

## **7 The Netherlands: Facility Management in Dutch Municipalities**

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***Abstract.** Due to some developments in the law, pressure to outsource activities in municipalities in the Netherlands is increasing. For some activities outsourcing already is usual, for example for the renovation of buildings and cleaning. The trend in Dutch municipalities is to outsource activities as single services. To prevent labour unrest and restrained relations with labour unions this is done gradually. According to this, in Finland facility activities can also gradually be outsourced, if there is consensus about the vision in management of the municipality. This strategic vision about facility 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. In the paper different aspects of outsourcing are discussed.*

### **7.1 Introduction**

This paper is part of a study on contracted services and Facility Management in Finnish municipalities. The aim of the study is to create a generally applicable concept by which the contracting out and outsourcing of different types of municipalities can be achieved in the best possible way. The concept should give guidelines to economic building management considering various options, including the option of in house production of facility functions. The content of this paper has been presented at the seminar 'Contracted services and advanced facilities management in the Finnish municipalities' at the 23rd of May 2002.

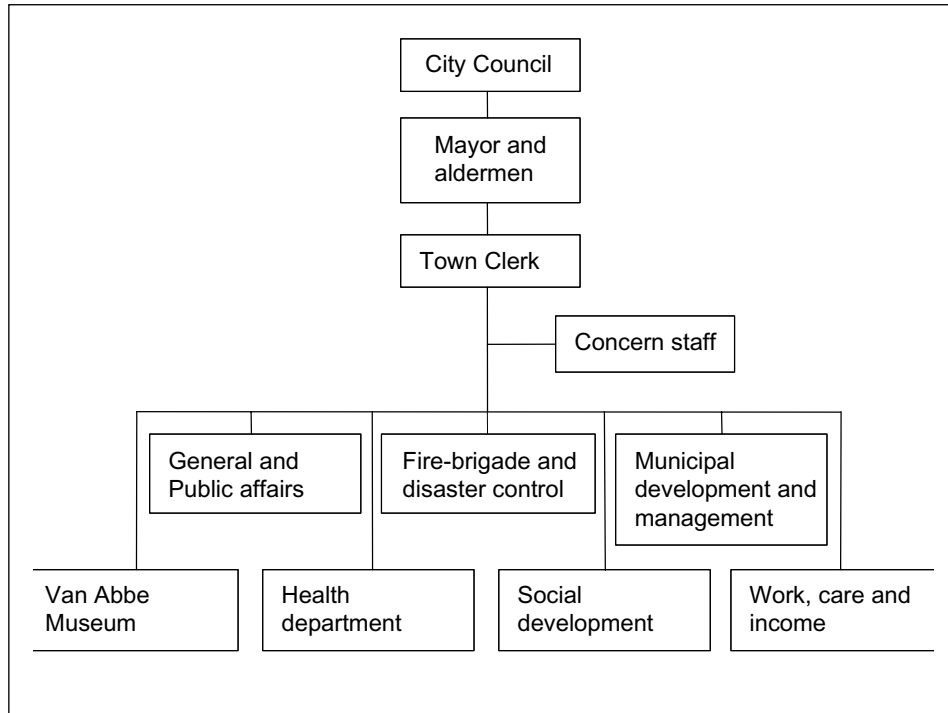
In this paper the Dutch situation in Facility Management is described, partly by using the city of Eindhoven as example for Dutch municipalities.

### **7.2 Present Situation**

#### ***7.2.1 The organisation of municipalities***

For describing the present situation of the municipalities in the Netherlands the city of Eindhoven is used. The city of Eindhoven is the fifth large municipality in the Netherlands of a total of 500. The city has 200,000 citizens. In Figure 7/1 the organisation of the municipality of Eindhoven is shown. This organisation

is representative for all municipalities in the Netherlands. Only the 'Van Abbe Museum' is a specific function for the city of Eindhoven.



*Figure 7/1. Organisation of the municipality of Eindhoven*

In the near future the functional distinction between the office of the town clerk and the city council will increase. The city council concentrate on their responsibility for policy and control. The office of the town clerk will become to a much larger extent responsible for the governing of all activities. Municipalities are forced by recent lawmaking to assess to a large extent the costs of all their activities and to benchmark them with other municipalities. The results of this benchmark activity probably will be an increase in pressure to outsource activities.

### **7.2.2 The tasks and functions of municipalities**

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 ‘Van Abbe Museum’ is a specific department for the City of Eindhoven. This museum for modern art is closely related to the department of Social development, but is in an organisational sense a separate entity. The department of Work, care and income has to provide services for getting work, income and care.

The municipality of Eindhoven has 6 office buildings in use, one of which is City Hall. The other 5 buildings are located in the 5 districts of the city. In total the municipality of Eindhoven has 45,000 m<sup>2</sup> of office space in use. In these offices a total of 1,950 employees are working.

### **7.2.3 Development and experiences at municipalities**

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%.

Table 7/1 shows that some activities are usually contracted out, for example the renovation of buildings and cleaning. Other activities are most often produced, for example the reception and ICT activities. The table also shows that there is experience on mixing self-produced services and contracted services on all the shown activities, especially with building maintenance.

*Table 7/1. Extent of outsourcing of facility services (based on the NEN 2748)*

	<b>Contracted out</b>	<b>Self-produced</b>	<b>Partially contracted out</b>	<b>Initiative expected in 2 years</b>
<b>Accommodation</b>				
Building maintenance	34%	26%	40%	0%
Renovation	67%	8%	23%	2%

<b>Services and Resources</b>				
Restaurants and catering	47%	43%	6%	4%
Risk management	13%	66%	17%	4%
Cleaning	81%	5%	14%	0%
Waste	57%	26%	16%	1%
Reception	2%	90%	7%	1%
<b>ICT</b>				
Telecommunication	21%	61%	16%	2%
Data communication	9%	77%	14%	0%

In Table 7/2 the costs of several services are shown for the city of Eindhoven as well as the average in the Netherlands. In order to get a total costs all have been transformed in costs per employee per year. The figure shows that the city of Eindhoven pays € 1,175.46 per employee more than average. This begs the question; is this good or bad? Maybe the city of Eindhoven offers their employees better services to get better educated and motivated employees. As a consequence their citizens get good service. A benchmark without an indication of the level of quality associated with the services lacks an important dimension.

*Table 7/2. Benchmark of facility service costs (based on NEN 2748)*

<b>Costs of</b>	<b>Amount (City of Eindhoven)</b>	<b>Amount (average in the Netherlands)</b>
Housing	€ 147.- / m <sup>2</sup> / year	€ 93.- / m <sup>2</sup> / year
Energy	€ 11.- / m <sup>2</sup> / year	€ 10.- / m <sup>2</sup> / year
Cleaning	€ 16.- / m <sup>2</sup> / year	€ 14.71 / m <sup>2</sup> / year
SUB Total	€ 5,098.20 / employee / year	€ 3,448.90 / employee / year
Catering	€ 871.- / employee	€ 447.51 / employee
Telephony	€ 917.- / employee	€ 434.01 / employee
ICT	€ 3,937.- / employee	€ 3.089,19 / employee
Document Management	€ 724.- / employee	€ 2.081,32 / employee
SUB Total	€ 5,578.- / employee	€ 6,051.84 / employee
<b>TOTAL</b>	<b>€ 10,676.20</b>	<b>€ 9,500.74</b>

### **7.3 Property and Facility Management**

These costs include depreciation and capital cost if applicable. About 95 municipalities participate in a Facility cost benchmark club that reports each year in the fall on their facility costs of the previous year. This club is organised and supported by management consultants from Cap Gemini Ernst & Young.

### **7.4 Legislation**

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 %). But in the Netherlands there are possibilities for municipalities to avoid paying taxes, which are approved by the government.

Changes are expected in January 2003, when a new tax law comes into force, through which 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. The name of this law is VAT 2003.

### **7.5 Contracted Services**

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.

#### **7.5.1 Reasons for outsourcing**

There are several reasons for outsourcing activities. The main reasons given in questionnaires are: want to restrict own activities to the core business, increase flexibility, solve capacity problems by shifting to an outside supplier, make costs transparent, reduce costs or get access to knowledge which isn't available in the own organisation. Other reasons given are: want to use competence, which has been developed by supplier or want to restrict own investments in staff and / or capital goods.

#### **7.5.2 Drawbacks**

When organisations outsource activities, there always is a chance of unwanted consequences. It is possible that a contractor will not be able to meet the requirements that have been put in the contract. Or cost reductions are not realized. An other drawback may be that there is little or no control over the activities of the outside, commercial provider. Organisations also fear to become dependent of the contractor.

### **7.5.3 Bidding process**

Before facility organisations can outsource activities, they have to organise a process with several steps. The first step is to check if a certain activity is considered a facility activity by the management of the organisation. Then, internal and external possibilities have to be researched. For making a good decision about whether or not to outsource such activity, the need and motivation to outsource has to be described. The benefits and drawbacks should be listed, professional advice should be asked and a plan to implement such a change should be made. After the decision to investigate the possibility of outsourcing has been made, a profile of needs should be formulated. In the Netherlands a tool could be the NEN 2748. This is a standardized list of terms of facilities. Also the desired organizational form for outsourcing needs to be determined. Then it's time to select contractors, ask them for bids and to make a choice.

### **7.5.4 Contract contents**

When the organisation has chosen a contractor a contract has to be made. The organisation has to make sure that the contract that will be made consists of at least the following aspects:

- a description of the activity
- the responsibilities of both client and contractor
- the quality of the services and products
- the obligations of both client and contractor
- the responsibilities of both client and contractor
- guarantees for the client (also of continuity of the deliverance of the product or service)
- agreements on prices and on the currency of the contract
- the form and frequency of contact between client and contractor
- agreements on confidentiality
- an arrangement about taking over internal staff & assets of the outsourcing organization
- a Service Level Agreement (SLA) to define functional levels of quality.

### **7.5.5 Service level agreement**

One of the aspects of the contract should be a Service Level Agreement. The SLA consists of a detailed list of all the quality aspects of the contract plus a list of agreements, describe agreed standards. It is used to maintaining a good relationship between client and contractor. Elements of the SLA are:

- a description of services and products in detail (standard)
- a description of time and period of delivery in detail (standard)
- appointments about the transfer of people, equipment & other assets
- contact persons of both client and contractor

- moments of control & service (standard)
- regulation of interruptions (standard)
- arrangements about the exchange of information
- responsibilities of both client and contractor
- the manner of monitoring and evaluation of performance.

#### **7.5.6 Personnel**

An important issue is how to treat the employees that are involved. In the Netherlands employers are obliged to make sure that their employees get a similar contract if they are transferred to a different company. Before outsourcing the advice of the employee committee needs to be heard. These conditions are part of the national Dutch legislation for the protection of employment. It is good practice to just reorganise the organisation and to train personnel before transferring them to another company.

Municipalities by law have employee councils with elected members. Unions are active in these bodies. The council has the right of consultation with respect to all reorganisations concerning the functioning of the civil service. Outsourcing of facility activities needs at least the advice of the council. In most cases the office of the town clerk will seek their approval.

#### **7.5.7 Other issues**

Savings in case of outsourcing by municipalities are often said to be 10 % or more. The objectives in these cases are both cost reduction and improvement of the quality of the facility service. Occasionally it is seen that the organisation insources an activity after a period of outsourcing. This can be seen in the context of the continuous process of rebalancing the relationship with suppliers, given the objectives and strategy of the organisation.

The dominant trend in urban areas for municipalities is, to outsource facility activities as single services. To prevent labour unrest and restrained relations with labour unions this is done gradually in time. 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.

#### **7.6 Advice**

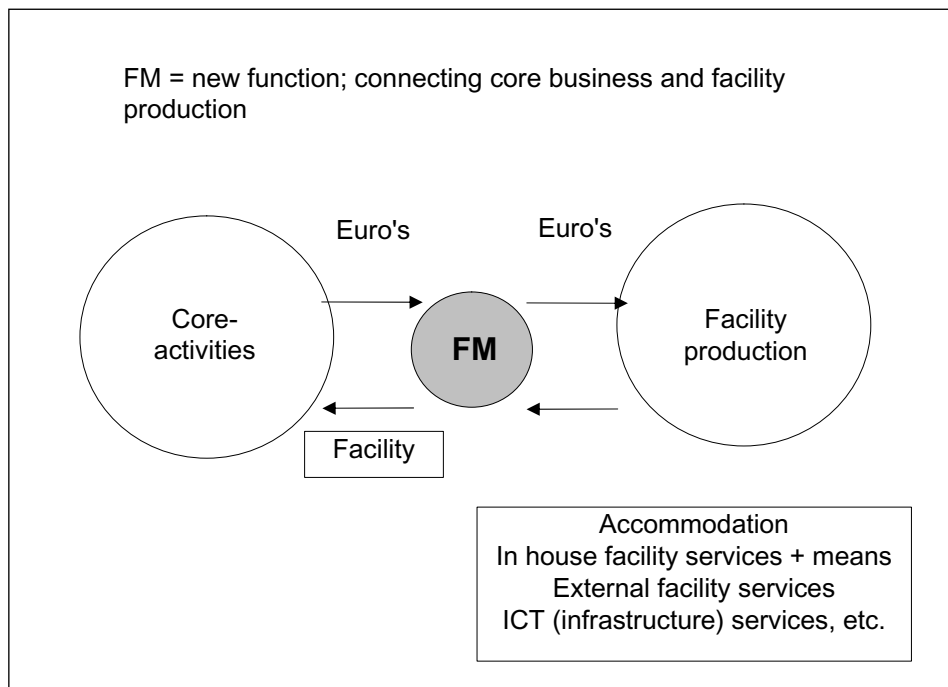
On the question 'how Finnish municipalities should proceed with property services and facility services?', the following answer can be given: If there is consensus about the vision in management of the municipality, most facility activities can gradually be outsourced. This strategic vision about facility 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. Municipalities should outsource step by step. Municipalities should also stimulate commercial partners to increase quality by complying to ISO 9001 or EQM like instruments.

## 7.7 General Conclusion

### 7.7.1 Facility Management function

The Facility Management function (FM-function) is new function in the organisation that provides a connection between the core activities and the facility activities. The facility activities can also be named facility production. Facility production may consist of accommodation, in house facility services, external facility services and ICT services. In the Netherlands NEN 2748 is used to name all possible facility services. The position of the FM-function in the organisation is shown in Figure 7/2. 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. Important issues for the FM-function are efficiency versus cost and quality versus benefit.

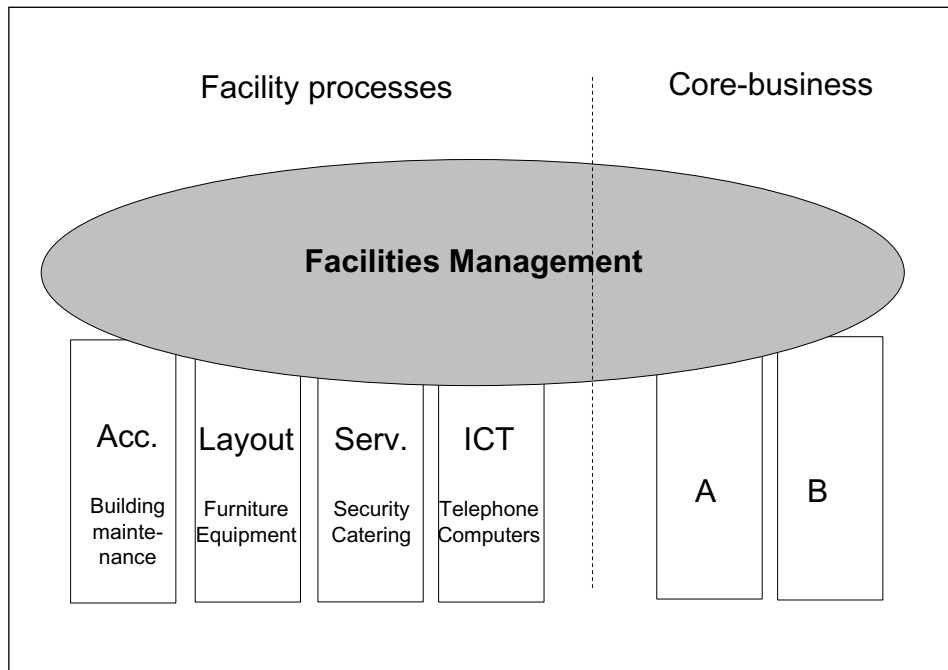


*Figure 7/2. Position of the FM-function*



### 7.7.2 Facilities Management

Facilities Management has complete responsibility for facilitating the core business. This is shown in Figure 7/3.



*Figure 7/3. FM facilitating the core business*

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