

Abstract

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## PROCUREMENT OF HEALTH-CARE SERVICES FOR WAR INVALIDS

The objective of this audit was to investigate the use of tendering in the procurement of health-care services for war invalids. Services for war invalids are regulated by the Military Injuries Act (404/48). The audit did not take a position on the content or level of services but strove to evaluate the legality and effectiveness of tendering. The goal of tendering is to use limited resources in the best possible way.

The State Treasury's Military Injury and Veterans' Affairs Unit is responsible for procuring rehabilitation and other health-care services for war invalids. Services are produced by private nursing homes and rehabilitation establishments located in different parts of Finland. Annual procurement costs for services total about FIM 500 million and funds are appropriated in the state budget for this purpose. Activities are directed by the Ministry of Social Affairs and Health, although the State Treasury otherwise falls within the sphere of the Ministry of Finance.

The principles governing the procurement of goods and services by the state are set out in the Public Procurement Act (1505/92). According to this act the procurement of goods and services should be open to competition, suppliers should be treated equally, procurements should be as economical as possible, and the offer which is cheapest or the best value in terms of overall economy must be selected.

The audit showed that the State Treasury conducted tendering in 1999 in the form of an open competition in which each service supplier was entitled to make an offer. The invitation to tender included a quality questionnaire on the basis of which points were given to each supplier's service, using a reference price. This was compared to the supplier's offer, on the basis of which final prices were approved according to principles determined by the State Treasury. If the offer price was lower than the reference price, an agreement was generally concluded on the basis of the offer price. If the offer price was higher than the reference price, the State Treasury made a counter-offer and attempted to conclude an agreement at the reference price.

The audit investigated the method used in calculating the reference price and found that the point of departure was the amount of funds set aside for the procurement of services in the state budget. On the basis of the audit it appears

that a calculated reference price is unsuitable to define the correct price level in terms of value for money, since it is not determined on the basis of the market but is dependent on the size of the budget appropriation. Under the Public Procurement Act, the market price should always be determined on the basis of competition.

The audit also found that in the tendering procedure used by the State Treasury, nearly all suppliers were approved to supply services. In contrast to regular tendering, no winner or winners were chosen. Owing to the way in which offers were approved, it even made sense for suppliers to submit offers which were as high as possible. In the opinion of the State Audit Office, the tendering procedure used did not lead to competition in the manner intended by the Public Procurement Act. On the basis of the audit it appears that the procurement procedure has paid as much attention to ensuring the maintenance of nursing homes as to ensuring economical and quality services for war invalids.

Moreover, service suppliers were not treated equally in the manner intended by the Public Procurement Act, since the state budget included a separate appropriation to finance nursing homes' capital costs and some nursing homes were given so-called compensatory points, which amounted to price support.

In the opinion of the State Audit Office, the tendering procedure used by the State Treasury did not constitute real competition. Consequently it has apparently not achieved the economic benefit which could have been gained through competition in the manner intended by the Public Procurement Act. The European Community has estimated that opening public procurement to competition can result in an overall savings of 5-10 percent on procurement costs. Based on this estimate, the State Audit Office has noted that even a 5% savings in health-care services for war invalids, which currently cost about FIM 500 million a year, would mean FIM 25 million a year.

As a result of the audit the State Audit Office has concluded that the State Treasury should arrange the procurement of health-care services for war invalids in the manner intended by the Public Procurement Act without delay. This will also ensure war invalids the best possible services within the framework of available funds.