Municipal procurement of social care – opportunistic behavior opportunities

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STRUCTURE OF PRESENTATION

1. Context and scope
2. Research question
3. Methodology
4. Findings
   a) Commissioning models
   b) Opportunities for opportunism
Context and scope
SOCIAL CARE SERVICES

‘Social care’, ‘home care’, ‘long term (social) care’

Examples:
- Household support; cleaning, buying groceries
- Youth care
- Nursing care
- Personal assistance

Long term & social care In NL: 4,3% of GDP!
(OECD 2015 health stats)

Total annual budget: 15 billion EURO
In the Netherlands, social care services are 100% outsourced to private care providers.

**Prior to 2007:** All social care services coordinated centrally through the *Algemene Wet Bijzondere Ziekenkosten* (AWBZ: Exceptional Medical Expenses Act)

**2007:** Introduction *Wet Maatschappelijke Ondersteuning* (WMO: Social Support Act) – decentralizing *home support* to municipalities

**2015:** Extension of Wmo (to Wmo 2015) and dismantling AWBZ, decentralizing youth care and (remaining) adult social care
SOCIAL CARE IN THE NETHERLANDS

Municipal coordination of social care services:
• Municipalities commission these services (no in-house provision)

• Ample discretion to design contracts, tender procedure, reimbursement of services, scrutiny for clients, etc.
  • Exemptions in directive 2014/24/EU and national law
  • Ample discretion in Wmo 2015

• Procurement collaboration among municipalities mostly voluntary (except for youth care)

This leads to a variety of procurement approaches or ‘commissioning models’.
Research goals and questions
RESEARCH QUESTIONS

Goals:

i. To analyze and categorize the municipal approaches to commissioning social care.

ii. To identify opportunities for care provider opportunism in the different commissioning models.

RQ 1:

Which archetype approaches – or ‘commissioning models’ are used by municipalities when commissioning social care services in the Netherlands?

RQ 2:

Which opportunities for opportunistic behaviour of care providers does every commissioning model inhibit?
CONSIDERATIONS

Monopsony market

- The municipalities together are the only buyer of social care services in the Netherlands (a monopsony).

- Municipal choices in commissioning social care services have a direct effect on the market of social care services.
Service triads

- Social care services are a service triad with a municipal buyer, the care provider as supplier, and citizen as ‘customer’ of the service.
- Service triads are associated with additional buyer challenges:
  - Monitoring performance and behaviour (information asym.)
  - Risk of supplier opportunism

- Different municipal commissioning models lead to different opportunities for opportunism in the social care service triad!

*Li & Choi, 2009: ‘maintain permanent state of bridge decay’*

Sources: Li & Choi, 2009; Uenk & Telgen, 2018
Methodology
1. Analysis of municipal procurement by systematic analysis of their official tender documentation and contracts.

2. Tender documentation collected for as many municipalities as possible for the social care services ‘personal assistance’ decentralized per 2015.

3. Identify ‘archetype approaches’ to commissioning social care, by focusing on the fundamental choices with respect to
   1. Competition (ex ante or ex post)
   2. Reimbursement method
   3. Other financial incentives in the contract

4. Use extant literature to identify through inductive reasoning (see Tate et al. 2010) risks of supplier opportunism

Source: Uenk & Telgen, 2018
In 2015, 393 Dutch municipalities had to contract social care services.

For 382 municipalities (97%), we have gathered and analyzed their procurement documentation.

We distinguish four commissioning models:

- ‘AWBZ model’
- Population-based commissioning
- Catalogue model (two variants)
- Client auction model

*Nb. In 2018 we have repeated this research for 12 different types of social care services, analysing approx. 4300 contracts.*
Findings
The model:

- Contracting a limited number of care providers
- Fixed budget allocation per care provider
- Fee-for-service structure to account for spending the budget (fee per hour of care provided)

Opportunities for opportunism:

- Fee-for-service reimbursement has a perverse incentive, awarding volume (and overproduction)
- When budgets are (considered) too tight, care providers threaten with waiting lists in the media
- Small care providers, forced in a sub-contractor position, risk being squeezed out by larger contracted care providers
The model:

- One main care provider for an entire population (a district or the whole municipality)
- This care provider receives a fixed budget for providing all care services for the population + manage the access to care
- The main provider subcontracts other care providers

Opportunities for opportunism:

- Underproduction (skimping), refusal of clients (shirking), ‘dumping’ clients
- Main provider may try to renegotiate budgets (or threaten with waiting lists)
- Squeezing out of subcontractors
- Vendor-lock in issues (main contractor becomes local monopolist!)
Model:

- Municipalities conclude framework agreements for standardized services with unlimited number of suitable care providers.
- Framework agreements do not guarantee turn over for providers: clients eligible for social care choose their own care provider.
- Municipal client case manager coordinates care entitlement and monitoring of care provider performance.

Opportunities for opportunism:

- High number of contracted providers – difficult to screen them all rigorously.
- *Fee-for-service reimbursement*
  - Supplier-induced demand (overproduction).
- *Outcome-based bundled payment*
  - Under-production / not meet quality standards (skimping).
CLIENT AUCTION MODEL

Model
- Suitable care providers are allowed to a restricted ‘e-market place’
- Citizens requesting care are scrutinized by municipal case manager, when eligible for social care the client case is put up for auction (anonymous)
- Care providers have to participate in the auction for every client, offering a care plan & price

Opportunities for opportunism
- Care providers renegotiating their offer when meeting the client (‘the case description was not reliable’)
- Under-production / not meet quality standards (skimming)
Conclusion
CONCLUSION

- When buying services in service triads, the risks of supplier opportunism are inflated compared to ‘regular’ dyadic buyer-supplier relations

- **Aligning incentives** (buyer-supplier), **maintain relations between municipality and buyer**, and monitor care provider behaviour and performance (although difficult) is paramount to prevent opportunism at the financial costs of municipality (and tax payers in the end)

- In every model there are opportunities for opportunism…

- … although in some models the municipality runs a much higher risk!
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