

A Study on the Risk and Control Mechanism of Government Purchase of Public Services: A Case of Daqing City

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Abstract

With the rapid development of China’s market-oriented services, accelerating the transformation of government functions to innovate social management and improving government efficiency has become an urgent task of government reform. Affected by changes in the external environment, government’s public service faces a variety of risks. Based on the case study of Daqing city, Heilongjiang Province, this paper studies the risks faced by government public service and proposes the corresponding control mechanisms.

Key words: Risk management; Control mechanism; Government purchase; Public services

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INTRODUCTION

With the rapid development of China’s national economy and continuous deepening of economic and political management system reform, the government has constantly thought about how to rebuild the relationship between government, market and society and carried out a series of changes as a guide. On one hand, in order to streamline government functions and improve efficiency, the government has established government procurement system to purchase goods and services from the market, promoting the government’s market-oriented reforms and vigorously promoting the streamlining and decentralization of administrative examination and approval matters. On the other hand, from a financial point of view, the use and efficiency of government financial funds have long been questioned by the public. How to provide more efficient public services with limited financial resources, actively introducing the market “purchase” mechanism by relying on the powers of the communities, constructing competitive and market mechanisms on the use of fiscal funds have also been the focuses of attention of government procurement of services. Government procurement of services and products from social organizations in order to meet public needs is a new choice and a new attempt made under these challenges. Heilongjiang Province government has developed a series of management practices and regulations in accordance with the national and public demands by taking a series of measures, including establishing purchase catalog, auditing the purchase qualifications of social organizations, developing supervision and management methods and performance evaluation, etc.. As a new practice and a new attempt in the fiscal field, it is worthy of our attention and study.

1. OUTLINE OF THE CONTENT OF GOVERNMENT PROCUREMENT OF PUBLIC SERVICES

1.1 Definition of the Concept of Government Procurement of Public Services

Although the concept of public service has been relatively clearer, due to many objective factors, our understanding of the definition and scope needs to be deepened. Chinese experts and scholars have defined it as: Due to the complexion of government affairs and a timely treatment needed on a number of problems, there are omissions inevitable. Therefore, the process of relying on social organizations capable of solving problems to help the government bear some responsibilities, relying on the contributions made by the social organizations to evaluate their problem solving efficiency and giving them some benefits is known as government procurement of public services from social organizations. This service way is guaranteed by the government, and different aspects of matters are entrusted to fix social organizations for solution by signing relevant contracts. As a result, the government can have more choices, and competitions among different capable social organizations for corresponding management authorities will become increasingly fierce. By analyzing the nuances of public services of different natures, it is possible to largely determine the appropriateness of a public service to be provided by different participants and provided in the way of government purchase.

1.2 Approaches of Government Procurement of Public Services

In accordance with different purchase relations, government procurement of public services can be classified into direct purchase and indirect purchase as per purchase procedure. Direct purchase includes contractual system, direct funding system and project application system. Indirect purchase mainly refers to voucher system.

The first is contractual system. Contractual system includes a text signed in consensual cooperation to constrain the behaviors of the signing parties. In order to protect the interests of bilateral parties, a contract has been signed to clearly divide responsibilities and obligations of both parties in the trading process. When the government decides to purchase a public service from a social organization, it will often establish a formal partnership by signing a contract. Therefore, the government must firstly make a budget and declare the specific circumstances and requirements for the purchase of public service in order to ensure an effective implementation of the service undertaker. The government should evaluate based on appropriate standards for the work done, and pay appropriate commission to the service provider. In contractual system

the government takes the initiative and occupies a dominate position in the transaction, and as per the contract, both parties are on an equal status in the transaction.

The second is direct funding system, referring to that the Chinese governments allocate a number of funds, provide direct material supports, or promulgates benefiting policies to allocate materials to relevant service agencies, and by use of the funds by these agencies and by the efforts of their personnel make contributions to the society. In China, this practice has been widely used by government departments at all levels, mainly due to more standardization of direct funding system in the specific operating, but there are also problems such as whether the quality of services and public will can be accurately reflected, etc.. It should be said that it is still a transitional practical way.

The third is project examination and approval system. This approach has been one of the approaches used the most. A local service organization collects, organizes and sets a related project for some demands of the residents, submits the project application to the government for approval, and relevant functional departments allocate funds to the organization to implement the project. This approach is led by the undertaker who identifies problems in his work and implements targeted measures to solve problems, which contributes to reflect public opinions and making public services more targeted.

The fourth is voucher system. Voucher system is an agreement between the government and qualified agencies, in which the government issues public service consumption vouchers to consumers who can choose to buy appropriate public services from different organizations. Voucher system strengthens the main role of the consumer, further meets the public service supply and demand, and has obvious advantages in providing a number of social public services directly to individuals.

2. RISKS IN THE PROCESS OF GOVERNMENT PURCHASE OF PUBLIC SERVICES

2.1 Decision Phase

Firstly, there are risks by unimproved laws and regulations. As China's current legal system is not yet perfect, there are legal blind spots in many aspects, especially in the process of some local government procurement of public services, a more stringent legal basis is often absent. Although in recent years there has been improvement in this regard, some local governments still did not develop relevant regulations and practices, not refine the relevant details of purchasing services and supervising implementation effects, and lacked strict procedures to constrain the behaviors of government

purchase, making it difficult to reach the goal of government service to the public. For example, regarding the process of Daqing city government's purchase of basic public services, we should establish and improve the Government Purchase Law. For the characteristics of public service purchase, we should define clear rights and responsibilities between the two sides, develop scientific contract management rules, reasonably supervise the service implementation process and effect to promote a fair and effective implementation of the service purchase.

Secondly, the government is facing financial risks in the process of buying services. Since the entire process of government procurement of services is a systematic process involving many aspects, government's use of funding on purchase will be particularly important, which largely includes two aspects. The first aspect is explicit costs, which mainly refer to direct government purchase costs; the second aspect is hidden costs, referring to some opportunity costs as well as some unexpected and uncontrollable costs during the process of service procurement. For example, in regard of the sanitation service of Daqing city, the government has invested tens of millions in it, and the government of this cost is huge. If the operation is ceased halfway it will lead to big social pressures and public questions to the government's service capability. However, if the cost of government purchase cannot be reduced, the burden on government purchase will be heavier, and it will cause local government payment imbalance, leading to failure of the purchase eventually.

2.2 Implementation Phase

The first is contract management risk. Based on the superiority of contract management, modern enterprise transactions often choose different contract management to quickly improve the quality of government services, which are one of the important factors for the government to improve public service level (Xiang, 2012). A scientific and comprehensive contract is particularly important, which is able to regulate both parties to fulfill their obligations in accordance with the contract by clarifying respective rights and interests. Currently, certain omissions exist in the government's signing contracts with social organizations in the purchase of services. Many aspects of the contracts have not made detailed plans, which give the contractors a lot of information space, and in order to pursue their own interests, the contractors tried various ways to take advantage of contract loopholes, took some improper means to make profits, such as fraud and forgery, etc.. Looking at the development of Daqing city, the developmental direction of the market is good, but due to the undeveloped services, funding and personnel shortage of the service contractors and inefficient government supervision, the contract management failed.

The second is market operational risk. Currently, in the market of Daqing city, the service agencies

participating in market competitions are less, the competitions are not active, and the market appears to lack vitality, thus when the government performs the function of purchasing services to select contractors, rare contractors are able to meet the needs of the people. Take the city's environmental sanitation for example, due to the less number of the city's cleaning service agencies, the government is difficult to choose the best of the selection process. Meanwhile, when the contract is expired, these social service agencies will claim higher returns by virtue of the market monopoly, and if the government stops the cooperation, public services will not be kept up and people's lives will be affected. This problem occurs mainly due to the deficient market cultivation of social organizations which trigger the failure of market operation, and the government purchase is monopolized by a few suppliers.

2.3 Supervision and Evaluation Phase

The first is the risk caused by insufficient supervision. In the process of government purchase, the government's responsibilities should be emphasized (Chen, 2008, p.101). To the government, although the departments entrust experts to assess the effects of procurement services, they are often pre-examination and post-evaluation. During Daqing city government's procurement of services, there are often investigations only on contract conclusion and pre-service system, and when the project has been set up and contracted to a social service agency, the government's supervision in the follow-up service is often not sufficient, which is where the government needs to make improvement in achieving an effective supervision.

The second is the risk caused by inadequate service. An effective implementation of public service requires a cooperation of the public, contractors, government as well as relevant agencies. In the cleaning work of the city, the contractor is not willing to sweep the places where sweepers can not reach in order to save labor costs. The government did not conduct efficient supervision, and the relevant department also failed to fulfill their duties, so that the public service has not been implemented timely and completely, and became a possible fuse to trigger public dissatisfaction.

The third is trust risk. In the process of government purchases of services from social organizations, due to the lack of a robust monitoring mechanism corruptions such as power rent-seeking may take place in the procurement, leading to a crisis of confidence between the government and the people. For example, the "public preference" formed by Daqing city government in the long-term planned economy still affects the decision-making of public sectors. A number of private non-profit organizations are often excluded from the government procurement of public services for various reasons, and are difficult to carry out equal competitions with the

original government-affiliated institutions, so that non-governmental, non-profit organizations will lose confidence in a fair competitive environment.

3. RISK CONTROL MECHANISM DESIGN OF GOVERNMENT PROCUREMENT OF PUBLIC SERVICES

3.1 Improve the Procedures of Government Procurement of Public Services

Firstly, at the beginning of procurement of public services, Daqing city government should take a comprehensive analysis and assessment on the implementation result, carry out cost accounting according to its own situation, control the service cost within a reasonable range by a careful cost estimation, and take preventive measures for some unexpected costs to ensure service efficiency. Secondly, listen to advices and voices from the grassroots by holding caucuses in different regions and institutions, then make relevant institutional adjustment. For example, the entire process should include: Make a purchase plan, declare a budget, develop a detailed purchase program to determine the purchase approach, contractor, supervise the service delivery, evaluate the results and identify the responsibilities. For the characteristics of the project, the management of purchasing process should also be different, there should be some options. For example, social public service faces the direct client of the public, the general project cycle is long, and the feature of personalized service is prominent. It is recommended that in accordance with the quantity, service length and difficult degree an appropriate management practice should be developed accordingly.

3.2 Improve Purchase Transparency in Government Financial Department

Further enhancing transparency is one of the present focuses of Daqing city government's financial management. Government procurement of public services is an important task of the reform in financial departments, which regard the improvement of transparency as a key requirement of reform. Improving transparency is the safeguard to increase fair and equitable competitions in the procurement of public services, improve public participation, and effectively improve the performance of financial funds. In order to increase transparency in Daqing city government procurement of public services, we should practice throughout all aspects of the work. Make the government work transparent, the transaction process between the government and contractors transparent, and the public service delivery process transparent. For a project based on open competitive bidding, we shall publicize the purchase program for the society, recruit bidders in large

scale, encourage qualified private, non-profit organizations, social organizations to participate in competition. Meanwhile, the evaluation process should be open and transparent to ensure a clearly measurable criteria to be applied to justly select the most suitable bidder.

3.3 Establish and Improve the Supervision Mechanism in Government Purchases

In accordance with the actual situations of local government procurement of public services, Daqing city government should build a multi-level supervisory system which has been guaranteed by laws, dominated by the financial departments and functional departments, supplemented by the discipline inspection, monitoring and auditing departments, and in virtue of social forces. Supervision between various departments within the government should be implemented by the dominance of the financial department and supplemented by the discipline inspection and supervision departments. Supervision of the departments mainly refers to the supervision on purchase behaviors and purchase capital consumptions. On the one hand, the financial department should rely on funding flow, allocation process and funding use performance to supervise the specific functional departments conducting the purchase. The discipline inspection and supervision departments are more responsible to supervise whether there is trading power for money, corruption or bribery in government procurement. The financial department is responsible to supervise and manage the relevant social organizations and institutions undertaking the public services, including the supervision on government allocated capital consumption and number of public service delivery; On the one hand, the functional departments deal directly with the contractors, are responsible for the purchase including the public service delivery process. Supervision of functional departments should be comprehensive, including the entire process of the contractor's behaviors, and should also be directive. The supervision of the financial department can only be conducted through monitoring on financial capital flows and evaluation on the use performance of the project fund. In fact, the demanders for public service, or the service receivers are also responsible to supervise the services provided by social forces. We should provide the public with clear information feedback channels, encourage them to put forward their own demands for a fair price on the received services, and conduct supervisions on the social organizations providing public services. For example, the relevant functional departments, discipline inspection and supervision departments and other institutions in Daqing city government have set up barrier free mailboxes, telephones, Wechat, microblogs and other websites to create multi-channel and multi-media to conduct impartial investigations and timely treatment for public opinions.

SUMMARY

Government purchase of services is an important measure to deepen government reform and improve governance mechanism, and is an important tool to change the way of supplying public services and improve the quality of public services. China's governments at all levels have also attached great importance to this reform and vigorously promoted it at varying degrees. By the research we have realized that the government should improve relevant laws to regulate the measures of

purchasing public services so as to reduce the probability of risks.

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