

**PUBLIC FACILITIES MANAGEMENT SERVICES IN LOCAL
GOVERNMENT**

International experiences

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ABSTRACT

Real Estate Management both in the private and public sectors has been rapidly changing in the past ten years. These changes have forced local governments to find new ways to operate more efficiently and effectively and operate more with the private sector models. Centralisation, municipal enterprises, share-holding companies, client-supplier models, and different methods to contract-out have come alongside with the traditional in-house production of services.

To assist the Finnish municipalities in confronting these new challenges, the Institute of Real Estate Studies at HUT has started a research project “Contracted Services and Advanced Facilities Management in The Finnish Municipalities”. This thesis is a part of the project. The aim of the thesis is to contribute to the knowledge of how the local authorities manage their facilities and the facilities services in the best possible way. The aim is achieved by doing a study on international literature and by taking a closer look on how things are done in theory and practice in other countries.

This study has created insight into Facilities Management and Facilities Management services generally, Public Facilities Management in local governments, and alternatives for producing public Facilities Management services. Comparison between Corporate and Public Real Estate Management is made, and the use of private sector management models in public sector is discussed. Based on the experiences of the local authorities in contracting-out in different countries, different management models, benefits and negative consequences, and the true benefits of contracting-out to the local authorities are discussed.

Based on this study facilities should be seen also in Public Facilities Management as a strategic means that have the ability to add value both to the public organisations objectives and the primary processes. The use of private sector models and trends seems to be more and more common in the public sector. Contracting-out, outsourcing and other facilities services producing models are still growing in local governments. These models are business tools, and like all tools they must be used properly to achieve the desired result. Effective implementation requires a tailored solution; one size does not fit all organisations.

Keywords: Facilities Management, Facilities Management Services, Public Facilities Management

TIIVISTELMÄ

Kuntien toimintaympäristö on muuttunut ratkaisevasti 1990- ja 2000-luvuilla. Muutos on ajanut kuntien toimintamuotojen voimakkaaseen kehittämiseen ja etenkin markkinaperusteisten toimintamuotojen yleistymiseen. Perinteisen kuntien oman palvelutuotannon rinnalle ovat tulleet kuntien uusimuotoiset palveluntuottajat eli ns. tilaaja-tuottajamalliset organisaatiot, kunnalliset liikelaitokset, yhtiöt, kuntien välinen yhteistoiminta eri muodoissaan ja yksityiseltä sektorilta ostetut palvelut.

Helpottaakseen suomalaisia kuntia näiden uusien haasteiden kohtaamisessa Teknillisen korkeakoulun kiinteistöopin laboratoriossa käynnistettiin tutkimusprojekti "Osaava kiinteistöjohtaminen ja ostopalvelut kunnissa". Tämä työ on osa tätä projektia. Työn tavoitteena on tuottaa tietoa, jonka avulla paikallishallinnot voivat hoitaa tilojansa ja tilapalveluja parhaalla mahdollisella tavalla. Työn tavoitteena on ollut selvittää eri maiden paikallishallintojen toimitapoja ja kokemuksia tilapalvelujen toteuttamisesta ja ostamisesta.

Tutkimuksessa on tehty katsaus toimitilajohtamiseen, tilapalvelujen johtamiseen yleisesti, julkisen organisaation toimitilajohtamiseen ja julkisten tilapalvelujen tuottamisen vaihtoehtoihin. Tutkimuksessa vertailtiin yrityksen ja kunnan kiinteistöjohtamista ja käsiteltiin yksityissektorin johtamismallien käyttöä julkisella sektorilla. Eri maiden paikallishallinnoista saatujen kokemusten perusteella käsiteltiin ostopalvelujen ja muiden toimintamuotojen hyötyjä ja haittoja ja erityisesti ostopalvelujen todellisia hyötyjä kunnille.

Tutkimuksen perusteella voidaan todeta, että myös julkishallinnossa tilat tulisi ajatella strategisena työkaluna, joilla on potentiaalia tuoda lisäarvoa organisaation ydinprosesseille. Paikallishallinnot ovatkin siirtymässä kohti strategisempaa ajattelua kiinteistö- ja toimitilajohtamisessa. Yksityissektorilta tutut toimintamallit kuten erilaiset yhteistyömallit ja kumppanuusajattelu ovat lisääntyneet kunnissa. Myös ostopalvelujen ja muiden tilapalvelujen uusmuotoisten toteuttamismallien käyttö on jo hyvin yleistä eri maiden paikallishallinnoissa. Kaikille näillä malleilla on omat hyvät ja huonot puolensa, joita organisaation tulee punnita tarkasti ennen päätöksentekoa. Mikään toimintamalli ei sinällään takaa tehokkuuden paranemista, vaan antaa siihen ainoastaan mahdollisuuden.

Avainsanat: kiinteistöjohtaminen, tilapalvelut, julkisyksikön kiinteistöjohtaminen, ostopalvelut

PREFACE

The working environment in municipalities has decisively changed in the past years. The change has forced local governments to develop their functions strongly and especially to operate using market based methods like the private sector. In-house production has increasingly been replaced by client-supplier models, centralisation, municipal enterprises, share-hold companies and contracting out.

To meet these challenges, a research project titled “Contracted Services and Advanced Facilities Management in the Finnish Municipalities” was carried out within the Institute of Real Estate Studies at the Helsinki University of Technology. This study made by M.Sc. Anna-Liisa Lindholm is a part of that research project. It contributes to the knowledge of best practice of the local authorities to manage their facilities and facilities management services.

Because this study obviously has more extensive interest, we have decided to publish it as an electronic issue. We are grateful to the author, Ms. Anna-Liisa Lindholm, and all the others that have assisted and participated in this study. Especially we wish to express our gratitude to professors Keith Alexander, Jan Bröchner, Tore I Haugen, Andreas van Wagenberg and Leonard V. Zumpano.

Espoo, December 2004

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ABBREVIATIONS

AM	Asset Management
BIFM	British Institute of Facilities Management
CRE	Corporate Real Estate
CREM	Corporate Real Estate Management
GAO	The General Accounting Office (USA)
FM	Facilities Management / Facility Management
HUT	Helsinki University of Technology
ICF	Informed Customer Function
IFMA	International Facility Management Association
LA	Local Authority
NPM	New Public Management
PFI	Private Finance Initiative
PFM	Public facilities management
PM	Property Management
POM	Portfolio Management
PPP	Public Private Partnership
PREM	Public Real Estate Management
REM	Real Estate Management
SLA	Service Level Agreement
VAT	Value Added Taxes

1 INTRODUCTION

Real Estate Management (REM) both in the private and public sectors has been rapidly changing in the past ten years. This is due to several factors. Higher extent of professionalism, globalisation, changes in economies, and better attention to the cost of operating are some of the main reasons. Escalating fiscal pressure, increasingly demanding citizens and heightened competition for talent are motivating the government executives around the world to search for new ways to operate.

At the moment there is a trend that corporations in all fields of business are focusing on their core business activities and begin downsize their support services. The municipalities are in the same situation as the private companies. Many municipal organisations are faced with the decision whether to retain the Facilities Management (FM) service provision in-house or to outsource it.

The recent change in Public Real Estate Management (PREM) shows a growing awareness of real estate as a strategic means to accomplish social goals and meet the customers' needs. The latter should be managed in a way that is based more on the entrepreneurial and competitive principles used in the private sector, in that, most of the time, this is seen more cost efficient. Public financing and the organising of the public services are done with more and more similar models as in the private sector.

To assist the Finnish municipalities in fronting these new challenges, the Institute of Real Estate Studies at HUT has started a research project "Contracted Services and Advanced Facilities Management in The Finnish Municipalities". The aim of the project is to create a generally applicable concept by which the contracting out and outsourcing can be achieved in the best possible way in the organisations of different types of municipalities. The organising of the municipal Facilities Management, i.e. the arrangements of building management and ownership policy, is also treated in this project. The main stages of this project are: the present situation, needs and

problems; domestic and international experiences; options for developing; analysis of the options for developing, and creation of model solutions and concepts. This thesis deals with the international experiences part of the project.

1.1 Objectives

The aim of the thesis is to contribute to the knowledge of how local authorities manage their facilities and Facilities Management services in the best possible way. The aim is to review the decision on contracting-out by reviewing the options available to the organisations in the local governments, so that the organisations have more knowledge for the decision-making and of the best value path to follow.

The aim is achieved by doing a study on international literature and by taking a closer look at how things are done in theory and practice in other countries. The objectives of this thesis are to:

- provide an outlook to Facilities Management and Facilities Management services in public organisations
- identify the differences and the similarities between Corporate and Public Real Estate Management
- provide an outlook to different in-house and contracted models in organising the municipal facilities services.
- find some positive and negative experiences considering different models
- provide useful information for the municipalities for the decision-making process.

In addition, several research questions also arise in this study, the answers to which would significantly contribute to advancing knowledge and international best practice:

1. What is Public Facilities Management?
2. Should we use private sector models in the public sector?

3. Should the management of public real estate be considered a task for government or should it be outsourced?
4. Is contracting or outsourcing the best choice for every organisation?
5. What are the real benefits of contracting-out for local authorities?
6. How to use contracted services efficiently?

1.2 The Methodology of the Study

The study consists of literature review and examples of actual collected data. Theoretical survey was made on the basis of literature and articles. The literature survey considered both Finnish and international literature focusing on Corporate and Public Facilities Management, facilities services, municipal in-house models, contracting-out, partnership theories and related references. The international literature used was mainly British, American, Dutch and Swedish.

In order to better understand the relationship between the role and position of local governments and facilities services, extensive information of both the local authorities in general and their Facilities Management in particular is needed.

The methods of the study were:

- literature survey considering both Finnish and international literature
- collection of theoretical data from the Internet in order to compare it with literature and other data sources
- familiarisation with current research projects going on in this field of study
- The main study methodology is qualitative document analysis.

1.3 Restrictions

The study is mainly focusing on Public Facilities Management in local governments. The theoretical framework of the study is based on common theories of Corporate and Public Facilities Management and contracting-out.

However, the latter part of the study concentrates on experiences from the local authorities in different countries. The studied countries are Finland, Sweden, Great Britain, the Netherlands, Norway, and USA. The outcome should be considered critically in other organisations than local governments because of their very special operating environment.

1.4 The Outline of the thesis

The structure of the thesis consists of six chapters (Figure 1). The introductory chapter presents the background, study interest, objectives, problems, restrictions, and the methodology of the study. Chapter 2, Facilities Management, creates a theoretical framework and the definitions for the study on the basis of literature review. This chapter includes the definitions for Facilities Management and Facilities Management services, some historical background and an introduction to strategic approach to FM. Thereafter follows the chapter 3, an overview of Public Facilities management, where the framework of PFM is introduced and some similarities and differences between Public and Corporate Real Estate Management is discussed. In chapter 4 the basic duties and processes of a municipal real estate unit is introduced, and the different models for producing services in-house, the basics of contracting-out and partnering. Chapter five comprises of the trends in the private sector and some contracting-out experiences from six different countries, which are Finland, Sweden, Norway, the United Kingdom, the Netherlands the United States of America. The final chapter concludes the thesis with a discussion on the findings and suggestions for future research.

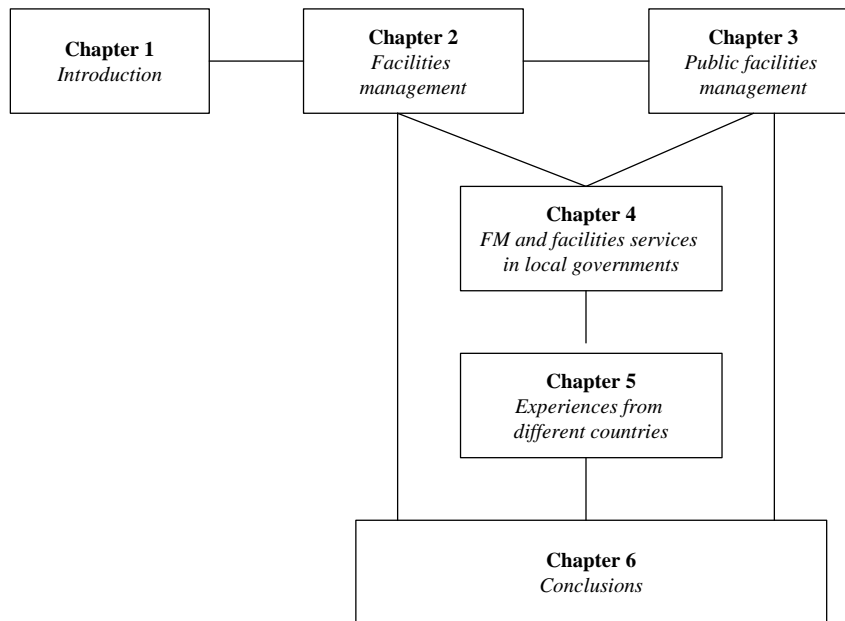


Figure 1. Overview and contents of the thesis.

2 FACILITIES MANAGEMENT

2.1 Definition of Facilities Management

The modern form of Real Estate Management can be seen from three different viewpoints (Figure 2), which are called Asset Management (AM), Property Management (PM) and Facilities Management (FM) (Leväinen 2001a). In Asset Management the owner and investor concentrate on the profitability of business, in Property Management the technical manager concentrates on the building and its equipment, whilst in Facilities Management, the occupant of a workplace is interested in the space and services supporting his/her work or company's production. Similarly the object of interest is different: capital (AM), building (PM) or space and service (FM).

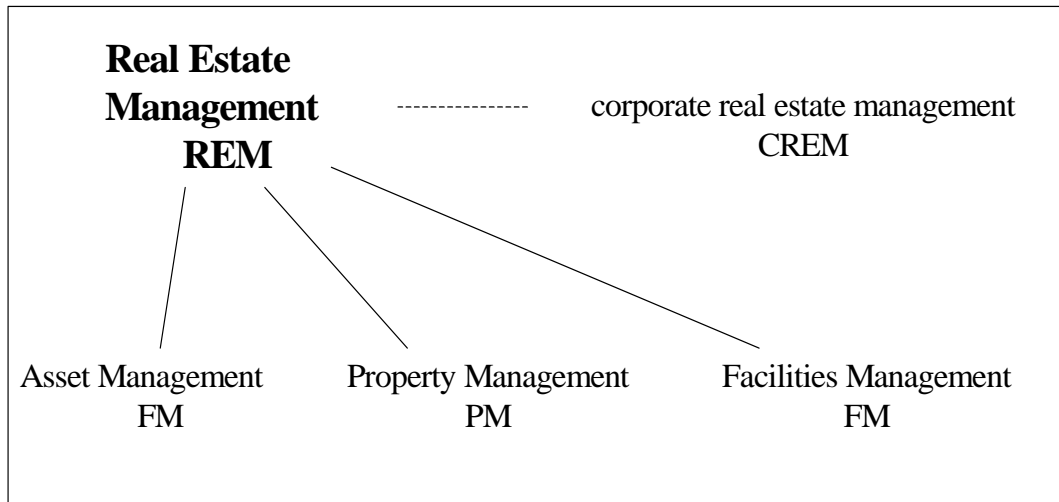


Figure 2. Three viewpoints of Real Estate Management (Leväinen 2001a)

Corporate Real Estate Management (CREM) refers to real estate in use by corporations. Dewulf *et al.* (2000, p.32) defines CREM as follows: “The management of a corporation’s real estate portfolio by aligning the portfolio and services to the needs of the core business (processes), in order to obtain maximum added value for the businesses and to contribute optimally to the overall performance of the corporation.” Corporate Real Estate Management deals in different management fields like general Real Estate Management, though you have to take into account also core business perspective and strategic focus.

This thesis deals mostly with Facilities Management. Alike all over, the FM has various definitions. The definition and scope of Facilities Management remains a contentious issue and the definitions depend on the local culture, organisations interests and people’s personal interests. In spite of the controversial differences in definitions, the conclusive meanings are becoming more integral through the heavy internationalising.

Over the years, researchers and practitioners alike have provided many definitions that specify the objectives and scope of FM. However, the definitions have prevented a common platform that is so crucial for a cohesive theoretical development in FM (Table 1).

Table 1. Sample of FM definitions (modified: Tay & Ooi 2001)

Author	Definition of FM
Becker (1990)	FM is responsible for co-ordinating all efforts related to planning, desingning and managing buildings and their systems, equipment and furniture to enhance the organisation's ability to compete succesfully in a repidly changing world.
Nourse (1990)	FM unit is seldom aware of the overall corporate strategic planning, and does not have a bottom-lihne emphasis.
Cotts & Lee (1992)	The practice of co-ordinating the physical workplace with the people and work of an organisation; integrates the principles of business administration, architecture, and the behavioural anf engineering science.
Regterschot (1993)	Facilities Management is the integral management (planning and monitoring) and realization of housing, services and means that must contribute to an effective, flexible and creative realization of an organisation's objectives in an ever changing environment.
Park (1994)	Facilities Management is the structuring of building plant and contents to enhance the creation of the end product. As with all systems it is the generated benefit to the business or activity that matters, not the system itself.
Barrett (1995)	FM is an integrated approach to operating, maintaining, improving and adapting the buildings and infrastructure of an organisation in order to create an environment that strongly supports the primary objectives of that organisation.
Alexander (1996)	The process by which an organisation delivers and suistains support services in a quality environment to meet startegic needs.
Then (1999)	The practice of FM is concerned with the delivery of the enbling workplace environment -the optimum functional space that supports the business processes and human recources.
Hinks and McNay (1999)	...common interpretations of the FM remit: maintenance management; space management and accommodation standards; project management for new-built and alterations; the general premises management of the building stock; and the administration of the associated support services.
Varcoe (2000)	...a focus on the management and delivery of the business "outouts" of the both these entites (the real estate and construction industry); namely the productive use of building assets as workplaces.
Nutt (2000)	The primary function of FM is resource management, at startegic and operational levels of support. Generic types of resource management central to the FM function are the management of financial resources, physical resources, human resources, and the management of resources of information and knowledge.
Van den Ende (2000)	Facility Management is the effective, efficient and integral management of all facilities, thus enabling organisations to continuously meet their objectives and achieve an optimum feeling of well-being for people in their workplace.
IFMA (2003a)	Facilities Management is a practise of coordinating the physical workplace with the people and work of the organisation. It integrates the principles of business administration, architecture and the behavioural and engineering sciences.
FIFMA (2003)	The purpose of Facilities Management is to produce, maintain and develop real estate and support services for the strategic needs of organisation core business.
BIFM (2003)	As the practise of coordinating the physical workplace eith the people and work of an organisation.
Nordic FM (2003)	FM is also seen as an integrated approach to operating maintaining, improving and apadting buildings and infrastructure of an organisation in order to create an environment that strongly supports the primary objectives of organisation.

From the table it is clear that the definitions are far from harmonious in providing directions on the objectives and scope of FM. For example, the definition by Nourse (1990) suggests that FM does not have strategic orientation. Nutt (2000), however, affirms that the strategic role FM plays in the business organisation. The early definition provided by Becker (1990) suggests that FM is only concerned with the hardware such as buildings, furniture and equipments. Later definitions, however, included “software” such as people, process, environment, health and safety in the responsibilities of FM (e.g. Alexander 1996; Then 1999). Others have taken the definition further by expanding the scope of FM to cover the entire property life cycle of designing, building, financing and operating. (Tay & Ooi 2001)

IFMA’s definition integrates the principles of business administration, architecture and the behavioural and engineering sciences. BIFM’s clear and well-focused expression of Facilities Management does not, however, stress the contribution that well-managed facilities can make to an organisation's core business.

Varcoe (2000) projects that organisations and consortia will seek to provide a complete infrastructure for business by embracing other “working environment” components such as IT, finance and human resources. Also, Freling (2000), the president of BIMS, says that all the service that supports that core-business should belong to FM, even Human Resource Management (HRM). He prefers to speak of Service Management or Business Infrastructure Management (BIM) instead of Facilities Management.

Facilities Management is described by Barrett (1995) as an integrated approach to operating, maintaining, improving and adapting the buildings and infrastructure of an organisation in order to create an environment that strongly supports the primary objectives of that organisation. With such a definition in mind it should be easy to see why some people have begun to talk of Facilities Management as though it were Business Infrastructure Management. In Nordic FM (2003), Nordic Facilities Management Network, definition, FM is also seen as an integrated approach to

operating maintaining, improving and adapting buildings and infrastructure of an organisation in order to create an environment that strongly supports the primary objectives of organisation. Nordic FM's (2003) definition consist also asset management and parts of operational management (Figure 3).

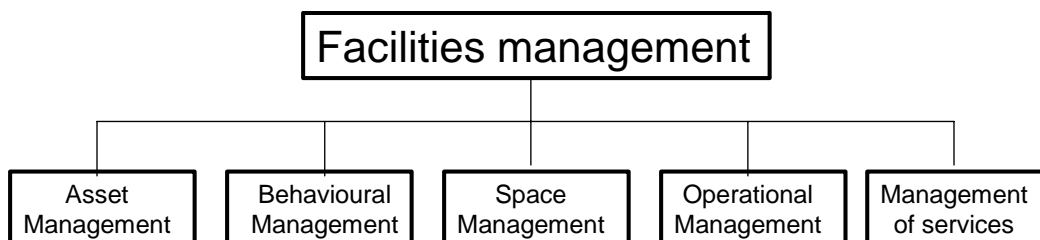


Figure 3. Definition of Facilities Management (Nordic FM 2003)

While the definitions may appear diverse and different in their emphases, a closer examination suggests that there are some common recurring themes those threads together to give FM its identity. First, the focus of FM is the workplace. The workplace in this instance refers to a place where work (of any nature) is carried out. Thus, it is not limited to commercial office buildings but also includes other types of workplaces such as medical, educational and industrial workplaces. Second, FM is applicable to all organisations because they all occupy space for their work. Third, FM plays a supporting role in enhancing the performance of the organisation. Finally, an integrated approach is required in practising FM. In other words, Facilities Management may be succinctly defined as: The integrated management of the workplace to enhance the performance of the organisation. (Tai & Ooi 2001.)

IFMA (2003b) describes the work of a facility manager as potentially covering the following duties and functions:

- facility strategic and tactical planning
- facility financial forecasting and budgeting
- real estate procurement, leasing and disposal
- procurement of furnishings, equipment and outside facility services
- facility construction, renovation and relocation

-
- health, safety and security
 - environmental issues
 - development of corporate facility policies and procedures
 - quality management, including benchmarking and best practices
 - architecture and engineering planning and design
 - space planning and management
 - building operations, maintenance and engineering
 - supervision of business services such as reprographics, transportation and catering
 - telecommunications
 - code compliance.

Atkin & Brooks (2000) states also that Facilities Management can cover a wide range of services including Real Estate Management, Financial Management, Change Management, Human Resources Management, health and safety and Contract Management, in addition to Building Management, domestic services (such as cleaning and security) and utilities supplies. These last three responsibilities are the most visible. The others are subtler, though of no less importance.

In this thesis is used the definition of FM (Figure 4) which consist some part of all definitions introduced before. As in Leväinen's (2001a) definition REM can be seen three different viewpoints: AM, PM and FM. Considering to RAKLI (2001) portfolio management (POM) does also belong under the REM as a one main function. According to Nordic FM's definition FM forms behavioural management, operational management, space management and management of services. Asset Management thought is transferred to the "upper level" in this definition.

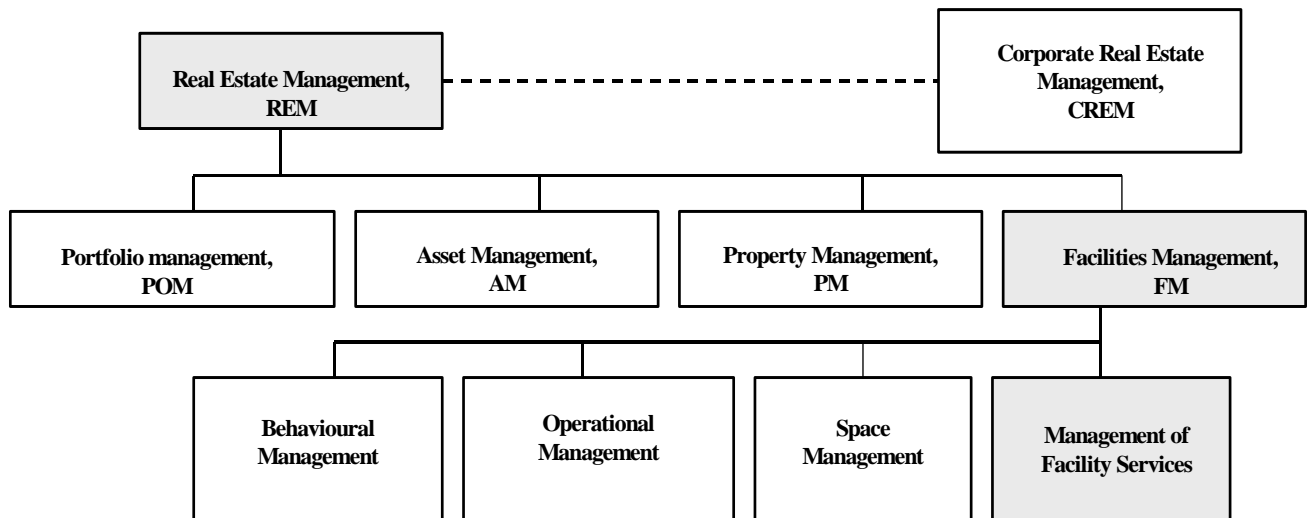


Figure 4. Definition of REM and FM (Leväinen 2001a, RAKLI 2001, Nordic FM 2003)

2.2 Facility Management function

Most real estate represents substantial investment for organisations and has to accommodate and support a range of activities, often taking into account competing needs. Within those activities is the owner or tenant organisation's core business, for which an appropriate environment must be created in buildings that may not have been designed for the purposes for which they are now used. Yet, no matter how well focused an organisation might be on its core business, it must not lose sight of the supporting services – its non-core business. Facilities Management places the non-core business at the service of the core business in such a way as to protect an organisation's capital investment in real estate and helps turn a cost item into one of added value. (Atkin 2003a.)

Facilities Management can therefore be summarised as creating the optimal environment for the organisation's primary functions, taking an integrated view of the business infrastructure, and using this to deliver customer satisfaction and best value through support for and enhancement of the core business. We can develop this definition to describe Facilities Management as something that will (Atkin 2003a):

- deliver effective and responsive services

- enable changes in the use of space in the future
- sweat the assets, i.e. make them highly cost effective
- create competitive advantage for the organisation's core business
- enhance the organisation's culture and image.

In many organisations the Facilities Management function (FM-function) is new function that provides a connection between the core activities and the facility activities. The facility activities can also be named facility production. The position of the FM-function in the organisation is shown in figure 5. The core business gives the FM-function a budget to make it possible that the organisation gets the facility services it wants. The FM-function pays the producer(s) of the facility services for the provided services. The FM-function can be fulfilled by a facility manager internally or by a facility manager of an external commercial FM organisation. (Wagenberg & Jongenelen 2002.)

Facilities Management has complete responsibility for facilitating the core business. This is shown in Figure 5. (Wagenberg & Jongenelen 2002.)

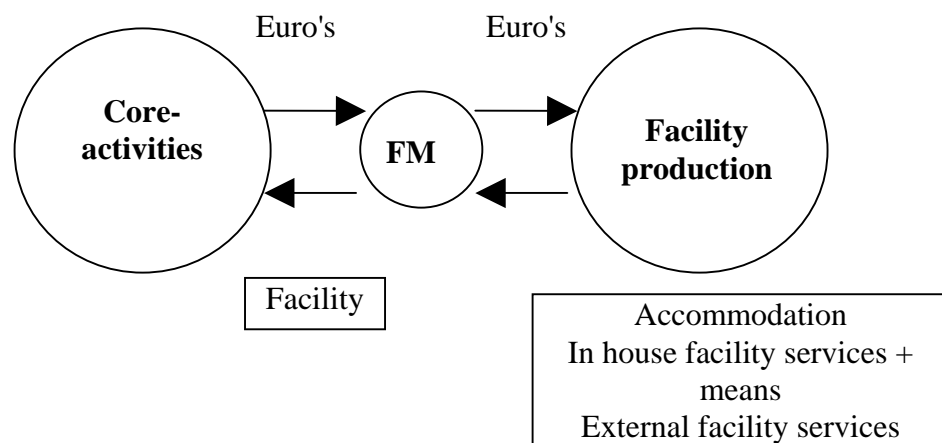


Figure 5. Position of the FM-function (Wagenberg & Jongenelen 2002)

2.3 Operational and strategic Facilities Management

Generally the facility manager is responsible for effective and efficient provision of facilities and services to support a company organisation in achieving its primary objectives. This implies there are two facets to a facility manager's task. One is operational, and is the continuous provision of facilities and services here and now to support employees and the company as a whole. The other is strategic with eye to the future, to anticipating and meeting future needs. (Waardhuizen 1999, p.12.)

Operational FM focuses on (Waardhuizen 1999, p.12):

- preventing damage and maintaining buildings and installations in good condition, and security
- providing facilities and services to employees –internal customers
- creating and maintaining a comfortable and efficient working environment.

The facility manager's task is thus to ensure that all facilities and services, many of which are closely interrelated, are synchronised to maximise and optimise to benefit to employees and the company. His department is thus the contact point for all of these facilities and services, and for reporting malfunctions. The facility manager operates horizontally and vertically within the organisation, as shown diagrammatically in figure 6. The internal customer is on the right-hand side of the horizontal line, with external parties such as suppliers, service providers and consultants, on the left. Under the vertical line, there is the facility organisation –a broad scale of services and focal areas. Above the line is middle of top management. The facility manager is an intermediary between all these areas, which he and his team are supporting in the company's endeavours to attain its objectives. (Waardhuizen 1999, p.12.)

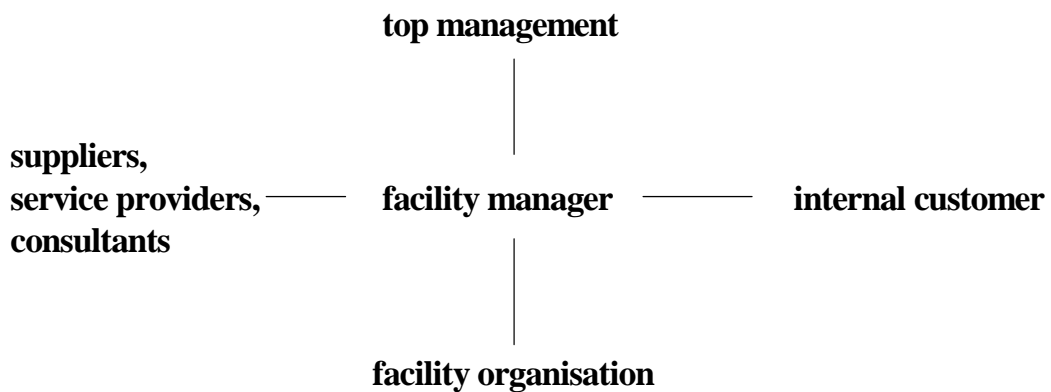


Figure 6. The central role of the Facility manager (Waardhuizen 1999, p.12)

The Facility organisation is geared to keeping facilities in good condition and in working order. The building itself, its internal climate, lighting and individual workplaces have to be maintained to continue to agreed service levels. All facilities and services must be synchronised to function effectively. (Waardhuizen 1999, p.12.)

Strategic FM means that FM extends beyond operational matters to include strategic considerations for the future facility and service provision. Thus the facility manager needs to well verse in the company's quantitative and qualitative objectives, economic considerations, and the qualities of an effective, comfortable work environment. Facility manager also needs to be aware of the ever-turbulent external market in which the organisation operates as this also has an effect on a company's vision of effective strategy facility management. Strategic Facility Management involves anticipating change. The internal organisation and the company's external market are affected by changes in technology, communications, regulations, and the behaviour of people. More stringent regulations regarding the environment and working conditions. Shorter life cycles AF automated products. Unprecedented and thus unpredictable opportunities in telecommunications. (Waardhuizen 1999, p.15.)

Today's hectic pace, however, means that changes are barely given the chance to take on a permanent form. There is no longer time to freeze. The Facility Manager has to make decision in today's fluid organisation, usually for many years ahead. The

consequence of all this hectic activity is that in many companies, employees are working in temporary project groups. Employees are re-organised into new groups, needing a different workplace. And in their backwash, available space and other facilities have to be used in other ways. (Waardhuizen 1999, p.15.)

2.4 Historical background

A certain kind of Real Estate Management (REM) can be traced far back in history. The very first form of Real Estate Management, Corporate Real Estate Management (CREM), was formed in beginning of 1900's within the early industrial organisations. Ever since then the REM has been under tremendous development and deformation. From the original mandatory maintenance it has evolved to various forms of apparent businesses. During the last twenty years, concepts like "Real Estate Investing" and "Outsourcing" have changed the original set up of REM to different activity entities. (Krumm 2000 in Tuomela & Puhto 2001, p.14.)

The origins of Facilities Management can be traced back to the late 1800s, when the American railroad companies first conceived of the idea of providing facilities as opposed to providing buildings (Atkin 2003a). Facilities Management entered Europe in mid 1980s from the USA. From its first landing in to the UK and the Western Europe, it has slowly entered Scandinavia through the Netherlands (Figure 7.) (Leväinen 2001b, p.5). On its way, many of the American concepts have gone through a big change while merging to existing local Property Management cultures. The original purpose to support core business with creating the best possible working environment has always been the original goal, but the ways to create it has been a matter of local conditions and traditions.

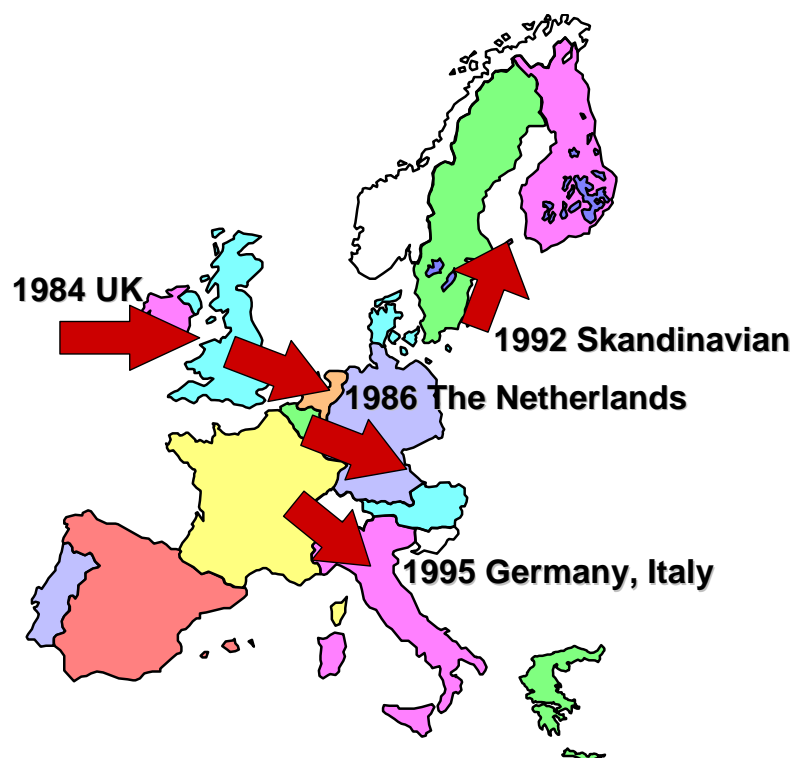


Figure 7. Facilities management in Europe (Leväinen 2001b, p.5)

History does, however, show us that the emergence of Facilities Management was an incremental affair. As the word implies, it emerged as opposed to happening all at once. In many respects it has slowly displaced Real Estate (or property) Management for many organisations, being seen to offer more than an accountant's perspective of the real estate (or property) portfolio. Once it became clear that there was more to ownership of real estate than trading an asset - perhaps as a result of recession when it made more sense to squeeze the last drop of value from the existing portfolio - businesses began to look at how the total costs of real estate ownership impacted on profitability. (Atkin 2003a.)

Since the late 1980s, Facilities Management has gradually gained a foothold as a discipline and profession within the property and construction industry. The establishment of professional FM institutions around the world (e.g. IFMA in the USA, JFMA Japan, BIFM in the UK, FMA in Australia, EuroFM in Europe and finally NordicFM in the Nordic countries) testify to its growing importance.

2.5 Facilities Management in different countries

Every country has its own culture and type of organisation and leadership resulting in different levels of Facilities Management at different stages of development, which are most probably influenced by budget available. It would be logical, therefore, that the demands set for the facilities manager will differ and the quality realised will be valued differently. Another issue is the economic development of a country, which will influence the attention on serving the core business. Countries start with FM later will skip the first development stages and perhaps directly begin with corporate resource Facilities Management. The USA and the UK have gone beyond the life cycle of FM and are already thinking about next step, which could be complete outsourcing (Freling 2000, p.10.)

Although the differences between countries are likely to be obvious, to rate leadership and organisation in the different countries, John Mole developed the Mole-map based on his research (Figure 8).

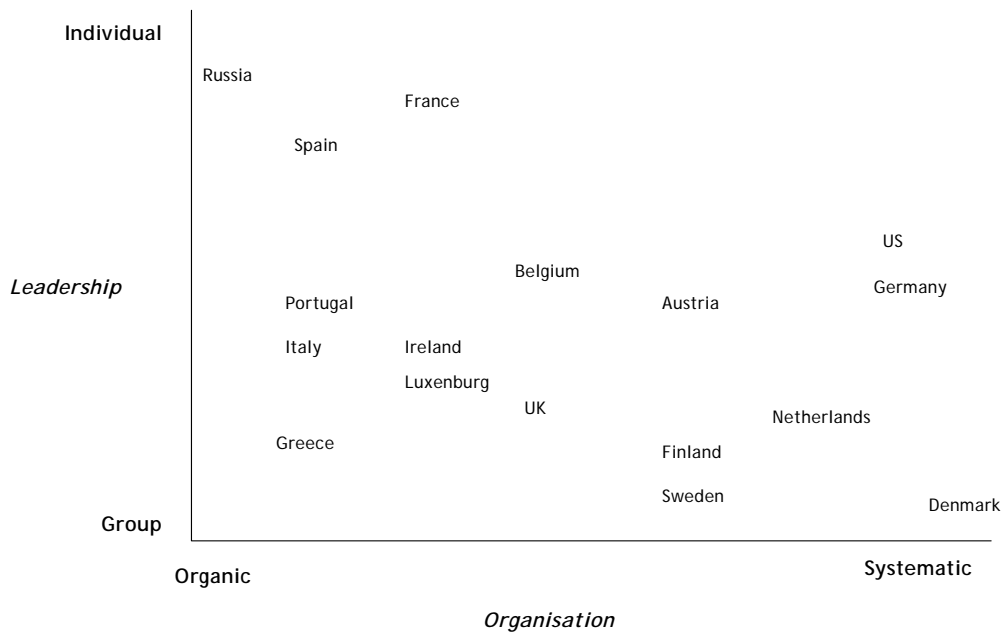


Figure 8. The Mole-map (Mole 1996)

A good example would be to take a look at the diversity of composition of the staff of the institutions within the Europe Union. The European Council of Ministers for

example has a translating department where documents in French are translated into other languages. A visit to this institution made clear the differences in workplace solutions. The Dutch like a team-building floor while Germans prefer a more orderly design. The southern European Countries, on the other hand, use more or less individual workspaces. Also working hours vary enormously in spite of the fact that the climate in Brussels is somewhat constant. (Kloet 2000, p.16.)

Organisations will undergo a cultural change as the open market brings in other cultures into the workforce. An American-style culture will surely develop. However, also in the United States cultural differences still remain. It is up to facility managers to find the right balance between their own backgrounds and the diverse cultures of customers and European relations. (Kloet 2000, p.16)

The European FM network (Euro FM) tries to fill the gap by connecting European universities and polytechnics to the European business and EU subsidies, and in doing so has become strong in the field of research and education. IFMA connects best to the developments worldwide. The IFMA chapters in Europe can be best compared to the national chapters: local facility managers setting up an association in their own language and based on their own culture. The one advantage here is being able to make use of the knowledge, the experience and businesslike approach of the head office in the USA. IFMA is the oldest FM association, but the drawback is they seem too big and too American for Europe. (Kloet 2000, p.17.)

The western parts of Europe are still where the main strengths in facilities management development lie. There is activity in France and Germany and signs of development in Italy, Denmark, Finland, but the Netherlands and United Kingdom, it seems, still predominate.

2.6 Facilities Management services

2.6.1 What is service?

A service is a complicated phenomenon. The word has many meanings, ranging from personal service to service as a product. The term can be even broader in scope. A machine, or almost any physical product, can be turned into a service to customer if the seller makes efforts to tailor the solution to meet the most detailed demands of the customer. (Harvey-Jones 1989 in Grönroos 2000, p.45; Tilus 2002, p.18.)

In 1960s, 1970s and 1980s a range of definitions of services were suggested. These definitions focused upon the service phenomenon, and mainly included only those services rendered by so-called service firms. As a criticism of the variety of definitions suggested, Gummesson (1987), referring to an unidentified source, put forward the following definition: A service is something which can be bought and sold out but which you cannot drop on your feet. (Grönroos 2000, p.46; Tilus 2002, p.18.)

Since 1980s much less discussion of how to define services was taken place, and no ultimate definition has been agreed upon. Nevertheless, in 1990 the following definition, slightly modified by Grönroos (2000), was reluctantly proposed.

A service is a process consisting of series of more or less intangible activities that normally, but not necessary always, take place in interactions between the customer and service employees and/or physical resources of goods and/or systems of the service provider, which are provided as solution to customer problems. (Grönroos 2000, p.46; Tilus 2002, p.18.)

The case is the same with characteristics as definitions. There is a whole range of characteristics of services that has been suggested and discussed in the literature. Usually services are compared with physical goods. Grönroos (2000, p.47) has tried to compress characteristics of service as a three basic ones including three main characteristics:

-
- Services are processes consisting of activities or a series of activities rather than things.
 - Services are at least to some extent produced and consumed simultaneously.
 - The customer participates in the service process at least some extent.

It is important to note that services are processes and also consumption or use of services can be characterised as process consumption. Process thinking has in this way central position also in service provision. (Tilus 2002, p.19.)

One of the most commonly mentioned special attributes of services deals with the inability to store services. This attribute arises because many services are processes (which may or may not be associated with a product). This implies that timing of the delivery has to coincide with the purchaser's specific needs and the consequences of improper timing may be very serious and costly. Suppliers, trying to service a variety of customers, need to ensure that sufficient capacity is available to satisfy the needs of all. The inability to store services also creates quality assurance difficulties. It may not be possible to inspect a service before its delivery. And, by the time of delivery, it may be too late to do anything about it. Anyone who has ever suffered through a boring speaker or a bad airline flight will attest to that. (Fearon *et al.* 2001, p.654.)

The specification and measurement of quality in a service may present significant difficulties. Frequently, services have both a tangible and an intangible component. In writing about the hospitality industry, Dr. William Martin (1986) identified the procedural and the convivial sides of hospitality services. The procedural side deals with the ways in which customers' product needs are effectively and efficiently met. The convivial side deals with what the customer expects in addition to satisfactory food and drink. From the restaurant's perspective, conviviality is provided when the service crew shows a genuine personnel are friendly, courteous and enthusiastic; when they show they appreciate their customers' patronage; when they are knowledgeable about products they are selling; when they use sales techniques tactfully and effectively; and when they strive to meet each customer's unique

expectations for quality service. In short, conviviality means that service personnel have people skills. (Fearon *et al.* 2001, p.655.)

It is important to recognise that not all services are the same. The variation between services may affect the acquisition perspective. From an acquisition point of view, the following should be considered: value, repetitiveness, tangibility, direction, production, nature of demand, nature of delivery, degree of customisation, and the skills required for producing the service. (Fearon *et al.* 2001, p.655.)

It is useful to recognise that, ultimately, the goal of effective acquisition of services is to obtain best value. In this sense there is no difference between the acquisition of services and goods. The best buy in services represents the appropriate trade-off between quality, delivery, quantity, cost, continuity, flexibility, and other relevant factors. Determination of the need and the ability to assess what should be considered best value in any particular service present the real challenges in the acquisition process. (Fearon *et al.* 2001, p.656.)

2.6.2 Definition of Facilities Management services

One of the important parts of Facilities Management is management of services and especially management of facilities services. Facilities Management services are very large complex and the listing of different services is troublesome. All service action, which support the organisations core business, that come out in organisations facilities, can be seen as Facilities Management services. RAKLI (2001) defines that Facilities Management services are concentrated to facilities characteristics and they support users activities. Facilities Management services consist of different kinds of uses services and property services (Figure 9.).

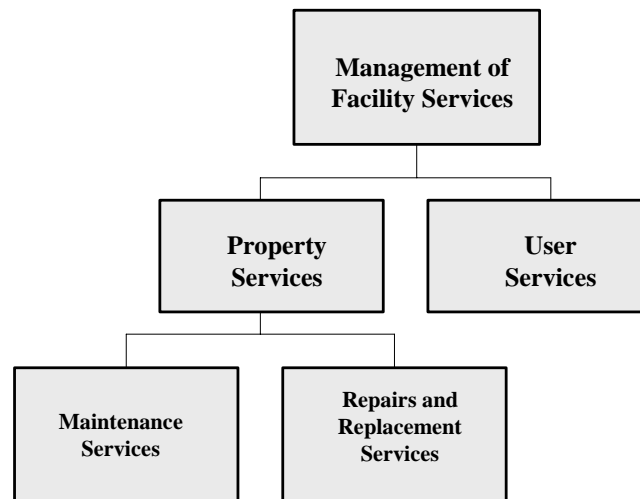


Figure 9. Facilities Management services (Rakli 2001)

According to Rakli (2001) user services are services, which are appointed to the users of facilities and premises and property services are services that concentrate on real estate maintenance. These can be separated into maintenance services and repairs and replacement services.

Barrett (1995, p.18) divides Facilities Management services (in localised sites model) into three areas: Premises services, Office services and central services (Table 2.).

Table 2. Different facilities services (Barrett 1995, p.18.)

Premises	Office services	Central services
Building maintenance	Mailing	Catering
Decoration works	Stationary	Room booking
Building sub-contractors	Photocopying	Insurance
Telecommunications	Vehicles	Archival
Security	Printing	
Porterage		
Safety		
Cleaning		

In a Nordic FM's definition (Figure 10) Facilities Management services are spread out under the 5 main categories. Management of services is one of the main tasks, though it doesn't include all the Facilities services. Under the "operational management" are building services and some services are added under the Asset Management and Space Management.

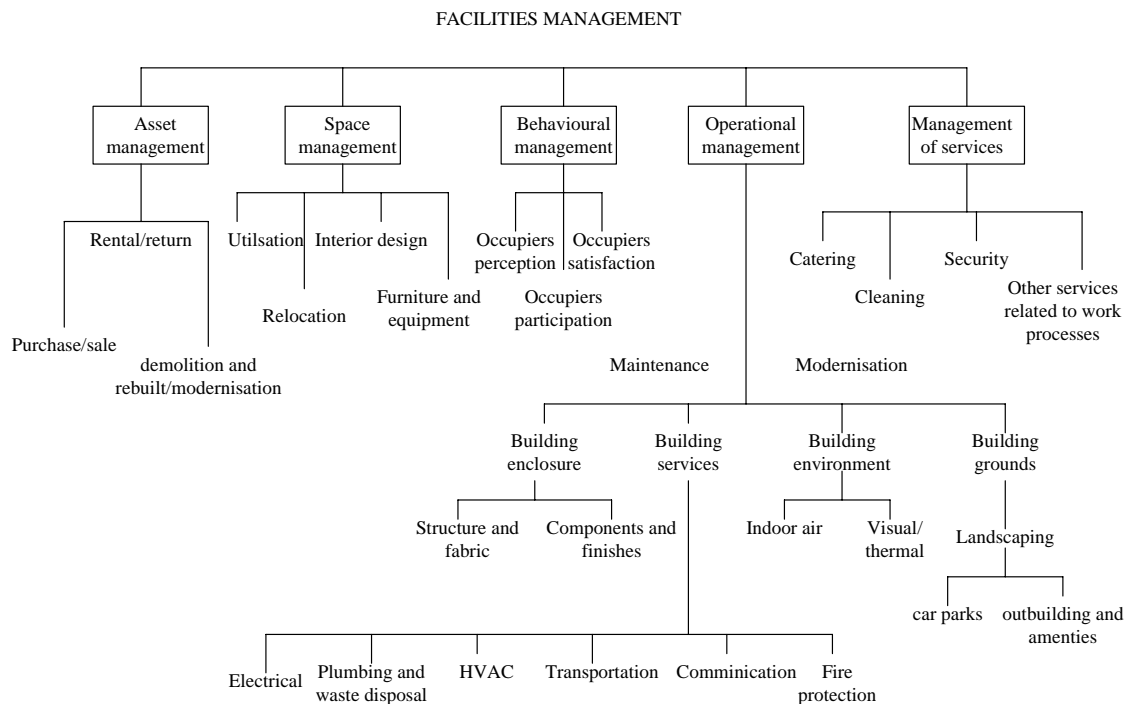


Figure 10. The content of FM (NordicFM 2003)

In all these three definitions the grouping of the facilities services are different but the services itself are rather similar.

2.7 Strategic approach to the Facilities Management

Organisation must think strategically if they are to do more than simply survive in today's increasingly competitive markets. In those organisations where there has been, historically, an interest in real estate, there is likely to be recognition of the strategic importance of Facilities Management in supporting its core business. (Atkin 2003a.) However, strategies and strategic management are important issues to

understand, when considering facilities management as well as local governments Facilities Management.

2.7.1 Strategy and Strategic Management

The terms "strategy", "strategic planning" and "strategic management" are very well used terms. As with most well used terms, they are often invoked and applied but not well understood. Though many practitioners might claim to understand the meaning of these terms, there would appear to be many shades of meaning with "strategic management" being interpreted differently in different organizational settings. The earliest definitions of the term strategy reflect its militaristic origins and the term originally meant a plan which leads to the destruction of one's enemies through the deployment and use of one's resources. Other, more recent interpretations of strategy are (Worrall *et al.* 1998, p.474):

- strategy as behavioural pattern (i.e. a consistency in behaviour through time)
- strategy as position (i.e. the selection of product or service mix in a given market place)
- strategy as intent (i.e. the "dream that energises a company" (Hamel and Prahalad, 1994))
- strategy as perspective (i.e. relating actions to the broader vision of an organization).

Mintzberg (1994) takes a more pragmatic and evolutionary view of strategy and distinguishes between intended strategy (what you wanted to do in the first place), unrealised strategy (what you were subsequently unable to do), deliberate strategy (what you intended to do and achieved), emergent strategy (what you decided to do during implementation) and realised strategy (what the final outcomes were). What emerges from Mintzberg's interpretation is that strategy is both the outcome of a process and a process itself. It is also based on the notion of consistency and time-dependence - strategy cannot be ephemeral particularly in a local government context given the complex problems that local authorities habitually address.

Considering some more definitions, as a starting point from which the key components and activities associated with the strategic process can be isolated. Viljoen (1994) sees strategic management as "the process of identifying, choosing and implementing activities that will enhance the long term performance of an organization by setting direction and by creating an ongoing compatibility between the internal skills and resources of the organization and the changing external environment in which it operates". Johnson and Scholes (1993) envisage strategy as "the direction and scope of an organization over the long term: ideally, which matches its resources to its changing environment, and in particular its markets, customers or clients so as to meet stakeholder expectations". Thompson (1994) defines strategic management as "the process by which an organization establishes its objectives, formulates actions designed to achieve these objectives in the desired time scale, implements the actions and assesses progress and results".

From review of the literature (Worrall *et al.* 19968 p.475) have identified that the strategic process comprises a number of steps, which we have listed below:

- the statement of organizational values and key strategic aims
- conducting strategic analysis of the external and internal environment
- producing an interpretation of the results of analysis against the core values and aims
- distilling and evaluating options
- making strategic choices and defining priorities
- setting corporate direction as a context for the development of other plans and programmes
- formulating budgets and resource deployment plans to reflect corporate priorities
- formulating service plans to reflect strategic intentions
- implementing plans, programme
- monitoring, reviewing and managing performance per se and as an input to the organizational learning process.

2.7.2 Strategy for Facilities Management

One of the most important things a public facilities manager needs to do when operating in a field of tension is to create a strategic framework. The public real estate strategy has to be attuned to the political flow or rather to what the governments wants it to be. The bottom-line of public real estate is that it has to create added value means knowing how to deal with the various stakeholders and making an accurate assessment of their interest in real estate. (Evers *et al.* 2002, p.111.)

Facilities can add value to the different stakeholders of the organisation, for instance, to government's goals and missions. To do so, the public facility manager needs to align facilities with government's overall mission. (Evers *et al.* 2002, p.39.) The first step that needs to be taken is to assess the strategic context in which the public facility manager is operating. Questions that need to be asked are (Cameron *et al.* 1995):

- What is the organisation's overall mission?
- What is the organisation's overall strategy?
- What are the strategic goals?

An example of the answers to the questions mentioned above is given in Figure 11 below, which shows the vision, strategy and goals.

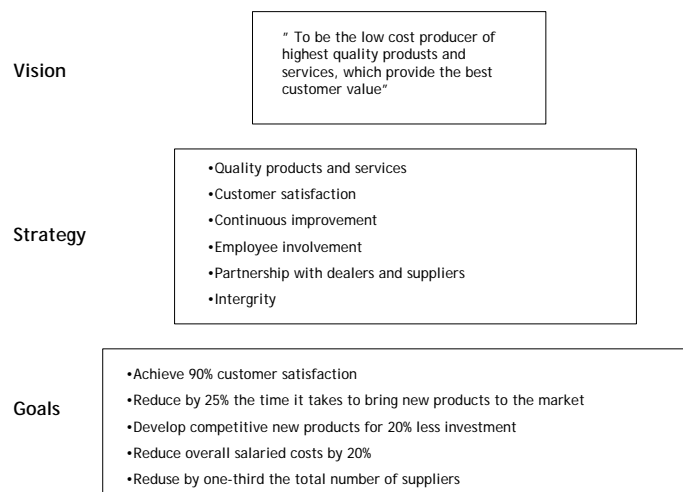


Figure 11. Assessment of the strategic context: Vision, Strategy and Goals (Cameron *et al.* 1995)

It can be said that starting point for managing facilities is the organisation's business plan and its real estate strategy. These should be up-to date and used to determine the nature and level of services support. The Facility Management strategy must reflect the organisation's business objectives, needs and policies, as well as practicalities, such as its current real estate in general and space in particular. (Atkin 2003a.)

When the public facility manager has gained an understanding of the political strategic context in which he is operating, the next step in the aligning process is to define ways in which facility can add value to the goals that have been defined. To encourage general management to show an interest in facilities, it is very important that this issue is discussed with them. To align real estate to political goals the public facility manager needs to answer following questions (Evers *et al.* 2002, p.41):

- Do the goals influence, directly or indirectly, how or where employees are accommodated?
- If so, what are the consequences and what measures need to be taken?
- If not, is there a way in which accommodation can stimulate achieving those goals?
- If so, how can it be done?

In Figure 12 is shown the strategic chain from municipal overall mission to the real estate strategy and to added value for municipal's core processes what is considered to be the main task of municipal real estate unit.

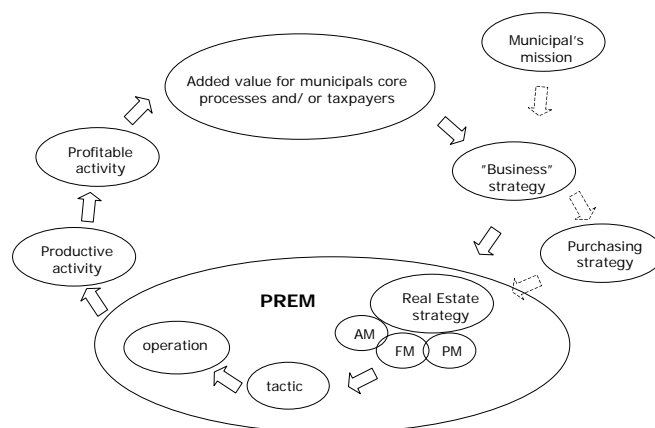


Figure 12. Public Real Estate Management (PREM) and workplace as a part of the core business of the organisation (Leväinen 2003a)

According to Atkin (2003a) a strategy (or business plan) for facilities management should:

- consider the needs of the organisation, differentiating between core and non-core business activities
- identify and establish effective and manageable processes for meeting those needs
- establish the appropriate resource needs for providing services, whether obtained internally or externally
- identify the source of the means to finance the strategy and its practical implications
- establish a budget covering short term needs and best value over the long term
- recognise that management of information is key to providing a basis for effective control of Facilities Management.

The three main stages in the development and achievement of a workplace strategy for Facilities Management are (Atkin 2003a):

1. analysing requirements –top level analysis
2. developing solutions –finding the best option
3. implementing solutions –putting the plan to work.

Over the past decade local authorities have become more efficient and business-like, to improve the quality of their services, to become more market oriented and customer-centred. In Worrall *et al.* (1998) point of view local government is qualitatively different and that attempts to import private sector models of strategic management into public sector are fundamentally misplaced. In seeking to import private sector models, there is a danger that members and officers may lose sight of what makes public services distinctive. So it is very important to keep in mind differences with public and corporate management when adopting private sectors models into the public sector. In the next sector is discussed more about differences with public and private Facilities Management.

3 PUBLIC FACILITIES MANAGEMENT

When managing a public real estate portfolio, one has to bear the interests of various stakeholders in mind. Unlike an investor, a public facilities manager does not focus primarily on the financial interests of the real estate. In addition to being an asset, real estate is a facility that needs to support the primary processes of the organisation. At government level this means that facilities should meet the needs of various departments and agencies. Below that, at the level of public organisations, facilities are seen as a means of accomplishing the organisations political goals. These goals originate from government. (Schaaf 2002, p.6.) However, these different interests are not always aligned, and sometimes even contradictory. (Evers *et al.* 2002, p.19.)

Due to the continuously changing political, financial and customer needs, public facilities managers operate in a field of tension (Figure 13). Managing public facilities is finding the right balance between the different interests. As goals and needs have changed over the years, the way public real estate is organised has changed as well, and how this is done differs strongly from country to country. (Schaaf 2002, p.6.)

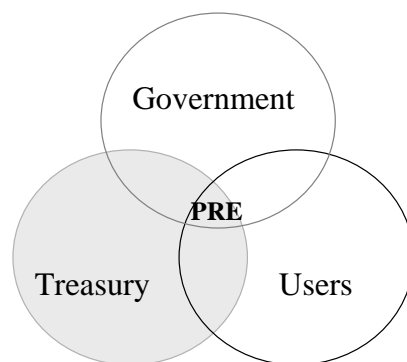


Figure 13. Public Facilities Management: operating in a field of tension (Jonge 2001)

Based on an above, Public Facilities Management can be defined as follows (Schaaf 2002, p.6): Public Facilities Management is the management of a public organisations real estate portfolio by aligning the portfolio and services to the needs

of users, the financial policy set by Treasury and the political goals that government wants to achieve.

3.1 Factors that cause changes over time

Changes in public sector management are brought by changes in the national and international context within which a government operates (Noordegraaf 2000). The general reforms that have been introduced since the 1980s in many western countries are become known as New Public Management (NPM). The four essential aims of NPM are: to increase efficiency, taking the private sector as model; to decrease the size of government: to try and create excellence in government organisation; and to stimulate an entrepreneurial spirit within these public bureaucracies (Ferlie *et al.* 1996). New Public Management, however, appears to be the outcome of certain economic, social and technological developments (Schaaf 2002, p.34).

The economic situation is a very important stimulus for change in a government's strategy. All national governments in modern economies seek to achieve economic growth, high levels of employment, and a reasonable degree of price stability (Montias *at al.* 1994). In the 1980s was a period of serious financial austerity characterised by low economic growth, high inflation and high unemployment. At this time, too many countries were confronted with large government deficits, caused by the escalating costs of the welfare state. This forced governments to review the effectiveness and efficiency of their organisation. (Rosenthal 1996 in Schaaf 2002, p.34.)

However changes in government or in the management of facilities are not only due to economic factors. In Meijerink and Shaap's (1995) opinion, changes within governments are not in themselves goals and are not just aimed at improving the government organisation. They are also caused by political and social motives: the need to change the relationship between government and society. In fact, one of the important reasons for the existence of public organisations is the need to anticipate and solve social problems. Hence, it can be expected that when these social problems

change, a government's strategy, and consequently its organisation and its relationship to society needs to change as well. (Schaaf 2002, p.35.)

Besides economic, social and political developments, the analysis of literature on Corporate Real Estate Management shows that technological developments influence facilities as well. Krumm (1999) describes how the introduction of information and communication technology has changed both the nature of accommodation and the need for it. Technical developments have altered the requirements regarding, for example, cooling, ventilation and cabling within buildings, and, in theory, people are able to work anywhere they want nowadays (Meel 2000). The technological developments speed up the business processes and the functional facilities needs of organisations change. (Schaaf 2002, p.36).

3.2 Similarities and Differences between Public and Corporate Real Estate Management

In theory, Public Real Estate Management incorporates the same disciplines as Corporate Real Estate Management: general management, Asset Management, Facility Management and cost control. The three main stakeholders (government, users and Treasury) can be recognised in the first three disciplines. (Schaaf 2002, p.9.)

Although some of the developments are similar, the theories, opinions and experiences described in corporate real estate literature are not always applicable to a public setting, because there are some important differences between managing corporate and public real estate. (Evers *et al.* 2000, p.13.)

In the first place, businesses and public sector are fundamentally different organisations (Schaaf 2002, p.9). Business leaders are driven by the profit motive; government leaders are driven by the desire to get re-elected. Businesses get most of their money from their customers; governments get most of their money from taxpayers. Businesses are usually driven by competition; governments are usually

driven by monopolies (Osborne and Gaebler 1992). Thus there are fundamentally different incentives in public organisations from those in corporate organisations. For example, public organisations do not normally think about making a return on investment. Governments focus on the cost of government services. The same applies to real estate: politicians hardly ever consider the buildings they use as an investment that should be made profitable. Moreover, because of the specific nature of some public buildings, their economic value is often considered to be zero. (Evers *et al.* 2002, p.13.)

A second difference between the way corporate and public real estate is managed has to do with political steering and governance. Within public organisations, the financial profits – or rather the costs- of real estate for the organisation are less important than in corporations. Besides adding value to the primary processes, the public manager has to consider social goals and policies. This political return on investment is defined by feelings, positions of power and is measured against continuously changing criteria. Public buildings, therefore, very often have a symbolic meaning and serve purposes other than simply a workplace for civil servants or a capital investment. Moreover, public buildings have to add value to many different political goals, each of them serving a different policy field: economy, culture, protection of the environment, employment, etc. These political goals correspond in some way with a company's overall strategy, but the difference lies in the fact that, most of the time, political goals weight much heavier than a corporate strategy, since many of the political risks are connected to these social goals, which greatly influence public perception. The importance of social goals also becomes clear when looking at the cultural significance of public buildings. (Evers *et al.* 2002, p.13.)

The third difference between public and corporate real estate is somewhat connected to the previous point. In addition to political steering, public real estate managers are confronted with many more external stakeholders than their colleagues in the private sector. Whereas corporations have to listen to their stakeholders, and also to the public, public organisations often have to deal with a whole regiment of

stakeholders: special committees, various interest groups, the general public, individual members of parliament, and so on. The greater the number of stakeholders, the tighter and more difficult the boundaries of the playing field become in which a public real estate manager has to operate. (Evers *et al.* 2002, p.15.)

The fourth difference between public and corporate real estate is security. Security measures for a public building differ from the ways in which most corporate buildings are guarded. Public buildings have to address two opposing interests: on the one hand, they have to protect the authorities, but at the same time most of these buildings have to be open to the public. (Evers *et al.* 2002, p.15.)

In Table 3. is collected some key differences between corporate and public facilities management.

Table 3. Some key differences between public and private facilities management (Evers et al. 2002, Schaaf 2002, Murray 1999)

	Private sector	Public sector
Drivers	Profit motive, financial profits, competition	Social motive, social goals and policies monopolies
Finance	from customer	from taxpayers
Primary stakeholders	<ul style="list-style-type: none"> -Shareholders -Board -Employees -Customers -Suppliers -Local community 	<ul style="list-style-type: none"> -Central, European and global government -Elected members -special committees -Officers -Customers -Suppliers -Taxpayers -Local electorate -The general public

Corporate objectives	<ul style="list-style-type: none"> -Profit satisficing -Survival -Market share -Image 	<ul style="list-style-type: none"> -Democratic and customer focused delivery of public services -Political advocacy -Sustainability (Local economic development and environmental sustainably)
Purchasing objectives	<ul style="list-style-type: none"> -Cost reduction -Quality improvement -Innovation transfer -Environmental management 	<ul style="list-style-type: none"> -Value for Money/ Best Value -Local economic development -Environmental improvements -Profile promotion -Cost reduction -Quality improvement -Innovation transfer
Purchasing legislative framework	<ul style="list-style-type: none"> -Code of ethics -Internal purchasing manuals -Environmental legislation -Eu directives (Privatised utilities) 	<ul style="list-style-type: none"> -EU Public Procurement legislation -Domestic Procurement legislation -Standing Orders, Financial Regulations, Scheme of delegation -Code of ethics -Internal purchasing manuals

This use of private sector principles within public sector can be tracked back to the statement that government should operate more like business. Henry Mintzberg (1996) contradicts this statement, however. His concern is with the role of public sector in society. In today's world, people feel that business is good and government is bad. Mintzberg feels that government looks too much like business, and that is why governments are always criticised.

What can be done, for example, when a palace that has been occupied by the Royal Family for years becomes vacant? Commercially speaking, the best option could be to sell the building to a developer for conversion into luxury apartments. But taxpayers would never agree to this, because public affection for these kinds of buildings is enormous. (Evers et al. 2002, p.12.)

3.3 International differences and developments

The way Public Facilities Management has changed over the years, and it is also managed differently in the various countries. These differences become visible when describing the division of power and funds between stakeholders such as the government, the treasury and the users. In countries like Sweden and UK, large parts of the organisation responsible for the management of public facilities were privatised in the early 1990s. In other countries, in Canada and the United States, for example, a distinction was made between general purpose and special purpose facilities. The former are managed by a public real estate organisation and the latter by various departments and agencies. In contrast, in France, every department can make its own real estate decisions, except when they need to build a new building in Paris. In that case, the architectural quality of the building first has to be approved by a special committee. (Schaaf 2002, p.10). Differences in the management of public facilities are caused by differences in both national and political culture, social characteristics (such as geography) and political economy and ideology. (Schaaf 2002, p.242).

3.4 Conceptual framework of Public Facilities Management

In the previous sections, the factors that are expected to cause changes and/or differences in the management of public facilities were identified. Together they make up the conceptual framework (Figure 14)

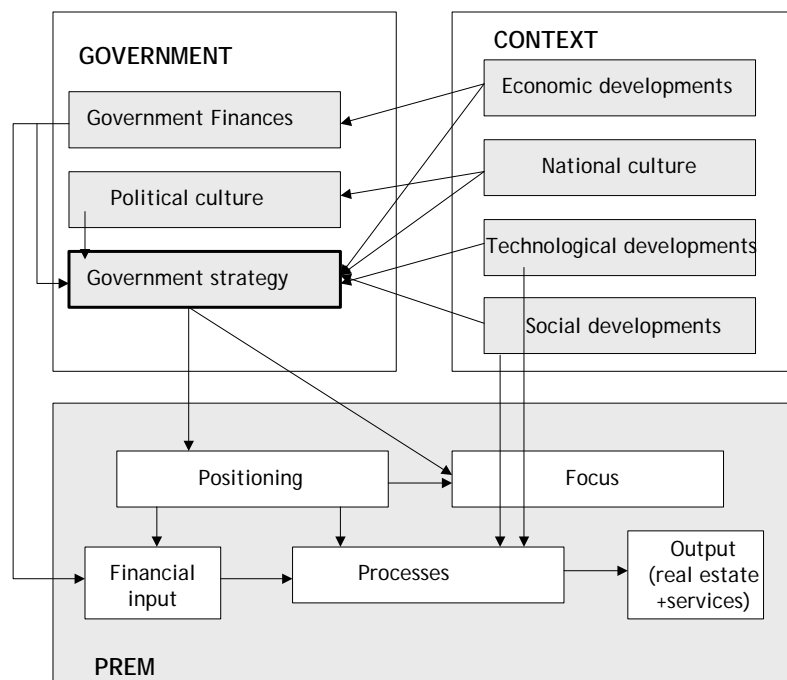


Figure 14. Conceptual framework of Public Real Estate Management (Schaaf 2002, p.40.)

The centre of the framework is Public Facilities Management, and more specifically, the organisations responsible for the management of public facilities. This organisation is seen as an open system with input, processes and output, which are influenced by the environment (Dawson 1993). This environment consist two levels. The first is the government level, since Public Facilities Management is part of a government organisation. The second is a national context level, because certain developments in this context directly and indirectly influence the management of public facilities. (Schaaf 2002, p.39.)

3.5 Criteria for good Public Facilities Management

There is no best way to manage public facilities. The best choice is highly dependent on what a government wants. If a government wants to have a little influence in society as possible, and limits its influence to traditional policy fields such as, for example, defence, justice and the treasury, public facilities management will probably also be given very low priority. In these cases, it can be expected that the management of public facilities will be privatised. In such municipalities and

countries, self regulating policies will be very important as will the financial performance of public real estate, and public real estate strategy will need to address these issues. (Evers at al. 2002, p.111.)

On the other hand, there are governments that find it most important to distribute welfare and well being amongst the people. In such municipalities and countries, the quality of the facilities and the distribution of employment will very often be important issues. Here, public facilities management will be seen as a means to achieve such goals. (Evers at al. 2002, p.112.)

It is clear that the range of priorities of governments differ. Moreover, the priorities within governments change over the years. Nevertheless, it is possible to define criteria that can help the public facility manager to adopt a good approach to Public Facilities Management. In this good approach (Evers at al 2002, p.112):

- The added vale of public facilities and Public Facilities Management is assessed.
- The performance measures used are linked to what is considered to be the added value of Public Facilities Management.
- The public facility manager has a clear vision and strategy and communicates this with all stakeholders.
- The organisational position of Public Facilities Management matches the position of government in society and what is considered to be the added value of Public Facilities Management.
- The organisational structures of the public real estate organisation, and the capacities of those employed in it, match the role of Public Facilities Management within public organisation.

4 FACILITIES MANAGEMENT AND FACILITIES MANAGEMENT SERVICES IN LOCAL AUTHORITIES

Facilities Management in Local Authorities has the overall aim of ‘creating an enabling environment - within which the local economy can prosper, within which quality services can be delivered and people can enjoy a quality of life’ (Alexander, 2003, p.71.)

4.1 The basic duty of municipal real estate unit

The basic duty of local government, almost in every sophisticated country, is to provide for the well-being and welfare of its inhabitants, in an effective and economical manner. The customers of the services provided by the municipality are the inhabitants, persons having a work place in the municipality, and companies and communities operating in the city. Satisfying the needs of these groups can be seen to be the primary process of a municipality. The basic needs of inhabitants are housing, food, security, human relations and a good self-esteem. The industry, which provides work places, needs the support of the municipality. The secondary processes of a municipality include healthcare, educational, cultural, social, environmental, exercising (Sport), fire and rescue, industry and technical services for the people. (Leväinen 1997, p.45.)

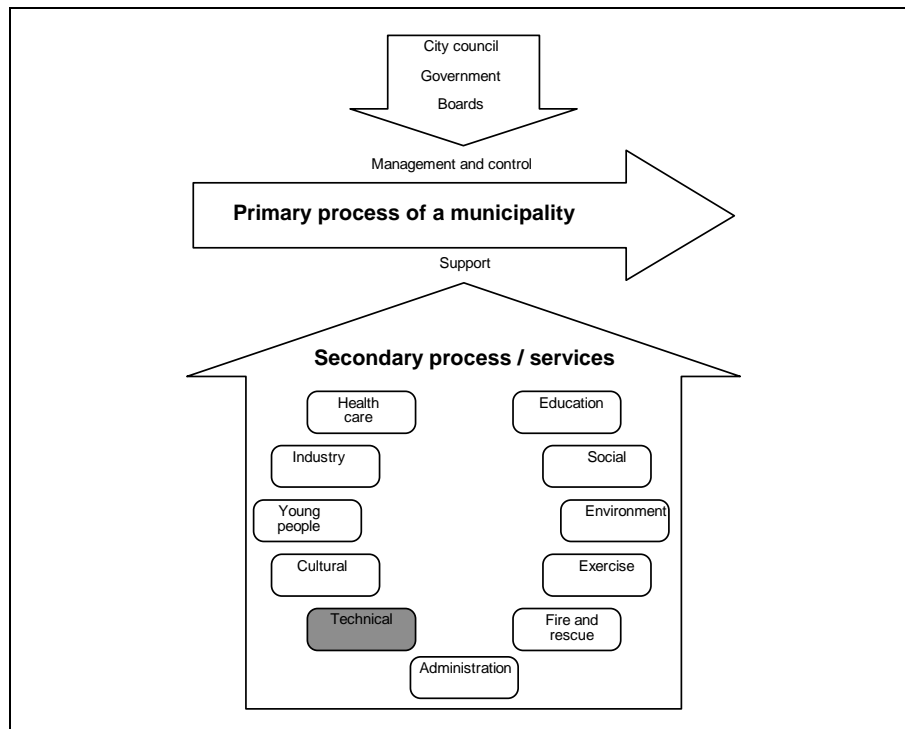


Figure 15. Secondary processes serving and supporting the primary process of a city (Sinisalo 1996, p.30.)

These primary processes form the various administrative branches, which represent the occupants of the real estate unit.

4.2 Principal models for organising municipal Facilities Management in-house

There are several in-house FM models that are used in municipalities, the most common and traditional being perhaps a decentralised one. The other models that are commonly used are partially decentralised and centralised, as well as the municipal enterprises, share-holding companies and client-supplier model.

4.2.1 Decentralised model

Decentralised model is one where the organisation, in this case municipality, takes responsibility for all administration, operation and maintenance. Each unit, such as schools, health, culture and so on, is to a large extent responsible for both the user- and managerial- roles. Often one sees that the sector also takes on the role of the

owner. The model also implies that the sector itself is responsible for personnel, operations and following up on these. Executive decisions regarding finance are usually made by the central administration, in this case municipal council. (Gillesen 2002, p.14.)

This method of organising the facilities management in municipalities can be both advantageous and disadvantageous. On the operational level the staff are able to form a close relationship with the responsibilities. The disadvantage of this may be that the decentralised model leads to a situation where there isn't clear and unified structure, nor a clear division between the responsibilities of the owner, client and the service provider.

The decentralised model will normally result in inefficient and expensive operations and maintenance due to the lack of large-operations-benefits, poor competence and ineffective utilisation of space and other resources. A small professional environment and few opportunities for development can be little stimulating for the operations personnel. A poor financial overview and not visualising the whole financial picture is another result. There is no potential for freeing capital. There is however a greater level of freedom for the sector leaders/institution leaders, and a greater feeling of ownership. There are no consequences with regard to taxes. (Gillesen 2002, p.15.)

There are several good reasons for decentralising activities. First, decentralisation can increase flexibility, and flexibility has become a key-issue in today's governments. As Ansoff (1984) states, in order to provide quick and sensitive responsiveness to changing markets, an organisation has to decentralise its responsibilities. Another reason for decentralising responsibilities is to avoid the bureaucracy of central units, to secure a better integration of various policy decisions, and to become better attuned to local situations and knowledge. (Evers *et al.* 2002, p.98.)

4.2.2 Partially decentralised model

A partially decentralised model is one where the different sectors themselves are responsible for the daily maintenance of the real estate that they possess. A centralised real estate division takes care of the larger projects and specialised tasks. The roles of the user and manager are seen to by the individual sectors. Each sector retains the personnel responsibly for the personnel on the operational level and has responsibility for the daily maintenance of the real estate. The central Facilities Management division acts as a consultant for the sectors within the municipality regarding larger projects and specialised tasks. (Gillesen 2002, p.16.)

A partially decentralised operations model will give few large-benefits within the daily maintenance of the real estate, whilst rehabilitations and expansions will be possible to co-ordinate. There are limited opportunities for developing and specialising the staff. Placing responsibility between the sectors (users) and the Facilities Management division must be clearly defined. It is difficult to obtain optimal use of the space recourses due to lack of overview and co-ordination. In this model, there are no possibilities of freeing capital, nor are there any consequences regarding taxes. (Gillesen 2002, p.17.)

4.2.3 Centralised model

A centralised model is one where the management role is taken care of by a separate real estate organisation. Each sector is responsible for the role of the user, and is considered as “tenant” by the real estate organisation. The real estate division is an independent sector, operating with the same guidelines as the other traditional sectors within the municipality. (Gillesen 2002, p.18.)

The sector model opens for the possibility of a unified and whole real estate management, with the basis for large-operations-benefits and a better operations economy. The organisation gives the opportunity of professional development and specialising personnel. The introduction of internal rent may lead to a more restrictive use of space. Separate user and management roles demand defined

“playing rules” between the parties. There are no consequences regarding taxes, and there is no possibility of freeing the capital. (Gillesen 2002, p.20.)

When one real estate unit is responsible for Facilities Management instead of different departments or business units separately, accommodation costs can be decreased and a higher return on investment can be achieved. By co-ordinating service acquisition, advantages can be negotiated and cost reductions obtained. Moreover, a real estate department may be in a better position to determine the prospects and volume of future services than all individual users separately. (Evers *et al.* 2002, p.31.)

Managing the entire portfolio has many advantages. Firstly, the financial burden that comes with cultural inheritance is easier to handle when it is part of one large portfolio. Secondly, by managing a whole portfolio, a public real estate organisation becomes an important participant in the real estate market. This makes it easier to stimulate or slow down certain developments. Thirdly, in order to find the economically best solution to an accommodation problem, it is very important to match demand and supply within a portfolio. This is only possible if there is one real estate unit managing that portfolio, because then the total costs of the portfolio can be weighed against the total revenues. (Evers *et al.* 2002, p.32.)

There are both advantages and disadvantages in centralised and decentralised systems. One advantage of having a central real estate unit is that it allows economies of scale to be created. By co-ordinating service and product acquisitions, cost reductions can be achieved. A centralised unit creates synergy among various needs for facilities and these economies of scale lower the costs of occupancy (Krumm 1999). In addition, compared to decentralised system, central organisations are able to share information better and collect scarce expertise (Schaaf 2002, p.49).

Decentralisation refers to the degree to which the decision-making responsibilities are placed in lower levels of the organisation. In this discussion, centralisation stands for central steering and decision-making and decentralisation is synonymous with

self-regulation and autonomy. The centralisation versus decentralisation issue is often confused with the concentration versus deconcentration discussion (Figure 21). Centralisation and decentralisation have to do with decide power and money, whereas concentration and deconcentration are about the grouping activities. Centralised decision making combined with deconcentrated knowledge and services is very well possible. (Schaaf 2002, p.49.)

Centralisation and decentralisation can be placed on a continuum with various intermediate forms in between. For example, a distinction can be made between the management of general and special purpose properties. There are also differences which decisions are decentralised. For example, some countries have a centralised public real estate organisation that makes all real estate decisions, while others make investment decisions based on the quantity and quality needs of the users, who, in turn, pay for their facilities (Schaaf 2002, p.50).

4.2.4 Municipal enterprises

Municipal enterprises 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 or in addition take care of the role of ownership. The municipality itself can define which tasks and functions the enterprise shall include on its agenda. (Gillesen 2002, p.21.)

It is, in the same way as other sectors, a part of the municipality in the juridical 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. (Gillesen 2002, p.22.)

The intention of this 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 a operative and businesslike manner, which needs no political or administrative management within the municipal as a juridical unit. The political control with regard to the activities within the enterprise still remains. (Gillesen 2002, p.22-23.)

A municipal enterprise is an independent real estate operations 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 administrative will to give 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. (Gillesen 2002, p.23.)

4.2.5 Share-holding companies

Share-holding companies are independent juridical units, and not a part of the municipality. The municipality can be an owner, part owner or sell out the company. The general conference 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. (Gillesen 2002, p.24.)

The share-holding company is liable for taxes, and this is one of the major differences fro the 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. (Gillesen 2002, p.24.)

Establishing a share-holding company gives the opportunity of 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 financial flexibility, and can be combined with a wish for municipal –political control. (Gillesen 2002, p.26.)

4.2.6 The client-supplier model

In the client-supplier model the user of the service is separated from the producer. This operations model can be used both in connection with the establishing of a municipal enterprise or in connection with organising the municipality. The municipality chooses which functions that shall be bought externally in accordance with traditional contraction principles. (Gillesen 2002, p.27.)

The client-supplier model is a simple and flexible operational model, which gives the municipality great freedom and opportunity for a sound operations economy, as well as alternative financial solutions. The model gives the municipality a reduced administrative and operational organisation with a greater focus upon the municipalities' core-activities. The municipality must however professionalise the roles of the client and following-up. (Gillesen 2002, p.29.) The objective of the client-supplier model is increasing the competition and efficiency. It makes also possible to arrange bidding between the municipal organization and private producers.

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. (Haugen 2003, p.58.)

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 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.

4.3 Contracting-out Facilities Management services in municipalities

4.3.1 Definition of contracting-out

Barrett (1995, p.124) defines contracting-out as the generic term to describe the process by which a user employs a separate organisation (the supplier), under a contract, to perform a function, which could, alternatively, have been performed by in-house staff.

It is important to note that outsourcing is not a synonym for contracting out. According to Barrett (1995, p.124-125), “outsourcing” denotes one type of contracting-out; namely, the process by which a user employs a separate company (the supplier), under a contract, to perform a function, which had previously been carried out in-house; and transfer to that supplier assets, including people and management responsibility. The various alternative terms, and in particular “outsourcing”, do have tighter meanings than the term contracting-out.

Some of the simpler definitions of outsourcing include:

- Having an outside vendor provide a service that you usually perform in-house (Laabs 1997).
- The transfer of routine and repetitive tasks to an outside source (Gibson 1996).

- Paying other firms to perform all or part of the work (Structural Cybernetics, 1996).
- Refers to a full transfer of the facility management functions to an outside firm. The corporation manages the outsourcing contract rather than the entire Facility Management Function (IFMA 2000, Tuomela & Puhto 2001, p.22-23).

Pure outsourcing is generally understood as a situation where the whole or a part of the business unit is transferred to an outside organisation. The outside organisation takes the responsibility of the human resources and financial issues of the outsourced units. The original owner then takes the role of a customer and starts to manage the old personnel with a contract. In reality, the original organisation continues, at least in some ways, but the responsibility of the completed work is the responsibility of the service provider. (Tuomela & Puhto 2001, p.22).

The third generally used term is out-tasking. Out-tasking refers to work assigned to an outside supplier on a job-by-job basis, usually involving a cost-plus arrangement. Out-tasking is the oldest form of contracting-out. In out-tasking an outside service provider is hired to provide the service. Out-tasking does not involve transfer of personnel and the whole business unit. It is hiring individual, specialized vendors to provide one or more FM functions. (Kleeman 1994, p.24).

Although these definitions are concise, they do not address certain issues. For example, none deal with the problem of timing the move from in-house to external sourcing. Detailed definitions take a wider scope and discuss the philosophies of outsourcing organisations. Contracting-out is deciding to obtain selected goods and services from outside your company. Finding new suppliers and new ways to secure the delivery of raw materials, goods, component and services, by utilizing the knowledge, experience and creativity of new suppliers not used previously. Another source has described contracting out as “ the practice of handing over the planning, management and operation of certain functions to an independent third party” (Neale 1995 in Embleton & Wright 1998, p.94).

The essence of these definitions is that contracting out refers to the concept of looking for expertise to handle certain business functions outside the existing organisation. The decision making process that management must undergo when considering contracting out, hinges on a “make or buy” philosophy. More variables are brought into play when management considers contracting out a product or service that is currently being produced internally (Embleton & Wright 1998, p.95).

Contracting-out is not new. It is a natural result of specialisation and decision as to whether an organisation should make or buy to ensure the supply of goods or services necessary for a organisation’s operation. The make or buy decision is influenced by two factors: the ability of the market to supply according to the demand conditions of the purchaser and the level of control that the agency requires over the supply and production of the goods. The outcome of the make or buy is not necessarily a simple bipolar distribution. Increasingly, the term implies longer-term arrangements such as networks, partnering, strategic alliances and joint ventures rather than simple market transactions (Moran & Taylor 1997, p.28-29; Tuomela & Puhto 2001, p.22.)

4.3.2 Service provider models

The term contracting-out is used very broadly in different situations. The term has different meanings depending on the type of contracting out. According to Atkin and Brooks (2000, p.102) there are essentially three main types of contracting-out service providers. They range from the use of an external organisation or individual who manages the client’s organisation own employees, through the appointment of a contractor to manage some or all service providers, to an arrangement where all facilities are managed by an external entity offering a single point of responsibility. Figure 16 shows the three main types in terms of their contractual and management links.

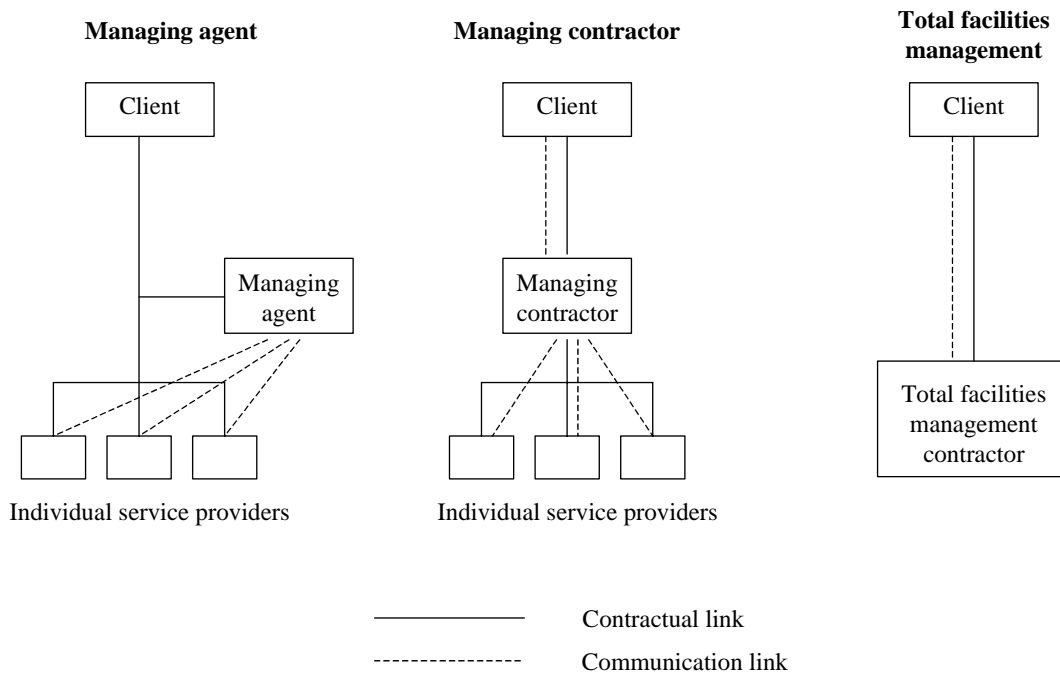


Figure 16. Three main types of contractual arrangement (Atkin & Brooks 2000, p.103.)

Managing agent arrangement is adopted when the organisation has determined that it wishes to retain its own employees, but does not have the skill or expertise with which to manage them efficiently and effectively. By bringing in an external organisation to manage the facilities, the organisation is essentially appointing a client representative. This person will act almost as though he or she were part of the permanent establishment of the client organisation. Under this arrangement, contracts with service suppliers will be with the client organisation. (Atkin & Brooks 2000, p.103-104.)

Under managing contractor arrangement there is one contract between the client organisation and the appointed contractor. Subcontractors will be under contract to the managing contractor and so will not have a contractual relationship with the client organisation. This means that organisations have a single point of contact with the contractor on all matters pertaining to service provision. (Atkin & Brooks 2000, p.110.)

In total Facilities Management model organisations are able to pass the full responsibility for managing their facilities to a single organisation for a fixed price. This does, however, require the client organisation to provide the contractor with sufficient scope to be able to manage the various services efficiently. (Atkin & Brooks 2000, p.111.)

4.4 Partnering

Partnering is alliance between the client and the service provider and the cooperation aims to long contracts and equivalent hierarchy between the parties. The partnering gives more power to the service provider and is built on the basis of mutual trust.

IFMA (2000), Tuomela & Puhto (2001, p.23) defines partnering: Refers to the working relationship between the owner, designer and contractor. Also can be used to identify the relationship between owner and the supplier of a specific good or service. It provides the opportunity to institute longer contracts with the supplier instead of working annual basis.

Once the decision has been made to outsource or contracting out services, the public real estate manager has to decide which form of client-vendor relationship best suits his situation. The relationship with external providers can be organised in different ways. Lambert *et al.* (1995) make a distinction between a traditional Contract, a preferred provider relationship, an exclusive provider relationship and a strategic alliance. The choice of relationship depends on the degree of standardisation and the duration of the agreement (Figure 17). The more detailed and customer-focused the tasks involved, the more constrained the collaboration with the customer and the greater the attention needed to prepare the relationship.

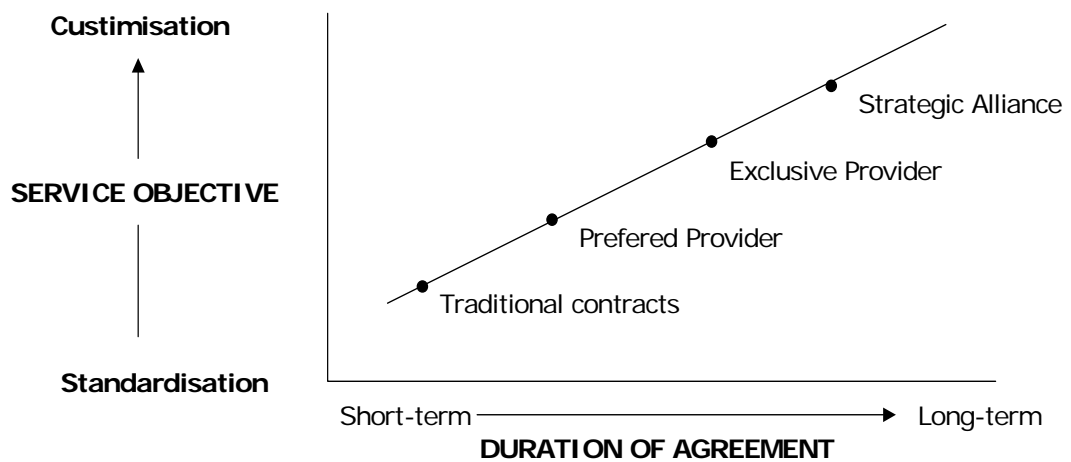


Figure 17. Choice of relationship (Lambert et al. 1995.)

In a traditional contract the tasks are more standardised, while in a strategic alliance they tend to be more customer-focused. Therefore, the centre of attention in a strategic alliance is usually the relationship itself and not the transaction. Both parties are more open towards each other and feel committed to each other since they share the same goals. A strategic alliance can be described as a collaborative relationship between a client company and a service provider, to offer the agreed services at a global or regional level to all locations and plants of the client company. While traditional contracts are aimed at achieving cost reduction, strategic alliances are designed not only to reduce costs, but also to improve quality, reduce cycle times and support innovations. (Evers et al. 2002, p.130.)

The kind of relationship that the corporate or public real estate unit formalises with a service provider strongly depends on the objectives the unit wants to achieve, as well as the kind of activities to be outsourced. A major advantage of a strategic alliance over a traditional contract is that fewer relationships have to be maintained with different service providers. Instead of concluding contracts with different service providers for each separate transaction at each location, one contract is now signed with one service provider (sometimes with a few, depending on a size and geographical reach of the company). The advantage of having one overall service provider as opposed to several is that the targets, the decision-making process and the business process of the company, as well as the performance criteria applied by

the public real estate manager only have to explained once. Moreover, a contract with one or just a few service providers makes it easier for a public real estate manager to control and evaluate these outsourced activities. (Evers *et al.* 2002, p.104; Dewulf & Liem 1997, p.56.)

The advantages of an in-house department over outside providers are the knowledge an internal unit has about the business process, and aspects such as reliability and loyalty. In a strategic alliance, a service provider may gain this knowledge and achieve the trust required to undertake strategic activities. (Evers *et al.* 2002, p.105; Dewulf & Liem 1997, p.56.)

The relation between the service provider and the vendor develops over the time. Due the changes in the political context, the public real estate department's financial targets may change as well. This is why it is often hard to make deals with service providers in the long run. (Evers *et al.* 2002, p.105.)

Nowadays many client-vendor relationships are called Strategic alliances without anyone knowing for certain what this actually involves. Thought it can be concluded that the Strategic alliance will probably not become the new client-vendor relationship of the future, because the client and the vendor can never be partners of equal merit as long as one is paid by the other. An exclusive Provider relationship would seem to be more suitable and realistic form of outsourcing for which to aim. (Dewulf & Liem 1997, p.57.)

4.4.1 Public-Private Partnership

A special relationship between the public organisation and a private company is the public private partnership (PPP). This type of partnership has gained much attention in the last two decades. Many of the PPP initiatives originated for purely financial reasons. Governments were stricken with large financial deficits and co-operation with private companies was, and still is, seen as the only way to raise enough capital for the large investments needed. Besides, the demands for infrastructure and urban

renewal projects were growing, as were the investments needed to fund them. (Evers *et al.* 2002, p.107.)

Financial constraints were not the only reason for the increase in Public Private Partnerships. The role of the government changed in the 80s: it was the time of privatisation, deregulation and decentralisation. Financial deficits and an increasing criticism of the industry and public opinion about the efficiency of government activities led to new governments that focused on new management techniques for their key tasks, while still keeping an accurate eye on public finances. Another factor was that co-operation with private companies was seen as a necessary tool to solve community problems. Enhancing private companies is still seen as the key element for success in the revitalisation of cities. (Evers *et al.* 2002, p.107.)

Many differences can be depicted in the ways PPP projects are organised. Projects are concerning (Evers *et al.* 2002, p.108):

- the moment when private parties become involved in the process: this can be from the very beginning or after the briefing or planning phase.
- the way investments, profits and risks are shared
- the fiscal form
- the organisational structure
- the initiative
- the number of participants.

The major bottleneck in PPP projects is the way the process should be managed. PPP is, by definition, managing different interests. Pitfalls in the process should be avoided by (Dewulf & Spiering 2001):

- Having a clear understanding of each other's interest.
- Keeping alert for changes in strategies among various players. Scenario planning can be helpful instrument in defining the plausible consequences.

- Choosing the right organisational structure. Form should follow the function. Clear arrangements have to be made at the beginning of the project. Clarity in decision structure is a necessity condition for success.
- Being flexible during process. As the targets of the different players are changing, flexibility is required. However, parties should be pinned down to keep early commitments.
- Not forgetting the user and just paying attention to the targets of the financial parties. The public real estate manager must never forget that his aim is primarily to accommodate clients in the most optimal way.
- Using an integral approach when defining PPP project. Combination and integration within project improves the possibilities for generating revenues and therefore improves the possibilities for PPP.
- Thinking in terms of goals, interest, motives, and intentions instead of projects and finances.

Public Private Partnerships (PPPs) are all about negotiating deals that are good for both sides. The private sector wants to earn a return on its ability to invest and perform. The public sector wants contracts where incentives exist for the private sector supplier to deliver services on time and to specified standards year after year. In that, the public sector shares an absolute identity of interest with private financiers whose return on investment will depend on these services being delivered to those standards. (Alexander 2003, p.83.)

5 EXPERIENCES FROM DIFFERENT COUNTRIES

In this section the present trends in private sector Facilities Management and the situation of different countries' local authorities is discussed. Especially the experiences and problems of contracted facilities services are discussed.

5.1 Trends in private sector Facilities Management

Businesses are increasingly using an outsourcing strategy to improve their competitive advantage and to achieve market goals. They are pursuing these objectives by focusing on core business activities, by acquiring marketable benefits or by gaining efficiencies from strategic partners, through outsourcing. In pursuit of improving competitive market position and to fund these goals, buyers are also seeking to converse financial and people recourses. And, as noted above, these strategic goals are achieved by implementing a tactical strategy to reduce operating costs, to improve control over non-core business an to acquire best practice systems. (Elliot 2001.)

Traditionally the Scandinavian an UK Property Management related outsourcing has been focused on general management and sectors as cleaning, outdoor maintenance, housekeeping, food service, security and building maintenance. These activities have been outsourced for quite some time. Actually, Tuomela's and Puhto's (2001, p.81) research revealed that the fennoscandians have been outsourcing the operational services as much as the British organisations. Nevertheless the British organisations are more experienced in the management service outsourcing.

Databases maintained by various commercial and research organisations show some statistics about current trend in outsourcing services in UK (Table 3). As it shown in table, mechanical and electrical maintenance and cleaning are the most outsourced (91% instances have outsourced some or totally) FM functions in UK.

Table 3. Outsourcing services trends in UK (BSRIA 1997 in Atkin 2003a)

Service	Instances
Mechanical and electrical maintenance	91 %
Cleaning	91 %
Security	73 %
Building fabric	54 %
Energy management	45 %

Catering	36 %
Relocation	36 %
Space planning	27 %
Control of budgets	18 %
Disposal and acquisitions	9 %

Figure 18 presents the evolution of Facilities Management in the UK. Nowadays is spoken about integrated Facilities Management where all the FM functions are integrated to the core processes of organisation and more and more corporation's support functions are included in FM.

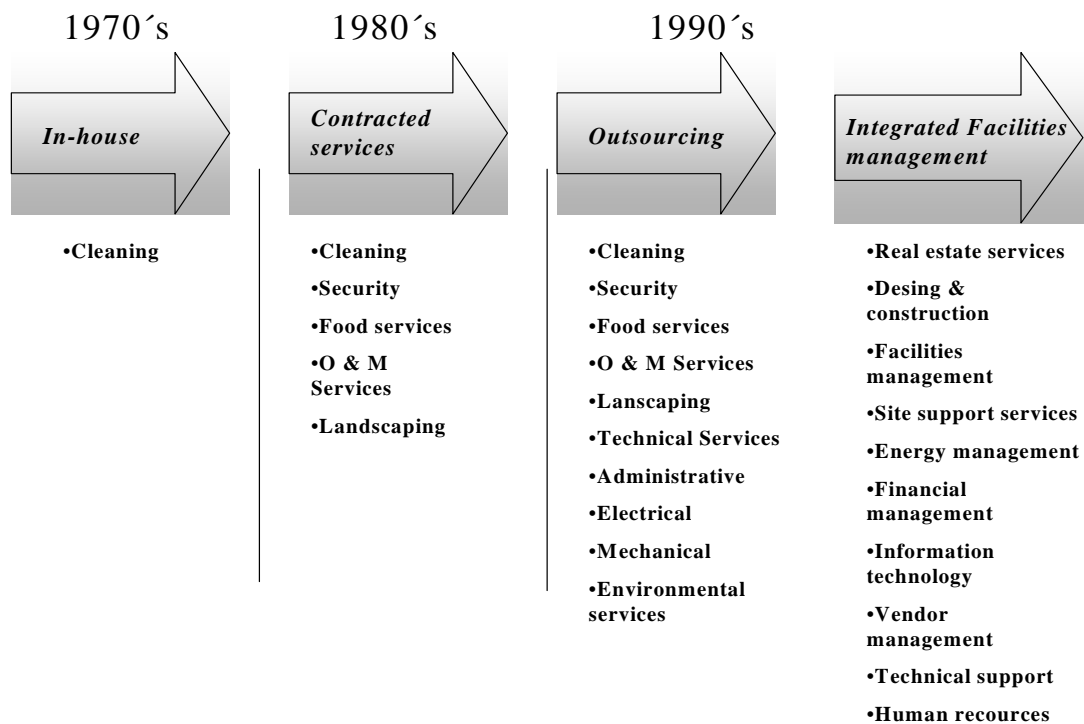


Figure 18. Evolution of FM in the UK (Johnson Controls 2000)

The British surveys have presented in the last few years that outsourcing is still increasing in the future. According to the research the trend is similar in Scandinavian. Besides increasing the outsourcing is also changing its form. The aggressive increase of outsourcing was considered to affect only some special areas.

In the UK the Outsourcing is increasingly understood as partnering, unlike in Scandinavian, where it still has a strong operational level meaning. (Tuomela & Puhto 2001, p.78).

In the British culture tenants have a long history of buying different management services from specialized management organisations. The British management organisations are, in most cases, hired directly by the tenants to carry out all management of most services that come under the definition of FM. In Scandinavia the management of different services have traditionally been decentralised and case-related to both owner and tenants.

Unlike in the UK, the typical Scandinavian markets have less “pure” FM providers, managing contractors, and agents compared to the other kind managers. In many cases the Scandinavian management organisations deliver FM services along with the operational services and other business related FM. For example many of the companies, construction, and service providers, deliver FM services along with the rest of the services. (Tuomela & Puhto 2001, p.78.)

A general conclusion of the Tuomela’s and Puhto’s (2001) study is that many organisations in different countries have followed, or will follow, a certain pattern from the core business thinking and outsourcing to quality recovery to partnering or returning to the in-house teams (Figure 19). The evolution model for FM service provision seems to affect all organisations, outsourcing and “insourcing” policies and management contracts within all North European countries.



Figure 19. Evolution model for facility management service provision (Tuomela & Puhto 2001, p.83)

The first trend phase for FM has been focusing on organisational core businesses. As an automatic solution, a boom of FM outsourcing has followed the in-house organisations. The cost savings have been evident, but a common drop of performance and quality has been directly proportional. (Tuomela & Puhto 2001, p.84.)

The lost performance and quality is discovered in the second trend phase –the quality recovery. In the second trend phase organisations are trying to gain back the once lost performance and quality level. The organisations are starting to balance between the performance and costs with more focus on the actual business needs. (Tuomela & Puhto 2001, p.84.)

The solutions for the quality recovery have been bi-valued. Some organisations decide to return to in-house teams and some start to build more efficient co-operation with vendors by partnering. The process of finding a perfect match for partnering and balance for cost and quality will result in using different types of service provision models for different management needs. (Tuomela & Puhto 2001, p.84.)

According to the Tuomela and Puhto all countries had started from a certain trend phase that had lead to another. The pattern of phases seems to move by an inexact rule from west to east. The phase that British organisations went through approximately five years ago, the Danish a few years ago and the Swedish a year ago, is about the phase that the Finnish organisations are going through at the moment.

Despite the model, the changes in the modern FM business and increasing globalisation change the local differences of the phases. The five-year-long gap between Finland and the UK will most evidently shorten. (Tuomela & Puhto 2001, p.84.)

Research carried out by Lonsdale & Cox (1997) has relieved that outsourcing decisions are rarely taken within a thoroughly strategic perspective, with many firms adopting a short-term perspective and being motivated primarily by the search for short-term cost reduction. In fact, outsourcing decisions are made most frequently by default, with little consideration for the long-run competitiveness of the organisation.

5.2 Finland

The whole area of Finland is divided into 446 municipalities that form the local government. Under the Finnish constitution, municipal administration is based on self-government by the residents. It is generally agreed that the most important features of local government is that municipal authority is general and comprehensive and its decision-making power rests with the persons elected by direct ballot (Leväinen 1997, p.44.). The citizens elect the local council, and the local authorities are entitled to a degree of financial and administrative independence. The State can assign new functions to the municipalities solely on the basis of law, and the municipalities have the right to collect taxes. The council runs the local authorities. (Leväinen 2003b, p.35.)

Most of the expenditure of the municipalities and the joint municipal authorities are directed at providing the basic community services. The main services are social services and health care, education and cultural services, maintenance of the infrastructure, and environmental protection. (Kuntaliitto 2003.)

The functions of the municipal authority are categorized as either specific or general. The specific sphere includes the tasks that a municipality is required to perform by law. Municipalities have complete autonomy as far as other functions and services are concerned. Municipalities can perform their duties alone or in cooperation with other municipalities. Tasks concerning the general sphere can be undertaken in-house or out-sourced to the private sector. The statutory tasks cannot be outsourced or privatized. Municipal officials must make these decisions themselves, but preparation assistance can be bought from a private company. Every municipality can independently decide the way it organizes its services. (Leväinen 2003b, p.35.)

The municipal organisations in Finland are facing several challenges at this moment. Firstly, due to the decrease in the public financing the organising of public services must be done more and more with similar models than in the private sector. Secondly, the majority of municipal employers is relatively old and near the age of retirement. One third of the employers will retire in the next seven years. The municipalities in Finland are in the same situation as the private companies, i.e. the facilities services are supporting the operations of the core business in the organisation providing the base products and services. The elementary problem is how the property and facilities services are arranged relative to the core business of the municipalities, the ownership policy, and the Real Estate Management. The problems of the service providers lay with the differences between the municipalities and the lack of expertise in contracting out. (Leväinen 2003c, p.13.)

Finland is a large and sparsely populated country, and early on facilities services producing companies were not available in all regions of the country. Thus, traditionally municipalities have been forced to arrange their services in-house.

However, contracted services have been in use all the time, especially in specific services as HVAC, lifts and security. (Leväinen 2003b, p.37.)

Contracting is the most popular method of outsourcing in Finland. According to Finnish and EU legislation a competitive bidding process is normally required. Contracting out is a support to the work or control by the municipal organisation. The use of contracted-out services is mostly justified by economical reasons but also because contracting out makes comparison between the work by municipal organisation and private companies easier. (Kuntaliitto 2001.) The municipality can buy several different services, which the municipal organisations cannot or do not want to produce. The smaller the municipality, the greater the relative share of contracted-out services. (Leväinen 2003b, p.38.)

The most contracted-out task in the Finnish municipalities is the service of the special equipment and elevators (82% share in the project municipalities). The runner up is the waste management (80%), and the third is the maintenance of the electricity systems (64%). Three lowest are the care for the outdoor areas (18% contracted out in the pilot municipalities), maintenance of the technical systems (7%) and the cleaning (6%). If the shares of all the facilities services are counted the amount of contracting out in the Finnish municipalities is about 22%. This leaves 78% for own work or internal service (client-producer model or a public utility). (Siltala 2003; Soini 2002, p.63.)

The results with the project municipalities show that the average amount of contracted-out facilities services in the Finnish municipalities is about 20-30%. The most contracted-out tasks are the traditional contract works, such as waste management and construction, etc., and machines, and the least contracted are the tasks requiring much manpower and labour costs, such as cleaning. The contracts are typically single service agreements, made for short terms and small sums of money, and the packaged services are very seldom used. Managing the huge amount of separate contracts will soak up the resources of the organisation and cause resistance to the contracting out. New trends in the municipal contracting out are interests for

longer periods and adding the bonus systems to the contracts. (Siltala 2003; Soini 2002, p.59.)

In the legislation the main act is the Public Procurement Act (*Laki julkisista hankinnoista*). The legislation follows the EC direction, and for example, the threshold values and different types of contracts are mentioned. Almost every municipality has its own norms considering the procurements and rules of contracting out. The norms are of course subordinate compared to the legislation. Also different quality systems are directing the municipal contracting. (Siltala 2003.)

5.3 Sweden

At present, there are 289 municipalities in Sweden. In addition to traditional technical services, they provide almost all education below the university level, and they provide both child care and, since 1992, care for the elderly. The 18 county councils are responsible for health care and public dental services, but here we shall concentrate on the municipalities. According to the Swedish Association of Local Authorities (*Svenska Kommunförbundet*), the total area for schools, child care and other municipal activities is about 50 million sq.m., excluding municipal housing. (Bröchner 2003, p.46.)

The Local Government Act allows municipalities to choose their organizational structures. Therefore, the number of committees (*nämnder* with elected officials) and how the committees are specialized vary. Municipalities may choose to deal with facilities as a single whole, or decentralized geographically, or according to sectors of municipal activities. Municipal companies and foundations may also be the organizational entities chosen for managing facilities. The arrangements for internal contracting vary over a spectrum, showing various degrees of administrative and physical separation of client and contractor functions. (Bröchner 2003, p.46.)

The use in Sweden of a single, or very few, external contractors for running and maintaining buildings owned by a municipality is mostly a phenomenon of the

1990s. However, Åre (pop.10,000) in Northern Sweden was probably the first municipality to outsource all its property management (about 75,000 sq.m., in 1987/88) (see Sandgren and Anbäcken, 1994). Today, both municipal housing and other municipal properties in Åre are owned by a single municipal company; the present contract duration is 4½ years and there is a single contract with a regional FM services provider. (Bröchner 2003, p.47.)

Another example is Härnösand (pop. 25,000), which holds all its municipal properties since 1998 in a separate company that is a subsidiary of the municipal housing company. In 1991, the municipality decided to outsource all property management, a decision that was carried out in practice in 1994, when a four-year contract with a large private contractor began running. (Bröchner 2003, p.47.)

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Johansson (1999) has shown how there is almost a continuous range from truly external provision of services to the traditional integration within a single municipal department. Thus, the internal purchaser/provider model can be implemented within the same department, or with purchaser and providers in two separate municipal departments; additionally, the provider may be found in a municipal company. However, there are also cases where internal and external contracting is layered: a municipal purchaser may contract with an external provider, who then uses a municipal provider as subcontractor for actually delivering a service. (Bröchner 2003, p.47.)

The Swedish Public Procurement Act implement the corresponding EC directives on public procurement. However, a basically similar but slightly simplified tender

procedure is prescribed in Sweden also for procurement under the threshold values, which are about MSEK 1.7 for services and about MSEK 44 for works. (Bröchner 2003, p.48.)

Within the UFOS programme, Nilsson (1999) has reported a survey carried out in 1998, covering municipal reliance on external contracts for facilities related services. Responses were received from almost 50 per cent of all municipalities in Sweden. At that time, 25 municipalities reported that they had external contractors, and in 12 municipalities, all or almost all their property holdings had been affected. The Stockholm region and also larger municipalities tended to use external contractors more than other municipalities.

The Nilsson (1999) survey of municipalities indicated that total FM contracts were decidedly unusual. Instead, the scope of most contracts was related only to operations and maintenance of municipal buildings.

Typical durations of contracts are three or five years. Specifications tend to be mostly of the input type, which describe activities, resources and frequencies, rather than of an output type, which aims at securing a level of performance. (Bröchner 2003, p.49.)

The Swedish Competition Act (*Konkurrenslagen*) is based primarily on EC rules. Abuses of a dominant position in the market are illegal. There seems to be a link between population density in the region and the number of possible contractors, a phenomenon that is thought to explain also why the Swedish process industry is more reluctant to use single FM contracts (Total Facilities Management) than in the UK process industry (Bröchner *et al.* 2002, p.270).

5.4 Norway

Norway consists of 435 municipalities and 19 counties. The number of inhabitants in the Norwegian 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. (Haugen 2003, p.54.)

Each municipality has in a varying degree, a number of buildings to manage, ranging from child care facilities, primary schools, council housing and homes for the elderly and ill; to sports facilities, churches and various public buildings. (Haugen 2003, p.54.)

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 m² real estate per inhabitant in Norwegian municipalities. This number represents both public buildings and housing. A study of 114 municipalities undertaken by Norsk Kommunalteknisk Forening, NKF, during 1996 – 1998 shows that the total amount of building space per person varies on the number of inhabitants in the municipalities. (Haugen 2003, p.54.)

Typically the Property Management organisations in the 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 a VAT on in-house services. (Haugen 2003, p.55.)

Normally they see the in-house property and facilities services as more cost effective than the 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. (Haugen 2003, p.55.)

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 ensuring the technical value of the buildings, without being able to pinpoint any direct causes for this. (Haugen 2003, p.56.)

Another issue is the VAT policy (value added tax) imposed by the Norwegian government in 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 a VAT added to them. (Haugen 2003, p.56.)

The 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. (Haugen 2003, p.56.)

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 the properties. Each unit is to a large extent responsible for the different roles as users, managers and owner of the properties. Executive decisions regarding finance are usually made by the central administration, in this case the municipal council. (Haugen 2003, p.57.)

The services and products that are most commonly associated with outsourcing and out-asking in Norway are the daily maintenance operated by janitors and other service personnel, IT-services, cleaning, catering, postal services, reception and switchboard services, and surveillance and security. (Haugen 2003, p.64.)

At present (2003) they do not have a full overview of the status regarding in-house or contracted out property and facilities services in the 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 the municipal core activities and end users, and to produce these services efficiently at the “right price”. (Haugen 2003, p.65.)

Contracting out property and facilities services is still in its early stages in Norway municipalities, and it is not yet clear how it will develop. The tendency is to out-task certain activities within the municipality, to establish client – supplier models for municipal enterprises and share-holding companies. (Haugen 2003, p.68.)

The town-municipalities in particular, are in an increasing degree changing their traditional FDV-sector into the 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. (Haugen 2003, p.68.)

There are in general three main categories where things are happening (Haugen 2003, p.68):

- 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 the total facilities management, and

then lease the schools with all the Facilities Management services included back to the municipality. (Haugen 2003, p.68.)

Bergen has already outsourced some of the 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. (Haugen 2003, p.68.)

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. (Haugen 2003, p.69.)

On the whole out-tasking is more common than outsourcing in Norway. Contracting out single services such as cleaning to a professional cleaning agency or canteen facilities to a catering firm is becoming more common in 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 in Norway market offering such services, whether as single services or as total Facilities Management deals. In larger town and cities, one is only just beginning to experience a demand for these services, and mainly it is the larger firms that are demanding rather than municipalities themselves. (Gillesen 2003, p.30.)

Some municipalities have set out on a mission of becoming professional facilities managers, with a primary goal of becoming best at the Facilities Management of their own real estate. Another goal, lying somewhere in the future, is to be able to

compete open market, perhaps also supplying services to private real estate holders. Both of these goals are still far from being reached at this point in time, but as municipalities continue to work towards these goals, they gain new experiences that help them from that way. (Gillesen 2002, p.31.)

The different models that each municipality chooses to base their Facilities Management on varies from the traditional decentralised to the centralised model. The choice of model is often based on past experiences, and perhaps, in some cases, assumptions that may not hold facts. (Gillesen 2002, p.48.)

5.5 The Netherlands

The number of inhabitants in the Netherlands is 15.6 million. For describing the present situation of the municipalities in the Netherlands the city of Eindhoven is used as example for Dutch municipalities. The city of Eindhoven is the fifth large municipality in the Netherlands of a total of 500. The city has 200.000 citizens.

The municipalities in the Netherlands have various tasks that are divided over the different departments. The department of General and Public affairs is responsible for the contact between citizens and the municipality. They, for example, have to respond to questions and complaints. They're also responsible for services for citizens, for example providing passports. The Fire brigade and the department of Disaster control have to protect people against fire, accidents and natural hazards. The department of Municipal Development and Management has to create and manage a good environment for living and working, for example giving permission to build a house. The Health department has to promote a better health of the population in common and especially for less healthy people, in a preventive way. The Social development department is responsible for art & culture, education, sport & recreation and well-being. The department of Work, care and income has to provide services for getting work, income and care.

In the Netherlands research has been done on the amount of services that have been contracted out in the municipalities. Cap Gemini Ernst & Young have done this research in the years 1999 and 2000. The research for example shows that 74% of the municipalities have partly or completely contracted their building maintenance out in 2000. In the year 1999 this was only 54%, so this has increased. It also shows that 90% of the municipalities have partly or completely contracted their renovation of buildings out in 2000. In the year 1999 this was only 79%, so this is also an increase. In respect to cleaning; 95 % of the municipalities have partly or completely contracted their cleaning activities out in 2000. In the year 1999 this was 91%. (Wagenberg 2003, p.91.)

In the Netherlands municipalities have to follow not only Dutch legislation. All governmental organisations have to organise tenders in accordance with rules of the EU. One of the rules is that when municipalities outsource activities, they have to pay value added tax on most of the outsourced activities (at present 19,5 %). But in the Netherlands there are possibilities for municipalities to avoid paying taxes, which are approved by the government. (Wagenberg 2003, p.93.)

VAT 2003 came into force in January 2003. According to this new law municipalities are forced to calculate VAT tax for all services the citizen pays for directly. This makes it more attractive for them to outsource activities. (Wagenberg 2003, p.93.)

At the moment Dutch municipalities outsource nearly always single services. There are some experiments with outsourcing groups of activities in multiple service packages. Total facility management has not yet been introduced in municipalities in the Netherlands. (Wagenberg 2003, p.93.)

The management of facilities is becoming more professional as a result of better salaries and education. The management of facilities is seen these days as a profession with a career perspective. Municipalities follow the market in the Netherlands in this respect. At the moment we see consolidation in certain areas of

the facility market, for example cleaning, catering and security. The chance that one big provider will take a large part of the total market is not likely, there is a lot of competition. (Wagenberg 2003, p.95.)

5.6 The United Kingdom

Local government in Britain is structured in two contrasting ways. In Scotland, Wales and parts of England, a single tier 'all-purpose council' is responsible for all local authority functions (Unitary, Metropolitan or London Borough). The remainder of England has a two-tier system, in which two separate councils divide responsibilities between district and county councils. (Alexander 2003, p.72.)

Local authorities raise their income in a number of different ways, with the council tax in 1999/00 only raising 25% of total local authority revenue. The rest is made up of central government grants, which at around 48% forms the majority of local government revenue. The Non Domestic Rate is a charge to businesses, which is set by central government, and this raises about 25% of local authority revenue with the remainder being made up by charges for services and reserves. The list on the last page of this information sheet shows the responsibilities that each type of local authority has. (Alexander 2003, p.73.)

Local authorities in England and Wales employ over 2.1 million staff and spend £70 billion a year, which accounts for around a 25% of public spending. Of this only a quarter is funded by the Council Tax. There are over 21,000 elected councillors serving on 410 local authorities. (Alexander 2003, p.73.)

Services that are usually in responsibility of local authorities are education, housing, planning applications, strategic planning, transport planning, passenger planning, highways, fire, social services, libraries, leisure & relation, waste collection, waste disposal, environmental health and revenue collection. (Alexander 2003, p.74.)

The nature of local government business means that the various elements of FM services never receive the same prominence as they do in other public services e.g. health care. However, under New Labour's Modernising Agenda and recent policy and consultation documents the tide is turning in the UK and local government is now finding the spotlight turned on the way it uses its facilities.

In 1988 the Audit Commission (1988 a and b) conducted two studies of local authority (LA) property, focusing on the need for greater attention to be paid to the strategic and policy implications of property ownership and use. These reports concluded that 'property was an under-managed resource and that, while technical skills were often strong, the corporate or strategic function was underdeveloped' (Audit Commission, 2000, p.10). More recently the DETR (2000) has confirmed that this remains the case and two further Government initiatives require LAs to place greater strategic importance on managing property assets. First, there is the Government proposal for allocating a 'single pot' of capital on the basis of needs and performance and second, the statutory requirements of best value (Local Government Act 1999). Best value's emphasis on efficiency, effectiveness and economy, whilst not referring specifically to Facilities/Asset Management, is creating new demands from this function.

More relevant to Facilities and Asset/Property Management than best value are the 2000 reports by both DETR and the Audit Commission that highlight the need for a strategic focus to be paid to Asset Management within local government. The DETR (2000) report provides good practice guidelines for Asset Management with the aim to encourage a consistent approach to Asset Management across all services and spending blocks. The authors are particularly pleased to see the call in the paper for 'an integrated approach between departments and the corporate centre (DETR, 2000). We also welcome the first steps on the suggested Asset Management planning checklist which are to identify a person responsible for the corporate property role (CPO) and that this CPO reports to a strategic decision-making committee (DETR, 2000, p.98).

The Audit Commission's (2000) report acknowledges that successful Asset Management spans across the authority and requires strategic considerations. It highlights the fact that some authorities have failed to challenge why they own land and property or review its effectiveness. It is also noted that 'senior officers and elected members sometimes lack awareness of the strategic importance of property, the information required to make sensible decisions about how to use it better, or the will to put these into effect' (Audit Commission, 2000, p.11).

Extensive guidance is available to Local Authorities for procuring services and commodities that will meet the business need and secure value for money. New, draft comprehensive guidance has been published in March 2002, providing a route map for procurements, and bringing together current policy initiatives and recommended approaches. The procurement processes described in the government guidelines are based on these principles:

- seeking to obtain value for money over the whole life of the contract
- focus on business requirements/outputs and performance; the what, not the how
- iterative development of the requirement, where appropriate
- selection of potential providers in several stages
- procurement strategy determined by level of complexity of the procurement
- reducing bidders' costs of entry
- approach that is tailored to individual projects – not prescriptive but a set of processes, tools, techniques.

The UK government introduced the Best Value regime during 1999. The Local Government Act 1999 placed a duty of 'best value' on local authorities to make arrangements to secure continuous improvement in the way their functions are exercised, having regard to a combination of economy, efficiency and effectiveness. Authorities have been subject to the statutory duty of Best Value since 1 April 2000.

The 1999 Local Government Act, which introduced the best value legislation, is the corner-stone of the New Labour's Modernising Agenda. It requires every authority to

assess all its services over a five-year period by using the principles of the 4Cs - challenge, compare, consult, and compete. However, there is nothing within the best value legislation that specifically relates to FM services. It is the Audit Commission (2000) and DETR (2000) reports that are specifically relevant to asset management and FM and these will be driving the strategic direction and requirements of officers and members involved. It must be noted that the requirements laid out in these reports complement rather than contradict the principles of best value.

According to Alexander (2003), the percentage of FM outsourcing in UK local authorities is 35.5%. And among our seven functions of FM, infrastructure management is the most likely to be outsourced (83%), followed by other support services (43%), and Helpdesk and environmental management are least likely to be out-sourced. The underlying reason may be that during the interview, the most concerned issues are drain and sewage services in infrastructure management, for which almost all the outsourcing contractors are the water provider companies. The result in the other support services (42.9%) is roughly in line with the AMA research, which found out that in the public sector, where around 60% of cleaning and allied contracts are undertaken in-house. (Alexander 2003, p.83.)

5.7 The United States

Within what is commonly referred to as the American federalism approach to governing, the national government is looked to for the provision of pure public goods like national defense, while state and local governments are generally responsible for providing those public goods and services that most directly impact the citizens within their respective political jurisdictions. During the last two decades state and local governments have increasingly looked to the private sector for the provision of goods and services that have been traditionally supplied by governmental agencies. (Zumpano 2003, p.99.)

A number of factors have contributed to the devolution of public service functions to the private sector. Increased state and local government budgetary constraints and

the need for greater cost containment, along with calls for greater government accountability continue to fuel interest in privatization and the outsourcing of additional public sector programs. Although most of the privatization activities still take place at the local government level, the states, and even the federal government, have increased their participation in outsourcing programs. (Zumpano 2003, p.99.)

Rather than being a single technique, privatization encompasses an array of alternative delivery systems. In the U.S. the most common outsourcing modalities include contracting, franchises and concessions, grants and subsidies, vouchers, and voluntarism. Other alternative service delivery systems include private donations where a governmental unit relies on private sector financial contributions to help in the provision of public services. (Zumpano 2003, p.100.)

Another “reinventing the way government operates” technique that is gaining in popularity is public-private partnerships (PPP) (Osborne and Gaebler 1992) The American public is increasingly looking to the business sector to participate in urban development and community betterment projects. Businesses are often motivated to get involved because they perceive such activities will promote business objectives, influence legislation or tax and regulatory policies, as well make the communities where their businesses are located better places to live and work. (Zumpano 2003, p101.)

Partnerships between state and local governments and private sector business organizations to achieve specific civic goals such as neighborhood crime reduction, community redevelopment, and job creation, are particularly effective when public and business agendas coincide. (Zumpano 2003, p.101.)

A lesser-used technique is asset sales. Here a state or local government sells its buildings and other public assets to private, for-profit companies. In exchange the governmental unit receives cash to finance other public service initiatives as well as enlarges its property tax base. Generally such sales occur as a result of governments

outsourcing the provision of public services, thereby eliminating the need for public facilities. (Zumpano 2003, p.102.)

Contracting is the predominant form of privatization. The principal reasons offered for the heavy reliance upon contracting include the ease of application to a broad spectrum of services and activities. In addition, contracting can quickly and easily be adapted to changing governmental needs. The second most popular privatization strategy is grants and subsidies, followed by public-private partnerships. Volunteerism and vouchers are the least relied upon delivery systems. (Zumpano 2003, p.100.)

In a 1995 survey of the 100 largest American cities conducted by Digger *et al.* (1997 in Zumpano 2003), the 10 most privatized services in the 66 cities that completed questionnaires were:

vehicle towing	53 to 80 percent of surveyed cities
solid waste treatment	33 to 50%
building security	32 to 48%
street repair	26 to 40 %
ambulance services	24 to 35%
printing services	23 to 35%
street lighting/traffic signals	17 to 26%
drug treatment centers	16 to 24%
employment and job training	16 to 24%
legal services	16 to 24%.

Examining responses from the ICMA surveys indicates that the most common reason given for privatization, mentioned by 89% of respondents, was cost reduction. Forty four percent of the respondents cited budgetary and fiscal pressures as a reason for privatization, 25% indicated changes in the political climate (wanting a decreased role for government), 21% cited unsolicited proposal by potential vendors, and 12% cited legal liability concerns. however, improving the quality of governmental services was the second most important reason offered for outsourcing; a category

not included in the ICMA surveys. All the other motives for privatization included in the survey proved far less important. (Zumpano 2003, p.104.)

IFMA's *Outsourcing* report reveals that the out-tasking is more widespread than outsourcing in the USA. Although the overwhelming majority of responded out-task/outsource at least one service, only seven per cent reported that their companies outsource or out-task total FM functions. The top five functions most often out-tasked/outsource are housekeeping (81 %), architectural design (75%), ground maintenance (68%), food service (64%) and security (60%).

Companies occupying a single building (typically owners) were significantly more likely to outsource housekeeping, food service and security functions than were companies occupying space within a building (typically lessors). Companies occupying multiple buildings outsourced these functions less often than single building users, but more often than partial building users. Companies with more than 2500 employees were somewhat more likely to outsource facility engineering and long-range planning services. Companies with fewer than 500 employees were significantly less likely to outsource food services. (Kleeman 1994, IFMA)

Goods and services that were once provided exclusively by governmental entities are now increasingly being provided by the private sector. Of all the alternative delivery systems, contracting still remains the most common method of outsourcing in the U.S. There is, however, growing evidence that governments are more willing to experiment with other alternatives such as public-private partnerships, volunteerism, and subsidies. (Zumpano 2003, p.110.)

While the principal motive for outsourcing remains cost containment, there is increasing concern being expressed about the true cost of privatization. While past experience with outsourcing suggests that government officials are relatively satisfied with the results, the surveys also reveal room for improvement. Insuring the quality and the effectiveness of privatization will probably require greater monitoring and compliance activities on the part of government authorities, which

will raise costs. There is also some evidence that while many government officials express strong support for privatization their actions do not coincide with their rhetoric. (Feldman 1999) The reluctance to implement “reinventing government” policies sometimes reflects resistance from public employees, but it is also grounded in concern for the effectiveness of outsourcing. (Zumpano 2003, p.110.)

Whereas in the past much of the privatization activities were ad hoc and implemented on a case-by-case basis, government officials seem to be giving alternative public service delivery systems much more study as part of comprehensive plans to improve the public sector. This certainly seems to be the case for public housing and housing related services. Studies of outsourced public housing projects suggest that operating costs can be reduced without a significant loss in the quality of services. (Zumpano 2003, p.111.)

This does not mean, however, that citizens always benefit from privatization or that outsourcing is always the best course of action. Studies also suggest that the quality of public service delivery systems can be improved when government agencies compete against the private sector for the right to continue delivering governmental services. In other cases, franchising, vouchers, and subsidies may prove more effective. (Zumpano 2003, p.111.)

Often the threat of privatisation is enough to encourage productivity improvements in in-house operations. In 1995, the city of Los Angeles got promises of 25 percent productivity improvements over a three-year period after threatening to privatise the city’s sanitation department (Bailey 1995). Many analysts of government recommend privatising rather than working to improve the in-house operation. Others question whether a public entity that cannot manage a service well will have the knowledge and expertise to negotiate a cost-effective contract. With low-cost financing and no need for profits, public entities should have a built-in cost advantage. However, tighter budgets and demands for improved service levels lead many in the public sector to look to the private sector for efficient and cost-effective solutions. (Fearon *et al.* 2001) For example, the National Solid Waste Management

Association encourages local governments to privatise solid waste collection, disposal, and processing operations because private haulers typically use smaller, more efficient pickup crews, have lower absenteeism, have higher productivity because they serve more households per hour, and less downtime because they buy standardised trucks with larger capacity and maintain the vehicles on a regular schedule (NSWMA 2001)

5.8 Conclusions

It is very difficult to make comparison between different countries Facilities Management and contracted services because there aren't available reliable overviews of the status regarding in-house or contracted out Facilities Management services in every country. However, there are quite a many research made about outsourcing and municipal Facilities Management services but the figures and quantitative data aren't comparative in many cases. For example in Finland the Facilities Management services contracting out percent (22%) is calculated from the cost basis and the Netherlands contracting out percent (36%) is just a figure which shows how many municipalities have used contracted services.

Some general conclusion about amount of contracted services in different countries can be made thought, but it is impossible to make a table from these kinds of data. Below is introduced the situations of contracting Facilities Management services out and some statistics in every country which was surveyed in this research:

In the USA the privatisation or outsourcing services has been in use over three decades. In the U.S. privatisation encompasses many different and some newly emerging delivery systems. The most common outsourcing modalities include contracting, franchises and concession, grants and subsidies, vouchers and voluntarism. Thought the most common method is contracting (80%). Any reliable data from outsourcing Facilities Management services wasn't available. Only some statistics about general municipal services outsourcing degree: vehicle towing 53-80%, Solid waste treatment 33-50%, building security 32-48% of surveyed cities.

In the UK surveys shows that the percentage of FM outsourcing in local authorities is 35,5% and infrastructure management is the most likely to be outsourced (83%), followed by other support services (43%) and help-desk and environmental management are least likely to be out-sourced. These results are in line with the AMA research, which found out that in the public sector, where around 60% of cleaning and allied contracts are undertaken in-house.

In the Netherlands has been done research on the amount of services that have been contracted out in the municipalities (Cap Gemini Ernst & Young 1999 and 2000). These research shows that 36% of the municipalities have completely and 16% of the municipalities have partly, contracted their Facilities Management services out. The most common contracted were cleaning (95%), building maintenance (74%), waste (73%), catering (53%) and telecommunication (37%).

In the Finnish municipalities the most contracted-out task is the service of the special equipment and elevators (82% share in the project municipalities). The runner up is the waste management (80%), and the third is the maintenance of the electricity systems (64%). Three lowest are the care for the outdoor areas (18% contracted out in the pilot municipalities), maintenance of the technical systems (7%) and the cleaning (6%). If the shares of all the facilities services are counted the amount of contracting out in the Finnish municipalities is about 22%. This leaves 78% for own work or internal service (client-producer model or a public utility).

Swedish municipalities experimented with internal contracting arrangements for Facilities Management services during the 1990s, and the use of external FM contractors has increased more recently. Within then UFOS programme, Nilsson (1999) has reported a survey carried out in 1998, covering the reliance on external contracts for facilities related services. Responses were received almost 50 percent of all municipalities in Sweden. At that time, 25 municipalities reported that they had external contractors, and in 12 municipalities, all or almost all their property holdings had been affected.

Within the Norwegian municipalities the Facilities Management evolution is moving slowly. Municipalities are more concentrated on improving in-house models as municipal enterprise or as a share holding company, which is wholly or partly owned by the municipality than contracting out services. Thought, out-tasking single services such as cleaning or canteen facilities are becoming more common. The Facilities Management is a new concept in Norway and there are not many private businesses offering such services. There aren't also any reliable data available the amounts of contracted services on the Norwegian municipalities.

Although it isn't possible to compare the figures introduces above, some conclusions can be made from the statistics:

- In the UK and in the Netherlands the contracting out seems to be at same level.
- Cleaning is one of the most contracted out Facilities Management service in the UK and Netherlands and for some reason in Finland it is the least contracted out.
- To improve the efficiency of Facilities Management, many governments introduced incentives. In principle there are two different reasons behind this trend. It was introduced to stimulate the cost-consciousness of the users and to improve the efficiency of the public real estate organisation. This can be established in different ways.
- Good results have been gained by creating a market situation, by letting the public real estate organisation compete with private organisations for assignments. In this way, the Public Real Estate organisation is forced to deliver higher quality and better-priced products. If they do not, customers will obtain the products and services elsewhere. The introduction of market influences has different levels of implementation. There are many intermediate forms between the extremes of monopoly and privatisation.
- Often the threat of privatisation is enough to encourage productivity improvements in in-house operations.

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- To improve efficiency is by introducing benchmarks and accountability to the outcome of these benchmarks for the Public Real Estate organisations. Organisations will be stimulated to improve their performance, if they are benchmarked against comparable organisations both inside and outside government. For external benchmarking to be the most effective, there needs to be an actual market situation. If this is not present, then it is more useful to compare organisations within government, by benchmarking, for example, the different offices of a public real estate organisation.
 - Results from government outsourcing are mixed.
 - Outsourcing in the public sector is particularly complicated.
 - Performance-oriented governments have learned to make outsourcing part of everyday good management. Outwardly focused, progressive governments institutionalise good outsourcing management through activity-based budgeting, clear goals and objectives, and visible progress reporting. They master techniques for dealing with the obstacles that arise, from tough labour unions and changing political administrations to reluctant finance departments.

Some other conclusions can be also made:

- Contracting out is the most common outsourcing method in every country.
- Contracting out is expecting still increase in future in every country
- VAT policy seems to be a problem in some countries. In Norway all services rendered from external services suppliers are eligible for having a VAT added to them. In the NL they have recently change the VAT policy, now the municipalities are forced to calculate VAT for all services the citizens pays for directly.
- All the EU countries' governmental organisations have to organise tenders accordance with rules of the EU.
- In the Norway the municipalities are obligated (lov om offentlige abskaffelser) 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.

- Total FM contracts were decidedly unusual in every country.
- Capital regions and larger municipalities tend to use external contractors more than other municipalities in many countries.

There can be found several reasons for contracting-out activities in local governments. The main reasons founded in studied countries were (Wagenberg 2003, p.93; Nilsson 1999; Soini 2002, p.54; Siltala 2003; Lith 2003):

- want to restrict own activities to the core business
- want to increase flexibility and profitability
- want to solve capacity problems by shifting to an outside supplier
- want to make costs transparent,
- want to reduce costs (usually 10-30%)
- want to get access to knowledge which isn't available in the own organisation
- want to use competence, which has been developed by supplier
- want to restrict own investments in staff and / or capital goods
- a municipal policy to increase competition
- insufficiencies in the own resources
- retirement of own personnel
- belief in the efficiency of mixing direct labour with external contractors
- belief in cost reductions and quality increases
- lack in the special know-how (for example building automation)
- playing along with the fashion trend of privatising in the public sector
- requirements for specialist skills
- want to have better adjustment for work fluctuations
- need for specialist equipment
- want to improve customer satisfaction.

The main obstacles and problems to using the contracted-out services in the municipalities are (Soini 2002, p.55; Siltala 2003; Leväinen 2003b, p.43; IFMA):

- running out of resources in the contracting (order) organisation
- supply of the services is insufficient in the area (the market is usually undeveloped)
- total outsourcing of the facilities services may give a monopoly to the undertaking firm
- tradition of the municipality as an employer
- lack in the local knowledge of the private service firms
- the costs of own work must be clear before the contracted-out services can be considered
- own employees will usually bind themselves better to the looking after of the buildings
- the process of public procurement is a drag on the contracting out, but it is not a total obstacle
- political barriers in the top-level decision-making
- quality control
- loss of skills and knowledge by municipal employees
- personnel and labor issues
- risk of negative economic side effects
- lengthy bid process
- longer response time to problems
- contract employees are less company-oriented.

A closer look at lists with arguments for and against outsourcing in general reveals that lower costs, higher quality and other desired effects arise through better access to knowledge of routines, front-line technologies and more efficient information systems. An external provider may be able to provide better careers and training for its staff, to identify equipment that is more efficient as well as finding internationally superior procedures for performing the work. A greater degree of specialization

among staff can be introduced, if their skills can be used for more than one client in the region (Bröchner 2003).

Contracting out services provision brings also with it many new responsibilities and risks for the organisation. Even so, managing services in-house does not escape these factors, since in-house managers may face new challenges in demonstrating that they are providing best value. Many risks come into play and these must be faced and handled in the most effective way if services are to deliver customer satisfaction. (Atkin 2003b, p.20.)

Case studies in different countries municipalities have shown that cost decreasing is one of the most important reasons for using contracted services. However, it is probably so that major cost reductions that are sometimes reported when services are outsourced for the first time should be explained mostly by effects of the initial effort of specifying requirements on the contractor. The process of specification, if it is well organized, brings up the current set of service priorities among users of facilities, while allowing cost reductions by simply omitting certain services or increasing intervals of services that had been provided internally simply because of old habits (Bröchner 2003). Secondly, total cost is frequently misreported. In evaluating the comparative cost between in-house or contracted out services, organisations should identify all costs, both direct and indirect. A common mistake is for only the direct costs to be reported. Indirect costs include those incurred in the internal management of external contracts and the ongoing training and development of in-house personnel. Furthermore, the full administration of the services such as permit-to-work procedures, competent and approved person regimes, together with the technology to operate them, all attract a cost that must be recorded. (Atkin 2003a.)

A common argument by opponents of contracting-out is that when private companies contract to provide public services, concerns over profitability may encourage them to reduce the quantity or quality of services provided. Even where outsourcing reduces governmental costs, long run, true cost savings to a community may be

overstated. A number of researchers (Hatry, 1988; Shanker, 1995) have argued that the reason private firms can provide services at lower cost is because they rely more heavily on part-time employees, who do not receive the health care and pension benefits full-time workers generally receive. This not only represents a hardship for displaced public employees and the part-time employees who replace them, but it can also increase the health care costs of government. When privatized employees without benefits need medical attention state and local governments may pick up the cost through higher Medicaid expenses and higher operating costs for public hospitals. (Zumpano 2003, p.106.)

For many organisations considering contracting out, the greatest concern is that of a perceived loss of control. The level of control that can be achieved is closely correlated with the method of procurement and the contractual relationship established between the organisation and the service provider. Through a more traditional contract the level of control is limited. For more control, a partnering arrangement may be appropriate. (Atkin 2003a.)

The debate on the benefits or otherwise of contracting out has been running long before people spoke about facilities management in a coherent way. Although it is now generally agreed that contracting out can stimulate innovation and can present cost savings through the harsh realities of competition, it cannot be assumed to be the best approach in all cases. The merits of contracting out each service must be considered until the optimal mix of contracted out and in-house provision is attained. The balance between the two may be tilted strongly in favour of one, but this does not mean it is necessarily to the exclusion of the other. The idea of operating a mixed economy is a common practice in many places: moreover, it is likely to reflect careful consideration of all the options available for achieving best value and customer satisfaction. (Atkin 2003b, p.19.)

Whichever course of action is taken, the primary concern is the basis of the decision. It is not the outcome that needs to be looked at closely, but the efficacy of the decision-making that leads to it. Where the organisation's approach has been arrived

at through, for example, demonstrating better value (for money) from one approach as opposed to the other, facilities management can be considered to be working effectively. (Atkin 2003b, p.18.)

Organisations must, however, act as informed customers if they are to be sure of deriving satisfaction from their service providers and of achieving best value (for money), whether those services are contracted out or retained in-house. The activities and responsibilities that constitute the informed customer function (ICF) are not only wide-ranging but also essential to effective facilities management, irrespective of how services are purchased. The ICF covers (Atkin 2003b, p.19):

- understanding the organisation, its culture and its own customers
- understanding and specifying service performance requirements
- managing the implementation of contracting out
- minimising risk to the organisation's future
- agreeing monitoring standards
- manage service providers and contractors including monitoring their performance
- benchmarking the performance of contracted out services
- surveying internal and external customers for satisfaction with services
- providing relevant management reports to customers
- reviewing service levels/requirements to ensure they still meet customer needs
- developing delivery strategies with the service provider
- agreeing changes to service requirements with the service provider
- maintaining the ability to test the market and re-bid service contracts
- understanding the facilities management market and how it is developing
- developing strategies for the organisation's facilities management
- safeguarding public funds, where applicable
- developing own skills through education, training and personal development.

6 CONCLUSIONS

Today, corporations are changing from single product to multi-product-market, - country and culture. Instead of a centralised functional organisation, the corporations are becoming more and more organised as a group of (in)dependent companies. The business units have a high level of autonomy to enable them to respond to the changing demand and circumstances more quickly (Evers *et al.* 2002). Local governments are changing as well. Privatisation, deregulation, decentralisation, public-private partnerships are developments that have been occurring in most countries in the recent decades. (Evers *et al.* 2002.)

This study has created insight into Facilities Management and Facilities Management services generally, Public Facilities Management in local governments, and the alternatives for producing public facilities services. A number of measures, such as decentralising responsibilities, introducing client-supplier model and privatisation, have been introduced to increase the efficiency of municipal operations.

One of the interesting tasks of this study was to investigate the use of private sector models in the public sector. The trend is that local governments are working more and more “businesslike”. This trend has aroused some questions: Should we use private sector models in the public sector? How the Strategic Management fits to the Public Facilities Management contexts?

According to this study, Public Real Estate Management incorporates the same disciplines as Corporate Real Estate Management. Although some of the developments are similar, the theories, opinions and experiences described in Corporate Real Estate literature are not always applicable to a public setting, because there are some important differences managing Corporate and Public Real Estate Management. In the first place, businesses are fundamentally different organisations: the business leaders are driven by profit motive, the government leaders are driven by desire to get re-elected. The businesses get most of their money from the customers, the governments get their money from the taxpayers. The businesses are

usually driven by competition, the governments are usually driven by monopolies. The governments have to be very careful when adapting private sector business models to their operations. Some fit there, some do not.

The situation is also the same in adapting strategic thinking and strategies to the public sector. The municipalities have to realise that there is no single best way to manage public facilities or no single best strategy. The strategies should be based on the priorities of the municipalities. Since the priorities differ in every country and organisation, copying a strategy from another country or organisation is not a good solution for any problems there might be. It is important that the organisational position of Facilities Management matches the position of public organisation in society and what is considered to be the added value of Public Real Estate and Public Facilities Management.

One of the research questions introduced in the beginning of this thesis was: Should the management of public real estate be considered a task for the government or should it be outsourced? Based on the findings of this study it can be said that in its most extreme form, privatisation leads to the complete and independent provision of public products and services by the private sector. This can have a significant effect (both positive and negative) on the quality and price of these products and services. In general, the principal reason for outsourcing is to reduce costs. The ratio behind this is that an external provider is able to spread his overhead costs over several customers, and by doing so, create economies of scale. Moreover, service providers operate in an open market and are, therefore, forced to offer a good cost/quality performance in order to survive. (Schaaf 2002.)

Nevertheless, the privatisation of public goods or services brings with it some important “dangers”. Firstly, private organisations only supply goods and services in areas where there is a strong demand. Secondly, private corporations tend to divide their potential market into product-market combinations and rank these groups based on potential profit and image. This is not in line with the objective of creating equal opportunities for everyone. Thirdly, not all activities should be contracted out. The

main question is which activities functions are inherently governmental ones. Joroff *et al.* (1993) argue that the activities, which have no added value to the organisation, in that they do not belong to the core activities of the real estate unit, may be contracted out easily. This is the case for most operational activities such as cleaning and operational maintenance. For most organisations, a strategic alliance with external providers is then the most suitable solution for carrying out these activities. The public real estate manager should focus on the activities that add most value to the organisation; those that belong to the core competence of the organisation. For example, investment policy and strategic planning are activities that should remain internal to most public real estate organisations. (Evers *et al.* 2002, p.103.)

Contracted services can be used efficiently if there is a consensus about the vision in management of the municipality, most facility activities can gradually be outsourced. This strategic vision about Facilities Management should aim at strengthening the professional capacity to steer facility production processes (FM function) and using commercial partners to supply facility products and services. The municipalities should outsource step by step. The municipalities should also stimulate commercial partners to increase quality by complying to ISO 9001 or EQM like instruments. (Wagenberg 2003, p.95.)

The benefits and negative consequences of contracting-out were discussed in chapter 5. These findings were based on experiences from the local authorities in different countries. The findings were much similar to studies made on outsourcing and contracting-out in the private sector. Cost decreasing is one of the most important reasons for using contracted services. However, it is probably so that major cost reductions that are sometimes reported when services are outsourced for the first time should be explained mostly by the effects of the initial effort of specifying the requirements to the contractor. Secondly, the total cost is frequently misreported. In evaluating the comparative cost between in-house or contracted-out services, the organisations should identify all costs, both direct and indirect. A common mistake is that only the direct costs are reported. Even where outsourcing reduces governmental costs, in the long run, true cost savings to a community may be overstated. A

number of researchers (Hatry 1988; Shanker 1995) have argued that the reason private firms can provide services at a lower cost is because they rely more heavily on part-time employees, who do not receive the health care and pension benefits the full-time workers generally receive.

Based on this research contracting-out, outsourcing and other facilities services producing models are still growing in local governments. These models are business tools, and like all tools they must be used properly to achieve the desired result. Effective implementation requires a tailored solution; one size does not fit all organisations. Successful implementation will entail analysis, investigation, planning and sophisticated human resource and management.

Future research on this topic should focus on the reasons behind the operation environment in different countries. Legislation and especially taxation (Value added tax) diverge in different countries and it seems to have very strong impact on the use of contracted services. It would also be interesting to study the facilities management market in different countries, because the size and development of the market are one of the reasons behind effective contracted services.

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