



Extract from the report to the  
Public Accounts Committee on  
the Government's administration  
of service occupancies and  
service tenancies

March  
2010

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## I. Introduction and results

1. This report looks into the Government's administration of service occupancies and service tenancies. Rigsrevisionen initiated the examination in March 2009 on the request of the Public Accounts Committee.

2. The Public Accounts Committee asked Rigsrevisionen to examine whether the Danish Defence's administration of service occupancies and service tenancies is in compliance with the regulations of the Circular on Service Occupancies and Service Tenancies issued by the Ministry of Finance on 16 March 1989. The Public Accounts Committee also asked Rigsrevisionen to consider the necessity for a wider and possibly cross-ministerial examination of the area.

On the basis of the request put forward by the Public Accounts Committee, Rigsrevisionen decided to conduct a major cross-ministerial examination of the area, as other authorities besides the Danish Defence are administering service occupancies and service tenancies. The overall purpose of the examination has been to assess whether the Government is managing the service occupancies and service tenancies in compliance with current regulations. The examination is addressing specifically the following issues:

- Is the Government providing service occupancies and service tenancies in compliance with current regulations?
- Is the Government fixing the rent of service occupancies and service tenancies in compliance with current regulations?
- The development in number of service occupancies and service tenancies, and the development in expenditure and revenue associated with these properties since 2000.

3. The Ministry of Finance has in its Circular on Service Occupancies and Service Tenancies and in the Personnel Administrative Guidelines laid down detailed provisions concerning the Government's administration of these properties. *Service occupancies* are provided by the employer as part of an employment relationship, and the employee is required to live in the accommodation and move out when the employment ends. Service occupancies can only be provided to employees who are required to perform tasks on or near the place of service outside normal working hours to perform his/her duties properly. A *service tenancy* is also provided by the employer as part of an employment relationship. As opposed to the service occupancy, however, the employee is not required to live in the accommodation, but is required to move out when the employment is terminated.

The government authorities are having the properties assessed to ensure that the rent of service occupancies and service tenancies is reflecting the general level of rent in the private housing market. The employee, however, is granted a deduction in the final rent amount: For service occupancies, the deduction is 30 per cent of the assessed rent and for service tenancies it is 10 per cent. In addition, the rent calculated as a proportion of the employee's base salary has been capped, and a tenant can only be charged maximum 15 or 17 per cent, respectively of his/her base salary depending on the salary system.

4. Rigsrevisionen's examination is focused on service occupancies and service tenancies managed by the Danish Defence, the Danish Forest and Nature Agency and the Danish Prison and Probation Service.

The Danish Defence is managing a total of 15 service occupancies and 1,183 service tenancies. The Danish Forest and Nature Agency is administering 98 service occupancies and 108 service tenancies, and the Danish Prison and Probation Service is responsible for the administration of 170 service tenancies, but no service occupancies. Combined these three government institutions under the Ministry of Defence, the Ministry of the Environment and the Ministry of Justice, respectively are managing 90 per cent of all government service occupancies and service tenancies.

5. The investigation covers the years 2000-2009, but is mainly focused on the Government's administration of its properties in 2009.

## RESULTS AND MAIN FINDINGS

The Government is providing just under 1,650 properties to its employees in the form of service occupancies and service tenancies. 1,500 of the properties are service tenancies. Almost all government property is managed by the Ministry of Defence, the Ministry of the Environment and the Ministry of Justice.

On the basis of the cases reviewed, Rigsrevisionen is concluding that generally the Government is managing its portfolio of rental properties in compliance with the regulations of the Circular on Service Occupancies and Service Tenancies. The administration of the Government's service occupancies, which are representing only a small part of the Government's total property portfolio, is, however, inadequate in several areas, which is considered less satisfactory by Rigsrevisionen.

Rigsrevisionen considers it important to eliminate any doubt that service occupancies are provided to facilitate the proper performance of the employee's duties, and not, for instance as an employee benefit. Rigsrevisionen therefore recommends that in future, when the appointing authority is providing accommodation, it should be clarified that the employee is required to perform certain duties on or near the place of service outside normal working hours. The appointing authorities should make sure that the implementation of subsequent changes in the work tasks is not restrained by this clarification. The Ministry of Finance agrees with this recommendation.

The Ministry of Defence and the Ministry of Justice have in connection with the examination informed Rigsrevisionen that they are expecting to reduce the number of service occupancies and service tenancies under their administration significantly in the coming years. The Ministry of the Environment has stated that since 2001 the Ministry has disposed of a number of properties. Rigsrevisionen is of the opinion that all government authorities should review their requirement for service occupancies and service tenancies regularly.

This overall assessment is based on the following factors:

**The three authorities are all providing service tenancies in compliance with current regulations. The Danish Defence and the Danish Forest and Nature Agency are, however, not complying with current regulations when they provide service occupancies as the employees are not being informed in writing of their obligations. Neither have the two authorities informed the employees in writing of the duties they are required to perform to be entitled to live in the accommodation.**

- The appointing authorities can provide living accommodation to employees under the terms of a service occupancy agreement if the employee, to facilitate the proper performance of his or her duties, is required to perform tasks on or near the place of service outside normal working hours.
- The Danish Defence and the Danish Forest and Nature Agency have not informed their employees in writing about the tasks they are required to perform outside normal working hours. The Danish Defence and the Danish Forest and Nature Agency have, however, informed Rigsrevisionen that the employees are required to perform such duties.
- Rigsrevisionen is of the opinion that employees who are offered living accommodation should be informed of the duties associated with the accommodation. To ensure that expectations are matched between the employee and the appointing authority, and the reasons for the allocation of the accommodation become clear also to a third party, it is recommended that employees are informed in writing of these duties. The Ministry of Finance agrees that the employees should be informed of the reasons underlying the allocation of living accommodation.
- The Danish Forest and Nature Agency has informed Rigsrevisionen that the main reasons for the allocation of service occupancies will be included in its housing policy.
- When the appointing authority is allocating a property under the terms of a service occupancy agreement, the employee should be informed of the requirement to live in the accommodation and move out when the employment is terminated. This requirement must, according to the Circular, appear from an appendix to the contract of employment.
- In the majority of the service occupancy cases audited by Rigsrevisionen, the Danish Defence and the Danish Forest and Nature Agency have not informed the employees in writing about neither the occupancy requirement nor the requirement to move out. The two authorities have stated that the employees do have these obligations, and in future they will be informed in writing of their obligations in this respect when they are offered service occupancies.
- Employees living in accommodation under the terms of a service tenancy agreement are required to move out. The Danish Defence, The Danish Forest and Nature Agency and the Danish Prison and Probation Service have informed largely all their employees in writing of this requirement.

**All three authorities are predominantly fixing the rent for accommodation allocated under the terms of a service tenancy in compliance with the regulations. The Danish Defence and the Danish Forest and Nature Agency, however, are not in all cases fixing the rent for accommodation allocated under the terms of a service occupancy agreement in compliance with current regulations.**

- According to the Circular on Service Occupancies and Service Tenancies, the appointing authority should arrange for assessment of the individual property to ensure that the rent is reflecting the private housing market. Subsequently, the appointing authorities are also required to adjust the rent annually by a percentage fixed and announced by the Ministry of Finance.
- The Danish Defence, the Danish Forest and Nature Agency and the Danish Prison and Probation Service have had their properties assessed, and the rent has been adjusted annually for almost all properties. Still, the Danish Defence has not implemented the annual rent adjustment for its service occupancy agreements.
- The authorities are not under any obligation to re-assess the property regularly. The Danish Defence has in 2008 and 2009 re-assessed the majority of its service occupancies and service tenancies, which resulted in many down and upward adjustments of the rent charged.
- The rent assessments performed by the authorities are on average 4½ years old, and the oldest is dating back 19 years. In the opinion of Rigsrevisionen, the result of the Danish Defence's assessment round seems to indicate that the appointing authorities should have their property assessed at reasonable intervals, depending on, for instance the development in rent levels in the private rented property market. The Ministry of Finance has stated that the Ministry agrees that the authorities should re-assess their properties, as suggested in the Circular.
- The final rent level for service occupancies and service tenancies must be determined including compensation paid for the duties associated with the accommodation. For service occupancies this means a 30 per cent deduction in rent and restrictions on how much of his/her base salary the employee can be charged in rent. The compensatory deduction for service tenancies is 10 per cent.
- The Danish Defence and the Danish Forest and Nature Agency have for the majority of their properties determined the final rent including the deductions prescribed in the Circular on Service Occupancies and Service Tenancies. The Danish Forest and Nature Agency has, however, by mistake in a few of the cases under audit determined the rent on the basis of an incorrect percentage in relation to the respective tenants' base salary. As a consequence these tenants have been charged too little in rent. The Agency has informed Rigsrevisionen that the error has been corrected.
- The Danish Defence, the Danish Forest and Nature Agency and the Danish Prison and Probation Service have fixed the final rent in all but one service tenancy cases in compliance with the Circular on Service Occupancies and Service Tenancies.

**The number of service occupancies and service tenancies managed by the Danish Defence in the period 2000-2009 has been largely stable. The Danish Defence is expecting to reduce the number of properties considerably in the years to come. Expenditure and revenue associated with the properties have in the period varied between approximately DKK 32 million and DKK 45 million.**

- In 2009, the Danish Defence managed 15 service occupancies and 1,183 service tenancies. In the period 2000-2009, the number of properties has been reduced by one service occupancy and one service tenancy.
- As part of the Danish Defence Agreement 2010-2014, the Danish Defence is required to reduce its property portfolio. More specifically, the Danish Defence is considering disposing of one third of its service tenancies and retaining approximately 800 properties in the historic "Nyboder" quarters in central Copenhagen. The Danish Defence is also considering disposing of all its service occupancies with the exception of a single property for the head of the National Guard.
- The Defence's annual revenue generated by service occupancies and service tenancies varies between DKK 31.7 million and DKK 40.4 million. The corresponding expenditure amounts to between DKK 35.8 million and DKK 44.5 million annually.