The future challenges of the public sector will be related to asset management and optimization of the infrastructure and services within that entity. There are more things today that can be considered FM than ever before, offering unparalleled opportunities for establishing new collaborative models. Tomorrow’s FM solutions will no longer be limited to servicing buildings and infrastructure. Rather, FM will be required to play an increasingly important and integral role in enabling the free flow of information, people, and objects, while creating a high quality experience for citizens.

The future of public sector outsourcing will be characterized by highly sophisticated FM or infrastructure management – network hosting, people coordination, helpdesk services, communication, security and workplace management solutions among other things – rooted in precision and measurement, process discipline and operational excellence.

Copenhagen Institute for Futures Studies (CIFS) supports better decision making by contributing knowledge and inspiration. CIFS’ objective is to advise public and private organizations by pointing awareness of the future and emphasizing its importance to the present. CIFS identifies, analyses and explains the trends that influence the future through research, seminars, presentations, reports and newsletters.

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ISS World Services A/S
The ISS Group was founded in Copenhagen in 1901 and has grown to become one of the world’s leading facility service companies. ISS offers a wide range of services such as Cleaning, Catering, Security, Property and Support Services as well as Facility Management. Global revenue amounted to almost DKK 80 billion in 2013 and ISS has more than 50,000 employees and local operations in more than 50 countries across Europe, Asia, North America, Latin America and Pacific, serving thousands of both public and private sector customers.

Every day, ISS employees create value by working as integrated members of our clients’ organizations. A key component of the ISS HR strategy is to develop capable employees in all functions. Team spirit and self-governance are encouraged, as is voluntary participation in additional training and multidisciplinary workloads. Besides developing our employees, ISS ensures compliance with Health, Safety and Environment (HSE) regulations. We demonstrate our social and ethical commitment through the ISS Code of Conduct, our membership in the UN Global Compact and by honouring the principles laid down in the Union Network International (UNI) agreement.

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ISS 2020 Vision

Future of Public Sector Outsourcing

The future challenges of the public sector will be related to asset management and optimization of the infrastructure and services within that entity. There are more things today that can be considered FM than ever before, offering unparalleled opportunities for establishing new collaborative models. Tomorrow’s FM solutions will no longer be limited to servicing buildings and infrastructure. Rather, FM will be required to play an increasingly important and integral role in enabling the free flow of information, people, and objects, while creating a high quality experience for citizens. The future of public sector outsourcing will be characterized by highly sophisticated FM or infrastructure management – network hosting, people coordination, helpdesk services, communication, security and workplace management solutions among other things – rooted in precision and measurement, process discipline and operational excellence.
Future of Public Sector Outsourcing
“The best preparation for good work tomorrow is to do good work today”

Elbert Hubbard, writer, publisher, artist, and philosopher
EXTRA! EXTRA!
READ ALL ABOUT IT!
CHANGES COMING!!!
CEO Jeff Gravenhorst at the new ISS head office, which has been designed according to “New Ways of Working” principles.
1. Foreword

The public sector is growing in most countries around the world. In some developed countries, the public sector is now responsible for up to half of the domestic economic activity. Some of the most important services in our societies are delivered by the public sector – like education, healthcare, justice as well as internal and external security. Although the public sector has grown in importance, we have seen less interest in securing efficiency and effectiveness – value for money – compared to how focused the private sector is on securing constant improvements and efficiencies. Generally, outsourcing in the public sector is at a much less developed stage than in the private sector.

Consequently, the public services that many countries offer are often far from being the best value for money. The problem may in part be that the public sector has rarely identified its core business areas, and that many people have the wrong perception of how to measure quality. The myth that hours spent in delivering a service equals quality, is widespread in the public sector in many countries. If it takes more working hours to produce a service, the better it must be, seems to be the mantra.

Most outsourcing professionals know from experience that if a private company makes an offer to provide a public service, be it school cleaning or taking care of all the facility services of an entire hospital, the private company will usually be able to undertake this task more effectively, efficiently and at less cost. As the private company is a specialist in the area, it employs the most effective working methods, uses the latest technology and enjoys economies of scale.

You would think that a better and cheaper service would be gladly accepted, but this is not always the case.

The argument that stable or lower consumption of public services is the same as a deterioration in service quality is already a major political topic of discussion in many countries. But, lower cost is not necessarily the same as lower quality. Just think of mobile telephones. New mobile telephones cost only a fraction of the price of the first mobile telephones, and yet the new models are far more advanced and user-friendly. By banking on innovation and technology, we now have mobile telephones with greater value for less money. We should attempt the same for public services.

We all have an interest in ensuring that we get the best possible welfare for our resources. The solution starts with identifying which tasks the public sector should undertake on society’s behalf and which core competencies this requires. For example, the purpose of running of a hospital must be the healing of its patients. This is clearly a core competence of a hospital, but is it also a core competency for a hospital to be in charge of the canteen, bring food to patients, IT, administration, cleaning, reception, or building maintenance? The identification of public sector core competencies is an important starting point for increased outsourcing.

While the benefits of outsourcing are widely accepted, to support the specific hypothesis of outsourcing in the public sector outlined in this study we used multiple subject matter expert interviews and a workshop with public sector customers. The study also presents external expert assessments from the Copenhagen Institute for Futures Studies of the trends and challenges facing the public sector towards 2020 and the Facility Management industry’s role in helping the public sector solve these challenges.

It is my sincere hope that this ISS 2020 Vision report, the Future of Public Sector Outsourcing, will inspire public sector organisations and private sector service providers to develop new, collaborative solutions for offering better public services using fewer resources.

Happy reading!

Jeff Gravenhorst
Group CEO
“Success doesn’t come to you, you go to it”

Marva Collins, educator
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2. Acknowledgements

At ISS, we are very pleased for our close collaboration with the Copenhagen Institute for Future Studies (CIFS) and especially former Director Jeffery Scott Saunders and Researchers Simona Arminaite and Kyle Brown, who have been instrumental in conducting the research study and writing the report. As Jeff changed job during the process I would also like to take the opportunity to thank his new employer, Signal Architects, for allowing him to finish the ISS assignment.

On behalf of ISS, I would especially like to thank the 23 interviewed subject matter experts who were kind enough to engage in fruitful discussions through telephone and web meetings. The information provided was high quality, and we are very grateful for their cooperation and interest.

In addition, I wish to acknowledge the support and input of our partners and customers who engaged in the Copenhagen workshop to qualify and assess research findings. Their time, dedication, participation, openness and willingness to engage in futuristic discussions concerning the future of public sector outsourcing has been critical to the process.

Finally, I would like to extend my appreciation and gratitude to my internal colleagues who were kind enough to join the ISS 2020 Vision Advisory Board:

- Joseph Nazareth, Group
- Jens Boe Jacobsen, DK
- Michel Pan, NL
- Andrew Price, Group
- Peter Ljungbro, SWE
- Wendy Stowell, UK
- Liesbeth Janssens, BE

Their participation in numerous meetings, lengthy discussions and various interpretations of the research findings is highly appreciated and so is their ability to adapt the conclusions of the research into a strategic context for ISS.

In support of this, I would also like to express my gratitude to my team members Signe Adamsen and Brian Borup for their extensive contribution to the project and to the layout and editing of the final report.

Thank you!

Peter Ankerstjerne
Head of Group Marketing
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   Administrator General at Agency for Facility Management (BE)
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   FM developer, Västra Götaland County Council
Optimization | Transformation
3. Executive summary

Towards 2020, public sector organizations in many countries will face societal, organizational and operational demands for increased financial restraint, efficiency as well as more environmentally sustainable solutions that lead to positive social outcomes.

A new type of contract between citizens, local public bodies, and national governments will emerge. Ongoing negotiations about service delivery will come to be the cornerstone of this new relationship, transforming the essence of public service provision to include a greater focus on the end-user.

“Governing for citizens” will shift towards “governing with citizens”. This new relationship will be based on higher levels of citizen engagement that will include the specification of priorities, as well as the development of solutions. The role of government as service provider will turn into that of a service facilitator, broker or commissioner.

Facility Management (FM) providers will no longer be limited to offering facility support services for public sector buildings and infrastructure. Rather, they will be required to play an increasingly important and integral role in servicing assets and facilitating the movement of information, people, and objects, while creating a high quality experience for citizens.

FM providers, therefore, must be agile and diligent, and work together in partnership with public authorities in order to build consensus on the direction of public service delivery for each sector, and to ensure strategic alignment. Understanding the strategic issues facing the public sector, FM managers will be able to better position themselves to make an impact and demonstrate their added-value as a business case.

To help outsourcing partners, including FM providers, understand the strategic issues facing the public sector and to develop their role in helping facilitate service delivery, ISS World Services commissioned the ISS 2020 Vision: Future of Public Sector Outsourcing study.


The ISS 2020 Vision: Future of Public Sector Outsourcing report was developed through desk research, workshops with ISS experts, external partners and customers, and 23 independent subject matter expert interviews. The study is comprised of four primary sections:

- **Section 5:** The section on the future of the public sector looks at the primary trends shaping the future of the public sector, and their effect on public sector outsourcing;
Section 6: The section on the strategic issues challenging the public sector highlights areas where optimization and transformation are required operationally and strategically;

Section 7: The section on the outsourcing as a strategy explores the primary trends and future of outsourcing in context of the public sector; and

Section 8: The section on the role of Facility Management in the future public sector outlines the areas of opportunity for FM and services industry providers and concludes on research findings.

Trends affecting the future of the public sector and public sector outsourcing

The ISS 2020 Vision: Future of Public Sector Outsourcing identified twelve trends that will be shaping the future of the public sector and the future of public sector outsourcing. The trends are not independent, but, rather, interact with each other reinforcing their importance.

1. Managing demographic bulges: Governments around the world will have to focus the delivery of services to the demographic profile of their populations. This requires adjusting service delivery to the demographic bulges in their countries. In high income countries, an ageing population increases the fiscal burden while decreasing the immediate capacity to respond to the general challenges of ageing. Most countries, however, find themselves dealing with the youth “bulge” challenge.

2. Responding to growing customer expectations: Residents now see themselves as consumers of public services; residents, as a group, are becoming an increasingly complex, individualized and diverse population, with growing, shifting and contradicting expectations.

3. Personalization of services: According to recent surveys, citizens expect governments “to better understand the needs of citizens and communities,” and to “make sure that services are tailored to the needs of people who are using them.”

4. Harnessing technology and other innovation: In order to fulfill the personalization of services ambition, among other things governments and public sector organizations need to invest in technologies and innovations to improve processes and outcomes. This requires a transition “from S-government (S-government is characterized by large-scale, standardized solutions) to I-government” (I-government solutions focus on developing more intelligent, interactive solutions that focus on individual needs).

5. Consolidation towards larger, integrated contracts: In many domestic markets, governments and service providers are consolidated into larger, integrated or “bundled” contracts, which are entered into with local authorities. Governments see this solution as a means for “finding new, efficient ways of delivering services rather than simply cutting [them].”

---

2 Plimmer, Gill, Outsourcing Soars in Public Services, Financial times, January 31, 2013.
6. **Task management**: While the public sector is seeking economies of scale in the consolidation of larger, integrated contracts, managers are keenly focused on improving the efficiency and effectiveness of single tasks and services. The ongoing challenge for public sector managers is driving efficiency from an increasingly complex working environment.

7. **From providers to commissioners**: Governments are transitioning from being a provider of services to an entity that predominately commissions, facilitates, or brokers services. This transition requires new skills in governments – such as agility, innovation, transparency and connectedness – and new capabilities for facilitating relationships with external partners – such as flexibility, co-venturing, co-creation.

8. **Outsourcing across level of government**: Governments have turned to outsourcing as a way of accessing external expertise and delivering services more cost-effectively. Outsourcing of activities includes sourcing services from the private sector but also from other government entities.

9. **Profits contingent upon outcomes**: Outcome-based payment models for services delivered by external providers are a concept that is growing in popularity among outsourcing providers. The challenges for both outsourcing providers and government entities in transitioning towards an outcome-based model are many, but are primarily an issue of defining and measuring outcomes.

10. **Increased involvement of the not-for-profit sector**: Public sector organizations are increasingly being configured to involve such external partners as and including voluntary, charity and non-profit organizations.

11. **Affordable government**: Making government affordable is the new reality for current and future public sector organizations. Due to demographic ageing, increasing customer demands for personalized services, and growing sustainability challenges, governments will likely need to meet expenditure gaps or shortfalls of billions of dollars over the next dozen years to be able to continue to deliver public services at current levels to future populations.

12. **Empowerment vs. Shadow state**: There is a risk that a “shadow” government could emerge in many economies. Shadow government refers to markets for public services that are controlled by a small number of large, predominantly private companies that have great influence in how these markets work.
Strategic issues challenging the public sector

In light of the drivers and trends affecting change in the public sector, there are a number of strategic issues facing the public sector. To meet these challenges, the public sector will have to implement an ongoing effort to optimize and transform public sector operations and public services. Public authorities will use a variety of strategies and tools, including outsourcing.

Optimization includes changes in policies and practices regarding improvements in value delivery, both internally and externally. Optimization typically has an operational focus. This involves both the provision of public services and more effective asset-resource management. Optimization issues include:

A. Efficiency and doing “more with less”: Fiscal pressures, economic constraints, and the demand for greater sustainability in the delivery of services – which includes greenhouse gas emissions, usage of resources, and the potential environmental toxicity of products used in service delivery – will continue to force the public sector to be resource efficient and optimize functions and service delivery processes in order to be able to do more with less.

B. Mass customization: There is no “one size fits all” solution, but the provision of public services needs to work towards the “mass customization” and “mass personalization” of service delivery. That is, the use of flexible, intelligent technologies and Information Communication Technology (ICT) systems to produce a custom output to a large number of people.

C. Balancing automation and the “human touch”: The choice to automate services and other functions is another strategic dilemma in the public sector that is influenced by demographic trends, technological developments, and the notion of affordable government. Particularly this is as public sector organizations transition from providers to commissioners of service.

D. Breaking organizational silos: Breaking organizational silos involves harnessing technology and other innovations, greater cross-governmental collaboration, project-based task management, and transitioning from providers to facilitators to create affordable government.

Public sector authorities can only take optimization so far before they start receiving negative returns. Therefore, they need to focus on transformation.
**Transformation** describes the areas in which the public sector is expected to undergo change at the strategic level. Due to the large size of the public sector, as well as the inertia of most bureaucracies, long term planning and reliable partners are increasingly important considerations when focusing on transformation. This will require more of a facility or infrastructure response. Transformation issues include:

I. **Increasing transparency and trust**: Most public sector organizations are facing increased scrutiny amid calls for further accountability, monitoring and control. Thus, according to interviewed subject-matter experts, many areas of the public sector are working towards achieving an increased level of transparency.

II. **Communication and citizen engagement**: A critical challenge for the public sector is how to manage and engage citizens in government processes in order to become flatter, agile, streamlined and tech-enabled. In light of demographic changes, increased customer expectations, and the introduction of new technologies – such as social media – communication is now a key strategic issue for the public sector.

III. **New metrics for success**: Developing new metrics for success is a major concern. Subject-matter experts largely agree that there is a trend towards using outcomes as the final arbiter of successful service delivery. Organizations today are beginning to look beyond the limited notions of input, output, and profit, towards growth which is much more performance-driven, outcome-based, and socially-centered.

This process of change requires having external entities play a more active role as strategic partners, co-creators and educators.
Outsourcing as a strategy

Outsourcing as a strategy is increasingly regarded as a solution to many of the strategic issues outlined above. This is especially true as the private sector experiences growth in trust; confidence is lost in input- or output-based measurement systems, and the desire to do “more with less” among public sector organizations increases.

New models or approaches to outsourcing will largely be reflected in the parameters of future contracts, and mirror the present – yet non-static – ideological inclinations of society and government.

The public sector has had a long and complex relationship with private sector organizations. That history has predominantly been characterized by periods of widespread outsourcing or privatization, and followed by periods of insourcing or renationalization. There have been three waves of outsourcing over time that are, in large part, reflective of the prevailing political and economic conditions encountered at the time.

1. The economic-based view inspired by the transaction cost economic theory;
2. The strategic-based view inspired by the resource-based theory; and
3. The relationship-based view inspired by the social exchange theory.3

There will be a convergence of all three theoretical paradigms in practice, which will be vis-à-vis a model that embodies the appropriate values, while mitigating the risks to such an extent that makes outsourcing viable.

The central challenge in public sector service provision is overcoming the assumption that outsourcing contracts should be static, one-directional, and time-limited. Effective outsourcing for public sector organizations requires the use of smart contracts.

In many European markets, the development towards smart contracts will be impacted by EU regulation. Interviewed subject-matter experts noted in particular that complex EU-wide procurement regulations were often viewed as a barrier to outsourcing in the public sector. The current rules are not conducive to partnerships and relationships that are defined under flexible contracts and are based on trust. Fostering trust is expected to become increasingly necessary as the complexity of the challenges facing the public sector becomes more pronounced.

Public sector outsourcing in the future is expected to further transcend the boundaries of the practice set forth today. The models of outsourcing used widely today will change to include innovative arrangements between new and existing actors. The public sector will take greater steps towards extra-institutional outsourcing, which includes outsourcing directly to the individual through self-service, or by way of the not-for-profit or voluntary sector.

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The role of Facility Management in the future public sector

In order to keep up with demand and capitalize on public resources (financial, human, infrastructure, etc.), the public sector will need dynamic infrastructure that can scale accordingly and accommodate the increasing flow of people and information. We need highly sophisticated FM or infrastructure management – network hosting, people coordination, help-desk services, messaging, security and database administration, among other things – rooted in precision and measurement, process discipline and operational excellence.

The primary challenges faced by the public sector in the coming decades will be related to infrastructure. FM is infrastructure in the most basic understanding. There are more things today that can be considered FM than ever before, offering unparalleled opportunities for FM providers to take control of the fourth industrial revolution – industry 4.0 (the digitalization of production and service provision). The role of FM in the future is absolutely central. There are three key roles FM will assume towards 2020 in support of the evolving public sector:

- FM providers as strategic partners: The crucial step for FM providers is to develop tools for engagement that can be used for strategic alignment, and to bridge the gap between customer and partner. Therefore, there exists a need to get on the same level, strategically, with their partners in the public sector.

- FM providers as consultants and educators: Interviewed subject-matter experts largely agreed the role of FM will further evolve into that of a consultancy, which, in addition to providing soft and hard FM services, will consult and advise on a range of issues that are of strategic importance. The value of FM in the future will be on knowledge, and not only technical knowledge at the operational level, but also in the creation, management, and optimization of physical space, people, and information.

- FM providers as investors and co-creators: FM providers will increasingly adopt a greater role as a co-creator since the demands of public sector organizations will further exceed their capacity to deliver in-house. Involving FM providers and other private sector actors will help drive innovation, and thus help shape the future of the public sector. The challenge, however, is aligning the financial and strategic interests of multiple stakeholders.

TRANSFORM your Thinking
4. Introduction

Towards 2020, public sector organizations in many countries will continue to be faced with organizational and operational demands for increased financial restraint. Therefore, public sector organizations seek viable, cost-efficient, value-adding solutions that contribute directly to positive social outcomes.

Many of these challenges require a facility or infrastructure response. The role of Facility Management (FM) becomes increasingly apparent, as movements are made towards a society where environmental, social and economic challenges are solved through collaborative efforts that prioritize technological solutions and resource efficiency (the Great Transformation scenario from ISS 2020 Vision: Future of the Global Facility Management Industry). In the future, FM and services industry managers will be required to go beyond maintaining physical assets towards adding value and optimizing the flow of people, information, and objects in customers’ organizations – both public and private.


FM organizations are at the center of developing services and solutions that leverage physical space to achieve core organizations’ strategies and goals. To do so, FM providers must understand and address the forces shaping future activities, future end-users, and future infrastructure in order to create better environments for their customers and champion better working lives for their customers’ employees.

Summary

The public sector is a significant customer for FM providers, and this is expected to increase in light of the challenges facing the public sector in the future. In the future, FM providers and other private sector organizations will be required to take the lead in creating change. Expect the public sector to further dissolve traditional boundaries and create opportunities for competent private sector professionals to assume new roles. The next ten years will provide a historic opportunity for many FM and service industry managers to contribute strategically to the organizational development of the public sector, but also to innovate and create solutions for robust public service delivery.

The public sector will undergo a number of changes towards 2020 as described in figure 3. Public value and public services will be continually redefined as social structures, market roles, and governing models remain in flux. Unprecedented pressures brought forth by an accelerating pace of change will reshape the core activities of the public sector and drive it towards greater optimization. These future developments will bring a new raison d’être for the whole sector with an empowered citizen at its center.

<table>
<thead>
<tr>
<th>From...</th>
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<tbody>
<tr>
<td>Citizen under control</td>
<td>Citizen in control</td>
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<tr>
<td>Governing for citizens</td>
<td>Governing with citizens</td>
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<tr>
<td>Organization silos</td>
<td>Organization networks</td>
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<tr>
<td>Public sector organizations as big, all-in-one giants</td>
<td>Public sector organizations as small, flexible, purpose-driven entities</td>
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<tr>
<td>Government as service provider</td>
<td>Government as service facilitator/ broker/commissioner</td>
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<tr>
<td>Government owning inputs and processes</td>
<td>Governments and citizens owning outcomes</td>
</tr>
<tr>
<td>Defining and controlling input</td>
<td>Measuring outcomes</td>
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<tr>
<td>Forced cooperation based on enforcement</td>
<td>Mutual collaboration based on trust</td>
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<tr>
<td>Trust in the “strong leader”</td>
<td>Trust in each other, the “servant leader”</td>
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Figure 3: Changes in the public sector (Source: PwC, 2013)

Towards 2020, a new type of contract between citizens, local public bodies, and national government is emerging. Regular renegotiations will come to be the cornerstone of this new relationship, transforming the essence of public service provision to include a greater focus on the end-user.

Therefore, “governing for citizens” will shift towards “governing with citizens”. This new relationship will be based on higher levels of citizen engagement that will include the specification of priorities, as well as the development of solutions. The role of government
as service provider will turn into that of a service facilitator, broker or commissioner. As Jonathan Veale, Designer in the Foresight and Strategy division with the Government of Alberta, explains, “the pattern that I’m seeing now is a lot of delegation of public authority and responsibility outside of the center of government, pushing it towards the edge of government or even outside government in some cases.”

No longer will FM providers be limited to offering facility support services for public sector buildings and infrastructure. Rather, they will be required to play an increasingly important and integral role in facilitating the movement of information, people, and objects, while creating a high quality experience for citizens. Already, many FM managers are focused on combining operational excellence with value-added solutions in order to develop a socially and citizen-centered proposition.

In the long term, successful organizations will need to depend on their ability to “understand the difference between what should never change and what should be open for change, between what is genuinely sacred and what is not.” This represents the central challenge for the public sector organizations to overcome towards 2020.

According to a report in the Harvard Business Review, the “ability to manage continuity and change is closely linked to the ability to develop a vision. Vision provides guidance about what core to preserve and what future to stimulate progress toward.” However, according to interviewed subject-matter experts, the public sector in large part lacks consensus surrounding a vision, which also requires a degree of consensus and solidarity among external stakeholders.

As outlined in figure 4, there are key differences between public and private sector organizations, but the central distinction surrounds organizational vision. While private sector organizations tend to be more heavily vision-oriented, the public sector is not a self-sustaining independent entity, but exists simply as an expression of a nation’s political will.

The ideological inclinations of political representatives largely dictate the vision of government by default, and reflect the prevailing dynamics of the political landscape for a given region. Over time, there have been periods where there has been a broad consensus of the vision and direction for public sector organizations and public service delivery. However, governments are much more polarized today than in decades prior. Thus, the lack of consensus surrounding a vision for public sector organizations represents one of the largest challenges towards 2020, and a major impediment to strategic planning in the FM and service industry.

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<table>
<thead>
<tr>
<th><strong>Public organizations</strong></th>
<th><strong>Private organizations</strong></th>
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<tbody>
<tr>
<td>Usually monopolies</td>
<td>Operating on competitive markets</td>
</tr>
<tr>
<td>Serve the citizens</td>
<td>Maximize Return On Investment (ROI)</td>
</tr>
<tr>
<td>Are driven by politicians, which should reflect the interests of the citizens</td>
<td>Leaders of companies are responsible to shareholders; they seek profit maximization</td>
</tr>
<tr>
<td>State organizations are more rigid due to the process of decision making and implementation</td>
<td>Are more flexible, easier to manage because decision is taken by a single leader</td>
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<tr>
<td>Distribute, redistribute and regulate resources</td>
<td>Produce and distribute resources</td>
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<td>Are sometimes poorly funded</td>
<td>Are financed under its productivity or through investment</td>
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<td>Citizens are often poorly informed and suspicious of government</td>
<td>Investors and shareholders are well informed about the company and the market</td>
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Figure 4: Differences between private and public organizations (Source: Kotler P., Lee N., 2008) ¹⁰

FM providers, therefore, must be agile and diligent. They work together in partnership with public authorities in order to build consensus on the direction of public service delivery for each sector, and ensure strategic alignment. Public authorities largely agree that there will be more outsourcing towards 2020 – both new functions will be outsourced, and the functions currently being outsourced will comprise longer-term, integrated service contracts.¹¹ By understanding the strategic issues facing the public sector, FM managers will be able to better position themselves to make an impact and demonstrate their added-value as a business case.

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Objectives

This report offers an analysis of the major strategic themes affecting the public sector that are contextual yet inclusive – taking into account regional, sector-based, and national-local differences of the public sector and public service delivery.

The focus of this publication is to develop a visionary, yet practical guide to understanding the challenges facing the public sector, consequences for outsourcing organizations, and implications for FM providers. It provides a balanced analysis of:

1. Desk research into trends affecting governance and public service delivery
2. Input from subject-matter experts via interviews and a workshop
3. Case examples that illustrate the merit of different models.

The objectives of ISS 2020 Vision: Future of Public Sector Outsourcing study are as follows:

- Identify **key focus areas, trends and driving forces** that are expected to shape ways government and public sector organizations will operate and provide their services towards 2020. The report will focus on the role that outsourcing providers could play in the provision of those services.
- **Outline strategic issues** affecting the future of the public sector organizations and public sector outsourcing towards 2020.
- **Highlight** significant, research-driven **areas of opportunity** for FM and services industry managers.
- **Envision service concepts** for FM companies to support clients in the public sector.
- **Create a tool for dialogue** in discussions concerning the future of the public sector as it relates to the FM and services industry.
Process

During the winter and spring of 2014, the Copenhagen Institute for Futures Studies (CIFS) and ISS World Services worked to identify key drivers and strategic issues shaping the future public sector as described in figure 5. The research consisted of:

- A study of trends impacting the future of the public sector;
- Two rounds of interviews consisting of 23 in-depth discussions with public authorities, public sector officials, and executive level FM and procurement managers from six countries and a variety of sectors (see acknowledgements for list of interviewed subject-matter experts);
- A workshop with ISS customers in Copenhagen, Denmark in order to test preliminary findings;
- All quotes have been submitted to and approved by respondents.

Format

The publication is comprised of four primary sections:

1. The section on the future of the public sector looks at the primary trends shaping the future of the public sector, and their effect on public sector outsourcing;
2. The section on the strategic issues challenging the public sector highlights areas where optimization and transformation are required operationally and strategically;
3. The section on the outsourcing as a strategy explores the primary trends and future of outsourcing in context of the public sector; and
4. The section on the role of Facility Management in the future public sector outlines the areas of opportunity for FM and services industry providers.
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<tr>
<td>Objective:</td>
<td>Identify latest research on the challenges related to the public sector</td>
<td>Identify, develop and test key challenges in the public sector</td>
<td>Present the preliminary results of the study and envision opportunities for FM industry</td>
<td>Conclude the findings and finalize the study</td>
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<td>Form:</td>
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<td>Identify interview subjects and workshop participants</td>
<td>Identify key areas of opportunity for FM Industry</td>
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<td>Develop interview guide</td>
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<td>Formulate visions and find the areas of opportunity for FM</td>
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“Alone we can do so little; together we can do so much”

Helen Keller, American author, political activist, and lecturer.
5. **Future of the public sector**

The following section (figure 6) presents the twelve trends that will be shaping the future of the public sector and the future of public sector outsourcing. The trends are not independent, but, rather, interact with each other reinforcing their importance.

1. **Managing demographic bulges**
2. **Responding to growing customer expectations**
3. **Personalization of services**
4. **Harnessing technology and other innovation**
5. **Consolidation towards larger, integrated contracts**
6. **Task management**
7. **From providers to commissioners**
8. **Outsourcing across level of government**
9. **Profits contingent upon outcomes**
10. **Increased involvement of the not-for-profit sector**
11. **Affordable government**
12. **Empowerment vs. Shadow state**

*Figure 6: Trends affecting public sector outsourcing (Source: CIFS, 2014)*

**Managing demographic bulges**

Due to the consequences of demographic bulges, demography will push government demand patterns in different directions across the globe. Just as in high-income markets, almost all middle- and low-income countries have, or are making the transition from, high to low mortality and fertility rates. The average number of children per woman has declined from 5 to 2.5 over the last fifty years. In high-income economies, the average number of children per women has declined to less than 2. This transition creates a “boom” generation that works its way through a country’s age structure, affecting the demand for government services from birth through to death.

This transition as outlined creates a number of challenges for governments around the world. High income countries are dealing with the ageing crisis as their “boom” generations transition towards retirement. In high income countries, an ageing workforce increases the fiscal burden while decreasing the immediate capacity to respond to the general challenges of the ageing population. The combination of these two factors will affect the public services’ capacity for service delivery.12

Most countries, however, find themselves dealing with the youth bulge challenge. Currently, half the world's population is aged 30 or under. The challenge for middle- and low-income markets may be more extreme than what high income countries have already experienced:

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“When [high-income] markets grew richer, they had the time to adjust because life expectancy only went up in bits … These days, life expectancy in [middle- and low-income markets] goes up by twice the rate every five years.”¹³ The question for the future will be whether the “poor but young” countries will become “rich but old”, or will they become like China and Russia, “poor and ageing”? (See figure 7)

The ability of governments to deal with the challenge will be dependent on their:

- Relative wealth to follow the demographic transitions of their society. For example, Japan has grown rich before it grew old, while China is growing old before it will grow rich.
- Ability to repurpose and reposition services and infrastructure to meet evolving demands from the population. To give a crude example, can elementary schools be repurposed towards old age homes as demand for elderly care overtakes education in demographic importance?

Figure 7: Median age vs. GDP per capita in G-20 economies—Future growth depends on income levels and age profiles – 2015 projections (Source: CIFS Analysis, 2014; IMF, 2013; UN Population Prospects, 2012)

*Saudi Arabia’s high income inequality means that it falls in this category. A change in government policies could move it from the “poor, but young” category

Responding to growing customer expectations

Around the world, governments and their supporting network of private for-profit and non-profit service providers must respond to changing and increasing customer expectations. Residents (including citizens and non-citizen residents) now see themselves as consumers of public services; residents, as a group, are becoming an increasingly complex, individualized and diverse population, with growing, shifting and contradicting expectations. Expectation levels increase as customers become more discerning, better educated, and therefore more demanding. “In this century it's a sure thing that what delights consumers today will be expected tomorrow.”

Successful government entities need to institute and embed a responsive multi-dimensional customer service program throughout the organization, including outsourcing and third sector providers. Such a program includes management consulting, customer satisfaction measurements, employee feedback, motivation programs, training and ongoing reinforcement. According to customer engagement research, those organizations that are best able to meet increasing customer expectations will be those that will achieve the most customer loyalty and engagement.

Personalization of services

The public sector has always provided services to individuals and dealt with individual queries. According to a 2012 IPSOS MORI market research study conducted in nine countries, surveyed citizens responded that two of the top three priorities for governments should be “to better understand the needs of citizens and communities,” and to “make sure that services are tailored to the needs of people who are using them.” These demands need to be balanced with the requirement to ensure that government services balance between citizen and customer-centric approaches.

The personalization trend goes beyond this and enables users to be involved in service identification, selection development and delivery phases (see figure 8). A key challenge for public service leaders will be to provide services along the “light – heavy personalization” spectrum. On the “light” side of the personalization spectrum, governments can offer modestly customized mass-produced, standardized services to partially adapt them to user needs. On the “heavy” side of the personalization spectrum, governments would give users a far greater role and responsibility for identifying, selecting, developing, designing, implementing and

delivering solutions from the ground up. Examples of “light” personalization could include 24/7 call centers, booked appointments or timely access to standardized services. Examples of “heavy” personalization include development of individualized service plans for individuals’ and families with special needs. This also includes allowing and promoting greater capacity for self-management and self-organization.\(^{21}\)

![Personalization of services (Source: CIFS Analysis, 2014; OECD, 2006)](image)

**Figure 8: Personalization of services (Source: CIFS Analysis, 2014; OECD, 2006)**

**Harnessing technology and other innovation**

In order to fulfill the personalization of services ambition, government needs to transition “from s-government to i-government”. S-government is characterized by large-scale, standardized solutions. These solutions are driven by major institutions’ needs to derive economies of scale. I-government solutions focus on developing more intelligent, interactive solutions that focus on individual user needs.\(^{22}\)

According to research conducted by McKinsey, there are several technologies being developed that support the personalization of government services.\(^{23}\) These technologies can be deployed independently or in combination; they include:

**Technologies that add value:**\(^{24}\)

- Social technologies: Social technologies allow companies to analyze the value that consumers attach to components of current or hypothetical “virtual” solutions;
- Online interactive configurators: Advances in speed and “adaptivity” of configuration and visualization software have made service configuration an engaging experience;
- 3-D scanning and modeling: Scanning software that gathers exact measurements in seconds or minutes, which can then be rendered into an online personalized 3-D model. The accuracy of the resulting measurements is often even better than those of and from hand-measuring;


\(^{22}\) Copenhagen Institute for Futures Studies, Who will do the work, 2006.


Recommendation engines: Recommendation engines help customers configure services by using popular choices users of the site have made before. These choices can be edited by the government provider to reduce risks to users;

Smart algorithms for dynamic pricing: A key challenge in managing the personalization of services is managing on-demand capacity by using smart algorithms and better data-processing capacity to interpret big data and enable dynamic pricing. Demand could be managed for services that take less time to complete and increased for those that take longer.25 An example of this phenomenon already exists in dynamic road pricing.

Technologies for controlling costs:26

• Enterprise and production software: A number of companies have developed packaged software that enables tracking of individualized design features in customer orders and their translation into sourcing and production instructions. These tools connect the front-end with the production and SCM systems so that staff knows what to provide. Customers are also promised realistic lead times and progress updates, and are assured that they are not served up any options that cannot be supplied in realistic time frames.

• Flexible production systems: Manufacturing, supply-chain, and logistics functions will benefit from the broad penetration of digital sensors and smart tags that will offer greater potential for visibility, flexibility, and control of product flows, as well as for the automation of tasks that enhance value.27

The challenge for government and their supporting outsourcing and third sector providers is two-fold. First, they have to work together to develop processes that create value for the customer and that are supported by smooth, swift, and inexpensive transactions for both consumers and producers. Second, they will have to develop and achieve a manageable cost structure and cost level for producers even as service complexity increases.28

Consolidation towards larger, integrated contracts

In many domestic markets, governments and service providers are consolidated into larger, Integrated Facility Services (IFS) or “bundled” contracts, which are entered into with local authorities. Governments see this solution as a means for “finding new, efficient ways of delivering services rather than simply cutting [them].”29 For instance, only in adopting a shared-services model in ICT and by pursuing a range of initiatives, can public sector agencies boost effectiveness while cutting ICT costs by up to 20 percent.30

29 Plimmer, Gill, Outsourcing Soars in Public Services, Financial times, January 31, 2013.
30 Ghia, Ankur, Capturing Value Through IT Consolidation and Shared Services, McKinsey on Government, Autumn, 2011.
As this trend evolves, outsourcing and FM providers should develop strong links with local authorities. These agencies are focusing their spending on fewer providers in order to achieve the cuts. As an example, several London boroughs recently combined to tender for a £150 million contract to supply a variety of services including building maintenance, catering and landscaping.

As this approach develops, expect a counter-reaction to the trend. Some public sector buyers might turn away from bundled services. Reasons for this counter-reaction could include:

- An inability of multi-service providers not living up to the quality delivered by more specialist single-service contractors;
- The need to control risk, where the buyer wants to avoid being adversely affected if problems arise with a bundled service provider.31

**Task management**

While the public sector is seeking economies of scale in the consolidation of larger, integrated contracts, managers are keenly focused on improving the efficiency and effectiveness of single tasks and services. The ongoing challenge for public sector managers is driving efficiency from an increasingly complex working environment. This working environment requires that managers, workers and eventual outsourcing providers develop task management solutions for a variety of internal and external challenges to remain successful. Such task management challenges include:

Management of knowledge workers:
- Individualized guidance of processes
- Sharing of relevant, but not overloading, sources of information

Administration of internal processes:
- Retaining and sharing tacit knowledge
- Creation and coordination of flexible processes

Legal and regulatory issues in complex stakeholder systems:
- Multiple sources of information
- Availability of new social technologies
- Managing unstructured knowledge32 distributed among various stakeholders

**From providers to commissioners**

Towards 2020 and beyond, governments need to meet increasing customer expectations while controlling and reducing costs. They need to develop means for delivering services efficiently and effectively so that they can do “more with less” instead of being forced to

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31 Ascott, David; Dawson, Peter and Gardner, Martin, Insights Into Facilities Management, Grant Thornton, Issue 7, 2013.
do “less with less.” Currently, governments have potential supplier ‘pre-qualify’ to pre-
determine terms and conditions and often pre-set prices that are then applied in ‘context’
with little room for negotiation.

Governments, however, are transitioning from being a provider of services to an entity that
predominately commissions, facilitates, or brokers services. This transition requires new
skills in governments – such as agility, innovation, transparency and connectedness – and
new capabilities for facilitating relationships with external partners – such as flexibility, co-
venturing, co-creation. 33

According to one interviewee for ISS 2020 Vision: Future of Public Sector Outsourcing:
“We view government as kind of an open platform that others can build on to achieve
those outcomes, and it’s the government’s role to facilitate that, compared to us being the
administrator of programs and services.” 34

**Outsourcing across levels of government**

As government transitions from a service provider to an entity that commissions and facilitates
service provision, there is more focus on increasing affordability. In order to serve more
demanding citizens, governments are increasing their outsourcing spending (see figure 9). 35
Governments have turned to outsourcing as a way of accessing external expertise, delivering
services more cost-effectively, and transferring employees onto new types of contracts. From
2000 to 2009, the share of outsourcing – measured as a percentage of GDP – increased on
average 1.5 percentage points among OECD member countries, with the Netherlands and
Finland showing the largest increases during this period. They are also among the countries
that spend the most on outsourcing in the OECD, while Mexico and Chile spend the least. 36

Horizontal (municipal-to-municipal, region-to-region, or nation-to-nation) and vertical
(municipal-to-federal) government-to-government (G2G) outsourcing – partnerships and
collaborative initiatives – are also expected to gain prominence at both the domestic level
and international level. These is occurring as public authorities seek to pool resources and
adopt a “freedom from ownership” approach that signifies a shift from ownership to access
of resources and other assets.

“Freedom from ownership” or a sharing vision offers a number of opportunities. It allows
governments to control costs, generate economies of scale and bargain costs down internally.
It permits access to complex, specialized skills that cannot be sourced locally. Governments
can increase the utilization of assets, increasing sustainability. Governments can follow
demographic developments and prioritize or even delay investments, by allowing them to
If governments choose to implement the “freedom from ownership” concept, governments will have to choose from a number of choices (see figure 10). Governments will have to choose whether they will provide products or services as a single entity or collectively. They will also have to choose whether to source the product or service from another government(s) or from the market.

Examples of the freedom from ownership can be seen in a number of contexts. For example, NATO partners are testing a number of concepts through the “Smart Defense” initiative. NATO partners Germany and Denmark source logistics and other maritime security services from the transport company DFDS in the Arctic through the Project Arc initiative. Another from the defense sector example includes the United Kingdom, which is sharing carrier capacity, nuclear submarines, and satellites with France.

Profits contingent upon outcomes

Outcome and output-based payment models for services delivered by external providers is a concept that is growing in popularity among outsourcing providers. The challenges for both outsourcing providers and government entities in transitioning towards an outcome-based model are many. This is because appropriate measurement systems are not yet in place to assess whether progress is being made towards a milestone or an outcome. In both interviews and workshops, public sector employees noted that the two greatest challenges in implementing an outcome-based reimbursement model are in developing performance monitoring and needs assessments. Develop these monitoring and assessment tools can also be difficult as they are highly qualitative in nature.

Increased involvement of voluntary, charity and non-profit sector

Public sector organizations are increasingly being configured to involve such external partners as and including voluntary, charity and non-profit organizations as outlined in figure 11. Public sector institutions will need to balance between, on the one hand, an internal focus on efficiency and effectiveness, and, on the other hand, an external focus on helping and co-creating value with stakeholders in society. Such a balance requires re-evaluating types and purposes of public services being provided and delivered.

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38 Copenhagen Institute for Futures Studies, Smart Defense, 2014.
In many markets there are compulsory requirements to include local SME’s and third sector involvement in service delivery. The challenges for the public sector and for outsourcing providers will be in developing risk and control as provisions that go beyond internal processes, and will include external partners in their development and execution, while maintaining affordability. The difficulty will be in the identification of “core” services, where the market and other stakeholders are deemed either to have failed or are too unreliable as a service provider, particularly for the vulnerable and disadvantaged.\textsuperscript{41}

\textbf{Affordable government}

Making government affordable is the new reality for current and future public sector organizations. Due to demographic ageing, increasing customer demands for personalized services, and growing sustainability challenges, governments will likely need to meet expenditure gaps or shortfalls of billions of dollars over the next dozen years to be able to continue to deliver public services at current levels to future populations. According to an analysis by Oxford Economics, the expenditure gap in 2025 ranges from 1.3 percent in Italy and could reach as high as 5.4 per cent in the United Kingdom (see figure 12).\textsuperscript{42}

Governments could respond to this challenge by cutting spending, raising additional revenue, developing innovative solutions, or by applying a combination of all three strategies. The application of these three different solutions will be context-dependent and contingent upon the fiscal state of the country under examination.

\textsuperscript{41} PricewaterhouseCoopers, Future of Government: Tomorrow’s Leading Public Body, PwC Public Sector Research Centre, June, 2013.

\textsuperscript{42} Accenture, Delivering Public Service for the Future: Navigating the Shifts, 2012.
Expenditure Gap in 2025 (Rounded)(US$ Billions)

Gap as percentage of Projected GDP in 2025 (%)

4.4 5.4 2.3 1.3 1.5 2.0 3.3 4.1 1.9 3.0

United States Australia Brazil France India Singapore Canada Germany Italy United Kingdom

**Figure 12: The demand for public services and the economic ability to meet that demand (Source: Oxford Economics, 2012)**

**Risk of emergence of the shadow state**

When transparency and accountability are lacking and complexity is increasing, there is a risk that a “shadow” government could emerge in many economies. Shadow government refers to markets for public services that are controlled by a small number of large, predominantly private companies that have great influence in how these markets work. In the United States, the outsourcing economy has grown to $320 billion annually and employs 2 contract workers for every federal employee.

In instances where shadow governments become strong – such as in infrastructure and prison markets – governments are often left with a difficult choice. Do they continue to source from “bureaucrats with limited incentive to deliver and sclerotic ability to reform on the one side,” or, do they select from “weak[ly] regulated private companies that know more about winning a contract than delivering services on the other.”

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<td>France, Hungary</td>
<td>Private failure, cost, control, contract expiry</td>
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<tr>
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<td>Germany</td>
<td>Private failure, cost, control, contract expiry</td>
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<tr>
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<td>Municipalization of contracts and concessions</td>
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<td>Cost, private failure, public objectives, control</td>
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<td>Waste management</td>
<td>Contracts brought in-house, inter-municipal incinerators</td>
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<td>Contracts brought in-house</td>
<td>UK, Germany</td>
<td>Cost, effectiveness</td>
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*Figure 13: Returning services in-house (Source: Hall, D., 2012)*

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Hall, David, Re-municipalizing Municipal Services in Europe, EPSU, May, 2012.
6. Strategic issues challenging the public sector

In light of the drivers and trends affecting change in the public sector, moving forward there are a number of strategic issues facing the public sector. These issues of strategic importance comprise two central themes: Optimization and Transformation.

Optimization

The theme of optimization refers to the changes in policies and practices regarding improvements in value delivery, both internally and externally – the operational level focus. This involves both the provision of public services and more effective asset-resource management. The optimization strategic issues include:

A. Efficiency and doing “more with less”
B. Mass customization
C. Balancing automation and the “human touch”
D. Breaking organizational silos
Transformation

The theme of transformation describes the areas in which the public sector is expected to undergo change – this forms the strategic level focus. There is only so much that can be optimized before a transformation is needed. The transformation strategic issues include:

I. Increasing transparency and trust
II. Communication and citizen engagement
III. New metrics for success.
6A. Optimization

“With the right Mindset... effective thinking is automatic.”

Tony Dovale, author
Towards 2020, the public sector will be required to optimize in many ways and need the participation of many external actors (IT, real estate, among others). Optimization largely involves measures to improve operational and service-level efficiency. The ability of FM providers and services industry managers to contribute in this regard will be essential.

A. Efficiency and doing “more with less”

One of the most predominant strategic issues facing the public sector is being able to do more with less. In many ways, doing more with less fully encompasses the optimization challenge present in public sector organizations, and sets the backdrop for the other strategic issues identified below. Fiscal pressures, economic constraints, and the demand for greater sustainability in the delivery of services – which includes greenhouse gas emissions, usage of resources, and the potential environmental toxicity of products used in service delivery – will continue to force the public sector to be resource efficient and optimize functions and service delivery processes in order to be able to do more with less.\(^{45}\) According to Myles Bremner, Director of School Food Plan, in the future, public sector procurement practices should take a more sustainable approach looking at the elements of the triple bottom line (people, planet, and profit). This means improved task management, greater collaboration between levels of government and increased outsourcing and involvement of external actors.

Doing more with less represents a short term solution to ailments that will continue to persist. Public sector organizations must learn to do more with less, but a fundamental restructuring of the public sector, both organizationally and process-wise, is also necessary. Public sector organizations will be required to develop a degree of agility that will allow them to better respond to external changes, and adapt to the conditions of the future.

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Figure 14: Eurozone countries’ debt & deficit (Source: CIFS Analysis, 2014, Eurostat, 2014)

The financial situation of governments is a major challenge as outlined in figure 14, which will further redefine the public sector and its core activities. Growing national debt and increasing deficits pose a threat to the government-citizen relationship, which will likely embody further social instability and a pervasive tension that will no longer be sustainable. According to one interviewed subject-matter expert, “dropping services will be very difficult. When you stop old services, there is always somebody complaining and it will always find its way to a political level raising a huge discussion. These discussions are already starting in the fields of housing, health, and social care.”46

For example, public sector entities are developing new ways to provide services to its communities. The Doncaster & Bassetlaw Hospitals NHS Foundation Trust in the United Kingdom serves a community of approximately half a million people from six sites employing around 6000 people. Operationally, their two main sites are 20 miles apart and the Trust makes large mileage payments to staff travelling from Doncaster to Bassetlaw. A key

challenge for the Trust is to help its senior stroke consultants – of which there are only two and who also serve four other local Trusts – better serve their patients, improve patient care and reduce travelling costs. If suffering a stroke in South Yorkshire, the prognosis for a patient can depend upon the roster of the consultants. The Trust introduced tele-presence into clinical environments to improve care for stroke patients. As a result, the stroke team was able to offer diagnosis from a remote location. Consultants can now conference in from their laptops – not only while on the clinical wards.47

Interviewed subject-matter experts underline that in some regions “the austerity measures have been very superficial until now and it will get much more real with real cuts after the next election (in 2015). So far, it has been a big evasion of the truth by politicians collectively, in that they do not say how serious it is.”48 For instance, in the United Kingdom, it is estimated that by 2017 the public sector will take the size of the state sector to its lowest level since the birth of the welfare state after the Second World War.49

In other regions austerity measures have already had substantial impact and will continue for the foreseeable future, but how the pressure will manifest itself will depend on the willingness and diligence of public authorities to address these concerns with proactive strategies. Public sector organizations typically focus on obtaining big savings in the short-term, rather than focusing on many small cuts over time. Doing more with less equates to finding efficiencies, working smarter, and realizing the value inherent in the estate, and the people employed in the public sector.

However, doing more with less does not necessarily entail an assumption of cost cutting that continues to persist. Doing more with less can mean many things – it is less about reducing spending dramatically and expecting improved results or greater value, but, rather, using existing resources smartly in order to develop new value entirely. This would include, for example, data mining solutions that can lead to data-driven services.

For example, Kansas City, Missouri, implemented an Enterprise Sustainability Platform (ESP) delivering initial energy and space savings of $600,000 at six facilities. As a result of the ESP implementation, energy and space use efficiency in the targeted buildings was significantly improved. Kansas City is now able to measure, monitor, and verify a building’s performance as well as their renewable energy. They are also able to continuously commission buildings, analyze whether operational changes are having their intended impact, and determine if conservation measures are meeting expectations. 50

The idea of targeted spending must be taken from the top and requires a dedicated effort to making smart investments under a cohesive vision derived from consensus. There needs to be greater budgetary oversight of public sector organizations and improved coordination in order to eliminate redundancies and reckless spending.

50 Archibus, Success Story: City of Kansas Sustainability Platform, 2013.
There is also a growing focus on social development, since no matter how “efficient” you make a public service in monetary terms, if it does not solve the problem as is intended to or does not achieve the desired outcomes, then it is a poor use of public money. In order to overcome the “do more with less” trap, the public sector will need to rely on external partners to a greater extent. Dialogue is essential, and public sector organizations will increasingly be required to look to FM managers who can facilitate coordination and communication, advise on strategic issues, and highlight future opportunities and threats.

For example, all ISS health care contracts in the United Kingdom have been operating in a climate of austerity and irrespective of contractual structure, have required ISS to work in partnership with public authorities and health care officials to deliver annual Cost Improvement Plans (CiPs). The scale and scope of the plans are dependent on the service range, contract duration and the contractual format. All CiPs have required thinking around new ways of working, and doing things differently. Examples of proposed changes include:

- Changes to the specifications in relation to frequency or scope, such as not cleaning areas on weekends
- Revisions to employee terms and conditions
- Closure or reduction of retail or restaurant opening hours
- Integration of posts
- Extension of roles into client-led areas

The facilitation of people, information, and objects within a built environment is the essence of FM – FM exists as a way to improve coordination, eliminate redundancies, and enable the smooth operation of workplaces. FM providers are exposed to a range of facilities with varying purposes, and, as such, can be essential in advising public sector organizations of deficiencies, developing solutions, but also setting strategic priorities by surveying the bigger picture. There exists a myopic focus on cutting, and not on changing the debate and doing things differently. FM is about getting people to work smarter, not only cutting cost, but increasing the productivity of the customer and giving people the competencies to do more.

B. Mass customization and mass personalization

As a result of demographic changes, growing customer expectations, and technological development, there is an emerging tension between the standardization and personalization of public service delivery towards 2020. On the one hand, public sector organizations must address citizen demands for increased personalization; while, on the other hand, they must standardize particular services or functions in order to be cost efficient. There is no “one size fits all” solution, but the provision of public services needs to work towards the “mass customization” of service delivery. That is, the use of flexible, intelligent technologies and ICT systems to produce a custom output to a large number of people. Such systems combine the low costs of standardized, mass produced services and processes with the flexibility of individual customization.

There has always been a degree of personalization in the public services, yet this has largely been limited to a superficial level. As the service expectations of consumers become further inflated by experiences in the private sector, citizens are no longer satisfied to be processed through an impersonal, non-interactive system of mass public service delivery. Mass customization represents a progressive measure effectively doing “more with less”. It is regarded as the new frontier in industry competition for both manufacturing and service industries. At its core is a tremendous increase in personalization without a corresponding increase in costs. It provides strategic advantage and economic value. In many ways, mass customization entails developing a greater relationship between service providers and citizens that will allow for faster, more accurate, and thus more effective service provision.

Cost is the primary reason why standardization remains a common feature of public service: “When you are forced to cut costs, everyone knows that standardization is the right approach to increase efficiency and lower costs. When you want more customized solutions or products, you have to pay for it.”52 In order to overcome this obstacle, it is imperative for public sector organizations to work closely with private sector partners that can introduce scale, provide long term stability, and bring forth the necessary technical capabilities to employ a system of mass customization. These measures should be regarded as an investment by both private parties and public sector organizations in developing innovative and resilient solutions to public service delivery.

Affinity is with the building FM providers are servicing – personalization comes with allegiance. FM providers and services industry experts should focus on providing standard services with the option to customize at the local level – where contracts are personalized, responsive, and flexible in order to meet the needs of the local community. FM providers should also focus on developing project pathways for front-line service employees that take into account their personal preferences and allow them to specialize in a particular function of a given

service. For example, having some individuals dedicated to cleaning and maintaining hospital wards, while others are dedicated to servicing the hospital foyers. Service at the point of delivery is improved by having those employees fulfill their preferred functions. However, the challenge for personalization is making tangible the intangibles of personal service that come with relationships. FM providers are well-situated to assist public authorities in efforts to increase the personalization of public service – they are experts at managing mass customized solutions while maintaining service excellence.

For example, there has been a shift in patient catering service provision within the UK health care sector over the past 5-10 years, which is at odds with the financial pressures that face the sector as more choice and personalization, and increased flexibility are being offered. This has resulted in a journey from one menu fits all several years ago, to tailoring specific menus for particular dietary and situational needs now, to a highly specific private patients menu plus a local fresh cook option.

This requires coordination with supply chain partners to optimize nutritional content of meals, presentation, and choice. ISS is also exploring the possibility for the provision of nutrition and hydration assistants. While this increases the service fee, it has a direct benefit for hospital clients if it means that patients leave the hospital well-nourished and hydrated and reduces the level of re-admissions.

These moves are about sustainable solutions and a wider financial envelope than our service fee. There is a need to get “smarter” about assessing, quantifying and communicating the financial value and impact of the interrelated “soft” savings. However, there continues to be a disconnect in the quantification of this value. There is a need to work closer with advisors and departments to improve the understanding of the direct correlation between FM services and welfare.

Increasingly we are seeing FM directly affected by socio-economic policy. For example, within the UK education sector, a new government initiative has been launched for primary school child that requires the implementation of “free school meals for all”. This involves a wholesale change to the method of service delivery – including changes in production areas and meal times for service providers. The costs for the public authorities are substantive, and FM providers benefit from being able to expand their service. The public sector gains are directly linked to welfare and social benefits arising from a well fed and nourished pupil.

The greater use of technology in public sector organizations opens new platforms for co-creation with citizens, which not only provides a personalized experience, but also enables them to design the services themselves. This moves beyond the idea of mass customization towards mass personalization. Understanding the context, citizens will be able to choose the ideal solutions that offer the most desirable outcomes for themselves and their communities. Willy Feddersen, Municipal Director at Haderslev Municipality, Denmark calls it a kind of re-democratization: It is a democratic process where citizens become part of the solution and
planning. A major dimension of the transition towards mass customization of public service delivery and self-enabled service provision relies on the initiative of local public authorities and the involvement of the local community. While there is a need to integrate services into pathways while joining up functions and outputs of multiple organizations, willingness of the local community to actively participate is essential. The most inspiring examples of personalized service provision today usually come from the health care or education sectors.

To illustrate, Mikkel Hemmingsen, Regional Director of Region of Southern Denmark shares the case: "Since the government has to provide services for more and more elderly people, we have to change the way we provide the services by enabling people to do it by themselves. People, who are able, will have to do things for themselves in order for the government to focus more on providing services for the ones who need it the most. Many people with access to ICT equipment will have to use tele-medicine and other services, monitor themselves, and use different tools like robots and things like that to become more self-enabled." Contrary to standardization, personalization of services is regarded as a bottom-up approach to serve the citizens. It structures public service provision according the actual demand, in this way it allows for resources to be used smartly and to obtain the maximum outcome.

Transitioning from a top-down approach, to a bottom-up model of service provision empowers local communities to develop contextually derived solutions that meet their individual needs. Local communities must be willing to contribute. Without their participation, mass personalization at a community level becomes exceedingly difficult. So long as the necessary support from the central authority, FM providers, and other private sector actors is in place, individuals and communities alike will be enabled to design robust and responsive tailored solutions to public service delivery.

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C. Balancing automation and the “human touch”

The choice to automate services and other functions is another strategic dilemma in the public sector that is influenced by demographic trends, technological developments, and the notion of affordable government. Particularly this is as public sector organizations transition from providers to commissioners of service. Automation includes considering both the processes and interfaces involved in public service delivery. Interviewed subject-matter experts expressed a diversity of opinions on the decision to automate in the public sector, and on the automation of public services.

First, when discussing public services, few claimed that there always must be a human element.55 Second, some conceded it might be the right approach, but there are other priorities, and thus timing is an issue.56 Third, some of the interviewees believe the only way forward is to automate, that it is inevitable and necessary.57 The primary challenge is determining what to automate – for example, concerning where automation offers the greatest advantages – when, and to what extent.

There are few objections to automating back office, business processes in the public sector. Much of it is already occurring today in order to improve efficiency and coordination, and streamline labor-intensive administrative duties. The opportunity for FM here is in integrating innovative and automated solutions in to a central, consolidated service that assists in increasing the time and availability of internal resources to focus on core responsibilities.

FM providers, for example, are installing Facility Management information systems, automating all of the help desk functions, and automating many areas involved in the maintenance of

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the building among other things. Patient records is a good example, provided by Nigel Myhill, National Chair of Health Estates Facilities Management Association (HeFMA) and Director of Estates and Facilities at Doncaster and Bassetlaw Hospitals, NHS Foundation Trust: “It is convincing to have ICT which would enable us to have electronic patient records and be able to transmit them electronically, rather than in paper form. That is a huge benefit.”

Accordingly, “there are probably many ways to achieve service innovation, but the only practical way at the moment is through automation.”

For example, within UK health care, ISS are rolling out an electronic Patient Meal Ordering System (PMOS). This system enables a ward hostess to take a meal order on a tablet at the bedside. Historically, a meal order would be taken by the nurse or ward hostess on a paper form and sent to the kitchen. If the meal was not in stock the patient would be sent whatever was available. The aspirational element of the PMOS system is to move to “real time” menu ordering whereby the patient is only offered what is available in stock and therefore has “first choice” every time.

Within the UK education sector, for example, ISS are in the process of implementing a computer system called CYPAD. This website is both a secure online payment scheme for parents and an information portal communicating menu options, nutritional content and other relevant information. This approach provides parents with a record of what their child has ordered, reduces cash handling on site and provides FM providers with valuable data to analyze in relation to uptake, popular choices and for production management. This in turn results in FM providers being able to tailor menus, offer fresher cook choices and manage wastage.

In Singapore, hospitals have developed the Anti-microbial Resistance and Utilization Surveillance and Control (ARUS-C) to provide electronic decision support for the prescription of antibiotics in order to reduce unnecessary and inappropriate antibiotic use in Singaporean hospitals. The system tracks antibiotic use and its effect on patients, and allows for the monitoring of clinicians’ compliance. This program is part of Singapore’s “Digital Hospital” project, which allows hospitals to track patient outcomes, share pertinent information, improve the clinical process, clinical outcomes, and shorten patient recovery periods.

As Peter Karm, Economy and Labor Market director at Vejle Municipality, Denmark, explains, for public services, the decision to automate requires a careful consideration of all stakeholder needs or even some kind of consideration of ethics which is invariably sector-, and context-specific. Yet, towards 2020, it will not be about choosing automation or the “human touch”, but looking for the appropriate combination of the two that best fulfills the service expectations of stakeholder groups. It is about balancing efficiency and cost savings through automation with quality and personability through the “human touch”.

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In many cases, the service objectives should reflect citizen needs. Automation should not necessarily be considered synonymous with low quality. Rather, automation offers equal or greater quality of a different manner, with improved consistency and accuracy. Thus, it is imperative to question whether citizens prioritize efficiency or personability in receiving particular public services, which remains highly contextual.

One of the strategies for public sector organizations is to keep the “human touch” for core activities – as some interviewed experts are reluctant to see the merits of automation. For many sectors, such as health care, it is believed “the best care can be done by individuals. The human touch is largely about how we treat the patients, the service, which has to be much more personal.”

Some respondents argued that there is little that can be automated in some public sector organizations: “Because we are a general hospital, we are not going have robotic surgery, for example. We are very care-oriented; therefore we are not going have robots feeding dementia patients or robots pushing people in wheel chairs. In health and social services the automation is very limited.”

However, FM providers should be aware that there are a number of new technologies that are emerging from welfare technology research that are blurring the definition of what counts as “human touch”. Welfare technology research is not about automation for solely efficiency’s sake. It seeks to develop “technologies and intelligent systems that provide or assist citizens with one or more everyday functions. Welfare technologies can support and reinforce such areas as safety, security, social networking, activities of daily living, and mobility.” These technologies intend to help patients:

- Connect to others
- Speak, facilitate expression and communication
- Use parts of the body that do not work
- Improve memory (when, time and place orientation for completing chores)
- Express feelings and more existential needs
- Develop a sense of calmness, confidence, experience and enlivenment
- Achieve independence or assisted-independence with freedom and dignity.

Examples of emerging welfare technologies include:

- Herb (“Home Exploring Robotic Butler”) is a prototype robot butler meant to help the elderly with cooking, cleaning and other household chores.
- GiraffPlus is a program funded by the European Union that puts remote-controlled bots in the homes of elderly patients so that friends and family can have virtual visits.

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63 Gaedt, Lone, Robotterne Kommer! Hvad er de, Hvad kan de, Hvad gør de?, Teknologisk Institut, 2013.
64 Gaedt, Lone, Robotterne Kommer! Hvad er de, Hvad kan de, Hvad gør de?, Teknologisk Institut, 2013.
• Care-O-bot is designed to help those who cannot move around their homes to live independently. The bot can fetch and carry items to its owner after being called through a smartphone app.
• Cody is a robotic nurse designed to give sponge baths to the elderly, removing the embarrassment of receiving a bath from another human being and allowing dignity.
• Paro is the robotic companion seal, which is already one of Japan’s most popular robots. In studies in Denmark and Japan, this machine provides companionship, lowers stress levels and raises the social-bonding hormone oxytocin, just as dogs do.
• HAL is the “Hybrid Assistive Limb,” which is a robotic exoskeleton that could greatly improve the mobility of elderly or disabled people who wear it.65

FM providers must also be aware that automation does not always equate to increased efficiency. To illustrate, automated and centralized food ordering services in select UK hospitals resulted in quite high wastage. “What we have done to address this, is we have put our own staff into the wards and got menus to the patients, so that the patient orders directly from them. Thus, by increasing the staffing cost we actually decreased the wastage cost. The patients also get much better service by being able to individually select what kind of food they actually want.”66

Striking the appropriate balance between automation and the “human touch” requires evaluating the internal and external value for a given service. FM providers will need to leverage their experience in service excellence and intimate knowledge of the people-facility-service interaction. This approach is needed in order to develop automated and human-based solutions tailored to the needs of a particular sector, department or facility. For example, there are opportunities for the automation of security and the centralization of help-desk functions and other front-line services. It is essential for FM to demonstrate to local public authorities how value can be obtained through integrated methods that take into account stakeholder expectations for quality, costs, and overall efficiency.

An example of just such an approach is ISS World Services Patient Centered Healthcare Services in Holland, which attracts twenty international delegations to study its operations every year. FM service employees take responsibility for “human touch” services that are not classified as health care - everything from making beds, bedside cleaning, and assistance to patients and easier social interaction. Service employees are trained for a total of 20 weeks and certificated central institute. As a part of this service, ISS offers Meals on Wheels, where personalized meals are served to the patient with great freedom. Meals are planned and monitored according to care instructions. The quality of the services offered at and around the bed for patients, residents or clients are increasingly important in the assessment of quality of health care institution.

65 Edine, Nicole, The 6 Robots That Will Wash And Feed Us When We’re Old, The Huffington Post, May 28 2014.
D. Breaking organizational silos

As many governments and public sector organizations continue to flatten, breaking organizational silos is one of the biggest and the most needed optimization efforts towards 2020. This involves harnessing technology and other innovations, greater cross-governmental collaboration, project-based task management, and transitioning from providers to facilitators to create affordable government. Initiatives to optimize and improve public sector efficiency will not bring the desired results if public sector organizations fail to enact more structural changes. Consolidating objectives, managing resources, and agreeing on where value lies across internal organizational boundaries in the public sector will be required under further budget constraints.

Towards 2020, the public sector is facing increasingly complex problems that necessitate a holistic, coordinated approach to resolve them. The public sector can no longer remain functionally effective as individual organizations. Economic considerations among other things will force the public sector towards well-targeted policy integration in order to tackle a diverse range of challenges apparent today and on the horizon.

Currently, public sector, much like private sector, organizations are often comprised of specialized and poorly coordinated bureaucratic structures – “silos”. “Each large organization in some fashion creates silos as a way of developing processes and structuring human resources.” However, a silo approach has a number of negative effects. The key is to reduce such negative effects by connecting people, creating dialogue, and reorganizing. However, silos are manifested in different forms: On hierarchy, on sectors or themes (like health care or education, for example), and on mode of value delivery – there are the thinkers, the planners,

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and the doers – and all are separated. “We are spending a lot of time trying to figure out how to integrate all three dimensions, but it is incredibly challenging.”

Such silo divisions are often taken for granted, “blamed on historical working relationships (“it has always been like that”) and organizational cultures (“they don’t work like we do”).” As Jonathan Veale sees it, there are three tensions at play: First, there are the politicians, who are the elected representatives of the people – they have the position, that they know the best and maintain a largely positivist view of the world. Second are the technocrats, who consider themselves to be the technical specialists with expert knowledge. Finally, there are those who talk about participation, and believe that stakeholders hold the greatest understanding. In all, these views are pulling on government in many directions.

In this regard, “culture eats strategy for breakfast” – this is considered the most prominent challenge for breaking organizational silos. Interviewees claim that they are starting to work together with partners and will have to do more, and with a broader range of actors, to cut on process costs. However, it is an on-going process. There are many opportunities to break organizational silos internally, as interviewed subject-matter experts have indicated, “We are working on breaking down silos and integrating services to a greater extent, because everything is interconnected and can become streamlined in some way. For instance, we are going to merge Facility Management and the ICT agency into one support agency. We are no longer just talking about FM and cleaning and catering, but, rather, full workplace management.”

The possibility for greater cooperation also exists externally, and provides FM with an opportunity to facilitate the breaking of organizational silos with innovative solutions and integrated service pathways. The breaking of silos is expected to be the logic driving the next major wave of outsourcing towards 2020 - “the next driver for outsourcing will be this collaborative working idea, about breaking barriers between organizations. If public sector organizations could outsource services to one provider, they would automatically gain someone who will handle all integration. There is also a possibility of sharing skills, which you cannot get when you have a single service provider, and will allow the public sector to move towards 24/7 delivery of services.”

There is a great need of somebody to lead this process. “The problem is that the system is fragmented now, so how do you combine all service pathways into something coherent, when there are multiple providers doing different elements?” The decision to break silos needs to be taken by top management. Breaking organizational silos is really about leadership and vision – how you want to organize your organization. Therefore, there is also a need for

external partners, which coordinate the responsibilities within the public sector and deliver the whole service pathway.

To respond to this need, FM has to act as a force for coordination through centralized, integrated services and support. There is also going to be more emphasis on FM for non-critical roles. For example, “there is a movement to bring in more diverse skills, more electronic services, robust security services, transportation and car parking services, training services, and delivery services.” FM providers must clearly show how they are willing to and are able to fulfill the range of operational needs the public sector is coming to demand from external actors. As well, FM managers need to offer solutions that drive inter-organizational efficiencies by eliminating redundancies and improving communication.

A few countries and sectors have been more successful in breaking organizational silos, and are setting the agenda for others. For example, the model of care in Scotland sees much more effective collaboration between primary care, secondary care, and other service administrators than in England. “They have socio-care as well as primary and secondary care well integrated. This includes the ability to share a degree of services, the ability to procure things much more effectively on a larger scale, as well as the ability to learn from each other.”

For example, the Scottish Futures Trust (SFT) set out to identify ways to improve the efficiency and effectiveness of property asset management across the public sector through:

- **Joint planning and shared accommodation:** To identify shared facilities including depots and workshops, offices, customer contact centers and training centers. This entails locality asset rationalization and co-location planning and involves peer reviews of partner asset management plans.
- **Sharing people, management and contracts:** This will involve pooling expertise, sharing contract management and joint procurement of FM contracts, reducing duplication of consultants and internal resources, and exploiting economies of aggregation.
- **Sharing data:** To allow each organization’s property assets to be viewed by others.
- **Surplus property coordination:** To help manage the release of property to the market to ensure competitive pricing and to help identify opportunities to leverage value, for example by exploiting marriage values.
- **Pooling assets:** Involving consideration of alternative models for collectively managing assets.

The public will benefit from more convenient access to multiple public services under one roof, and from a greater choice of alternative access channels, where appropriate, that do not rely on face-to-face contact. The Scottish Government will benefit from confidence that a structured approach is being taken to address budget reductions that will help to minimize the impact on front-line services, through using fewer properties more efficiently, leveraging resources, enhancing value, and encouraging more service integration across public bodies.

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Local public bodies will benefit from collectively releasing cash and carbon savings, both faster and with consuming less resources than if they were doing it alone. They will benefit from a higher stream of recycled capital used to fund change initiatives and to upgrade social infrastructure. Community Planning Partnerships and Community Health Partnerships will have resources focused on planning and delivering the estate that will support back office and front-line service integration.78

Knowledge sharing is essential for breaking organizational silos and optimizing the public sector. It increases the ability to develop forward-thinking initiatives that offer consolidated service delivery. Greater knowledge sharing lends itself to complete policy integration. Policy integration is an area where common values and common outcome definitions are outlined, and shared management of several contracts in an outsourcing context can be realized.

Additionally, the public sector is shrinking, and the number of management levels is decreasing. Pressure to downsize is putting strain on the public sector workforce. This requires more competent and highly skilled managers and civil servants, as fewer and fewer individuals are expected to assume the responsibilities of a greater number of people. Thus, a primary consideration for the public sector towards 2020 is attracting high-quality talent, especially when the attractiveness of the market is being eroded. Better workplace management will be essential as the public sector works to optimize resources and breakdown organizational silos.

This trend has also provoked the public sector to adopt a new strategy that encompasses a much more dynamic, fluid working culture. This represents a shift towards project-based programs and initiatives, where contracted labor, and cross-organizational ad-hoc teams and workspaces are being put together to address particular challenges as they arise. For example, the Flemish Parliament in Belgium is enacting an effort to break down silos among its various support services through the implementation of integrated facility services. This is where catering, cleaning and a host of related services are being aggregated within a silo organization. As this scenario becomes the norm there is a growing opportunity for FM providers and services industry experts to provide a facility response. FM will be required to accommodate the transient work and workplaces of the evolving, and increasingly decentralized, less-siloed public sector.

78 Scottish Futures Trust, Improving Asset Management across the Scottish Public Sector, The Local Civil Estate, September 2011.
6B. Transformation

“Practice is the hardest part of learning, and training is the essence of transformation”

Ann Voskamp, author
When optimization becomes too expensive – that is, when costs to optimize a function or service exceed the efficiency savings – a transformation is necessary. Transformation, however, is much more strategic and requires progressive thinking and collaborative initiatives. Currently, there is recognition that transformation is missing in the mindsets of public authorities, and that they are not yet willing to take the necessary steps in order to enact change. The public sector is rather short-term-oriented, with little focus on the bigger picture. It is here that FM providers can have the greatest impact, and establish themselves as significant strategic partners.

I. Increasing transparency and trust

Most public sector organizations are facing increased scrutiny amid calls for further accountability, monitoring and control. Thus, according to interviewed subject-matter experts, many areas of the public sector are working towards achieving an increased level of transparency. Transparency is imperative to effective public sector operations and the provision of public services in that government maintains a fundamental responsibility to citizens and society. However, evaluating the transparency of organizations on the basis of what is reported and how it is reported is undergoing a change. Specifically, there is a growing movement towards integrated, holistic reporting set in a contextual framework. That is, reporting on all dimensions of business – and specifically those that are most relevant to the communities in which they operate – in order to gain citizens’ trust.

Transparency increasingly needs to provide insights into the organization’s strategic focus and future orientation. It is no longer enough to focus purely on financial reporting. Rather, it is necessary to include non-financial reporting that encompasses the strategy, governance, performance, and prospects of an organization in a concise summary of value that fulfills the information needs of stakeholders. This new notion of transparency is designed to show a
holistic picture of the factors influencing an organization’s ability to create value over time by highlighting significant risks, opportunities, and dependencies in real time. Integrated, holistic reporting is crucial to organizations in order to better reflect their own and unique value creation processes.

However, Mark Fox, Chief Executive of the Business Services Association, explains that it is accountability and not transparency which is of fundamental importance. “Transparency should not be used as any sort of route to bombard people with mass amounts of information that the citizens do not have experience to process. People need to regain trust in government, which means that you need to focus on integrity.”

The motivation underlying extended efforts to improve transparency among public sector organizations comes as trust in the public sector continues to decline. Subject-matter experts describe improvements in transparency, accountability and integrity as an avenue to bolster trust among public sector organizations. What is needed, however, is a fundamental transformation in the way transparency and trust are understood in the public sector.

Trust is an asset that all organizations, public or private, must thoroughly understand and properly manage in order to be successful in today’s complex operating environment. Unlike reputation, which is based on an aggregate of past experiences, trust is a forward facing metric of stakeholder expectation. Trust is pivotal as it is the basis of every relationship, every transaction, and every market. The service expectations of citizens are formed from their experiences with the private sector; and when the public sector cannot deliver, trust declines. Society is changing rapidly, and what has been acceptable or expected in the past may no longer be so. A lack of trust threatens growth prospects and political support.

Accordingly, there are four primary factors that shape trust: (i) Industry or sector, (ii) country of origin, (iii) ownership structure (private, public, not-for-profit), and (iv) leadership. Assessing trust in the public sector when compared to the private sector is especially difficult, as the nature of their operations is fundamentally different. Thus, when it comes to issues of trust and transparency, the interaction and relationship between public sector and private sector organizations becomes increasingly important.

Studies indicate that the private sector is perceived as more trustworthy than the public sector as indicated in figure 15. In fact, the declining trust in a majority of markets is generally driven by declines in the trust of government. However, low trust in the public sector should not rationalize a lessened role for government, in that regulation and governance remains important. Rather, private sector organizations should lead the debate for change – it is a historic opportunity to set the context for change and enable innovation.

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Developing trust from society at large requires a greater understanding of how value is defined for a wider range of stakeholders than many public sector organizations are typically used to considering. This includes taking into account the views of citizens, employees, local community members, private sector actors, and others. Each of these stakeholder groups expects something from the public sector, and their expectations continually change. Each region and industry is different, and, as such, different groups can also hold differing expectations.

The extent to which an organization behaves in line with these expectations determines how trustworthy it is perceived to be. Both private sector and public sector organizations must rely on one another to develop trustworthiness within their organizations and that trustworthiness which is expressed outward, especially as both sectors struggle independently with stakeholder mistrust. For businesses and public sector organizations alike, collaboration is essential in order to drive growth that also benefits citizens.

Jonathan Veale explains that some public sector organizations are having discussions “about how radical transparency can be used to improve trust in their organization.”83 For example, the government of the Commonwealth of Australia launched OpenAustralia in 2007. OpenAustralia is a non-partisan website run by volunteers, which was launched with the publicly-stated goal of making information from Parliament more accessible to citizens. It calls for the development of more efficient and effective public administration, calling for public sector modernization that included a more coordinated approach to Commonwealth information management, innovation and citizen engagement.84

Yet Jonathan Veale cautions, “Transparency is a double-edged sword. On the one hand, people can look at that information and data, and draw their own conclusions based on it without any context. Then it can be really detrimental to the trust of government. On the other hand, it is really valuable for core, or strategic partners, because they can build on that.”85

Contextualization matters. The more one organization knows about the other, the better they can understand the mission, vision, and direction of that organization. Inevitably this creates an environment that fosters innovation and progress. This invariably resolves informational asymmetry, and improves the value-creation capacity of those organizations involved. Before either business or government can earn greater public trust, however, they must seek to restore trust in each other. Outward trust can then be developed by concentrating on behaviors that reflect and communicate a well-articulated socially-centered purpose.

For both sectors, the foundation of business in the future requires a shift from the historic, transactional nature of capitalism to a model of value creation that encompasses societal benefit as well as stakeholder value. It is imperative the inventiveness and innovative nature of the private sector be carried through to building this new approach – dynamic partnerships and collaborative programs founded on transparency and trust. Developing trust in today’s operating environment requires a new model of engagement driven by the private sector. This new model would require developing three key skill-sets:

- **Engage**: Partner with a variety of organizations, and seek input from a range of stakeholders while drafting clearly articulated goals, which offer both a business case and a pro-society rationale. Connect with communities in order to establish relationships with local leaders. Enlist the involvement of employees to ensure organizational alignment of goals and values.

- **Promote**: Offer a well formulated strategy that indicates how a proposed change will improve the lives of citizens, as well as ease budgetary pressure. Involve your partners by briefing them regularly. Foster a culture that supports your vision and is conducive to an environment where employees are encouraged to amplify their ideas.

- **Evaluate**: Consistently reflect on performance and evolve behavior based on collective inputs. Maintain measurable outcomes, with specific quantitative and qualitative targets, and report frequently on progress against metrics. Acknowledge where delivery falls below expectations and have a strategy oriented towards improved performance. Amend your strategy and goals while remaining authentic, and communicate the results.  

Trust is a critical asset, crucial for stakeholder engagement, yet does not appear in reporting. Trust will be conveyed by those organizations and industries that recognize the need to move beyond transactional thinking toward relational partnerships. Partnerships envelop a better understanding of the tangible actions that will help solve the challenges faced by public sector organizations.  

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II. Communication and citizen engagement

A critical challenge for the public sector is how to manage and engage citizens in government processes in order to become flatter, agile, streamlined and tech-enabled. In light of demographic changes, increased customer expectations, the introduction of new technologies, such as social media, communication is now a key strategic issue for the public sector. Although there is nothing new about social media, workshop and subject-matter experts say that governments still struggle with developing institutional and individual procedures and competencies for integrating social media in their workflows with multiple stakeholders and strive to engage citizens in meaningful ways.88

Social media offers much to government services. The social media platforms can elevate and improve the quality of service delivery, can enable greater citizen engagement, and can enable the government to act as a facilitator of citizen engagement among citizens facing similar challenges in local communities. According to Jørgen Ørstrøm Møller, Visiting Research Fellow at Institute of Southeast Asian Studies (ISEAS), citizens are becoming much more selective, demanding and vocal in what they think.89 Successful implementation of social media into public sector processes requires that social media tools and channels are aligned with overall strategic objectives, and that they are used to promote greater internal and external transparency and collaboration.

### Examples of citizen collaboration and participatory models in the public sector

#### Citizen ideation and innovation

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<td>• Open U.S. Government Dialog(opengov.ideascale.com)</td>
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<td>• U.S. Transportation Security Administration’s Idea Factory</td>
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#### Collaborative administration

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<thead>
<tr>
<th>Urban Planning:</th>
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<tbody>
<tr>
<td>• FutureMelbourne.com.au</td>
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<tr>
<td>• Unifiedneworleansplan.com (urban planning for hurricane destroyed New Orleans)</td>
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<tr>
<th>Public Participation in Patent Examination:</th>
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<tr>
<td>• Peer-to-Patent.org</td>
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<td>• PatentFizz, IP.Com or Patent</td>
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<tr>
<td>• Debate (no formal connection to USPTO)</td>
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<tr>
<th>Public Security:</th>
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<tbody>
<tr>
<td>• Peoplefinder-Project reveals new public duties</td>
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<tr>
<td>• Texas Virtual Border Watch (Texas-Mexico border observation via webcams)</td>
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<tr>
<td>• Southern California Wildfire Response</td>
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#### Collaborative democracy

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<tr>
<th>21st Century Town Hall Meeting:</th>
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<tbody>
<tr>
<td>• AmericaSpeaks.org</td>
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<td>• MoveOn.org</td>
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<table>
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<tr>
<th>Similar approaches:</th>
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<tbody>
<tr>
<td>• Deliberative-democracy.net</td>
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<tr>
<td>• Calhealthreform.org</td>
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<tr>
<td>• Californiaspeaks.org</td>
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<tr>
<td>• Democracylab.org</td>
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<td>• European-citizensconsultations.eu</td>
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<tr>
<th>Political Recommendation:</th>
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<tbody>
<tr>
<td>• Number 10 Downing Street E-Petitions</td>
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<th>Political Monitoring:</th>
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<tr>
<td>• Govtrack.us</td>
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<td>• Data.gov</td>
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<th>Collaborative Legal Codification:</th>
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<tr>
<td>• New Zealand Wiki Policing Act 2008</td>
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<tr>
<td>• Regulations.gov (eRulemaking)</td>
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Convenience at point of service delivery is expected, but often the public sector is neglecting to maintain the systems and facilities involved in providing convenient, quality experiences. Public sector organizations typically do not prioritize communication on these issues, until there is a problem (crisis communication). The challenge is: How do you switch from one-directional crisis communication to proactive two-way engagement?

Using social media in order to foster local solutions for community challenges, and the idea of a social media help-desk hotline, is gaining traction in many municipalities. Governments are using social media to detect and inform the public about natural disasters and other emergencies. The US Geological Survey is working to develop Twitter-based Earthquake Dispatch (TED), as Twitter updates can often arrive before seismic data does (see figure 16). Further, the US government launched its SAVE initiative in 2009 and has been awarding its public sector employees for identifying new money saving initiatives. The Danish Municipality Aalborg won awards for its use of social media in engaging local citizens in developing a future vision of a local neighborhood. Lastly, local governments have been developing citizen engagement platforms for reporting problems with local infrastructure and for engaging with public safety institutions.

For example, Singapore established the Singapore Feedback Unit in 2006. This unit has since evolved into REACH (reaching everyone for active citizenry @ home). REACH, going beyond its initial prevue of gathering public feedback, is the lead agency for engaging and connecting with citizens. Its three key roles are to 1) gather and gauge sentiments, 2) reach out and engage citizens, and 3) promote active citizenry through citizen participation and involvement. REACH has a one-stop feedback form that can be accessed from the eCitizen portal. On this form, the citizen can specify which ministry to send feedback to, or leave it blank and allow the unit to forward the message. Each ministry/department has a quality service manager with a toll-free line for complaints/feedback. The internal database tracks when the feedback is received and when the feedback is given.

There are, however, a number of challenges facing the implementation of social media and greater communication tools with multiple stakeholders. These include developing policies and best practices, employee intransigence, the analytical challenge (developing baselines and measurements), and ensuring security.

The public sector needs to identify the correct social media tool that supports their objectives and strategies. They then need to develop and disseminate the best practices and supporting incentive and training structures. Despite the fact that an increasing number of mid- and upper-level civil servants are networked with their counterparts in the private sector, civil society, and with other governments globally, one of the largest and most intransigent groups

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92 Nielsen, Morten, Facebook brug i Aalborg Kommune Vinder KTC’s Innovationspris 2012, Digitalizer.dk, September 26, 2012.
93 https://twitter.com/SF311
are public sector employees themselves, who potentially feel threatened by the implications of greater public-private partnerships and stakeholder engagement.94

The public sector needs a two-pronged approach to the employee challenge – structurally and culturally. First, government needs to attract and develop public sector employees with new mindsets and openness to social media. Second, the public sector needs to create a new culture with properly aligned incentives and which supports professional education and training among existing public sector employees.

The FM industry has to recognize these challenges and develop its competencies in social media along with its government customers. According to a recent study of the FM industry and its use of social media, FM is still a maturing industry with a relatively poor track record in marketing and communications.95 FM providers are also not adept at using social media in a strategic way to build relationships with stakeholders. The picture is generally one of ad hoc and inconsistent use, although a few companies are exploiting social media more effectively. Just as with government, FM providers can use social media tools to manage maintenance of customer infrastructure in new and innovative ways.96

FM providers need to develop their own capacity for effective communication, but also contribute solutions to the communication challenges facing the public sector. FM must demonstrate the necessity of strategic maintenance planning by illustrating the implications of having a well-maintained and well-serviced asset. For example, FM needs to work with the public sector in order to communicate how a well-maintained facility can impact the learning of children, and education more broadly.

FM needs to focus on facilitating citizen engagement and ensuring local communities are preserved while community interests are served. This includes local employment, involving local SMEs, and contributing to the local economy, but also developing strategies that use infrastructure as an anchor for local community and local businesses or entrepreneurs. For example, as of January 2012, ISS FS Ltd adopted the Living Wage for all support staff employed on its estate. In addition, many municipalities are also challenged with avoiding old age isolation in community homes. In this case, it is within the scope of FM to create upscale dynamic facilities that are predominately focused on the elderly, but also available for others to use – a community hub with ease of access for students and families, for instance.

95 Magenta Research, Social Media in the Facilities Management Sector, November 2013.
96 Magenta Research, Social Media in the Facilities Management Sector, November 2013.
III. New metrics for success

As public sector organizations seek affordable government, assume the role of service delivery commissioners, and move towards project-based task management, developing new metrics for success is a major concern. Subject-matter experts largely agree that there is a trend towards using outcomes as the final arbiter of successful service delivery. Organizations today are beginning to look beyond the limited notions of input, output, and profit, towards growth which is much more performance-driven, outcome-based, and socially-centered as shown in figure 17. Substantial, responsible, and sustainable growth will be afforded to those public sector organizations and their private sector partners that expand the narrow scope of their current metrics for success to include the total impact of their business operations and reposition themselves accordingly.

One of the biggest strategic issues challenging the public sector moving forward is measuring the value and effectiveness of public service delivery. Implementing outcome-based measurement systems is desirable in theory, yet faces a number of systemic pressures in practices that are difficult to overcome. In particular, the challenge of defining outcomes, and determining when those outcomes are achieved. According to Mikael Hallqvist, Purchasing Strategist at Gavle Municipality, “there is a big problem with finding a new way to measure value – how to define it in an understandable and transparent way that can be used practically.” Outcomes also tend to be largely ambiguous. For example, the productivity of the knowledge worker and the effectiveness of social-driven programs are much more difficult concepts to grasp within the context of a policy or a contract.

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To begin with, public sector organizations need to be “outcome-oriented” – they must understand and think in terms of performance impact and work to define a set of desirable outcomes that are aligned with their core business and vision as a public body. Interviewed subject-matter experts have indicated there is a growing interest for public sector organizations in assessing their policy and public service impacts, and the outcomes affecting the end-users. Frank Geets, Administrator General at the Agency for Facility Management, explains: “What we see in our agency, and we are not the only ones, is that we are moving towards performance management. If we evaluate people it’s no longer about the number of hours they work, but what their output has been, and what type of impact that has on a particular outcome.”99 The difficulty for the public sector, however, is that they are relatively inexperienced with outcomes internally, and thus face challenges in negotiating contracts while considering outcomes as performance measurements.

Within the evolving operating environment of business and government alike, success demands agility and strategies directed towards good growth. As a result, there is also a need for new metrics that offer a holistic measure of performance and thus success, as success tomorrow will be further defined by quality performance on a number of dimensions. This requires moving past purely financial considerations, to include a holistic view of social, environmental, fiscal, and economic dimensions – the big picture.

An additional challenge lies in realizing a mutual understanding of these notions and establishing a common framework within which private and public sector entities can partner and collaborate interdependently. On the one hand, public sector organizations maintain a fundamental responsibility to citizens and society – the premise upon which the public sector operates. On the other hand, private sector organizations are primarily accountable to owners and shareholders – profitability is the cornerstone to private sector operations.

Yet, as private sector organizations continuously adopt a more socially-centered corporate purpose, and public sector organizations seek to re-engage with citizens and other stakeholders to a greater degree, the traditionally divergent visions of private and public sector organizations can become more closely aligned. There is an opportunity for a new era of collaboration based on shared objectives and on equal commitment to public good initiatives. For private sector organizations, this requires thinking beyond corporate social responsibility (CSR) as an independent silo, but, rather, integrating the philosophy of CSR into all dimensions of an organizations’ operations, such as by embedding responsible business practices into the heart of their strategy.

Public authorities are increasingly expected to consider desirable outcomes and thus shape policy accordingly. Public and private sector organizations that take into account their total impact across multiple dimensions aids in developing a greater understanding of value choices when it comes to sustainable business practices and service delivery. This allows decision-makers to make more informed decisions by conducting robust analyses and weighing the consequences of such decisions for all stakeholder groups.

Interviewed subject-matter experts expressed support for the idea that the provision of public services should be focused on the quality of the services but they also support positive social outcomes, such as environmental sustainability or improved health. For example, this would include a comprehensive measure of both value for money metrics and public health metrics, such as reduced hospital visits and lower incidents of disease. As such, outcome-based metrics must act as a new mechanism for ensuring social objectives are both pursued and achieved.

For example, within the UK health care sector, Key Performance Indicators (KPIs) include more than just financial and quality measures – patient feedback (Family & Friends survey), Care Quality Commissions (CQC), Priorities for Local AIDS Control Efforts (PLACE), patient satisfaction, infection rates, productivity, sickness, training, and moving forward, readmission rates.

Transformation and flexible building or service solutions will underpin the future within the public sector. Buildings will need to undergo several remodeling options during their lifecycle as variables such as demographics, clinical care, and other social drivers change. FM providers need to be able to adapt and accommodate these changes in their service offer.

Figure 18: Total Impact Measurement Management (Source: PwC, 2013)

The regular use of total impact and holistic metrics requires a significant shift in data-gathering practices and in the attitude of the leaders using that data. According to PricewaterhouseCoopers’ “Total Impact Measurement Management” scheme (see figure 18), companies that track their activity in a holistic way, using both financial and non-financial information to drive their strategic decisions, are already gaining benefits.101

However, on the balance-sheet for the public sector, you only have costs, and no revenue and profit-motive, so the value in the public sector is limited to how much you can save, not earn. According to Dan Froden, Senior Advisor at Tenders AB, what should be preferable is if you measure the value in terms of the outcomes you receive when you buy or produce a service versus the cost of it.102 Often, though, outcomes exist as abstract manifestations or positive externalities, and thus are not as apparent as a quantitative measure of inputs or outputs.

Take, for example, the investment in education for a government. First, inputs, such as dollars invested, schools built, and teachers hired, are clear and measurable. Second, outputs, such as years of education, and number of graduates, are also quite clear and quantifiable. Third, performance-based measures are also possible with standardized tests and evaluations for both students and educators. But, measuring outcomes, like the economic impact of education, is much less tangible. Thus, outcome-based metrics are problematic in that (1) outcomes are difficult to define and measure, and (2) it is difficult to discern the causal links between action and outcome.

Right now, we are in the period of time where we are monitoring, measuring, and evaluating all things with various instruments and through countless processes. However, in the future, it is possible we will be less interested in that, and we will look more for quality in a not so measurable sense. Einstein once said: Not everything that can be counted counts and not everything that counts can be counted.103

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A goal without a plan is just a wish!
7. Outsourcing as a strategy

Outsourcing as a strategy is increasingly regarded as a solution to many of the strategic issues outlined above. This is especially true as the private sector experiences growth in trust. Confidence is lost in input- or output-based measurement systems, and the desire to do “more with less” among public sector organizations increases. Outsourcing in the public sector has regularly been a contentious, politically sensitive issue. However, this is no longer the case. In many regions, and for many sectors, outsourcing is no longer viewed as controversial, and it is accepted as a necessary practice in today’s complex operating environment.

Experiences have largely been mixed, but outsourcing as a strategy is an ongoing process of “reflect and react”. Over time, different theoretical approaches to outsourcing have emerged, and this has prompted a paradigm shift in the way contracting out is pursued. As such, observers note that outsourcing in the past has occurred in waves.104 The key to strategic outsourcing in the public sector moving forward, however, are smart contracts negotiated through well-informed, thorough, flexible and competitive public procurement processes.

New models or approaches to outsourcing will largely be reflected in the parameters of future contracts, and mirror the present – yet non-static – ideological inclinations of society and government. In some ways, the future of outsourcing will be characterized by testing the limits and boundaries of the practice – in effect, challenging the preconceived notions of what the concept fundamentally entails.

Waves of outsourcing

Public sector organizations have long recognized the strategic challenges addressed above in some form or another. While they have taken steps to internally optimize or transform service delivery aspects or support functions, they often eventually come to the conclusion that much of these tasks and processes are best left to third-parties.

The public sector has had a long and complex relationship with private sector organizations. That history has predominantly been characterized by periods of widespread outsourcing or privatization, and followed by periods of insourcing or renationalization. There have been three waves of outsourcing over time that are, in large part, reflective of the prevailing political and economic conditions encountered at the time.

The waves of outsourcing have to a large extent been informed by diverse theoretical perspectives on how to approach the issue of public procurement. These paradigms are not entirely independent of one another, nor are they necessarily restricted to a linear or circular evolutionary process. The perspectives comprise of:

- The economic-based view inspired by the transaction cost economic theory;
- The strategic-based view inspired by the resource-based theory; and
- The relationship-based view inspired by the social exchange theory.105

“However beautiful the strategy, you should occasionally look at the results”

Winston Churchill, Statesman
While the waves of outsourcing are not well-defined, they offer rudimentary, yet fundamentally important, insights into the motivations and trends affecting public service delivery. According to interviewed subject-matter experts, there are three primary issues that are taken into account when public sector organizations consider the decision to outsource – cost, risk, and value – which over time have been ascribed varying degrees of importance. Each wave of outsourcing exhibits significant, distinct risks and values as outlined in figure 19.

<table>
<thead>
<tr>
<th>Cost</th>
<th>Risk</th>
<th>Value</th>
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<tbody>
<tr>
<td>Economic-based</td>
<td>Lowest price</td>
<td>Efficiency</td>
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<td></td>
<td></td>
<td>Input-based</td>
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<td></td>
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<td>Cost-effective</td>
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<tr>
<td>Strategic-based</td>
<td>Fair market price</td>
<td>Competitive advantage</td>
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<td></td>
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<td>Output-based</td>
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<td></td>
<td></td>
<td>Core competencies</td>
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<tr>
<td>Relationship-based</td>
<td>Value price (Benefit/cost)</td>
<td>Integrated networks</td>
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<tr>
<td></td>
<td></td>
<td>Outcome-based</td>
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<tr>
<td></td>
<td></td>
<td>Value-adding</td>
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<tr>
<td></td>
<td></td>
<td>Increased trust</td>
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While going back to the 1980s under the pretense of early New Public Management thinking, the trend started to gain momentum as public sector organizations understood that they could improve efficiency and reduce back office operating costs by turning to outsourcing providers. The value here lies in reduced transaction costs enabled by contracting private service providers who could in effect leverage their own infrastructure and human capital across multiple clients.

- The **first wave** of outsourcing was primarily economic-based, and concerned with cost.
- The **second wave** – which began in the early-mid 1990s at the apex New Public Management thinking – was strategic-based and was concerned with maximizing core capabilities or competencies. Public sector organizations believed that to remain competitive they needed to concentrate on the activities they did best. The value here

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108 Tsai, Ming-Chin et al., The Dark Side of Logistics Outsourcing – Unraveling the Potential Risks Leading to Failed Relationships, Transportation Research, Part E 48, 2012.
resides less in reducing costs, but, rather, in developing a competitive advantage by contracting out non-core activities, and by focusing on the development of key retained functions.

- The **third wave** began to gain recognition in the late 1990s and early 2000s and that wave indicated a shift from strategic-based outsourcing to a much more comprehensive form of relationship-based outsourcing. Public sector organizations began see beyond purely financial considerations and found merit in forming integrated networks that were value-adding. A primary feature of the third wave has been the formation of long-term, strategically-centered, partnerships that presuppose sustainable, good growth.

However, the global financial crisis and the ensuing austerity measures has again encouraged many public sector organizations across Europe in particular, to revert back to a model of outsourcing based purely on cost-value. Additionally, the failure of relationship-based outsourcing models in a few key markets has resulted in reluctance towards outsourcing among public authorities and renewed the debate over the issue in some political arenas. Many began to express moral reservations concerning outsourcing in the public sector, claiming the private sector has become too involved in public service delivery.109

The merits of outsourcing have long been contested, though today it is largely viewed as an accepted practice, so long as the appropriate mechanisms are set up in order for public sector bodies to maintain oversight. The decision to outsource today is much less a political issue, but it is still not a simple proposition. Rather, the choice to outsource is that of a business case. Interviewed subject-matter experts agree that outsourcing is not sufficiently adequate as a strategy in itself, but rather, a single tool or means to an end among many that comprise a broader strategy of efficient, high quality public service delivery.110 If cost efficiency and added value can be demonstrated through collaboration with an external partner, outsourcing becomes favorable.

There is a consensus among interviewed subject-matter experts that relationship-based outsourcing built on trust is much more conducive to good growth and excellence in service delivery; but, it still requires careful consideration of all associated costs, values, and risks. According to Paul Webster, from Department of Health - Private Finance Unit at Procurement, Investment and Commercial Division NHS Finance, Performance & Operations, “partnership is quite a subjective concept, and therefore it is a difficult concept to reflect in an objectively drafted contract.”111 Essentially there will be a convergence of all three theoretical paradigms in practice, which will be a model that embodies the appropriate values, while mitigating the risks to such an extent that makes outsourcing viable.

Public sector organizations have transitioned from independent providers, to competitive players, finally to integrated partners in service delivery. As the strategic nuances of outsourcing

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continue to evolve, the once clearly demarcated lines separating the public sector and private sector will continue to erode. Citizens are already largely unaware whether they are receiving a service from a public or private provider.

**Towards smart contracts**

The central challenge in public sector service provision is overcoming the assumption that outsourcing contracts should be static, one-directional, and time-limited. Effective outsourcing for public sector organizations requires the use of smart contracts. It is imperative to look at the experiences – the failures and successes – in public sector outsourcing in order to design smart contracts. Many of the outsourcing failures are, for the most part, attributable to poor contract negotiation or contract execution.

However, interviewed subject-matter experts cautioned that public sector organizations must know and understand themselves before they can outsource a function, in order to maximize the value of an agreement.\(^\text{112}\) Failing to do so will result in “unsmart” contracts that are prone to complications. Public sector organizations simply cannot outsource the problems they face in hopes of receiving solutions at a marginal cost.

One of the fundamental issues outlined by interviewed subject-matter experts’ points to the issue of control over public service provision. That is, how can the public sector retain control in an outsourcing partnership, and in what ways can this be controlled for within the parameters of a contract? According to Norman Rose, Former Director-General of the Business Services Association, complex contracts are much more difficult to manage.\(^\text{113}\) On the one hand, outlining too many contractual provisions, organizations run the risk of stifling innovation. However, on the other hand, with minimal contractual specifications, organizations face the problem of monitoring for accountability.

These issues are directly linked to the input-output dominant measurement practices that persist in contracts today. Outsourcing providers often get tied down under an input-, or output-based model, which limits their capacity to develop innovative solutions. Incentive mechanisms are typically not designed into contracts, where providers are awarded a particular degree of freedom to innovate and get rewarded accordingly, in addition to realizing their own operational savings. Rather, contracts tend to be heavily focused on penalties for defaulting on the terms. The challenge here resides in the fact that there exists an inherent difficulty in holding providers accountable to outcomes given the ambiguity and arbitrary nature of outcomes in general, but also due to the lack of trust between provider and customer. As a result, providers are typically contracted for a specific, well-defined function, and are expected to fulfill their service obligation as is.

This is expected to continue, especially as public sector organizations continue to shift to project-based procurement strategies and one-off solutions on an as-needed, case-by-case

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basis. Short term, well-articulated contracts are also perceived as being increasingly viable, since the pace of change in today’s operating environment is fast and accelerating. However, this trend increasingly occurs within the framework of existing established partnerships or professional relationships.

Many public sector organizations are beginning to rationalize larger contracts with many providers to reduce supply costs. There is growing interest in developing a much more long-term, relationship-based contracts, and in developing a mutual understanding of outcomes and expectations that allows them to work together with service providers in a strategic way. “Longer contracts are more conducive to better relations between purchaser and supplier. If you have a problem in a short contract, you can decide to live with it, but if there is a severe problem in a long-term contract, you must solve it. It's like a marriage. In this way you build up the confidence and trust in one another, and this is difficult to do without getting anything back in the first years, but much easier for larger companies to attempt.”

Therefore, interviewed subject-matter experts argued that it is absolutely necessary to work towards flexible contracts in order to remain agile and resilient.

Moreover, there is a strong urge to look at full life-cycle contracts. As Siep Eilander, Director of Facilities, Management, and Procurement for the Dutch Ministry of the Interior and Kingdom Relations, comments: “I know our procurers generally do not have the experience to dive into those types of contracts, but that is what we are aiming for. I believe these types of contracts tend to be better on the cost-risk-value triangle. For one thing, the cost is not something that should be as low as possible. Despite austerity measures, cost is not the most important to us. Value is. Our primary aim is to gain value and reduce risks. As such, I believe risks should be shared to a greater extent, and service providers should increasingly be concerned with how they can package their services with added value.”

However, value can be different things. Value should be achieved by fulfilling the contracted service, but also supporting the broader policy ambitions of other public sector organizations and the government of the day. Thus, service providers must demonstrate that their services and processes are value-driven and act in the public interest. The value proposition of the business provider has to be better and clearer. Interviewed subject-matter experts recommended a matrix contracting mechanism. As seen in figure 20, contracts would vary depending on deliverables, level of responsibility, and thus level of risk. The greater number of deliverables, assessed across the level of responsibility in fulfilling such deliverables, has an impact on the degree of risk-reward for each activity. This would encourage and allow outsourcing providers to create service wraps for them to overlap inputs, outputs, and outcomes for the entire pathway of services delivered.

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Innovation in public procurement

In many European markets, there is a strong need to reevaluate the process of public procurement. Interviewed subject-matter experts noted in particular that complex EU-wide procurement regulations were often viewed as a barrier to outsourcing in the public sector. Accordingly, the government and government bodies find it difficult to buy a service that is not defined tightly by contract. The current rules are not conducive to partnerships and relationships that are defined under flexible contracts and are based on trust. Fostering trust is expected to become increasingly necessary as the complexity of the challenges facing the public sector becomes more pronounced.

The service needs to be measurable so that it can compete under EU procurement laws. It is very difficult to compare different approaches because of the nature of procurement and the predominance of penalty-based contracts. Therefore, it is procurement that has to change. Competitive dialogue goes against the really innovative and unconventional contracts. It may change in the future. It needs a willing government, and a change at the EU level as well, because the whole system presumes there is a level market and you are competing in a same way for the same thing.119

Providers are often restricted in finding innovative solutions, and delivering optimal results simply by way of the process in which public procurement is carried out. True competition is generally limited by EU rules and national regulations surrounding the tendering and bidding process that restrain contracts in such a way that some providers are unable to bid. Others

are unable to demonstrate added value. According to Charlotta Jonegård, FM Manager at Östergötland County Council in Sweden, the law about public procurement is a big issue for the public sector.120 As a result, those who are awarded a contract from the public sector may not be the most suited to deliver a service.

The problem lies in the fact that public authorities are often required to tender a contract for competition under EU procurement laws rather than seek out local solutions that may best address the service challenge. In this regard, outsourcing done at the municipal level creates problems in terms of service accuracy and quality. External providers are often disconnected from the needs of the local community in which the services have been contracted for. Providers do not possess a good enough understanding of the expectations inherent in public sector operations and public service delivery.

As it stands now, EU procurement laws are viewed as a major hindrance to effective public sector outsourcing, and are seen as restricting of pilot or test projects that encourage innovation in the public sector. However, in early 2014, public procurement reform at the EU level has been adopted for some sectors, which requires member states to transpose the new rules into their national law by mid-2016. The new rules are designed to simplify public procurement procedures and make them more inclusive and flexible, boost transparency and reduce corruption, and to encourage a focus on innovation and other social and environmental aspects.

The new EU procurement directive will make it easier for the principal to use more flexible forms for tendering, including “offer negotiated” and “competitive dialogue” tendering. At the same time, the directive introduced the ability to use an “innovative partnership” model. Under this model, a buyer will go to the market seeking one or more partners to assist in the development of an innovative product or service, offering flexibility to the outsourcing provider or providers to come up with innovative solutions together with the authority. The new procurement procedure will also allow greater public-to-public procurement.

These changes intend to reduce the cost of tendering in time and money, while producing greater outcomes. While these reforms are a step in the right direction, there are greater measures that can be taken to develop the relationships and partnerships for the benefit of the public sector client so that they can obtain savings in a greater number of areas.

Service innovation should be the core of the public private partnership allowing to do things differently. A robust change management process must be deployed to ensure that the service improvements are efficiently implemented.121

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121 ISS White Paper, Service Innovation in the Facility Management industry, 2011
Future outsourcing

Public sector outsourcing in the future is expected to further transcend the boundaries of the practice set forth today. The models of outsourcing used widely today will change to include innovative arrangements between new and existing actors. For example, the public sector will take greater steps towards extra-institutional outsourcing, which includes outsourcing directly to the individual through self-service, or by way of the not-for-profit or voluntary sector. Accordingly, “all these transformations have the ambition to stimulate the responsibility of the citizens and to minimize the involvement of the sector, but to the extent in which it will succeed, is a different question.”122 Government-to-government outsourcing will also become increasingly prevalent – both vertically and horizontally – as public authorities will seek to maximize available resources, build consensus, and share risks between one another.

Further, there are trends that indicate outsourced services will span a greater range of functions. No longer will outsourcing as a strategy be limited to back office and support functions, but, rather, outsourcing will be considered to a much greater extent for front line services, and strategic operations. Even contracting out the fundamental responsibilities and functions of government is being considered in markets where confidence in outsourcing has reached an especially sophisticated level. As a result, many regions are discussing the viability of outsourcing decision-making functions to private sector policy makers. In essence, outsourcing emerges as the new model for governance – where the market is empowered to develop solutions that address the needs of citizens and society under a managed framework – so as to avoid the creation of an independent, isolated shadow state.

Accordingly, the private sector is better at producing virtually everything than the public sector – simply because they have profit as their motive.123 This notion is not limited to merely products and services, but to knowledge as well. The private sector possesses greater market awareness, economies of scale and scope, as well as distinguished inventiveness and agility when compared to the public sector. Private sector organizations should thus expect a change in this direction and they should be ready to work much more closely with government and public sector organizations than they have before.

“Discovery is seeing what everybody else has seen, and thinking what nobody else has thought”

Albert Szent-Gyorgyi, Nobel Prize Winner
“No matter what people tell you, words and ideas can change the world”

Robin Williams, actor
During the 19th century, savvy investors began putting capital into railroads and rail networks that would shortly thereafter traverse America and Europe. As the infrastructure was further developed, commerce expanded widely – leading to an economic boom of unprecedented proportions. The scale of trade and travel reached remarkable new levels. Meanwhile, those who moved goods through carriages, canals and even steam ships saw their businesses steadily eclipsed as that infrastructure, and thus, those methods of transport, diminished in relative importance.

Something very similar is repeating itself in our global, hyper-competitive and hyper-connected era. Instead of moving goods, however, we are moving information and we are moving people. It is now the volumes of data, transactions and interactions that are exploding. In order to keep up with demand and capitalize on our resources, we need dynamic infrastructure that can scale accordingly and accommodate the increasing flow of people and information. We need highly sophisticated FM or infrastructure management – network hosting, people coordination, help-desk services, messaging, security and database administration, among other things – rooted in precision and measurement, process discipline and operational excellence.

The primary challenges faced by the public sector in the coming decades will be related to infrastructure. FM is infrastructure in its most basic understanding. There are more things today that can be considered FM than ever before, offering unparalleled opportunities for FM providers to take control of the fourth industrial revolution – industry 4.0. The role of FM in the future is absolutely central.

There needs to be a focus on future development, rather than what can be done better today. Interviewed subject-matter experts agreed that FM is and will be essential, but it is not yet strategic. FM providers offer a service, except they need to consider strategically where FM, public services, and society are going, and ensure they are ahead. This way, FM can have a substantial impact on the delivery of public services. FM providers need to grasp that trend, and demonstrate it to public authorities. FM needs to get in a position at the national level to influence the delivery of services through their power to coordinate and integrate – both of which will be essential to the operations of public sector organizations in the future.

There are three key roles FM will assume towards 2020 in support of the evolving public sector:

- FM providers as strategic partners
- FM providers as consultants and educators
- FM providers as investors and co-creators

However, the specific role FM providers adopt in the public sector will differ. This variance will be contingent upon the context of the operating environment, as outlined in figure 21. The public sector operates in all four quadrants to varying degrees and will require FM providers to provide support as strategic partners, consultants and educators, and investors and co-creators in all of these areas.

<table>
<thead>
<tr>
<th>Service delivery facilities</th>
<th>Office facilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simple facilities offering retail, leisure, hospitality, and public services where FM is treated as an extension of the brand and service management.</td>
<td>Office premises where the impact on end users is usually less direct and the risks of systems failure less acute.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Production and manufacturing facilities</th>
<th>High risk external facilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facilities rarely noticed by the end user unless there is a significant failure.</td>
<td>Complex but risky environments, especially acute hospitals.</td>
</tr>
</tbody>
</table>

Figure 21: Four categories of facilities services (Source: ISS World Services, 2014)

**FM providers as strategic partners**

The strategic vision of FM providers must parallel that of the public sector organization they are working with in order to develop robust solutions that contribute to a resilient future. FM can act increasingly as a strategic partner, since FM – as a young, yet dynamic discipline – continues to transition from the operational level to the service level, and finally, to the strategic level. The crucial step for FM providers is to develop tools for engagement that can be used for strategic alignment, and to bridge the gap between customer and partner. Therefore, there exists a need to get on the same level, strategically, with their partners in the public sector. Allowing the FM provider to become a strategic partner on workspace management to enable the use of space to be optimized in alignment with the workplace strategy of the public entity.126

In a time of austerity, rapid technological change, and an evolving public sector, there is a growing demand for rigorous analysis of existing facility assets in order to improve the capacity of particular sectors or organizations to plan and react to changing facility needs. Once the organization’s vision and policy objectives have been established, and a clear assessment of assets and capabilities has been conducted, it is possible to identify which strategic goals necessitate a facility response.

The public sector will be unable to sustain the cost of running public facilities. They will be forced to re-evaluate ownership, and reconsider asset management. Public sector organizations must recognize facility assets have a strategic value that can be leveraged to a greater extent. For the public sector, it will be about working smarter and applying the concepts outlined in the ISS 2020 Vision: NWOW study. The focus should be on pooling

126 How “New Ways of Working” affect our use of facilities, 2012
assets across the public sector – practicing “freedom from ownership” – and considering new models that will allow public sector organizations to better monetize their owned or managed assets.

The key is to look at life-cycle management, and be adept at managing the growing use of multi-functional infrastructure (see figure 22). No longer will it be enough for the public sector to maintain single function buildings. For example, this involves:

- Keeping schools open longer for other purposes
- Designating new community activities to libraries
- Coordinating the functions of hospitals and care centers
- Renting public space to other public authorities or for private use
- Renting out municipal buildings
- Mobility solutions to the local community and entrepreneurs.

This will help maximize the functionality of public sector facilities and infrastructure.

In order for FM providers to effectively address the needs of public sector organizations, it is imperative to move beyond Facility Management and engage in a degree of strategic facility planning (SFP), as outlined in figure 23. SFP identifies the type, quantity and location of spaces required to fully support the organizations business initiatives and should be framed within the organization’s vision. SFP includes three primary components: “An understanding of the organization’s culture and core values and an analysis of how existing and new facilities must manifest that culture and core values within the physical space or support their change; an in-depth analysis of existing facilities – including location, capability, utilization and condition; and an achievable and affordable plan that translates the goals of the business plan into an appropriate facility response.”127

SFP is described as a four-step process:

1. **Understanding**: The thorough understanding the organizations mission, vision, values, and goals;
2. **Analyzing**: The analysis of the organization’s facility needs;
3. **Planning**: The development of strategies that meet long-term needs of the organization;
4. **Acting**: The implementation of planned strategies.

As SFP merges with strategic policy objectives of each particular sector or organization, alignment among stakeholders is critical for successful partnerships. In this regard, there is a transcendence away from a one directional purchaser-supplier association to a more integrated and cooperative relationship.

Accordingly, the process of strategic facility planning should be ongoing as facilities, real estate and infrastructure should be consistently evaluated in order to ensure that public sector buildings and other real estate assets are optimized in a way best suited to match the vision, and to meet the policy objectives of the sector or organization. This requires a life-cycle analysis which includes an evaluation of total ownership cost and life-cycle cost, in contrast to the relative value output of building assets in economic terms but social externalities as well.

**FM providers as consultants and educators**

One of the most important future roles for FM providers will be in consulting and educating. In many ways, FM started out as a consulting service before transitioning into a facility support service. There is an opportunity to renew the essence of FM. Accordingly, “we are not coming full circle but approaching a new paradigm.” Interviewed subject-matter experts largely agreed the role of FM will further evolve into that of a consultancy, which, in addition to providing soft and hard FM services, will consult and advise on a range of issues that are of strategic importance. The value of FM in the future will be on knowledge, and not only technical knowledge at the operational level, but also in the creation, management, and optimization of physical space, people, and information. FM will make a shift towards selling concepts.

Additionally, private sector FM providers are well situated to advise and consult on outsourcing and procurement practices. FM providers are some of the largest outsourcing companies in the world, and as a result, offer invaluable insights into the procurement process that help public sector organizations optimize resources, and maximize outcomes. In this regard, FM providers are well equipped to advise on outsourcing and procurement practices.

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providers act as knowledge providers, who are able to draw on their extensive experience in procurement, contract tendering, and outsourcing in order to educate less adept organizations on how to navigate complicated procurement processes, and on how to build smart contracts.

The challenge for FM providers at the moment, however, is striking the appropriate balance between that of a knowledge provider and a service provider, in order to not compromise their core business. Acting as a knowledge provider should fit seamlessly within the organizations larger vision, and should support their strategic objectives. It should not disqualify them from suitable tenders through a conflict of interests.

Lastly, FM providers will increasingly consult on FM issues, also contributing to public service initiatives. FM providers occupy a unique position in public sector organizations – they offer front line, support services that can help bridge the gap between citizens and government. FM becomes pivotal in enabling a new layer of public service to exist, where FM providers can offer additional features integrated within existing services. Take, for instance, the opportunity for FM providers to teach students about cleanliness and hygiene as part of a contract with a school district. The results are value-adding for the provider, the client, and society, in that the cleaning of schools will be less resource intensive, and the risk of bacterial infections will be reduced as children become more hygiene-conscious. FM providers will continue to become actively involved in the provision of public services by adopting a greater responsibility to manage and develop infrastructure, as well as educating those who use it.

**FM providers as investors and co-creators**

As the public sector continues to evolve, the opportunity for external providers to support the direction of government will grow. FM providers will increasingly adopt a greater role as a co-creator since the demands of public sector organizations will further exceed their capacity to deliver in-house. Involving FM providers and other private sector actors will help drive innovation, and thus help shape the future of the public sector. The challenge, however, is aligning the financial and strategic interests of multiple stakeholders.

There are already a number of public sector initiatives designed to reduce costs and improve service quality by involving the private sector in novel ways. For example, social impact bonds (SIB) are contracts in which private sector organizations pay for improved social outcomes that eliminate false economies and result in public sector savings, as illustrated in figure 24. The SIB model is an innovative method of financing and developing public services. It aims to improve a social outcome through the collaboration of government, service providers and external investors. A SIB involves a series of contracts based on an agreement by government to pay investors for an improvement in a specific social outcome once it has been achieved. Service providers address the social outcome by delivering an intervention to a group within a target community. The primary focus is on increase spending on preventative services, and thus, SIBs act as a social futures contract. Unlike many existing public sector contracts, the
measurement of social outcomes is a necessary component of a SIB. The roles of stakeholders involved are as follows:131

- **Government commissioners**: SIBs ensure that payments are only made by the public sector if SIB-financed services improve outcomes for service users. Government transfers the financial risk associated with failures to improve outcomes to investors.

- **Investors**: SIBs offer trusts and foundations, commercial and institutional investors, high net worth individuals, and retail investors an opportunity to generate a blended social and financial return on investment. The social and financial returns are aligned since investors receive higher financial returns for greater improvements in social outcomes.

- **Service providers**: SIBs offer extra investment for service delivery. Providers are encouraged to innovate in order to maximize outcomes for their target populations. The focus is on collaboration and the social outcomes that service providers can generate together, rather than on the cost of services or outputs alone. Long-term contracts allow providers to employ full-time staff and gain the trust of service users.

- **Intermediaries**: SIBs create a new market for intermediaries across a range of functions in their development and execution. For example, they can conduct feasibility studies, perform due diligence, negotiate the deal, establish a special purpose vehicle (SPV), raise capital, and manage performance.

- **Service users**: Services are delivered to a cohort of service users for whom outcomes could be improved. Payments by government are made on the basis of improvement of outcomes for this group of individuals. Services are flexible, responding to individual need rather than prescribed processes or units of time.

Again, as FM shifts to outcome-based metrics that support social good and broader public sector initiatives, FM providers maintain a critical position to assume the role of investor and co-creator. FM providers as investors changes the dynamic of private-public relations in that this approach shares risk, manufactures incentive, and to some extent challenges the intricate ownership-control dimension of the public sector.

Private finance investments (PFIs) are also becoming increasingly common, and they represent a substantial opportunity for FM providers to become involved in the public sector to a greater extent. PFI is a concept that is evolving to create robust private-public partnerships, in which public infrastructure projects are financed by private capital. Usually, PFIs require that FM providers collaborate across levels of government and with private sector organizations in order to create consortiums that can effectively execute a PFI contract. PFI initiatives are advantageous to public sector organizations in that multiple functions are outsourced in a single consolidated contract, costs are reduced, and development is expedited.

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For example, the Dutch Ministry of Defense tendered a PFI contract for a project that involved the construction of accommodation facilities for 3,000 defense employees, sports facilities, a conference center, a canteen, and underground parking at the existing terrain of the Kromhout Barracks. The contract was won by the Komfort consortium and includes all the elements of the design, building, finance, facility services, maintenance and operational services in an integrated 25-year DBFMO contract that represents a value in excess of €300 million. The consortium has been successful in delivering (1) lower life-cycle costs, (2) a reduced construction phase, (3) quick realization of financial contracts, and (4) flexible, transparent, and sustainable design.

An FM provider in a PFI contract is a dominant force, and is indicative of the expanding role of FM providers beyond simply offering operational services to facility design and life-cycle management. Shifting the financial risks from customer to provider, public sector organizations award a particular degree of control and entrepreneurship to consortium partners in order to create innovative solutions so long as the customer demands and outcome specifications are met.

The challenges faced by the public sector towards 2020 requires having external FM providers play an active role as partners, developers, co-creators and educators.

Figure 24: Social impact bonds (Source: CIFS, 2014)
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The future challenges of the public sector will be related to asset management and optimization of the infrastructure and services within that entity. There are more things today that can be considered FM than ever before, offering unparalleled opportunities for establishing new collaborative models. Tomorrow's FM solutions will no longer be limited to servicing buildings and infrastructure. Rather, FM will be required to play an increasingly important and integral role in enabling the free flow of information, people, and objects, while creating a high quality experience for citizens.

The future of public sector outsourcing will be characterized by highly sophisticated FM or infrastructure management – network hosting, people coordination, help-desk services, communication, security and workplace management solutions among other things – rooted in precision and measurement, process discipline and operational excellence.

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