

4 Sweden: Notes on Municipal FM Contracts in Sweden

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***Abstract.** Swedish municipalities experimented with internal contracting arrangements for property and facilities management services during the early 1990s, and the use of external FM contractors has increased more recently. When external contractors are used, the tendency is for contract scope to expand. Typically, there are several contracts with a duration of three or five years. Output specifications related to performance are seldom found. The Swedish Aff standard form of contract for property management and its related documents are important tools. Over a longer period, the Swedish development from the 19th century dependence on external contractors, followed by a long period of services delivered by municipal employees and ultimately returning to a greater proportion of services that are bought in the market, can be explained as a reflection of changes in knowledge management.*

4.1 History of Municipal Contracts

In most of the advanced European countries, the usual pattern for local services or utilities in the early 19th century was to award concessions to private companies, or in the case of less technically demanding work, to use private contractors, one or many. The reliance on private contractors and concessionaires was successively reduced from about 1850 to 1914. Sweden followed this pattern: in 1859, urbanization and increasing concern with hygienic conditions led the City of Stockholm to abandon the traditional use of small private contractors. Instead, 75 workers were recruited from the province of Värmland, transferred by steamboat to the capital and lodged there under military conditions (Lindblad, 1962). These were the first facilities-related municipal workers in Sweden.

The new arrangement can be interpreted as a shift to a new form of organization that would be able to use and exploit scarce and valuable knowledge more efficiently than what the private sector could offer in those days.

Influences from the UK (notably the principle of compulsory competitive tendering, CCT) led to experimentation in the early 1990s with a growth in internal contracting arrangements in Sweden. Internal purchaser/provider (also called client/contractor) relationships were set up in many municipalities. Internal units were asked to tender in competition with external service providers.

However, European integration was soon to reduce the variety of arrangements that were intended to reflect a market mechanism. The Public Procurement Act, which conforms to EC directives, came into force on 1 January 1994. A government proposal to introduce compulsory competitive tendering for facilities management and many other municipal activities was withdrawn. Instead, the new Public Procurement Act was amended so that most of its provisions would also apply to much smaller contracts than required by the EC directives.

A joint development program for property issues within Swedish central and local government, UFOS (*Utveckling av Fastighetsföretagande i Offentlig Sektor*) has published a number of reports during the 1990s. The only deeper analysis of styles of management and the issue of trust in technical services contracts in Swedish municipalities has been presented in a PhD thesis (Bryntse, 2000). Another investigation with a focus on the purchaser/provider split for municipal technical services has been published by Johansson (1999) as part of research conducted at Chalmers University of Technology, Gothenburg, and currently, the organization of municipal winter road management is studied.

In 2001, a comprehensive contract for water and wastewater services was awarded by Norrtälje (pop. 53,000) to an international contractor; FM for municipal buildings to another international contractor, and municipal roads and parks to a contractor owned by central government. This was actually the first comprehensive set of contracts for any Swedish municipality.

4.2 The Present Situation

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. Municipal housing companies and foundations are about 700, with a total of more than 800,000 dwellings, mostly in blocks of flats. A questionnaire survey in 1996 (Lundström, Sandgren and Johansson, 1996) showed that some degree of collaboration or coordination between municipal housing management and the management of other municipal properties was widespread, especially among smaller municipalities with a population figure below 15,000. Sweden has some 30,000 sports facilities, of which municipalities own and operate nearly half.

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. An arrangement that is found frequently is to have a Technical Committee (*Tekniska nämnden*) that is served by a Technical Department (*Tekniska förvaltningen*,

Teknikkontoret) which also manages a broader range of technical services. Larger municipalities used to have and in some cases still have a Property Committee (*Fastighetsnämnd*), served by a Property Department (*Fastighetskontor*). Small municipalities and some that are not so small may have the department directly under the municipal executive committee (*kommunstyrelsen*). About twenty municipalities use a committee system (*kommundelsnämnder, stadsdelsnämnder*) based on geographical decentralization. There may also be central purchasing and procurement unit in some municipalities.

4.3 Property and Facility Management Services

'FM' as it is used in the present text refers to the management of a set of facilities related services, coordinated with the explicit purpose of supporting the core activities of an organization. Obviously, there will always be some uncertainty when identifying the core activities of any organization. The Swedish Local Government Act is characteristically unhelpful when it stipulates that it is in the power of municipalities to take charge of those matters of general interest that are related to their respective territories and that are not the preserve of some other public body. Undoubtedly, ownership and management of municipal buildings is not contrary to the doctrine of *ultra vires*.

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.

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.

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.

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.

4.4 Legislation

The Swedish Public Procurement Act implements 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 million for works. The National Board for Public Procurement (*Nämnden för offentlig upphandling, NOU*) is responsible for supervision of procurement practice.

4.5 Contracted Services

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.

According to the Nilsson (1999) survey, there were three main reasons for the use of external contractors: (1) a municipal policy to increase competition, often with a view to increase efficiency and profitability, (2) insufficient staff or a belief in the efficiency of mixing direct labour with external contractors, and (3) a belief in cost reductions and quality increases.

4.5.1 Scope, scale and duration of contracts

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.

A third example: municipal *Kärnfastigheter* (Helsingborg, pop. 118,000) holds about 600,000 sq.m., divided into five districts. FM services are procured annually for one district at a time, and the duration of contracts is five years. Three private providers, two of which are international contractors, are currently operating. Since 1999, *Kärnfastigheter* is a unit under a municipal committee (*Tekniska Nämnden*) with its own annual accounts. FM services have been procured externally since 1992.

4.5.2 The procurement procedure

Selective procurement is recommended by Nilsson (1999). In practice, this means

that 5-7 companies are invited to tender. Obviously, the initial contract needs more preparation, in particular as a major effort may be necessary to provide tendering firms with appropriate documentation for all buildings.

4.5.3 Forms of contract, specifications

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.

A first version of the Aff (*Avtal för fastighetsförvaltning*) standard form of contract for property management was published in 1995. The current edition is Aff-99, published by The Swedish Building Centre (*Svensk Byggtjänst*).

4.5.4 Payment and incentives

Sundsvik (2002) reports experiences from regional county councils with incentive clauses in their management contracts, eg a 2% rent reduction if tenants reduce their consumption of electricity, water and heat by agreed annual percentages. Another payment schedule is based target cost with shared profit and losses between landlord and tenant, according to fixed percentages. This type of incentive may also be linked to user satisfaction surveys. We may thus find arrangements such as a bonus percentage linked to a clause requiring more than 80% or 60% satisfied users.

4.5.5 Monitoring

Good routines for communication during the performance of contracts are seen as essential. This is especially so when the point approaches where a contract renewal decision has to be taken by the municipality.

4.5.6 Personnel

The Nilsson (1999) survey indicated that it was a common requirement that staff, but not always all staff, should be transferred to the contractor. There is today a supplement to the Aff 95 standard forms of contract that also covers issues of personnel transfer.

4.5.7 Competition

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).

4.6 Concluding Remarks

It is possible to view any change towards a higher or lower reliance on external service providers as the outcome of a local strategy for knowledge management. Somehow, the external provider must be more efficient than in-house providers of services. 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.

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.

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