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**Contracting out property and facility services in Norwegian Municipalities<sup>1</sup>**

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**Abstract:**

*Contracting out property and facilities services in the public sector has a strong focus in Norway these days, as politicians are looking for ways to achieve higher efficiency and to reduce activities in the public sector not directly related to the core businesses for local and central government.*

*In this article we give a brief overview of the situation regarding restructuring of the management of property management and facilities services in Norwegian municipalities, with an emphasis on contracting out services to private suppliers, either by out-tasking or outsourcing these services.*

*In general, the "facilities management" evolution within Norwegian municipalities is moving slowly. Although the tendency is to go in the direction of sourcing out services, a lot of municipalities are choosing to retain most facilities management services in-house, either as a municipal enterprise or as a share-holding company which is wholly or partly owned by the municipality. On the whole, out-tasking is more common than outsourcing. Contracting out single services such as cleaning to a professional cleaning agency or canteen facilities to a catering firm is becoming more common in the municipal workplace. A possible and highly likely reason for this is that the concept of facilities management is a new one, and there aren't many private businesses offering such services, whether as single services or as total facilities management deals.*

**3.3.1 Introduction**

Property management has gone through major changes in Norway the last 10 – 20 years, both in the private and the public sector. We started with an increased focus on FDV (*Forvaltning, Drift, Vedlikehold*), the Norwegian term for operation and maintenance of buildings, in the early 1980ies. A new national standard for life-cycle costing, the introduction of more systematic methods in daily operational activities and more professional management models in

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<sup>1</sup> The article is based on a term project report by Cecilie Gillesen (Gillesen 2002), Department of Building Technology, NTNU.

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property and asset management were important for this development (examples: *Bærum kommune, Oppland Fylkeskommune, Statsbygg*)

Over the years we have seen the development of a more professional attitude to operational activities in property management, as well as a rising knowledge of the values bound in public and private real estate. This has brought our traditional property management from a main focus on the operational level and FDV, to a tactical and strategic level in both the private and public sector (Haugen 1990).

These changes took first place in the private sector, and the Norwegian Facilities Management Network (NfN - Nettverk for Næringseiendom) was established in 1992 with companies like DNV-Veritas, Norsk Hydro, Statoil and Telenor as active members. This network with an upper limit of approximately 30 member companies, developed the traditional in-house management of properties and service management into a fully facility management function operational, tactical and strategic level within the company. These companies have over the last decade developed different FM models based on contracting out property and facilities services, either as out-tasking single services or outsourcing larger areas of FM or others support services. These companies mainly keep some important FM-functions in-house, functions that are closely linked to core businesses of the company. Typically they have a combination of in-house services (make own) and contracted single services or packages. The top management functions at a strategic and tactical level are kept in-house.

Another part of the market development, are the new companies acting as service providers in FM and companies acting as FM managers for building and real estate owners. Some large companies like ISS, Eurest, Securitas, Siemens and Bravida dominate the service provider market in FM. These companies offer larger or total packages of facilities services (cleaning, catering, security, ITC-networks) national and international. You also find smaller firms working regional locally and offering single services (janitor, cleaning, catering) or smaller packages of operational activities (technical installations, maintenance).

In recent years we have also seen a rapid development of typically FM management firms (*Basale, Celexa, NEAS, Hydro FM*), specialising in being a professional manager of facilities services for real estate owners. These companies take care of all kind of FM services and contracts and daily contact with tenants on behalf of the owners. They have partly their own staff, but will normally contract out most of their activities to single service providers. Some of these companies have the possibility of acting in a situation of outsourcing public services, and we have seen this in a few cases with reorganising and contracting out on a governmental level.

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Over the last decade we have seen the development of a number of new methods of organising municipal property management. Operational staff (janitors, cleaners, catering personnel) used to be employed locally at the individual school or health care facility, and the more periodic and long term activities (maintenance, modernisation) used to be taken care of either within a sector or central in a municipality. From mainly decentralised models we have had a development from the early 1990ies into partly decentralised models and to centralised property management, where the operational staff (janitors and cleaners) are employed by the municipal property management unit. The aim has been to create a more professional and efficient FM organisation, and to make costs and income related to property and facility services visible. The focus has been to make the three main roles more visible, those being owner, manager and user of properties and facility services.

A further development in the municipalities in the last few years have been the introduction of the client – supplier model, and the development into municipal enterprises and share-holding companies for property and facilities services (Examples: *Trondheim, Drammen, Stavanger, Ringsaker, Røyken*). This brings us up to the present situation where most Norwegian municipalities are still experiencing the plus and minus by implementing more centralised models and / or the client – supplier model with the three main actors: the owner, the supplier and the user / tenant.

These changes have caused a lot of tension in a number of municipalities, especially among the users (now tenants) who have “lost” their old janitor and cleaning staff. We also see that it is hard to get any long-term gains in productivity from the client – supplier model (Claussen 2003). At the same time contracting out property and facilities services in the public sector has got a strong focus (Haugen 2003), as politicians are looking for ways to achieve higher efficiency and to reduce activities in the public sector not directly related to the core businesses. Contracting out (*Konkurransetsetting*) and Public Private Partnership (*OPS – Offentlig Privat Samarbeid*) are terms discussed nearly daily in the newspapers in Norway (2003).

### **3.3.2 Present situation in Norwegian municipalities**

There are 435 municipalities and 19 counties in Norway (2002). The number of inhabitants in the municipalities vary from 256 (Utsira, Rogaland) to 507 467 (Oslo), but on average rural municipalities have around 10 000 inhabitants and town/city municipalities have between 30- and 100 000 inhabitants. Only five municipalities have more than 100 000 inhabitants.

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Each municipality has in a varying degree, a number of buildings to manage, ranging from childcare facilities, primary schools, council housing and homes for the sick and elderly to sports facilities, churches and various public buildings. Council housing is quite low in Norway compared to the other Sweden, The Netherlands and the UK, and not a dominating task for municipal property management.

The exact number of buildings and real estate administered by the municipalities are hard to come by, but it is estimated that there is on average 5 – 7 m<sup>2</sup> real estate per inhabitant in Norwegian municipalities. This number represents both public buildings and housing.

A study of 114 municipalities undertaken by NKF (1997) (*Norsk Kommunalteknisk Forening*), during 1996 – 1997 shows that the total amount of building space per person varies on the number of inhabitants in the municipalities. The following chart shows the findings sorted between small, medium and larger municipalities:

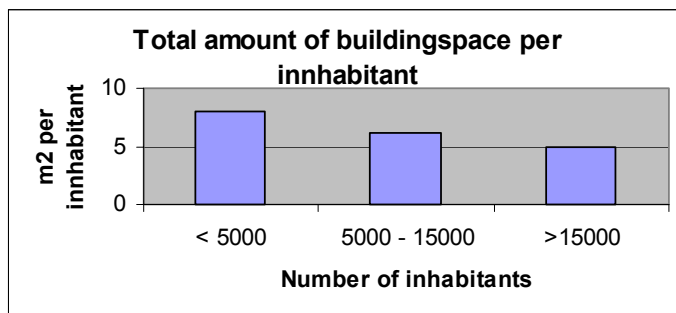


Figure 1. Building space in relation to inhabitants (NKF 1997)

Typically the property management organisations in Norwegian municipalities have a focus on the technical issues in management, maintenance and new construction. Most of the operational activities are done in-house. The employees have good knowledge and competence in technical matters and less in organisation and economics. There is little focus on turning property and facility services into business, and until now (2003) there has been now VAT on in-house services.

Normally they see in-house property and facilities services as more cost effective than contracted out, as they have low salaries, no overhead on costs and not VAT compared to external services. There is also a strong tradition of integration between management, operations and use of facilities.

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Typical problem areas and challenges

Analyses of the real estate business in several municipalities point towards the fact that the present situation is less than satisfactory with concern to:

- Operations economy and level of costs
- Level of service and user satisfaction
- Management and following up
- Developing competence and a professional organisation

The most common problem concerning the facilities management of public buildings and council housing is the inability within the municipalities to manage the budgets allocated for facilities management efficiently, especially with regards to maintenance. ECON and Multiconsult (ECON 2001) uncovered that approximately 40 percent of municipal real estate are in an unsatisfactory condition due to lack of maintenance. They discovered that the municipal sector uses far fewer resources on maintenance than what is actually needed in order to ensure the buildings' technical value, without being able to pinpoint any direct causes for this.

Another issue is the VAT-policy (value added tax) imposed by the Norwegian government July 2001. The new policy implies that all services (previously a number of services were without VAT) rendered from external, service suppliers are eligible for having VAT added to them.

Norwegian municipalities are (*Lov om offentlige anskaffelser*) obliged to enter into contract with the party offering the lowest price, even if they know for a fact that another party can provide the service more efficiently. The issue of VAT has therefore been and still is a great challenge with regards to the freedom of organisations within facilities management. This has created a situation where in-house facilities services can operate VAT, causing a situation with no fully competition between in-house and contracted out services. The Norwegian government has made changes in the VAT-policy, so there will be the same conditions regarding VAT from 2004.

Relations, trust and co-operation

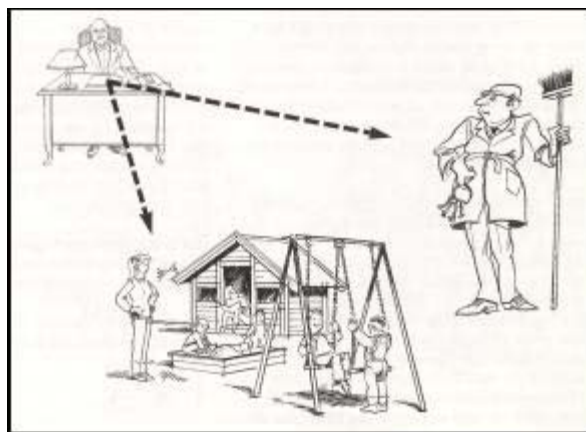
There are three distinct roles within any real estate management being: the user(s), the manager and the owner. Reorganising municipal real estate tends to cause friction between these parties as they traditionally have been closely linked and integrated in the same municipal sector or unit. It is a challenge to keep up the good relations and co-operation that normally have existed.

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*Figure 2. The three main roles in municipal property management*

Reorganising municipal real estate tends to cause friction and

### **3.3.3 Models for organising municipal property management**

The traditional method of organising facilities management in most Norwegian municipalities used to be the decentralised model where the municipality takes an integrated responsibility for all administration, operation and maintenance of properties. Each unit is to a large extent responsible for the different roles as users, managers and owner of properties. Executive decisions regarding finance are usually made by the central administration, in this case the municipal council.

As mentioned in the introduction, we have over the last 10 years seen a development from the traditional decentralised model partially decentralised and centralised models, and in recent years into client-supplier models as well as municipal enterprises and share-holding companies. We will focus more on the three last ones, as this opens more for contracting out larger parts of property and facility services.

#### The client –supplier model

A client-supplier model means that you split the responsibility for property and facilities services between the owner, the manager and the users of facilities. You establish a professional and responsible owner who acquire all facilities services from a supplier (either in-house or contracted out) and keep contact with users and tenants. The supplier sells its services on a contract basis where price, service level etc are specifically defined. The municipal tenants and users

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will have a lease or rent agreement with the owner, and will pay rent (internal rent) to the owner of the property.

*A client –supplier model is characterised by:*

*The organisation – personnel:*

- The municipality can specialise their property management into a pure owner-and control sector.
- The supplier takes over responsibility for the operative and administrative functions according to predefined agreements (cleaning, janitor-services, maintenance, project administration, building/contracting leadership, administrative services, etc.)
- The responsibility of employment and the work-leadership of employees attached to the functions that are contracted out, are taken over by the supplier.

*Responsibility - Authority- Decision making – Control:*

- The supplies are defined in accordance to a contract, defined by the municipality, who has responsibility for control and following up the services that have been bought externally.
- A simple and flexible form of organisation where the municipality can reflect it's level of competence against the specified demands, purchases and the following up- functions, with the possibility of terminating contracts with sub-suppliers.
- Political management through the establishing of the extent and principles of buying external services. Buying, selling or investments are treated in the regular manner in the municipality.

*Economics of operations – Finances:*

- Municipal administration and organising of the real estate functions is simplified and specialised.
- The model can be used both with and without introducing internal rent.
- The possibilities of freeing capital and financial flexibility like the one in the share-holding model.
- Satisfactory economic reporting.

*Taxes and Value-Added-Taxes (VAT):*

- No consequences of government taxes for the municipality.
- Complicated and unclear laws regarding VAT and VAT-compensations need to be replaced with routines that can be understood and that can be followed up (changes from 2004).

*Formalities – Laws – Regulations:*

- The routines surrounding a take over with regard to the personnel must be checked up against the work-environment regulations and rules of business take-overs.
- Questions and possible areas of conflict must be checked up against the EU-regulative.

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- Internal control: The user and tenant have responsibility for the physical environment for their employees. The managers' role and responsibilities will be defined in the contract.

The client – supplier model (after contracting out), might be a flexible model that gives the municipality greater freedom and opportunity for a sound operations economy, as well as alternative financial solutions. The model might give the municipality a reduced administrative and operational organisation (e.g. project administration, economy/accounting, counselling) with a greater focus upon the municipality's core-activities.

Municipal enterprises (KF - kommunalt foretak)

The role of the owner can, in addition to the role of the manager, be transferred to either a municipal enterprise or a share-holding company owned fully or partly by the municipality. For both of these models there are different levels for how the managerial and operative tasks shall be seen to. For example, one can start a municipal enterprise or a share-holding company that will perform as a professional buyer buying from external suppliers' and/ or from other companies owned by the municipality.

Municipal enterprises (KF) are an alternative model of organising the real estate management. It involves establishing the real estate management in an independent unit within the context of the municipal laws and regulations. The municipal enterprise model can either take care of the role of the management (operations- and development-based enterprise) or in addition take care of role of the ownership (real estate enterprise).

It is, in the same way as other sectors, a part of the municipality in the judicial sense. The municipal is responsible for all of the municipal enterprise's commitments. The municipal council constitutes the enterprise's board.

The board and administration of the enterprise is not under the central administration.

The intention with the model has been to establish a freer model of organising than with a municipal company. The purpose is to give municipalities an opportunity to organise their activities in an operative and businesslike manner, which needs no political or administrative management within the municipal as a judicial unit. The political control with regard to the activities within the enterprise remains.

*The following characterises a municipal enterprise:*

*The organisation – personnel:*



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- Personnel attached to the functions that have been transferred to the enterprise are united in one independent enterprise.
- Greater possibility of professional development for employees in a larger specialised organisation.
- Greater organisational freedom in relation to hiring new employees, their conditions, etc.

Responsibility - Authority- Decision making – Control:

- The parties rights and requirements are defined and formalised through agreements (role of ownership, management and user)
- Clear management and decision guidelines are regulated through regulations, management instructions and administrative routines.
- A great level of independence within defined guidelines.
- Political management: politically appointed board and management guidelines with the opportunity of using external resources.

*Economics of operations – Finances:*

- The enterprise can establish its own administrative systems (budgets, costs, routines)
- Large-operations-benefits, opportunity for specialising and flexibility form the basis for high operations efficiency.
- A good start for calculating and billing rent costs that will secure a better space and resource utilisation.
- There are no opportunities for freeing capital apart from taking on loans with a municipal guarantee (applicable only when the enterprise is the owner of the real estate)

*Taxes and Value-Added-Taxes (VAT):*

- No consequences for government taxes, (a municipality is not a subject for taxes).
- The situation concerning value-added-taxes (VAT) and VAT-refunds is quite unclear and needs to be clarified (changes from 2004).

*Formalities – Laws – Regulations:*

- Municipal enterprises are subject to the municipal laws and regulations, and are established as independent judicial units with separate regulations and management organs.
- The municipal has right of ownership to the properties
- Internal control /work–environment regulations: The user has responsibility of the physical environment for his/her employees. The users' rights are defined in the leasing contract.
- Developer-regulations: The board is responsible within defined agreements.

A municipal enterprise is an independent real estate operation unit within the municipal system. The degree of independence for the enterprise is dependent on the guidelines and frames that are defined. If there is no political or

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administrative will to give a greater level of independence, then one might as well use the centralised model (which has a simpler administrative apparatus). A municipal enterprise involves a structured activity with clear organisational and operational advantages with regard to the financial management, economics of operations and developing competence. The real estate management becomes focused and the responsibility- and authority relationships become defined. The municipal enterprise may well be a premature phase in reforming it to a share-holding company.

Share-holding companies (A/S – Aksjeselskap)

Share-holding companies (A/S) are independent judicial units, and not a part of the municipality. The municipality can be a sole owner, part owner or sell out the company. The business is regulated by the Law of Share-holding (Aksjeloven), and the owners right to run the company is regulated by strict guidelines with regards to the general conferences, the boards responsibilities and managers roles.

The general assembly of the company runs the company by voting on a board that will have control of the company, and it also approves the company's regulations. The municipality's responsibility and economic risks are limited to the share-holding capital.

The share-holding company is liable for taxes, and this is one of the major differences from other models. The purpose of using this model is to run it using business principles, and the politicians are relieved of managing and have less ability to influence the actions and decisions in single matters.

*A share-holding company owned solely by the municipal is characterised by:*

*The organisation – personnel:*

- The company becomes the employer for all the employees.
- There are better opportunities of specialising and developing personal competence.
- The company can free itself from municipal guidelines with concern to hiring new employees.

*Responsibility - Authority- Decision making – Control:*

- The municipal council draws up the regulations, board and guidelines.
- There is an opening for external competence within the governing organs.
- Clear division of roles with agreements for dividing work and responsibilities between the users, management and owner.
- Clear division between responsibility and authority.
- The parties have a large extent of independence within accepted frameworks.

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- Political management: The municipality decides on the regulations and elects a board. They have full control when owning 100 % of the company.

*Economics of operations – Finances:*

- The user becomes a tenant and contract-regulated rent can be introduced. Efficient space and resource utilisation.
- Specialised reporting and economic systems adapted to the real estate business.
- Specialised operations give higher operations efficiency and lower costs.
- Possibility of freeing capital and financial flexibility

*Taxes and Value-Added-Taxes (VAT):*

- No consequences of government taxes for the municipality (changes from 2004).
- The company becomes liable for taxes in accordance to the tax-laws (surplus/deficit).
- Complicated and unclear laws regarding VAT and VAT-compensations need to be replaced with routines that can be understood and that can be followed up.

*Formalities – Laws – Regulations:*

- Municipal share-holding companies are not required to hand over the right of ownership or pay the 2,5 % sales taxes.
- Selling properties from the municipal demands a concession (the terms of the concession are set by the municipal)
- The company becomes an independent judicial unit.
- Internal control /work–environment regulations: The user (tenant) has responsibility of the physical environment for his/her employees. The tenants' rights are defined in the leasing contract.
- Developer-regulations: The board is responsible within defined agreements.

Establishing a share-holding company gives the opportunity of a specialised real estate business with the possibility of attracting and developing the level of competence. The share-holding company is an independent unit that clearly defines authority and responsibility, as well as the parties' rights and obligations. There is basis for a solid operations economy and adequate economical reporting. The share-holding model gives the opportunity for freeing capital and gives then financial flexibility, and can still be combined with a wish for municipal and political control.

#### **3.3.4 Services acquired externally through contracting out**

There are however several issues that have to be addressed when considering whether or not to outsource or out-task one or more services from the municipal facilities management.

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The legal issues

There are several laws and regulations for property and facilities services in Norwegian municipalities.

- “Law of public acquisition” (*Lov om offentlig anskaffelser.*) - a law that regulates how the public sector can obtain goods and services. It demands that the goods and services are resource and environmentally friendly, and it sets a standard for competition regarding life cycle costs and the environmental consequences of the acquirement.
- “Local government act” (*Kommuneloven*) regulates all municipal activity regarding the organisation structure with city council and major at top, the decision process, role for all the different parties (stakeholders) in the processes etc. *Kommuneloven* §10 gives the option for organising property and facility management directly under the city counsellor (rådmannen), and §11 in the law gives the opportunity to establish a municipal enterprise.
- The rights for the employees are given in *Arbeidsmiljølovens kap. 11 – Arbeidstakers rettigheter ved virksomhetsoverdragelse mv.* This law specifies important aspects like pension rights and insurance, information in the process, parties involved in the decision process etc.
- The Norwegian law of planning and building, (*Plan- og bygningsloven*) with its regulations (Forskrifter) also sets its standards for construction and maintenance work.

Factors to consider when contracting out

Whether one chooses to outsource, out-task or retain services in-house, one must firstly define the service requirements within an overall facilities management strategy. Then the specific task and services levels have to be defined. Finally the organisation is able to determine the mechanism through which service provision should take place.

Several key issues need to be taken into consideration:

- Organisations must identify the key attributes of the services they require in order to obtain a balanced view of needs, which forms the basis for evaluating available options.
- Organisations should define their own evaluation criteria with respect to these attributes of services. This will reflect the true importance of options in line with the organisations’ facilities management strategy and policies.

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- Both indirect and direct costs of all options must be considered carefully in order to get a complete financial picture and enable a comparison on a like-for-like basis.
- Support services should represent best value on the basis of affordability for the organisation in the implementation of the objectives of its strategic plan, irrespective of the cost of those services
- Evaluation criteria for the sourcing decision must embrace “hard” and “soft” measures and compare all costs with the required quality.
- Roles and skills must be defined from the services to be provided, with specialist skills emphasised.
- Since the factors affecting the choice of in-house or outsourced/outtasked facilities management may change, the route by which services are procured should be reviewed at appropriate intervals.

A way of presenting the advantages and disadvantages in contracting out property and facilities services is shown in figure 3 (Kleiven 2002).

In the figure S, T and O represent Strategic, Tactical and Operative levels within facilities management.

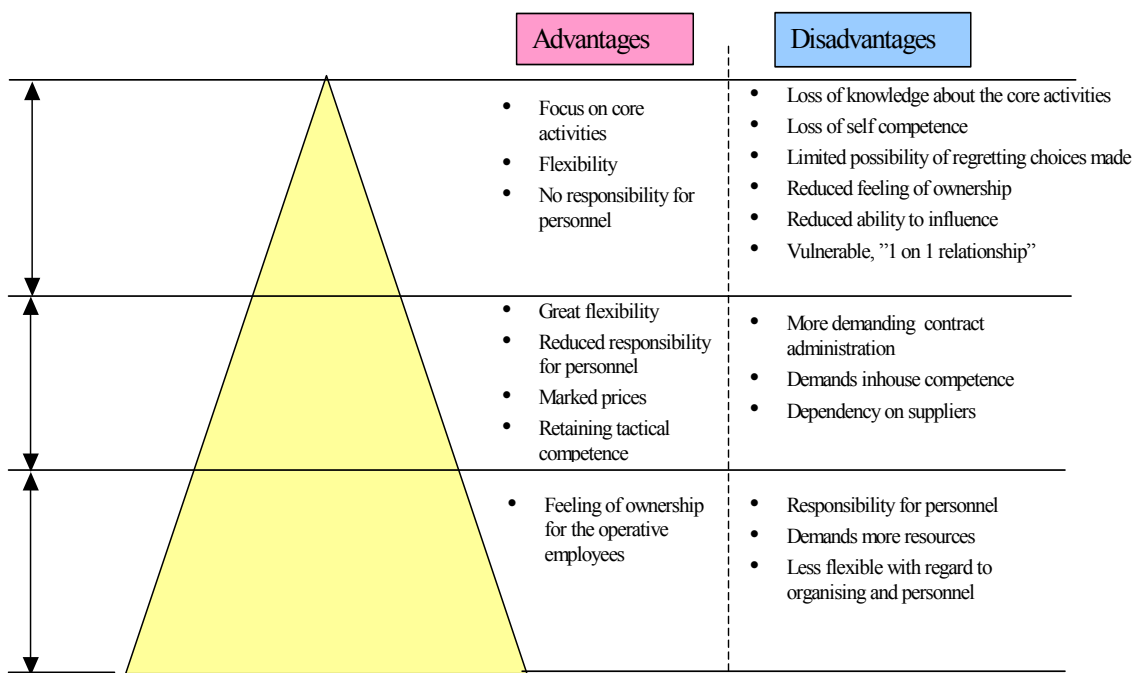


Figure 3. Advantages and disadvantages with outtasking and outsourcing (Kleiven 2002).

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Which services/products are relevant for contracting out?

The services and products that are most commonly associated with outsourcing and out-asking in Norway are daily maintenance operated by janitors and other service personnel, IT-services, cleaning, catering, postal services, reception and switchboard services and surveillance and security.

Traditionally, the Norwegian janitor has had another important function besides operations and maintenance. Often, particularly in schools, kindergartens and homes for the sick and elderly, the janitor has a user-related function. He/she is often a social element in his/her setting, helping out with issues that are different from those having to do with operation and maintenance.

IT-services are also often hard to define precisely, partly because the technological development continuously changes the premises and partly because the IT-system is structured differently from organisation to organisation. Presenting and comparing key figures for IT-services between different organisations is therefore often pointless. It is often more meaningful to compare the IT-services to the total IT-expenses within the organisation.

Cleaning is by far the greatest expense within facilities management. Usually it covers somewhere between 35 and 45 % of the total facilities management costs per square meter.

Catering usually just implies preparing and serving lunches to the organisations' employees. In some cases the catering facilities also provide refreshments during meetings and also cater for larger events. Catering is a little different from other services in that the users themselves cover the costs of this service, either partially or in full.

Postal services usually involve receiving all incoming post, external and internal sorting and distribution, and then franking and sending outgoing post. In some instances the postal service also takes care of enveloping and sending post to multiple receivers.

Surveillance and security are also two separate, but closely linked services. Surveillance is primarily taking rounds around the premises outside working hours. Security has more to do with the administration and surveillance of technical security devices such as admittance control, and administering keys and ID cards.

The main objective for both services is to secure the property from unwanted visitors, theft and industrial espionage; and also to prevent unnecessary damage

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to the property or other items of value. In cases where damage can't be hindered the objective is to reduce the consequences the damage would imply.

Security personnel often also take over reception services out of hours, seeing that the two services are closely linked with regards to admittance to the building. Security can be administered and serviced by an external surveillance company in places where this is available and suiting.

#### **3.3.5 Experiences going from mainly in-house to contracting out**

At present (2003) we do not have a fully overview of the status regarding in-house or contracted out property and facilities services in Norwegian municipalities. Most of the larger cities (Oslo, Trondheim, Bergen, Stavanger) and a number of medium sized and smaller municipalities have implemented the client-supplier model to set focus on producing the "right services" for municipal core activities and end users, and to produce these services efficient at "right price". A few municipalities (Bærum, Drammen) have a number of years experience with this model, and are able to see both advantages and disadvantages.

In most cases the client-supplier model is seem as a first step in contracting out property and facilities services. The in-house supplier side have normally been given 2-5 years protection from the external market, in the way that the clients (the municipal owner and users) are obliged to use the in-house supplier. The next steps are the municipal enterprise and the share-holding company. Rather few Norwegian municipalities have gone so far yet, but we have some examples.

#### Trondheim - from sector model to client - supplier

Trondheim is the capital city of the municipal county of Sør-Trøndelag, and the third largest city in Norway. The city-area has 137 000 inhabitants, and together with the rural area, the municipal of Trondheim has somewhere around 150 000 inhabitants. The municipality covers an area that is 342 km<sup>2</sup>.

The municipality of Trondheim has recently undergone a change in the way they manage their real estate. In 2000 a new municipal unit was created, called Trondheim Eiendom, whose responsibility would be to manage and maintain all of Trondheim's 1 million m<sup>2</sup> real estate. This real estate consists of among others, of housing, schools, and public buildings, and is fully owned and managed by Trondheim Eiendom.

Trondheim Eiendom is directly beneath the chief executive of the Municipal of Trondheim, and its main tasks are to see to the strategic and tactical goals of the facilities management. A municipal enterprise, Trondheim Byggservice KF,

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was established, to see to all of the operational responsibilities within the facilities management of the municipal real estate.

The new structure was introduced just over three years ago, and formalised in the beginning of 2002. It is based on a centralised modell where Trondheim Eiendom owns all of the real estate, and also manages all the buildings within the municipality. Trondheim Eiendom has responsibility for the roles of the owner and manager, while Trondheim Byggservice holds the responsibility for the role of the operator. Trondheim Eiendom functions as both owner and also developer, and plays an active part in buying and selling properties, strategic assessments. The aim of the services that Trondheim Eiendom provides, is to lay the grounds for an optimal facilities management of the buildings and that the can achieve customer satisfaction.

Much of the facilities management is based on a client – supplier model, where all relations between tenant and landlord-owner are based upon agreements between Trondheim Eiendom and the manager of the institution in question. This applies to every part of the municipality, whether it is a public service that is leasing a property or it is a private person renting housing.

Trondheim Eiendom buys all the necessary services within daily maintenance and cleaning from Trondheim Byggservice. Trondheim Byggservice is an enterprise that is built up of all the service-personnel that previously were stationed around the municipality at fixed institutions (appr. 500 employees). Today, there no longer are janitors or cleaning-personnel that have their daily workplace at one specific school or other institution. If a school needs a janitor, they must contact Trondheim Eiendom, who then organises Trondheim Byggservice to carry out the request. Planned maintenance is outtasked or outsourced to external suppliers.

There has been a lot of changes in getting the new organisation to function smoothly, one of the main issues has been to convince both the managers of the institutions and the operations-personnel that this is a better solution for all involved.

The main benefits of this reorganisation lie in the greater possibilities of becoming professional, and also the enhanced possibility for comparing key-figures and performing benchmarking with others, thus learning from past experiences and becoming more efficient. Disadvantages include cases where managers of smaller units feel distanced from the daily running of "their" spaces. They have been moved further down the organisational ladder, and no longer feel the ownership as strongly as previously. The distancing of the operational staff from their former workplaces has had its effects on the quality



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of the services rendered. A possible explanation for this is that it is more difficult to relate to the new circumstances, - roles, systems, etc.

Drammen - from decentralised model to municipal enterprise

Drammen is a city municipality and the capital of Buskerud County. It has approximately 54 500 inhabitants spread over 138 km<sup>2</sup>. It is a trading and commercial city, with Norway's largest harbour for importing vehicles and fruit.

Drammen was one of the first municipalities in Norway to start managing their real estate in accordance with new facilities management principles. In 1995/1996 the municipality established a municipal enterprise: Drammen Eiendom KB (DEKB), which originally only had management responsibilities.

In later years the responsibility for developing real estate in Drammen has been incorporated into DEKB. DEKB is responsible for building projects amounting to 160 – 180 million NOK yearly. External professionals are hired in for most of the tasks associated with these projects, but as time passes DEKB acquires more and more competence on developing internally.

Today DEKB manages approximately 300 buildings, totalling 300 000 m<sup>2</sup> in addition to 1000 apartments of which they own 500, and the remaining are part of housing co-operations where the municipality owns shares. On top of these built real estates, Drammen manages significant number of empty estates. Most of this real estate is let out to the municipality.

DEKB has a centralised facilities management structure. The real estate is divided into 5 sectors, each being approximately 50 – 60,000 m<sup>2</sup>. There is one janitor for each sector equipped with vans that are workshops on wheels, who circulates each of the sectors in accordance with a set roster. Institutions such as schools, kindergartens, health-care institutions and the town hall are visited daily. The janitor reports to an Operations manager, who is located centrally. The Operations manager then reports to the executive of DEKB. The Technical manager has organisational responsibilities, in addition to responsibility for planned maintenance and technical support services.

Most of the services available through DEKB are outsourced. DEKB normally buy external project management and (pre) project services when dealing with larger projects. Most of the "handyman" services are bought externally in connection with management tasks. Plumbers, carpenters, electricians, glaziers, painters, and masons supply these services. The circulating janitors are also capable of performing such tasks, but not on a large scale.

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A framework service agreement is worked out for contracting out these services. The agreements are valid only to certain suppliers of services, such as those mentioned above and also energy and insurance. Each agreement is worked out in collaboration with the central department for acquisitions, and new agreements are continuously being created.

The future, as far as DEKB is concerned, may go in the direction of making the business of contracting out more professional. Also, including services such as cleaning and costs related to energy consumption, in the rent of the building spaces is another possibility for the future in Drammen Eiendom KB. The present rent consists of capital costs (approx. 8,5 % of new-investment costs covering loans and mortgages) and a FM-addition (covering management, operations and maintenance costs, often amounting to 150-200 kr/m<sup>2</sup>).

The consequences of outtasking and outsourcing, as seen by DEKB, include a higher level of professionalism, both in terms of acquisition routines and routines in general. At the same time companies are given the opportunity of focusing their energies on the core-activities of the business.

Another consequence of municipalities trying to obtain a larger extent of large-operations benefits is that they seek other municipalities for inter-municipal collaboration, which is steadily on the increase.

#### **3.3.6 Concluding remarks**

Contracting out property and facilities services is still in its early stages, and it is not yet clear how it will develop. The tendency is to out-tasking certain activities within the municipality, to establish client – supplier models municipal enterprises and share-holding companies

The town-municipalities in particular, are in an increasing degree changing their traditional FDV-sector into to a real estate management sector. There is a clearer division among the different roles than before, and contracting out leads the way into a competitive market with all of its advantages and disadvantages.

There are in general three main categories where things are happening:

- Municipal real estate sectors are being reformed.
- Energy sectors are sold out as independent share-holding companies.
- Schools and education are also starting to catch on to the “new movement”.

During the past few years we have witnessed a debate whether or not to let private companies buy up the public schools, involving a total facilities

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management and then leasing the schools with all facilities management services included back to the municipality.

Bergen has already outsourced some of their schools, and the debate has reached a number of other municipalities. Norway has also seen a recent change in the ownership structure of the health sector, with all public hospitals going from being owned and operated by each municipal county to being owned and operated by the state. The public sector has been unable to run hospitals in an effective manner, with the result of often having to send patients to private institutions within Norway and abroad in order to deal with the long waiting lists as well as cost-effectiveness.

There is constant debate whether or not to privatise the Norwegian health sector, but the last year have given a couple of examples where privately run institution have failed totally in giving the good care they are supposed to deliver. A recent poll (*June 2003*) therefore showed that most of the public is against outsourcing and privatisation of the tradition municipal core activities like care for the sick and elderly, schools and child care.

At the present time, municipal facilities management organisations and real estate management units are working towards becoming a profitable unit within the municipality. However, taking out any real profit from these enterprises is not likely for some time yet. The reasons perhaps being that the municipalities, although focusing on real estates management, are either not prioritising it enough when working out budgets or that there simply isn't any available funds to take from. Also the long period of neglecting maintenance has taken its toll on the buildings, and it will take time to restore the properties to the appropriate condition.

Introduction of the client-supplier model in municipalities seems to have a positive effect in a short-term perspective. Going for a situation where property and facility services seem to be a free commodity for many in the municipality and only expenses (the unnecessary evil) on the overall budget, the model sets focus on the facility services delivered, the quality of the services, the need for service level agreements and the real costs related to property and facilities services.

In the long-term the client-supplier model tends not to work effectively (Claussen 2003). In a way the model try to bring in a real business situation for the property and facility services, and on the same time the top municipal management has full economical control (cutting budgets and transferring capital to other sectors). There is some sort of "lord and servant" situation, where both the in-house supplier and the in-house real estate owner are serving

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the tenants, end users and politicians in a municipality. At the same time client – supplier model are working in some sort of monopoly situation and needing more administrative staff to take care of all the in-house business.

Probably the solution is to choose either a good working integrated model linked to the core activities (*Forvaltningsbedrift*) or you have to establish a property and facility service as a separate external organisation (*Aksjeselskap*).

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