

# Government report to the Parliament on the Senate Group and the management of central government premises

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# Government report to the Parliament on the Senate Group and the management of central government premises

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## Government report to the Parliament on the Senate Group and the management of central government premises

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### Abstract

As required by Parliament, the Government report on the Senate Group and the management of central government premises is intended to provide a comprehensive review of the management of the central government's real estate and premises and of the operations of the Senate Group, which carries out that management (parliamentary reply EV 194/2020 vp).

The Report describes the management and maintenance of the central government's built real estate assets in Finland and abroad. The Report also presents the central government's internal leasing system, which government agencies and public bodies use to obtain premises. The Report describes the changes that have taken place in the central government's leasing system over the past few years and assesses the success of these changes. The assessment is based on the studies conducted on the matter.

The Report describes the first year of operations of the Senate Group, which was established at the beginning of 2021. In 2021, a subsidiary unincorporated state enterprise called Puolustuskiinteistöt was established to handle the Finnish Defence Forces' needs for premises. The Report describes the development of the position of personnel in the new group and the experiences of agencies and public bodies of using the group's services. The report also assesses the effectiveness of steering cooperation between the Ministry of Finance and the Ministry of Defence.

The end of the Report presents conclusions on the matters raised by Parliament concerning the Senate Group and the management of central government premises as well as an assessment of the prospects and needs for development relating to the management of central government premises.

**Keywords** unincorporated state enterprises, real estate sector, real estate management, renting, internal leasing system of central government, management of central government premises, premises, central government premises

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## Valtioneuvoston selonteko eduskunnalle Senaatti-konsernista ja valtion toimitilahallinnosta

### Valtioneuvoston julkaisu 2023:35

**Julkaisija** Valtioneuvosto

**Yhteisötekijä** Valtiovarainministeriö

**Kieli** englanti

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### Tiivistelmä

Valtioneuvoston selonteko Senaatti-konsernista ja valtion toimitilahallinnosta tuottaa eduskunnan edellyttämän kokonaisvaltaisen katsauksen valtion kiinteistö- ja toimitilahallintoon sekä sitä toimeenpanevan Senaatti-konsernin toimintaan (EV 194/2020 vp.).

Selonteossa kuvataan valtion rakennetun kiinteistöomaisuuden hallintaa ja hoitoa Suomessa ja ulkomailla. Lisäksi selonteossa esitellään valtion sisäinen vuokrajärjestelmä, jonka perusteella valtion virastot ja laitokset hankkivat toimitiloja käyttöönsä. Selonteossa kuvataan valtion vuokrajärjestelmässä viime vuosina tapahtuneet muutokset ja arvioidaan niiden onnistumista. Arvion pohjana ovat asiasta teetetyt tutkimukset.

Selonteossa kuvataan vuoden 2021 alussa perustetun Senaatti-konsernin ensimmäistä toimintavuotta. Vuonna 2021 Senaatti-kiinteistöille perustettiin Puolustuskiinteistö- niminen tytäriyhtiö hoitamaan Puolustusvoimien toimitilarpeita. Selonteossa kuvataan henkilöstön aseman kehittymistä uudessa konsernissa, liikelaitosten toimitilapalveluita käyttävien virastojen ja laitosten kokemuksia asiointiin sujuvuudesta sekä valtiovarainministeriön ja puolustusministeriön ohjausyhteistyön toimivuutta.

Selonteossa esitetään johtopäätökset eduskunnan esittämiin Senaatti-konsernia ja valtion tilahallintoa koskeviin asiakokonaisuuksiin sekä arvioidaan valtion tilahallinnon tulevaisuuden näkymiä ja kehittämistarpeita.

### Asiasanat

valtion liikelaitokset, kiinteistöala, kiinteistöjohtaminen, vuokraus, valtion sisäinen vuokrajärjestelmä, valtion tilahallinto, toimitilat, valtion toimitilat

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## Statsrådets redogörelse till riksdagen om Senatkoncernen och statens verksamhetslokalförvaltning

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### Referat

Syftet med statsrådets redogörelse om Senatkoncernen och statens verksamhetslokalförvaltning är att lägga fram en sådan övergripande översikt, som riksdagen förutsätter, över statens fastighets- och verksamhetslokalförvaltning och Senatkoncernens verksamhet som verkställer den (RSv 194/2020 rd).

I redogörelsen beskrivs besittningen och skötseln av statens bebyggda fastighetsegendom i Finland och utomlands. Dessutom presenteras i redogörelsen statens interna hyressystem, med hjälp av vilket statliga ämbetsverk och inrättningar anskaffar verksamhetslokaler för eget bruk. I redogörelsen beskrivs de förändringar som skett i statens hyressystem under de senaste åren och bedöms hur de har lyckats. Bedömningen grundar sig på de undersökningar som gjorts om detta.

I redogörelsen beskrivs det första verksamhetsåret vid Senatkoncernen, som grundades i början av 2021. I redogörelsen beskrivs också hur personalens ställning utvecklas i den nya koncernen samt vilka erfarenheter de ämbetsverk och inrättningar som använder koncernens verksamhetslokal tjänster har av smidigheten i ärendehantering. I redogörelsen beskrivs också hur styrningssamarbetet mellan finansministeriet och försvarsministeriet fungerar.

I slutet av redogörelsen presenteras slutsatser om de ärendehelheter som lagts fram av riksdagen angående Senatkoncernen och statens lokalförvaltning samt bedömningar av framtidsutsikterna och utvecklingsbehoven i fråga om statens verksamhetslokalförvaltning.

**Nyckelord** statens affärsverk, fastighetsbranschen, fastighetsledning, uthyrning, statens interna hyressystem, statens lokalförvaltning, verksamhetslokaler, statens verksamhetslokaler, fastigheter

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# 1 Introduction

Built real estate assets owned by the state are worth about EUR 4.7 billion and consist of approximately 9,000 buildings. The management and maintenance of these real estate assets has mainly been centralised to a group of unincorporated state enterprises consisting of Senate Properties and Defence Properties Finland (later referred to as the *Senate Group*). The central government additionally owns properties worth approx. EUR 300 million abroad, which are managed and maintained by the Ministry for Foreign Affairs.

The central government has an internal leasing system, in which state-owned premises managed by the Senate Group are primarily leased for the use of central government agencies and institutions at cost price. In addition, the Senate Group's unincorporated state enterprises serve as a centralised state-owned procurement unit that obtains premises in the market for the needs of central government agencies and institutions.

The central government's real estate management and leasing system have been developed strongly in recent years. In a reform of the leasing system carried out in 2016, the previous model of commercial pricing was replaced with a cost price model, in which the Senate Group does not make a profit from the central government's internal leasing activities.

The cost price approach was introduced in stages. In 2021, the Senate Group's turnover was EUR 801.4 million and profit EUR 45.6 million. Leases to central government agencies accounted for approx. EUR 7 million of this profit. The largest share of the profit consisted of sales of real estate and revenue from external customers. As required in the state's cost price leasing system, the result from the central government's internal leases was close to zero.

Under the Act on Senate Properties and Defence Properties Finland (1018/2020), which entered into force at the beginning of 2021, a subsidiary called Defence Properties Finland was established for Senate Properties. This subsidiary is an unincorporated state enterprise

which provides premises services for the Finnish Defence Forces. The Construction Establishment of Defence Administration, which had previously performed this task, was closed down at the same time.

As the Act on Senate Properties and Defence Properties Finland was passed, Parliament required (EV 194/2020 vp-31/2020 vp) that the Government issue, by the beginning of the autumn plenary session of 2022, a comprehensive report on Senate Properties, its subsidiary Defence Properties Finland, and the Senate Group as a whole, including:

1. a review of the central government's premises management as a whole, its organisation and operating principles, regulation, the customer's position, costs, service contracts and any disputes that may have been associated with them, the system's impacts on the authorities' capacity to perform their statutory tasks, and premises management's liability for shortcomings related to the condition of the premises and similar, and
2. a more general assessment of how suitable the unincorporated state enterprise model is for organising the central government's premises management, and
3. an evaluation of the effectiveness of the new regulation on Defence Properties Finland, especially regarding the steering mandates of the Ministry of Finance and the Ministry of Defence, as well as the development of the personnel's position.

The report was prepared in the Ministry of Finance as part of official duties. On 20 October 2021, the Ministry of Finance appointed an [expert group](#) to support the drafting of the Government report on the Senate Group. The expert group had representatives from the ministries, Senate Properties and Defence Properties Finland. It was tasked to produce information that answers Parliament's questions and also to prepare the report in other respects.

To support the preparation of the report, the Ministry of Finance commissioned a study on the effectiveness of the central government's leasing system, the service contracts between the Senate Group's unincorporated state enterprises and their central government customers, and the effectiveness of these contracts ([Ministry of Finance publications 2022:9](#)). The aim of this study was to produce an extensive description of the current state of the central government's leasing system that would reflect different actors' views as comprehensively as possible, and to make proposals for improving it. A previous evaluation of the effectiveness of the central government's leasing system dates back to 2018 ([publication of the Government's analysis, assessment and research activities 21/2018](#)).

The draft report was circulated for comments between 2 June and 15 July 2022. Statements on the report were requested from the ministries, key labour market organisations, central government agencies and institutions as well as central actors operating in the form of enterprises and foundations that use the premises offered by the Senate Group. A total of 48 statements were issued on the draft report. In addition, stakeholders were invited to express their views of the themes discussed in the report between 10 December 2021 and 31 January 2022 in a request for an opinion which concerned amendments to the Act on Senate Properties and Defence Properties Finland (1018/2020). The statements, a summary of the statements and other working documents of the report can be accessed on a public web service at [vm.fi/hankkeet](https://vm.fi/hankkeet) under VM173:00/2021.

## 2 Central government's system of premises management

### 2.1 Regulation

The unincorporated state enterprises of the Senate Group are subject to the Act on Senate Properties and Defence Properties Finland, which entered into force on 1 January 2021. Under this Act, Defence Properties Finland was established as a subsidiary of Senate Properties. Together these unincorporated state enterprises make up the Senate Group, which administrates most state-owned built real estate assets.

Pursuant to section 2 of the Act, Senate Group's unincorporated state enterprises assume responsibility for the central government's real estate assets under their control and, subject to service contracts, provide facility services and other services directly associated with them to customers that are part of the central government organisation as referred to in section 2 of the Act on Unincorporated State Enterprises (1062/2010), off-budget entities and other unincorporated state enterprises as well as to Parliament and units operating under its authority or supervision, or in connection with it. The Senate Group's unincorporated state enterprises may also provide facility services and services directly associated with them on a small scale to external customers.

Defence Properties Finland provides real estate and facility services and services directly associated with them to the Defence Forces and the partners determined by the Defence Forces as needed for the performance of the duties laid down in section 2 of the Act on the Defence Forces (551/2007). The Ministry of Defence steers Defence Properties Finland and makes the decisions on its service targets and other operational goals. Senate Properties' customers comprise all other on-budget entities. The Ministry of Finance is responsible for steering Senate Properties and the Group at large. It makes the decisions on Senate Properties' service and performance targets after Parliament has decided on the Budget.

On 21 April 2022, the Government submitted to Parliament a proposal for acts amending the Act on Senate Properties and Defence Properties Finland, the Act on Unincorporated State Enterprises, and the Act on Collective Agreements for State Civil Servants (HE 53/2022 vp.). This proposal contains provisions that would be added to the Act on Senate Properties and Defence Properties Finland, obliging central government agencies and institutions to deal primarily with the unincorporated state enterprises of the Senate

Group when looking for premises. Even at the present moment, central government agencies and institutions mainly obtain their premises from these enterprises. The proposal would make this practice obliging to the agencies and institutions under an Act.

The Act on Unincorporated State Enterprises, which lays down the general principles for the operation, finances, governance and steering of state enterprises, also applies to the enterprises' activities. Where applicable, the Senate Group's unincorporated state enterprises also comply with general acts applicable to the administration, including the Administrative Procedure Act (434/2003), the Act on the Openness of Government Activities (621/1999), the Act on Information Management in Public Administration (906/2019), the Language Act (432/2003) and the Act on Public Procurement and Concession Contracts (1397/2016).

Control of the central government's built real estate assets has been centralised to the Senate Group's unincorporated state enterprises, whereas unbuilt land and water assets owned by the state are managed by Metsähallitus, an unincorporated state enterprise whose operations are governed by the Act on Metsähallitus (234/2016). The management of state-owned roads, railways and waterways has been centralised to the Finnish Transport Infrastructure Agency. Under the Government Decree on the Acquisition, Leasing, Management and Maintenance of Real Estate Assets (242/2015, Management Decree), the Governing Body of Suomenlinna, the Office of the President of the Republic, the Ministry for Foreign Affairs, the Ministry of Agriculture and Forestry, the Ministry of Transport and Communications, the Ministry of Finance and the Ministry of the Environment are the only other central government organisations that may have real estate assets in their possession, other than on a temporary basis.

Some state-owned companies, including Finavia Oyj, Posti Group Oyj, VR-Group Ltd, Governia-Group Ltd and A-kruunu Oy, also own real estate. They are subject to the State Shareholdings and Ownership Steering Act (1368/2007).

Under the Act on Co-operation within State-Owned Undertakings (1233/2013) and the Act on Occupational Safety and Health Enforcement and Cooperation on Occupational Safety and Health at Workplaces (44/2006), arrangements related to work spaces are also essentially matters handled in co-operation procedures, and the co-operation obligation consequently needs to be addressed in work space planning. The Senate Group's activities are subject to the Act on Co-operation within Undertakings (1333/2021).

Under section 9, subsection 2 of the Constitution of Finland, state real estate may be conveyed only with the consent of the Parliament or as provided by an Act. More detailed provisions on this matter are contained in the Act on the Right to Transfer State Real Estate Assets (973/2002, Act on Transfers) and in the Management Decree issued by virtue of it.

The Act on Transfers and the Management Decree contain provisions specifying when and under what conditions state real estate assets can be transferred, and when such transfers are not possible due to the protection of buildings of cultural historical value, for instance.

The Management Decree previously also contained provisions on leases of premises within the central government even if, for reasons arising from section 84, subsection 4 of the Constitution, provisions on this matter should have been laid down by an Act. Under the Constitution of Finland, the general principles on the functions and finances of state enterprises are laid down by an Act. If the idea is that the unincorporated state enterprise could require an agency or institution to conclude a service contract with it, this obligation should consequently also be laid down by an Act. Sections 9 to 11 of the Management Decree on leasing premises were repealed on 13 December 2021. While central government agencies and institutions currently have no statutory obligation to obtain their premises from the Senate Group's unincorporated state enterprises, a government proposal on this matter (HE 53/2022 vp.) was submitted to Parliament on 21 April 2022.

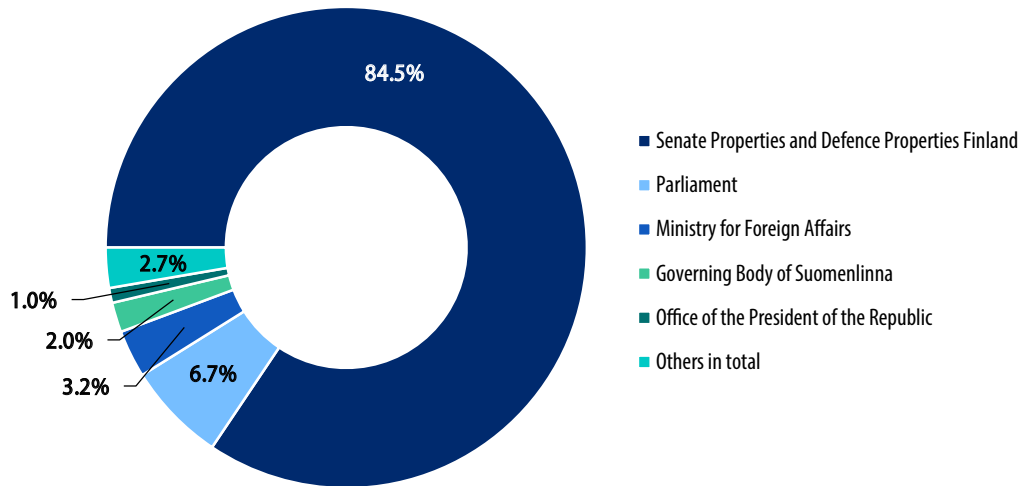
In addition to legislation, the management of state-owned real estate and premises are guided by the following documents issued as government resolutions and updated in late 2021: [Government Real Estate Strategy](#) (VN/6761/2021), [Government Premises Strategy](#) (VN/2650/2021) as well as [Government Leasing Handbook](#) (VN/31771/2021) issued as a Ministry of Finance regulation.

## 2.2 Organisation

### 2.2.1 Real estate and premises management

The central government's real estate assets have been managed centrally since the 1990s: the real estate and premises are administrated by one or several units, rather than each agency or institution obtaining and managing its premises itself. The management of unbuilt state-owned land and water assets in Finland has been centralised to Metsähallitus, and that of built real estate assets to the Senate Group. Only a small share of state-owned real estate assets remains under the control of other actors, the most significant ones of which are Parliament, the Office of the President of the Republic, the Ministry for Foreign Affairs and the Governing Body of Suomenlinna.

**Figure 1.** State-owned built real estate assets, shares of the Senate Group’s unincorporated state enterprises and individual agencies at book value in 2021.



According to the financial statements for 2021, the Senate Group held 84% (EUR 3,966 million) of the central government’s built real estate assets, while Parliament controlled 7% (EUR 314 million), the Ministry for Foreign Affairs 3% (EUR 149 million), the Governing Body of Suomenlinna 2% (EUR 92 million), the Office of the President of the Republic 1% (EUR 49 million), and others 3% (EUR 125 million).

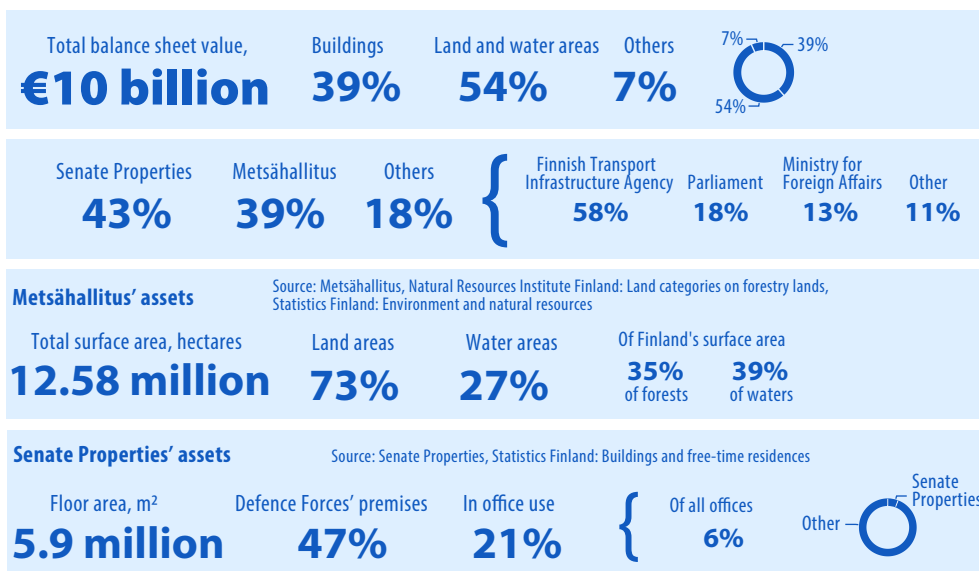
In the 2010s, the management of most real estate previously administrated by central government agencies and institutions was centralised to incorporated state enterprises.<sup>1</sup> On the other hand, the land areas needed for traffic routes (transport infrastructure) remain under the Finnish Transport Infrastructure Agency’s control as a rule, and the real estate owned by the state abroad is controlled by the Ministry for Foreign Affairs. In addition, Parliament, the Office of the President of the Republic, the Governing Body of Suomenlinna, the Bank of Finland, the Social Insurance Institution of Finland and the National Emergency Supply Agency (later referred to as administrator agencies) manage their own premises. Some land and water areas acquired for nature conservation purposes and state-owned water and flood protection structures are additionally managed by the Ministry of the Environment and the Centres for Economic Development, Transport and the Environment.

<sup>1</sup> For example, real estate controlled by the Finnish Heritage Agency was transferred to Senate Properties and Metsähallitus at the beginning of 2014. The management of the Natural Resources Institute Finland’s real estate was mostly transferred to Metsähallitus and Senate Properties from 2018 on.



**Figure 2.** Central government real estate assets in 2021.<sup>2</sup>

Source: Central government's financial statements, Senate Properties, Metsähallitus



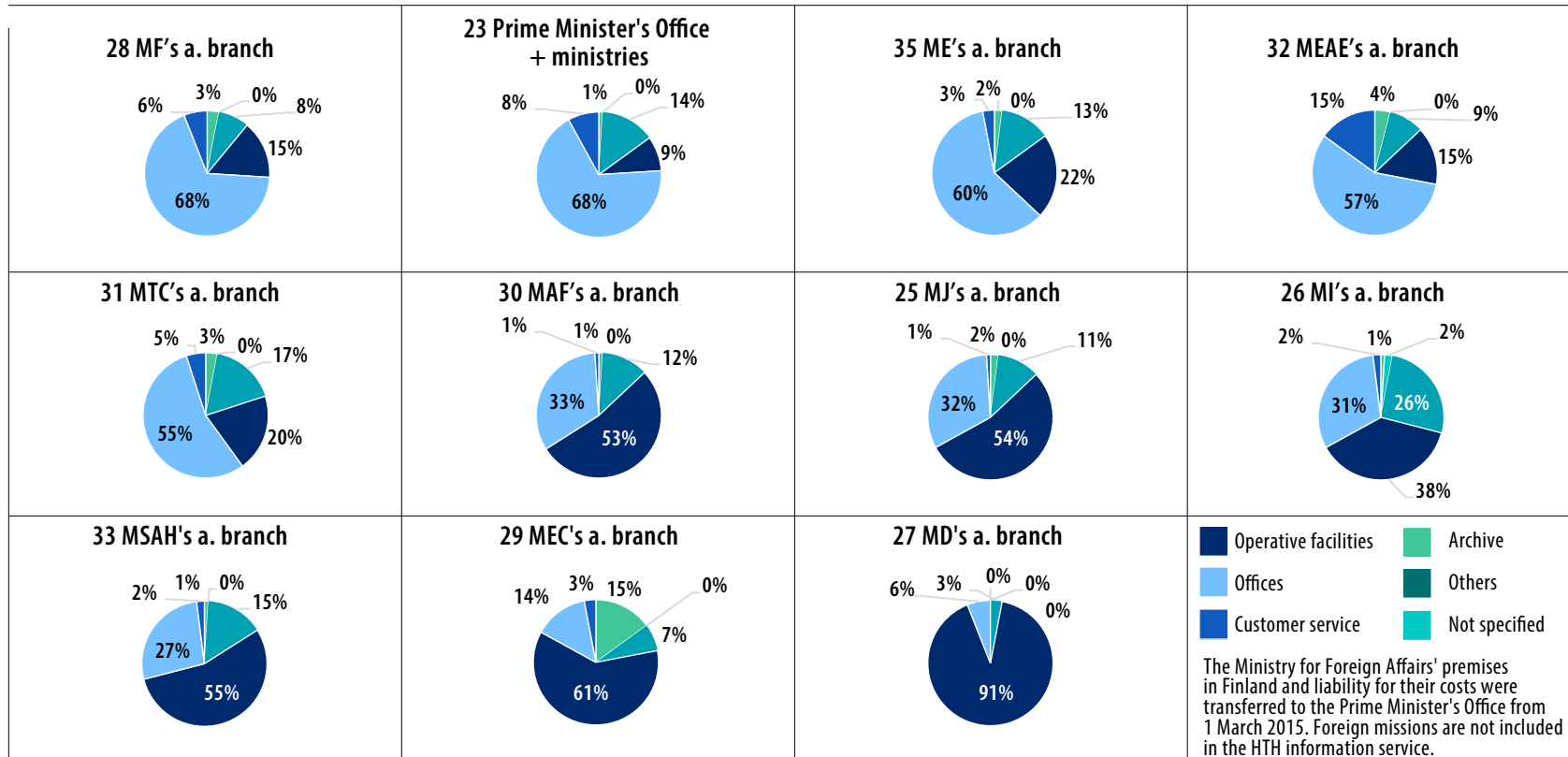
As a rule, the premises managed by the Senate Group's unincorporated state enterprises are leased by government agencies and institutions with diverse tasks and operations. In addition to such agencies and institutions, state-owned premises are also used by actors operating in the form of foundations, including the Finnish National Gallery and the Finnish National Opera and Ballet, whose rent costs are financed from appropriations set aside for this purpose in the Budget.

The variety of users is also reflected in the diversity of premises. For example, more than one half of the premises at the disposal of agencies in the administrative branches of the Ministry of Agriculture and Forestry, the Ministry of Justice, the Ministry of Social Affairs and Health, the Ministry of Education and Culture and the Ministry of Defence are special-use facilities which, among other things, refers to training and teaching facilities, prisons, and research and museum facilities, where the purpose of use dictates the premises solutions.

Different requirements are set for special-use facilities and general-purpose office spaces. The typical feature of special-use facilities is that finding premises suitable for the relevant purpose in the market is difficult, and that existing facilities are not easy to re-purpose. In addition, the central government controls around 600 sites of cultural historical value, which are managed and maintained following different principles than other sites.

<sup>2</sup> The Finnish Transport Infrastructure Agency's real estate assets referred to in this Table do not include transport infrastructure, the value of which is approx. EUR 20–30 billion alone.

**Figure 3.** Central government’s facilities use, shares of special-use areas by administrative branch, situation on 31 December 2021.



In this Figure, central government premises are divided into five categories according to their intended uses. Operative facilities include premises which are essential for operations and which limit the possibilities of improving the efficiency of the organisation’s overall space use, such as laboratory facilities at research institutes, courtrooms of the judicial system, and Customs inspection facilities. Offices mainly comprise entire floors used as office space in buildings. Such areas as corridors, conference rooms, sanitary facilities, storage areas and working archive rooms are part of the offices when they are located in connection with the office premises. An archive includes spaces intended for the permanent storage of documents or other material to be archived, including the surrounding corridors and support facilities. Public service facilities include spaces used for customer service or similar activities. These facilities often have a single entrance, and they are typically isolated from the facilities used by the organisation itself by separate access control. ‘Others’ include all premises that cannot be placed in any of the above categories, such as fire escapes, basement and attic storage space, indoor parking areas or staff canteens. The percentages in the Figure were calculated based on the square metres reserved for each type of facility.<sup>3</sup>

<sup>3</sup> Annual report for 2021 produced from the Central government premises management system (HTH).

## 2.2.2 Leasing system

Not only real estate management but also the central government's leasing system has been developed over the long term with the aim of ensuring that state-owned premises would be used as efficiently as possible by the central government. In the central government's internal leasing system, real estate and premises are managed by the Senate Group, instead of each agency and institution obtaining and administrating their own facilities. In general terms, the leasing system additionally refers to the principles guiding the allocation of the costs incurred from real estate to users. The central government uses a cost price leasing system, in which the agencies and institutions primarily lease their premises through the unincorporated state enterprises of the Senate Group at cost price.<sup>4</sup>

When the cost price leasing system was introduced, the rents paid by the agencies and institutions decreased by approx. 15% at the beginning of 2016 and further by approx. 6% at the beginning of 2020. This reform was budget neutral, as the funding of agencies and institutions was reduced by an amount that equalled the decrease in rent levels. From the beginning of 2020, Senate Properties' profit from the central government's leasing activities dropped to zero in practical terms. The background to the new arrangement comprised central government restructuring, the state's financial situation, and other changes in the operating environment that necessitated a more flexible and coherent leasing system.

The central government's centralised property management and the internal leasing system associated with it aim for efficient and appropriate use of premises and equal treatment of agencies and institutions. The Senate Group manages the built real estate assets controlled by it, and central government agencies and institutions lease these premises when they need facilities. Centralised premises management makes it possible to offer specialised competence related to premises for central government organisations, regardless of their size, and to achieve cost benefits for the central government arising from centralised procurement. The objectives also include enabling agencies and institutions to focus on their core activities, as the management of their premises has been centralised to the unincorporated state enterprises of the Senate Group.

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<sup>4</sup> At the Group level, the rents charged for the central government's internal leases correspond to the costs of acquiring and managing the premises.

The benefits of centralised real estate management also include carrying the risks associated with real estate at the level of the central government, rather than by each individual agency or institution. These risks include facilities that are no longer needed, damage, accidents and problems with indoor conditions. The essential task of the central government's leasing system consequently is to divide the costs incurred from the premises into regular leasing costs compatible with on-budget activities and to respond flexibly to the changing needs of central government organisations.

According to the government proposal submitted to Parliament on 21 April 2022 (HE 53/2022 vp.), the facilities needs of central government agencies and institutions would primarily be met with state-owned premises, or those already rented in the market. If such facilities are not available, the unincorporated state enterprises of the Senate Group may have suitable premises constructed for the agency or institution, or find them in the rental market. Agencies and institutions may also lease their premises without the involvement of the Senate Group's unincorporated state enterprises if certain conditions are met, such as the need for facilities being temporary. In reality, this proposal corresponds to the current practice in which most agencies and institutions lease their premises from the Senate Group.

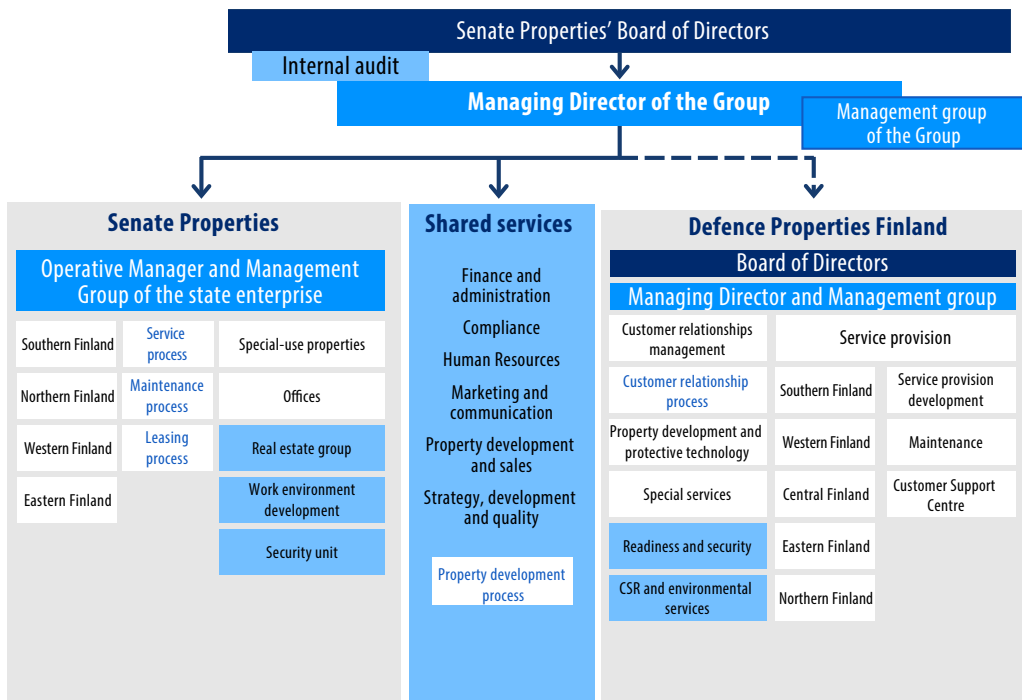
On 31 December 2021, central government agencies and institutions had a total of 3,006 lease contracts in place, of which 1,743 were concluded with Senate Properties or Defence Properties Finland. This represents around 58% of all leases. Premises that the Senate Group had leased from external lessors and rented further to the agencies and institutions (later referred to as subleases) accounted for 424, or approx. 15%, of these contracts. The number of leases concluded directly with an external lessor was 839, which accounts for about 28% of the agencies' and institutions' leases. As a rule, these leases are contracts of low value that concern storage facilities and similar. In practice most, or approx. 74%, of the facilities (contract value in euro amounts) are state-owned premises leased from the unincorporated state enterprises of the Senate Group.

## 2.2.3 The Senate Group

### 2.2.3.1 Organisation

The Senate Group consists of Senate Properties and its subsidiary, Defence Properties Finland, which is an unincorporated state enterprise. Senate Properties has 14 other subsidiaries that form a group of unincorporated state enterprises referred to in the Accounting Act (1336/1997). The most significant ones of these are Senate Station Properties Ltd as well as Maakuntien tilakeskus Oy, whose ownership will be transferred to the wellbeing services counties at the beginning of 2023.

Figure 4. Organisation chart of the Senate Group.



Defence Properties Finland was established as a subsidiary that provides real estate and premises services to the Defence Forces. Before this reorganisation, the Finnish Defence Forces dealt with two lessors: the premises used by the Finnish Defence Forces were leased from Senate Properties, while the maintenance services for them were provided by the Construction Establishment of Defence Administration.

When the cost price model was introduced, the Finnish Defence Forces' rents decreased by about 15% at the beginning of 2016 and further by 6% at the beginning of 2020. The transition was budget neutral for the agencies, which is why the Defence Forces' funding was reduced by an amount corresponding to the decrease in rents. The rents paid by the Defence Forces were also increased by a total of EUR 38 million to cover a large repair backlog. Consequently, the introduction of the cost price model did not reduce the Defence Forces' real estate expenditure as much as it did in the case of many other agencies. However, the transition to this model contributed significantly to the possibilities of maintaining the building stock and helped to reduce the repair backlog accumulated in the properties.

As Defence Properties Finland was established, its finances were separated from the rest of the central government finances, and this subsidiary's entire turnover is spent on developing national defence premises.

Once the operations of Defence Properties Finland had been launched, customer satisfaction improved compared to the results of earlier surveys commissioned by the Construction Establishment of Defence Administration. In a customer survey conducted in autumn 2021, 60% of the respondents found that Defence Properties Finland's service level had improved during its first year of operation, and only 6% felt that the reorganisation had impaired the services. A clearer operating model was also seen as a positive change.<sup>5</sup>

### 2.2.3.2 Senate Station Properties Ltd

Senate Station Properties Ltd is a subsidiary of Senate Properties responsible for developing railway station areas. This company established by government decision began operating in 2019.

The background to the subsidiary's establishment was the fragmentation of the management of state-owned real estate assets in station areas between several actors, including Senate Properties, VR Group Plc and the Finnish Transport Infrastructure Agency.

<sup>5</sup> The feedback from Defence Properties Finland's customers during the first year of operation was positive, and in the customer satisfaction survey commissioned by Senate Properties, the NPS (Net Promoter Score) went up from -19 to +5.

This made it difficult to develop station areas as larger entities and to negotiate with cities and other parties. The idea was that responsibility for developing state-owned station areas would be assigned to a single actor.

The subsidiary's operations primarily rely on development through land use planning as referred to in the Government Real Estate Strategy. If necessary, however, the company may also participate in more extensive property development as a member of a local consortium, for example with a city and its development company and other financiers.

The subsidiary takes into account the principles of sustainable urban development, including more integrated urban planning, boosting of vitality, versatile and efficient housing, low-carbon construction and facilitating effective travel chains.

### **2.2.3.3 Maakuntien tilakeskus Oy**

Maakuntien tilakeskus Oy is Senate Properties' subsidiary, the ownership of which will be transferred to the wellbeing services counties by the beginning of 2023.

Section 21 of the Act on Wellbeing Services Counties (611/2021) provides for the establishment of a centre of excellence that will support the wellbeing services counties in their premises and real estate issues and maintain their premises information and expertise related to it. This centre of excellence will be a limited liability company jointly owned by the wellbeing services counties in which the state is one of the shareholders. The wellbeing services counties will have an obligation to use the company's premises information system and the services associated with it, and if the wellbeing services counties so agree, other services provided by the centre of excellence.

The transfer of ownership will be completed without a material impact on the economic activities of the Senate Group's unincorporated state enterprises. If necessary, Senate Properties is prepared to capitalise the operations of Maakuntien tilakeskus Oy in 2022.

## **2.2.4 Real estate located abroad**

### **2.2.4.1 Real estate management by the Ministry for Foreign Affairs**

The Ministry for Foreign Affairs administrates the significant real estate assets of high architectural and cultural historical value owned by the Republic of Finland abroad. This includes the premises of foreign missions and residences for officials and staff. The administration of leased premises abroad has also been centralised to the Ministry for

Foreign Affairs. Around one half of the state-owned real estate and premises located abroad are owned by the Republic of Finland, with the remainder being leased from external parties.

The estimated market value of all properties owned by the Republic of Finland abroad is EUR 450 million<sup>6</sup>, and their book value is approx. EUR 258 million.<sup>7</sup> The repair backlog of these properties is significant. A ten-year investment plan drawn up by the Ministry for Foreign Affairs in 2018 gives an indication of this backlog. When the plan was produced, the estimated cost of the renovation needs of these properties was approx. EUR 85 million.

#### 2.2.4.2 Properties as part of the mission network

Real estate and premises located abroad comprise an essential part of Finland's network of foreign missions, and their management contributes to achieving the Ministry for Foreign Affairs' strategic goals for Finland.

Finland's foreign missions consist of diplomatic and consular missions. Diplomatic missions include Finnish embassies and their separate units in different countries, as well as permanent and special representations to international organisations and cooperation bodies. Finland also has other diplomatic missions known as liaison offices. Consular missions comprise main consulates led by a posted public official, consulates, separate units belonging to the main consulate, and honorary consulates led by an honorary consul.

This network of missions consisting of about 95 offices serves the Finnish economy and society. In total, more than 500 people posted from Finland work on the premises abroad. Most missions have a staff of two to four public officials. The missions also have approx. 900 employees hired in the host countries.

#### 2.2.4.3 Finnish cultural and academic institutes

Finland has a total of 17 cultural and academic institutes around the world. Their task is to support the work of Finnish artists and scientists in the host countries, and they play a key role in Finland's international cultural exchanges. The cultural and academic institutes operate either in state-owned properties or leased facilities. The responsibility

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6 This estimate is based on a comprehensive report covering all properties that was commissioned by the Ministry for Foreign Affairs in 2011.

7 Book value on 31 December 2021. This value consists of the book value of the state-owned properties, which is EUR 236,642,095, and the book value of the state-owned apartments, which is EUR 21,021,798.



for maintaining state-owned cultural and academic institutes' properties abroad and the funding related to it were transferred to the Ministry for Foreign Affairs at the beginning of 2017.

In addition to the facilities used by the Foreign Service, the Ministry for Foreign Affairs manages state-owned cultural and academic institutes' properties in Athens, Paris, Rome and Venice. These properties are of a high architectural and cultural historical value. They are used by Finnish cultural and academic organisations to promote culture, science and international cooperation.

The cultural and academic institutes are independent, non-profit organisations maintained by private foundations or funds. Their basic funding comes from the Ministry of Education and Culture. They are also funded by foundations, companies and domestic and foreign partners.

#### 2.2.4.4 Funding

The funding for managing the central government's real estate outside Finland consists of appropriations for investments and operating expenditure and, to a minor extent, development cooperation appropriations. The idea is that these types of funding should cover the basic and annual renovations of all properties and premises used by the Ministry for Foreign Affairs, alterations needed when replacing leased facilities, as well as rents and maintenance.

Annual spending limits of EUR 8 million derived from the balance sheet value of the real estate have been set for the construction and renovation projects of the Foreign Service's real estate portfolio. While the investment appropriation has traditionally been allocated to the renovations of state-owned properties, in the last 10 years it has also been used for alterations needed when leased premises are replaced.

In 2021, the missions paid approximately EUR 19 million in rents for their premises and official residences. Approx. EUR 1.8 million of this amount was paid out of development cooperation appropriations. The rent amount is influenced by exchange rate fluctuations, rent increases and changes in the ownership structure of the mission network's properties.

The basic funding of the Finnish cultural and academic institutes is EUR 1,000,000 per year, which is based on the central government's rental income amounting to a similar figure. This funding is intended to cover the annual repair and maintenance costs of the cultural and academic institutes. Renovations of properties are financed from the same item, if necessary, based on separate proposals.

## 2.2.5 Metsähallitus

Metsähallitus is an unincorporated state enterprise steered by the Ministry of Agriculture and Forestry. The Ministry of the Environment steers Metsähallitus in issues falling within the purview of its administrative branch. Metsähallitus' key service targets and other operational goals are approved annually by Parliament.

Metsähallitus uses, manages and protects state-owned land and water areas under its stewardship. Metsähallitus manages 9,143,000 hectares of land and 3,420,000 hectares of water areas, or 12,563,000 hectares in total, which account for about one third of Finland's surface area. In addition to these land and water areas, Metsähallitus also controls certain buildings, structures, roads and ancient monuments relevant to its tasks.

Metsähallitus' business includes the sustainable management and use of state-owned forests, production of forest tree seeds, and the leasing, sales and development of state-owned land and water areas. It conducts this business through its subsidiaries in the Metsähallitus Group, which are Metsähallitus Forestry Ltd, MH-Kivi Oy and Siemen Forelia Oy, as well as Metsähallitus Property Development, which is part of the unincorporated state enterprise.

Metsähallitus' public administration services are provided by the enterprise units National Parks Finland and Wildlife Service Finland, whose tasks include nature conservation, recreational use of nature and the preservation of state-owned cultural assets.

Metsähallitus aims to protect biodiversity, increase the recreational use of nature and promote employment. In addition, Metsähallitus must take into account the land use needs of research, education, the Defence Forces and the Finnish Border Guard in all of its activities.

Major benefits for the national economy and regional economies are associated with the state-owned real estate assets managed by Metsähallitus through their value chains. Their impacts extend to such areas as tourism, land use planning, renewable energy and the forest industry. The balance sheet value of Metsähallitus' land and water areas was approximately 3.9 billion, roads 21.8 million and buildings and structures EUR 16.3 million in 2021.<sup>8</sup>

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8 The Metsähallitus Group's turnover was EUR 367.4 million and Metsähallitus' business profit was EUR 115.0 million in 2021. In 2021, Metsähallitus recognised EUR 120 million as income for the state from its business profits in 2020. The return on basic business capital for the financial year 2021 was 4.8%.

## 2.2.6 Finnish Transport Infrastructure Agency

The Finnish Transport Infrastructure Agency operates in the administrative branch of the Ministry of Transport and Communications and is responsible for maintaining and developing the service level of roads, railways and waterways on traffic routes administrated by the central government. The Agency works to improve the functioning of the transport network and to promote automation, traffic safety, sustainable development and regional business development.

The operations of the Finnish Transport Infrastructure Agency are based on the Act on the Finnish Transport Infrastructure Agency (862/2009), and its statutory duties include managing sites of cultural historical value, cultural environments and cultural assets in its possession.

The Finnish Transport Infrastructure Agency looks at the real estate assets under its control from the life cycle perspective. The life cycle starts when the land and any buildings on it are redeemed or purchased for a traffic route project. Unnecessary buildings are demolished, and traffic route infrastructure and the necessary buildings, which today mainly comprise technical facilities, are built or renovated.

When a traffic route no longer needs to be maintained, the Finnish Transport Infrastructure Agency gives up the relevant real estate assets by transferring them to Metsähallitus or the Senate Group, depending on their nature. In special situations, the assets may also be sold to a party outside the central government. The overall interest of the state is taken into account when any such real estate is given up and transferred.

In 2021, the value of the traffic route assets managed by the Finnish Transport Infrastructure Agency was approx. EUR 20 billion, of which the value of real property accounted for approx. EUR 1 billion. The total annual budget of the Finnish Transport Infrastructure Agency was approx. EUR 2 billion in 2021.

## 2.2.7 Governing Body of Suomenlinna

Suomenlinna is a world heritage site that was included in the World Heritage List maintained by UNESCO in 1991. The Governing Body of Suomenlinna, which is subordinate to the Ministry of Education and Culture, is responsible for the management, maintenance and renovations of Suomenlinna's site and buildings.

The duties of the Governing Body of Suomenlinna are based on the Act on the Governing Body of Suomenlinna (1145/1988) and the Government Decree on the Governing Body of Suomenlinna (294/2013). These duties include managing the district and fortress of

Suomenlinna, restoring and maintaining its buildings and landscapes, leasing premises and flats, and guiding visitors around the site. The aims of the Governing Body's work are preserving and repairing the site and developing the district of Suomenlinna.

The property portfolio managed by the Governing Body of Suomenlinna includes a total of 167 buildings, 38 wall structures and fortress parts, as well as 27 cellars, which add up to a total surface area of approx. 91,000 square metres. The replacement cost of the buildings is approx. EUR 926 million. The buildings contain around 320 rented flats. There are approximately 800 tenants in Suomenlinna, many of which are museums and other actors in the fields of arts and culture.

The oldest buildings managed by the Governing Body of Suomenlinna date back to 1750. The median year of completion of Suomenlinna's buildings and structures is 1880, which is highly exceptional in Finland. The Governing Body of Suomenlinna also controls two shipyards, a double-basin dry dock and a slipway. The dry dock is the second oldest dry dock in the world that is still used. The management of buildings, structures and landscapes of high cultural historical value on a world heritage site requires special expertise with a wide scope.

### 2.2.8 University properties

As part of a university reform that took place at the beginning of 2010, university properties managed by Senate Properties were incorporated into three limited liability companies (University Properties of Finland Ltd, Helsinki University Properties and Aalto University Properties Ltd).

These companies were established with the objective of ensuring that the universities would have access to appropriate and affordable premises needed for their work and preserving the value of their properties over the long term through cost-effective management and maintenance. Other aims included equal treatment of the universities and supporting the objectives of the university reform, such as broadening the autonomy of universities and securing high-quality facilities for higher education use.

The real estate assets were transferred to the universities to bolster their financial stability. The state remained a co-owner in all three university property companies after their establishment. The University of Helsinki and Aalto University later bought the state's shareholdings for themselves, and the state currently holds a 33% share in University Properties of Finland Ltd only.

## 3 Operating principles

### 3.1 Premises as part of the Budget and the General Government Fiscal Plan

The rents paid for central government premises are financed from the agencies' and institutions' budget funding. The possibilities and practices of funding vary depending on the financial situation of agencies and institutions and the size of their facility projects. The funding for the ministries' premises has been centralised to the Prime Minister's Office.

As a rule, facility expenses are financed from the agency's operating expenditure, without any funding specifically earmarked for this purpose. The idea is to enable flexible decision-making in the agency and to give the agency a possibility to make decisions on the allocation of its funds as it deems appropriate within the framework of its appropriations for operating expenditure.

Agencies and institutions may enter into commitments that are ordinary regarding their activities and finances, also ones that will result in expenditure in the following years. This also applies to rents. However, a facility project may be so large considering the agency's expenditure that a separate mandate approved in the Budget is required for it.

In the implementation phase, a facility project takes up part of the investment authority granted to the Senate Group by Parliament. The maximum level of the investment authority is approved by Parliament in connection with the Budget. In the national accounts, the Senate Group's investments are included in general government expenditure and increase the general government deficit. Any sales of real estate to the private sector are similarly entered as income.

Senate Properties' Board of Directors makes the decisions on the company's investments, and Defence Properties Finland's Board of Directors makes the decisions on this subsidiary's investments. Senate Properties' Board of Directors decides on the allocation of the authorities and authorisations granted by Parliament within the Senate Group, taking into account the service level targets set by Parliament and other operational goals.

In 2016–2019, Senate Properties’ maximum investment authority was EUR 300 million. Since 2020, the level of the investment authority has increased significantly, and its maximum amount in 2022 is EUR 700 million. This increase is due to several larger than usual facility projects which, if implemented simultaneously, will take up a greater share of the investment authority than usual. In addition, approximately two thirds of the investment authority are used for the security authority’s buildings.

**Table 1.** Senate Properties’ investment authorities in 2016–2022.

<b>Senate Properties’ investment authorities, EUR million</b>							
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Budgeted	300	300	250	300	472	480	700
Financial statements	258	231	240	294	423	411	

In 2015, the Ministerial Committee on Economic Policy outlined the criteria for prioritising facility projects in cases where the maximum level of investment authority is not sufficient to cover the investment needs arising from such projects. The first priority group consists of projects responding to a serious threat to health or safety, which in practice means sites with indoor air problems. Projects carried out to fulfil statutory requirements also belong to the first priority group. The second group comprises projects that produce savings in the premises costs or other projects that are in the overall interest of the central government, as well as those in which inaction would create a risk of additional investment costs. The third group includes other projects in keeping with the Government Real Estate Strategy or Premises Strategy. The projects are monitored based on these criteria.<sup>9</sup>

<sup>9</sup> Inadequacy of the investment authority led to the postponement or suspension of agencies’ projects most recently in 2019, despite the fact that the agencies had budgeted for the rent funding required for their projects. The postponement of agencies’ necessary facility projects results in operational disadvantages and losses of income for the agency or institution. It may also slow down a move into safe and healthy premises, as would the inadequacy of the agency’s own budget.

As the Senate Group's investment authority is committed, the agency does not yet incur any costs, but when it signs the lease, it must also be prepared to finance the rent increases arising from the project, even if this would require additional funding in the future. When committing to a lease whose value exceeds EUR 5 million calculated over ten years, the matter must be discussed in the Ministerial Finance Committee before the contract is signed. As a rule, the Finance Committee does not approve additional funding needs for which there is no provision in the General Government Fiscal Plan or Budgets. In this sense, the Finance Committee does not make any new financing decisions.

The payment of rent starts when the project is completed and the agency moves into the repaired or new facilities. This may take place several years after the Senate Group's facility project was launched and the investment authority was committed. In the largest facility projects, this time span may exceed the budget planning period, in which case there may be no provision for funding the project, or for changes to its costs, in the agency's budget.

There are major differences between agencies' financial situations and the projects to be completed. The financial situation of many agencies is on a sustainable basis, which means that reasonable costs incurred from facility projects do not result in additional financing needs. This can also be promoted through adequate multi-annual planning and cost-effective solutions for the premises network and finances. The number or size of the facility projects of some agencies is so large, however, that the agency's funding is not adequate to cover this expenditure.

If the facility project is so large in relation to the agency's finances that the agency does not have the capacity to finance it entirely from its existing funds, any additional funding will primarily be decided in connection with the General Government Fiscal Plan, in which long-term and permanent additional appropriations are outlined. Decisions on funding facility projects are made by Parliament in connection with the Budget as part of the funding for agencies. Facility projects compete for the same appropriations with other central government expenditure, and granting additional funding to agencies is ultimately a political decision. Consequently, it is important to link the planning of facility projects to the spending limits and budget processes in a timely manner.

Rather than necessarily allocating any additional funding specifically to the premises, a general increase in the level of funding will enable flexibility in the agency's decision-making as it allocates its appropriations.



### **COOPERATION BETWEEN MINISTRIES AND PARLIAMENT DECISIONS:**

During the spending limits and budget process, cooperation between agencies and ministries as well as the Ministry of Finance is important to ensure timely flows of correct information. Examining various optional solutions related to facility projects and their cost impacts between the ministries is vital.

As there are many ways of carrying out facility projects, expenditure on premises is not comparable to the statutory expenditure of agencies and institutions. Instead, these projects are subject to political decision-making, which means that decisions on increased funding are made by the Government, while Parliament decides on appropriations.

## **3.2 Principles of real estate and premises management**

The aim of the central government's real estate and premises management is using the premises efficiently and appropriately. The goal of the Government Real Estate Strategy is to manage and take care of central government real estate assets in an effective and sustainable manner that protects the overall interests of central government. For example, this may mean selling properties that the state no longer needs to release the capital tied up in them for other uses.

The objective of the Government Premises Strategy, on the other hand, is to facilitate work and promote effortless service use in government agencies and institutions. Other goals include improving cost-effectiveness and being a pioneer in carbon neutrality. For example, this means promoting a transition to shared facilities.

Remote work has in recent years become significantly more widespread. A wider selection of public administration services is also offered to citizens digitally. The aim of the Government Premises Strategy is that 25% of central government personnel will work in agencies' and institutions' shared premises by 2030.

In shared premises, employees of several different agencies work in the same facilities, however taking into account the special features of their work, including data protection requirements. The number of different agencies' shared customer service points will also be increased. The public administration's shared customer service points would mean that customer services of the entire public sector could be offered equally in all parts of the country.

When designing shared use facilities, the starting points are customer service orientation and the special needs of agencies and institutions.

A crucial element in putting the Premises Strategy into practice are its implementation plans prepared by the agencies and institutions together with the Senate Group's unincorporated state enterprises. These plans describe how the agency or institution will achieve the objectives of the Government Premises Strategy and how the activities of the agency or institution will develop over a period of five to ten years. The implementation plans also outline the requirements these changes will set for the agency's premises and the types of facility projects that will be needed to ensure that the premises would also support the agency or institution in working productively in the future.

On the basis of the implementation plan the agency or institution, either alone or together with the Senate Group's unincorporated state enterprise, draws up a plan for its premises needs (premises plan), which describes the facility projects scheduled for the period of the following three to ten years. Any renovation needs and projects already identified on the basis of long-term plans maintained by the Senate Group's unincorporated state enterprises are also linked to the premises plan. The premises plan is typically updated once or twice a year in connection with the agency's or institution's spending limits and budget planning.

The aim of all real estate and premises management is to steward the central government's assets over the long term and in an economically sustainable manner, taking into account not only the overall economic impacts but also social and environmental aspects and the need to look after cultural heritage as well as other societal

aspects, including sustainable development, combating the grey economy, promoting energy efficiency and biodiversity, and bolstering a well-functioning property market. It is also important that the premises support the cost-effective, efficient and appropriate performance of the agencies' and institutions' tasks.

### 3.3 Principles of leasing

At the beginning of 2016, the central government transitioned from a commercially priced to a cost price based leasing system, which decreased the rents paid by agencies and institutions. This change was budget neutral, as the funding of agencies and institutions was reduced by an amount that equalled the decrease in rent levels. From the beginning of 2020, the income of the Senate Group's unincorporated state enterprises from the central government's internal leasing activities dropped to practically zero.

The Management Decree sets the period of notice for the leases of state-owned premises in the current leasing model at twelve months. The idea is to prevent situations where long contractual relationships burden agencies and institutions as they adapt to changes in their tasks, goals and operating environment. A provision on residual value liability of ten years is also laid down in the Management Decree. Residual value liability means that, when the lease is terminated, the tenant is responsible for the share of any investment with a rent impact whose purpose was to meet the tenant's needs and that cannot be fully exploited when the premises are leased to another tenant or transferred and that remains unpaid as the lease is terminated. The residual value liability decreases gradually, and after ten years, the Senate Group carries the full real estate risk. The purpose of the residual value liability is to encourage agencies to only invest to meet long-term needs.

### LEASING SYSTEM FROM 2016:

- The rents are cost price based and cheaper than before. They decreased by about 15% at the beginning of 2016 and further by approx. 6% at the beginning of 2020. From the beginning of 2020, Senate Properties' profit from the central government's leasing activities dropped to zero in practical terms.
- The central government no longer expects to turn a profit from its real estate assets; instead, a return on equity target was set for the Senate Group's unincorporated state enterprises that corresponds to the average interest rate on government borrowing. In 2021, this target was 0.4%.
- The leases are more flexible than before. The period of notice for new leases of state-owned premises valid until further notice is 12 months.
- Agencies and institutions carry a residual value liability for the part of any investment with rent impact that has not yet been paid as the lease is terminated and that cannot be used when leasing the premises to another tenant or transferring them.
- Standard terms and conditions of lease contracts are applied to the agencies and institutions. Pursuant to a legislative proposal submitted to Parliament on 21 April 2022, these conditions are approved by the Ministry of Finance to ensure the equal treatment of tenants.
- When matters relating to their facilities are handled centrally by the unincorporated state enterprises of the Senate Group, the agencies and institutions can focus on their core activities.

## 3.4 Costs and recognition of income

The Senate Group finances its operations through rents and service fees charged to its customers. The Group does not receive Budget funding. The maximum authorities that limit the amounts of investments and net borrowing are set for the Senate Group by Parliament in the Budget. Maximum amounts of investment commitments for the following years and guarantees given to Senate Properties' subsidiaries are also set for the Senate Group. In addition, the Budget contains a performance target for leasing, which is divided between the Senate Group's unincorporated state enterprises.

The Senate Group funds its investments with cash flow financing from its leasing activities and loan capital. The Group's equity ratio has been around 65% in recent years, and its loan capital amounts to approx. EUR 1.6 billion. The loan capital is mainly obtained as loans through the State Treasury. The cost level of the Senate Group's loans is similar to the central government's costs. In line with the Senate Group's financial policy, the interest rate risk of loans is managed by means of fixed-rate loans or interest rate hedging instruments. The average hedge ratio of the loan portfolio must be at least 50%.

The Senate Group's financing model is well suited for capital-intensive real estate management. This model guarantees long-term and flexible financing for maintaining and building real estate. The model also ensures that speedy progress can be made in development projects carried out for central government agencies and institutions. A flexible funding model also enables the rapid completion of large and unexpected repair projects, including those tackling problems with indoor conditions.

As the financial statements of the Senate Group are approved by the Government, the amount of profit to be recognised as income in the Budget is also confirmed. The amount of the Senate Group's profits recognised as income is based on its profit level. The profit level decreased after the introduction of the cost price leasing system, as it is based entirely on sales of real estate and rental income from non-state customers.

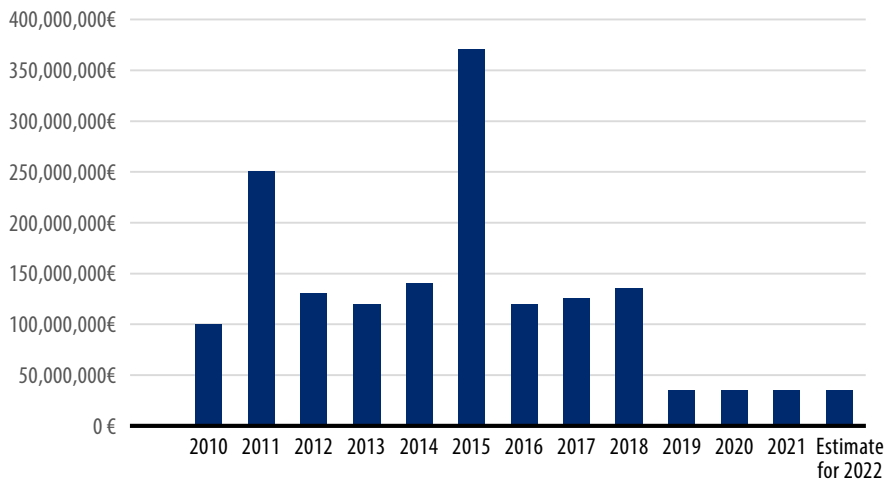
In recent years, the Senate Group has recognised an average of EUR 35 million a year as income in the Budget. This income consists of profits from leasing premises to non-government actors and capital gains from the sale of properties that the central government no longer needs.<sup>10</sup>

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10 In the 2010s, Senate Properties concluded 100 to 150 property sales a year, the annual transaction prices of which amounted to EUR 45 to 160 million.

**Figure 5.** Income recognised in the Budget from the profits of Senate Properties and, from 2021, of the Senate Group.

#### Recognised income in 2010–2022



In 2015, roughly EUR 350 million was recognised as income. This exceptionally large amount was made possible as Senate Properties sold all state-owned shares in Aalto University Properties Ltd and Helsinki University Properties Ltd in August 2015. The purchase price totalled EUR 217.2 million and, taking into account the cash flow and financing situation of Senate Properties, the full amount could be recognised as income in the Budget. The shares were sold to the companies in question.

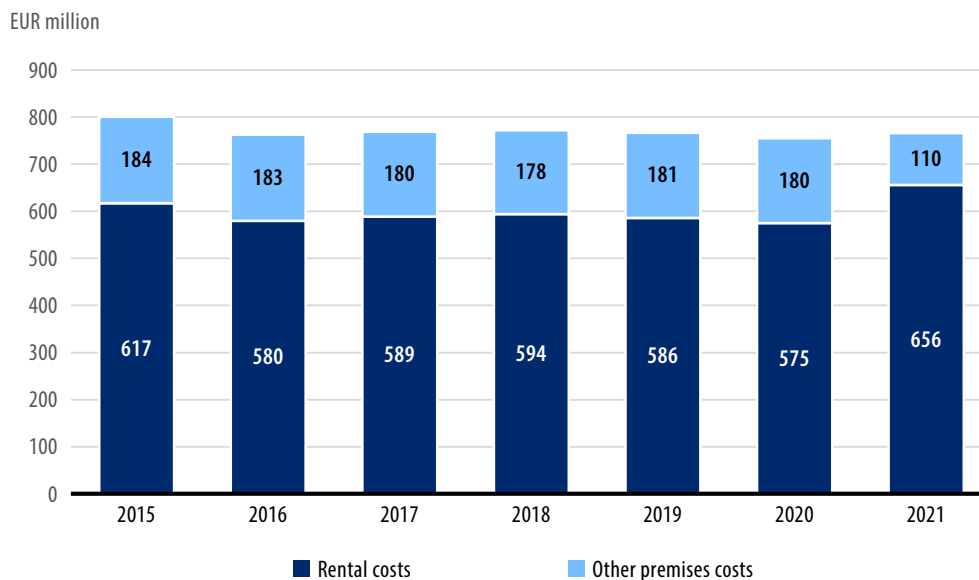
The aims of the central government's leasing system include ensuring sustained maintenance of state-owned properties, which makes it possible to keep their repair backlog under control.

The National Audit Office of Finland's audit report (14/2020) notes that Senate Properties' operating practices support appropriate management of the central government's real estate assets throughout the life cycle of the properties. Senate Properties sets out the maintenance work and renovations of the real estate it manages in long-term plans made for each property. The long-term plan for a property covers its repair needs over ten years, with a more detailed plan for the first five years. The renovation needs of properties are also assessed over a longer term, which may be up to 20 years.

Achieving the goals of the Government Real Estate and Premises Strategies also represents an effort to reduce the central government's premises expenditure. Through measures set out in these Strategies, gross savings of approx. EUR 110 million have been reached in the annual premises costs in 2015–2021. By continuing to implement the plan until the end of 2029, additional annual savings of EUR 50 million can be achieved.

The savings will be made through premises costs reduced by new and more efficient facility solutions. Senate Properties also sells real estate which is no longer needed and from which continuous maintenance costs are incurred. Between 2015 and 2021, Senate Properties sold real estate worth approx. EUR 1 billion. Thanks to cost-saving projects and changes to the leasing system, central government premises costs have not increased between 2015 and 2021, even if Senate Properties simultaneously invested EUR 2 billion in improving the premises portfolio and spent EUR 600 million on maintenance repairs. As a result, the operational condition of state-owned premises has improved.

**Figure 6.** Development of central government premises costs in 2015–2021.



The overhaul of lease contracts carried out as the subsidiary Defence Properties Finland was established increased the share of rental costs while reducing other premises costs of the Defence Forces accordingly in 2021.

The objectives of establishing Defence Properties Finland as an incorporated state enterprise included curbing the increase in premises costs between 2020 and 2035, ensuring that the relative share of these costs in military national defence expenditure will not increase from the 2020 level, excluding the fighter aircraft and Squadron 2020 procurements. In line with the Defence Forces' premises strategy, the relative share of premises costs may not exceed 11% of all military national defence expenditure.<sup>11</sup>

<sup>11</sup> In spring 2022, the premises costs accounted for 10.6% of all military national defence expenditure.

## 4 Current situation

### 4.1 Cost-effectiveness

One of the advantages of the centralised real estate management and premises leasing system is that it promotes efficient and appropriate use of premises. Among other things, this means that premises no longer needed by the central government are sold. This has generated approximately EUR 1 billion in revenue for the state since 2015. Maintaining a high utilisation rate of state-owned premises has also been considered a positive development for the central government. In practice, this can be achieved if the agencies and institutions prioritise the premises already in possession of the central government when looking for facilities.

A moderate increase in the share of premises acquired by the Senate Group in the market and subleased to agencies and institutions while the share of leases concluded by agencies and institutions without the Senate Group's involvement decreases has been considered to be in the central government's interests. Prioritising state-owned premises is appropriate, for example because the average rent paid for facilities leased by Senate Properties to agencies and institutions was 10.7% lower than the general rent level in the market for office facilities in Finland. On average, agencies and institutions also enter into contracts with a longer term when renting premises directly in the market, which makes it more difficult to withdraw from the leases.<sup>12</sup>

In 2021, the Senate Group agreed on savings projects worth EUR 11.3 million with central government agencies and institutions that were its customers, exceeding the target of EUR 7 million set for that year. In 2021, the real estate maintenance costs were also almost 20% lower than those charged by market operators included in the comparison.<sup>13</sup>

12 Evaluation of the functioning of state's rental system (Government's analysis, assessment and research activities 21/2018), p. 52.

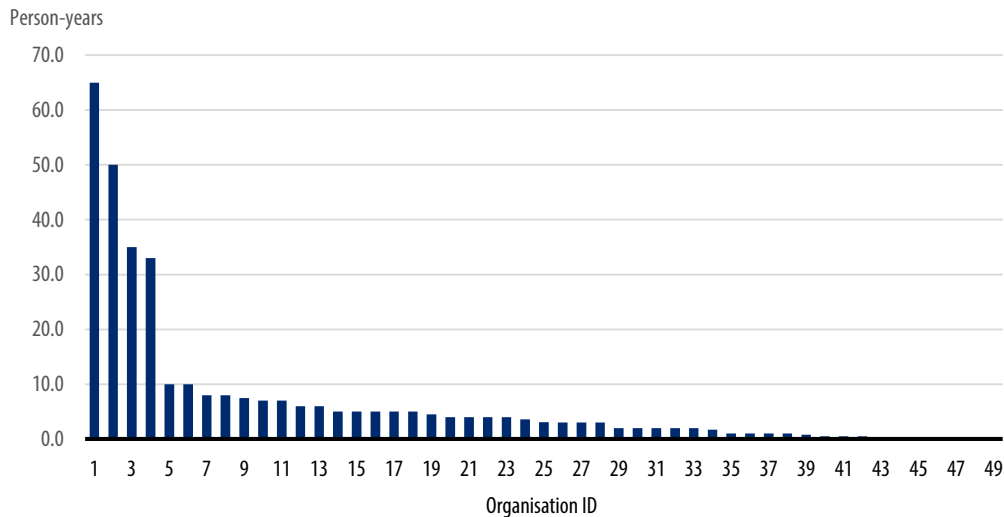
13 The annual comparison study commissioned by KTI Kiinteistötieto Oy compares the maintenance and repair costs of private and public property owners in Finland. The comparison found that the maintenance costs of Senate Properties' real estate were almost 20% lower than those of the other actors included in the comparison in 2021.



From the central government's standpoint, the advantages of the centralised leasing system also include the fact that it improves the professionalism and lowers the costs of premises management as expertise is concentrated on a handful of real estate sector actors. Decentralising expertise in real estate and premises management to each agency and institution would lead to duplication in the use of the agencies' resources, which would in itself increase the central government's total costs. A centralised system additionally secures the long-term maintenance of properties, as all costs arising from the use and maintenance of and investments in the real estate can be covered with the rental income.<sup>14</sup>

Between 21 December 2021 and 31 January 2022, the Ministry of Finance conducted a survey addressed to all central government organisations to examine the management of central government premises as a whole. The survey contained questions about the premises management tasks performed by the organisation and the estimated work input these tasks required in the agency in 2021.

**Figure 7.** Central government organisations' work input in premises management tasks in 2021.



<sup>14</sup> Evaluation of the functioning of state's rental system (Government's analysis, assessment and research activities 21/2018), pp. 59–69.

The work input of the agency's own personnel in premises management tasks varied from one organisation to another. The average for this work input was 6.6 person-years, while the median was 3 person-years. Only the work input of Parliament and some organisations with extensive premises networks, including the Finnish Defence Forces and the Tax Administration, corresponded to more than ten person-years.

## 4.2 Safety and security

### 4.2.1 Introduction

Maintaining internal security is one of the central government's key tasks. A nationwide network of authorities plays a crucial role in ensuring internal security and safety in the event of accidents, incidents and offences. The regional coverage of public sector services is part of the national infrastructure.

The authorities' presence ensures that people can rely on society's assistance when facing some of the most serious threats. A network of premises with adequate coverage is also a prerequisite for the security authorities' activities and the sense of security they create.

Facilities and the physical operating environment also safeguard the cyber environment by protecting information systems and data connections. Cyber capability is one of the fastest developing areas of critical infrastructure.<sup>15</sup>

### 4.2.2 Safety and security of premises and security services

Safety and security services for premises aim at preventing damage and minimising losses caused by potential damage. The Senate Group is responsible for the safety of its own activities and the premises it leases at the regulatory level and as agreed in leases and service contracts with the agencies or institutions. As users of the premises, the agencies and institutions are responsible for the safety and security of their own activities. Security services can also be outsourced to the Senate Group.

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15 Cyber influencing is one of the most significant threats targeting state-owned properties and the networks that support them. Protection of property information, secure information networks, well-managed building automation and trustworthy and skilled personnel are the most effective ways to secure the functioning of critical facilities against cyber threats.

For example, lobby and security services as well as security technology solutions can be purchased from the Senate Group's unincorporated state enterprises. The safety and security services offered by the Senate Group aim to improve the security level of central government premises. Especially in shared work environments, centralised provision of services is highlighted, as it is neither appropriate nor cost-effective for each user to implement their own solutions on shared premises. The centralisation of security expertise is also an advantage when purchasing and managing third-party services. When facilities are under construction or being renovated, the Senate Group in the role of a property developer is also able to ensure a coherent process of implementing the facilities' safety and security structures and technologies.

The turnover of Senate Properties' safety and security services was EUR 9.4 million in 2021. Safety and security technology services have grown at an annual rate of 50% in recent years, and according to surveys conducted by Senate Properties and estimates prepared together with central government agencies and institutions, this rate of growth is set to continue. In particular, this growth is accelerated by the more widespread use of shared facilities.

However, agencies and institutions are not obliged to procure their safety and security services from the Senate Group, in addition to the facilities. In practice, this may lead to overlapping safety and security solutions, for example in facilities shared by different agencies, which is likely to increase the differences in security levels and security expertise between agencies and institutions.

A safety and security concept was defined for shared office spaces of the central government as part of the Ministry of Finance's [renewal of central government's service and premises network project](#) in 2022. While the concept was approved by the participating agencies, its application to projects in shared work environments has not yet been approved by all agencies.

Defence Properties Finland's operating model differs to some extent from the practices of Senate Properties, especially regarding the special requirements of readiness, preparedness and security. The most important task of Defence Properties Finland is, by providing real estate and facility services for the Defence Forces and the partners

designated by them, to ensure that the premises used by the Defence Forces function in all security situations. For example, classified information is often handled in the property development, customer relationship management and maintenance processes of Defence Properties Finland. In the interest of security, all property management tasks in facilities of the highest security class are performed by Defence Properties Finland's own personnel as a rule.

### 4.2.3 Readiness and preparedness

Preparedness related to central government authorities' premises is part of each authority's contingency and continuity plans. The agencies and institutions agree with Senate Properties on the facilities and services required by their preparedness in service contracts that include, for example, emergency power arrangements at critical sites.

Pursuant to section 12 of the Emergency Powers Act (1552/2011), the Senate Group must ensure that its tasks are also performed as well as possible in emergency conditions. The Senate Group's unincorporated state enterprises perform tasks relevant to readiness and preparedness, such as carrying out risk assessments and drawing up continuity and preparedness plans, which create preparedness for acting during various incidents and emergencies. The authorities must also prepare their own continuity and preparedness plans in compliance with the Emergency Powers Act. On the basis of these plans, the agencies and institutions agree with the Senate Group on the facilities and services required by their preparedness.

Especially in a shared work environment, the solutions related to readiness and preparedness must be coherent. Senate Properties will present its proposal for a joint readiness and preparedness concept for shared use facilities in 2022. This solution will also include a proposal for backup power supply in shared work environments. Shared electricity supply backup solutions were highlighted in the feedback provided in statements on this report, and a solution provided by the lessor was called for.

Defence Properties Finland's mission is to support the Defence Forces in their capability for responding to changes in Finland's security environment by ensuring that facilities critical to national defence function in all situations. Defence Properties Finland maintains and develops the usability of the Defence Forces' intelligence, surveillance and command facilities, bases and other facilities needed in emergency conditions, and participates in exercises relevant to them.

As the operations of Senate Properties and the Construction Establishment of Defence Administration merged, Senate Properties and Defence Properties Finland combined to form a Group in which they provide strong support to each other. This is a key factor that improves preparedness related to state-owned premises and the performance of readiness in a crisis. The state enterprises' decision-making model, a high degree of self-sufficiency, a sustainable balance sheet and ability to borrow in the financial markets enable capacities for making major procurements and investments as well as expanding operational activities rapidly. This model contributes to enabling rapid responsiveness and generation of synergy benefits. For example, efforts will be made to draw on Defence Properties Finland's expertise related to security and preparedness also in the context of other state-owned premises.

As the unincorporated state enterprises are not shackled to state budget funding, they can also produce a result that differs significantly from the forecast if this is required by the state's overall interest in a crisis situation. The Senate Group can additionally adjust flexibly the allocation of resources between the unincorporated state enterprises. In a difficult security situation, projects that serve the needs of the security authorities and senior government officials as well as the preparedness of other agencies will be a particularly high priority.

In February 2022, both Senate Properties and Defence Properties Finland launched extensive action plans to develop preparedness for emergencies and incidents in normal conditions. These action plans support central government agencies and institutions in raising the level of preparedness in their facilities. The Senate Group is prepared to allocate more than EUR 15 million to this action plan in 2022.

### **EXAMPLE OF DEFENCE PROPERTIES FINLAND'S CAPABILITY TO SUPPORT THE DEFENCE FORCES IN THEIR TASKS.**

During its first year of operation, Defence Properties Finland has developed and organised its operations together with the Defence Forces. The aim has been to ensure that, at the beginning of 2023, it has the capabilities for providing facility services for the Defence Forces' military crisis management missions, reception of international assistance and international exercises organised in Finland.

The support needs of the Defence Forces' international operations concern building and maintaining base structures for crisis management operations, reception of international assistance, and preparation of solutions related to areas and facilities needed for international exercises. The Defence Forces have mainly seen to these support functions themselves until now. In the future, Defence Properties Finland will ensure that the areas in which operations are taking place are equipped with appropriate, healthy and safe buildings, structures, networks and protective structures commissioned by the Defence Forces. In addition, Defence Properties Finland will provide adequate repair, maintenance and energy supply services for structures at the bases.

As the support tasks for international activities have been centralised to Defence Properties Finland, they can be provided to a higher standard, also taking into account the cost-effectiveness and environmental impacts of the activities, and the Defence Forces can focus on their operational core tasks.

## **4.3 The environment and energy efficiency**

The Government Programme of Prime Minister Sanna Marin set the target of Finland being carbon neutral by 2035. The Government Real Estate Strategy, which was adopted as a government resolution, obliges different central government actors to pay attention to environmental issues, such as promoting life cycle thinking in relation to real estate, sustainable development and energy efficiency, in order to reach this target. The Senate Group has an obligation to create the preconditions for achieving the target regarding the premises used by the central government and state-owned real estate.

The carbon sink of state-owned forests managed by Metsähallitus is estimated to be 12 million tonnes of carbon dioxide equivalent (tCO<sub>2</sub>eq), which contributes significantly to Finland's journey towards carbon neutrality. The Senate Group estimates that the emissions from state-owned building stock and the functions associated with it are approx. 0.2 million tCO<sub>2</sub>eq/year. This figure is divided equally between the buildings' energy consumption on the one hand, and material and service procurements related to them on the other. Emissions are also generated from the construction and maintenance of transport infrastructure managed by the Finnish Transport Infrastructure Agency. The main responsibility for reducing transport emissions and developing traffic systems lies with the Ministry of Transport and Communications.

In 2021, emissions amounting to around 32,000 tCO<sub>2</sub>eq were generated from the use of premises, mainly from energy consumption. The Senate Group's goal is halving the emissions from energy consumption in 2022–2025 and reaching nearly zero level by 2030. In real estate activities, other emissions besides those created during the use of properties are also generated. A significant part of these other emissions comes from building and repairing properties. The Senate Group's total emissions in 2021 were approximately 180,000 tCO<sub>2</sub>eq. Construction and repairs are material and transport intensive international activities, and reaching nearly zero emissions in these areas will not be possible in Finland without a global change.

The Government Premises Strategy also sets the target of reducing emissions as set out in the EU Energy Efficiency Directive (2012/27/EU). This will be achieved by improving the energy efficiency of premises. The construction of new premises should be considered carefully, and premises completed after 2017 must be nearly zero energy buildings.

The Senate Group requires all significant construction projects to produce a comprehensive carbon footprint calculation and a life cycle comparison of different energy options. The Senate Group has additionally set the emissions reduction target of 15% for all renovations exceeding EUR 2 million in value, and 25% for new buildings compared to the baseline.

In 2021, 76% of the total energy use of properties maintained by the Senate Group was covered with renewable energy. Electricity produced from fully renewable sources has been purchased for state-owned properties for years. This reduces the annual emissions by more than 47,000 tonnes of CO<sub>2</sub>. In properties monitored by Senate Properties, 78% of all district heating contracts are carbon neutral.

The Senate Group offers the users of premises information about improving energy efficiency. In addition, the Senate Group works together with external lessors on environmental matters and consumption reporting. When using renewable energy sources, for example, the same principles are followed in state-owned premises and those leased from external actors.

Efficient space use is also environmentally efficient, as the most significant reductions in emissions from government agencies and institutions can be achieved by improving the efficiency of space use. The construction of new properties should be avoided where old ones could be repaired, or where suitable facilities for central government use are available in the market.

The central government's real estate management<sup>16</sup> has promoted energy efficiency since the energy crisis in the 1970s. In the current millennium, the focus has clearly shifted to reducing emissions, while energy efficiency is only one way among many of achieving emissions reductions and carbon neutrality.

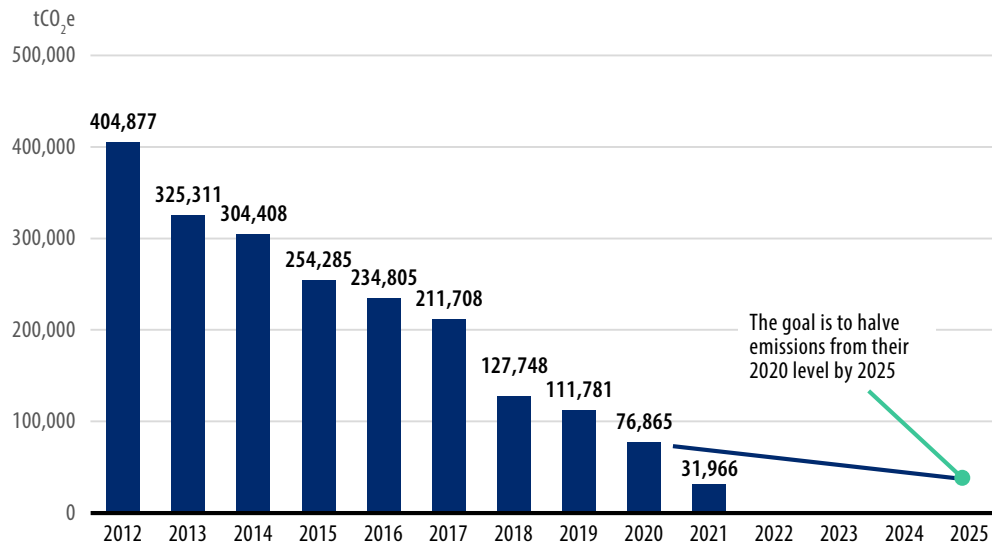
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16 The former National Board of Building, its successor State Real Property Agency, and the current Senate Group.



**Figure 8.** Emissions from the use of state-owned properties, development in 2012–2021.**Emissions from the use of state-owned properties in 2012–2021**

Senate Properties' emissions calculations start from 2012, in which year the EU Energy Efficiency Directive entered into force. Finland's National Energy and Climate Strategy derived from it entered into force in 2013.



\*The emissions calculation was revised in 2020, from which year emissions have been calculated as tonnes of CO<sub>2</sub> equivalent

### ENERGY SAVINGS PROGRAMME FOR STATE-OWNED PREMISES FOR WINTER PERIOD 2022–2023

In autumn and winter 2022–2023, the Senate Group will implement an energy saving programme on state-owned premises to curb their rising energy costs and to help Finland cope with the challenges posed by the price and availability of energy.

As part of the energy saving programme, measures concerning building technology, in particular, will be introduced. Building technology will be adjusted to achieve better energy efficiency, for example by lowering room temperatures and changing the settings of building technology equipment.

The programme will also introduce new operating models, including energy reviews of buildings, and implement technical solutions which will make it possible to reduce electricity consumption during peak times. For Defence Properties Finland, solutions related to backup power use will also be crucial.

## 4.4 Corporate social responsibility

### 4.4.1 Introduction

The overall interest of the central government and the overall economic impacts of the activities must be accounted for in the management and maintenance of central government real estate assets. In addition to economic impacts, attention must be paid to the social and environmental impacts of the activities as well as to other societal viewpoints, such as preserving cultural heritage, sustainable development, safeguarding comprehensive security, promoting energy efficiency and biodiversity, and securing a well-functioning real estate market.

It is also important to make sure that the premises support the cost-effective, appropriate and efficient performance of the agencies' and institutions' tasks, ensuring that citizens' trust in the authorities is not undermined. The goals also include securing for central government employees healthy and safe facilities that support their work.

Accessibility requirements must be addressed in state-owned facilities and services in compliance with the provisions in force. When carrying out repairs, alterations, and maintenance activities, cultural historical values must be respected, the principles of building protection followed, and biodiversity protected. Particular attention should be paid to combating the grey economy in construction and repair work and other procurements associated with the management, maintenance and services of properties.

#### **ACCESSIBILITY REQUIREMENTS**

As set out in the Government Leasing Handbook, the Senate Group ensures that the currently valid accessibility requirements are fulfilled in connection with renovations subject to a building permit. When such repairs are carried out, it is consequently up to the Senate Group to fulfil the accessibility requirements, and this will not have an impact on the rent paid by the customer. Separately from renovations, the Senate Group will also make alterations requested by the customer, and works of this type will increase the rent paid by the central government customer.

New building regulations must usually only be applied in connection with renovations, whereas some of the accessibility requirements stem from other legislation rather than from building regulations. This means that their fulfilment will always have an impact on the rent.

## 4.4.2 Combating the shadow economy

According to Prime Minister Marin's Government Programme, the Government will broaden and step up its countermeasures to the grey economy with a comprehensive strategy and programme for 2020–2023.

Grey economy generally refers to business activities for which no statutory contributions or taxes are paid, such as withholding tax or social security and pension contributions. Grey economy activities are pursued for economic gain. It has been estimated that society loses between EUR 5 billion and EUR 10 billion annually as a result of the grey economy and economic crime through non-payment of taxes and tax-like charges. In addition to the loss of tax revenue, the grey economy undermines neutral competition, making it more difficult for law-abiding companies to operate when other actors gain an unfair competitive advantage by avoiding taxes or other statutory charges.<sup>17</sup>

The Senate Group has developed its actions to combat the grey economy in cooperation with the Finnish Tax Administration and the Regional State Administrative Agencies and sets more stringent requirements than those imposed by the legislation for its suppliers to prevent financial crime. In the Senate Group, the combat against the grey economy focuses particularly on construction sites, services related to maintaining premises and facility services, including cleaning services. Actions against the grey economy are also taken in connection with real estate sales by examining the buyers' backgrounds and the source of their funds.

17 Measuring the grey economy is challenging as it does not come up in statistics. For example, Statistics Finland estimated in 2008 that the volume of the grey economy accounted for more than 1% of Finland's GDP (Statistics Finland, Suomen piilotalous. Raportti Suomen piilotaloudesta ('Hidden economy in Finland. Report on Finland's hidden economy', 30 June 2008). In a study published in 2010, the World Bank put the extent of the grey economy in Finland at 18.5% of the GDP. A study commissioned by the parliamentary Audit Committee titled Suomen kansainvälistyvä harmaa talous ('the internationalising grey economy in Finland', Publications of the Audit Committee 1/2010) concluded that the total volume of the grey economy in Finland in 2008 was approximately 6.9% of the GDP. This result was obtained merely using the tax audit method. The scale of the grey economy was put at EUR 10 to 14 billion, and the minimum total tax losses at EUR 4 to 5 billion. The European Commission estimated that the grey economy in Finland would have corresponded to 13.7% of the GDP in 2011.

When work contracts are put out to tender, for example, only contractors who have fulfilled their obligations referred to in the Act on the Contractor's Obligations and Liability when Work is Contracted Out (1233/2006, later the Contractor's Liability Act), can be successful. The contracts additionally specify all the actions that the contractor must take during the contractual relationship to combat financial crime.

All parties in the subcontracting chain are also required to provide the information referred to in the Contractor's Liability Act, and all companies in the subcontracting chain must be approved by the unincorporated state enterprise of the Senate Group before gaining access to the construction site. The length of the subcontracting chain is limited to three links in construction projects and two links in maintenance service contracts. Uniform terms and operating models are also used in these contracts.

#### **BASIC PRINCIPLES OF COMBATING FINANCIAL CRIME IN THE SENATE GROUP:**

- All activities are based on contracts.
- The number of links in the subcontracting chain is limited.
- Parties are informed of the contract models already as invitations to tender go out.
- Contracting partners are provided with training on the contract contents.
- Compliance with contract terms is supervised.

The Senate Group's internal audit function coordinates site inspections. All inspections are spot checks of which the parties to be inspected are not informed in advance. Depending on the volume of construction work, inspections are carried out annually at around 15 to 30 construction sites and approx. 25 maintenance sites. The inspections cover around 20% of the number of projects and about 80% of the euros spent on construction work.

While the number of inspections has gone up, there have been fewer observations of shortcomings or negligence in combating the grey economy. Whereas no financial crime has been observed in the inspections, shortcomings have been detected and penalties have been imposed for them. They have included negligence in the prevention of financial crime by contractors and maintenance and service companies, such as the use of personal identity codes and prior approval of subcontractors.

The combat against the grey economy and measures related to it contribute to ensuring the quality of central government construction projects, as financial crime and poor construction quality are interlinked.

## 4.5 Work environment development

The central government's premises network has been subjected to significant pressures to change in recent years. Examples of these changes, which progress more and more rapidly, are digitalisation, remote work, dwindling financial resources, demands for impact in public sector activities, increase in multilocal work, more widespread provision and use of electronic services, and climate change.

The Senate Group offers agencies and institutions services for developing their work environments.<sup>18</sup> The purpose of these services is to help actors in different administrative branches to manage the facilities at their disposal systematically and cost-effectively as well as to anticipate their space needs, and to assist government agencies and institutions in identifying the change needs in their work environments and preparing for changes.

A need to manage the administrative branches' premises portfolios more carefully emerged in the early 2000s, when it was noted that to curb the increase in premises costs, not only information on the contents of the premises portfolio but also a systematic approach to selecting and scheduling measures was needed. This observation underpinned the implementation of the Central government's premises management system (later HTH system) in which, among other things, all government leases are stored in a single location. When government agencies and institutions draw up plans for implementing the Government Premises Strategy, the premises use and contract information obtained from the HTH system helps to anticipate future space needs.

The Senate Group has delivered its work environment development services to such actors as the Finnish Defence Forces, the Criminal Sanctions Agency, the police, state reform schools, the judicial administration, the TE services, the National Land Survey of Finland, the Regional State Administrative Agencies, the Tax Administration and the ELY Centres.

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18 The work environment services include work environment development and management, change management, information work development, service design, impact assessment and process analytics.

As an example of work environment development, a joint construction project of Senate Properties and the Finnish Institute for Health and Welfare (THL) identified annual cost benefits of EUR 1,735,500. The largest share of this amount was obtained by centralising THL's laboratory activities and closing down one laboratory. The new facilities also enabled more efficient space use and laboratory processes. Even a conservative estimate shows that the annual benefits of the completed construction project are at least twice its cost.

A project Senate Properties completed for the Finnish Environment Institute resulted in annual savings of EUR 150,000, among other things from reduced transitions, synergy benefits, elimination of work stages, centralisation and equipment savings. The most significant qualitative benefits for customers included improved sample logistics and ergonomics in their handling, better information flows and increased cooperation, as well as synergy benefits enabled by the location.

Developing special-use facilities is a particular challenge. Approx. 78% of state-owned premises are used for a specific purpose, including prisons, courtrooms, Defence Force facilities and police departments. The user's operational processes set high requirements for such facilities, and the expertise of the agency's or institution's personnel is emphasised in their development.

An analysis of the Criminal Sanctions Agency's branch network is due for completion in autumn 2022 as part of a report on the judicial administration. The branch network analysis is being updated to meet new needs, such as the legislative reform of remand prison services.

The starting point of this update was an analysis of the prison network completed in spring 2019, the aim of which was to assess what type of a prison network would be the most efficient for promoting the rehabilitation of prisoners for a crime-free life and consequently reducing re-offending and the need for prison places.

The estimated annual social costs incurred from released prisoners are around EUR 1.5 billion. The potential savings that could be obtained through a more rehabilitative approach to prisoners are estimated to be EUR 260 to 600 million per year. These savings are significant, and they can be achieved by developing prison services and the prison network.

The first high-security women's prison opened in Hämeenlinna in late 2019 was a pilot project for developing the prison concept, in which Senate Properties served as the property developer.

## 5 Incorporated state enterprise model in central government's premises management

### 5.1 History of premises management

The Senate Group's work can be seen as a continuum of constructing and managing the facilities required for the central government's various functions that began more than 200 years ago.

As early as 1811, an Intendant's Office was established in the Grand Duchy of Finland to manage state-owned premises. In 1865 its activities were continued by the National Board of Public Buildings, which was succeeded in 1936 by the National Board of Building, the oldest central agency in Finland.<sup>19</sup> In 1995, the State Real Property Agency, a central agency subject to performance guidance, was established as the successor of the National Board of Building.<sup>20</sup> The State Real Property Agency was incorporated as a state enterprise in 1999; it was renamed Senate Properties in 2001.

The decision on an administrative reform made by the Government in spring 1988 has been considered the key reason for closing down the National Board of Building and establishing the State Real Property Agency. One of the result of this decision was that the central government's steering system was reformed by improving the efficiency of operational and financial planning in the government, and consequently giving it a larger role in the preparation of the Budget. The powers of the agencies and institutions to make decisions on using their appropriations were also expanded around this time.<sup>21</sup>

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19 A central agency refers to an authority that manages a certain branch of central government and an authority subordinate to a ministry that operates across the whole country. Most central agencies were discontinued and converted into incorporated state enterprises in the 1990s.

20 The Engel Group was separated from the National Board of Building around the same time.

21 Hanski 2011, p. 240.



The Ministry of Finance was tasked to complete reforms in the premises management by 1991. The Ministry of Finance applied performance guidance budgeting to the first agencies and institutions in its administrative branch in 1990 and to the State Real Property Agency in 1995. Performance management has since become an established part of central government, increasing the government's cost awareness and improving the efficiency of agencies' and institutions' work in many ways.<sup>22</sup>

## 5.2 Introduction

Over the years, the state has had 16 unincorporated enterprises, one half of which in the administrative branch of the Ministry of Transport and Communications and five in the Ministry of Finance's branch of administration. All except two of these state enterprises have later been incorporated. The only unincorporated enterprises today are the Senate Group, which is composed of Senate Properties and Defence Properties Finland, and Metsähallitus.

State enterprises are part of the central government's organisation, and consequently their assets also belong to the state. The unincorporated state enterprises are not susceptible to bankruptcy. Their commitments are secured by the state's assets transferred to them and, if the enterprise is unable to meet its commitments, this liability is assumed by the state. Unincorporated state enterprises may take out loans to finance their operations within the limits of the authorisation given by Parliament in connection with the budget process. By Parliament's authorisation, the unincorporated state enterprise may also grant a guarantee for a loan taken out by its subsidiary operating as a limited liability company.

The unincorporated state enterprise model as a legal and organisational form of state enterprising has mainly been dropped due to requirements relating to competition neutrality and state aid regulation in European Union law. The problems have been related specifically to protection against bankruptcy and, among other things, to tax advantages that unincorporated state enterprises benefit from compared to other companies operating in the market.<sup>23</sup> When the Senate Group consisting of two unincorporated state enterprises was established under the Act on Senate Properties and Defence Properties

22 Tulosohjauksen käsikirja ('Performance Guidance Handbook'). Ministry of Finance publications 2/2005, p. 17.

23 On 11 December 2007, the European Commission adopted Decision No C 7/2006 on State aid concerning Finland, in which it found that the Finnish National Board of Public Roads' exemption from corporate tax and bankruptcy protection constitute State aid prohibited by the Treaty (the 'Destia case').

Finland, the Group's operations were assessed from the perspective of both the national Competition Act (948/2011) and EU state aid regulation. As a basic premise, the Senate Group's unincorporated state enterprises offer their services to central government agencies and institutions that are part of the same legal entity of the state and consequently pursue no activity which would be in competition with private operators in the market.

The unincorporated state enterprises of the Senate Group may also operate in a competitive market situation to a limited extent. The Senate Group's enterprises keep separate accounts of their economic activities in the market and price these activities on a commercial basis. In 2021, the Group's commercial activities accounted for approx. 6% of its total turnover. Under section 30a of the Competition Act, the Finnish Competition and Consumer Authority is also competent to intervene in the activities of the Senate Group's unincorporated state enterprises if they distort, or are likely to distort, the preconditions for healthy and well-functioning competition in the market, or prevent or are apt to prevent the emergence or development of healthy and well-functioning economic competition.

The regulation on the Senate Group envisages measures that would prevent any inefficiencies in the Group's operations. Inefficiencies could occur if customers are legally obliged to use the facilities offered by the Group. This is prevented by following the principles of good governance and treating all agencies and institutions equally.

A study that evaluated the effectiveness of the central government's leasing system published in 2018 found no concrete signs of inefficiencies in Senate Properties, and the rents charged by Senate Properties for the facilities were highly competitive with the rents charged by commercial operators.<sup>24</sup>

The provisions of the Administrative Procedure Act on administrative contracts apply to a lease contract on facilities concluded between an unincorporated state enterprise in the Senate Group and the agency or institution. This ensures compliance with the principles of good governance. According to a Government proposal submitted to Parliament on 21 April 2022 (HE 53/2022 vp.), the Senate Group's unincorporated state enterprises

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24 Evaluation of the functioning of state's rental system (Government's analysis, assessment and research activities 21/2018), pp. 8 and 20.

would additionally be obliged to have the standard terms and conditions of their leases approved by the Ministry of Finance. This is vital for maintaining a uniform and transparent leasing system.

To prevent potential harms arising from an obligation to use premises offered by the Senate Group, particular attention will also be paid to the steering and supervision of the Senate Group in the future. Ownership steering by the Ministry of Finance and the Ministry of Defence as well as Senate Properties' and Defence Properties Finland's Boards of Directors will play an essential role in this. To enable the monitoring of cost-efficiency and quality, setting clear numeric targets for the Senate Group will also be vital. The concrete tools for this are the service level and operational targets set annually by Parliament and the service level targets set by the Ministry of Finance, the Government Real Estate and Premises Strategies, and the Government Leasing Handbook.

An organisation operating as an enterprise, rather than an agency, is also more directly comparable to companies providing premises services in the market, making it possible to compare the efficiency of activities between state enterprises and commercial operators. Additionally, the enterprise status gives the Senate Group a better ability to respond to a changed security situation than if it were operating as an agency.<sup>25</sup>

In 2018, the National Audit Office published a performance audit report on the organisation of the central government's business (NAOF 14/2018). The audit report found that Senate Properties' operations are transparent, and that operating as an enterprise is justified from the viewpoint of its tasks. The unincorporated state enterprise form was considered to produce benefits for the state at the Group level, as a state enterprise can finance the necessary investments with funding arranged through the State Treasury. The calculated benefits created by this arrangement were put at EUR 5 million a year, compared to acquiring the same funding in the market.<sup>26</sup>

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25 In 2022, the unincorporated state enterprise model made it possible for the Senate Group to take immediate action worth more than EUR 15 million to prepare for the new security situation. Of this amount, EUR 8.6 million was channelled to Defence Properties Finland for preparedness required by the changed security situation.

26 National Audit Office's performance audit report on the organisation of the central government's business (NAOF 14/2018), p. 50.

## 5.3 Other forms of organisation

The state enterprise represents middle ground between operating as an agency and a company. The other options for organising the central government's real estate and premises management would consequently be an agency or a company.

The majority of the Senate Group's turnover comes from the central government's internal leasing activities, whereas commercial activities only account for 6% of the Group's total turnover.<sup>27</sup>

In theory, the sales of the Senate Group's unincorporated state enterprises to private operators could be incorporated into a separate company. This course of action was taken in the case of the other unincorporated state enterprise, Metsähallitus, whose forestry business has been incorporated into a state-owned company separate from the Metsähallitus Group.

However, the Senate Group also operates in the market by leasing facilities to external parties who provide services to the state, such as staff restaurants operating in connection with agencies and institutions and cleaning service providers. While the forestry business is clearly separate from Metsähallitus' other activities, the Senate Group's commercial business cannot consequently be separated as clearly from its other operations. The facilities leased to external actors often also are an integral part of properties used by the state. Due to this and the low volume of the operations, the incorporation of the Group's services provided to private customers has not been considered appropriate for reasons of competition neutrality.

As Defence Properties Finland was established, the possibility of the Construction Establishment of Defence Administration continuing its operation as an agency was investigated. When the legislation concerning the Senate Group was drafted, an agency-based operating model was not expected to achieve the capabilities for rapid operation and response that were necessary for improving the service level offered to the Defence Forces. Government proposal to Parliament on the Act on Senate Properties and Defence Properties Finland as well as certain related acts (HE 31/2020 vp.) found that the group model could achieve benefits amounting to EUR 5 million over a period of five to ten years.

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<sup>27</sup> On the other hand, even a small share of the turnover may be significant in individual cases when examined in proportion to the size of the market and the nature of the sector.

## OPTIONAL MANAGEMENT MODELS FOR THE DEFENCE ADMINISTRATION'S REAL ESTATE:

A preliminary study on the management model of the defence administration's real estate (2019)<sup>28</sup> commissioned by the Ministry of Defence examined the effectiveness and challenges of the triple net rent model in use at the time the study was produced and the three-actor arrangement<sup>29</sup> associated with it, as well as assessed three optional solutions:

- Inclusive rent model and a closer partnership with Senate Properties.
- Defence Properties Finland, an unincorporated state enterprise operating in the Ministry of Defence's administrative branch.
- An internal real estate agency of the Defence Forces.

Advantages and disadvantages were identified in all models. The final solution, or the establishment of Defence Properties Finland as an unincorporated state enterprise and subsidiary of Senate Properties, aimed at combining the main advantages of the first two options and creating synergies within the group structure.

The identified risks associated with the Defence Forces' own real estate agency included the availability of personnel and the allocation of resources to core activities at the expense of real estate, among other things. This would also have meant that an increased number of premises management tasks would have been transferred to the Defence Forces, interfering with their core tasks.

Compared to a situation in which the Construction Establishment of Defence Administration would operate as an agency, the advantages offered by the Senate Group include the fact that the Group is able to provide shared services for organisations centrally, enabling synergies in terms of both quality and cost-effectiveness.

28 Preliminary study report on the management model of the defence administration's real estate, 2019.

29 The three-actor arrangement refers to a model in which Senate Properties was the lessor of the premises used by the Defence Forces, while the Construction Establishment of Defence Administration provided maintenance services for these premises.

## THE SENATE GROUP'S SYNERGY BENEFITS STEM FROM THE FOLLOWING AREAS:

- **Information management and systems.** The overlapping systems of the predecessor organisations can be phased out and replaced by shared systems. However, this is not possible in cases where Defence Properties Finland needs separate system solutions because of the security requirements. Shared systems enable savings in direct system costs paid to suppliers as well as internal costs related to developing and maintaining the systems. The pace of development is also faster.
- **Procurement.** Procurement is centralised to a single unit, enabling efficient processes and optimal staffing. Where appropriate, the Group makes joint procurements. In the preliminary work on the Act on Senate Properties and Defence Properties Finland (HE 31/2020 vp.), the volume of joint procurements was estimated to be EUR 50 million. Benefits are gained especially in geographical areas where one of the unincorporated state enterprises has a lot of activity and the other has little or none.
- **Financial processes.** Financial administration tasks are centralised to a single unit, enabling efficient processes and optimal staffing. Financial management systems have been merged, and the processes are the same in both enterprises. The same accounting principles and auditors are used throughout the Group.
- **Environmental services.** The environmental services at the disposal of the entire Senate Group make it possible to use experts employed by the Group to perform its most important environmental tasks. For example, this reduces the need to use external consultants and improves cooperation with the authorities, enabling substantial savings, for example in the management of contaminated soils.
- **Operational processes.** The steering and development of the Senate Group's most important operational processes have been centralised. Such processes include maintenance, construction, leasing, customer relationship management and services. For example, the Management model for indoor conditions developed by Senate Properties could be rapidly introduced in Defence Properties Finland.

- **Preparedness and security.** Common management models, processes and practices create synergy benefits. For example, Defence Properties Finland has introduced a digital process developed in Senate Properties for the security clearance procedure of personnel and suppliers. The savings amount to several person-years in Defence Properties Finland. In turn, Senate Properties can adopt the readiness and preparedness models developed by Defence Properties Finland.
- **Overall synergy benefits.** Through the elimination of overlapping ICT solutions, economies of scale in procurement, lightening of the administrative requirements under the Act on Unincorporated State Enterprises and the harmonisation of activities, the central government can achieve a cost level reduction of at least EUR 5 million within approx. 5 to 10 years of the Senate Group's establishment.

As the Senate Group companies operate as unincorporated state enterprises, its operations can be financed with rental income in a cost price based leasing system, sales of properties that the central government no longer needs, and loans, which would not be possible for an agency.

Unlike a limited liability company, a state enterprise can also access loans through the State Treasury, which reduces the costs of loan capital. Compared to a limited liability company, an enterprise is also under more direct political control.

## 5.4 Premises management in municipalities

The organisation of premises management in central government can be compared to the way these functions are organised in municipalities. Municipalities vary in size, structure and financial position, which results in major differences in the practices of their real estate and premises management. Their premises are usually managed by either the municipality's technical services or an independent unit. In large cities these activities are carried out by enterprises, some of which have been incorporated.

In large municipalities, real estate management personnel have the possibility of specialising in specific fields, which builds up the available expertise. Information systems are also needed to manage a large portfolio of premises, and in large cities the standard of such systems is usually good. However, municipalities of all sizes need to develop their premises management systems.

It is common for small municipalities to have limited resources for real estate and premises management, and the personnel consequently also have to master a wide variety of other tasks. This means that they may have little or no expertise in the special issues of real estate and premises management. On the other hand, limited building stock can also be managed without a centralised premises management system and the special expertise associated with it.

Maakuntien tilakeskus Oy has published a report on the situational picture of municipalities' building stock in 2020 and forecasts for 2020–2040.<sup>30</sup> This report found that the total balance sheet value of the premises owned by municipalities was approx. EUR 35 billion. It estimated that municipalities and local authority corporations own around 62,000 buildings with a total floor area of about 50 million square metres. The repair backlog of the municipalities' building stock totalled around EUR 9 billion, and the need for renovations amounted to about EUR 17 billion.<sup>31</sup> In addition, municipalities lease a considerable number of facilities from property owners external to the municipal sector. Forecasts indicate that, with the current levels of premises management, the condition of buildings owned by municipalities will deteriorate on average, and the repair backlog will increase.<sup>32</sup>

The average condition class of buildings owned by municipalities was 69.5%. The condition class refers to the ratio of the building's current technical value to its replacement value. This figure provides a rough description of the imputed condition of buildings. The aim usually is to maintain the building stock in a condition class of approx. 75%. When the condition class falls below 75%, a repair backlog begins to form.

The repair backlog is not a straightforward indicator of the value of buildings. Rather than calculating the repair backlog of the real estate portfolio it manages, the Senate Group prepares property-specific maintenance and renovation plans (PTSs<sup>33</sup>), which in many respects are a more precise method of providing for the repair needs of properties than the repair

30 The report was published on 7 October 2020 in connection with the Municipalities' premises information project.

31 The figures also include all properties used by social welfare and health care and rescue services.

32 The forecast is based on real estate and building data from 126 municipalities compiled by Maakuntien tilakeskus Oy.

33 For the definition of PTS plans, see section 4.1 Cost-efficiency, p. 40.



backlog. Senate Properties' plans for 2022–2032 include maintenance repairs amounting to the approximate total value of EUR 800 million. Renovation investments over the same period total around EUR 1.8 billion.

Demographic changes will have a fundamental impact on municipalities' service needs and, consequently, also the facilities needed by the municipalities and their costs in the years to come. Municipalities and local authority corporations face challenges related to the building stock in terms of future space needs. The higher number of older people will increase the need for care and attention, while service needs associated with early childhood education and care as well as basic and general upper secondary education are reducing dramatically.

Municipalities' building stock offers significant potential for development and savings, including in the form of vacant and underused buildings, buildings that are not fit for purpose, and the energy inefficiency of buildings. Long-term measures at the national and municipal levels will be required to exploit this potential. Additionally, persistent shortcomings in databases on municipalities' building stock make it more difficult to obtain situational awareness.<sup>34</sup>

Interviews conducted in municipalities for the Municipalities' premises information project have built up the knowledge base of their premises management and its development needs. Small municipalities typically maintain this information in standard office programs, such as Microsoft Excel. The information may be incomplete, and a lack of resources may have made it impossible to keep it up to date. The interviewees saw a clear need to introduce shared information systems for premises management. Excel is often also used to manage this information in medium-sized municipalities. Large municipalities have versatile systems in which the information is usually more up to date, and integrations between different systems work well. However, large municipalities have also been interested in developing their information systems, for example to provide better possibilities for valuing buildings and calculating rents. Municipalities would like support in updating their information systems.

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34 In the future, more detailed analyses of the value, condition and renovation needs of the municipalities' building stock can be produced, as the data in the joint database of Maakuntien tilakeskus Oy are supplemented and this company is transferred to the ownership of the wellbeing services counties at the beginning of 2023.

A more strategic approach is also needed in the municipalities' real estate management. Information system development and compilation of data in these systems will lay the necessary foundation for this. In addition, municipalities must step up the strategic planning of their real estate and facility planning underpinned by their future service needs as well as produce studies aimed at more proactive maintenance of building stock and investments. The objective should be achieving a better understanding of the links between municipal real estate management and local government finances as well as stepping up cooperation between municipalities.

The reform of social welfare and health care as well as rescue services will have a significant impact on the situation of the municipalities' real estate and premises management. In particular, the situation of facilities leased by municipalities to the wellbeing services counties after the transition period will create uncertainty for the municipalities' long-term real estate management and may even undermine municipalities' willingness to invest in these properties to be leased during the term of lease.

This is why the wellbeing services counties should, together with the municipalities, start drafting regional service network plans, which would provide a better idea of the facilities needed for the wellbeing services counties' services.

## 5.5 Premises management in other European countries

A number of European countries have centralised real estate management organisations responsible for administrating state-owned properties. Many countries also operate an internal government leasing system. These organisations and systems differ in how centralised the management is, how extensively and uniformly the state's internal leasing system is implemented, and what principles are followed when determining the rents in the state's internal leasing system.

The Republic of France and the European Commission commissioned a report<sup>35</sup> that looked at premises management in sixteen European countries in 2022. This report found that an internal government leasing system has been introduced in most countries to improve the efficiency of public real estate use.

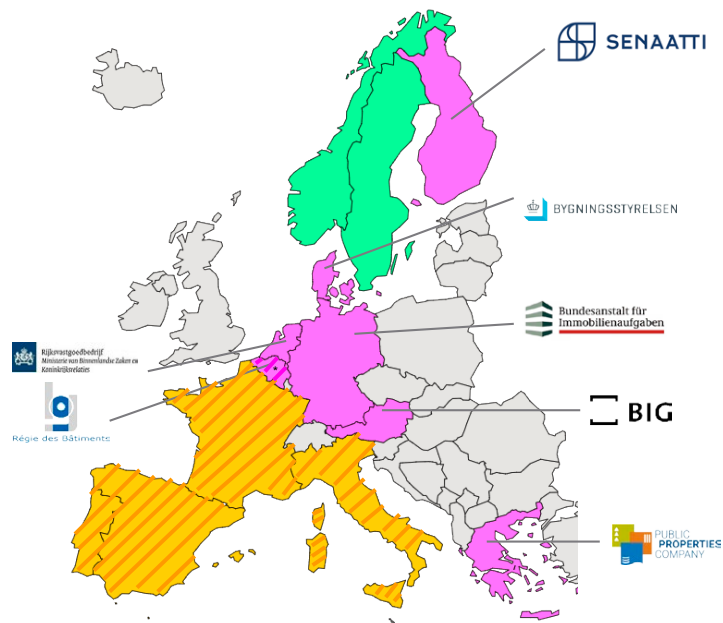
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35 Comprehensive Review and Benchmark Study of the Public Real Estate Management, European Commission, 2022.

**Figure 9.** State-owned real estate ownership models and leasing systems.

**Central governments' real estate portfolios have three typical ownership and use models shown in the Figure:**

1. The majority of properties used by central government authorities are owned by the state, and no internal leasing system of the central government is in use as a rule. (Shown in orange in the figure)
2. Most properties used by central government authorities are owned or controlled by a state-owned real estate organisation. Users pay rent for the properties they use. (Shown in purple in the figure)
3. Most properties used by central government authorities are leased from private operators. Some, such as strategically important properties, remain in the possession of the state's real estate organisation which may, for example, sublease them. (shown in green in the figure)



In Finland's reference countries (Sweden, Norway, Denmark and the Netherlands), the main organisation form for managing state-owned premises is an agency. The agencies dealing with premises matters operate under different ministries. In Finland and Sweden, for example, the organisations that manage premises mainly operate under the Ministry of Finance. Compared to Finland's unincorporated state enterprise model, differences between actors operating as agencies include handling investment project funding as part of the state's budget process.<sup>36</sup>

<sup>36</sup> Statens Fastighetsverk (Ministry of Finance) in Sweden, Statsbygg (Ministry of the Local Government and Modernisation) in Norway, BYGST (Ministry of Transport) in Denmark, RVB (Ministry of the Interior and Kingdom relations) in the Netherlands.

Of Finland's reference countries, Sweden has the most decentralised system, in which different administrative branches lease and manage real estate following their own rules. The Swedish real estate management system comprises commercial and cost priced leasing as well as budget-funded activities, depending on the nature of the properties.

Finland and the Netherlands have the most centralised systems, whereas in the other Nordic countries, the level of centralisation lies in the middle ground, with certain properties being within the scope of centralised management while some functions have been privatised (Norway and Denmark). There are also differences in whether the Defence Forces' facilities are part of other real estate and premises management (Finland and the Netherlands) and how cultural heritage sites and forest assets are managed.

By international comparison, the centralisation of premises management in Finland is extremely advanced, as the Office of the President of the Republic, the Governing Body of Suomenlinna, foreign missions and Parliament control the only facilities used by central government units that are not managed by the Senate Group's unincorporated state enterprises. Compared to Finland, other countries do not set equally clear objectives, for instance for improving the efficiency of space use on state-owned premises. The other reference countries, such as Norway, are only in the process of introducing centralised and goal-oriented real estate management similar to Finland's Premises Strategy.

The report commissioned by the Republic of France and the European Commission highlights the target of reaching zero emissions from the use of state-owned properties by 2035, which is the most ambitious carbon neutrality target of the reference countries, as an example of Finland's premises management model.<sup>37</sup> The second most ambitious target of the countries included in the report had been set by Austria, which aimed for zero emissions by 2040. France and Denmark are striving for carbon neutrality by 2050.

A study commissioned by the international Public Real Estate Network (PuRE-net), which found that the management model for state-owned premises and real estate in Finland is one of the best among the European reference group, is another indication of the effectiveness of Finland's current centralised premises management.<sup>38</sup>

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37 For more information on the carbon neutrality targets set for the Senate Group, see section 4.3, The environment and energy efficiency, in this report.

38 PuRE-net Benchmark Report 2017.

However, there is no single correct way to organise premises management. In each country, the choice of the model is influenced by political consideration, strategic objectives set by the state, historical development, the structure and size of the real estate portfolio, development of facilities needs, the state of the property market and the state's financial carrying capacity.

## 6 Service contracts

### 6.1 Introduction

In the Act on Senate Properties and Defence Properties Finland, service contracts refer to all contracts relating to property and facility services provided by the Senate Group to its central government customers and the services directly associated with them.

The most common service contract type is a lease. In addition to leases, contracts on facility services are also concluded, including on lobby and security services. Defence Properties Finland has a wider range of service contracts than Senate Properties, which cover energy, maintenance, environmental protection and property development services. The central government's internal contracts are priced on cost basis and, under the Act on Senate Properties and Defence Properties Finland, they are subject to the provisions concerning administrative contracts, such as the foundation of good governance in Chapter 2 of the Administrative Procedure Act.

A study commissioned by the Ministry of Finance, which was published in January 2022, evaluated the central government's leasing system and the Senate Group's activities. Among other things, the study examined the effectiveness of service contracts concluded between the Senate Group and its central government customers as well as any disputes related to them.<sup>39</sup>

The study was completed as an online survey sent to the Senate Group's unincorporated state enterprises, ministries, central government agencies and institutions as well as some actors operating as foundations, and as individual interviews with representatives of these organisations. A total of 39 responses from 36 organisations were received to the survey. In total, the survey was sent to 52 organisations which lease facilities from the Senate Group. In some administrative branches, premises matters have been centralised to a central management authority. No response was received from 16 organisations.

In addition, a total of 39 people from 25 organisations were interviewed for the survey. In the sampling of the interviewees, representation of all organisation groups, recent contract updates and the largest premises users were taken into account.

The results of the survey are discussed in this Chapter and in Chapters 7 and 8 below.

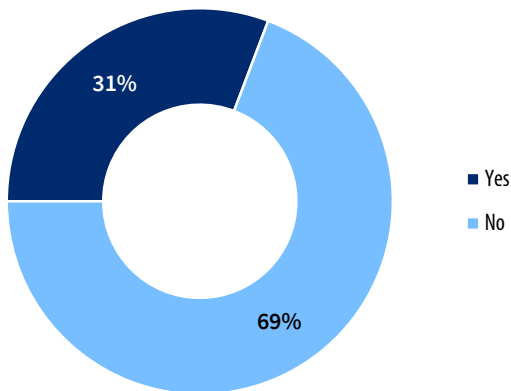
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<sup>39</sup> Evaluation of the functioning of state's rental system and the activities of the Senate Group (2022:9).

## 6.2 Disputes and dispute resolution

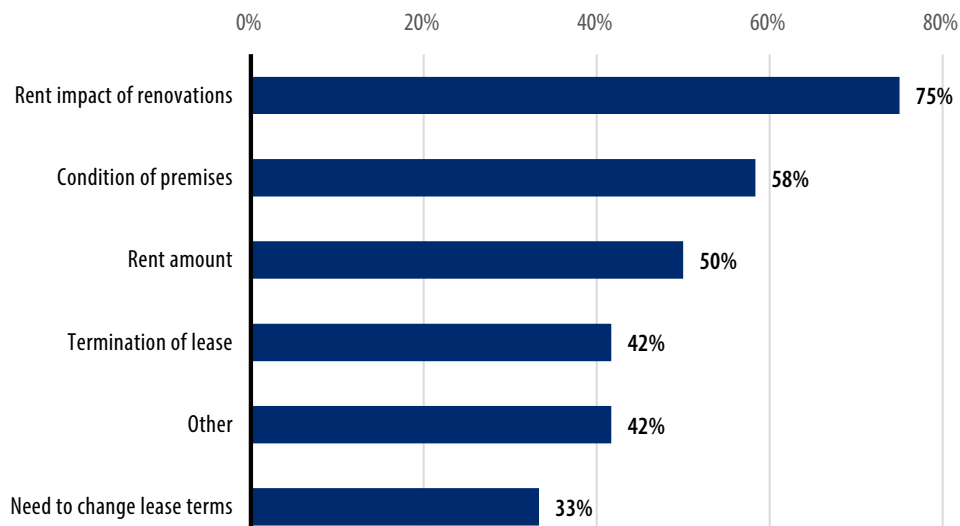
Around 30% of the survey respondents have had disputes associated with leases, while almost 70% have had no such disputes over the last five years.

**Figure 10.** Disputes concerning leases over the last five years.



The responses indicate that the disagreements mainly concerned the rent impacts of renovations, condition of the facilities, and rent amounts. As causes for disputes were also cited subleases of properties rented by the Senate Group in the market and the negotiations, sharing of liabilities and decision-making related to them.

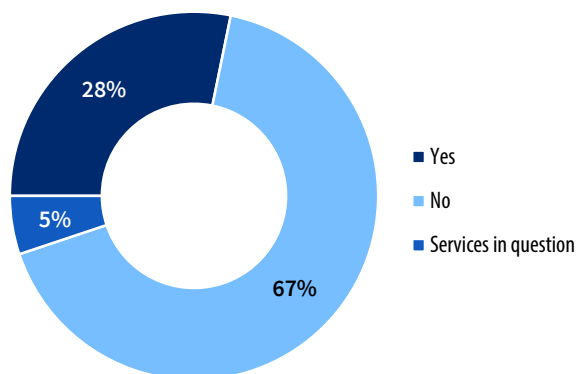
**Figure 11.** Content of disputes on leases, percentage of respondents who had had disputes in the last five years.



The study found that actual disputes concerning lease contracts are fairly rare. More intensive negotiations had been conducted on such issues as the boundaries of liabilities for investments, premises in shared use, giving up premises within a closed area, selection of facilities between state-owned and other premises, and leasing directly in the market. Clearly the largest number of disagreements stemmed from the boundaries of liability for renovation projects, in other words whether the costs of renovation projects should be paid by the Senate Group or by the agency or institution in form of higher rents. The condition of the facilities has also sparked discussions between the tenant and the lessor.

The survey found that disputes related to service contracts other than leases are also fairly rare: the findings indicate that less than 30% of the respondents had had disputes relating to service contracts in the past five years.

**Figure 12.** Disputes concerning service contracts over the last five years.



These disputes mainly concerned maintenance and construction projects. Interior design, leases of furniture and purchases made in connection with maintenance were cited as issues that had caused individual disputes. Problems associated with the quality of cleaning and maintenance were also mentioned in individual comments, as was subcontractors' indifference to safety issues.

Criticism was additionally levelled at the 12% service fee charged by the Senate Group for all services it offers, especially in feedback contained in statements on the draft report. The service fee is always 12% of the service contract's value in euro amounts. Respondents found that the fee does not encourage agencies and institutions to procure service packages through the Senate Group, especially large ones, even if capitalising on the synergies offered by the Senate Group in such large procurements would make overall economic sense.



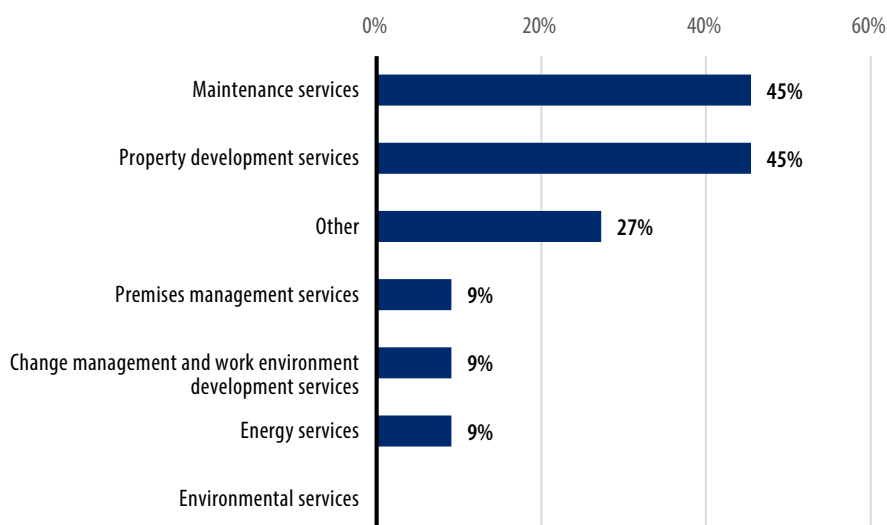
Among other things, the service fee covers an analysis of service needs, drawing up of service descriptions, putting the services out to tender every 3 to 5 years, contract negotiations, service provider's background checks, quality control, and processing of complaints and monitoring of invoicing.

Under section 2, subsection 3 of the Act on Senate Properties and Defence Properties Finland, the central government's internal services are priced on cost basis, which means that the compensation for the services must cover the costs incurred by the Senate Group. If the Senate Group procures a service in the market for its central government customer, a fee of 12% is included in the contract to cover labour and system costs.

The service fee should be understood as an average cost item that is part of the state level service package. While the actual service charges for some sites are lower than the 12% fee, some of the sites incur costs in excess of it.

When all costs incurred by the agency or institution from their own work are taken into account, this cost is competitive compared to service procurements made by individual agencies and institutions.

**Figure 13.** Content of disputes over service contracts, percentage of respondents who had had disputes in the last five years.



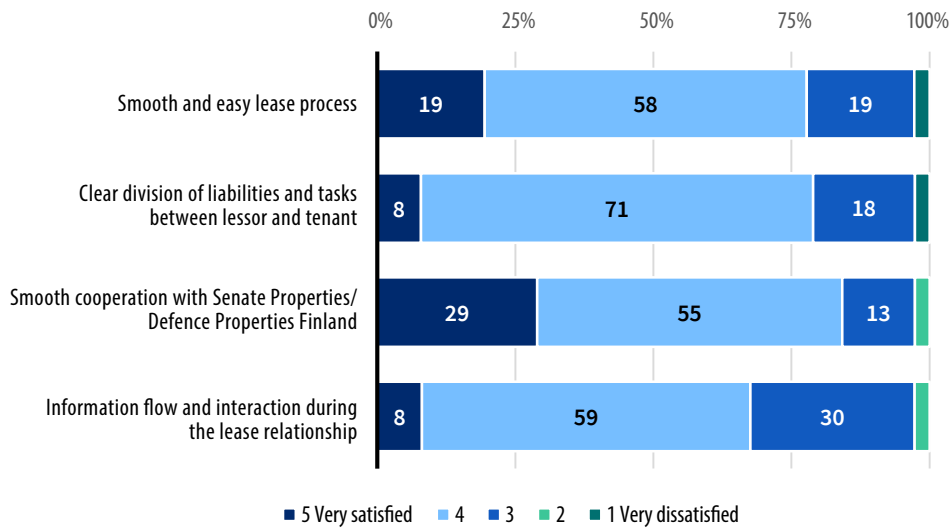
Negotiations are the primary way of resolving contractual disputes between the Senate Group's unincorporated state enterprises and the central government agency or institution. Ultimately, a dispute can be handled as an administrative dispute by the Administrative Court, the procedure for which is laid down in the Administrative Judicial Procedure Act (808/2019). Disputes between the Senate Group and an agency or institution that is its customer have never been resolved in court.

According to a Government proposal submitted to Parliament on 21 April 2022 (HE 53/2022 vp.), a dispute concerning the lease of premises is resolved by means of negotiations on the matter between the ministry steering the agency or institution in question and the Ministry of Finance, which decides the matter based on the overall interest of the state. When Defence Properties Finland is a party to a dispute, the ministry steering the agency or institution should also discuss the matter with the Ministry of Defence. The matter can ultimately be resolved in accordance with the Government Rules of Procedure (262/2003) at a government plenary session. This procedure concerns resolving a dispute over the lease of premises before a contractual relationship is established between the enterprise and the agency or institution. The ministries steering the Senate Group as well as the agencies and institutions also play a role in disputes during the lease relationship, for example by providing guidance.

### **6.3 Development of the contractual relationship**

A study published in January 2022 found that the customers are mainly satisfied with the lease and service contract processes. Delayed schedules and shortcomings in the flow of information sparked some criticism. Especially where premises matters in the relevant administrative branch were organised centrally with no direct line of communication between the lessor and the end user of the facilities, there were challenges in the flows of information. The premises matters of ministries, for example, are handled centrally by the Prime Minister's Office.

**Figure 14.** Satisfaction with the effectiveness of the current contractual relationship and cooperation.



In terms of successful contract negotiations and lease relationships, open and positive dialogue, uniform negotiation practices between different central government actors, careful planning, and using precise calculations when agreeing on matters were considered important. This can be promoted by means of openness and close contacts between the parties. Improved transparency in the setting of management and service fees<sup>40</sup> towards the premises and service users also came up in the feedback contained in statements on the draft report. Appreciating and drawing on the competence of the agency's or institution's personnel at different stages of the contract process were also emphasised.

<sup>40</sup> The management fee refers to a sublease service fee which the unincorporated state enterprise of the Senate Group charges to the agency or institution annually for the duration of the sublease to cover the administration costs of the sublease. This fee currently is 2% of the total price stated in the lease contract. A service fee refers to the fee charged for administrating the services provided by the Senate Group. This fee currently is 12% of the service contract price.

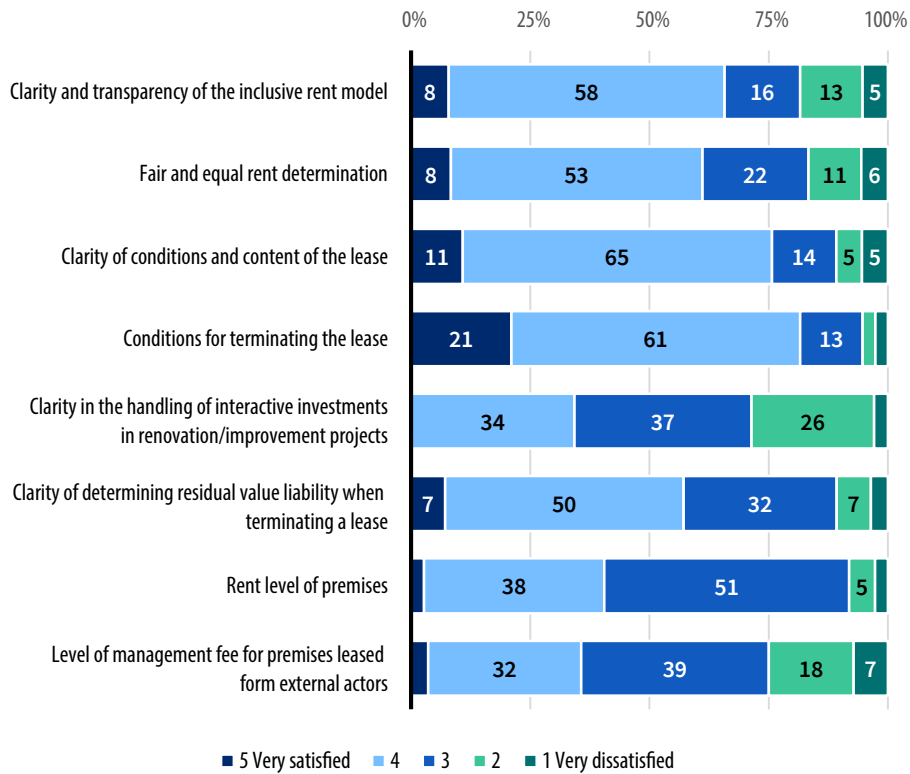
## 7 Effectiveness of the leasing system and development needs

### 7.1 Introduction

Surveys conducted in both 2018 and 2022 on the effectiveness of the central government's leasing system found that customers are satisfied with the changes made to system.<sup>41</sup> The highest level of satisfaction was associated with more flexible terms of terminating leases. Respondents were also fairly satisfied with other changes to the leasing system. In the survey conducted in 2022, 76% of the respondents were very satisfied or satisfied with the terms and conditions of the leases and the clarity of the contents of the lease. The levels of satisfaction with the straightforwardness and transparency of the leasing model as well as fairness and non-discrimination in rent determination were also relatively high. More than 60% of the respondents were very satisfied or satisfied with these issues. On the other hand, 18% of the respondents said they were dissatisfied or very dissatisfied with the clarity and transparency of the leasing model.

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41 Evaluation of the functioning of state's rental system (Government's analysis, assessment and research activities 21/2018) and Study assessing the central government's leasing system and the activities of the Senate Group (2022:9).

**Figure 15.** Satisfaction with the central government's revised leasing system, %.

The area which the respondents were the most critical about was the clarity of handling investments with rent impacts. Almost 30% of the respondents were very dissatisfied or dissatisfied with the line drawn between renovation and improvement projects. They were also somewhat critical about the annual fee charged by the Senate Group's unincorporated state enterprises to the agency or institution for facilities obtained in the market for the duration of the lease to cover the annual administration costs of a sublease (management fee or sublease service fee). However, a higher share of respondents were satisfied rather than dissatisfied with regard to this question. More than 40% of the respondents were very satisfied or satisfied with the rent level of the facilities, and one half found the rent level at least reasonable. The share of dissatisfied respondents was 8%.

The following sections discuss the areas of the leasing system that elicited the largest shares of negative assessments.

## 7.2 Development areas

### 7.2.1 Subleases

The centralisation of the leases of central government premises to the Senate Group ensures that premises are procured professionally, which leads to lower rents and makes it possible to control overall space use and its costs in central government. Subleases are also presumed to reduce the workload of agencies and institutions and free up resources for their core tasks.

What emerged as a shortcoming in surveys<sup>42</sup> was the fact that, if the facilities rented through the Senate Group are not state-owned, they are not subject to the same contractual terms as other leases, including the 12-month period of notice. The central government agency or institution is also obliged to pay an annual fee of 2% (management fee or sublease service fee) to cover the administration costs of the sublease to the Senate Group. The fee amount is calculated as a percentage of the total value of the lease.

On the other hand, some of the statements received on the draft report expressed the view that the current maximum lease period (15 years) of subleased facilities is too short for some central government customers, especially those with special-use facilities, and creates uncertainty about the continuity of operations. Differing views of subleased properties' period of notice showcase the different space needs of various central government actors.

The survey conducted in 2022<sup>43</sup> found that respondents considered the management fee high, especially for large properties, whereas in the case of small properties its amount is not always sufficient to cover the costs incurred from the activities. The management fee should be understood as an average cost item that is part of the state level package. While the actual management costs of some properties are lower, others incur costs clearly in excess of this fee. In practice, the management fees charged for high-value leases also partially cover the management costs of lower value contracts.

The survey found that the annual management fee of 2% was considered unfair, in particular where long-term leases made up a significant part of facilities leased from external actors and where these properties or facilities did not require significant actions during the terms of the leases. It also emerged in the survey that the user of the premises

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42 Evaluation of the functioning of state's rental system (Government's analysis, assessment and research activities 21/2018) and Study assessing the central government's leasing system and the activities of the Senate Group (2022:9).

43 Evaluation of the functioning of state's rental system and the activities of the Senate Group (2022:9).

sometimes communicates directly with the owner, even if an unincorporated state enterprise of the Senate Group is responsible for managing the property. However, most respondents considered the current management fee reasonable overall.

The alternative to the current model would be a property-specific fee based on actual costs. If the fee charged for each property would be based on the actual workload, the administrative burden of monitoring and reporting and the corresponding charge for it would presumably be quite high. Another option to the current model would be a fee that, rather than concerning a specific lease contract, is proportionate to the value of all the properties the user of the facilities leases from external lessors. Staggering the management fee could also be a possibility.

The survey found that informing the users of premises about how the fee is formed, in particular, would be important in order to justify the use of services and facilities procured through the Senate Group in the future. The feedback in statements on the draft report also indicates that increased transparency and open communication towards the users of premises were considered important.

## 7.2.2 Residual value liability

In the current leasing model, the term of notice laid down in the Management Decree for leases of state-owned premises is 12 months. The purpose of this provision is to ensure that long contractual relationships would not burden agencies and institutions as they adapt to changes in their tasks, goals and operating environment. The Management Decree also lays down a provision on residual value liability of ten years. This means that when the lease is terminated, the tenant is responsible for the part of any investment with a rent impact that cannot be fully used when the site is leased to another tenant or transferred and that is still outstanding at the time the lease is terminated. The purpose of the residual value liability is to encourage agencies to only invest to meet long-term needs.

Experience has not yet been gained of how the residual value liability works in practice. In the survey and interviews conducted in 2022, however, as a particular concern emerged the realisation of residual value liability for special-use facilities, including buildings located in closed garrison areas, as finding a new use for such properties is difficult. On the other hand it was considered obvious that, especially in special-use facilities, no investments are made for short-term needs. The attitudes towards charging the

residual value also varied greatly between different ministries and agencies. A separate government buffer fund through which the liabilities could be financed was proposed in the survey responses as one option for dealing with the residual value liability.<sup>44</sup>

### 7.2.3 Improvement and renovation projects

The survey found that drawing a line between improvements and renovations is the most challenging area of the current leasing system. The Government Leasing Handbook notes that the unincorporated state enterprises of the Senate Group are responsible for maintenance repairs and renovations that maintain the standard of the property. On the other hand, changes initiated by the user of the premises to meet their needs as well as investments in improvements that raise the quality standard of the property always have a rent impact that corresponds to their full value. From the perspective of the customers' finances, the classification of an investment as either renovations or improvements is consequently crucial.

The user of the premises is responsible for compliance with the acts, decrees and other official requirements applicable to their operations. The technical and qualitative requirements for the premises are agreed upon in the lease contract in cooperation with the unincorporated state enterprise of the Senate Group. The enterprises are responsible for ensuring that any premises to be constructed are compliant with the building regulations applicable during the construction period and that the premises meet the technical and qualitative requirements described in the lease.

The boundaries between renovations and improvements are already discussed when planning such projects. Some respondents in the survey and interviews conducted in 2022 felt that the policies concerning renovation and improvement projects proposed by the Senate Group's unincorporated state enterprises are not always very clear or fair. For example, interpretations concerning technical systems that still work but require modernisation were considered problematic.

<sup>44</sup> Evaluation of the functioning of state's rental system and the activities of the Senate Group (2022:9).



An investment may also be essential from the perspective of the quality standard or functionality of the property. Drawing the line is sometimes also considered challenging in alterations associated with accessibility and safety standards. The facilities must obviously support the agency's or institution's work and its changing needs. This is why it is often not enough for renovations to regain the standard the premises had when they were first constructed, as they must meet today's requirements. The needs related to the facilities are determined by the activities carried out in them, which is why all agencies and institutions are not in an equal position regarding investments.

In special-use facilities, investment needs often result from changes in the agency's or institution's activities or arise from the user's special requirements, in which case the repairs have the nature of improvements and thus an impact on the rent. For example, repairs to prisons or facilities used by the police or the Defence Forces are often needed because of changes in the user's technical or security requirements. User-initiated needs for change are often less significant in office facilities, which means that as a rule, the investments are more likely to be renovations. The increase in premises costs is consequently seen as a particular challenge by organisations with special-use facilities.

The inclusive rent in the cost price leasing system is set at a level where the rent covers the maintenance and renovation costs of the structures and building technology of the properties. However, no provision is made in inclusive rents for changes in the use of the premises, other needs arising from the customer's activities, new technology or new functionalities in the properties. The precondition for providing the property with mechanical cooling, for instance, is constructing a new cooling system and maintaining it in the future. This is why customer-initiated alterations and repairs that raise and improve the quality standard of the property, in other words improvements, are always fully reflected in the rent.

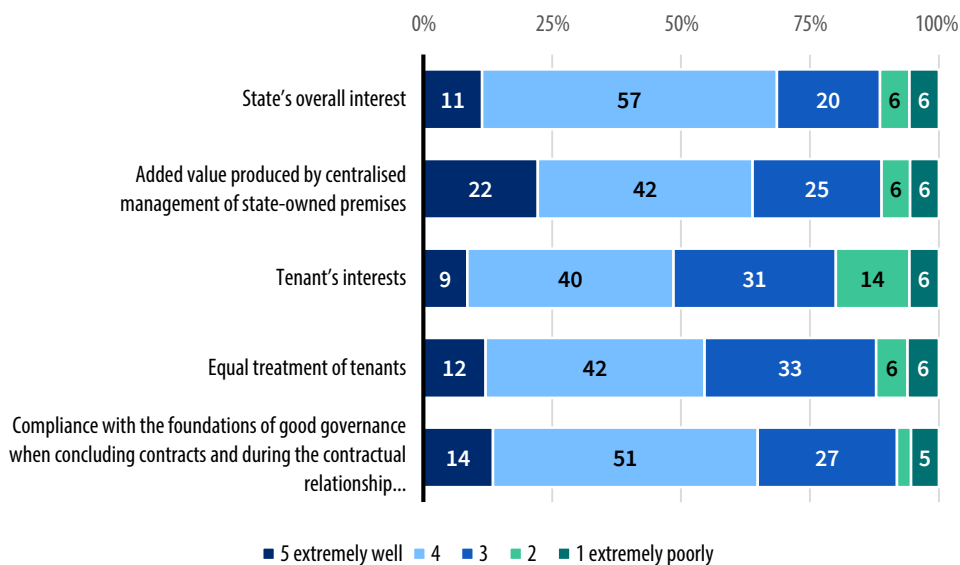
### 7.3 Summary of the survey

The central government's internal leasing system aims for the overall interest of the state, and this objective is well achieved by the current model. The leasing system is also mainly considered clear and effective.

When assessing the overall interests of the state, the cost-effectiveness and efficiency of the agency's or institution's operations and appropriate performance of its tasks must be taken into account. In practice, the preferences of an individual agency regarding such issues as the location of the premises are not always met if suitable state-owned premises managed by the Senate Group can be found elsewhere. The principle of sustainable

premises management is that new facilities will not be built or leased for central government use if old facilities can be repaired or used. In keeping with the Government Real Estate Strategy, facilities that are no longer needed must be given up.

**Figure 16.** How well does the current leasing system fulfil the objectives set for it.



The leasing system also has some development areas. According to the survey findings, agencies and institutions felt that while the overall interests of the state are realised well in the current leasing model, the solutions do not always serve optimally the needs of an individual agency or institution. On the other hand, the respondents also had a realistic idea of what similar facilities would cost if procured in the market.

To ensure the efficiency of the Senate Group's operations, respondents called for more comparisons to market rents and similar, while they also noted that reference premises cannot be found in the market for all properties. Rent determination was not considered difficult in practice, however, not even for special-use facilities, as the grounds for determining the rent in the cost price system are well-established and based on the actual costs and estimated risk level. A need to improve the transparency of pricing and to communicate to the end user about long-term plans for the facilities also emerged in statements on the draft report.

## 8 Premises management's responsibility

### 8.1 Introduction

The rents paid by agencies and institutions consist of a capital share and maintenance share. The capital share includes the return on equity required by the central government on its real estate capital, the cost of borrowing, depreciation corresponding to the expected wear and tear of the property, technical risk and operating costs. The maintenance share of the rents, on the other hand, covers all costs incurred from maintenance, care, energy use of properties, annual repairs and property tax as well as the overheads of maintenance. The maintenance share of the rent is determined on the basis of estimated costs, which are based on long-term actual cost levels.

An essential feature of the central government's internal leasing system is that it covers all costs incurred by the property owner. This way, the actual costs incurred from the facilities are also known to users and decision-makers. The capital costs consist of the costs incurred from equity and debt capital. To ensure the transparency of agencies' and institutions' premises costs, it is important that the full cost of capital is taken into account in the rent. The equity of the Senate Group's unincorporated state enterprises amounts to approx. EUR 3 billion. If this equity were not invested in real estate, the central government could use it for other purposes or pay back some of its debt. The long-term average of central government borrowing has been used as the cost of equity in the leasing system, which appropriately describes the alternative cost of equity to the central government.

Lease pricing involves a 1% risk level covering so-called technical risks, such as fire, water damage or indoor air problems. The risk level also covers the risk associated with the underuse of real estate, which is realised if some properties remain unused for some time.<sup>45</sup>

The principle of the leasing system is that the same risk percentage is applied across the central government. The varying risks of different properties are consequently not taken into account, as the risks are examined at the national level. In a commercial leasing model, the type, purpose and location of the property have a significant impact on the pricing of the risk and, consequently, on the rent level. For this reason, the risk associated with an office building in a growth centre is significantly lower than that of a special-use property located in a sparsely populated area. The technical risk of an architecturally challenging building is also usually significantly higher than that of an ordinary office building.

Depreciation is made in the leasing system to prepare for future renovations: this is a cost item arising from wear and tear and technical ageing. The depreciation period must correspond as closely as possible to the actual service life of the part of the building in question. Provisions on the depreciation periods are also contained in the Accounting Act. If the period is short, the depreciation percentage is higher, and vice versa. For investments with a particularly long or short life cycle that deviate significantly from the average, a depreciation period that is shorter or longer than that specified in the Government Leasing Handbook and a capital-related rent that is higher or lower in proportion to the depreciation period may be agreed, for justified reasons and only in straightforward situations.

While the central government's internal leasing system is cost price based at central government level, an individual building, agency or administrative branch may be more or less profitable. The result is evened out at state enterprise level, however, and it ends up close to the cost price based target level set for the leasing system. The profitability of an individual building also varies during its life cycle. In the early stages of the life cycle, the profits are higher than the average target, whereas in its renovation phase, profitability drops significantly below the target. However, the leasing system ensures that the rent

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45 The 1% risk level does not include the costs of properties which the central government no longer needs but which have a cultural historical value. If the premises cannot be sold, the building is demolished at the Senate Group's expense. If a museum authority or similar has prohibited its demolition, the Group will be liable for the maintenance costs of the building, even if a tenant cannot be found.

level of an individual agency remains fairly stable and predictable. Rather than burdening an individual agency, the costs of specific annual repairs or renovations are distributed evenly and in a predictable manner as set out in the leasing system.

## 8.2 Shortcomings in the condition of premises

### 8.2.1 Management of indoor conditions

Pleasant and safe working conditions are achieved through long-term maintenance of buildings that covers their entire life cycle. Good building maintenance requires expertise, cooperation and sufficient resources. The Senate Group has worked to solve indoor air problems in state-owned premises, focusing especially on preventive operating models.

The activities are underpinned by knowledge of the buildings' condition and their repair needs as well as taking the necessary measures. Additional investments of EUR 250 million were allocated to building repairs between 2019 and 2022, while regular building surveys were introduced to determine the condition of buildings from the perspective of indoor conditions and to identify the measures required for ensuring good indoor conditions.

Some 550 buildings are already covered by these surveys, and the goal is that more than 90% of Senate Properties' customers will work in surveyed facilities. In addition, indoor conditions are monitored continuously in more than a hundred buildings. Agencies and institutions can submit service requests to the Senate Group regarding problems encountered by them using an electronic system. Senate Properties has also introduced an indoor air observation bonus for cleaners, and cleaners operating in the buildings submitted around 600 indoor air observations in 2021. Comprehensive radon measurements have also been performed in Senate Properties' buildings.

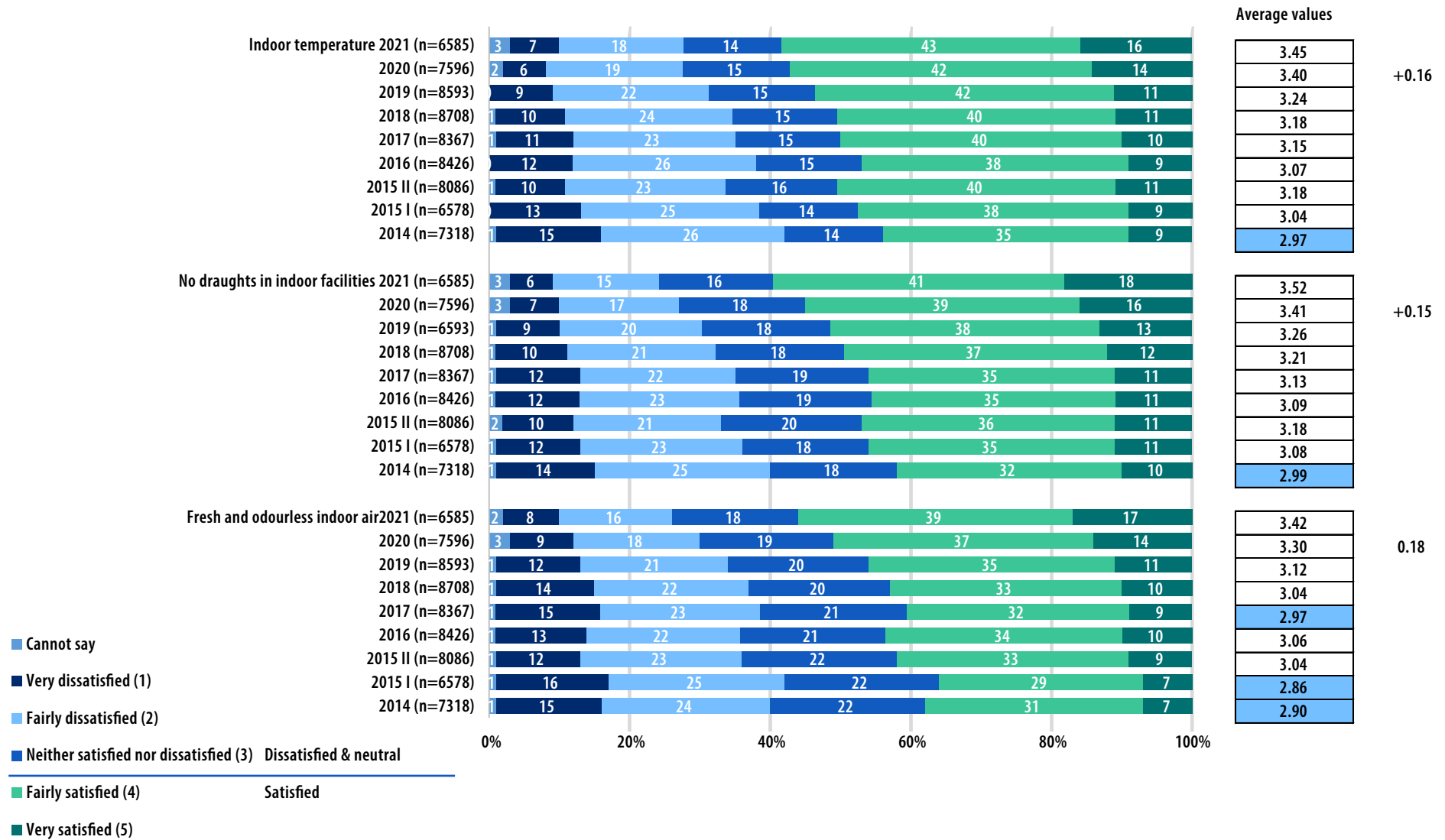
Senate Group's property management services respond to service requests concerning indoor conditions submitted by agencies and institutions within 24 hours. A preliminary inspection is conducted by indoor air experts and, if necessary, an indoor air project is launched following instructions issued by the Finnish Institute of Occupational Health. In this project, a multiprofessional indoor air team set up for the building handles the testing programme and ensures that the indoor air project makes progress and that the stakeholders are informed about it.

The indoor air perspective is highlighted in all construction and repair work. The Senate Group uses planners and contractors for any requisite repairs pertaining to indoor conditions, and the work is carefully supervised. There is also a strong focus on cooperation while the repairs are in progress, and their success is monitored. A classification and reporting model has also been drawn up for indoor air problems.

In order to respond to indoor air problems, so-called rapid response teams consisting of the Senate Group's indoor air experts and a dog team have also been deployed.

Systematic work to secure and improve central government employees' working conditions has been visible as improved results in Senate Properties' customer satisfaction surveys since 2015. Customer satisfaction with indoor conditions has improved significantly in surveys addressed to the users of facilities.

Figure 17. Customer satisfaction in indoor air surveys in 2014–2021. The surveys examined customer satisfaction with indoor temperature, lack of draughts, freshness and lack of odours.



## 8.2.2 Costs of indoor air renovation projects

A study that looked at the effectiveness of the central government's leasing system and evaluated the Senate Group's work<sup>46</sup> found that agencies and institutions would like to see more predictability in the long-term development of their facilities and costs. Unexpected investment needs, particularly those caused by indoor air problems, are seen as particularly challenging. Unexpected situations result in not only unpredictable use of space but also costs that have not been included in agencies' and institutions' operating expense appropriations.

Construction of new premises and renovations of existing ones always increase rent costs, for which agencies must have sufficient funding. If the necessary additional funding cannot be obtained, the agency has to finance the increasing rent for its premises from its other operating costs or give up the planned alterations.

Agencies usually do not have access to additional funding for exceptional situations. Neither do the Senate Group's unincorporated state enterprises have a buffer for such situations, as in the cost price system, rents charged for the premises do not generate a profit. All costs incurred from the activities must be covered by the rental income. In recent years, the Senate Group has invested in examining and remedying indoor air problems and allowed flexibility in rents.

In addition to ensuring that the Senate Group's investment authority is adequate, it is essential to take funding for increased rents arising from investments in facilities into account in the agencies' funding. Consequently, the key is ensuring that the agencies have sufficient funding for their premises costs, which enables them to complete any facility projects that are essential for their work.

The parties' timely access to information is important for the success of facility projects and their funding. The unincorporated state enterprises and the Ministry of Finance's Budget Department have stepped up their cooperation on facility projects. The problem is seen as lying in the adequacy of funding as a whole, rather than in the leasing system and contract process. The survey found that agencies were left to cope alone with the problem of increased and unexpected costs.

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46 Evaluation of the functioning of state's rental system and the activities of the Senate Group (2022:9).



## 8.3 Position of an agency or institution as a customer

### 8.3.1 Introduction

Central government agencies and institutions have a wide variety of tasks, and their work is mainly funded from the central government budget in keeping with the spending limits and budget process. The management of the agency is responsible for the performance of its tasks, efficiency of its work and legality of its activities. The ministries steer the agencies in their administrative branches operationally and financially and are responsible for drafting statutes relevant to them.

The agencies and institutions make decisions on leasing facilities for their use within the framework of their operating expenditure. If the rental costs exceed EUR 5 million either during the term of the lease or for a period of ten years in contracts valid until further notice, the ministry makes the decision on the commitment of an agency or institution in its administrative branch to the lease contract, after the matter has been discussed by the Ministerial Finance Committee. If the administrative branch has a central agency, it also plays a role in the leasing of premises.

### 8.3.2 Impacts of the system on the authorities' capacity to perform their statutory duties

The premises contribute to the agencies' prerequisites for performing their statutory official duties appropriately. For this reason, provision of facility services to agencies can be considered a public administrative task that has been delegated to the Senate Group's unincorporated state enterprises within the meaning of section 124 of the Constitution of Finland and that is performed through administrative contracts referred to in the Administrative Procedure Act.

The Senate Group is responsible for the usability of the premises leased to the customer agency at the quality standard specified in the contract. In addition, the Senate Group is generally responsible for measures resulting from building regulations, other official regulations, and their amendments.

The customer agency and the ministry in its administrative branch, for their part, are responsible for ensuring that the agency has sufficient financial resources at its disposal for the facilities, their maintenance and the alterations it considers necessary. Any measures resulting from changes in the customer agency's operations or needs, or changes in official requirements concerning its work, are also be paid from the relevant agency's budget. The customer agency is always responsible for the legality of its actions.

Deputy Parliamentary Ombudsman issued two decisions concerning Senate Properties in 2019 and 2021 (EOAK/6870/2019 and EOAK/5563/2021). Among other things, these decisions concerned the sharing of responsibilities between the Senate Group and a government agency as its customer in matters related to the condition of premises that have an impact on the well-being of persons using the premises. In addition, the decisions also discussed inadequacies in the regulation on the Senate Group's activities, for example from the perspective of oversight of legality.

In terms of oversight of legality, the Deputy-Ombudsman found it problematic that, with the exception of the managing director of the enterprise, the performance of the public administration task by the Senate Group's unincorporated state enterprises does not involve liability for acts in office typically associated with a public administrative task, as the employees of the Senate Group's unincorporated state enterprises do not have public-service employment relationships.

The Constitutional Law Committee has also drawn attention to the need for official supervision of outsourced public administration tasks (PeVL 22/2013 vp). The Constitutional Law Committee noted that respect for fundamental rights, legal protection and good governance is ensured by the fact that in addition to courts, other authorities and public officials, the oversight of legality by the Chancellor of Justice and the Parliamentary Ombudsman also covers other parties performing public administrative tasks.

The provisions on offences in public office of the Criminal Code (39/1889) partly also apply to the personnel of the Senate Group's unincorporated state enterprises. As the personnel have employment relationships rather than public-service employment relationships, the provisions laid down in Chapter 40 of the Criminal Code on offences in public office concerning employees of a public sector entity apply to them (chapter 40, section 11, paragraph 3 of the Criminal Code). The provisions on acceptance of a bribe, aggravated acceptance of a bribe, bribery violations, breach and negligent breach of official secrecy, and confiscation consequently apply to the personnel of the Senate Group's unincorporated state enterprises (Chapter 40, section 12, subsection 2, and sections 1–3, 5 and 14 of the Criminal Code).

Under section 9, subsection 3 of the Act on Unincorporated State Enterprises, the provisions on criminal liability for acts in office, such as they have been laid down in the Criminal Code regarding employees of a public sector entity, are applied to the managing director of an unincorporated state enterprise. In addition, the provisions on abuse and aggravated abuse of public office as well as violation and negligent violation of official duty are applied to the managing director (Chapter 40, sections 7–10 of the Criminal Code).

The Ministry of Justice is currently working on a project (OM060:00/2021) which assesses the regulation on criminal liability for acts in office contained in the Criminal Code as a whole. This project also seeks an overall solution regarding the criminal liability of central government employees with employment relationships.

As a result of the Deputy-Ombudsman's decisions, the Government submitted to Parliament on 21 April 2022 a proposal (HE 53/2022 vp.) under which the regulation on leases of central government premises would be given the status of an act in compliance with the Constitution of Finland. The proposal additionally clarified the principles to be observed in leasing activities and the division of responsibilities between the Senate Group and its agency customer.

## 9 Steering mandates of the Ministry of Finance and the Ministry of Defence

### 9.1 Introduction

Senate Properties and Defence Properties Finland as well as the Senate Group comprised by them are steered following the principles of good governance and, where applicable, the principles of the central government's ownership steering<sup>47</sup> as well as the OECD Principles of Corporate Governance based on cooperation between the OECD member states<sup>48</sup>.

The Ministry of Finance is responsible for steering the Senate Group, which consists of Senate Properties and Defence Properties Finland. The Ministry of Defence steers Defence Properties Finland for the part of its provision of services to the Defence Forces and partners designated by the Defence Forces.

In keeping with the principles of the central government's leasing system, no requirement of financial profit is imposed on the state's internal rental activities, which are cost priced. For the part of Defence Properties Finland, state ownership is also justified by strategic interests related to national defence, a factor that guides the steering of the enterprise.

The internal management roles, responsibilities and powers of the Senate Group as well as the tasks and working methods of the unincorporated state enterprises' Boards of Directors are described in detail in the Senate Group's corporate governance code, which may also contain sections specific to each enterprise if necessary. The corporate governance code was discussed and approved by Senate Properties' Board of Directors, and it was also discussed by Defence Properties Finland's Board of Directors.

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47 Government resolution: Vaurautta vastuullisella omistajuudella ('Prosperity through responsible ownership'), 8 April 2020.

48 [G20/OECD Principles of Corporate Governance](#).

## 9.2 Steering cooperation

### 9.2.1 Cooperation agreement and appointment of Boards

Under section 1, subsection 5 of the Act on Senate Properties and Defence Properties Finland, the Ministry of Finance and the Ministry of Defence must, to ensure coherent steering, work together when setting the enterprises' objectives and planning their other operational guidance. The ministries must steer the group of enterprises collaboratively and in a coordinated manner, enabling it to obtain a clear idea of the steering and its objectives.

To safeguard this cooperation, the Ministry of Finance and the Ministry of Defence concluded a cooperation agreement on 18 February 2021 concerning the main stages and operating practices of their cooperation on the ownership steering of the Senate Group's unincorporated state enterprises. Among other things, this agreement covers the appointment of Defence Properties Finland's Board of Directors, monitoring of the preparation and implementation of the budget as well as performance and service targets, processing of any unexpected or unresolved situations, as well as responsibilities and operating models for incidents and emergencies. The cooperation model described in the agreement will be evaluated and updated after the first year of operation and, subsequently, at minimum every five years.

The Boards of Directors of Senate Properties and Defence Properties Finland are key cooperation bodies in the sphere of central government steering. Decisions on appointing and dismissing Board members are made by the Ministry of Finance. Appointments to Defence Properties Finland's Board of Directors are prepared in cooperation with the Ministry of Defence. The Chair of Defence Properties Finland's Board is appointed by the Ministry of Defence, and the Vice Chair by the Ministry of Finance.

The members of the Board of Directors may be appointed for a term of one to three years at a time. A Board member's term of office may not exceed seven years in total. The Board of Directors may be supplemented during its term if a member resigns. The Ministry of Finance and the Ministry of Defence have agreed that a maximum of four members of the Board of Directors will be replaced at a time to avoid excessive disruption to the expertise held by the Board and to ensure the transfer of this expertise.

The Ministry of Finance and the Ministry of Defence organise regular steering cooperation meetings on a pre-agreed schedule at which they prepare their steering cooperation. The meetings will take place about once a month for three years after the Senate Group's establishment. At these meetings, the launch of the Group's operations and the achievement of its objectives will be monitored.

## 9.2.2 Operating model for incidents and emergencies

The cooperation agreement between the Ministry of Finance and the Ministry of Defence on ownership steering contains provisions on operating models, responsibilities and mandates in case of incidents and emergency conditions.

In a situation where Finland faces a military attack or a threat of such an attack, the Ministry of Defence must be able to steer the operations of Defence Properties Finland considerably more closely and precisely than during normal times. However, this need does not only apply to obvious emergency conditions. As forms of warfare and influencing evolve, the provider of real estate services for the Defence Forces and its partners must also have the capacity and possibility for rapid response in the face of various threats arising from hybrid influencing in normal conditions.

Closer steering does not directly affect the steering structure or the mandates of the ministries. The Ministry of Finance makes the decisions on Senate Properties' service targets and other operational goals and, similarly, the Ministry of Defence decides on Defence Properties Finland's service targets and other operational goals also under emergency conditions and incidents during normal times. While the targets are set annually in normal times, in emergency conditions and incidents during normal times, considerably more intensive steering may be needed. If necessary, the intensity of steering will be adjusted at the initiative of either one of the steering ministries to suit the current security situation.

If the security situation so requires, the officials responsible for steering the Senate Group in the Ministry of Finance and the Ministry of Defence will take care of building situational awareness and ensure the unincorporated state enterprises' access to information. As far as possible, the ministries' situation centres are used in cooperation relating to situational awareness.

Steering during incidents and under emergency conditions has been needed in practice during the COVID-19 pandemic and as a result of the sudden change in the security situation caused by Russia's attack on Ukraine. In the latter situation, the Ministry of Defence intensified its steering of Defence Properties Finland, while the Senate Group's steering structure and division of competence remained unchanged. The steering mandates of the two ministries have not slowed down decision-making, and information has been shared to achieve common situational awareness.

On 12 April 2022, the Ministry of Finance, the Ministry of Defence, the managers of Senate Properties and Defence Properties Finland, as well as the Boards of Senate Properties and Defence Properties Finland organised a steering cooperation meeting to assess the

Group's first year of operation and the effectiveness of steering by the two ministries. The unincorporated state enterprises found that the steering cooperation had worked well and enabled the making of quick decisions within the Group if necessary.

### 9.2.3 Disputes

The cooperation agreement between the Ministry of Finance and the Ministry of Defence also covers dispute resolution. If necessary, the officials responsible for steering Senate Properties and Defence Properties Finland will first refer a dispute to the heads of their organisational units, and further to the senior public servants of the Ministry of Finance and the Ministry of Defence, to seek a resolution. If necessary, the dispute will be referred to the Minister of Finance and Minister of Defence.

Pursuant to section 8, subsection 3 of Government Rules of Procedure, decision on a matter falling within the remit of two or more ministries on which the ministries cannot reach agreement will ultimately be decided by the plenary session of the Government.

Disputes on the steering of Senate Properties and Defence Properties Finland can, before the Government plenary session, also be discussed by the Ministerial Committee on Economic Policy, which handles matters where the resolution is likely to have an impact on the budget.

## 9.3 Steering levels of the Senate Group

### 9.3.1 From Parliament to Management Groups

Section 4 of the Act on Senate Properties and Defence Properties Finland contains provisions on the steering mandate of Parliament under which, in connection with adopting the Budget, Parliament approves the key service targets and other operational goals of the unincorporated state enterprise. Parliament also gives its authorisation to the unincorporated state enterprise's borrowing and approves the maximum amount of its investments for the next financial year as well as gives it an authorisation to make commitments concerning investments that will result in expenditure in subsequent financial years.

Senate Properties' Board of Directors, for its part, decides on the allocation of the authorities and authorisations granted by Parliament within the Senate Group, taking into account the service level targets set by Parliament and other operational goals. Defence

Properties Finland's Board of Directors submits a proposal concerning its investment needs to the Board of Senate Properties. Senate Properties' Board of Directors submits a joint proposal of the Group to the Ministry of Finance.

The service targets and other operational goals approved by Parliament are strategic objectives stemming from the activities and missions of the organisations. The ministries ensure, within the framework of their steering mandate, that the preparation of the Group's budget proposal progresses on schedule and in agreement between Senate Properties and Defence Properties Finland. The Ministry of Finance ensures that the proposal makes progress in the ministry's internal budget preparation process and, if necessary, requests the opinions and confirmation of the Ministry of Defence if the proposal has to be negotiated during the budget process.

### **9.3.2 Preparation of performance and service targets and monitoring of their attainment**

Once Parliament has made its decision on the Budget, the steering ministries' task is to set the unincorporated state enterprises' detailed service and performance targets and income recognition targets.

Defence Properties Finland's Board of Directors submits a proposal on its service targets and other operational goals to the Ministry of Defence. Senate Properties' Board of Directors submits a proposal on its service targets and other operational goals as well as the Group's profit and income recognition targets to the Ministry of Finance. The targets for shared services are prepared by the Group's Management Group and discussed in cooperation between the ministries, and the Ministry of Finance makes the decisions on them on this basis.

The Ministry of Defence presents Defence Properties Finland's service targets and other operational goals to the Ministerial Finance Committee and, after receiving its approval, makes a decision on them. The Ministry of Finance presents the service targets and other operational goals of Senate Properties and the Group's shared services as well as the Group's profit and income recognition targets to the Ministerial Finance Committee and, after receiving its approval, makes a decision on them.

In the early stages of the preparation of service and performance targets, the ministries organise joint talks between the ministries' officials responsible for the steering and Senate Properties' and Defence Properties Finland's management. The targets are also discussed at a joint meeting of the ministries and the unincorporated state enterprises' Boards of Directors.



When setting the service and performance targets, Parliament's decisions, the objectives of the unincorporated state enterprise model as well as the roles of Senate Properties' and Defence Properties Finland's Boards must be taken into account. The number of targets set annually must not be too large, and the targets must be relevant to the operating year in question and express the owner's political will regarding the sets of tasks considered to be the most important.

The ministries monitor the Senate Group's operations by means of half-yearly and annual reports, to which a report on target achievement must be attached. At the same time, reports are also produced on sales and acquisitions of real estate assets and the trend in the occupancy rate of leased properties.

The Ministry of Finance and the Ministry of Defence monitor target achievement as a whole at joint meetings of the steering officials.

### **9.3.3 Decisions on financial statements and income recognition**

Senate Properties and Defence Properties Finland each have their own balance sheets and sets of accounts, and each enterprise prepares annual financial statements.

Defence Properties Finland submits its financial statements to Senate Properties' Board of Directors which, in compliance with the Act on Unincorporated State Enterprises, makes a proposal to the Government concerning both enterprises. The Government approves the consolidated financial statements, imposes an obligation to recognise an income on Senate Properties, and decides the extent to which Defence Properties Finland is responsible for generating this income.

The Ministry of Finance presents these matters to the Government. The Senate Group submits the proposal to the Ministry of Finance, and to the Ministry of Defence for information. The ministries process the financial statements of the institutions they steer and the proposal for income recognition. If the proposal differs substantially from the target, the reasons for this will be discussed by the ministries.

The Ministry of Defence issues to the Ministry of Finance an opinion on Defence Properties Finland's income recognition, after which the Ministry of Finance presents the targets to the Government. The ministries must agree on the principles of income recognition. In a cost price leasing model, income recognition is mainly based on sales of real estate and external customers.

## 10 Position of the Senate Group's personnel

### 10.1 Introduction

At the end of 2021, the Senate Group had a total of 1,210 employees, 520 of whom were employed by Senate Properties and 690 by Defence Properties Finland. The number of personnel increased slightly in 2021 due to the development of the Group's shared services, the needs of property development projects and investments in security services. While efforts have already been made for several years to increase the role of the Group's own personnel, especially in property development tasks, the volume of outsourced services remains high.

Senate Properties has been monitoring personnel satisfaction for a long time. Personnel satisfaction was also monitored in the Construction Establishment of Defence Administration, which was the predecessor Defence Properties Finland. The results of a staff satisfaction survey on the Senate Group's first year of operation are discussed below.

### 10.2 Establishment of Defence Properties Finland

As Defence Properties Finland was established, co-operation negotiations were conducted in the Construction Establishment of Defence Administration and Senate Properties.

Before the co-operation negotiations, extensive change negotiations had already been completed in autumn 2020 in the Construction Establishment of Defence Administration, in which the forthcoming change as well as the possible new tasks and their contents were discussed individually with each personnel member. In early 2021, thorough discussions were similarly held with the contracting parties of the Construction Establishment of Defence Administration's collective agreements on the organisation of co-operation and occupational safety and health in Defence Properties Finland and the new Senate Group, and the contracts of shop stewards were renewed.

During the co-operation negotiations, efforts were launched to harmonise personnel policies and benefits throughout the Senate Group. The final result was that the benefits of employees in the former Construction Establishment of Defence Administration improved in many respects, while those of Senate Properties' personnel remained unchanged, securing the employment terms and benefits of persons transferred within the Group.

In addition to the Senate Group's co-operation body, which includes representatives of personnel organisations, Defence Properties Finland has its own co-operation body. Defence Properties Finland additionally has a total of 16 local occupational safety and health committees with occupational safety and health representatives who ensure the streamlined management of OSH matters.

As Defence Properties Finland and the Senate Group were established, most of the personnel of the dissolved Construction Establishment of Defence Administration were transferred to Defence Properties Finland. Further, 66 employees of the Construction Establishment of Defence Administration were transferred to Senate Properties, while 16 employees were transferred from Senate Properties to Defence Properties Finland. The employment relationships of all employees of the former Construction Establishment of Defence Administration continued without interruption.

All former employees of the Construction Establishment of Defence Administration transferred to Senate Properties were placed in the Senate Group's shared services. Almost all employees continued to perform similar tasks as before, however as a rule serving both unincorporated state enterprises in the new organisation. In individual cases, employees also chose to transfer to new types of tasks. Some employees of Senate Properties also transferred to Defence Properties Finland, mainly to assume property management, leasing, investment planning and property development tasks.

### 10.3 Collective agreements

Collective agreements create a framework for the terms of employment. As its operations were launched, Defence Properties Finland did not have its own collective agreement, and the collective agreements and pay regimes in force in the Construction Establishment of Defence Administration were applied to persons transferred from the Construction

Establishment until their expiry.<sup>49</sup> By the employer's announcement, terms of employment that were mainly equal to those of the central government's collective agreement for public servants and employees were applied to new employees, until a collective agreement binding on the employer had been negotiated for the Senate Group.

Collective bargaining covering the entire Senate Group took place in spring 2022 for the Service Sector Employers Palta's special sector, and the parties to the collective agreement are Trade Union JHL, Trade Union PRO and the Federation of Professional and Managerial Staff YTN. The negotiations were completed successfully in April, and the collective agreement specific to the Group entered into force on 20 May 2022.

The objective of the Group's collective agreement was to harmonise terms of employment between the unincorporated state enterprises. The Group-specific collective agreement brought about some changes to the position of the personnel. The key changes were harmonising the lengths of paid absences and disability allowances, increasing and expanding standby and preparedness duties, and extending the scope of military exercises to the entire group. The number of annual leave days and the grounds for annual holiday accumulation for the employees transferred from the Construction Establishment of Defence Administration remained unchanged.

Palta's special sector was established in 1993 primarily for those organisations that were turned into incorporated state enterprises. The former name of the special sector was the Federation of Finnish Enterprises and Specialist Sector Employers LTY. The terms of the sector's collective agreements are largely in line with the central government's collective agreements.

As Defence Properties Finland was established, it joined the Service Sector Employers Palta, in which Senate Properties has been a member throughout its existence.

The terms of employment of the Senate Group's personnel are determined under the local Group-specific collective agreement and the terms and conditions of the framework collective agreement for Palta's special sector.

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49 The collective agreements of the Construction Establishment of Defence Administration expired in February 2021.

## 10.4 Staff representation

Shortly after the formation of the Senate Group, an agreement on the organisation of co-operation and occupational safety and health matters in Senate Properties and Defence Properties Finland was signed.<sup>50</sup>

The Senate Group has two co-operation bodies: the Group's joint co-operation body, which deals with Group-wide matters, and Defence Properties Finland's co-operation body, which only deals with matters relevant to Defence Properties Finland. A separate agreement has been concluded on the division of labour between these two co-operation bodies.

The first meeting of the Group-level co-operation body was held in May 2021, after which it met three more times during that year. Defence Properties Finland's co-operation body met twice in 2021.

The meeting agendas included the Group's financial statements, personnel reports, equality and non-discrimination plan, occupational safety and health action plan, models for active intervention, action plan for well-being at work and occupational health care action plan.

New contracts for shop stewards were negotiated with all parties to the collective agreements in connection with the collective agreement negotiations. From 1 June 2022, the Finnish Electrical Workers' Union additionally has the right to appoint four contact persons to Defence Properties Finland to ensure regular interaction between the Union and the employer.

## 10.5 Personnel satisfaction and outlook

Senate Properties has surveyed the satisfaction of its personnel annually. As Defence Properties Finland was established, the content of the personnel satisfaction survey was modified in 2021. Common indicators for Senate Properties and Defence Properties Finland were defined for measuring the satisfaction of the Group's personnel.

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<sup>50</sup> The agreement was signed on 15 March 2021.

The response rate in the Senate Group's first joint personnel survey that covered both enterprises was 83%. The overall level of personnel satisfaction in the Group was good. Personnel satisfaction was measured using the so-called People Power index.<sup>51</sup> Compared to the general People Power index for Finland, only the Group's performance index was below the external reference index, whereas the other values were in line with the reference index. Areas in which the responses were significantly more positive than the general index were competitiveness of the pay level and fairness of remuneration, commitment to the workplace, supervisors' actions and the interest of the work.<sup>52</sup>

However, there were differences between the enterprises regarding both the response rate and results of the survey. Responses were received from approx. 76% of the personnel in Defence Properties Finland and 93% in Senate Properties. The personnel satisfaction level was lower in Defence Properties Finland than in Senate Properties, at least in the categories of communication and participation as well as efficiency and flexibility, which included questions about information flows, opportunities for participating in developing the activities, and flexibility of operating methods.

Factors that influence the response rate include previous personnel surveys, personal experiences of measures taken after surveys, and the extent to which the personnel believe that measures will actually be taken. Senate Properties has a long tradition of processing the results and taking action on their basis, which is why the personnel believe in their opportunities of exerting influence by responding to the survey. However, this was the first group-level personnel satisfaction survey in which the same questions were used. Similar surveys will be continued in years to come, and trends in the indices will be monitored. Significantly, the personnel survey results indicate that, despite extensive organisational changes, the level of the personnel's job satisfaction remained good.<sup>53</sup>

Large-scale retirements will take place in the Senate Group by the end of 2025, but there are no plans to reduce the total number of personnel.

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51 An annual personnel survey is conducted to determine overall satisfaction, or the so-called People Power index. The index is a survey model used to measure the personnel's level of dedication and the factors affecting it. Based on the results, the organisation's strengths and development areas can be identified, and the development needs can be prioritised. The People Power Index includes the following sub-indices: commitment, management, performance and dedication.

52 In 2019, the People Power index for experts in Finland was 70.6. The Senate Group reached a People Power index of 71.2 in its annual personnel survey of 2021, which corresponds to a good level.

53 The results of the personnel satisfaction survey addressed to Defence Properties Finland personnel were better than those obtained in the most recent survey targeting the Construction Establishment of Defence Administration employees; the results are not fully comparable, however, as the People Power Index was not used to measure the overall satisfaction of the Construction Establishment of Defence Administration personnel.

# 11 Conclusions

## 11.1 Effectiveness of premises management and the leasing system

### 11.1.1 Overall interest of the central government

The aim of the real estate and premises management is to steward the central government's assets over the long term and in an economically sustainable manner, taking into account not only the overall economic impacts but also social and environmental issues and looking after cultural heritage as well as other societal aspects, such as sustainable development, comprehensive security, combating the grey economy, promoting energy efficiency and biodiversity, and bolstering a well-functioning property market. It is also important that the premises support the cost-effective, efficient and appropriate performance of the agencies' and institutions' tasks. The current model can be regarded as having achieved the objectives set for it.

### 11.1.2 Transition to shared facilities

Changes in the operating environment have brought about new modes of working, especially in the last few years. During the COVID-19 pandemic, approx. one half of the 76,000 central government employees were working remotely. Remote work has proven a well-liked mode of working, and its volume is expected to remain high compared to the pre-pandemic period.

In addition to location-independent work, digitalisation has also made it possible to organise public administration services in a new way, emphasising e-services. This is also highly significant for the use of state-owned premises.

A key objective of the Government Premises Strategy is that in the future, the services of several public service providers could be accessed at a single visiting address. The goals also include increasing flexibility through shared use of facilities while taking into account the special features of different administrative branches.

With regard to shared facilities, the clarity of rent determination, in particular, emerged as a clear future development need in a study that evaluated the effectiveness of the central government's leasing system<sup>54</sup> and in feedback in statements issued on the draft report. The importance of this development need is emphasised by the fact that while 1,400 people currently work in shared facilities, this number should reach almost 20,000 by 2030, accounting for about a quarter of all central government employees.

Only a handful of projects relating to shared use facilities have been completed, and according to the Senate Group they have had their challenges, to a large extent relating to different user needs. In shared facilities, unclear issues have included how rents and services should be divided between the users, and how this should be taken into account in the criteria for calculating the rents. Lessons can be learned from completed shared use projects, and an effort will be made to find a solution for rent determination that is acceptable to the parties involved.

Agencies and institutions would like to see the rents of shared facilities determined on the basis of the actual space use, rather than surface areas or predetermined indicators relying on the number of persons. The Senate Group sees predictability as a problem if there is no tenant paying a fixed rent. It is likely that the solution will be found in the middle ground between different models, with some of the rent amount being fixed, while the rest could be based on the actual use of the premises.

Senate Properties is currently working on a project which studies optional pricing models for leases of shared work environments that would provide a better response to agencies' wishes for pricing based on actual use. The purpose of this project is to experiment with new pricing models together with central government customers in 2023.

When shared facilities are introduced, cooperation between central government service centres will also be highlighted, as instead of leased premises, these facilities can be referred to as work environments with both a physical and a virtual dimension. For

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54 Evaluation of the functioning of state's rental system and the activities of the Senate Group (2022:9).



example, it is appropriate that the ICT services for the facilities are provided by a single service provider. Promoting cooperation between the Senate Group and the Government ICT Centre Valtori will be crucial for the success of transitioning to shared facilities.

The importance of cooperation between central government service centres and common practices, for example in security matters, was also emphasised as a key prerequisite for the successful transition to shared use facilities in the feedback given on the draft report.

The Senate Group will formulate a preparedness and security concept of shared work environments for the project aiming to upgrade the central government's service and premises network to be approved during 2022. In addition, the Ministry of Finance, the Senate Group and Valtori have set up a cooperation group to promote the transition to shared facilities.

### 11.1.3 Funding of facility projects

A study on the functioning of the state's rental system and evaluation of the Senate Group's activities (publications of the Ministry of Finance 2022:9) found that insufficient funding allocated to agencies' and institutions' premises costs caused dissatisfaction. In particular, preparing for unexpected expenses was found difficult. A model in which the central government would have a common buffer, for example to cover all facilities costs incurred by agencies from indoor air problems, was proposed in the study. Some of the respondents suggested a model in which the central government would provide the agencies with the premises they needed for their work free of charge, eliminating the political consideration associated with funding decisions.

To ensure efficient use of public funds, facility projects must be as cost-effective as possible. If agencies were to automatically receive the share of the costs of facility projects that have rent impacts as additional funding, it would be apt to erode incentives for cost-effective facility construction and efficient space use. This, in turn, could lead to an uncontrolled increase in premises costs. What is more, additional funding would also be granted to agencies that could manage their facility projects within the framework of their basic funding for operating expenses.

In practice, prioritising facility projects exclusively within the Senate Group's investment authorities would not necessarily be the most appropriate solution, as prioritisation could also take place at the central government level. While the prioritisation criteria used by the

Senate Group referred to in section 3.1 are useful and justified, in the future such facility projects as those launched to address a serious risk to health or safety, which in practical terms means properties with indoor air problems, could be prioritised at the central government level.

## 11.2 Economic outlook for the real estate sector

### 11.2.1 Interest rate

In the capital-intensive real estate sector, financial costs have a significant impact on total costs. The Senate Group can obtain loans through the State Treasury on the same terms as the central government. As a basic premise, this is highly cost-effective compared to other sources of financing. This is a significant advantage of the unincorporated state enterprise model that essentially reduces costs. The Senate Group's loan financing amounted to approx. EUR 1.6 billion in the final accounts for 2021. The hedge ratio was about 60%, and after the turn of the year, it has increased significantly. The average interest rate in 2021 was approximately 0.8%.

Interest rates started to rise in early 2022, and national economy forecasts also indicate increasing interest rates in the future. According to the Ministry of Finance's Economic Survey of September 2022, central government long-term interest rates (10-year bonds) will start rising and would reach 2% in 2024. The actual interest rate in 2021 was -0.1%.<sup>55</sup>

With the current debt capital amount, an increase of two percentage points in interest rates would push the annual costs up by approx. EUR 30 million. This accounts for approx. 4% of the central government's overall premises costs. Due to hedging, the full increase in interest rates will not be immediately reflected in the financing costs. Changes in interest rates must be accounted for in the review of the central government's leasing system carried out every four years to ensure that the cost price principle is realised.

### 11.2.2 Inflation

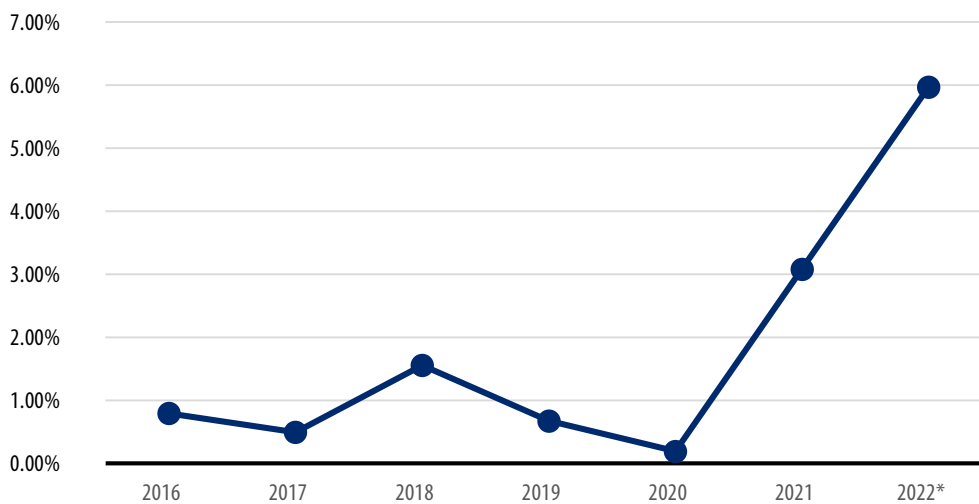
In the real estate sector, rents are linked to the cost-of-living index (consumer price index), and the same principle is followed in the central government's leasing system. The annual rent increases follow the index change. In recent years, the impact of inflation has been low. Inflation started to rise in 2021, however, and on 1 January 2022 rents were increased

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55 [Economic Survey, Autumn 2022. Ministry of Finance publications – 2022:58.](#)

by 3.1%, equalling the index adjustment. Most rent increases are tied to the cost of living index figure of October. The Senate Group's costs have mostly gone up at a faster pace than the consumer price index, as energy, property maintenance and construction play a larger role in the costs of unincorporated state enterprises than in consumer price index weightings. The costs of property maintenance increased by 5.6% in the fourth quarter of 2021 compared to the same period in 2020, which means that this increase was significantly higher than the change in the consumer price index.

**Figure 18.** Consumer price index, October 2016 – August 2022.



Source: Statistics Finland.

According to the Ministry of Finance's Economic Survey of September 2022, inflation will rise by 6.5% in 2022. The increased inflation will lead to a substantial rise in the nominal rent amounts, as 6.5% inflation will increase nominal rents by approx. EUR 50 million a year. In the interest of the long-term maintenance of state-owned properties, it is important to ensure that inflation will also be accounted for in the central government's leasing system as an element that increases rents, as it also increases the costs of property maintenance and construction.

In the central government's leasing system, the index adjustment of rents takes place annually at the beginning of January. To ensure that the rent adjustments are based on as recent information as possible, the rents are adjusted based on the cost of living index of October. The feedback on the draft report suggested that central government rents should be tied to an index that is confirmed earlier. This would mean that the agencies

could account for rent increases resulting from the rising inflation better in their budget processes. The possibility of selecting an earlier adjustment date will be examined in cooperation by the Ministry of Finance and the Senate Group in autumn 2022.<sup>56</sup>

### 11.3 Parliament's resolution: key outcomes

The current model of state-owned real estate and premises management has become established and proven effective. The current model has effectively achieved its social objectives through the Government Real Estate Strategy and Premises Strategy.

Centralising the management of state-owned built real estate assets to Senate Properties has proven an appropriate solution. This model has made it possible for Defence Properties Finland to respond proactively to the Defence Forces' facilities needs. The steering mandates of the Ministry of Finance and the Ministry of Defence have also been used in compliance with the regulations.

Leaving premises located abroad and certain special properties in the possession of parties other than the Senate Group is also justified, for example because of the special expertise required in their maintenance.

The level of personnel satisfaction in the Senate Group has remained good despite extensive organisational changes. No significant changes took place in the position of Defence Properties Finland personnel, including the terms of employment or continuity of employment relationships. Annual surveys measuring personnel satisfaction will be continued.

Most of the agencies and institutions using the Senate Group's premises are satisfied with the central government's internal leasing system and the reforms made in it in recent years. Agencies and institutions are also mainly satisfied with the service contracts and

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56 An earlier adjustment date would make it easier for the agencies to take index increases into account in their financial planning. This is particularly important because, apart from the Defence Forces, additional appropriations are not automatically available for index-linked rent increases. A proactive 1.5% price and cost adjustment is made to the Defence Forces' operating expenditure item when the Budget is prepared. The cost adjustment is corrected retroactively to reflect the development of the actual consumer price index in the Supplementary Budget of spring.

cooperation. As the greatest challenges were seen the adequacy of budget funding, increase in rental costs, sharing of liabilities for repair and construction projects, and the administration costs of properties leased from external actors.<sup>57</sup>

Control of facility projects' costs should be improved by such means as examining the situation of the agency's appropriations and the project's impacts on rent at the early stages of the project. Cost-effective solutions should also be sought already in the early stages, for example by exploring solutions for improving the efficiency of space use. The development of premises costs as a whole should also be monitored more frequently.

It is essential to strive for a cost-effective facilities system that makes it possible to reduce the total costs and curbs the increase in costs in special-use properties. Other development areas of the central government's real estate and premises management include the sharing of liabilities for renovation and improvement projects, transition to shared work environments, and ensuring that the premises support the cost-effective, efficient and appropriate performance of agencies' and institutions' tasks.

In terms of the societal significance of the central government's real estate and premises management, the system and the changes made to it in recent years should be assessed regularly. The establishment of Defence Properties Finland should be re-evaluated in 2026 once the enterprise has been operating for five years.

## 11.4 Other conclusions

In the course of the drafting process of the report, practical proposals came up that could be used to develop the centralised government premises management and the internal leasing system associated with it further, enabling it to serve government agencies and institutions optimally.

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57 In a survey conducted in 2022, the respondents were asked about their level of satisfaction with the effectiveness of the current contractual relationships and their cooperation with the Senate Group. Overall, 77% of the respondents were satisfied or very satisfied with the effectiveness of the lease relationship, while 3% were very dissatisfied. The clearly largest share of the respondents were also satisfied with the clarity of the division of responsibilities and tasks, smoothness of cooperation and the flow of information during the lease relationship. In feedback received on the draft report, the same themes emerged as in the survey (Evaluation of the functioning of state's rental system and the Senate Group's activities 2022:9). See Figure 14 in Chapter 7 for more information on the survey results.

Improving interaction between the Senate Group and central government customers and making the composition of the costs related to the premises clear to the end user can be considered one of the development areas. Agencies also call for making better use of their personnel's expertise at all stages of facility projects. The Ministry of Finance will pay attention to improving interaction between the unincorporated state enterprises and the agencies and institutions that are its customers in the steering of the Senate Group.

Customers also called for making the management of sets of contracts easier. This came up especially in the opinions of agencies and institutions that have offices in several locations and whose contract portfolio consequently is large and includes both leases of premises and possible service contracts. The Central government's premises management system (HTH system) is currently undergoing development, with the aim of enabling all customer agencies to access and view their contracts in it.

In addition, customers would like to see services related to shared facilities, such as security solutions, included in the main lease contract. The Ministry of Finance will investigate the integration of various services for shared facilities into the main lease of the premises in autumn 2022. At the same time, common concepts will be presented for the security, preparedness and readiness solutions of shared facilities as part of the project aiming to reform the central government's service and premises network in 2023.

The agencies and institutions also called for practical solutions for curbing the increase in premises costs. In autumn 2022, the Ministry of Finance will examine the timing of the index adjustment of the central government's internal leases, making it easier for agencies and institutions to account for the increases in their financial planning.

Regarding the management of state-owned premises abroad, the need to draw on the Senate Group's expertise came up during the drafting process of this report. The Ministry for Foreign Affairs and the Senate Group will intensify their cooperation, as part of which the Senate Group will support the ministry in the management of state-owned premises abroad, among other things by sharing information on best practices relating to procurement, information systems and property development and maintenance processes.

The Ministry of Finance will consider if the Senate Group's service targets should include informing its central government customers of changes in general building regulations related to accessibility requirements.

As stated above, a key shortcoming in the current leasing system is that neither the agency or institution nor the Senate Group have an economic buffer for unexpected premises costs. Five years after the launch of the Senate Group's operations, the Ministry

of Finance will examine optional ways of organising the central government's premises management and the internal leasing system. This examination will include looking at optional models for the service fee (management fee) charged for administrating subleases and the equity cost charged by the state for its properties.

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