

concept

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practices in Norway
English summary**

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SUMMARY: This is a study of investment practices in the 10 largest municipalities in Norway. Nine of these have recently established governance schemes that regulate the selection and front-end planning of investment projects. Nonetheless, the study suggests that investment practices in municipalities regardless of size needs further attention, and that the possibility of common guidelines is explored.

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Municipal investment practices in Norway

This is a study of municipal investment practices. We study five municipal investment projects in Norway that have had varying degrees of success. We also examine the extent to which project models are in use in the 10 largest municipalities in the country. Our focus is on the project owners' perspective and on how projects are used as instruments for achieving long-term, strategic objectives. This implies the need to choose the right concept, to implement it efficiently, and to achieve viable long-term effects.

A project model is a standard classification of project phases from the idea phase, through planning and implementation, to operation – often defined as the front-end phase of projects. The model defines roles, requirements for decision-making, and the decision points between the different phases. In addition, a project model can help to ensure that scarce resources are used for investments that meet specific needs and support important goals locally and nationally, and that projects are implemented in a cost-effective manner.

After a series of cost overruns, delays and inappropriate choice of concept in major Norwegian public investment projects, a scheme with mandatory external quality assurance of cost (QA2) was introduced in the year 2000. Later, the scheme was expanded to include quality assurance of the choice of conceptual solution (QA1). What eventually has become known as the Norwegian State Project Model or the 'QA scheme' implies that there are general requirements for the documentation that must be provided in the front-end development of projects. Through the Norwegian State Project Model, public projects have been scrutinized to the extent that project selection and cost estimation have ultimately been improved.

There are several reasons why project governance within the framework of a project model is an important issue in the municipal sector, at least in Norway. The first and perhaps most important reason is that municipalities are Norway's main providers of welfare services and it is thus important that they have the necessary competence and adequate resources to provide high quality services. Municipal projects that do not meet the public's needs or that put a strain on municipal finances to the extent that services in general suffer may have greater negative effects than some state projects, which may not have direct consequences for the citizens. An unsuccessful municipal project can have direct consequences for individual citizens through poorer services or higher local taxes and fees. The scope of annual investments in the municipal sector is significant – currently more than NOK 50 billion. It is therefore

highly important that community resources are managed in the most appropriate manner. In this regard, experiences relating to state projects may be relevant.

The appraisal and implementation of municipal investment projects can be a challenging task. Municipalities in Norway are basically organized as service providers. The scope of investments in each municipality may be low and varied, and project skills may be limited. By contrast, some investments may be so large that it can take decades between each time that they are implemented in a municipality. Furthermore, although the combined project skills in the municipal sector are considerable, they are spread among many municipalities and the basis for the transfer of experience may be limited.

With 19 counties incorporating 428 municipalities, a study of project models in Norway's municipal sector would be a formidable task. We have therefore chosen to focus on the 10 largest municipalities. These represent one-third (currently 1.7 million inhabitants) of the country's population and account for about one-third of the total annual investments in the municipal sector.

The municipal sector's planning system provides a good basis for selecting and implementing investments. As an example, many municipalities have school plans that are updated regularly. These plans draw up the long-term school structure in each municipality based on demographic changes; identify the need for new construction, rehabilitation or closure. In addition to the social plan and land use plan within its framework, the planning system should provide a strategic framework within which investments can be made.

The most significant finding from this study is that there is a growing recognition of the need for adequate studies of the projects' front-end phase and political support for these phases. Of Norway's 10 largest municipalities, 9 have established 'investment regulations' – the term most often used for project models in the municipal sector; the remaining municipality, Bergen, is set to introduce one shortly. The reasons behind these regulations are the growing recognition of the importance of projects' front-end among the project profession in general, the development and impact of the state's project model since the millennium, and that there have been some unfortunate municipal investment projects with large cost overruns.

The content of the municipal project models varies. Most municipalities apply the models to the biggest investment projects, but the models may also cover small projects, and large projects may be exempt from applying models if they are characterized as 'repetitive' and therefore the former basis for planning and implementation can be reused. Buildings account for 40–50% of municipal investments. This percentage is reflected in the various project models, in which construction and property management are included in all 10 of the

studied municipalities. Other sectors, such as water and sewage, are included more sporadically.

We have also studied five municipal investment projects that had varying degrees of success and that were implemented in municipalities without investment regulations. Four of them have in common that the needs assessment was flawed, the opportunity space was too narrowly defined, and the goals were few or absent. A general observation is that neither economic analyses nor uncertainty-based cost estimation seem to have had much impact. The studied projects show that the consequences of inadequate appraisal in the front-end can have negative consequences for project results. Investment regulations or project models will be able to weed out projects that should not be realized. Alternatively, it may be possible to identify concepts that would be more appropriate for solving a municipality's needs. It is interesting to observe that the municipalities that experienced major challenges in project selection and execution subsequently introduced systems to improve their grounds for decision-making in future projects.

We conclude that Norwegian municipalities have recently made efforts to improve project governance. Nonetheless, our recommendation is that investment practices in municipalities should be subject to greater attention, and that the possibility of common guidelines should be examined. It is probably not appropriate for all municipalities to establish project models with different terminology and concepts. A common project model that applies to the whole municipal sector would have several advantages. There is a clear connection between a common project methodology, better practice, and benefit realization. Through better front-end appraisal, municipalities might be able to reject projects that are not part of long-term strategies, that do not meet real needs, or that represent undue financial risks.

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We conclude that Norwegian municipalities have made efforts recently to improve project governance. Nonetheless, our recommendation is that investment practices in municipalities are subject to greater attention and that one examines the possibility of common guidelines. It is probably not appropriate that all municipalities establish project models with different terminology and concepts. A common project model applying to the whole municipal sector would have several advantages. It is a clear connection between a common project methodology, better practice and benefit realization. Through better front-end appraisal, municipalities may be able to reject projects that are not part of long-term strategies, which do not meet real needs or that represent an undue financial risk.

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