

PART II: CONTRACTED PROPERTY AND FACILITIES SERVICES IN DIFFERENT COUNTRIES

3 Finland: Contracted Property and Facilities Services in the Finnish Municipalities

Kari I. Leväinen

Professor of Real Estate and Facilities Management,
Helsinki University of Technology,
Institute of Real Estate Studies,
PL 1200, FIN-02015 TKK

***Abstract.** Finland is divided into municipalities that form the local self-government. The basic duty of the municipalities is to provide the well-being and welfare to its inhabitants. The Finnish municipalities are providing services both in-house and from private sources. Technical services can be developed by evolving the work of own organization, in cooperation with other municipalities, or by contracting out. The client-producer model is increasing in the in-house production. The most contracted-out tasks are services of special equipments and elevators, waste management and maintenance of electrical systems, and the less contracted-out are cleaning and maintenance of outdoor areas. The reasons for outsourcing property and facilities services are insufficiencies in the own resources, lack of special know-how, lower price, and the fashion trend of privatising in the public sector. The main obstacles for using contracted services are the running resources in the contracting organisation, the undeveloped service market in the area, the fear that total outsourcing may give the monopoly to the service provider, etc.*

3.1 The Self-government of Finnish Municipalities

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). 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.

The combined expenditures of local authorities and their municipalities in Finland are a major contributor to the public economy, representing almost two-thirds of all public expenditures. 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.)

Local Finnish authorities fund nearly a half of their operations from tax revenues. The local authorities rely primarily on local income and real estate taxes. In addition, they receive an annual share of the revenues from corporate taxes. (Kuntaliitto 2003.)

The municipal authority is traditionally divided up into the general and the specific one. The general sphere of authority is conducted from the municipal autonomy in Finland (what the municipality may do) and the tasks of the specific sphere of authority are governed by the legislation (what the municipality must do). (Oulasvirta 1996, p. 11.)

3.2 The Current Status of Contracted Services within Finland

The basic duty of municipal government is to provide for the well-being and welfare of its inhabitants, in an effective and economical manner. 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 co-operation 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 privatised. 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.

Internationally more companies are focusing on their core business activities and increasingly relying on outsourcing of ancillary services. The other international phenomenon has been the movement from single services to packaged services. Finnish companies are following this trend, outsourcing their facilities services. Even the central government has started to use contracted services, a trend that has been increasing during the last ten years.

The majority of municipal employees is relatively old and near the age of retirement. One third of the employees will retire in the next seven years. The reason for this is the strict personnel policy. During the recession of the 1990's the

municipalities were not able to hire new personnel. Thus, municipalities are going to have to deal with the lack of qualified workers in the near future. (Leväinen 2002.) Another problem is caused by the economic problems that municipalities have now and in the coming years. These force municipalities to make strategic decisions, how to arrange services as effectively and economically as possible.

The board of the Association of Finnish Local and Regional Authorities (Kuntaliitto 2002) have made the following observations and recommendation regarding municipalities:

- Municipalities should exploit markets.
- The demand of services grows as the average age of the population grows.
- One third of employees will retire by 2010.
- A working market is the stipulation for the competitive bidding.
- Municipalities must make strategic decisions regarding how services are arranged in the future.
- Municipal joint ventures and public-private-partnerships should be encouraged.
- Know how to acquire services.

3.3 Amount of Facilities Related Services

According to the annual economical statistics of the Finnish municipalities in 1998, the costs of the facilities-related services were 890 million euros. The share of the salaries and the related costs were about half of the sum and the amount of money used for the contracted-out services were about one fourth of the total. The income of the municipal facilities and rental activities was about 1,4 milliard euros. The investments of the municipal facilities sector were 170 million euros and the depreciation allowances about 270 million euros – more than 1,5 times compared with the investments. (Siltala 2003.)

Centralized administration of the municipal facilities, in which these amounts are based, is only a part of the municipal real estate and facilities portfolio - There are also a huge mass of facilities, which belong to the responsibility of different branches of administration, like healthcare and education. The overall amount of the municipal investments in facilities (maintenance and finance) is about 12 milliard euros every year. (Kuntaliitto 2001, p. 53.)

3.4 Alternative Delivery Systems

The Finnish municipalities are developing systems to provide service both in-house and from private sources. Technical services can be developed by evolving the work of own organisation, by re-organising, or by contracting out – total outsourcing as an extreme option (Kuntaliitto 2001, p. 12). The method of service production is one of the most important strategic decisions in the municipality (Kietäväinen 2002).

3.4.1 In-house production

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.

The most important issue is to develop all sectors of own production, if a task is going to be produced in-house. At this moment the most used model is to move from brutto budgeting to net budgeting.

Another rather popular technique is to split the in-house client from the in-house producers (client-producer model). This makes it possible to arrange bidding between the municipal organization and private producers. The client-producer model is in use in Sweden as well. (Leväinen 2002, p. 55; Kuntaliitto 2002, p. 9.)

In the client-producer model the user of the service is separated from the producer. The objective is increasing the competition and efficiency. In Finland the client-producer model has been applied mostly in the technical sector. One reason for this is probably that the activities in the technical sector are mostly quite business-like. (Kähkönen 1996, p. 13.)

A quite common opinion nowadays is that the pure client-customer model is not suitable for small organisations. The model can expand the organisation due to double manpower, because the same knowledge is needed in both sides. This is not a problem if the producer side is totally outsourced. (Viinikka 1995, p. 18.)

Within the project organisations of the research project the client-producer model in facilities management has been adopted in Espoo, Turku, Oulu, Tampere and Vantaa (the biggest cities in the study) and in the construction management in Pori. The client-producer model is mostly quite formal and it is separated only inside the organisation. Although the models are apparent, it seems not to be a problem because it gives clarity to the responsibilities. (Soini 2002, p. 52; Siltala 2003.)

The producer is not in a real competitive situation in any pilot municipality. If competition exists, the invitation for tenders is usually submitted only to the private companies and the own producer organisation is only competing against the best private alternative. Contracting out is mostly done by the producer (subcontracting) and seldom by the client, which very much hampers the usefulness of the model. (Soini 2002, p. 52; Siltala 2003.)

It is also possible to change the structure of municipal service units to make them operate more like for profit, private companies. This kind of business unit has its own budget, but is still a part of the municipality. A more advanced way is to ground a real company that is owned by one or more municipalities. (Kuntaliitto 2001.)

3.4.2 Co-operation between municipalities

Local authorities may perform their functions jointly. One or several functions can be performed by one municipality on behalf of other local authorities. These functions can also be arranged by a joint municipal board. Examples of common units are hospital districts, regional councils, the Association of Finnish Local and Regional Authorities, etc. Local authorities may also establish private companies to take care of their tasks.

3.4.3 Contracting out

Contracting is the most popular method of outsourcing in Finland. According to Finnish and EU legislation a competitive bidding process is normally required. If the amount of a contract is over 249,681 euros for goods or services and over 6,242,028 euros for construction, the bidding is open to whole of Europe. 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, p. 13.) 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. (Lepistö 2002.)

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% (Figure 3/1). This leaves 78% for own work or internal service (client-producer model or a public utility). (Siltala 2003.)

The cost distribution of contracted services in the City of Kuopio is (Soini 2002, p. 58; Siltala 2003):

- cleaning	29%
- building maintenance	12%
- maintenance of constructions	12%
- heating	11%
- HVAC services	8%
- annual reparations	7%
- water	2%
- common duties	6%.

Because cleaning is the biggest facilities related service in costs and the least contracted out, it is also reasonable to study the total shares without the cleaning. In this case, the total share of contracted out facilities services is 31%. (Soini 2002, s. 59; Siltala 2003.)

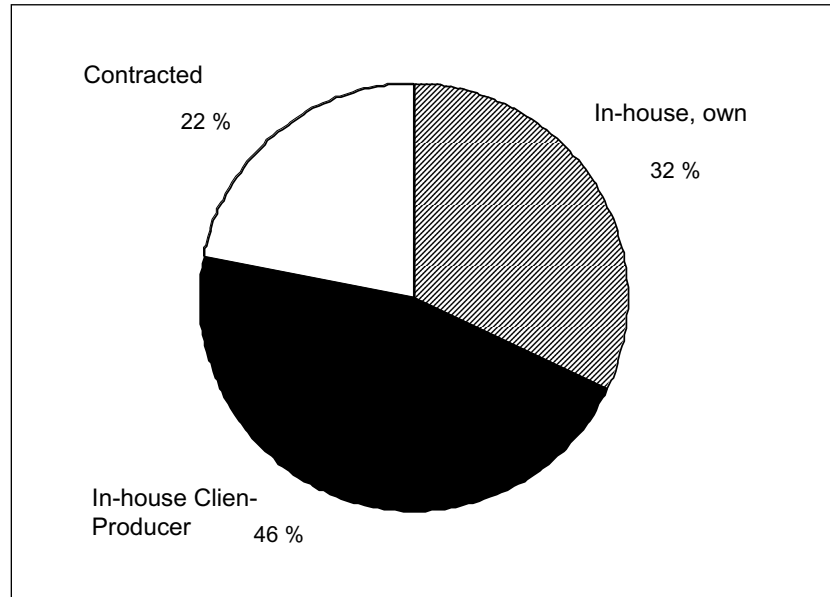


Figure 3/1. *Do-it-yourself, internal client-producer model or contract out? Cost weighted distribution of the shares in the project municipalities. (Soini 2002, p. 60; Siltala 2003.)*

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.)

3.4.4 Alternative delivery techniques

In principle, local authorities cannot favour any private party more than others, but under certain circumstances such cooperation is possible. A municipality in conjunction with a private party can establish a private company, but the activities must have communal or social purpose (Kilpailupoliittinen toimintaympäristö 2002, p. 14).

Traditionally, public-private partnerships, PPPs, have been used in some form in land development areas (Leväinen and Korhals Altes 2002), such as the development of sport facilities and buildings (Kilpailupoliittinen

toimintaympäristö 2002, p. 32). At this moment, public-private partnerships and private financing initiatives (PFIs) are hot topics in Finland, because both private parties and public authorities are interested in them. The first real PPP case is a high school, Kuninkaantien lukio, in which the City of Espoo made a contract for leasing the building and the provision of facilities services for 25 years. (Ibid; Leväinen 2002.) Because of problems in the economy municipal officials are also now considering the lesser-used technique of asset sales.

3.5 Procurement Directions and Rules

Legislation and the municipal procurement directions are controlling the procurement procedures in the Finnish municipalities. The meaning of the regulations is to intensify the use of public resources. (Huhtala 2002.) The leading principle of the directions is effective and open competition between the bidders. The guideline for fair competition is the appropriate publication of information and neutral treatment of the bidders. The chosen bid must be optimal in quality/costs or the cheapest. (KTM 2003.)

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.)

The most popular alternative is to request tenders directly from some certain service providers defined by the municipality. A second way is to open bidding to all interested providers. The third possibility is to send firstly the letter of interest and select a short list of companies from among interested providers. The final tender is requested from companies in the short list. A contract without competitive bidding is possible when dealing with very small cases. (Lith 2003, p. 40.)

3.6 Degree of Contracted Services

The managing director of the Association of Finnish Local and Regional Authorities, Mr. Risto Parjanne (2003), states that in 2003, one third of municipal expenditure will be accounted for by competitive bidding. The purchase of goods and services, construction services and leasing by local authorities represent some 8-9 billion euros, and the number of such contracts is continuing to increase.

In terms of the privatisation of public housing, in 2001 the total number of premises directly owned by public authorities was 39,200, encompassing some 32 million square meters. Two years earlier it was calculated that the total space consisted of 165 million cubic meters, including 50 million cubic meters of residential buildings. (Lith 2003.)

A study by Soini (2002, p. 60) shows that contracted services form 22% of all

facilities services in ten local authorities studied by this research. The remaining 78% of facility services was provided in-house, mostly using the client-producer model (46%).

In 2003 a questionnaire was sent to Finnish municipalities dealing with contracted cleaning and property services. Over half of the municipalities used contracted services for the maintenance of building control equipment, external landscaping and repairing (Lith 2003, p. 35). According to Soini (2002, p. 59) about 80% of building maintenance control equipment, elevators and waste management were contracted out. Most common services provided in-house are property management (including janitor) and maintenance. (Lith 2003, p. 35.)

The use of contracted services is very low in cleaning but higher in other property services (Figure 3/2). The differences between municipalities are remarkable. Some small municipalities have outsourced most of their cleaning needs, but in big and medium towns cleaning has contracted out up to 30%. (Lith 2003, p. 34.)

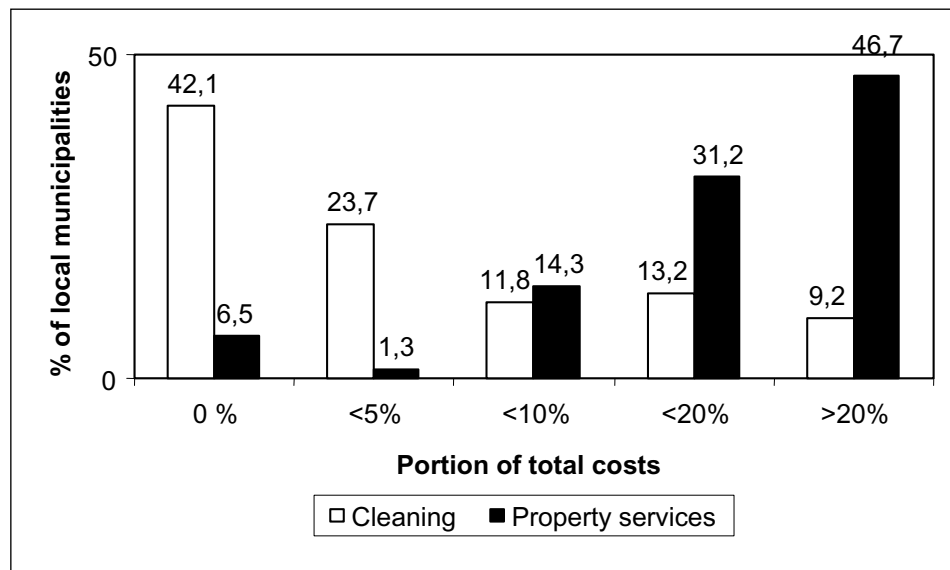


Figure 3/2. Percent of Contracted Cleaning and Property Services by Local Authorities (Lith 2003, p. 35)

3.7 Factors Contributing to Privatization

Generally, it is argued that the benefits of outsourcing are (Leväinen 2002, p. 59):

- greater accountability and cost savings
- paying only for services needed
- transfer of cost risk to the provider

- improved Provision of Services
- provider has better resources.

Some of the project municipalities have given aims for the use of the contracted-out services. Some examples are minimum 10-30% of the total amount of services, which must be bought from the private firms. The reasons for the use of contracted-out services can be (Soini 2002, s. 54; Siltala 2003):

- insufficiencies in the own recourses
- lack in the special know-how (for example building automation)
- lower price of the work
- playing along with the fashion trend of privatising in the public sector.

Problems with outsourcing can include (Leväinen 2002, p. 59):

- Quality Control
- Loss of skills and knowledge by municipal employees
- Personnel and labor issues
- Risk of negative economic side effects.

In Finland the principle reasons for using contracted services are (Lith 2003, p. 9 and 36; Soini 2002, p. 54):

- Insufficient amount of qualified in-house personnel
- Retirement of own personnel
- Cost savings
- Flexibility
- The trend to outcomes based delivery systems in the public sector.

The main obstacles to using contracted services were asked in Lith's questionnaire (2003, p. 37-38). The answers to the questionnaire were evaluated with points: most important (3), second (2) and third (1). (Table 3/1).

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

- 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.

Table 3/1. Problems With Contracted Cleaning & Property Services
(Lith 2003, p. 37-38)

Problems and objections	Points
Strategic political decisions are missing	77
Insufficient amount of providers in the municipality	72
Want to keep own production / personnel	66
Do not trust in remarkable cost savings	64
Do not trust in better services	46
Difficulties in defining the quality of services	33
Position of the own personnel / TUPE	22
Bad experiences in buying private services	21
Objections of different municipal units	19
Insufficient knowledge of private supply of services	18
Own functions have not been specified	8
Missing know-how in buying services	6

References

Kietäväinen, Timo. Executive vice president of the Association of Finnish Local and Regional Authorities. Article in *Talouselämä* magazine 00/2002, p. 26.

Kilpailupoliittinen toimintaympäristö. Kuntaliiton kilpailupoliittinen työryhmä. Unpublished memorandum 2002.

KTM. Public procurements. Finnish ministry of trade and industry. <http://www.vn.fi/ktm/2/julha/index.html>, 13.1.2003.

Kuntaliitto (the Association of Finnish Local and Regional Authorities): *Omin voimin, yhdessä, ostaen. Kunnan omaa teknisten palvelujen tuotantoa täydentäviä vaihtoehtoja.* Suomen kuntaliitto. Helsinki 2001.

Kuntaliitto (the Association of Finnish Local and Regional Authorities): Kuntaliiton

kilpailupolitiikan strategiset linjaukset. Kuntaliiton kilpailupoliittinen ryhmä. Kuntaliiton hallituksen pöytäkirja 4.6.2002 56§, Liite 1.

Kuntaliitto (the Association of Finnish Local and Regional Authorities), <http://www.kuntaliitto.fi/esittely/finances.html>, 4.5.2003

Kähkönen, Liisa. Liikelaitos organisaatiomuotona kunnallisessa palveluntuotannossa. Turenki 1996.

Building sites as a City Facility; article in Facilities Management – European Practice 1997. European Facilities Management Network. University of Strathclyde 1997. pp. 44-47.

Leväinen, Kari I. Kuntien palvelukonsepti – tee itse, yhdessä tai ulkoista. Maanmittausinsinöörien liiton julkaisu C1. Edited by Jani Hokkanen and Jani Palomäki. Espoo 2002, pp. 51-63.

Leväinen, Kari I. and Korthals Altes, Willem K. Paper presented in Annual Meeting of the American Real Estate Society, March 29 – April 1, 2000, Santa Barbara, California.

Leväinen, Kari I. and Korthals Altes, Willem K. Land Development Contracts - a Comparative Study in Finland and in the Netherlands. FIG XXII International Congress. Washington, D.C. USA, April 19-26 2002.
http://www.ddl.org/figtree/events/fig_2002/fig_2002_abs/Ts8-4/TS8_4_levainen_korthalsaltes_abs.pdf, 4.6.2003.

Lith, Pekka. Yksityiset kiinteistöpalvelut ja toimitilapalvelujen järjestäminen kunnissa. Unpublished report. Suomen kuntaliitto, Palvelutyöntajat 22.05.2003.

Oulasvirta, Lasse. Kuinka kunta toimii. Kuntakoulutus Oy. Helsinki 1996.

Parjanne, Risto. Kolmannes kuntien menoista jo kilpailutuksen piirissä. Seutuseminaari 28.5.2003. Media notice. <http://www.kuntaliitto.fi/lehdisto/030528.htm>, 31.5.2003.

Siltala, Mika. Contracted Property and Facilities Services in Municipalities (Local Government) in Finland, paper presented in Euro FM conference, Rotterdam 16.5.2003.

Soini, Antti. Tilapalveluiden organisointi kunnissa. M.Sc. thesis. Helsinki University of Technology. Espoo 2002.

Sutela, Marja. Kuntalaisen roolin muutos: Aukkaasta asiakkaaksi – tarkastelukohteena sosiaalihuollon asiakaslähtöisyys. Joensuu 2001.
http://www.joensuu.fi/oikeustieteet/henk/Sutela_final.pdf, 31.5.2003.

Viinikka, Jarmo. Kuntien kiinteistötoimi muutoksessa. Association of Finnish Local and Regional Authorities. Helsinki 1995.