

Connotation, Propulsion Strategy and Overseas Experience of Purchase of Services

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Abstract: The purchase of services originates from the western new public management movement and belongs to government procurement in the Chinese. The essence of purchase of services is the marketization and socialization of public service and the core is authorization, entrusting and cooperation. And forms include the outsourcing contract, subsidy, voucher and so on. Some concepts such as strategic management of New Zealand, Britain customer-oriented, legislation first of the United States are worth learning from. And the strategies such as scientifically defining government purchase boundary and price, fostering the development of social organizations, strengthening the ability of managing the contract, strengthening the supervision and assessment, and perfecting the legal system are feasible paths to promote the future purchase of services in China.

Keywords: Purchase of services; Public service; Marketization; Government procurement

1. Introduction

The act of government's purchasing public services from the social strength derives from Britain and America, and is taken reference by other countries later. And gradually it has been developed into an important policy tool of modern government and the worldwide system arrangement. Purchase of services in China started in 1996, with the pilot action in Shanghai, and has been extended to Beijing, Shenzhen and other places. After 2003, the explorations of each local government's purchases of public services from the social strength have been increasing, and purchasing fields have been widened gradually, with richer forms and more perfect system.

In 2013, The Central Committee of the Communist Party of China's Decisions on Major Issues of Deepening Reform published by the eighteen session of the third plenary session of the Communist Party of China further pointed out that the transformation of government functions should be further accelerated, the reform of the administrative system should be deepened, and the purchase of services should be promoted. This paper believes that the advancement of the purchase of services should start from the connotation, understand its theoretical basis, and make scientific policies based on absorbing the western advanced experience.

2. The Connotation and Theoretical Basis of the Purchase of Services

2.1. The Connotation of the Purchase of Services

Guidance on Government's Purchasing Services from the Social Forces issued by China's State Council pointed out that the purchases of services from social forces, is the action of the government's providing directly part of the public service matters to the public through the market mechanism which is according to certain way and program, undertaken by the social forces that with required conditions, and paid by the government according to the quantity and quality of services.

The academic definition of purchase of services is mainly based on two perspectives. One is from the perspective of market, which points out that the purchase of services provides a variety of choice for the suppliers, producers and consumers. And improve efficiency by the competition, with its foothold is choice and competition. Diversity of the public services are emphasized; second one is from the social perspective, which emphasizes the use of various means to create conditions for promoting the cooperation among suppliers, producers and consumers. And reduce costs through consultation and cooperation. Improve efficiency and satisfaction of the public service supplying the foothold of cooperation and cost, emphasizing the basic public services.

As for the terminology, the scholars also uses "public service outsourcing contract", "privatization of public service", "the socialization of public service" and other expressions. For example, American scholar E.S. Savas (2002)¹ uses "outsourcing contract" to highlight the marketing characteristics of government purchases. He points out that the outsourcing contract refers to the gov-

ernment signed with private enterprises and non profit organizations on goods and services. Private enterprises and non-profit organizations organize the production of required public services, and the government is only the service provider. As for the outsourcing contract, Lester M. Salamon further points out that the main objects of public service outsourcing contract should be non profit organization. Wang Puqu on the basis of this point, thought that the purchases of public services refers to the government give some of the public service which are provided directly to qualified social service agencies to complete, through direct grants or public tender, and pay for the costs according to the quality and quantity of public services. Jia Xijin (2009)² and etc, argue that the purchases of services is the government in the form of contract outsource public services to non-profit organizations, in order to improve the efficiency of using of public finance, and strengthen the supply effect of public service. On the other hand, Gu Ping'an and etc, believe that the purchase of public services is a main realization form of socialization of public service, which is also known as "contracting management of the government public service". It is a kind of new public service providing mode which is "taken responsible by the government", "committed with direction", "managed in contract", and "paid after evaluation".

The purchases of public services are attached with dual attributes of marketization and socialization. The definitions of the core connotation given by scholars in China and other counties all contain the above two layers of kernel. The core of the government purchases of public services lies in authorization, entrusting and cooperation. The government purchase, not only includes the complex legatory principal-agent relationship between the government and the social organization, but also embeds with cooperation relations among the government, social organizations and citizens based on the trust and responsibility.

2.2. Theoretical Basis of Purchase of Services

(1) New Public Management Theory

Since the 1980s, western countries generally face a heavy financial pressure, and high welfare is unsustainable under the fiscal deficit. In this background, countries have set off the heat waves of administrative reform, such as the United States "Reinventing Government", the British "Citizen Chartism", and so on. These reform actions are known as the new public management movement, with its theoretical foundation including public choice theory, principal-agent theory and transaction cost theory.

The new public management mainly includes three points. First, stress that the government should separate management and specific operation, and its management function lies on steering rather that oaring, which means that not all public service production should be taken by

government itself. Second, introduce competition mechanism in public management. Cancel monopoly of public service supplying and let more different industries and departments have the opportunity to join to providing services. Third, pay attention to efficiency, effectiveness and quality of the provided public services.

(2). Public good theory

The public product theory originated from the classical school, and is represented by David Hume's case analysis of "public lawn drainage" and Adam Smith's theory about government executive functions. In 1955, Paul A.Samuelson defined the public good in his *The Pure Theory of Public Expenditure*, marking the formation of modern public good theory.

Public good is relative to private good, and refers to goods which are non rival good in use, and non exclusive in benefit which are also known as "public products". Public good in western economics terminology refers to the product or the services which are consumed or enjoyed by the majority together, such as national defense, public security, judicial, compulsory education and so on. The public goods are characterized by non competitive and non exclusive, and divided into pure public goods and impure public goods.

The emergence of the public good theory as well as the subdivision of public good provides the possibility to the pluralism of public goods supply. The character of public good determines the three modes of its supply, namely product and provide by public sector, product by public-private cooperation and product by private sector.

(3). Multi center theory

In 1989, the World Bank first used the phrase of governance crisis in summarizing the Africa situation. The word "governance" originated from the Latin and ancient Greek, whose original meaning is control, guide and manipulate. Now it is mainly used in the management activities and political activities related to national public affairs.

System analyzing school which is represented by the Elinor Ostrom puts forward the Multi center theory³ which believes that single center means the government as the only subject makes exclusive management of social public affairs. On the contrary, multi center means during the process of managing the social public affairs, the government is not the only subject, but there are many decision centers including central government, local government, non-governmental organizations, private organizations and individual citizens. These decision centers, under the constraints of certain rules, jointly exercise the subject power in a variety of forms. Multi center governance structure requires that in the field of public affairs, the state and society, government and market, government and citizen participate together to make a cooperating and consulting partnership, forming a management process which is vertically interact, and with at

least two-way, or even more dimensions. On the management of the state public affairs, social public affairs, and even government internal affairs, maximize the realization of public interest with the help of multiple powers to share the responsibilities.

3. The Overseas Experience of Purchase of Services

3.1. Strategic management of New Zealand Government's Purchase of Services

In 1980s, intense administrative reform of New Zealand made it become the representative of new public management movement. After decades of exploration, the New Zealand has constructed complete government procurement legal system and perfect marketing supplying mechanism of public products.

Purchasing of the New Zealand public institutions emphasizes the strategic thinking, flexibility and sustainability of the purchasing behavior. And its strategic management includes two aspects: one is the strategic thinking of using money; the other one is the strategic thinking of specific purchasing form. Before the specific implementation of using activity capital, public institutions will conduct strategic thinking on the way of using funds combining with the goal, purchasing characteristics, risk factors and some other factors of the organization. This kind of thinking is composed of three stages: the first is to discuss the feasible way and the importance of the use of funds, and make comparison between efficiencies of providing public services by the public sector and private sector. The second is to make the strategic plan specifically for procurement. The third is to clarify the target of the use of funds and assess the existing latent risk of funds using. With the strategic management idea being planted into the whole process of procurement, the New Zealand government clarifies the objects, value and risk factors in the process of purchasing, according to which purchasing strategy is made and, the appropriate procurement method select.

3.2. Customer-oriented of Britain Government's Purchase of Services

The government reform in the UK can be attributed into three main lines, namely "clarifying the governmental role and optimization of the function structure, reform of the internal management system of governmental departments, and the socialization of the public service" ⁴.

In 1980s, government of Thatcher promoted public sector reform to the direction of privatization and introduced market mechanisms. Parts of public services were undertaken by the private sector in the form of outsourcing contract to reduce expenditure, improve supply efficiency. However, the high efficiency led to a decline in the quality of public service. Therefore government of Major issued the white paper, Competition for quality, launching a "citizen Chartism" movement and "competition for

quality" movement, which advocated "customer-oriented" values. The "market testing" movement carried out during which public agencies and private organizations would compete with each other. What's more, it is ruled that in the field of the services, local government must implement competitive bidding to expand the selection right of citizens, while the government actively encourage citizen into participating to the activities and listen to public feedback.

3.3. System construction of American Government's Purchase of Services

American government's purchasing activities started earlier, which at the early stage legal protection was set to protect the non governmental organizations to enter in and encourage the private enterprises and the non-profit sector to provide public services. America government's purchases including outsourcing contract, public-private cooperation and the voucher system.

America owns relatively perfect law about government's purchase. As early as in 1861 USA government passed the relevant procurement federal act. And in 1949, Congress passed the Federal Property and Administrative Service Act of 1949, which establishing the management system of government's centralized procurement. At present, American Congress and relevant departments have made about 500 kinds of government procurement regulations in total, including Federal Acquisition Act and Federal Acquisition Regulation which are the core of legal system about procurement. These two papers set the policy, standards, procedures and methods of government procurement, and regulate the purchasing contact form, the scope of procurement, procurement catalogue, operation flow and so on, becoming the standards which both government procurement departments and services undertakers should obey.

American purchase of services is based on the perfect rule and law and the complete system has ensured the standardized operation of government purchases. Not only the use of funds has got effective supervision, but also the acts of undertaking party have also been necessarily limited, ensuring the efficiency and quality of supplying public services or products.

From the advanced practice of the countries beyond China, the following aspects are worth learning: firstly, legislation first. Establish the perfect legal system, to ensure standardized operation of government purchasing activities; secondly, strategic thinking. Adhere to the principle of efficiency, in the use of funds and the selection of purchase form and plan the choice on the basis of full comparison; thirdly, customer-orientated. On the one hand, regard the citizens' requirement as the center and meet the service needs of the public. On the other hand, encourage citizens into expressing and supervising; fourthly, pay attention to the performance assessment. Supervise

the supply behavior and supply effect, combining rewards and punishment, in order to guarantee the quality of service.

4. The Status of Chinese Government's Purchase of Services

In September 26th, 2013, the State Council issued the Guiding Opinions of General Office of the State Council on Government Purchase of Services from the Social Forces, firstly proposing to promote the government's purchase of services in the form of normative documents. Then Chinese Ministry of finance, Ministry of civil affairs and other departments issued multiple documents to promote the implementation of government's purchase of services. At present, many provinces of China have enacted local documents and directories which promote government's purchase of services, making government's purchasing activities gradually spread inside the country. Beijing City, Shanghai city and Shenzhen city belong to the economically developed areas, and government's purchase activities started earlier and are relatively mature.

4.1. Beijing City

In 2009, Beijing city set up a special fund of social construction, which includes government's purchase and other social construction project. Since 2014, the city of Beijing has issued multiple documents involving government's purchase of services, which include general requirements, purchase catalog and budget management etc..

Taking Xicheng District of Beijing city as an example, in 2012 the government purchase of services contains four major categories as basic social public services, social welfare services, community services and social services management. In 2013, the government purchased 45 categories of projects in total with 500 items. And in 2014, Beijing issued the Guide Directory of Beijing City about the Municipal Government Purchase of Services from the Social Forces from 2014-2015, which covers 11 major categories and 81 specific projects. Under the guidance of this directory, government of Xicheng District purchased projects involving public resource sharing and building together, social voluntary services, nursing services and other services which have ten directions in total. In addition to the general projects, Xicheng District also implemented some special projects such as "project of promoting the propaganda and practice of the 'Beijing spirit'" and "pilot project of internationalized service management on the community" and so on. Purchases of government of Xicheng District include four forms as direct purchase, supporting activities, project subsidies, and reward instead of subsidies, constructing the aerial resource sharing project by the social the incubator of organization.

Since 2009, along with the establishment of a special fund of social construction, government of Beijing City has been purchasing services from social forces for 6 years. During the implementation, the supporting residential requirement and satisfaction survey has been conducted, striving to use the limited funds in the neediest place and realizing "timely assistance" function by the limited financial funds of government.

4.2. Shanghai City

Shanghai is China's first local government to carry out the government purchases of public services into practice. As early as in 1995, the government of Pudong New Area began to try the government's purchases of public services. "In 2000, in response to the government's shortcomings of arranging services all by itself, and to improve the efficiency of social welfare service, Shanghai proposed the implementation of the government's purchase of services when reform the social management system is "5.

At present, the government of Shanghai City purchase mainly four kinds of public services: (1) basic residential service such as community employment service, community assistance, community security, community culture, convenient breakfast and so on; (2) industry auxiliary service such as industry survey, project assessment, business consulting, technology services and so on; (3) social welfare such as legal aid, re-employment training and so on; (4) the social management such as extraneous population management, contradiction dissolving etc..

The government's purchase of services of Shanghai City is characterized by three aspects: "first are the multivariate sources of funds, including fiscal budget expenditure and public welfare fund of welfare lottery; second is taking the directional purchase as the major purchases, including three forms as project, non project, and direct subsidy; Third is that the government make purchase step by step." 6

4.3 Shenzhen City

The government of Shenzhen City began to purchase services in the mid 90's, and at present its system of purchasing social services is relatively perfect, being a bright spot during the promoting process of current Chinese government purchasing.

"In 2007, Shenzhen made the purchase of social service for the first time in the form of the market operation. Face to face talks were arranged between 11 pilot units which are directly under The Civil Affairs Bureau and 3 social work agencies, and each pilot unit was authorized to selected services by itself "7. Until 2011, there are 34 social service institutions totally had participated into the government's purchase of services. The government and social institutions signed a purchase agreement, according to which government implement contract manage-

ment, social work organization provides services and accept the supervision of the government.

In 2014, government of Shenzhen City issued Opinions on the Implementation of Government Purchasing Services and the supporting documents Directory of Government's Purchase of Services of Shenzhen City, and Negative List of Government's Purchase of Services of Shenzhen City. These documents stipulate the 240 kinds of services which can be purchased by the government and list those cannot be purchased by government. The issue of positive and negative list prevents the government "doing it all", and on the other hand prevents the government from throwing the burden to the market.

Despite making good progress, but the local governments still face such problems which are needed to solve as unclear purchasing boundary, imperfect legislation, inadequate supervision, weak social organizations etc during carrying out the purchasing process.

5. Selecting the Strategy of Promoting the Chinese Government's Purchase of Services

The goal of promoting the government's purchase of services is to realize the pluralistic social participation. Meanwhile it is an important institutional arrangement to improve the quality and efficiency of public service, as well as a way to enhance the ability of national governance, and realize modernization of national governance system. The smooth implementation to promote the government purchase service should carry out from the following aspects.

5.1. Reasonably Delimit the Purchasing Boundary

The government's purchasing boundary is the most basic proposition of government's purchase of services. Government's purchases should clarify which can purchase and which cannot, overcoming the "defects in demanding"⁸. Generally policy recommendations that involve the core function of government and the formulation, planning, regulation, law enforcement and emergency services cannot be outsourced. The Chinese scholars such as Jia Kang and Liu Junmin believe that public services which are undertaken by the government and are supporting the economic and social normal operation benefit to all and unable to be divided cannot be purchased from the market. And, the public welfare services which are undertaken by the institutions can be purchased from the market. And public services which are between the above two can also be purchased from the market.

The purchasing boundary should be considered from the theoretical boundary and the actual boundaries. The theoretical boundary is very broad with rich content and is not exhaustive. The actual boundary should be considered from the vertical and horizontal dimensions. Vertically, along with the development of policy, economy and society, the boundary of government's purchasing

services will show different developing stages. The boundary will be expanded or narrowed. From the horizontal view, being limited to finance, market, the development degree of social organizations, the system construction and many other reasons, the actual boundary is much smaller than the theoretical boundary. The current government's purchase of services should adhere to the principles of publicity, public welfare, high efficiency and high effectiveness. The basic necessary supply of public services can be considered, and with the development of economy,, if the local finance is abundant. the scope of purchase can be expanded.

5.2. Scientifically Set the Purchasing Price

The purchasing price determines purchasing cost and under the condition of limited government finance, it is the core and key to judge whether to make the purchase. Factors that should be considered in the pricing process in general include: the nature of government's purchase of services, quality and quantity of the service,, the degree of difficulty of the supply, direct costs provided by the government, government regulation cost, market prices, the undertaking cost of social organization, supply competition degree etc..

The reason why the price is difficult to determine mainly contain three aspects: first is that purchase of public service has no reference to take; second is the lack of public participation; third is the dilemma of pricing level. High prices will erode the efficiency and benefits of the use of government funds, while the low prices may result in rent-seeking of the social organizations, which will reduce the cost by reducing the service quality and service level. Li Junpeng¹⁰'s "labor cost pricing method, the balance pricing method, low profit pricing method" are worthy of taking reference. Governmental pricing should adhere to the cost - benefit principle, and at the same time, the development of social organizations should be supported, developing the social forces continuously to meet the diverse needs of people for the public service.

5.3. Foster the Social Organizations

The social organizations are important forces to undertake government's purchase of services, but at present the social organization fall behind in the number, size and other aspects with low professional quality, imperfect internal governance, weak independent operating ability, low social credibility, weak ability of integrating and collecting financing and social resources which will become important factors affecting the social organizations to undertake government's purchase of services.

Fostering the social organizations should start from the following aspects. Firstly, construct incubation base of social organization, to create a professional incubating chain. For example, local governments can cooperate with NPI to build social organization incubator, provid-

ing the full help through the shelling in, cultivation, shelling out and other links. Foster social organization with clear targets and improve the survival rate of social organizations. Secondly, increase policy support. The government should nurture and develop the social organizations through the priority registration, financial support, tax incentives and other policies. Thirdly, the government can carry out training of the backbone personnel of social organizations to help improve their abilities such as independent development, self management, financing and social service.

5.4. Strengthen the Supervision of Service Supply

Supervision is an important link of government's purchase of services. However, problems such as weak supervision of the supervision department, lack of supervision for the whole process, limited supervision means etc. exist in the current government's purchase of services.

To improve the supervision ability should start from three aspects: first is the construction of the system, including the information disclosure system, credit regulations system, trustworthiness encouraging, punishment mechanism and other aspects; the second is to build a perfect framework of internal and external supervision system. On the one hand, construct the internal supervision system where governments of all levels reasonably divide the work and are clear about their powers and responsibilities. On the other hand, construct the external multiple supervision system which takes government, the third party of assessment organization, the public, media, service object as the subjects; the third is to pay attention to the assessment and acceptance, adopting the combination of classified evaluation and rating evaluation. The key of the former is to distinguish the audit of the small and big projects. And as for the latter, a comprehensive evaluation system and rate encouraging system, which is made up by the purchasing subject, serving object and the third part, should be established. Besides, carry out check and acceptance of the completed public service project. Make rating evaluation of service quality and performance of the implementation of goals, and connect the evaluation results with the subsequent government's purchase of services.

The purchase of services does not mean the transferring of responsibility, for service delivery still belongs to the public sector. The government as an investor, should stand in the shoes of public interests, clarify the requirements deadlines and effect of service project, monitor the whole process of the contract, and prevent the low efficiency and fraud. Both "supervision of the results" and "supervision of the process" should paid attention to.

5.5. Perfect the Legal System

The current law system involving government's purchase of services is not perfect, and is needed for the legal doc-

uments. The current Government Procurement Law is not fully applicable to the purchase of services, for the government's procurement is more about construction, materials, equipment and other physical goods while public service belongs to the virtual product. And there are differences in the purchase pricing, contract supervision and the purchasing goods. Therefore, "in order to change the predicament of having no laws to consult, laws, regulations or normative documents that are special to government's purchase of public services should be formulated, or revise the Government Procurement Law to include the government's purchases of public services"¹¹.

By the means of the law, clarify the procedures of purchasing public services. And fix the scope, the standard way and the procedure of government purchases of public services, bidding approaches, funds auditing methods and management way, performance evaluation methods and standards in the form of system will be greatly conducive to promoting the Chinese government's purchase of services.

Conclusion

The government's purchase of services from the social forces is an important system that realizes the transformation of government functions as well as a necessary path of reforming administrative system in the new period. It stimulates the vitality of market and society, improve the government's administrative ability, enrich the forms of social governance, build the cross-border cooperation system among each governments, departments, and that between public and private sectors, improve and promote the national governance system and management ability of modernization. Although there are still many problems to be solved in this process, with the perfection of the system and promotion of practical activities in every local places, China will gradually build up a diversified, socialized, institutionalized, legalized system for government's purchase of public services.

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