

# **ACT Auditor-General's Office**

## **Performance Audit Report**

### **Maintenance of Public Housing**

**August 2008**





## ACT AUDITOR-GENERAL'S OFFICE



PA07/19

The Speaker  
ACT Legislative Assembly  
Civic Square, London Circuit  
CANBERRA ACT 2601

Dear Mr Speaker

I am pleased to provide you with a Performance Audit Report titled 'Maintenance of Public Housing', for tabling in the Legislative Assembly, pursuant to Section 17(4) of the *Auditor-General Act 1996*.

Yours sincerely

Tu Pham  
Auditor-General  
7 August 2008



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## LIST OF ABBREVIATIONS AND GLOSSARY

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ANAO	Australian National Audit Office
COG	Contract Operations Group – 3 <sup>rd</sup> level contract administration committee
CMG	Contract Management Group – 2 <sup>nd</sup> level contract administration committee
CMP	Contract Management Plan
DHCS	Department of Disability, Housing and Community Services
HACS	Housing and Community Services (part of DHCS)
JCC	Joint Consultative Committee – 1 <sup>st</sup> level contract administration committee
KPI	Key Performance Indicator
NCN	Non-Conformance Notice
QA	Quality Assurance
SOR	Schedule of Rates – standard charges for specified contract maintenance work
Spotless	Spotless P&F Pty Ltd (the TFM contractor)
TFM	Total Facilities Management
TRM	Tenant Responsible Maintenance - maintenance arising from damage to a dwelling, which is the responsibility of the tenant. Tenants are billed by Housing ACT for tenant responsible maintenance conducted by Spotless.
Ministerials	Representations sent to a Minister that require departmental attention or action.
Contract Manager	In the terms of the TFM contract, there are two managers, one from Housing ACT and one from Spotless. This Audit does not review the actions of the Spotless Contract Manager. Therefore, unless indicated otherwise, this term as used in this report shall refer to the Housing ACT Manager.



# **1. REPORT SUMMARY AND AUDIT OPINIONS**

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## **INTRODUCTION**

- 1.1 This report presents the results of a performance audit that reviewed the maintenance of Housing ACT's properties.

## **BACKGROUND**

- 1.2 Housing ACT, a business unit within the Department of Disability, Housing and Community Services (DHCS), manages a portfolio of some 11 500 public housing dwellings, about ten percent of the total ACT housing stock. A key management issue is the efficient and effective maintenance of these public properties.
- 1.3 In July 2005, a new 'Total Facilities Maintenance' (TFM) contract was entered into between DHCS and Spotless P&F Pty Ltd (Spotless). Under this contract, Spotless is to provide integrated maintenance services, including the operation of a call centre and engagement, monitoring, payment and review of its sub-contractors.
- 1.4 The TFM contract provides for both emergency maintenance, and for planned works such as painting and refurbishment. Most of the expenditure under the contract is spent on sub-contractors who perform the actual maintenance work. These sub-contractors are paid by Spotless a rate agreed under the contract, and DHCS pays Spotless the same amounts. Spotless is also paid a base management fee of around \$4.5 million annually. The total sum paid per year for this TFM contract is approximately \$30 million, making it the ACT Government's largest ongoing contract with a private sector firm.
- 1.5 A feature of the contract is its incentive provisions. Depending on Spotless' achievement against key performance indicators established under the contract, an overall score is calculated. Based on this score, Spotless can receive a bonus or a reduction to the base management fee.
- 1.6 DHCS advised that the previous contracts for the maintenance of public housing demonstrated significant problems, and that the current Total Facilities Management contract with Spotless has sought to redress these problems. DHCS further advised that the TFM model for the integrated maintenance of a public housing portfolio is unique since the ACT was the first amongst Australian jurisdictions to establish this arrangement.

## **AUDIT OBJECTIVE**

- 1.7 The objective of this Audit was to provide an independent opinion to the Legislative Assembly on the efficiency and effectiveness of the management of maintenance of ACT public housing stock, as well as maintenance of vacated properties.

### AUDIT METHODOLOGY AND SCOPE

- 1.8 This performance audit was conducted under the authority contained in the *Auditor-General Act 1996*.
- 1.9 The scope of the audit covered key aspects of the management of the 'Total Facilities Management' contract since its commencement in July 2005, including the planning, supervision, payments, quality assessment, auditing and reporting. However, the audit did not include the assessment of tenders and the decision to award the contract to Spotless, contract negotiation and finalisation or performance of the contractor, Spotless. It did, however, consider the processes to make the decision about whether to extend the contract with Spotless.
- 1.10 **Appendix A** provides details of the audit criteria, approach and methodology.

### AUDIT OPINIONS

- 1.11 The audit opinions drawn against the audit objective are set out below. In forming the opinions, Audit recognised that the Total Facilities Maintenance (TFM) contract that commenced in July 2005 aimed to address problems with the previous maintenance contracts.

- There were difficulties and delays in implementing the TFM contract during the early period of the contract, leading to deficiencies in the management of the contract.
- Housing ACT has taken action in recent years that has improved the performance of the maintenance of public housing.
- There are opportunities for further improvement, particularly in monitoring the quality and timeliness of work carried out by sub-contractors.

### KEY FINDINGS

- 1.12 The audit opinions are supported by the following findings:

#### Governance (Chapter 2)

- Contract management committees provide a framework for sound governance of the contract and communication between the parties, although there were instances where action items were not recorded as complete, or were not completed in a timely fashion.
- A draft Contract Management Plan was prepared during the early implementation of the contract but it has not been updated, maintained, or distributed to Housing ACT staff. It was not referenced by staff in the day-to-day management of the contract.
- Housing ACT manages risks in the contract through the Performance Management System, but has not established a specific risk management plan for the management of the TFM contract.

### Performance Management (Chapter 3)

- The Performance Management System within the contract has helped to identify risks, to provide mechanisms for their management, and to encourage improved delivery of services.
- The structure and presentation of Quality Assurance (QA) reviews under the contract could be made more rigorous by adopting a formal audit approach. Although the QA program addressed a number of higher risk areas, and the format of the reports seemed appropriate to their purpose, there were some shortcomings. The review program was running significantly behind schedule, and planning for each review did not always clearly specify objectives, focus and approach. The QA process was therefore not sufficient, in some areas, to assure quality, especially in the early period of the contract, and this may have contributed to the under-performance of the contracted services.
- Joint QA reviews (of a sample of work orders) were selected as required by the contract; however, the selection was made by Spotless rather than independently by Housing ACT. Further, there is insufficient information on the regular reviews of work orders reviewed only by Spotless staff. These shortcomings indicated a lack of robustness in the review process.
- Client satisfaction was monitored, with the level of satisfaction with maintenance around 60 percent. This was comparable with, but slightly below, the national average, and did not achieve the contractual target of an improvement of five percent each year.
- Handling of client complaints was generally adequate, but Housing ACT has not, until recently, used the complaints information effectively to improve its management of the contract.

### Contract Administration (Chapter 4)

- Housing ACT did not have sufficient ongoing assurance that the Spotless call centre operations, such as assessing maintenance requests and allocating them to appropriate sub-contractors, were functioning as required.
- The proportion of responsive maintenance work completed late was higher than allowed for in the contract, and has not improved over time.
- The selection process used by Spotless for sub-contractors in some cases lacked transparency and there was less assurance about Spotless' compliance with ACT Government procurement principles and guidelines.
- Housing ACT's recent move to monitor some of Spotless' processes for awarding sub-contracts for planned maintenance works is sound.
- Increased monitoring of the awarding of contracts to sub-contractors joining the panel for responsive maintenance could assist in achieving better value-for-money.
- Housing ACT has taken appropriate steps, such as changing performance measures and re-engineering the maintenance processes, towards monitoring and improving the maintenance of vacant properties.

- Housing ACT varied the TFM contract in June 2006 to provide for Spotless to conduct condition audits of the housing stock, at a cost of about \$300 000 per annum. This process did not test the market to provide assurance of value for money or fully comply with the requirements of the *Government Procurement Act 2001*.
- The design of the performance bonus scheme led to Spotless receiving bonus payments notwithstanding that Spotless did not meet the performance targets for some key measures.
- The incentive provisions of the contract included a KPI that simply counted 'innovations'. Housing ACT may now wish to emphasise the cost-effectiveness of such innovations, rather than the number.
- The process of issuing Non-Conformance Notices and Instructions under the contract was generally sound, but there could be more clarity on when it is appropriate to issue these contractual notices.
- The processes used to pay invoices were reasonable, and payments in the sample inspected by Audit were correct.

### Contract Review and Extension (Chapter 5)

- Reviews of overall contract performance, and subsequent minor amendments to the contract, have addressed issues such as performance indicators and contract performance, and have been properly authorised.
- The detailed negotiations for an extension to the contract were late, which potentially reduced Housing ACT's bargaining position.
- As at 31 July 2008, the contract extension had not been signed.

## RECOMMENDATIONS AND RESPONSE TO THE REPORT

- 1.13 This audit made twelve recommendations to address the audit findings detailed in this report.
- 1.14 In accordance with section 18 of the *Auditor-General Act 1996*, a final draft of this report was provided to the Chief Executive of the Department of Housing, Community Services and Disability for consideration and comments. The Chief Executive's overall response is shown below:

*The ACT is the only jurisdiction in Australia to use a Total Facilities Management model for the maintenance of a public housing portfolio. This model involves the facilities manager taking responsibility for a comprehensive range of services, from running the maintenance call centre to planning and managing the annual budget for all stock maintenance and related activities. The potential benefits of such a model, which include the management efficiencies of a national maintenance specialist, cost efficiencies of a private sector subcontractor base and the synergies of a single provider of the service delivery stream.*

*The new contract is based on a partnership model between Housing ACT and the contracted provider, Spotless P&F Pty Ltd. It incorporates a detailed Performance Management System built on Key Performance Indicators (including some stretch targets), a system of bonuses and discounts, a quality assurance system and a hierarchy of management committees.*

*Implementation of this innovative model raised significant challenges for Housing ACT and Spotless and it was eighteen months before the contract achieved the anticipated benefits. Since that time the contract has demonstrated a growing level of maturity and has delivered a range of benefits to the Territory. These have included a significant increase in the proportion of the budget being spent on planned and programmed maintenance, increased purchasing power across a range of materials and equipment and the delivery of efficiencies and service level improvements within Housing ACT.*

*The Department of Disability Housing and Community Services welcomes the overall positive findings and the recommendations for further improvement in the Audit Report. It has already started work on the implementation of those recommendations.*

- 1.15 The Chief Executive provided responses to each recommendation. These are summarised below and included in full in the relevant chapter.

**Recommendation 1 (Chapter 2)**

Housing ACT should:

- review and regularly update the Contract Management Plan in accordance with better practice; and
- require staff to follow the Contract Management Plan in the management of the Total Facilities Management contract with Spotless.

**DHCS Response:**

*Agreed - Housing ACT agrees that the Contract Management Plan be finalised. This could be an aid to the better management of the contract, noting the measures already in place. Specifically it would provide a basis for the development, jointly with Spotless, of a Contract Operations Plan.*

*The revised Contract Management Plan will be incorporated into the day-to-day management by staff by the end of August 2008, and the Plan will be reviewed annually.*

**Recommendation 2 (Chapter 2)**

Housing ACT should adopt a consistent method for tracking the actions of each of its housing maintenance governance committees, with a view to facilitating the efficient handling of committee business.

**DHCS response:**

*Agreed - Housing ACT agrees that, for committee actions, the definition of a unique identifier, an action officer, initiation date, target completion and progressively revised target will enhance the tracking of committee business and allow an enhanced focus on timelines.*

*These recommendations have been implemented by way of changes to the agendas of the committees and the introduction of a standard template for minutes and the creation of draft minutes for each of the Committees.*

**Recommendation 3 (Chapter 2)**

Housing ACT should prepare and implement a risk management plan specifically relating to the risks for the management of the TFM contract.

**DHCS response:**

*Agreed - DHCS accepts that it would be more consistent with practice across ACT Government if the management of risk was made explicit in a separate document.*

*A Risk Management Plan has been prepared and implemented as an attachment to the Contract Management Plan.*

**Recommendation 4 (Chapter 3)**

Housing ACT should simplify the range of review types in its Quality Assurance framework to improve efficiency in planning and managing the whole review program.

**DHCS response:**

*Agreed - Housing ACT has reviewed and simplified the range of reviews in the Quality Assurance framework and has strengthened the definition of the objectives and purpose of each review.*

**Recommendation 5 (Chapter 3)**

Housing ACT should:

- improve its guidelines for the conduct of reviews of work done by Spotless and its sub-contractors;
- sufficiently resource its Quality Assurance program;
- endeavour to conduct all reviews in accordance with the revised guidelines; and
- require Spotless to report regularly and comprehensively on the outcome of its reviews of work orders.

**DHCS response:**

*Agreed - Housing ACT has recently recruited a staff member with formal qualifications in Quality Assurance and QA experience, who will be responsible for the detailed planning of a program of major and focused reviews, for ensuring the independence of the joint reviews and for receiving and analysing the results of Spotless reviews. With the improved staffing position, a work plan will be developed to bring the review program up to date.*

**Recommendation 6 (Chapter 3)**

Housing ACT should:

- follow-up on complaints to check with tenants whether the agreed action has occurred; and
- systematically analyse complaints through each of the complaints mechanisms – through Spotless, through DHCS and through Ministerial correspondence – to identify opportunities for improvement.

**DHCS response:**

*Agreed - In December 2007, Housing ACT began a process of correlating complaints received through the different processes existing in Housing and Community Services. This was followed by a review of the entire complaints process across the Division. Housing ACT is developing a procedure for the systematic analysis of complaints and process improvement by the creation of additional codes for data collection in Homenet and the creation of complaint specific reports.*

*Housing ACT agrees that handling Ministerial complaints would be improved by formalising a process of consulting the tenant on completion. The Department will extend this process to all complaints.*

**Recommendation 7 (Chapter 4)**

Housing ACT should take measures such as regular reviews to ensure the Spotless call centre, which receives maintenance calls from tenants and Housing Managers and allocates work to maintenance sub-contractors, is operating as required by the contract.

**DHCS response:**

*Agreed - Housing ACT agrees that the oversighting of the call centre and the alignment of call centre staff with HACS objectives and initiatives would be enhanced by regular reviews and briefing of the Spotless call centre and will implement these on a six-monthly program.*

**Recommendation 8 (Chapter 4)**

Housing ACT should:

- review the use of formal processes (such as Non-Conformance Notices) to address the continuing lateness of responsive maintenance;
- establish controls on Spotless' practice of adjusting target completion dates for work orders and monitor the extent of, and the justification for, such adjustments; and
- review the Key Performance Indicators with a view to giving more emphasis to responsive maintenance.

**DHCS response:**

*Agreed - Housing ACT has progressively raised the issue of the timeliness of responsive maintenance with Spotless, issuing four Non-Conformance Notices and a Formal Instruction over the last eighteen months. Spotless has responded by reviewing and changing their work practices in this area although improvements are yet to be evidenced. It has remained a business item on the Contract Management Group agenda and has been elevated to the Joint Consultative Committee.*

*The lack of effective improvement in this area remains a significant concern to Housing ACT. The Audit recommendation that the Key Performance Indicators be changed to specifically measure the timeliness of responsive repairs is on the agenda for the next JCC. Housing ACT will include a measure for the control of timeline adjustments by Spotless.*

**Recommendation 9 (Chapter 4)**

Housing ACT should:

- clearly define the criterion used to determine its involvement with Spotless' selection of sub-contractors; and
- agree with Spotless on the selection process, strategy and evaluation criteria before the tender of sub-contracts, consistent with the Government Procurement Policy and Guidelines.

**DHCS response:**

*Agreed - Housing ACT has advised Spotless of the requirement for the tendering of planned maintenance works to be consistent with the ACT Government procurement guidelines and for the Department's participation in the procurement process for all tenders over the value \$20,000.*

**Recommendation 10 (Chapter 4)**

Housing ACT should reconsider the approach to encouraging innovations, to emphasise their impact on cost-effectiveness of the service delivery rather than the number of innovations per year.

**DHCS response:**

*Agreed in part - Housing ACT believes that there is a range of benefits potentially flowing from an ongoing focus on innovation in addition to those of cost effectiveness. These include support for process improvements within HACs, improved outcomes for public housing tenants and support for the broader objectives of the Department (such as encouraging Aboriginal and Torres Straights Islander employment).*

*As Audit notes, Housing ACT and Spotless have given careful consideration to the effectiveness of the measure for innovation and this lead to the decision to change the KPI requirement to one significant innovation every six months. This brings a focus onto more substantial innovations both in the area of the cost effectiveness of service delivery and more broadly.*

**Recommendation 11 (Chapter 4)**

Housing ACT should better define, and communicate to Housing ACT staff, the criteria for issuing Non-Conformance Notices and Instructions.

**DHCS response:**

*Agreed - Housing ACT agrees that there are considerable benefits in making the process of raising Non-Conformance Notices more transparent to Housing ACT staff. HCS has adopted this recommendation and implemented a process for Housing Staff to recommend a Non-Conformance Notice being issued to Spotless.*

**Recommendation 12 (Chapter 5)**

For any future extension of the contract, DHCS should better plan and negotiate the extension, well before the period set out in the contract.

**DHCS response:**

*Agreed - The Department agrees that it would be preferable to conclude the negotiation for any further extension well before the period set out in the contract.*

## 2. GOVERNANCE

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### INTRODUCTION

2.1 This Chapter describes processes used to manage and control the contract. It includes discussion of contract management and risk management plans, budgeting and the management committee structure.

### KEY FINDINGS

- Contract management committees provide a framework for sound governance of the contract and communication between the parties, although there were instances where action items were not recorded as complete, or were not completed in a timely fashion.
- A draft Contract Management Plan was prepared during the early implementation of the contract but it has not been updated, maintained, or distributed to Housing ACT staff. It was not referenced by staff in the day-to-day management of the contract.
- Housing ACT manages risks in the contract through the Performance Management System, but has not established a specific risk management plan for the management of the TFM contract.

### CONTRACT MANAGEMENT

#### Contract Management Plan

2.2 The contract itself remains the primary document for managing any contract. However, Audit considers that a Contract Management Plan (CMP) may assist in achieving the desired outcome of the contract more efficiently.

2.3 A CMP typically contains all the key information about how a contract will be managed. It establishes systems and processes to ensure the contractor complies with the terms and conditions during the performance of the contract.

2.4 A CMP would enable a Contract Manager to:

- develop a good understanding of the contract, and the responsibilities of the parties involved; and
- establish a system against which the performance of both parties can be monitored and problems can be identified early - either before or as they occur.<sup>1</sup>

2.5 The TFM contract implies the existence of a CMP. For example, Clause 2.4 of the contract requires both Housing ACT and Spotless to develop a plan (the Contract Operations Plan) that will set out the agreed day-to-day operations of the contract and the approach to deliver the services defined in the contract. The

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<sup>1</sup> Department of Treasury and Finance, Tasmania

Contract Operation Plan will be based on the Spotless Contract Management Plan and the Housing ACT Contract Management Plan, and will be reviewed annually by the parties.

- 2.6 Also, one of the functions defined for the Contract Operations Group (see paragraph 2.14 below) is to manage and monitor the Housing ACT CMP, indicating an agreement that this Plan should exist.
- 2.7 Procurement Solutions, a part of ACT Treasury, has developed a Contract Management Plan (CMP) template for ACT Agency projects. This template provides guidance on the content of a CMP. Model Chief Executive Instructions issued by Treasury also advocate the use of a CMP. Discussion of the contents of a CMP is at **Appendix B**.
- 2.8 Spotless has established a comprehensive CMP, and this has been incorporated into the third volume of the TFM contract. However, Housing ACT does not have its own CMP. Although a CMP was prepared during the early implementation of the contract, it has not been updated, maintained, or distributed to Housing ACT staff. It is not referenced by staff in the day-to-day management of the contract.
- 2.9 Housing ACT states that at present the TFM contract with Spotless itself is used as the prime information source for managing the contract. Audit considers, however, that an overall CMP, possibly prepared as an electronic document using links to current guidance material where relevant, would be useful, if not critical to the TFM contract obligations. For example, it could allocate responsibilities amongst Housing ACT staff, provide better practice guidance on processes to be carried out, and provide advice on communication between Housing ACT staff and Spotless staff.
- 2.10 Also, financial delegations are defined through an instrument of delegation by the Chief Executive. Other specific authorisations, for example to approve Spotless' choice of a sub-contractor for a package of scheduled maintenance tasks, are currently not clearly specified. Such authorisations could be defined in a CMP.
- 2.11 Audit considers that a formalised Contract Management Plan (CMP) can help ensure contract compliance by providing a clear definition of contract obligations and their assignment. Audit notes that the same issue was raised in the review of the former maintenance contracts in 2004 by Ernst & Young.

### Recommendation 1

Housing ACT should:

- review and regularly update the Contract Management Plan in accordance with better practice; and
- require staff to follow the Contract Management Plan in the management of the Total Facilities Management contract with Spotless.

### DHCS Response

*The Total Facilities Management Contract between Housing ACT and Spotless specifies detailed processes and mechanisms for the conduct of the contracted*

*services. The roles and responsibilities of Housing ACT staff involved in managing the contract are defined for individuals in their job specifications. The processes to be carried out are defined in the Section Work Plans and the communication between the parties is managed through the hierarchy of management committees and the provisions of the contract.*

*Housing ACT agrees, however, that the Contract Management Plan be finalised. This could be an aid to the better management of the contract, noting the measures already in place. Specifically it would provide a basis for the development, jointly with Spotless, of a Contract Operations Plan.*

*The Contract Management Plan has been revised; the document will be incorporated into the day-to-day management by staff by the end of August 2008; and the Plan will be reviewed annually.*

### **Housing ACT – Spotless Committees**

- 2.12 The contract is governed primarily through a series of three committees: the Contract Operations Group (COG), the Contract Management Group (CMG) and the Joint Consultative Committee (JCC). Each of these committees involves both Housing ACT and Spotless representatives. There are opportunities for daily ad hoc contact as needed.
- 2.13 Each of these committees is responsible for reviewing and recommending action; but accountability rests with line management, in which the Housing ACT Contract Manager is the key position.
- 2.14 The Contract Operations Group (COG) is the primary working level consultative committee. It normally meets fortnightly, unless both parties otherwise agree. It is comprised of the two Contract Managers and relevant operational personnel, and fulfils the following role, to:
- (i) manage day to day operations in the delivery of the contract obligations and the Services;
  - (ii) implement decisions of the CMG and the JCC;
  - (iii) review as necessary policies and procedures associated with the delivery of the contract and the Services;
  - (iv) manage and monitor TFM's Service Delivery and Management Plan and Housing ACT CMP; and
  - (v) monitor the actual expenditure for the purpose of this Contract against the Services Budget and where relevant, notify the CMG of any need to revise the Services Budget, TFM's Service Delivery and Management Plan and Housing ACT CMP, to take account of any extraordinary or other relevant circumstances.<sup>2</sup>
- 2.15 The Contract Management Group (CMG) considers issues at a more strategic level than the COG, such as overall contract performance as indicated by Key Performance Indicators (KPIs) and the level of non-conformances. Membership of the CMG includes representatives from both the Contract Manager and team leader level. The CMG meets monthly to:

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<sup>2</sup> Clause 10.6 of the TFM contract.

- (i) manage and monitor the Contract Operations Plan;
- (ii) oversee the management of the contract and the delivery of the Services including financial management, tenant satisfaction, standards of service;
- (iii) identify and develop strategies to ensure the successful operation of the contract between the parties;
- (iv) investigate and negotiate effective ways to minimise the impact of additional costs relating to the delivery of the Services;
- (v) consider monthly Performance Management Reports and develop strategies and action plans in the light of monthly performance management assessments;
- (vi) ensure systems and procedures relevant to the delivery of the Services are appropriate and effective;
- (vii) consider and negotiate issues that arise in the delivery of the Services;
- (viii) establish protocols for the management and operation of the contract between the parties;
- (ix) implement decisions of the JCC;
- (x) consider issues forwarded by the COG;
- (xi) monitor the actual expenditure for the purpose of this Contract against the Services Budget and where relevant, notify the JCC of any need to revise the Services Budget, TFM's Service Delivery and Management Plan and Housing ACT CMP, to take account of any extraordinary or other relevant circumstances; and
- (xii) forward any other issues as relevant to the JCC.<sup>3</sup>

2.16 Audit notes that although the CMG does review the operations of the contract, the 'Contract Operations Plan' referred to above does not exist. There is no formal definition of what should be in this plan, but Housing ACT informed Audit that it would incorporate the Spotless CMP and Housing ACT's CMP. Accordingly, the introduction of a CMP, as discussed above, is essential to this provision.

2.17 The Joint Consultative Committee (JCC) is the highest ranking management forum for the contract. Its membership includes representatives at senior executive level. It meets quarterly, and its function is to:

- (i) manage overall contract governance;
- (ii) oversee the strategic management of the Contract and the delivery of the Services;
- (iii) manage the Performance Management System;
- (iv) consider proposed variations to this Contract;
- (v) consider and in good faith endeavour to resolve issues forwarded by the CMG; and
- (vi) subject to any rights of either party pursuant to clause 16.17 or otherwise under this Contract, the Committee members will use their best endeavours in a timely manner to address any Dispute.<sup>4</sup>

<sup>3</sup> Clause 10.4 of the TFM contract.

- 2.18 Audit considers that the role definitions for these committees, taken together, provide a framework for sound governance of the contract and communication between the parties. Audit considered, based on agendas and minutes, that these committees functioned well. Actions were, on the whole, well tracked, although there were instances where issues disappeared from the agenda without the minutes giving a formal record of action being completed. Issues were usually (although not always) completed in a reasonable time. For example, the question of establishing business rules for dealing with sewerage spills, floods and fires, remained in the COG for a year after its expected completion.
- 2.19 One of the roles of the COG had been to consider the need to modify the Contract Operations Plan, but this plan does not exist. This may have led to the COG tending to focus on smaller issues, such as specific maintenance task problems. In early January 2008, the COG chair noted that the meeting format for 2008 should have a greater focus on reporting trends and systemic issues rather than small one-off items.
- 2.20 There were instances where the three Spotless-Housing ACT committees referred issues to each other, but Audit observed no specific pattern relating to referring of issues. Audit notes there is a significant overlap of membership between the COG and CMG. Nevertheless, Audit considers that a routine agenda item at the CMG to consider relevant issues from the COG can be an effective way of communication between the committees. For example, it could have expedited the issue referred to above that remained at the COG level for a year.
- 2.21 The CMG also referred relevant matters to the Housing ACT Capital Committee, a body that oversees capital investments, including purchase and sale of housing stock as well as overall investment in upgrades. Where an item had been referred, Audit observed that this referral was noted as the action status, until the item was resolved, but was not a formal action item on the referring committee.
- 2.22 Cross-referral can be effective when an issue is noted by one committee, but is more properly dealt with by another. For example, the CMG came to the view that the performance measurement system should be changed. However, this strategic decision could only be approved by the JCC, so it was referred.
- 2.23 To increase the likelihood that all issues are promptly dealt with, Audit considers that all committees should use a clear action list that allocates at each meeting, and for each action item:
- a unique identifying number;
  - the action officer;
  - when the action item arose;
  - when it was originally due for completion; and
  - the estimated date of completion (if incomplete) or otherwise the actual date of completion.

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<sup>4</sup> Clause 10.2 of the TFM contract.

- 2.24 In addition, Audit considers the establishment of an overall database of committee decisions and actions would assist in tracking and reviewing these decisions.

### Recommendation 2

Housing ACT should adopt a consistent method for tracking the actions of each of its housing maintenance governance committees, with a view to facilitating the efficient handling of committee business.

### DHCS Response

*Housing ACT welcomes the audit view that the hierarchy of management committees works well and provides a framework for the sound governance of the contract and communication between the parties, and that issues raised were, generally, completed within a reasonable time.*

*Housing ACT agrees that, for committee actions, the definition of a unique identifier, an action officer, initiation date, target completion and progressively revised target will enhance the tracking of committee business and allow an enhanced focus on timelines.*

*These recommendations have been implemented by way of changes to the agendas of the committees and the introduction of a standard template for minutes and the creation of draft minutes for each of the Committees.*

### Risk Management

- 2.25 Chief Executives are responsible for developing risk management strategies and practices within their agencies, and for ensuring these strategies are communicated to, and practised by, all employees. Implementation of risk management plans is based on the *Australian and New Zealand Risk Management Standard (AS/NZS 4360:2004)*, which defines risk and provides guidelines on policies, strategies and procedures to manage it.
- 2.26 The DHCS housing maintenance operation is subject to overall departmental risk management policies and procedures. The DHCS 2006 Risk Management Profile identifies strategic risks for the Department, and these include such relevant risks as ineffective partnerships, client dissatisfaction with services and poor allocation of limited resources.
- 2.27 As part of the original contract, a schedule of risks relating to the start-up of the contract was established. Spotless has also produced a risk management plan for the contract. However, Audit found no other jointly held schedule of risks specific to this contract. Also, there were no risks listed in the DHCS risk plan that specifically related to housing maintenance. A specific risk management plan is important in the light of a unique \$30 million contract, which has significant financial and other risks to the Department, including fraud.
- 2.28 It was noted that the contract included a broad range of measures to address and resolve risks, including the Key Performance Indicators and monthly reports of non-conformances and instructions. Housing ACT, however, has not established a specific risk management plan for this contract. This would be a useful adjunct to the Contract Management Plan (indeed, a CMP template developed by ACT Procurement Solutions calls for a Risk Management Plan to be prepared). Such a

plan could assist management, by putting in place provisions for a systematic identification and assessment of risks, and for monitoring whether actions put in place have actually been implemented and have mitigated the risks identified.

### **Recommendation 3**

Housing ACT should prepare and implement a risk management plan specifically relating to the risks for the management of the TFM contract.

### **DHCS Response**

*Housing notes that there have been concerns raised about the processes under the contract and the possibility of fraud and that issues were identified in the reviews of the previous maintenance contracts. The current contract was developed to address these risks including the key risks of achieving value for money and an acceptable standard of workmanship. It includes a quality assurance processes and Performance Management System that are key to managing these risks. Housing ACT notes the Audit finding that these have helped to identify risks, to provide mechanisms for their management and to encourage improved delivery of services. Housing ACT welcomes Audit's conclusion that the evidence from the JCC meetings indicated that performance concerns were shared, and the parties worked to identify risks and mechanisms for their management.*

*The risks are also managed by the financial controls and reporting requirements of the contract, the Key Performance Indicators and the system of bonuses and discounts, the quality assurance and audit provisions and programs, the process for raising Notices to Remedy, Instructions and Show- Cause Notices and the complaints handling process.*

*DHCS accepts that it would be more consistent with practice across ACT Government if the management of risk was made explicit in a separate document.*

*A Risk Management Plan has been prepared and implemented as an attachment to the Contract Management Plan.*

## **3. PERFORMANCE MANAGEMENT**

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### **INTRODUCTION**

- 3.1 This Chapter assesses Housing ACT's performance in its management of, and compliance with, the TFM contract with Spotless. This assessment deals specifically with the Performance Management System detailed in the TFM contract, including processes for assurance of delivery of quality services, measurement of client satisfaction and handling of complaints.

### **KEY FINDINGS**

- The Performance Management System within the contract has helped to identify risks, to provide mechanisms for their management, and to encourage improved delivery of services.
- The structure and presentation of Quality Assurance (QA) reviews under the contract could be made more rigorous by adopting a formal audit approach. Although the QA program addressed a number of higher risk areas, and the format of the reports seemed appropriate to their purpose, there were some shortcomings. The review program was running significantly behind schedule, and planning for each review did not always clearly specify objectives, focus and approach. The QA process was therefore not sufficient, in some areas, to assure quality, especially in the early period of the contract, and this may have contributed to the under-performance of the contracted services.
- Joint QA reviews (of a sample of work orders) were selected as required by the contract; however the selection was made by Spotless rather than independently by Housing ACT. Further, there is insufficient information on the regular reviews of work orders reviewed only by Spotless staff. These shortcomings indicated a lack of robustness in the review process.
- Client satisfaction was monitored, with the level of satisfaction with maintenance around 60 percent. This was comparable with, but slightly below, the national average, and did not achieve the contractual target of an improvement of five percent each year.
- Handling of client complaints was generally adequate, but Housing ACT has not, until recently, used the complaints information effectively to improve its management of the contract.

### **PERFORMANCE MANAGEMENT**

- 3.2 The contract with Spotless defines a Performance Management System. This system was intended to provide for both measurement of the performance of Spotless under the contract, and to provide incentives through increases or decreases to the management fee payable to Spotless, depending on their performance as defined by the Key Performance Indicators (KPIs). Under this system, KPIs were defined, measurement specified and targets quantified. A formula was then used to calculate an overall performance score based on the weighted KPI scores. This overall score was in turn used to calculate any bonuses or discounts to be applied to the base management fee.

3.3 There were two components to this formula, namely client satisfaction and service delivery, each totalling 50 percent. There were eleven KPIs flowing from these components, as shown in the following table.

**Table 3.1: Key Performance Indicators – Original**

KPI area	Weight
Client satisfaction criteria had KPIs, with associated weights, as follows:	
• responsiveness to requests	10%
• tenant satisfaction with maintenance services	5%
• compliance with contract requirements	10%
• assistance with improving the condition of premises	10%
• value-for-money initiatives (i.e. innovations)	10%
• stakeholder satisfaction	5%
Service delivery criteria had KPIs relating to:	
• cost effectiveness	15%
• delivery within budget	10%
• timeliness of completions	10%
• achievement of work standards and requirements	10%
• completeness and accuracy of work orders	5%

Source: Based on information from TFM contract

3.4 Audit found that these measurements were an effective way to both monitor and provide focus on maintenance issues. Client satisfaction is discussed later in this Chapter, and the issues of responsive and planned maintenance are examined in Chapter 4.

3.5 The Joint Consultative Committee (JCC) meetings had a standing item dealing with these issues, particularly progress with KPIs and how this progress affected the potential for a bonus.

3.6 In August 2006, the CMG (which includes representatives from Spotless and Housing ACT) reviewed the KPIs and proposed a number of changes. Many of these changes were subsequently taken up, when Housing ACT agreed at the November 2007 JCC meeting to reduce the number of KPIs from eleven to six, together with adjustments to weightings. The parties agreed this better reflected the needs of the contract, by helping Spotless to target the areas of the contract that Housing ACT wished to emphasise. As the new KPIs were formally introduced through a contract amendment only in January 2008, Audit has not reviewed their specific operation.

3.7 The criteria for the six new KPIs were broadly consistent with the previous criteria. The following table describes the KPI areas and their weighting in the calculation of discounts and bonuses.

**Table 3.2: Key Performance Indicators – As amended in January 2008**

KPI area	Weight
Vacant property turnaround process: <ul style="list-style-type: none"> <li>percentage of vacant properties, for which maintenance is routine, returned in 10 days or less (85%)</li> <li>percentage of vacant properties, for which maintenance is not routine, returned in the agreed time frame (90%)</li> <li>TRM identified in correct format (100%)</li> </ul>	33%
Call centre and responsive works: <ul style="list-style-type: none"> <li>responsive orders raised against the correct budget code</li> <li>responsive repairs completed on time</li> <li>timeliness of call answering</li> </ul>	15%
Planned and programmed works: <ul style="list-style-type: none"> <li>works program complete and meets budget</li> <li>continuous improvement of housing portfolio</li> <li>condition audit process (190 per month)</li> </ul>	21%
Audit regime: <ul style="list-style-type: none"> <li>tenant satisfaction</li> <li>5% review of all work orders completed</li> <li>compliance with terms and conditions (number of non-conformance notices and instructions)</li> </ul>	10%
Value-for-money innovations: <ul style="list-style-type: none"> <li>one implemented initiative in the last six months</li> </ul>	5%
Expenditure control: <ul style="list-style-type: none"> <li>ratio of responsive repairs to planned expenditure</li> <li>delivery of planned maintenance within budget</li> <li>average cost per vacant dwelling</li> </ul>	16%

Source: Based on information from TFM contract

3.8 The changes to the KPIs and their weightings have mainly resulted in an upgraded emphasis on how vacant properties are attended to. Audit noted that this management decision was in response to a problem in achieving good performance on maintaining vacant properties. However, Audit observed that a significant performance problem relates to the now lesser weighted responsive works, which also account for a larger proportion of costs of the contract.

3.9 Subsequently, there was further consideration of the scoring of the KPIs. The intention was to replace several descriptive measures with specific rules that could be used to measure achievement against the KPI. Audit considers this will help to achieve consistent assessment of KPI scores.

3.10 One KPI refers to implementing value-for-money initiatives. The contract originally defined innovations as ‘above base service delivery’ that, for example:

- reduces costs, or improves service delivery to tenants;

- reduces program or project documentation re-work;
  - reduces materials wastage;
  - improves response or delivery times; or
  - improves the standards of dwellings.
- 3.11 Audit considers that to encourage value-for-money innovations through the rewards-based KPI system was a sound idea at the start of the contract. Audit noted that this on-going value-for-money warranty has been specified in the contract. As part of its contractual obligations (refer clause 4.2B of the contract), Spotless is required to identify and implement value-for-money initiatives throughout the term of the contract. However, Audit noted there was no proper assessment by Housing ACT to ascertain whether the intended benefits and savings from these innovations actually occurred.
- 3.12 Audit considers the contract should only reward Spotless for ‘innovations’ that offer benefits well beyond routine and sound practices, that is, they should go beyond ‘good business practices’.
- 3.13 In addition, now that the contract is well established, there is a risk that the target of at least one initiative per six months may prove of reduced significance. It may be better to delete this as a formal weighted KPI, but continue to encourage innovations through informal mechanisms such as including the topic at senior management meetings, and to recognise that successful innovations will lead to one or more of the other KPIs being improved (which can lead to bonus payments).
- 3.14 Housing ACT advised Audit that Housing ACT has been satisfied with the performance of Spotless against this KPI and considered Spotless’ implementation of the Indigenous Traineeship Program as an excellent outcome from an innovation, albeit one that cannot be assessed under a cost-benefit analysis. Housing ACT also indicated that other public housing jurisdictions showed interest in this initiative; demonstrating that this initiative goes beyond normal good business practice.
- 3.15 Audit also considers it important to ensure that any performance bonus arrangements do not have the unintended impact of reducing Housing ACT’s expectation of standards of performance from Spotless, i.e. Spotless should be expected to provide value-for-money services under the contract without the need for Housing ACT to pay any additional bonus. Housing ACT advised Audit that the modest performance bonus allowed under the contract provided a useful focus for managing performance. In this regard, the strong and improving business relationship between Spotless and Housing ACT, contrasted with the relationships under the previous contracts.
- 3.16 As with the original contract, the recently negotiated contract extension will need to provide for flexibility in being able to amend these KPIs.
- 3.17 Audit considered that the weighting of KPIs for vacant maintenance and for responsive maintenance, may also require adjustment. These issues are discussed further in Chapter 4.

## Conclusion

- 3.18 Audit considers the Performance Management System within the contract has encouraged improved delivery of services. Evidence from the Joint Consultative Committee meetings indicate that performance concerns were shared, and the parties worked to identify risks and mechanisms for their management. The Performance Management System has the flexibility to amend KPI criteria to respond to a changed emphasis or priorities. Audit considers that some further amendment is needed.

## QUALITY ASSURANCE

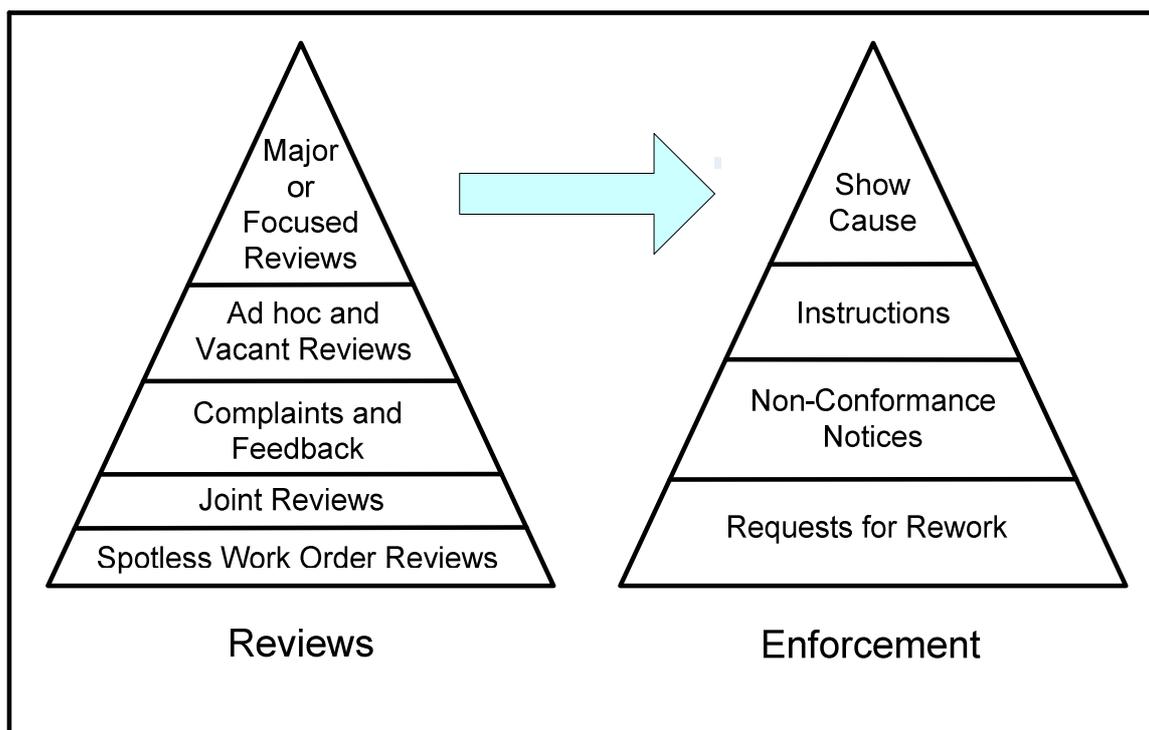
### Background

- 3.19 The Total Facilities Management (TFM) contract involves some 60 000 maintenance actions (work orders) per year and, consequently, not every action by a sub-contractor can be supervised or reviewed. The TFM contract, therefore, relies heavily on a well-structured and effective quality assurance (QA) program, to provide assurance that overall service delivery by Spotless and its sub-contractors is efficient and of adequate standard. QA is also important in identifying opportunities for improvement.
- 3.20 Spotless does not routinely assess all jobs. Supervisors may assess work, if there is a complaint and, as noted later in this Chapter, there is currently a program for Spotless to review five percent of all work orders for completeness, quality and customer satisfaction. Also, as noted in Chapter 4, there are on-site inspections by supervisors of all scheduled works and all maintenance work related to vacant properties.
- 3.21 In addition to formal QA components, there are several other feed-back mechanisms that help to monitor quality, such as complaints and other consultation mechanisms. The complaints process is considered in more detail commencing at paragraph 3.70. Further reviews can arise in the form of Housing ACT internal audits (although, so far, there has not been an internal audit of housing maintenance) and external reviews, including audits by the Auditor-General.
- 3.22 Although Clause 14.2 of the contract provides for Housing ACT to carry out reviews of the delivery of maintenance services, there was limited quality assurance activity for the first year of the contract, from July 2005 until July 2006. The need for a structured QA program was first discussed at the Contract Management Group meeting of 23 February 2006, some eight months after commencement of the contract and, subsequently, the parties agreed in July 2006 to a Quality Assurance (QA) framework - to give effect to these provisions.

### The Quality Assurance framework

- 3.23 The QA framework defines responsibilities for QA and among other things states that the framework is to be renewed annually. Audit noted the framework had not been reviewed since its creation in July 2006.

- 3.24 The QA framework was incorporated in the contract in January 2006 with the objective to ensure that:
- Spotless effectively applies its own quality assurance processes in accordance with contracted obligations;
  - the delivery of works by Spotless is to the quality standards required under the TFM contract; and
  - Spotless understands its obligations for accountability and responsibility.
- 3.25 The components of the QA framework include:
- quarterly performance evaluations;
  - scheduled major reviews, that provide an end-to-end view of services;
  - focussed reviews, similar to major reviews but with a more limited scope; and
  - joint QA reviews.
- 3.26 Housing ACT had developed guidelines to support the conduct of QA activities but, as discussed in more detail below, they were incomplete.
- 3.27 Under the QA framework, major reviews and focussed reviews each address a specific topic, for example, types of work (e.g. fencing), or the actions of a specific sub-contractor. Both major reviews and focussed reviews were to occur not less than once per month. Focussed reviews were to cover smaller-scale services, perceived as high risk.
- 3.28 Joint QA reviews examine the end outcome of an item of work. These reviews are held in conjunction with (and form part of) the routine reviews of sub-contractor work orders by Spotless auditors, which are to constitute at least five percent of work orders. Joint reviews are to cover both responsive and planned maintenance and should occur not less than one business day per month.
- 3.29 In addition to these reviews, Housing ACT also conducts ad hoc reviews. These are similar to joint reviews, in that they address works at a single address. They are generated in response to specific issues - such as complaints.
- 3.30 Figure 3.1 below illustrates how the various reviews and enforcement mechanisms contribute to providing compliance and assurance over the contract.

**Figure 3.1: Review and enforcement mechanisms**

Source: ACT Audit Office – concept derived from Housing ACT data

- 3.31 In this Figure, the significance of these mechanisms increases towards the top of the diagram, but their frequency reduces. For example, there are many routine work order reviews conducted by Spotless (at the bottom of the review triangle). The enforcement action at this level, is through Spotless requesting a sub-contractor to correct inadequate maintenance through rework. There have been over 2 000 of these instances in 2007-08. Spotless can also choose to modify the sub-contractor's performance rating (see paragraph 4.9). However, Housing ACT is not directly involved at this level.
- 3.32 At the other end of the enforcement spectrum, there has never been a 'show cause' notice. (A Show Cause Notice is a formal document asking Spotless to show cause why the contract should not be terminated.) The intermediate Instructions and Non-Conformance Notices are significant formal communications to the contractor, and are discussed further in Chapter 4.
- 3.33 Audit observed that there was little information provided by Spotless on the outcomes of their routine reviews of work orders. Although the information is available to Housing ACT on request, routine monthly and quarterly reports by Spotless focus on the most basic information such as the number of reviews conducted and the addresses inspected. Only in some cases was the nature of the work reported, and there was no overall analysis of the outcomes of the program of reviews.
- 3.34 Audit considers more information on the outcome of the Work Order Reviews by Spotless would offer Housing ACT greater assurance that Spotless has met its obligation to ensure works are carried out at the required standards and timelines.

**Planning of major and focussed reviews**

3.35 Planning for QA activities was described in the form of a QA calendar, which laid out a schedule of reviews. The schedule provided for monthly major and focussed reviews. Table 3.3 is a summary of the focussed and major reviews planned for 2006-07 and 2007-08.

**Table 3.3: List of Housing ACT review topics scheduled for 2006-07 and 2007-08**

YEAR	FOCUSSED REVIEW	Done?	MAJOR REVIEW	Done?
2006-07	Planned maintenance – Illawarra Court	✓	Wet area upgrades	✗
	Fencing	✓	Horticultural services	✓
	Fire service and bushfire operations plans – Ainslie Village	✗	KPI reporting	✗
	Maintenance of vacant properties	✓	Call centre	✗
	Glazing	✗		
	Spotless QA documents	✗		
	Staff Skills	✗		
	Contractor Insurance	✗		
2007-08	Horticultural common area cleaning	✗*	CHC property project	✓
	Window board ups	✓	Graffiti	✓
	Vacant properties	✗	Call centre operations	✗
	Sharps	✗	Contract compliance	✗
	Compliance management	✓	Ministerials	✗
			KPIs	✗
			TRM for tenanted properties	✗
			TRM for vacant properties	✓
			Sub-contractor training	✓
			Tendering and procurement	✗
			Delivery of non-eventfuls <sup>5</sup>	✗
		Develop system reporting	✗	
* Note: Horticultural common area cleaning was substantially completed by June 2008				

Source: Housing ACT data

<sup>5</sup> A 'non-eventful' is an instance where a sub-contractor attends a tenant's property after giving due notice, but because they cannot gain access, is unable to do the task. A fee is paid on these occasions.

- 3.36 The QA framework requires at least twenty-four reviews to be delivered each year, comprising twelve major reviews and twelve focussed reviews. For 2006-07, a total of twelve reviews were scheduled. In 2007-08, the plan provided for twelve major reviews, but only five focussed reviews. Audit considers that, on face value, the program of reviews selected by Housing ACT represented a good coverage of the potential risks faced, but the completion rate was poor. Further, Audit found no documented process for selection and ranking of topics.
- 3.37 Audit also found that there was no clear distinction between ‘major’ and ‘focussed’ reviews. For example Horticultural Services, planned as a ‘major’ review in 2006-07, was conducted as a ‘focussed’ review. This lack of clarity is likely to complicate planning of the review program. Housing ACT may wish to merge the categories, but provide for larger or smaller reviews depending on the nature of the issue to be examined.

### Completion of the program of reviews

- 3.38 There are no quarterly performance evaluations conducted as a part of QA, that is, involving independent review. Housing ACT interprets the requirement for these quarterly evaluations as being met by the Spotless quarterly management report, which outlines their performance against the contract. These quarterly reports are a key component in the management of the contract, but Audit considers they do not meet the requirements of a QA activity.
- 3.39 There was a limited set of reviews conducted in the initial period, being mostly reviews of the conduct of individual work orders, with no focussed or major reviews. As a consequence, there were no QA Non-Conformance Notices (NCNs) issued in the first year of the contract – a surprising result given other indications (including the number of non-QA NCNs) that the contract was not working satisfactorily at that time. Non-Conformance Notices are discussed further in Chapter 4.
- 3.40 The number of QA reviews completed remains behind schedule. For the period from July 2006 to December 2007, Audit found that, compared to the nineteen projects planned (and the 36 major and focussed reviews called for under the QA framework), only eight had been completed. A further four reviews planned in the second half of 2007-08 had been completed, and there was an additional review (of a specific sub-contractor) completed in 2007-08 that was not in the program.
- 3.41 As noted above, the QA Framework was only created in July 2006, a year after the contract commenced. In the first year of the contract, according to Housing ACT, an inability to attract sufficient staff led to a diminution of the ability to conduct reviews. During this early period, QA work focussed on the smaller joint and ad hoc reviews. This staffing shortfall had only recently been resolved.
- 3.42 Audit notes that the difficulties in the initial implementation of the contract contributed to significant delay in introducing a thorough QA regime. This contributed to the lack of performance during the early part of the contract. Earlier implementation of QA process would have enhanced the ability of both Spotless and Housing ACT to diagnose and address the lack of performance.

### *Guidelines for the conduct of QA reviews*

- 3.43 The conduct of QA and similar reviews needs to be supported by tested and effective guidelines. Review guidelines might include such features as:
- setting objectives;
  - defining resources and timeframe;
  - defining responsibilities and staffing;
  - defining the communication protocol with stakeholders (primarily Spotless and tenants);
  - defining the scope and focus of the review;
  - defining criteria specific to the review; and
  - defining the processes to be used to achieve the results.
- 3.44 At the time of audit, Housing ACT was preparing sets of guidelines to assist the conduct of reviews. Draft guidelines examined by Audit covered the types of reviews included in the QA framework, namely focussed reviews and joint reviews. There were also draft guidelines on reviews of specific processes, namely reviews of maintenance of vacant properties, and planned works reviews, and another on the quality assurance reporting process. These draft guidelines required significant development to help produce high quality reviews.
- 3.45 The QA framework provides templates for each type of review report, listing such heading items as:
- Title;
  - Purpose;
  - Activity reviewed;
  - Approach and scope;
  - Process description;
  - Observations; and
  - Recommendations.
- 3.46 These templates were followed in producing review reports, and Audit assessed that the templates were appropriate for the production of QA review reports.

### *Conduct of major and focussed reviews*

- 3.47 Audit reviewed all eleven major and focussed QA reviews that were complete at the time of audit. Audit tested whether items such as an authority to proceed, a specific objective, an audit plan, audit criteria, findings, analysis, evidence and a Spotless response were included in the work papers and reports.
- 3.48 Only some of these items were present in the reports. The purpose of the review was often unclear and plans, objectives or criteria were usually not included. Two reports had little in the way of findings, evidence, or a Spotless response, and one

did not have recommendations. Audit observed that relevant staff relied on the QA general framework for the authority to conduct a review. Audit considers that specific approval of detailed plans, criteria and objectives would have increased the likelihood of better outcomes for reviews.

3.49 The Case Study below indicates that the review process can be improved.

### **Case Study 3.1 Major Review of Graffiti Management**

Audit assessed a 'Major Review of Graffiti Management' by Housing ACT, listed under the Calendar of Planned Activities for August 2007.

#### ***Review selection and planning***

The basis for choosing the review topic by the Housing ACT Review Team was unclear. Similarly, the objectives of the review were not defined and were inferred from the recommendations of the Review Report.

The Review Report stated that 'the report is the result of various sites noted as Graffiti affected where no action has been taken to deal with the removal of graffiti'. Also prompting the review was a letter of complaint to the Minister received from a member of the public, and a Non-Conformance Notice issued to Spotless for failure to undertake works.

The review did not address why the Housing ACT Graffiti Management Strategy did not have regard for the ACT Government's Graffiti Management Strategy developed in August 2004.

#### ***Review conduct***

Housing ACT requested Spotless to provide a list of the most recent graffiti 'hot spots'. Seven sites each in the North and South of Canberra were selected to be part of the review sample. The review findings were based on these sites.

A statement of criteria would have clarified Housing ACT's expectations with regard to graffiti management, and helped in guiding the subsequent testing. Findings and recommendations would then address gaps between the criteria and the observed outcomes.

A broader scope for sampling, including graffiti-related work orders, would also have helped to better clarify process and procedural weaknesses within Housing ACT and Spotless in relation to the treatment of graffiti.

#### ***Recommendations and report***

Although there were some limitations to the review, the Report itself was satisfactory. It clearly described the work that was done, and was appropriately authorised by the Contract Manager. The Report included recommendations that addressed the weaknesses identified and were directed towards corrective action.

### Joint and ad hoc reviews

- 3.50 Joint reviews are investigations conducted by Housing ACT with Spotless QA staff. They are intended to review work orders completed at one address over a relatively small period of time (e.g. three months). Conducted over a period of around two hours each, the reviews include a brief discussion with the tenant on their satisfaction with the services (both quality of work done, and conduct of the sub-contractor). Maintenance experts from Spotless and Housing ACT also inspect the work done, to assess whether it is as described in the work order and to the appropriate quality.
- 3.51 Ad hoc reviews are similar to joint reviews, except that they are initiated in response to a specific incident, such as a complaint.
- 3.52 Joint QA reviews are planned to occur on at least one day per month, during which time several reviews will be undertaken. Audit observed that the reviews were conducted of work orders suggested by Spotless although this appears to be as required by the contract. This means that there is a risk that Housing ACT does not see a balanced sample of work orders, and thus may gain an inaccurate view of the overall service quality. Audit was informed that, in future, Housing ACT will select work orders to be the subject of joint reviews.
- 3.53 Audit's brief review of documentation of joint reviews indicated they were appropriate to their purpose.

### Use of QA reviews

- 3.54 The results of QA reviews conducted by Housing ACT are used well. Defects that are identified can lead to raising NCNs against the Spotless contract, and issues arising can also be discussed at COG and CMG meetings.

### Conclusion

- 3.55 The selection, planning and conduct of QA reviews of Housing ACT maintenance of public housing do not reflect the rigour normally expected in QA audits.
- 3.56 The number of reviews was less than programmed, especially in 2005-06 and 2006-07. In addition, quality could have been improved through better objective setting and planning of the conduct and approach to each review. In the case of joint reviews, there was a risk that the selection of work orders reviewed was not representative. The QA process has therefore not been sufficient to assure quality, especially in the early period of the contract, and is likely to have contributed to the under-performance of the contracted services.
- 3.57 The QA process would benefit from a well defined and structured set of guidelines that instructs and guides the review process.
- 3.58 As well as determining the number of reviews to be completed, Housing ACT may also wish to specify the resources to be applied to the review program.

3.59 In summary, Audit found that:

- the program of major and focussed reviews addressed a number of higher risk areas;
- detailed planning for each major and focussed review would have benefited from clearer consideration of objectives, focus and approach;
- the review program was running significantly behind schedule;
- the program of joint reviews of work orders was at risk of lack of independence as the particular work orders reviewed were selected by Spotless. At the time of audit, Housing ACT was proposing to change this to selecting the work orders for review themselves;
- results of the reviews of work orders conducted by Spotless staff are not routinely reported to Housing ACT; and
- the format of joint QA reviews and the nature of the findings seemed appropriate to their purpose.

#### **Recommendation 4**

Housing ACT should simplify the range of review types in its Quality Assurance framework to improve efficiency in planning and managing the whole review program.

#### **Recommendation 5**

Housing ACT should:

- improve its guidelines for the conduct of reviews of work done by Spotless and its sub-contractors;
- sufficiently resource its Quality Assurance program;
- endeavour to conduct all reviews in accordance with the revised guidelines; and
- require Spotless to report regularly and comprehensively on the outcome of its reviews of work orders.

#### **DHCS Response (to Recommendations 4 and 5)**

*Although an adequate number of positions are established in the contract quality assurance unit, Housing ACT has experienced ongoing difficulty in attracting and retaining the quality of staff required to successfully undertake the review program required. Given the critical nature of this function, a significant effort has been sustained to find the staff required. This has resulted in the recent recruitment of a staff member with formal qualifications in Quality Assurance and QA experience in the Victorian Ministry of Housing. She will be responsible for the detailed planning of a program of major and focused reviews, for ensuring the independence of the joint reviews and for receiving and analysing the results of Spotless reviews.*

*With the improved staffing position a work plan will be developed to bring the review program up to date.*

*Housing ACT has reviewed and simplified the range of reviews in the Quality Assurance framework and has strengthened the definition of the objectives and purpose of each review.*

### CLIENT SATISFACTION

#### Background

3.60 With a devolved approach to the conduct of a TFM contract, reports on the extent of client satisfaction can provide a key performance feedback function. This client feedback is collected in several ways:

- collection of tenants' views as part of each routine review of a work order;
- complaints and praise from tenants to the Spotless hotline;
- complaints and praise from tenants to the Housing ACT complaints area;
- complaints and praise sent to the Minister (Ministerials);
- issues raised on behalf of tenants by Housing Managers;
- annual surveys of a sample of tenants; and
- other consultation, including through forums such as the Joint Champions Group that includes Housing ACT, Spotless and tenant representatives.

3.61 These mechanisms provide a comprehensive set of opportunities for tenants to provide feedback.

3.62 Although complaints are a very useful measure of satisfaction, they do have limitations. The main limitation is that different clients have different expectations for Housing ACT services, and hence their basis for complaints. Tenants with communication difficulties may require assistance to register or submit complaints through the available mechanisms. Some tenants may complain over apparently minor incidents, while others may suffer significant problems for a long time without complaining. Therefore, there may be equity issues, due to the risk that services are more aligned to the level of complaint rather than the actual need.

#### Surveys of satisfaction

3.63 Housing ACT commissions annual independent surveys of client satisfaction to assist evaluation of the TFM contractor and sub-contractors, and its own staff – and these include national comparisons. Audit looked at the results of three surveys, conducted during 2005, 2006 and 2007. The 2005 survey was conducted prior to the commencement of the new Spotless contract.

3.64 Surveys covered a large list of topics, including the nature of the clients and their dwellings, and their opinions on overall service delivery. This Audit focussed primarily on satisfaction with emergency maintenance and day-to-day maintenance.

3.65 In relation to delivery of maintenance services, areas surveyed related to overall satisfaction, emergency and day-to-day maintenance and non-maintenance issues.

**Maintenance satisfaction**

- 3.66 For both emergency and day-to-day maintenance, survey questions covered items such as:
- extent of tenant contact with the maintenance service;
  - overall satisfaction or dissatisfaction; and
  - satisfaction with contractors, staff, information supplied, quality of service and timeliness.
- 3.67 Table 3.4 below summarises the selected survey results in relation to emergency and day-to-day maintenance.

**Table 3.4: Selected results of client surveys about maintenance**

	2005	2006	2007
<b>Emergency Maintenance</b>			
Overall satisfaction	68%	72%	63%
Satisfaction with timeliness	61%	63%	57%
<b>Day-to-Day Maintenance</b>			
Overall satisfaction	54%	58%	56%
Satisfaction with timeliness	48%	55%	53%

Source: DHCS independent survey data

- 3.68 The reported level of overall satisfaction did not vary significantly over the three years. Timeliness of completion of work received the least level of satisfaction, and this is reflected in the Chapter 4 discussion about conducting and monitoring work. Client satisfaction with emergency maintenance (both overall, and with regard to timeliness) was significantly higher than satisfaction with day-to-day maintenance.
- 3.69 The survey results also indicate a slight improvement from 2005 to 2006 and a decline in 2007. These figures are comparable to, but slightly worse than, the national figures.

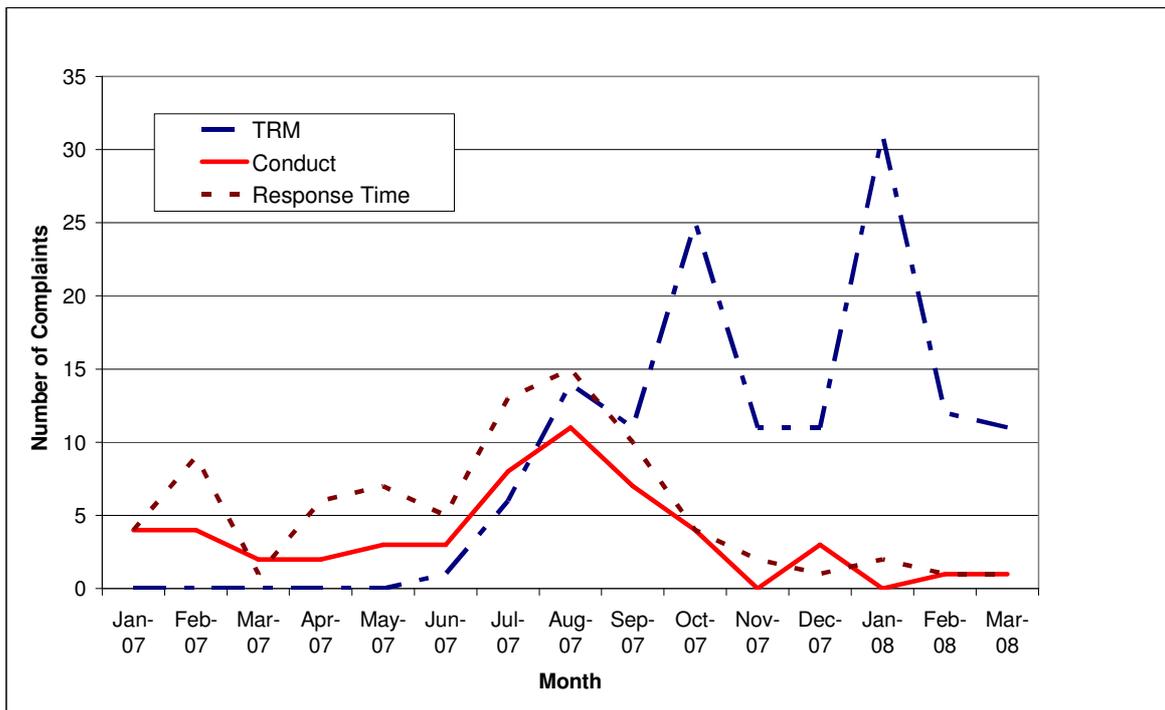
**COMPLAINTS PROCESSES****Background**

- 3.70 Complaints are a useful mechanism for tenants to seek action, and to alert Spotless to the need for maintenance. Further, analysis of complaints can also assist with the administration of the maintenance contract.
- 3.71 There are several different avenues for complaint by public housing tenants. They can complain directly to the Spotless call centre. They can also complain using the DHCS hotline or e-mail facility. If they wish, they can contact their Housing Manager, who may raise a complaint on their behalf, via an internal e-mail system to the Contract Manager – this is known as the Spotless In-Box. Also, a tenant may choose to complain to the Minister or to the Ombudsman.

### Complaints to DHCS

- 3.72 From July 2006 to June 2007, DHCS received 317 complaints with a key word that included 'maintenance'. All but three of these complaints were received by phone call.
- 3.73 Audit examined a random sample of twenty of these complaints. All the sampled complaints involved actionable issues relating to Spotless. All complaints in the sample, such as lack of responsiveness, poor workmanship and outstanding maintenance issues, were addressed.
- 3.74 Housing ACT responsiveness to complaints (informing the tenant once the complaint is referred to Housing ACT for action) was usually within the 21 day period set by the Complaint Management Unit of Housing ACT. This period was exceeded in three instances (by one to two months) and the date the tenant was advised was not clear in relation to four complaints. Over the sample, therefore, in 35 percent of cases either the timeliness to respond was not met or Audit was unable to confirm the timeliness.
- 3.75 The types of maintenance complaints can be readily grouped as relating to:
- tenant-responsible maintenance (TRM);
  - horticulture and common area maintenance in complexes;
  - conduct during maintenance work;
  - response time;
  - quality of work; and
  - general maintenance complaints.
- 3.76 Three types of complaint (TRM, conduct and response time) showed worsening trends during the fifteen months, but the others were generally constant throughout the time period. As shown in Figure 3.2 on the following page, during this period there was:
- generally increasing but highly variable TRM complaints; and
  - a rise in both conduct and response time complaints during the winter season.

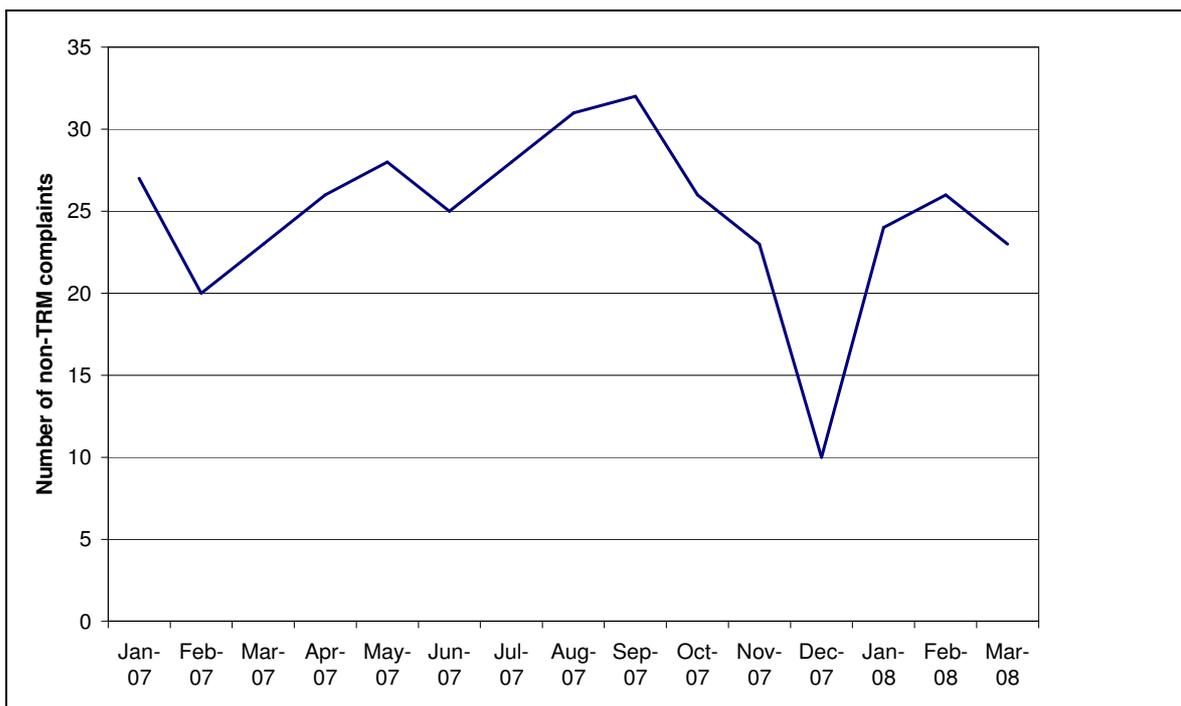
**Figure 3.2: Types of maintenance complaints January 2007 to March 2008**



Source: Housing ACT data. Data for TRM complaints were not collected prior to June 2007

3.77 Figure 3.3 shows the frequency of complaints excluding TRM-related complaints throughout the period from January 2007 to March 2008. The chart excludes TRM complaints as these tend to be related to the charging process rather than the conduct of maintenance.

**Figure 3.3: Non-TRM Maintenance complaints January 2007 to March 2008**



Source: Housing ACT data

- 3.78 Housing ACT commented that the seasonal variation of the complaints was because in winter there is a greater demand on heating and plumbing services. Increases in TRM complaints may have been influenced by a more rigorous attribution of TRM to tenants.

### Complaints to Spotless

- 3.79 Spotless reported each month on the number of complaints, the address to which they referred, and a summary of the complaint and Spotless resolution. From July 2006 to June 2007, Spotless reported a total of 116 complaints. Spotless is required by the contract to initially attend to complaints within 48 hours, although subsequent actioning will sometimes necessarily take longer. Spotless reported that it had achieved high compliance with this timeliness requirement, but this has not been reviewed by Housing ACT.
- 3.80 Spotless is also required to refer all complaints immediately to the Contract Manager. The Contract Manager is to maintain a register of tenant complaints received. However, the Contract Manager informed Audit that such complaints were not being referred. Audit also observed that the list of complaints held by the Contract Manager did not include the complaints to Spotless.

### Ministerial correspondence

- 3.81 Complaints (or other communication) are on occasions addressed direct to a Minister (Ministerials). The Ministerial is transmitted from the Minister's office to the DHCS Executive, where it is recorded and distributed to the relevant area to prepare a reply. Ministerials are managed separately and are not included in the complaints registers referred to above. However, they are reported in the monthly and quarterly reports by Spotless.
- 3.82 Audit reviewed 62 complaints to the Minister for the period June 2006 to September 2007. Of the complaints, 35 percent related to issues that required Housing ACT action, while 65 percent could be attributed to Spotless related maintenance issues, which ranged from responsiveness and follow up, to work quality and overcharging.
- 3.83 The sample indicated that once a complaint is escalated to the Minister, the issue is actioned and documented by DHCS in a systematic manner ensuring effective and timely follow up, with the reply to the complainant being sent out, on average, within one month of the complaint being received.

### Spotless 'In-Box'

- 3.84 The Spotless In-Box is a mechanism for Housing ACT staff, notably Housing Managers, to pass on information or complaints to the contract management team. In many cases, the issue is then referred to Spotless. These messages are not formally registered, nor are they counted as complaints when appropriate, as not all messages in the In-Box are complaints.
- 3.85 Audit reviewed some of the messages received and responses provided. The responses analysed indicated that action had been taken promptly to forward the issue to the appropriate party, normally Spotless, for resolution. However, there

was not a system, such as a monitored register, for ensuring that all messages had been handled, or that the action referred to Spotless had been completed.

### Analysis of client feedback

- 3.86 Audit was informed that issues arising from Ministerial correspondence were discussed at meetings of DHCS managers. However, whether an issue was raised was dependent on participants noting there had been an unusual number of letters to the Minister addressing that issue, rather than any systematic mechanism to detect trends.
- 3.87 There was no consistent analysis of issues arising from complaints. Housing ACT did conduct an analysis of the complaints process in late 2007, but this was from the point of view of improving the process itself. Housing ACT considers that this resulted in improvements in the integration of complaint handling. However, Audit considers that it would also be useful to analyse the content of complaints in a more systematic manner, to identify opportunities for improvement.
- 3.88 Housing ACT should analyse all complaints on a systematic basis to gain a better understanding of the performance of the contract as perceived by tenants. This is important, especially given that the current QA review processes are not sufficiently robust.

### Conclusion

- 3.89 Audit found that handling of client complaints was generally managed adequately, but the use of complaints as an effective management improvement tool could be improved. For example, the increase in TRM-related complaints could be analysed to indicate whether there are any systemic problems in the conduct of TRM. This could be facilitated by having an integrated database or list of complaints from all sources, together with the results of the complaint.
- 3.90 Audit also found that the register of complaints was incomplete as it did not include complaints received by Spotless, and hence underestimated the level of complaints.
- 3.91 Issues raised through complaints were generally well attended to, and were referred to appropriate areas for action. However, there is often no specific follow-up with the complainant, to check whether the issue is resolved from their perspective.
- 3.92 There is, therefore, an opportunity to strengthen follow-up processes after receiving complaints.
- 3.93 In the case of complaints to the Minister, there is a process that:
- identifies whether a specific commitment has been made to the complainant;
  - allocates action for a Housing ACT staff to engage Spotless to carry-out the work; and
  - follows up on whether that action has been carried out by Spotless.

- 3.94 This is good practice, but this process does not involve consulting the complainant at the conclusion. The good practice applied to complaints to the Minister should also be extended to handle complaints from other sources.

### Recommendation 6

Housing ACT should:

- follow-up on complaints to check with tenants whether the agreed action has occurred; and
- systematically analyse complaints through each of the complaints mechanisms – through Spotless, through DHCS and through Ministerial correspondence – to identify opportunities for improvement.

### DHCS Response

*As noted by Audit, in December 2007, Housing ACT began a process of correlating complaints received through the different processes existing in Housing and Community Services. This was followed by a review of the entire complaints process across the Division. This is being developed into a procedure for the systematic analysis of complaints and process improvement by the creation of additional codes for data collection in Homenet and the creation of complaint specific reports.*

*Housing ACT welcomes the Audit analysis that the process for handling Ministerial complaints is good practice and agrees that it would be improved by formalising a process consulting the tenant on completion. DHCS will implement a process of follow-up with tenants and extend this process to all complaints.*

## 4. CONTRACT ADMINISTRATION

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### INTRODUCTION

- 4.1 This Chapter describes and analyses the day-to-day processes used to operate the contract, such as job allocation, sub-contract awarding and payments to Spotless. It also considers the organisational structure used to achieve this.

### KEY FINDINGS

- Housing ACT did not have sufficient ongoing assurance that the Spotless call centre operations, such as assessing maintenance requests and allocating them to appropriate sub-contractors, were functioning as required.
- The proportion of responsive maintenance work completed late was higher than allowed for in the contract, and has not improved over time.
- The selection process used by Spotless for sub-contractors in some cases lacked transparency and there was less assurance about Spotless' compliance with ACT Government procurement principles and guidelines.
- Housing ACT's recent move to monitor some of Spotless' processes for awarding sub-contracts for planned maintenance works is sound.
- Increased monitoring of the awarding of contracts to sub-contractors joining the panel for responsive maintenance could assist in achieving better value-for-money.
- Housing ACT has taken appropriate steps, such as changing performance measures and re-engineering the maintenance processes, towards monitoring and improving the maintenance of vacant properties.
- Housing ACT varied the TFM contract in June 2006 to provide for Spotless to conduct condition audits of the housing stock, at a cost of about \$300 000 per annum. This process did not test the market to provide assurance of value for money or fully comply with the requirements of the *Government Procurement Act 2001*.
- The design of the performance bonus scheme led to Spotless receiving bonus payments notwithstanding that Spotless did not meet the performance targets for some key measures.
- The incentive provisions of the contract included a KPI that simply counted 'innovations'. Housing ACT may now wish to emphasise the cost-effectiveness of such innovations, rather than the number.
- The process of issuing Non-Conformance Notices and Instructions under the contract was generally sound, but there could be more clarity on when it is appropriate to issue these contractual notices.
- The processes used to pay invoices were reasonable, and payments in the sample inspected by Audit were correct.

## ORGANISATION

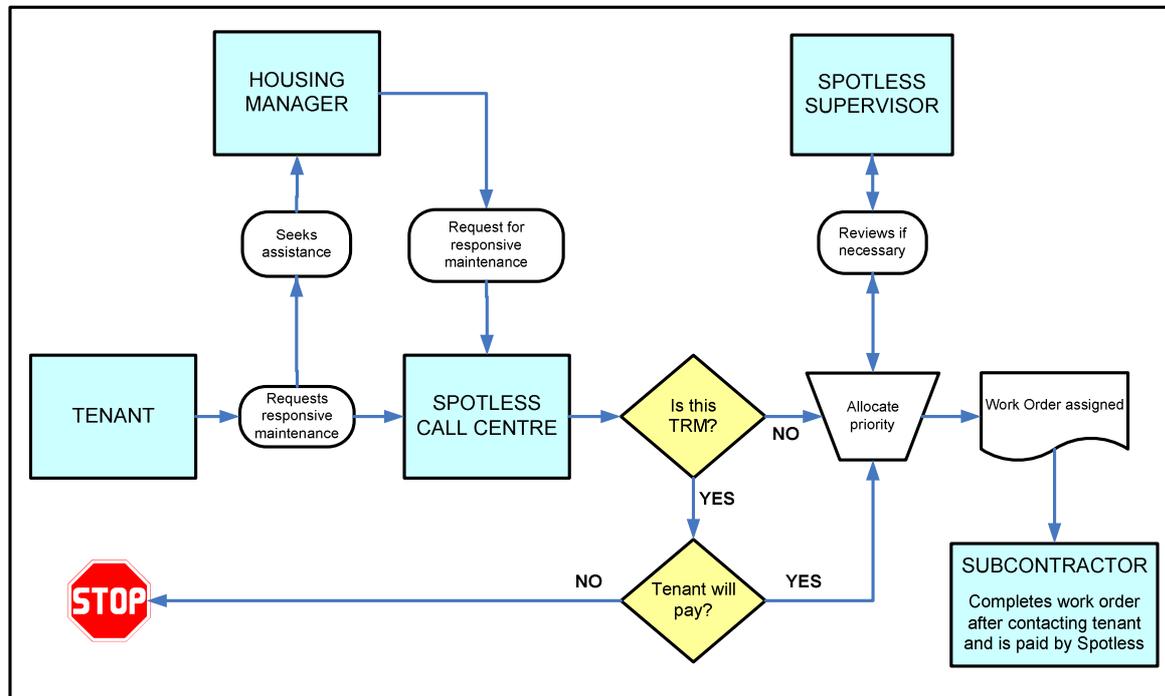
- 4.2 Contract management is performed primarily by the Property Management Section, as part of the Asset Management Branch of Housing ACT. Within this section, there are subgroups responsible for controlling the payment of invoices, planned maintenance, management of vacant properties, and responsive maintenance. In addition, a specific officer is responsible for fencing issues.
- 4.3 The QA function is managed by a different section head (who is also responsible for capital acquisitions). This person also reports to the head of the Property Management Section.

## RESPONSIVE MAINTENANCE

### Handling tenant requests

- 4.4 The process for responsive maintenance commences when either a tenant telephones the Housing Maintenance call centre or a Housing Manager calls on the tenant's behalf. This call centre is run by Spotless. Tenants are to phone in all requests for maintenance, and place any inquiries on the status of their job, through this call centre. The call centre is operated from 8:00 a.m. to 5:00 p.m, Monday to Friday, through Canberra-based staff. Outside these hours, the calls are diverted to Spotless' Sydney call centre. Figure 4.1 depicts the flow of events.

Figure 4.1: Tenant requests for responsive maintenance



Source: ACT Audit Office

- 4.5 The call centre operators, on receiving a call, are responsible for classifying it as either urgent (attendance required within 4 hours); priority (within three working days); or normal (within 14 days). Spotless will then allocate the task to a relevant sub-contractor, ensuring that the sub-contractor can deal with the urgency timeframe.
- 4.6 A significant proportion of responsive maintenance tasks (some \$2.85 million or over 35 percent of the overall responsive maintenance budget in 2006-07) relates to tenant-responsible maintenance (TRM) - involving, for example, breakages and other 'private' damage. (Of this figure, 30-40 percent refers to TRM identified after properties become vacant.) When a tenant calls in with items of this nature, the call centre should advise that the item will be charged as TRM, and that the tenant may wish to consider other means of making good the damage, such as selecting their own tradesperson to do the job. However, it is hard for the tenant to make a correct economic decision as Spotless is not currently able to give a quote for the cost to be charged by the Spotless sub-contractor. Housing ACT states that it is working on developing such a quotation system. Audit agrees this should be completed as a matter of priority, to provide better services to tenants and it may assist in reducing the high TRM complaint level (see Chapter 3).
- 4.7 The call centre also deals with enquiries and complaints from tenants, from Housing Managers (on behalf of tenants), and from sub-contractors.
- 4.8 Audit observed there was a risk that the Spotless call centre was making decisions that were not consistent with Housing ACT policy. For example, one case examined by Audit contained evidence that call centre staff had claimed that a tenant taking a property on mutual exchange was not entitled to responsive maintenance for twelve months, when Housing ACT had no such restriction. As well, Housing ACT has little information regarding whether call centre operators are advising tenants of their obligations for TRM, other than through the receipt of subsequent complaints.

### Recommendation 7

Housing ACT should take measures such as regular reviews to ensure the Spotless call centre, which receives maintenance calls from tenants and Housing Managers and allocates work to maintenance sub-contractors, is operating as required by the contract.

### DHCS Response

*Housing ACT has provided significant input to the operations of the Spotless call centre. They directed that elements of operations from the Spotless' Sydney operations be implemented in the ACT and providing Spotless with examples and supporting material from other Public Housing jurisdictions. A script for use by the Spotless call centre staff has been developed jointly and approved for use. Housing ACT has conducted a number of ad hoc reviews of the operations of the call centre.*

*Housing ACT agrees that the oversighting of the call centre and the alignment of call centre staff with HCS objectives and initiatives would be enhanced by regular reviews and briefing of the Spotless call centre and will implement these on a six-monthly program.*

### Allocating work

- 4.9 To allocate work, Spotless uses a grading system for their sub-contractor, depending on their performance and willingness to take jobs. When a call comes in, the call centre operator will identify the trade and then select the relevant sub-contractors as set-out by this system.
- 4.10 The work allocation system is classified as commercial-in-confidence in the contract, and hence the details are not included in this report. Audit considers that the system as designed is a reasonable one, but Audit did not review the implementation of this system by Spotless as this is outside the scope of the Audit. Earlier in the contract, Spotless had noted that the system at that time was not working well to achieve a fair spread of work across sub-contractors; for example some sub-contractors were getting high volumes of work despite poor performance. Further, Spotless did not suspend any sub-contractors for poor performance in the first year, and the grading of sub-contractors did not occur until near the end of the first year of operation. This suggests that despite the system design being reasonable, Housing ACT needs to regularly review and confirm that it is operating properly.
- 4.11 Sub-contractors have an approval limit of \$300. Related tasks ancillary to the job specified (e.g. re-hang door in association with repair of the lock) may be included provided the total remains below \$300. If the job exceeds this amount the sub-contractor must seek approval from Spotless. All Spotless staff are permitted to approve the replacement of a burst hot water system as the work is considered urgent. Other designated approval levels are:
- up to \$1 000 for Help Desk Operator;
  - up to \$2 000 for Senior Help Desk Operator;
  - up to \$3 000 for Help Desk Supervisor;
  - up to \$5 000 for Spotless Contract Manager or Operations Manager; and
  - over \$5 000 requires DHCS approval, based on three quotes, unless the work is considered by DHCS as needed for Occupational Health and Safety (OH&S) reasons.
- 4.12 Some jobs require assessment before substantive work can commence. For example, a tenant may state that a carpet is dangerously frayed. Spotless would not immediately order replacement carpet, but instead would send a supervisor to assess the situation. In this case, a work order for an inspection is raised using the same system, but it is allocated to a Spotless employee and the initial assessment is performed at no additional cost to Housing ACT – such cost is covered by the annual Spotless base management fee.
- 4.13 Volumes of responsive work for the years 2005-06 and 2006-07 are shown in Table 4.1 below.

**Table 4.1: Volume of responsive work, 2005-06 and 2006-07**

Type of work order	2005-06		2006-07	
	Number of work orders	Value of work orders	Number of work orders	Value of work orders
<b>Urgent</b>	15 225	\$3 211 260	9 988	\$2 669 964
<b>Priority</b>	11 623	\$2 478 961	9 693	\$2 470 852
<b>Normal</b>	31 217	\$10 117 459	24 781	\$8 829 970
<b>TOTAL</b>	58 065	\$15 807 680	44 462	\$13 970 786

Source: DHCS data

**Variations**

4.14 The initial definition of the work required is made by the call centre operator, on the basis of the description by the tenant. If a sub-contractor states that additional work is required, then the Spotless guideline is that this will be approved if it is minor and associated with the work in the works order, as discussed in paragraph 4.11 above. Any further work of a more substantial nature is to be notified to Spotless, and will be scheduled as a later task.

**Monitoring work (including delays)**

4.15 After the job has been allocated and accepted, Spotless guidelines require the call centre to remind the sub-contractor as the time period for completion of the job approaches. Audit did not review this Spotless process. However, as noted below, there are many instances where maintenance is not carried out within the designated response times, suggesting this is an area that needs attention by Spotless and Housing ACT.

4.16 Audit reviewed a sample of work orders, to assess whether they were completed within the standard time. Results are presented in the table below.

**Table 4.2: Timeliness from the sample reviewed by Audit**

Classification	2005		2006		2007	
	Sample	% on time	Sample	% on time	Sample	% on time
<b>Urgent</b>	5	100%	7	100%	7	100%
<b>Priority</b>	1	100%	9	67%	8	38%
<b>Normal</b>	7	71%	13	77%	17	94%
<b>Vacant</b>	0	-	0	-	0	-
<b>Other</b>	0	-	4	50%	4	100%

Source: ACT Audit Office

4.17 Standard times for each classification are:

- Urgent: within 4 hours (100 percent target);
- Priority: within 3 days (98 percent target);

- Normal: within 14 days (95 percent target);
- Vacant: within 10 days (85 percent target); and
- Other: as per an agreed timeframe.

4.18 Audit found in its review of samples that, when compared with the target times, performance was good for urgent maintenance (required within four hours) but was poor for priority maintenance tasks (required within three days).

4.19 The assessments above were measured against unadjusted target dates. Audit found that there had been changes to some target dates without obvious reasons. In late 2007, Housing ACT also identified instances of changed target dates.

4.20 The relevant Spotless manual states that:

if the original timeline for a work order cannot be met, and the original timeframe has not yet expired, then we may request an extension of the deadline. Valid reasons for extension of time are:-

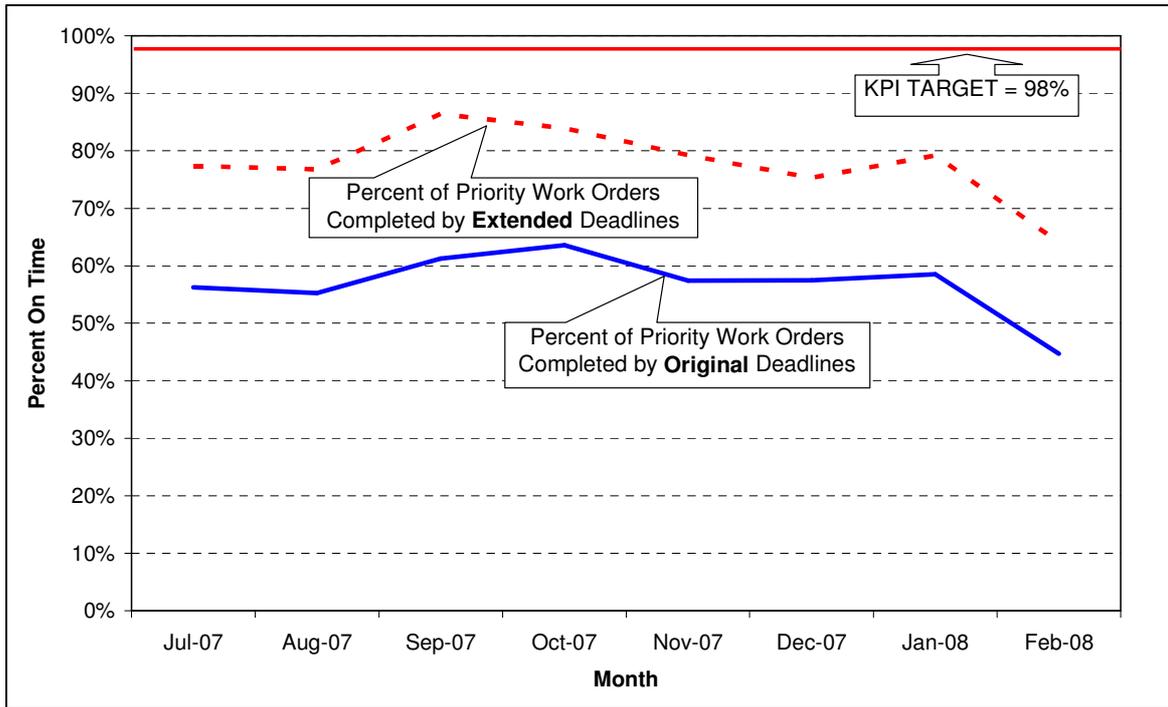
- Tenant not home;
- Appointment with tenant made in the future;
- Waiting on parts;
- Meeting with SSL [Spotless] or DHCS on site at future agreed date;
- Incident on site requires extension of time; and
- OH&S issue requires extension of time.

An invalid reason for an extension of time request by a sub-contractor is if a sub-contractor cannot attend a job within the agreed timeframe because they have personal timing issues. In these instances the sub-contractor should be notified that they still need to attend to complete the work within the timeframe otherwise an NCN shall be issued.

4.21 In early 2006, Spotless had identified, as a high risk, that they needed a strategy for resolving late work orders (e.g. to reallocate to another sub-contractor, after a period). In late 2006, a Housing ACT review noted that Spotless had been changing the target dates on about 25 percent of work orders. Housing ACT also requested, in April 2008, that Spotless must ensure when they take work orders off the system that work is completed. This suggested that there had been instances of such removal without completion, which would also distort the presented timeliness results.

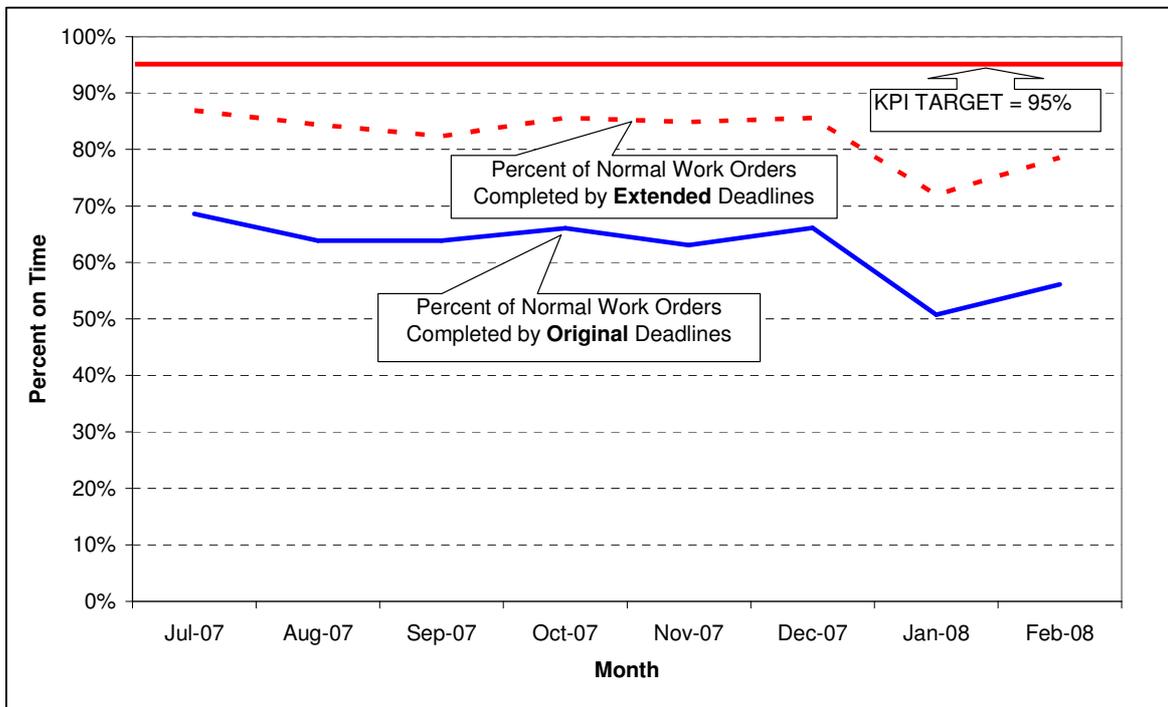
4.22 Housing ACT conducted another analysis of timeliness in early 2008. This analysis is shown in Figures 4.2 and 4.3 on next page.

Figure 4.2: Percentage of priority work orders completed by target dates



Source: ACT Audit Office – from Spotless 3 March 2008 KPI Report

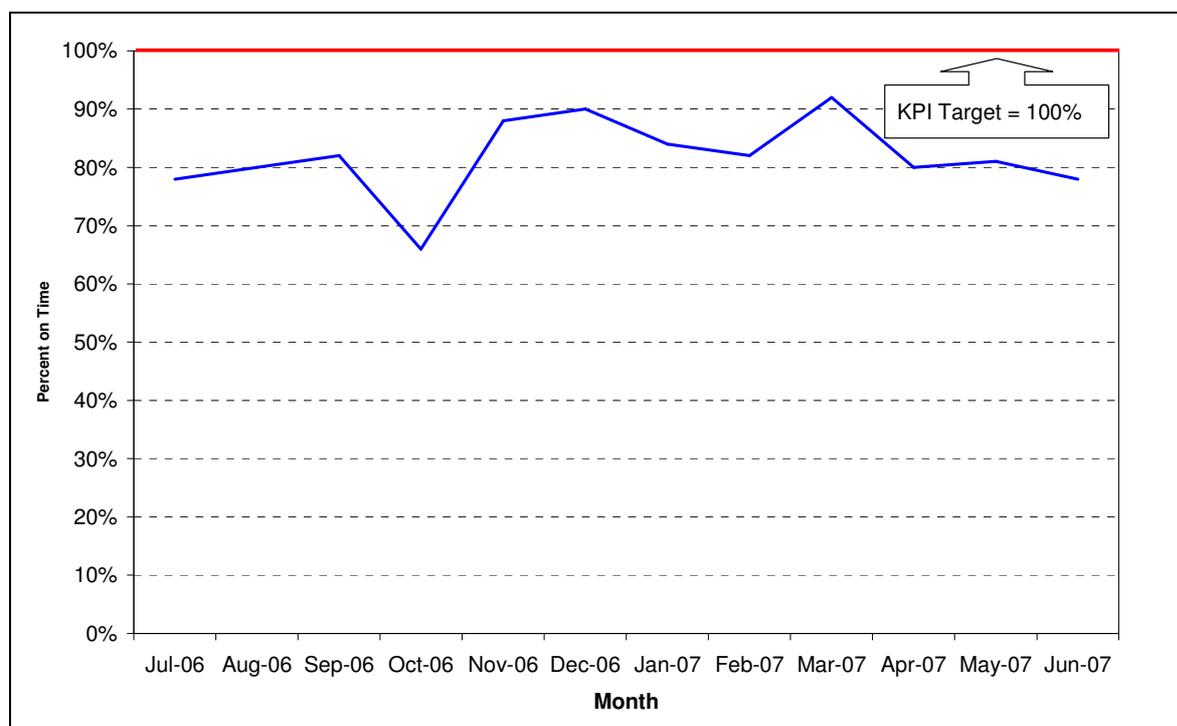
Figure 4.3: Percentage of normal work orders completed by target dates



Source: ACT Audit Office – from Spotless 3 March 2008 KPI Report

4.23 The following example (Figure 4.4) compares performance against target times for urgent maintenance (within 4 hours). Although both Spotless and Housing ACT agreed that improvements were needed, Audit found that there was little evidence pointing to improvements in this aspect. The same trend was evident across the other maintenance classifications, whether they were to be completed in four hours or 40 days.

Figure 4.4: Percentage of urgent work orders completed by target dates



Source: Spotless Apr/May/June 2007 Quarterly Performance Report

4.24 The proportion of work completed on time was significantly below target, and has not improved over time. In addition, Audit could not find tracking of when work orders were eventually completed – i.e. it is known what the percentage of work is late, but not how late.

4.25 Audit noted that the contract does not provide for a penalty to be applied specifically for the failure to meet the timeliness standards, and that the KPI for achievement of timeliness for responsive maintenance only made up six percent of the performance incentive in the contract. This could result in Spotless not giving sufficient and appropriate attention to resolve the timeliness issues. Housing ACT stated that it had raised their concern on lack of timeliness with Spotless, but this issue was still pending at time of audit.

**Recommendation 8**

Housing ACT should:

- review the use of formal processes (such as Non-Conformance Notices) to address the continuing lateness of responsive maintenance;
- establish controls on Spotless' practice of adjusting target completion dates for work orders and monitor the extent of, and the justification for, such adjustments; and
- review the Key Performance Indicators with a view to giving more emphasis to responsive maintenance.

**DHCS Response**

*Housing ACT has progressively raised the issue of the timeliness of responsive maintenance with Spotless, issuing four Non-Conformance Notices and a Formal Instruction over the last eighteen months. Spotless have responded by reviewing and changing their work practices in this area although improvements are yet to be evidenced. It has remained a business item on the Contract Management Group agenda and has been elevated to the Joint Contract Committee.*

*The lack of effective improvement in this area remains a significant concern to Housing ACT. The Audit recommendation that the Key Performance Indicators be changed to specifically measure the timeliness of responsive repairs is on the agenda for the next JCC. Housing ACT will include a measure for the control of timeline adjustments by Spotless.*

**PLANNED MAINTENANCE****Condition audits**

- 4.26 Condition audits are examinations of properties that assess the condition of the property, and hence what future maintenance actions might be needed. For example, a condition audit might identify immediate maintenance that is required, together with identifying when internal and external painting is required and when bathroom or kitchen upgrades would be advisable. The previous maintenance contractors had completed some condition audits of Housing ACT properties. However, in order to set a proper basis for future planned maintenance, Housing ACT commissioned, as a separate activity through Spotless, a program that will see condition audits on every property conducted within five years.
- 4.27 Spotless submitted its proposal to conduct condition audits in June 2006, at a cost of about \$300 000 per annum. This sum provides for the employment of two works supervisors as well as training and IT support. This program has now commenced. Housing ACT advised Audit that this additional work was awarded as a variation to the TFM contract. However, Audit noted that this process did not test the market to provide assurance of value for money. Further, the variation did not fully comply with the requirements of the *Government Procurement Act 2001*. For example, the Procurement Act requires a contract variation exceeding \$20,000 be notified on the Government Contract Register, but the public text of the contract on the Register shows no such variation.

### Preparing the refurbishment program

- 4.28 Based on condition audits and other information, such as annual inspections of properties and the amount of funds available, Housing ACT, in conjunction with Spotless, prepares planned maintenance schedules for each financial year. The process starts when Spotless submits an initial draft, around April. This is reviewed and modified with Housing ACT, until a final draft that details the properties and the works to be done at each property is agreed, by around early June. The number of works scheduled in 2006-07 was 737.
- 4.29 The refurbishment program lists properties for which work (such as painting, carpet replacement, or bathroom or kitchen upgrades) is proposed. At this stage, the estimate of what work will fit within the budget is calculated using a standard cost for each property e.g. \$9 000 per kitchen upgrade. Tenants are informed at this stage, but only that the work is scheduled for the forthcoming year.
- 4.30 Before the tenders are let, Spotless supervisors scope the wet area and kitchen refurbishments, as well as major common area painting, or floor covering work in complexes. This provides for more accurate definition of the jobs for the tenderers, as well as providing tenants the opportunity to choose colours and be informed of the process. In 2007-08, the pre-tender estimate for the planned maintenance program was \$8.2 million. Overall, the tendered prices received for the first part of 2007-08 were comparable to the pre-tender estimates.
- 4.31 The work program is then split into ‘packages’. Packages are geographically based, with typically two to five packages for each type of work. Each sub-contractor currently registered with Spotless for the appropriate trades is invited to tender for one or more of the packages. Under the contract, Spotless is required to comply with the principles of the *Government Procurement Guideline 2002*.
- 4.32 In May 2006, Housing ACT informed Spotless that two sub-contracts for painting did not comply and reminded them of the need to apply sound procurement practices. Nevertheless, since late 2006, Housing ACT has sought to be involved in the tender selection processes for the more significant packages. Tender selection processes, before that time, were solely the responsibility of Spotless, and were not reviewed by Housing ACT. Accordingly, some tender selection teams now involve one or more officers from Housing ACT. This seems good practice, as an interim measure, to assist Spotless to gain familiarity with ACT Government procurement guidelines and to allow Housing ACT to become satisfied with the conduct of Spotless procurement. However, Audit noted that this arrangement was informal, as there was no specific process for deciding when and under what criteria Housing ACT would be involved in tender selection.
- 4.33 Processes for tender selection examined by Audit considered both cost and quality issues, and used scoring against predetermined selection criteria, in accordance with good practice. However, Audit observed that the final selection decision, taking into account cost and quality, was by judgement only. In some cases, (where tenders were significantly more costly than that of the other low bidder) tenderers were chosen on the grounds of spreading the tasks between companies. On some other occasions, work had gone to a larger company, even though a smaller company had been assessed as having the capacity to do the work.

- 4.34 Audit considers, therefore, that the selection process for sub-contractors in some cases has lacked transparency. The selection method should be defined and documented, and be in accordance with the principles set out in the Procurement Government Guidelines.
- 4.35 Housing ACT should agree with Spotless, before the selection of tenderers, on the selection strategy (for example, on whether the work will be shared between the leading tenderers) and on the weights to be attached to the various selection criteria. Similarly, Housing ACT should be more vigorous in its review of the Spotless tender process, to ensure Spotless compliance with procurement guidelines and achieve value-for-money to the Territory. Spotless and Housing ACT have advised the procurement guidelines are now followed, and that Housing makes the final procurement decision.

### Recommendation 9

Housing ACT should:

- clearly define the criterion used to determine its involvement with Spotless' selection of sub-contractors; and
- agree with Spotless on the selection process, strategy and evaluation criteria before the tender of sub-contracts, consistent with the Government Procurement Policy and Guidelines.

### DHCS Response

*Audit has documented Housing ACT's increasing involvement in the Spotless sub-contract process as part of ensuring that the requirement to comply with the Government Procurement Act are followed. Housing welcomes the observation that this seems good practice. The course of formalising Housing ACT's involvement and documenting the requirements is one that Housing is following.*

*These requirements have been advised to Spotless through the Contract Management Group, including the requirement for the tendering of planned maintenance works to be consistent with the ACT Government procurement guidelines. Also included was a requirement for the Department to participate in the procurement process for all tenders over the value \$20,000.*

- 4.36 Once the successful tenderers have been selected, these sub-contractors would then inform Spotless of their proposed schedule. At this stage, Spotless would contact the tenant to advise them of approximate dates for the proposed work and address any concerns. Each property with a kitchen or wet area upgrade has a dedicated Spotless works supervisor.

## BUDGETING

### Setting an overall quantum of funding

- 4.37 Overall budgeting for public housing maintenance is through the normal Government process. Bids for expenditure are developed and argued, and the figure for housing maintenance expenditure is then approved by Government. Budget figures in recent years are:

**Table 4.3: Expenditures (actual or budget) for housing maintenance 2005-2009**

	<b>2005-06 (Actual) \$ million</b>	<b>2006-07 (Budget) \$ million</b>	<b>2007-08 (Budget) \$ million</b>	<b>2008-09 (Budget) \$ million</b>
Expenditure	\$26.876	\$25.545	\$29.328	\$33.692

Source: DHCS

4.38 The 2006-07 budget was reduced because of the overall budgetary constraints applied by the ACT Government at that time. The 2007-08 budget represented a fifteen percent increase in funding. In the 2007-08 budget, Housing ACT calculated the total expected maintenance cost based on replacement of items, such as heaters, hot water systems, and carpets, as well as wet area and kitchen upgrades - over particular cycle times that were thought appropriate (e.g. kitchen upgrades every fifteen years). However, the total amount needed to cover all this periodic expenditure, as well as responsive maintenance, was almost double the 2006-07 budget.

4.39 The process for determining the needs and funding requirement was not robust. In the absence of comprehensive and reliable data on the condition of public housing properties, it is difficult to assess the relative cost and benefits of different categories of spending and the trade-off between responsive maintenance and scheduled and upgrade work. There was no information to assess whether the current funding is appropriate to meeting not only the tenants' needs but also to protect the housing assets of the Territory.

**Budgeting for responsive and scheduled maintenance**

4.40 The proportion of expenditure allocated to responsive and scheduled maintenance is a KPI in the contract – the expenditure ratio. Spotless reports each month on its achievement against the budget line items. These line items are broken down into four categories:

- responsive repairs – including fair wear and tear and tenant responsible maintenance (TRM), as well as insurance repairs and graffiti removal, for tenanted and vacant properties;
- planned works – including such items as fencing, floor coverings, painting, cleaning and grounds maintenance (of multi-unit common areas) as well as installation of hot water systems, heaters and stoves;
- capital works – including major upgrades, kitchen and bathroom upgrades, and roof and structural works; and
- sales and acquisitions – works on properties about to be sold or just acquired.

4.41 The first category above is compared to the total expenditure (for all four categories) in calculating one of the contract KPIs. The targets and actual results achieved by Spotless over the term of the contract are as follows:

**Table 4.4: Responsive and scheduled maintenance**

Contract year	Expenditure Ratio = Responsive Repairs/Planned Maintenance		
	Contract KPI (at or lower)	Result (from Spotless Quarterly Reports)	KPI Met?
2005-06	40/60	54.1/45.9	No
2006-07	35/65	40/60	No
2007-08	32/68	30/70	Yes

Source: ACT Audit Office based on Housing ACT and Spotless data

- 4.42 The reduction of the maintenance budget for 2006-07 (see Table 4.3 above) increased the difficulty of achieving the target, as responsive repairs must still be attended to with budget cuts falling more on planned maintenance. A converse influence applied in 2007-08.
- 4.43 The maximum percentage of responsive repairs was set out in the contract for each year, but the 2007-08 ratio was amended by the JCC in May 2007 from the 30/70 ratio initially set in the contract, on the grounds that the initial target was not achievable with the budget at that time. Although the targets were not met until 2007-08, there has been a significant move to increase scheduled maintenance, compared with responsive maintenance, over the course of the contract.

### Budget management

- 4.44 For purposes of setting and monitoring the budget, Housing ACT broke down the expenditure into 35 line items such as responsive repairs, heater installation, fencing, internal painting, and kitchen upgrades. Audit observed that these line items were being managed appropriately, including monitoring of expenditure and movements across line items where appropriate. For example, there were instances where proposed expenditure was rejected because the budget for the specific line item would have been exceeded. This control was activated, leading to the need to transfer funds from one line item to another.
- 4.45 In the case of transfers examined by Audit, the adjustments were reasonable, were authorised, and were achieved in a short period of time.
- 4.46 Performance against budget was also reported to the Contract Management Group (CMG). The CMG reviewed the budget line items, noted where there were discrepancies, and recommended actions as appropriate.

## VACANT PROPERTIES

### Background

- 4.47 The prompt turn-around of properties that are vacated is important, in both easing the pressures of the long housing waiting list and in maintaining a stream of income to Housing ACT. Any reports of large numbers of unoccupied houses, or

of houses remaining unoccupied for long periods of time, can be perceived as inefficient management.

- 4.48 There are, broadly speaking, two reasons for a property to remain vacant. One is that essential maintenance is required, and the other is that new tenants have not yet been allocated. A property will also be vacant for a period if it is to be sold or demolished. The emphasis in this Audit is on the period of time required for essential maintenance.
- 4.49 In 2006, the Auditor-General issued Report No. 2 of 2006, *Public Housing*. That report did not address housing maintenance as the contract with the maintenance provider, Spotless, was at that stage very new. The report covered the overall issue of the timeliness with which vacant properties were turned around, but focussed on the tenanting component rather than the maintenance component.
- 4.50 One component of achieving a quick turn-around of vacant properties is conducting required maintenance in a timely manner. Maintenance of vacant properties is divided into routine and non-routine maintenance. The performance standard is that routine maintenance is to be completed within ten days. In the case of non-routine maintenance, the task is scoped and a specific target date is set for the completion of the repairs required.
- 4.51 Performance against the vacant properties target timeframe declined markedly in the early part of the current contract, but has improved recently. Achievement of the target for turn-around times of vacant properties improved from a low of 29 percent in August 2005 to over 90 percent by March 2007, and has continued at around this level. Actions to address this included implementation of an ‘innovation’ on scoping work for vacant properties (discussed in the next section) and close monitoring, including weekly meetings between Housing ACT and Spotless. Subsequently, the Performance Management System was adjusted in 2008 to give more weighting to achievement of this KPI (see Chapter 3). Audit notes that since the improvement in performance had already been achieved, the reason for increasing this KPI weighting was not clear. Indeed, Audit considers that Spotless should be expected to maintain these improved results for vacant properties, rather than Housing ACT giving a higher weighting for this category, leading to better performance bonus calculations for Spotless.
- 4.52 The KPIs include a target that the average cost per routine maintenance of a vacant property should be five percent lower than the previous year. (The KPI at the start of the contract referred to reducing overall maintenance costs by five percent). This has been achieved in recent years, partly due to improvements in the process for maintaining vacant properties.
- 4.53 In 2006, Housing ACT reviewed the vacant property turn-around process. It raised issues about, among other things, the evenness of the distribution of work between sub-contractors, the acceptance of high quotes and the variance between the works order estimate and the approved quote, but Housing ACT did not specifically address the quality of the maintenance work itself.

## Scoping

- 4.54 The process for scoping works for maintenance of vacant properties, has been revised as one of the formal innovations provided by Spotless under the contract. Previously, Spotless supervisors did not visit the property until it was vacated. They then assessed the work required, after which sub-contractors were engaged to do the necessary work. Now, Spotless supervisors attend during the 'pre-vacating' meeting between the outgoing tenant and the Housing Manager. At this time, there is an initial assessment of work that is required, and steps are then taken to engage the necessary sub-contractors or prepare tender documents. The final scoping is refined after the tenant has finally vacated, as some required works may not be apparent until the property is totally empty. This pre-vacating meeting has partly contributed to the improvement in meeting the target for time for turn-arounds of vacant properties, discussed in paragraph 4.51 above.
- 4.55 The efficiency of this process relies on the tenant giving the required three weeks notice. Audit was informed by Housing ACT there was often little or no notice before the tenant left the property – and as many tenants do not pay large rentals, there is generally little in the way of compensation for such late notice.

## Managing

- 4.56 After the scoping has been completed, Spotless allocates the identified work to its sub-contractors in the normal way, and specifies the dates that the work needs to be complete. It is up to Spotless to manage this process to achieve the target date, for example by scheduling the work of the different trades in a logical manner.
- 4.57 All vacant properties are subject to review by Spotless supervisors after the maintenance of vacant properties is completed. Audit was informed that some incoming tenants have reported unsatisfactory property conditions, but this issue did not arise in the Audit examination of a sample of complaints. In late December 2006, Housing ACT informed Spotless of a property returned with deficiencies in quality, and sought a review by Spotless of the level of non-compliance by Housing ACT. Spotless did not complete this review, and it was not pursued at the time.

## Conclusions

- 4.58 The management of maintenance of vacant properties is a significant process, with risks of over-servicing and lack of timeliness. Housing ACT has taken steps to address the lack of timeliness. The over-servicing risk is addressed through the levels of approval required for all works (see paragraph 4.11 above) together with the approach by Spotless of assigning an on-site supervisor to all works at vacant properties. As discussed earlier, further improvements are needed in quality review processes by Housing ACT to adequately manage these risks.

## INNOVATIONS

- 4.59 Under paragraph 4.2B of the contract, Spotless is to identify and implement value-for-money initiatives. This is spelt out further in the key performance indicators defined in Schedule 7 of the contract, under which Spotless had a target to

propose at least two innovations per month that could reasonably be accepted by Housing ACT. Since July 2007, this has been changed to one innovation implemented per six-month period.

4.60 Audit reviewed the innovations proposed since the contract started. They included:

- a changed process for maintenance work on vacant properties (as discussed above);
- a plan for conduct of a five-year program of condition audits (also discussed earlier);
- a changed process for managing fencing (with Spotless undertaking coordination with neighbours);
- a revised approach to replacement of cooking stoves, involving bulk purchase arrangements for the stoves; and
- a proposal to involve tenants in selected maintenance activities in multi-occupancy properties, such as horticulture and common area cleaning.

4.61 Audit noted the following:

- each of the proposals had merit on face value, although they generally reflected measures that would normally be expected as good business practices;
- some of the proposals actually originated from Housing ACT; and
- some of the implemented proposals had not been fully evaluated to assess the extent of the benefit and costs, (some innovations did not lend themselves to cost/benefit analysis – e.g. implementation of the Indigenous Traineeship Program).

4.62 Audit acknowledges that it is sound practice to encourage innovation, but the emphasis should be on the benefit to service delivery, rather than the number of innovations.

4.63 Continued encouragement of innovation might be achieved by means such as including it as a standard agenda item at meetings of the CMG and JCC, and ensuring there is a sound process for analysis and follow up of results from reviews and from complaints.

### **Recommendation 10**

Housing ACT should reconsider the approach to encouraging innovations, to emphasise their impact on cost-effectiveness of the service delivery, rather than the number of innovations per year.

### **DHCS Response**

*Housing ACT believes that there is a range of benefits potentially flowing from an ongoing focus on innovation in addition to those of cost effectiveness. These include support for process improvements within HCS, improved outcomes for*

*public housing tenants and support for the broader objectives of the Department (such as encouraging Aboriginal and Torres Straights Islander employment).*

*As Audit notes, Housing ACT and Spotless have given careful consideration to the effectiveness of the measure for innovation and this lead to the decision to change the KPI requirement to one significant innovation every six months. This brings a focus onto more substantial innovations both in the area of the cost effectiveness of service delivery and more broadly.*

## NON-CONFORMANCE NOTICES AND INSTRUCTIONS

- 4.64 Non-conformances can be raised by the Contract Manager through monitoring of contract operations, or through the QA process. Notification of a non-conformance relates to an instance of Spotless failing to adhere to the provisions of the contract. To some extent, it is a matter of judgement whether a particular failure amounts to a non-conformance. For example, in most cases Housing ACT determined that a failure by a sub-contractor to perform a specific job to standard would not amount to a contract non-conformance, as Housing ACT considered non-conformances relate to instances where there is a systemic problem. Non-conformance notices are not typically issued for individual work orders; work at this level may be reviewed by Spotless under its QA processes. Audit has previously recommended (Recommendation 5) that Housing ACT should require Spotless to report more regularly and comprehensively on the outcome of its reviews of work orders.
- 4.65 Each non-conformance raised requires a ‘cure plan’ to be submitted within two days. If the ‘cure plan’ is unacceptable, or if it is subsequently found to be not working properly, Housing ACT can issue an ‘Instruction’. Numbers of non-conformances and instructions issued to date were shown in the following Table:

**Table 4.5: Non-Conformance Notices and Instructions**

	2005-06	2006-07	July 2007 to March 2008
<b>Non-conformances</b>	6	25	9
<b>QA non-conformances</b>	0	11	13
<b>Instructions</b>	0	5	1
<b>QA Instructions</b>	0	1	1

Source: Housing ACT data

- 4.66 Audit is not in a position to judge whether the level of NCNs and Instructions issued by Housing ACT reflects the quality of services by Spotless. The Performance Management System sets a target of fewer than six NCNs per month, and zero Instructions each month. If this is taken as a guide, then performance over the last two years is satisfactory – it is approximately mid-way between perfect (zero NCNs) and the maximum amount of non-conformance envisaged by the contract.
- 4.67 Audit considers that there is scope for Housing ACT to improve the process of managing NCNs. There has been an instance of Housing ACT agreeing to

withdraw an NCN (as Spotless successfully argued that it was not sufficiently significant). Also, there did not seem to be a clear definition of when a sub-contractor error was sufficiently serious to justify raising an NCN on Spotless. Similarly, there is an issue of whether a 'cure plan' ceasing to work at any time, possibly long after the issue of an NCN, is sufficient grounds for issue of an Instruction.

### **Recommendation 11**

Housing ACT should better define, and communicate to Housing ACT staff, the criteria for issuing Non-Conformance Notices and Instructions.

### **DHCS Response**

*Housing ACT agrees that there are considerable benefits in making the process of raising Non-Conformance Notices more transparent to Housing ACT staff. HCS has adopted this recommendation and implemented a process for Housing Staff to recommend a Non-Conformance Notice being issued to Spotless.*

### **DISPUTES**

- 4.68 Contracts should provide mechanisms for resolution of disputes – to avoid unnecessary escalation during times of disagreement.
- 4.69 The contract contains sound provisions for resolution of disputes, including escalating issues through the Contract Operating Group, Contract Management Group and Joint Consultative Committee as appropriate, and later referring, if necessary, to formal arbitration.
- 4.70 Although there have been some disagreements during the contract, for example on whether certain actions amounted to non-conformances, there have been no disputes formally notified. The contract arrangements encourage resolution of issues through the governance committees, rather than more formal dispute processes. For example, an issue that required resolution involved the 'pay when paid' principle. Under the contract, Spotless is to pay sub-contractors within 30 days of them providing a properly rendered invoice, irrespective of when Housing ACT pays Spotless. However, Spotless had inserted into sub-contracts a provision that they would not be paid until Housing ACT had approved the invoice. Following complaints from sub-contractors, this was discussed at the Joint Consultative Committee in February 2007. Spotless agreed to remove the provisions, and Housing ACT's lawyers wrote formally to Spotless in June 2007 notifying them of the contract breach and requiring them to remove this provision. This was done for all sub-contracts from 1 July 2007.

### **INVOICING AND PAYMENTS**

- 4.71 Every task conducted through a sub-contractor leads to a separate charge. The charges are based on the 'Schedule of Rates' (SOR) specified by the contract and amended from time to time. Most of these rates are for specific tasks, e.g. 're-hang single timber, or metal, gate'. Others refer to a rate per area, e.g. for painting and cleaning.

- 4.72 Where there are a number of job codes that make up a task, completed at the same time by the same sub-contractor, these will be on the same invoice.
- 4.73 The SOR has had one across-the-board increase of six and half percent, in July 2007. There were no increases in July 2006. Spotless noted that contractors sought around eight percent for the 2008-09 year, and that the weighted average of the Labour Price Index and the Producer Price Index was four and half percent. Spotless claimed three and half percent, in line with the SOR increase for NSW Housing. The Joint Consultative Committee, however, recommended no increase. Following protests from sub-contractors, an increase of 3.3 % was agreed, to apply to the 2008-09 year.
- 4.74 After Spotless receives invoices from its sub-contractors, these are sent electronically in bundles of about 200 to Housing ACT for payment. Spotless is only paid the exact amount that is owed to the sub-contractors, based on the SOR or the specific tender; Spotless funds its operations through a separate management fee, paid monthly by Housing ACT.
- 4.75 Audit reviewed a sample of invoices and found generally sound processes and prompt payment.

### Incentive Payments

- 4.76 The contract is structured using an incentive scheme. Each month, the performance of Spotless is rated against a series of Key Performance Indicators (see paragraph 3.2, initially eleven KPIs, but reduced to six from January 2008). The scores against the KPIs are then condensed into an overall monthly score out of three with one and half (1.5) representing 'Business as Usual'. Monthly scores are totalled every six months, leading to a range of scores that can theoretically vary from zero to eighteen, with nine being the 'Business as Usual' score. Payments vary by three-quarters of one percent (0.75%) of the base management fee for each change of KPI score by one, as described in the table below.

**Table 4.6: Influence of KPI scores on discounts and bonuses**

KPI Score	Discount (-) or Bonus (+)
0	-6.75%
...	...
8	-0.75%
9 (Business as usual)	0
10	+0.75%
...	...
18	+6.75%

Source: Derived from TFM contract.

- 4.77 Audit notes that scores above 'Business as Usual' (score of nine) can be achieved with a score just over 50 percent and with several Key Performance Indicators at lower than desirable levels. This suggests that the performance bonus scheme

may be generous toward the contractor. Audit considers that it would be better practice for bonuses or discounts to be administered in a way that expects high performance and encourages excellence.

- 4.78 The JCC (chaired by Housing ACT, but with some Spotless members) considers the scores proposed and recommends the actual bonus or discount to be applied. For example, it was agreed that there would be a three-month period at the start of the contract for which the discount would not apply, recognising there was a period for Spotless to become acquainted with the service. Conversely, a later score that was just over 'nine' was not considered sufficient for a bonus to be awarded at that time.
- 4.79 Once the bonus or discount has been agreed, Spotless is asked to prepare an invoice for the appropriate amount, which is then paid (or deducted from the management fee) in the normal manner. Audit checked a sample of these payments and found the KPIs were correctly calculated based on the results provided, and the bonus payments were correctly calculated based on the KPIs and the JCC comments. Scores and bonuses paid over the period of the contract so far were as follows:

**Table 4.7: Key Performance Indicator scores and bonuses paid**

Period	Score	Payment (ex GST)
July 2005 to December 2005	8.25	0
January 2006 to June 2006	9.70	0
July 2006 to December 2006	9.30	0
January 2007 to June 2007	11.99	\$47 308
July 2007 to December 2007	12.57	\$51 695

Source: Housing ACT data, compiled by ACT Audit Office

- 4.80 Under the current incentive scheme, Spotless received bonus payments notwithstanding that it did not meet the performance targets for some key measures.

### Assessment and monitoring against KPIs

- 4.81 Results against each of the KPIs were reported to the CMG monthly and the JCC quarterly. Minutes of these committees indicated that the indicators were monitored and discussed. Where they were running below expectations, Spotless was asked to report back on the reasons. For example, Spotless was asked in February 2008 to consider why responsive maintenance was not as timely as it should have been and to report back on options for improving it. This issue was not resolved at the time of this Audit.

## CONCLUSION

- 4.82 Housing ACT has taken a number of appropriate measures to improve the contract administration in recent times. The overall structure, involving devolution of

responsibility to Spotless, together with monitoring by Housing ACT, is appropriate to a contract that has some 60 000 chargeable activities per year.

- 4.83 However, Audit has some concerns on aspects of contract administration. Housing ACT, for example, did not adequately scrutinise Spotless key activities critical for the delivery of quality maintenance work - such as Spotless managing the call centre and conducting routine reviews of work orders. Housing ACT did not have sufficient information on these operations of Spotless. As noted above, under the devolved arrangements Housing ACT should have no need to be involved in direct management of these operations. Nevertheless, Audit's view is that comprehensive reports from Spotless and QA reviews by both Housing ACT and Spotless in these areas are warranted, to give Housing ACT appropriate assurance that maintenance services delivered are in accordance with standards specified in the contract.
- 4.84 Performance in the conduct of maintenance of vacant properties has improved, but timeliness in responsive maintenance remains poor. Audit notes Housing ACT's intention to improve responsive maintenance; this requires firm follow-up and enforcement of measures to address any non-conformance or non-performance of Spotless.

## **5. CONTRACT REVIEW AND EXTENSION**

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### **INTRODUCTION**

5.1 This Chapter describes processes used to consider and implement, where appropriate, necessary amendments to the contract. It also considers the process used to decide whether to extend the contract, which expired on 30 June 2008.

### **KEY FINDINGS**

- Reviews of overall contract performance, and subsequent minor amendments to the contract, have addressed issues such as performance indicators and contract performance, and have been properly authorised.
- The detailed negotiations for an extension to the contract were late, which potentially reduced Housing ACT's bargaining position.
- As at 31 July 2008, the contract extension had not been signed.

### **CONTRACT REVIEW AND AMENDMENT**

#### **Background**

5.2 Contracts often contain provisions for review and possible extension. Such provisions can facilitate amendments during a contract, and provide continuity if it is desired to extend the provision of services.

5.3 To date, there have been few substantial amendments to the contract. Changes have included some revisions to the KPIs and also updates to the 'Schedule of Rates'. There have also been some provisions added, such as the ability for Housing ACT to be consulted on the choice of sub-contractors and the incorporation, in January 2008, of the QA framework into the contract.

5.4 Consideration of potential amendments occurred through the contract committee system. Proposals were discussed at the Contract Management Group (CMG) and, as appropriate, endorsed by the Joint Consultative Committee (JCC). Amendments to the contract are then formally endorsed by the signatories to the contract or their delegates. Audit considers this process to be reasonable.

#### **Contract Review July 2006**

5.5 The CMG coordinated a report on the services over the first twelve months of its operation. This was a comprehensive review that analysed the services in the following categories:

- contract management;
- responsive repairs;
- planned maintenance;
- works management system;
- call centre performance; and

- process for maintaining vacant properties.
- 5.6 The review by the CMG found that ‘despite the slow start up of the contract and despite some continuing issues, operations and service delivery has improved over the twelve months’. Issues noted included the need to:
- improve Spotless staff training and Housing ACT recruiting;
  - document and fully leverage the new initiatives;
  - develop data mining and improve reporting;
  - identify and comply with contractual commitments;
  - better understand and revise the KPIs;
  - improved use of budget controls and consistency in financial reporting;
  - improve QA delivery; and
  - improve complaints management.
- 5.7 This review derived action items that were allocated to parties, often the Contract Operations Group (COG) or the CMG. Audit conducted a brief review of a sample of the actions that were allocated to the COG and the CMG and found that the CMG made recommendations to the JCC about:
- a review of KPIs and how to score them;
  - a point in time review;
  - workshop outcomes;
  - the contract operation plan; and
  - the timing for future reviews.

## **CONTRACT EXTENSION**

- 5.8 The contract between the ACT Government and Spotless is for an initial three year period, that expired on 30 June 2008, with the possibility of up to two two-year extensions. Housing ACT recommended to the Commissioner for Housing in late 2007 that the contract be extended for two years. However, this recommendation was not formally accepted until early May 2008, leaving a short period for contract negotiation. Any notification of non-extension would have had to be made, according to the contract, at least six months before the end of the contract. Audit notes that even a six-month period does not provide adequate time to go to the market, select an alternative provider and achieve a new contract, if negotiations on an extension do not succeed.
- 5.9 Housing ACT has advised that it has considered the performance of Spotless and, on balance and recognising the improving performance over the last year, recommended the contract be extended. A decision to extend the contract should have been made around the time the initial recommendation for extension was made, in late 2007. This would have left some scope for taking a different course should renewal negotiations with Spotless have proved difficult. As it was, the

late decision compressed the time available to negotiate improvements to the contract, within the time required to have it agreed and in place.

- 5.10 Audit notes that as at 31 July 2008, the contract extension had not been signed, although Housing ACT and Spotless were operating as if the contract had been formally agreed. The Government Contract Register shows the TFM contract as expired (with effect from 30 June 2008), and no variation or renewed contract is recorded on the Register.

### **Recommendation 12**

For any future extension of the contract, DHCS should better plan and negotiate the extension, well before the period set out in the contract.

### **DHCS Response**

*The decision by DHCS to exercise the first extension to the contract was made within a timeframe that would have allowed re-tendering had that been the decision of the Commissioner for Housing. Negotiations on the terms of that extension have been protracted, focusing on issues of pricing. The Department agrees that it would be preferable to conclude the negotiation for any further extension well before the period set out in the contract.*

# APPENDIX A AUDIT CRITERIA, APPROACH AND METHODOLOGY

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## AUDIT CRITERIA

### Criteria

#### **1 Governance arrangements for the control and management of the contract are sound**

- 1.1 Responsibility for all aspects of managing the contract has been clearly assigned, for example in the form of a Contract Management Plan (CMP) or similar.
- 1.2 There are clear directions and guidelines (under the CMP or otherwise) to assist the management of the contract.
- 1.3 There are sound processes for setting the on-demand and planned maintenance budgets.
- 1.4 Delegations exist for the issuing of directions under the contract and the approval of expenditure.
- 1.5 Risks to the management of the contract have been identified and risk treatments identified.
- 1.6 It is clear who is responsible for implementing any necessary risk treatments.
- 1.7 The committees responsible for managing the contract, between them, effectively address the relevant issues.

#### **2 Contract performance is measured appropriately, with actions taken to improve performance**

- 2.1 Performance measures are objective, clear and comprehensive.
- 2.2 Measures include benchmarks or targets.
- 2.3 The performance regime is cost effective to administer for both parties.
- 2.4 The setting of the performance targets encourages performance improvement over the life of the contract.
- 2.5 Regular reviews of contract performance are carried out, with any unsatisfactory results being acted on.
- 2.6 A process has been established to review the performance regime periodically to ensure its ongoing relevance.

**3 Day-to-day administration of the contract is efficient and effective, and adheres to the provisions of the contract.**

General

- 3.1 Payments are correctly processed (timely, accurate, approved) and based on invoices and other supporting documentation.
- 3.2 Performance incentives are correctly assessed and paid or deducted as the case may be.
- 3.3 Any disputes and complaints been addressed in a timely manner and satisfactory efforts made to resolve them.
- 3.4 There is reasonable assurance (e.g. through an audit program) that maintenance jobs have been conducted as requested.
- 3.5 Maintenance satisfaction surveys are conducted and the results used to improve services.

Responsive maintenance

- 3.6 Call centre operations are efficient and effective.
- 3.7 There are good record-keeping processes that indicate matters such as notification time, any tenant-induced delays, start time of job, completion time and comments on any further work required.
- 3.8 There are reasonable procedures for ensuring that sub-contracting arrangements represent value-for-money for the Territory.
- 3.9 Any backlogs of maintenance are properly prioritised and dealt with in a fair and efficient manner.

Planned maintenance

- 3.10 Programs of assessing property conditions are planned and carried out.
- 3.11 Decisions on planned maintenance are based on assessed cost-effectiveness of the maintenance action.

**4 There are sound processes for contract review and consideration of extensions**

- 4.1 The contract has been subject to periodic review.
- 4.2 The contract extension was justified on value-for-money grounds.
- 4.3 There were arrangements in place designed to ensure that probity issues are identified and addressed during contract extension processes.

## AUDIT APPROACH AND METHODOLOGY

The audit approach and methodology consisted of:

- research into comparable studies of public housing maintenance;
- consultation with DHCS' executives, managers and staff responsible for management of public housing maintenance;
- review of documentation relating to strategic management of the contract, including interaction with the contractor, the nature of performance analysis, payment of any incentive amounts and consideration of whether to extend the contract;
- review of documentation on policies and procedures for managing the maintenance contract;
- review of documentation relating to maintenance activities, including tenant requests for maintenance, directives to the contractor, reviews of maintenance performed, and invoicing and payment;
- discussion with Spotless key contract personnel;
- review of complaints about maintenance; and
- feedback and discussion with the Contract Manager and staff during the audit.

## **APPENDIX B CONTRACT MANAGEMENT**

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This Appendix provides some background information on two aspects of contract management. Firstly, it summarised the contents of a Contract Management Plan, and secondly presents some better practice from a guide to contract management issued by the Australian National Audit Office (ANAO) and the former Commonwealth Department of Finance and Administration.

### **1. Contract Management Plan (ACT Procurement Solutions, Department of Treasury)**

Procurement Solutions , a part of ACT Department of Treasury, has developed a Contract Management Plan (CMP) template for ACT Agency projects. The template provides guidance on the content of the CMP under five major headings:

- Background;
- Initial Contract Award;
- Contract Administration;
- Contract Finalisation; and
- Contract Audit Trail.

The key components recommended for the CMP under these headings are as follows:

#### Background

This section would include issues such as the reasons for the contract, and an outline of the procurement process. It would also list the contracting parties and major stakeholders, including contact information. The CMP would also include information from the contract on:

- statement of requirements;
- service standards expected;
- pricing and remuneration arrangements;
- contract duration;
- key conditions of contract; and
- assets and document registers.

#### Initial Contract Award

The CMP template provides for sections on:

- transition responsibilities;
- relationships, e.g. partnering arrangements;
- statutory and regulatory requirements; and
- project schedule.

### Contract Administration

The components of the template under this section are:

- risk identification and management strategies;
- performance monitoring and reporting;
- finance and budgets;
- insurances;
- dispute resolution; and
- complaints procedures.

### Contract Finalisation

The components of the template under this section are:

- completion or renewal (for example provisions for finalising records, finalising financial arrangements and providing for transition);
- review and evaluation;
- hand over (if applicable); and
- defects liability period (if applicable).

### Contract Audit Trail

The final section of the template provides for:

- audit processes; and
- recommended future improvements.

## **2. Contract Management Plans from other jurisdictions**

CMP templates used in other jurisdictions include some additional features:

- definition of key documents, who manages them and their location;
- communication strategies, including definition of regular forums (Chair, frequency, members, purpose, powers);
- process for identifying and recording potential conflicts of interest;
- data and information management;
- processes for assuring quality and for encouraging continuous improvement;
- processes for preparation of budgets;
- reporting requirements. This should include requirements on the contractor to report to the Department, as well as the Department's responsibility for reporting to the Government and to the public;
- handling of conflicts, disputes, unexpected external events and under-performance;
- handling of contract variations, including price variations;

- payment processes;
- contract review and extension; and
- processes for review and approval of the CMP.

### **3. Better Practice Guide to Contract Management**

The following table summarises better practice on administration of contracts, taken from the Better Practice Guide *Developing and Managing Contracts*, issued by the ANAO and the former Department of Finance and Administration in February 2007. It also compares the findings from this Audit on the TFM contract between Housing ACT and Spotless with the better practice recommendations.

**Table 1: Better practice on administration of the contract**

<b>Item</b>	<b>Key Tasks in administering contracts - Better Practice Criteria</b>	<b>Comments and Findings Relates to Housing ACT's TFM Contract</b>
1	Identify and manage risks	A Risk Management Plan specific to the contract is not in place.
2	Establish effective lines of communication with stakeholders	There are regular meetings at a senior level.
3	Establish and sustain contracting capability	Housing ACT has established adequate contract management capability, including appropriate levels of senior management commitment and support to assist the management of the TFM contract.
4	Establish systems and procedures	There are many guidelines and procedures established, but completed versions are not in place for some key activities. There is no formalised Housing ACT Contract Management Plan as required in the contract.
5	Identify and assign responsibilities	Responsibilities for various facets of contract management have been assigned.
6	Identify and access the skills required	There were difficulties with staff skills at the early stage of the contract. The current team has diverse backgrounds and appears to have appropriate skills.
7	Administer the contract	Notwithstanding improvements in recent years, the policies and practices had not been sufficiently robust to manage effectively the contract in the early period of the contract. There are opportunities for further improvement, particularly in monitoring of the Spotless call centre operations, quality and timeliness of work carried out by sub-contractors and enforcement of measures on non-conformances.

Item	Key Tasks in administering contracts - Better Practice Criteria	Comments and Findings Relates to Housing ACT's TFM Contract
8	Manage contract performance	The Performance Management System within the contract has helped to identify risks, and to encourage improved services delivery. However, the shortcomings in the QA framework, especially in the early period of the contract, indicated a lack of robustness in the review process. Improvements are required in handling of client complaints.
9	Negotiate contract variations	Amendments to provisions of the initial TFM contract have been negotiated and approved.
10	Manage contract disputes	There have been no formal disputes. Issues have been raised and debated in formal communications.
11	Keep records	Most details of contract administration have been well documented.
12	Manage contract extension or renewal	The decision to extend the contract was made late, which potentially reduced Housing ACT's bargaining position. The extension was not formalised as at 31 July 2008.

Source: ANAO and Department of Finance and Administration, Better Practice Guide *Developing and Managing Contracts*, February 2007, and ACT Audit Office.



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