NGOs. As for the enhanced home and community care service, we are geared up to competitive bidding after the initial exercise now under way involving only NGOs.

19. We remain of the view that with the existence of a large private market in the provision of pre-school services, day nurseries are also appropriate for allocation on a competitive bidding basis. However, as the service is being reviewed in the context of a possible harmonization exercise with kindergartens, it is not appropriate at this time, to expose the service to competitive bidding.

20. Although non-elderly services are not currently recommended for competitive bidding, the new system of allocation is much more transparent, fairer and will encourage innovation and the flexible use of resources. In assessing the proposals, the Department will look for value-added services to be provided to service users. Our prime objective is to enhance the quality of services provided to clients in a manner which provides best value for money.

Consultation

21. These proposals were presented to the Working Group on the Implementation of the 1999 Subvention Review Exercise Proposals on 7 February 2001. Whilst most members supported the spirit of competitive bidding, they raised doubts about its practical application to welfare services when it involved price. They argued that unrealistically low prices offered by successful bidders would drive service quality down, and ultimately jeopardize the well-being of clients.

22. Our response to this concern is that the objective of competitive bidding is to introduce a transparent and fair system to secure innovative and value-added services, to enhance quality of service, and to achieve cost-effectiveness. Since the objective is not to cut costs, the Department will award a higher weighting to quality as against price in the tender process, as was done in previous exercises. To ensure the quality of service under competitive bidding, we will state very clear service specifications listing detailed requirements, both in terms of quality and quantity. We will also assess the price bids to ensure that they are viable to deliver the quality expected. Successful bidders will be vigorously monitored to ensure full compliance of contract terms in meeting the agreed performance standards as required. Quality will not be compromised.

23. The views of members of the Social Welfare Advisory Committee, the Elderly Commission and the Rehabilitation Advisory Committee were sought on 22, 26 and 27 February 2001 respectively. These generally mirrored those of the Working Group. Most members appreciated the need for services to be delivered in a cost-effective manner and noted the benefits likely to be derived from introducing greater competition in the allocation process. However, some concerns were expressed about the possible involvement of the private sector and a diminution in the quality of service provided to clients especially, the vulnerable. The Administration repeated its response to these concerns as outlined in para. 22 and emphasised that it had no intention of allowing quality to be compromised as a result of the introduction of a competitive allocation system. Instead, the focus would be on enhancing quality and this had been achieved in the recent pilot exercises to the benefit of the clients.

Social Welfare Department/Health and Welfare Bureau
March 2001

Evaluation Report on Home Care and Meal Service

Purpose

The purpose of this paper is to report on the evaluation of the home care and meal services provided by the contracted operators.

Background

2. Competitive bidding in welfare services was introduced in the context of a changing mode in the delivery of public services. In his 1999 Budget Speech, the Financial Secretary announced, inter alia, that instead of allocating service units to individual NGOs who would have to operate under rigid subvention rules and procedures, we would open up welfare services for competitive bidding, on a cost and quality basis, starting with the home help service for the elderly as a pilot. This pilot project took place in the latter part of 1999. It involved the re-engineering of new home help teams into separate contracts of meal service and home care service. Nine home care service contracts were awarded through competition on price and quality amongst NGOs and the service commenced in December 1999. The meal service contracts were awarded through open tendering based on price and quality. A total of nine contracts were awarded to eight operators comprising six NGOs, one NGO-and-commercial company alliance and one private company. The service started in February 2000.

Contract Monitoring

3. The Contract Management Unit (CMU) of the Social Welfare Department is responsible for monitoring the performance of operators. The Unit has established comprehensive procedures and tools to monitor the compliance of contract terms and conditions in meeting performance standards as required. The monitoring mechanism includes the followings:

- to conduct random audit and regular reviews to ensure the operators' compliance with the requirements in terms of quality management system and human resource planning as set out in the Service Specification;
- to assess service outputs through scrutinizing the monthly report submitted by Operators. The report consists of statistical information concerning the total number of weighted units home care operators achieved and total number of meals delivered. It also contains relevant training programmes provided to staff, and information on feedback and complaints received from users;

- to examine the monthly report certified by qualified dietitian on the adequacy of the meals provided;
- to handle feedback and complaints given by users and other relevant parties when necessary; and
- to conduct user satisfaction survey on an annual basis.

4. For meal service, the Food and Environment Department also conducts unannounced inspection on food and hygiene regularly. Where there is any finding of concern, the Department will inform the CMU who will take necessary action to ensure contract compliance.

5. In case of an operator not complying with contract requirements, the CMU will require the operator concerned to develop an action plan to address the identified issue(s) and a period of notice will be given to the operator to take corrective action. If the operator fails to rectify any non-compliance issues within the given period, the CMU will consider suspending the payment or terminating the contract.

Service Performance

6. Service reviews were conducted by the CMU on both the home care and meal services in March, July, and November 2000 separately. It was found that operators were able to employ a flexible staffing and operational system to smoothly deliver the service. Training programmes related to health, nursing and personal care, hygiene, and communication skills were given to new staff.

7. For home care service, it was found that networks with local medical, nursing and para-medical professionals had been gradually built up through operators' constant effort to promote their services. Through systematic training on personal care and nursing care, home care workers were equipped with relevant skills, thus enhancing the confidence and competency in providing services to meet users' needs.

8. In relation to food preparation and production of the meal service, it was found that all operators complied to have their menus verified by qualified dietitian each month. Some also made additional efforts to provide a variety of choices to meet users' expectation. There was no matter of concerns being reported by the Food and Environment Department in relation to food and hygiene irregularity.

Service Output

9. During the first 13 months of provision of home care service, a total of 818,164 weighted units have been delivered by the operators, which is 25.9% above the required minimum output. Of these, the total weighted units for personal and nursing care are 297,176. It is 5.7% above the minimum requirement.

10. For meal service, the total number of centre meals and home meals delivered as at the end of December 2000 is 386,077, which is 13% above the estimated volume.

User Satisfaction Survey

11. The Department has commissioned an external agency to conduct a user satisfaction survey. The survey involved face-to-face interviews of 1,036 (36.7%) service users. This covered 29.5% of the total number of home care users, 53.4% of the total number of meal service user, and 42.9% of both home care and meal service users. The survey aims to identify the extent to which users are satisfied with home care and meal service provided by the contracted operators.

12. A 5-point score is applied to measure the satisfaction level of users. The result of findings indicates that most users gave favourable response to the service they received. The overall satisfactory score is 4. The following aspects of the survey findings are highlighted:

a. Users of both home care and meal services

- 89.4% were satisfied with the suitability of service as whether home care and meal service met users' needs, 8.4% rated it average and 2.3% were dissatisfied.
- 96.6% were satisfied with the reliability of the service, 2.6 rated average, and 0.8% were dissatisfied. This indicator reflects the operator's ability to maintain consistency of quality service.
- 89.4% were satisfied with the arrangements made by operators and regarded the service received as flexible, 6.8% rated average, and 3.7% regarded the service as not flexible. Flexibility of service was measured by how well operators had performed in response to sudden requests for service.
- 91.8% regarded information provided being accessible to them, 7.2% considered as average, and only 0.9% were not satisfied. This indicator measures the convenience for users to contact

operators for enquiries or complaints, and the level of responses from operators.

b. Users of home care service

- 90.4% were satisfied with home care as a whole, 8.1% rated the service average, and 1.4% expressed dissatisfaction.
- 88.5% were satisfied with staff attitude as a whole. This includes courtesy, appearance, willingness to provide service, punctuality, serious working attitude, work efficiency, understanding of users' needs, and service quality. 10.4% rated average and only 1.1% were not satisfied.
- 82.3% were satisfied with staff's work competency which includes aspects on working skills and professional knowledge. 9.2% rated average and only 0.9% was dissatisfied.

c. Users of meal service

- 77.9% of users were satisfied with the overall meal service. 19.3% rated average and 1.8% expressed dissatisfaction.
- 79.8% were satisfied with the food quality, 16% rated average and 1.5% were dissatisfied. Food quality includes elements such as quantity, hygiene, temperature and freshness of the food, variety of dishes and tastes.
- 88.3% expressed positive comments regarding staff attitude (as measured by courtesy, appearance, understanding of users' needs and punctuality) as a whole, 11.3% rated average, and none expressed dissatisfaction.

Conclusion

13. Information collected through the monitoring mechanism and findings of the user satisfaction survey described above indicate that operators of both home care and meal services have been delivering the service at a satisfactory level since their inception. We will continue to ensure that operators will provide quality service on an on-going basis.

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Proposed Framework for Allocation of New Welfare Service Units

	Competitive Bidding on Cost & Quality	Quality-based Enhanced Allocation System	
Mode	Open Tender	Invitation of Proposals	In-situ Expansion
Types of service	(i) Meal service (ii) Home care (iii) Enhanced home care (after the initial \$64 Mn package with enhanced allocation now under way) (iv) Elderly day care service (v) Residential care for elderly	(i) New units of existing conventional service, e.g. rehabilitation services, nurseries, etc. (ii) Other new types of service, e.g. Pre-migration Centres, Single Parent Centres, special on the job attachment programmes, etc.	(i) Additional service components or enhancement in existing service units, e.g. occasional child care, integrated programme for children with disabilities and extended hours in existing child care centres, enhancing existing integrated teams for young night drifters
Selected Operator	From amongst private sector firms and NGOs	From amongst NGOs	The NGO operating the existing service unit chosen for expansion/enhancement. Where the number of existing operators exceeds the proposed service enhancement unit and there is flexibility in which unit to be enhanced, all NGOs operating that particular type of service unit will be invited to submit a proposal for the additional or enhanced service component.

	Competitive Bidding on Cost & Quality	Quality-based Enhanced Allocation System	
Vetting mechanism	Tendering process based on Stores and Procurement Regulations and approval of the Central Tender Board as necessary	Vetting Committee to be set up for that exercise and adoption of a marking scheme	Existing Welfare Services Allocation Committee mechanism
Types of agreement	Contract	For Type (i) - existing Funding and Service Agreement (FSA) For Type (ii) where there is no available FSAs - new Service Agreement	Incorporated into existing FSA
Duration of contract/agreement	3 to 5 years (Normally 3 years for day services and 5 years for residential services with variations on a case-by-case basis. Projects allocated before 1 Jan 2000 but commissioned from 1 Jan 2000 will not be made subject to time-defined agreements in honouring of previous undertaking)	3 to 5 years	Incorporated into existing FSA
Funding arrangements	Tender sum as stipulated in contract.	Lump Sum Grant (LSG) - For Type (i) - allocation incorporated into the Agency's overall LSG and be given the same flexibility. For Type (ii) - allocation separated from the Agency's overall LSG. Underspending should be kept in a separate account, subject to clawback as appropriate. (This is to ensure that the new type of service where there is no established cost basis will be developed with the resources given optimally.)	LSG subvention calculated on the basis of availability of funds. The grant will be incorporated into the Agency's overall LSG and be given the same flexibility.