

**ACT AUDITOR-GENERAL'S REPORT**

**TOTAL FACILITIES MANAGEMENT  
CONTRACT IMPLEMENTATION**

REPORT NO. 2 / 2021

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The ACT Audit Office undertakes audits on financial statements of Government agencies, and the Territory's consolidated financial statements.

The Office also conducts performance audits, to examine whether a Government agency is carrying out its activities effectively and efficiently and in compliance with relevant legislation.

The Office acts independently of the Government and reports the results of its audits directly to the ACT Legislative Assembly.

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### **Audit Team**

Karen Ruse

Matthew Bowden

The support of Taylah Commisso and David Kelly is appreciated.

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PA 20/06

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

Dear Madam Speaker

I am pleased to forward to you a Performance Audit Report titled 'Total Facilities Management Contract Implementation' for tabling in the Legislative Assembly pursuant to Subsection 17(5) of the *Auditor-General Act 1996*.

The audit has been conducted in accordance with the requirements of the *Auditor-General Act 1996* and relevant professional standards including *ASAE 3500 – Performance Engagements*.

Yours sincerely



Michael Harris  
Auditor-General  
25 March 2021

*The ACT Audit Office acknowledges the Ngunnawal people as traditional custodians of the ACT and pays respect to the elders; past, present and future. The Office acknowledges and respects their continuing culture and the contribution they make to the life of this city and this region.*



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# SUMMARY

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Since November 2018, Housing ACT has maintained its social housing portfolio through a total facilities management contract with Programmed Facility Management. The contract is one of the ACT Government's highest value service contracts and may operate for up to 14 years, if options to extend the contract are taken.

The maintenance of social housing is important. It not only serves to preserve the value of the ACT Government's social housing assets, but also contributes to the delivery of adequate, equitable and appropriate housing for tenants. Given these outcomes and the duration and overall value of this contract, it is important that the contract is effectively managed.

The audit considered Housing ACT's management of the contract. This included consideration of the governance and administrative arrangements of the contract and processes to manage and monitor contract performance.

## Conclusions

### CONTRACT GOVERNANCE

A series of governance groups and forums involving representation from both Housing ACT and Programmed have been established for the review and oversight of the delivery of social housing maintenance services under the contract. Each governance committee has a discrete and documented role and the cascading structure of the governance framework helps manage risks to the achievement of the Commissioner for Social Housing's outcomes.

While effective overall, these arrangements have not been effective in monitoring the contract's financial and budget management. The Finance Group was initially established, but it was subsequently incorporated into the Contract Operations Group; during this period there was a lack of effective oversight of the 2019-2020 budget and the end of financial year outcomes. The Finance Group has since been re-established and its role and representation improved in order to facilitate more effective budget monitoring and management.

### PERFORMANCE MANAGEMENT

The total facilities management contract sets clear outcomes which are to maintain the housing assets, achieve value for money and deliver social outcomes to Housing ACT tenants. Nevertheless, there is an underlying complexity to the effective implementation of the contract.

The contract includes quality assurance activities and the development and implementation of a Performance Management System. The Performance Management System is designed as a balanced score card approach that is aligned with the key principles for how Housing ACT expects Programmed to operate and deliver the services. It is both comprehensive and complex.

Monitoring and assessing performance across the fifty key performance indicators requires reliable, robust, and repeatable measurement methodologies as well as accurate, complete, and verifiable data. This had not been achieved at the time of the audit. Housing ACT and Programmed continue to seek to improve the accuracy of performance and financial reporting.

In 2019-20 \$51.83 million was spent on reimbursable expenses for work performed under the contract; an overspend of \$7.55 million (17 percent). Poor financial management systems and processes meant that the overspend was not identified until June 2020 and quantified until September 2020. The overspend occurred despite comprehensive governance and performance management arrangements. Housing ACT must ensure that the arrangements are actively managed to be effective in supporting the Commissioner’s objectives for social housing. Housing ACT and Programmed have since strengthened the governance and performance management activities of the contract in order to improve performance monitoring and financial reporting.

## Key findings

### CONTRACT GOVERNANCE

Paragraph

The peak governance committee for the contract is the Joint Consultative Committee. The Committee’s responsibilities include: managing overall contract governance; overseeing the strategic management of the contract and delivery of the services; overseeing the Performance Management System; considering and endorsing any proposed variations to the contract; and ‘monitoring the Contract Management Plan’. The Committee involves representatives from both Housing ACT and Programmed and meetings follow a regular and routine agenda. In response to a budget overspend identified in September 2020 the Committee now considers financial and budgetary matters as a standing agenda item at each of its meetings and the duration of its meetings has been extended to accommodate this. The Committee has been effective in its oversight of the total facilities management arrangements and the delivery of services by Programmed.

2.21

The Contract Management Group reports to the Joint Consultative Committee. The terms of reference for the Group describe its role ‘to manage and monitor the delivery of the Services under the TFM Contract’. In practice, the Group’s meetings are divided into three rotating pillars, each of which is underpinned by individual terms of reference: Quality Management and Risk; Operational; and Social Inclusion and Continuous Improvement. Over each quarter, there is an individual meeting for each of the three pillars. The *Contract Management Group Process Instructions* document covers support arrangements for meetings of the Contract Management Group such as membership, meeting papers and distribution of papers, out of session approvals, agenda and location of meetings and provides useful guidance on the conduct and operation of the Committee and its meetings. The Group has been effective in its support of the total facilities management arrangements and the delivery of services by Programmed.

2.36



The Contract Operations Group provides oversight, assistance and advice on operational matters, ICT activities, and financial and reporting matters. Its focus is on the implementation of decisions of the higher levels of the governance structure and escalation of issues for further discussion and decision. The role and purpose of the Group was initially set out in the contract; and later revised in September 2020 as agreed by the Joint Consultative Committee. These changes focus the group on operational matters specific to services under the contract; operational risks and risk treatments; service delivery; and consultation about new service delivery processes and procedures. The changes to the terms of reference provide a clearer focus for the Group from those in the original terms of reference. These changes should help the Group be more effective in its support of the total facilities management arrangements and the delivery of services by Programmed.

2.44

The Finance Group seeks to oversight, manage and monitor Programmed's performance against the financial aspects of the contract. The Group met for the first time in February 2019 before it was incorporated into the Contract Operations Group. A key shortcoming of the Group was an absence of discussion relating to overall progress of the budget or the end of financial year outcomes. In September 2020 in response to the budget overspend of \$7.6 million for reimbursable services for 2019-20, the Finance Group was re-established as a standalone group with monthly meetings. Membership of the Group now includes the senior contract managers from both Programmed and Housing ACT as chair(s) and Finance staff of both Programmed and Housing ACT, with additional senior finance staff identified as voting members. Additional financial expertise is available through non-voting members including the Housing ACT Director, Finance. The September 2020 changes to the operation of the Finance Group have sought to facilitate more effective monitoring of the contract's overall budget and financial performance.

2.56

## PERFORMANCE MANAGEMENT

Paragraph

Housing ACT's Senior Contract Manager has a pivotal role in the implementation and management of the total facilities management contract. They manage a team of eighteen staff across three functional areas and have the key role in managing the relationship with Programmed. The Senior Contract Manager also participates in the governance committees and groups, either as a voting member or chair. In the event of contractual non-performance, it is the Senior Contract Manager's decision to issue a contractual notice to Programmed. The Senior Contract Manager accepts (or rejects) a cure plan from Programmed that addresses the issues identified in the contractual notice. This approach is founded in the relationship-based approach to the management of the contract, whereby the Senior Contract Manager determines the seriousness of the contractual issue, and then agree the cure plan to be provided with the contractual notice for the consideration of the relevant governance committees. The multiple roles and responsibilities of the Senior Contract Manager give rise to risks in the management of the contract. The multiple roles and responsibilities overlap and compromise the accountabilities of the Senior Contract Manager with respect to the management of the contract and their role in contract governance forums and groups.

3.10

In October 2019, Housing ACT established the role of the Assistant Director Governance to provide dedicated administrative support and secretariat functions for the Joint Consultative Committee, Contract Management Group and Contract Operations Group. The role of the Assistant Director Governance was created in 2019 to add capability to Housing ACT’s Contract Management Team and recruitment to the role added new skills and capabilities in relation to support for governance committees. The ongoing work of the Assistant Director Governance has improved governance committees’ processes, including management of their meetings and agenda, records of action items and the consistency and quality of documentation associated with committee meetings. 3.16

The contract sets out the responsibility of Programmed to develop and implement a series of contract management plans, which provide a detailed and documented approach to how Programmed intends to deliver the services required under the contract. The contract’s Performance Management System also relies on these plans to evidence performance ratings and support the calculation of performance incentives and abatements. Progress in completing the plans has been slow; many of the plans were completed more than twelve months late despite some initial drafts of these plans being provided early in contract implementation. 3.28

The contract sets out a series of requirements for Programmed to undertake quality assurance over the delivery of its services. This includes requirements to develop an annual audit program and conduct monthly work order audits, spot checks and targeted audits. The number of work order audits, spot checks and targeted audits are reported as key performance indicators on a monthly and quarterly basis by Programmed. The monthly and quarterly reporting provides an understanding of what quantum of quality assurance activity is undertaken, but does not provide a measure of the quality or effectiveness of these assurance activities. 3.46

The contract allows for Housing ACT to undertake quality assurance over the delivery of services by Programmed. To support its quality assurance activities Housing ACT has developed the *Total Facilities Management (TFM) Contract Quality Assurance Framework*. The Framework sets out clear principles for quality assurance activities, a risk-based planning and prioritisation approach and clear lines of reporting and accountability for the quality assurance activities within an ISO 9000 framework. It is supported by a Standard Operating Procedure with policy guidance on what constitutes a spot check or audit, guidance on how to respond to quality assurance spot checks as well as a forward work plan. Quality assurance activities are undertaken by both the Contract Management Team and the Quality Assurance and Risk Team, which has separate responsibility and accountability. The reports of the Quality Assurance and Risk Team are provided to the Quality Assurance Group, which allows for the Contract Management Group to be aware of quality assurance issues. Representatives of the Housing ACT Quality Assurance and Risk Team also attend Contract Operations Group meetings. Housing ACT’s quality assurance activities provide a strong basis on which to oversee the delivery of services under the contract. 3.60

The contract provides for an ambitious and comprehensive approach to monitoring, assessing and rewarding contractor performance. It is predicated on the 3.69

Performance Management System, which is designed as a balanced score card approach that is aligned with the key principles for how Housing ACT expects Programmed to operate and deliver the services. The Performance Management System consists of two 'domains' (Qualifying and Performance) 'that establish mandatory requirements, minimum standards and drive performance' and includes 'a mix of financial, non-financial, qualitative and non-qualitative indicators'. Incentive payments cannot be made if there are any areas of underperformance. The Performance Management System is comprehensive and complex. Monitoring and assessing performance across the fifty key performance indicators requires reliable, robust, and repeatable measurement methodologies as well as accurate, complete and verifiable data.

Accurate performance reporting supported by robust data is crucial to the operation of the Performance Management System. Monthly and quarterly performance reporting from Programmed has been poor. Reports have contained both qualitative and quantitative errors and have been inconsistent both internally and from one report to the next. There have also been significant differences in the data reported in quarterly reports to the data reported in the three relevant monthly reports for the period. Reports have consistently required amendment because of multiple errors. In July 2020, a contract non-conformance notice was issued to Programmed with respect to the quality of its reporting. Poor quality reporting has compromised the management of the contract with Programmed. 3.81

In 2019-20 \$51.83 million was spent on reimbursable expenses for work performed under the contract; an overspend of \$7.55 million (17 percent). Poor financial management systems and processes meant that the overspend was not identified until June 2020 and quantified until September 2020. Programmed's monthly reports for 2019-20 shows that its monthly financial reporting was characterised by routine errors, inconsistencies and changes to data relating to budget spend, both on a month-to-month and year-to-date basis. Poor monthly and quarterly reporting meant that neither Programmed or Housing ACT had effective visibility over expenditure associated with the services. 3.119

In January 2020 Housing ACT's financial systems were showing the value of reimbursable services expenditure could exceed the budget for 2019-20. Housing ACT identified actual expenditure of \$23 million for completed maintenance work done as at January 2020 (58 percent of the annual budget) and committed expenditure (completed work orders not yet invoiced, invoices received but not processed and some scoped work orders not invoiced) of approximately \$10 million. No further examination or analysis was undertaken to reliably estimate the value of committed works and its impact on the annual budget. Information that potentially 78 percent of the 2019-20 annual budget had either been spent or committed by January 2020 was not effectively recognised as a risk and managed by Housing ACT. 3.120

In response to the 2019-20 overspend Housing ACT and Programmed have instituted a series of governance, system and process improvements. Programmed has: established a new Contract Financial Accountant role that is 'focused on financial monitoring and reporting for the contract'; developed new financial reports 'utilising correct sources of data and additional information'; and prepared 'budget vs actual 3.131

variance analysis' on a weekly basis for discussion with Housing ACT 'on a regular basis'.

A key improvement has been the re-establishment of the Finance Group as a stand-alone governance group. It meets monthly and reports to the Contract Management Group, with representation by both organisation's finance and contract managers. Finance and budget considerations are also now standing agenda items at all Contract Management Group and Joint Consultative Committee meetings. Housing ACT also advised of the Finance Group's initiatives to strengthen budget management and monitoring, including: 'improved rigour, especially around commitment and analysis processes, such as a line to line reconciliation; redesigning a budget report that will bring information from both Programmed and HACT systems together; review of the work order process and understanding liability for the remainder of the year'. Housing ACT also advised of the 'development of a common lexicon/language for the Finance Group reports to ensure both sides understand the report and the meaning of data, calculations and issues to manage in the year ahead'.

3.132

## Recommendation

### RECOMMENDATION 1 SENIOR CONTRACT MANAGER ROLE AND RESPONSIBILITIES

Housing ACT should review the roles and responsibilities of the Senior Contract Manager and ensure that risks associated with their competing responsibilities and accountabilities for the management of the contract and their role in governance forums and groups are recognised and managed.

## Response from entities

In accordance with subsection 18(2) of the *Auditor-General Act 1996*, the Community Services Directorate were provided with:

- a draft proposed report for comment. All comments were considered and required changes were reflected in the final proposed report; and
- a final proposed report for further comment.

In accordance with subsection 18(3) of the *Auditor-General Act 1996* other entities considered to have a direct interest in the report were also provided with the draft proposed and final proposed reports for comment.

No comments were provided for inclusion in this Summary Chapter.

# 1 INTRODUCTION

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## Social housing

- 1.1 There are approximately 12,000 social housing dwellings in the ACT. The properties are valued at over \$4 billion and provide accommodation for nearly 6 percent of the ACT population.
- 1.2 In 2018, the ACT government awarded a new contract for the maintenance of social housing to Programmed Facility Management (Programmed). The term of the contract is for an initial period of six years with two options to extend the contract for four years, making the total potential term of the contract 14 years. The contract is valued at over \$40 million a year, including both the direct cost of maintenance and the value of the management fee payable to Programmed. This makes it one of the Territory's largest ongoing contracts.

## Total facilities management

### *Total facilities management*

- 1.3 Since 2001 the maintenance, repair and upgrade of Housing ACT properties has been undertaken by a private sector supplier through a total facilities management contract. A total facilities management contract outsources all facilities management activities to one supplier and seeks to transfer responsibility and risks associated with service provision to the supplier.
- 1.4 Through the total facilities management contract, the supplier has responsibility for planning and managing maintenance and service upgrades for social housing properties, including responsibility for managing sub-contractors undertaking the work. The total facilities management model seeks to place an emphasis on preventing problems instead of repairing defects as they arise. By emphasising planned maintenance over reactive maintenance, a total facilities management approach also seeks to reduce the overall cost of maintaining social housing properties.

### *Engaging a new provider – Programmed Facility Management*

- 1.5 On 27 July 2018 the Minister for Housing and Suburban Development announced that a new total facilities management contract had been awarded to Programmed Facility Management. The contract commenced on 1 November 2018 for an initial six year period and includes an option to extend for up to eight years. The Minister stated:

The tender process included extensive consultation with tenants, industry and social housing organisations. Feedback from the consultation assisted in the design of the tender specifications to achieve higher quality service, satisfaction and social outcomes for tenants.

The new contract will incorporate an integrated performance management system that encourages Programmed Facility Management to achieve the highest levels of service delivery, tenant engagement and satisfaction, and to meet industrial relations and ethics requirements.

To ensure a strong social outcome and local commitment, Programmed Facility Management will engage with local communities to develop long-term, meaningful and sustainable employment and talent development opportunities for local people, with minimum targets for specific cohorts including social housing tenants themselves, people with disability, Aboriginal and Torres Islander people and other people with culturally and linguistically diverse background.

- 1.6 Programmed has an existing presence in the ACT as a member of the group of companies engaged with the ACT Government through a 30 year Public Private Partnership arrangement to construct and maintain the ACT Law Courts.

#### *Total facilities management contract*

- 1.7 The contract signed on 8 October 2018 comprises a core contract and 15 schedules with associated attachments. The contract commences with the outcomes sought by the Commissioner and the obligations of the contractor to deliver those outcomes, as well as services and service levels.

- 1.8 The outcomes sought by the Commissioner include the ‘bricks and mortar’ objective to preserve and maintain the asset as well as social policy objectives:

(1) The Commissioner’s key objective is to preserve and maintain the Social Housing Dwellings.

(2) The Commissioner’s other objectives are to:

- (a) maintain a tenant focus and responsiveness to tenant needs in the delivery of the Services;
- (b) achieve Social Outcomes, including meet its obligations as a Social Landlord and increase stakeholder satisfaction;
- (c) support local industry, business and trades and employment in the local region;
- (d) support social ventures or social enterprises;
- (e) maintain a collaborative relationship with open, transparent and honest communications between the parties with an outcomes focus; and
- (f) achieve flexibility, adaptability and responsiveness to evolving needs of the Commissioner, Tenants and industry.

- 1.9 The total facilities management contract also contains several mechanisms to drive service delivery and performance of the contractor including:

- performance indicators to monitor and assess performance and service delivery;
- incentives for above average performance and penalties for unsatisfactory performance;
- clauses addressing the expectation that the contractor will identify, cost through business cases, and implement, agreed innovations to service delivery over the life of the contract;

- regular ongoing review of performance as well as a formal annual review process between the contractor and Housing ACT; and
- a clear focus on clients and client satisfaction with the services.

1.10 The contract specified a set transition period from date of signing to 30 June 2019, followed by full implementation from 1 July 2019 with the first twelve-month annual review occurring at 30 June 2020. Performance management processes applied as of 1 July 2019.

## Roles and responsibilities

1.11 Housing ACT is responsible for the administration and implementation of the total facilities management contract.

1.12 Housing ACT is a division of the Community Services Directorate. It reports separately as a public trading enterprise and is treated as a 'not-for-profit' entity under the Australian Accounting Standards.<sup>1</sup>

1.13 The Director-General of the Community Services Directorate is appointed as the Commissioner for Social Housing (the Commissioner), which is an incorporated body under the *Housing Assistance Act 2007*. The Commissioner is responsible for the delivery of approved housing assistance programs and has the power to make determinations and issue operation guidelines for programs.<sup>2</sup> Staff in Housing ACT perform many of the functions of the Commissioner including the administration of approved housing assistance programs under delegation.

1.14 The Housing webpages of the Community Services Directorate states that:

[Housing ACT] is responsible for the provision of community housing and community services in the Territory.

The organisation allocates, manages and maintains public and community housing properties and coordinates comprehensive support services and community participation programs for its tenants. It provides support for people who are disadvantaged or experiencing a crisis through a variety of programs, including services targeted at preventing homelessness and assisting people to transit through homelessness into stable housing.<sup>3</sup>

1.15 Housing ACT consists of three branches: Client Services, Policy and Business Transformation, and Infrastructure and Contracts. Responsibility for contract administration lies within Infrastructure and Contracts Branch.

<sup>1</sup> 2019-2020 Budget Statements, Community Services Directorate, Housing ACT, page 42.

<sup>2</sup> Determinations and operation guidelines are notifiable instruments and can be found on the ACT's Legislation Register. There are 15 operation guidelines issued for the Public Rental Housing Assistance Program and 1 operation guideline for the Rental Bond Program.

<sup>3</sup> <http://www.communityservices.act.gov.au/hcs> downloaded 30 March 2020



## Audit objective and scope

### Audit objective

1.16 The objective of the audit is to assess the effectiveness of Housing ACT's activities to manage the total facilities management contract and deliver the outcomes specified by the Commissioner for Social Housing.

### Audit scope

1.17 The audit scope was informed by the structure and content of the total facilities management contract and the 15 schedules and attachments that underpin the operation of the agreement. Together, they clearly set out what Programmed is to do, including how performance is assessed and incentive payments are to be calculated. Areas of special audit interest included:

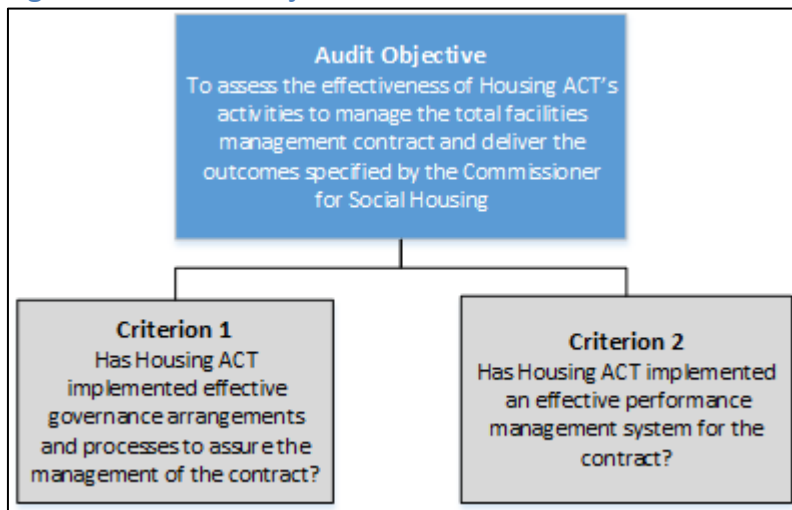
- the establishment and operation of the governance framework;
- the implementation of the quality management and assurance arrangements;
- the implementation and operation of the performance management system; and
- reporting and benchmarking contractor performance against the key performance indicators.

## Audit criteria, approach and method

### Audit criteria

1.18 To form a conclusion against the objective, two audit criteria were used. These are shown in Figure 1-1.

Figure 1-1 Audit objective and criteria



Source: Audit Office



- 1.19 The audit was performed in accordance with *ASAE 3500 – Performance Engagements*. The audit adopted the policy and practice statements outlined in the Audit Office’s *Performance Audit Methods and Practices (PAMPr)* which is designed to comply with the requirements of the *Auditor-General Act 1996* and *ASAE 3500 – Performance Engagements*.
- 1.20 In the conduct of this performance audit the ACT Audit Office complied with the independence and other relevant ethical requirements related to assurance engagements.

## Audit approach and method

- 1.21 The audit approach and method consisted of:
- identifying and reviewing relevant documentation related to Housing ACT strategic planning and administrative arrangements for the management of the total facilities management contract;
  - reviewing relevant documentation, administrative processes and internal controls for the management of the total facilities management contract. The aim of this was to assess the planning and administrative arrangements for the contract. This included risk management as well as the monitoring and evaluation of the performance of the contractor;
  - reviewing relevant literature and reports related to work undertaken on contract management by other jurisdictions to identify better practices;
  - observations, interviews and discussions with Housing ACT staff and other stakeholders as identified;
  - a site visit to Programmed’s customer service centre; and
  - an engagement quality control review.



## 2 CONTRACT GOVERNANCE

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- 2.1 This chapter considers Housing ACT's activities to establish and implement a governance framework, in cooperation with Programmed Facility Management, for the management of the total facilities management contract.

### Summary

### Conclusions

A series of governance groups and forums involving representation from both Housing ACT and Programmed have been established for the review and oversight of the delivery of social housing maintenance services under the contract. Each governance committee has a discrete and documented role and the cascading structure of the governance framework helps manage risks to the achievement of the Commissioner for Social Housing's outcomes.

While effective overall, these arrangements have not been effective in monitoring the contract's financial and budget management. The Finance Group was initially established, but it was subsequently incorporated into the Contract Operations Group; during this period there was a lack of effective oversight of the 2019-2020 budget and the end of financial year outcomes. The Finance Group has since been re-established and its role and representation improved in order to facilitate more effective budget monitoring and management.

### Key findings

The peak governance committee for the contract is the Joint Consultative Committee. The Committee's responsibilities include: managing overall contract governance; overseeing the strategic management of the contract and delivery of the services; overseeing the Performance Management System; considering and endorsing any proposed variations to the contract; and 'monitoring the Contract Management Plan'. The Committee involves representatives from both Housing ACT and Programmed and meetings follow a regular and routine agenda. In response to a budget overspend identified in September 2020 the Committee now considers financial and budgetary matters as a standing agenda item at each of its meetings and the duration of its meetings has been extended to accommodate this. The Committee has been effective in its oversight of the total facilities management arrangements and the delivery of services by Programmed.

#### Paragraph

2.21

The Contract Management Group reports to the Joint Consultative Committee. The terms of reference for the Group describe its role 'to manage and monitor the delivery of the Services under the TFM Contract'. In practice, the Group's meetings are divided into three rotating pillars, each of which is underpinned by individual

2.36

terms of reference: Quality Management and Risk; Operational; and Social Inclusion and Continuous Improvement. Over each quarter, there is an individual meeting for each of the three pillars. The *Contract Management Group Process Instructions* document covers support arrangements for meetings of the Contract Management Group such as membership, meeting papers and distribution of papers, out of session approvals, agenda and location of meetings and provides useful guidance on the conduct and operation of the Committee and its meetings. The Group has been effective in its support of the total facilities management arrangements and the delivery of services by Programmed.

The Contract Operations Group provides oversight, assistance and advice on operational matters, ICT activities, and financial and reporting matters. Its focus is on the implementation of decisions of the higher levels of the governance structure and escalation of issues for further discussion and decision. The role and purpose of the Group was initially set out in the contract; and later revised in September 2020 as agreed by the Joint Consultative Committee. These changes focus the group on operational matters specific to services under the contract; operational risks and risk treatments; service delivery; and consultation about new service delivery processes and procedures. The changes to the terms of reference provide a clearer focus for the Group from those in the original terms of reference. These changes should help the Group be more effective in its support of the total facilities management arrangements and the delivery of services by Programmed.

2.44

The Finance Group seeks to oversight, manage and monitor Programmed's performance against the financial aspects of the contract. The Group met for the first time in February 2019 before it was incorporated into the Contract Operations Group. A key shortcoming of the Group was an absence of discussion relating to overall progress of the budget or the end of financial year outcomes. In September 2020 in response to the budget overspend of \$7.6 million for reimbursable services for 2019-20, the Finance Group was re-established as a standalone group with monthly meetings. Membership of the Group now includes the senior contract managers from both Programmed and Housing ACT as chair(s) and Finance staff of both Programmed and Housing ACT, with additional senior finance staff identified as voting members. Additional financial expertise is available through non-voting members including the Housing ACT Director, Finance. The September 2020 changes to the operation of the Finance Group have sought to facilitate more effective monitoring of the contract's overall budget and financial performance.

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## Governance committees and groups

- 2.2 The governance arrangements supporting the implementation of the total facilities management contract are set out in *Schedule 2, Item 10 - Services Specification*, under *Governance, Reporting and Performance Review* which states that:

The Contractor will, together with Housing ACT establish and maintain a governance framework for managing and oversight of the Agreement that consists as a minimum of:

- (a) a Joint Consultative Committee;
- (b) a Contract Management Group;
- (c) a Contract Operations Group;
- (d) Finance Group;
- (e) Quality Assurance Group;
- (f) ICT Management Group; and
- (g) any other Group that the Contractor or Housing ACT require or consider necessary to assure delivery of the Services to the appropriate standard and/or to achieve the Agreement objective, outcomes and key principles, including the Social Outcomes, improving value for money outcomes and delivery of innovations during the term of the contract.

- 2.3 *Schedule 14 - Governance Arrangements* outlines in detail the roles and responsibilities of the committees and groups that together provide the governance structure for the contract. *Schedule 14* identifies the role of the different governance committees and groups and establishes basic requirements for their meetings.
- 2.4 The six governance committees and groups identified in *Schedule 2* and *Schedule 14* are the minimum requirements for the management and oversight of the contract. Alternative arrangements can be implemented provided the alternative is 'robust and superior to that outlined in the Agreement and assures a superior, cost effective delivery of the Services and management of the Agreement'. Such changes require a contract variation to be agreed between Housing ACT and Programmed.

## Governance structure

- 2.5 A high-level governance map was developed by Housing ACT in October 2019 to illustrate the governance framework and relationships between the various governance committees that oversee the contract. This is shown at Figure 2-1. According to Housing ACT, the governance map 'diagrammatically represents the exchanges and linkages within governance groups and across the committee structures'.

**Figure 2-1 Contract governance arrangements (October 2019)**

| Governance Body   | Frequency  | Purpose   |
|---|--|---|
| Joint Consultative Committee (JCC)  | Quarterly  | Management and oversight of the Agreement, Risks and the contract governance.<br>Decision making.   |
| Contract Management Group (CMG)   | CMG meet monthly with each pillar meeting once a quarter | To manage and monitor the management plans, service delivery, strategies, activities, initiatives, performance and reporting.<br>Decision making. |
| CMG QMR <sup>^</sup>  | Quarterly  |   |
| CMG Operational   | Quarterly  |   |
| CMG Social Inclusion and Continuous Improvement                                 | Quarterly  |   |
| ICT Governance Group  | Quarterly  | Providing oversight, assistance and advice on operational matters, ICT activities and financial and reporting matters.                            |
| Contract Operational Group (COG) & Finance Group                                | Fortnightly*   |   |
| Strategic and Innovation<br>Information Technology Systems<br>Quality Assurance | Annually   | Strategic workshops   |

<sup>^</sup> Quality Management and Risk                      \* Finance Group will meet monthly at alternate COG

Source: Housing ACT

2.6 The map shows the hierarchical relationships of the governance committees. It shows the Joint Consultative Committee providing strategic leadership, which is then underpinned by the Contract Management Group. A third governance layer comprises the ICT Governance Group and the Contract Operations Group (referred to as the Contract Operational Group in the diagram) reporting to the Contract Management Group. Changes have since been made to the governance hierarchy shown in Figure 2-1 as follows:

- the role of the Quality Assurance Group was incorporated into the Contract Management Group in November 2019 (refer to paragraph 2.28); and
- the Finance Group was re-established as a separate entity in September 2020 (refer to paragraph 2.50).

## Joint Consultative Committee

### Purpose of the Joint Consultative Committee

- 2.7 The peak governance committee for the total facilities management contract is the Joint Consultative Committee. The terms of reference for the Committee were taken directly from the description of the role of the committee in *Schedule 14 - Governance Arrangements*. The list of responsibilities for the Committee is extensive and includes:
- managing overall contract governance;
  - overseeing the strategic management of the contract and delivery of the services;
  - overseeing the Performance Management System (refer to paragraphs 3.61 to 3.81);
  - considering and endorsing any proposed variations to the contract; and
  - ‘monitoring the Contract Management Plan’.

### Membership of the Joint Consultative Committee

- 2.8 The Joint Consultative Committee is chaired by the Executive Group Manager, Housing ACT. Secretariat support is provided by Housing ACT’s Assistant Director Governance.
- 2.9 Neither the contract nor the Joint Consultative Committee’s terms of reference identify requirements for membership of the committee, although *Schedule 14 – Governance Arrangements* states it will ‘comprise persons holding senior executive positions as the voting members, with either party able to have additional non-voting representatives attend any meeting’. Schedule 14 specifically states that the permanent Chair of the Committee will be from Housing ACT and have the casting vote in the event of tied votes of the committee.
- 2.10 A draft *Joint Consultative Committee Process Instructions* document, which ‘sets out the tasks and process for management of the Joint Consultative Committee (JCC)’, was developed in June 2020. The document identifies five ACT Government voting members of the Committee and three voting members from Programmed. Voting members of the Committee from both Programmed and Housing ACT are at the executive level. Other persons can attend meetings at the discretion of the Executive Group Manager, Housing ACT and TFM Chief Executive Officer, Programmed. No inquorate meetings of the Committee have been held.

### Meetings of the Joint Consultative Committee

- 2.11 The contract requires the Joint Consultative Committee to meet quarterly and no less than four times per year. The first meeting of the Committee occurred on 13 February 2019. Over 2019-20, the Committee met four times as required and has since met in September 2020.
- 2.12 Meetings of the Joint Consultative Committee are scheduled annually and are supported by an annual meeting matrix that is maintained by Housing ACT. The matrix sets out in tabular

form the agenda, including standing agenda items, to be covered at each of its four meetings throughout the financial year. This meeting matrix is reviewed bi-annually by the Committee.

- 2.13 In June 2020, Housing ACT developed guidance on the Joint Consultative Committee's meeting processes; the draft *Joint Consultative Committee Process Instructions* document. The guidance covers the Committee's expected membership, a routine agenda for its quarterly meetings, secretariat processes for managing meetings (including timeframes around papers) and out of session approval processes. The draft *Joint Consultative Committee Process Instructions* document provides useful guidance on the conduct and operation of the Committee and its meetings. The document remains in draft as at December 2020.

### *Issues for consideration*

- 2.14 Joint Consultative Committee meetings follow a discipline with a regular and routine agenda along with a register of action items. Action items are allocated to appropriate individuals, tracked, and followed until closed.
- 2.15 The Joint Consultative Committee has considered a range of contractual and governance issues at each of its meetings, in accordance with its terms of reference. Reports to the Committee from the Contract Management Group are a regular agenda item, as are reports from the Information and Communications Technology Group.
- 2.16 The Joint Consultative Committee has agreed changes to overall governance arrangements, including to the Contract Operations Group and Contract Management Group, and has also formally endorsed recommendations from the Senior Contract Manager, Housing ACT to issue contract compliance notices and contract default notices. The Committee has also considered and decided on issues referred to it from the Contract Management Group including a revised schedule to score annual performance, revisions to Programmed's staffing structure; and a proposal to roll over unspent capital funds.

### *Consideration of financial matters*

- 2.17 At its September 2020 meeting the Joint Consultative Committee discussed a budget overspend of \$7.6 million for reimbursable services for 2019-20. This is discussed in further detail in paragraphs 3.88 to 3.132.
- 2.18 In response to the budget overspend the Joint Consultative Committee identified an intention to more appropriately consider the financial management of the contract. While it was noted that financial management was 'covered off on the meeting agenda' the Committee agreed 'to amend the draft Terms of Reference to include financial management as a core function of the [Committee]'. The Committee now considers financial and budgetary matters as a standing agenda item at each of its meetings and the duration of its meetings has been extended to accommodate this.



### Contract variations

- 2.19 Since mobilisation in November 2018, the Joint Consultative Committee has approved two contract variations that were required to:
- amend governance structures as well as accelerate property condition assessments; and
  - change specified personnel and amend a specific key performance indicator.
- 2.20 Contract variations have been appropriately recorded in a contract variation register that is maintained by Housing ACT's Assistant Director Governance, as secretariat to the Joint Consultative Committee.
- 2.21 The peak governance committee for the contract is the Joint Consultative Committee. The Committee's responsibilities include: managing overall contract governance; overseeing the strategic management of the contract and delivery of the services; overseeing the Performance Management System; considering and endorsing any proposed variations to the contract; and 'monitoring the Contract Management Plan'. The Committee involves representatives from both Housing ACT and Programmed and meetings follow a regular and routine agenda. In response to a budget overspend identified in September 2020 the Committee now considers financial and budgetary matters as a standing agenda item at each of its meetings and the duration of its meetings has been extended to accommodate this. The Committee has been effective in its oversight of the total facilities management arrangements and the delivery of services by Programmed.

## Contract Management Group

### Purpose of the Contract Management Group

- 2.22 The Contract Management Group reports to the Joint Consultative Committee. The terms of reference for the Group describe its role 'to manage and monitor the delivery of the Services under the TFM Contract'.
- 2.23 The terms of reference for the Contract Management Group directly reflect the description of the role of the Group in *Schedule 14 - Governance Arrangements* of the contract. The list of responsibilities for the Group is extensive and includes:
- 'managing and monitoring the Contract Management Plan';
  - 'managing and monitoring and annually reviewing the Service Delivery and Management Plan and the ICT Management Plan and reporting documents';
  - 'risk management and mitigation strategies'; and
  - 'managing and monitoring the Performance Management System'.
- 2.24 The Contract Management Group is also responsible for 'considering issues forwarded by the Contract Operations Group, Finance Group and the ICT Management Group'.

- 2.25 The operation of the Contract Management Group is supported by documented terms of reference that set out the meeting schedule, membership, meeting details and governance arrangements.

#### *Rotating focus of the Contract Management Group*

- 2.26 In practice, Contract Management Group meetings are divided into three rotating pillars, each of which is underpinned by individual terms of reference:
- Quality Management and Risk;
  - Operational; and
  - Social Inclusion and Continuous Improvement.
- 2.27 Over each quarter there is an individual meeting for each of the three pillars of the Contract Management Group.
- 2.28 Quality Management and Risk was made the third pillar of the Contract Management Group through a November 2019 variation to the contract. Through the contract variation, which was endorsed by the Joint Consultative Committee, the standalone Quality Assurance Group was replaced. In doing so, the Quality Management and Risk pillar maintains the function and role that was initially established in *Schedule 14 - Governance Arrangements* for the Quality Assurance Group; the terms of reference are identical.

#### **Membership of the Contract Management Group**

- 2.29 Membership requirements of the Contract Management Group were initially set out in *Schedule 14 - Governance Arrangements* of the contract as ‘persons holding senior positions as the voting members, with either party able to have additional non-voting representatives attend any meeting ... to assist in the consideration at any meeting’. Schedule 14 states that the Group is to meet monthly, sharing secretariat and Chair responsibilities.
- 2.30 The terms of reference for the Contract Management Group have since identified members by name and title and membership of the Group reflects the level of attendees set out in the contract. Routinely, at least ten Housing ACT representatives attend Group meetings and Programmed representation is consistently at least three officers and on occasion four officers. The minutes of the Group show that the Chair has been rotated between Housing ACT and Programmed as required in the contract.

#### **Meetings of the Contract Management Group**

- 2.31 The first meeting of the Contract Management Group occurred on 22 November 2018. The Group has met monthly since July 2019.
- 2.32 Administrative arrangements for the Contract Management Group include a forward meeting schedule that outlines standing items for discussion at each meeting, arrangements for Chair and secretariat roles on a rotating basis and items to be addressed

at each meeting linked to clauses as set out in *Schedule 14 - Governance Arrangements* of the contract. The Group also acts as an escalation point for the Contract Operations Group.

- 2.33 In April 2020, Housing ACT developed guidance on the Contract Management Group's meeting processes; the *Contract Management Group Process Instructions* document. The guidance covers support arrangements for meetings of the Group such as membership, meeting papers and distribution of papers, out of session approvals, agenda and location of meetings. The *Contract Management Group Process Instructions* document provides useful guidance on the conduct and operation of the Committee and its meetings.

#### *Matters considered by the Contract Management Group*

- 2.34 Over 2019-20 the Contract Management Group was regularly informed about:
- delays to the finalisation of contract management plans;
  - delays to the finalisation of the Performance Management System;
  - errors in Programmed monthly reporting that required revision and resubmission; and
  - contract compliance issues.
- 2.35 In May 2020, the then Chair of the Contract Management Group noted that a major focus for the Group would be 'progressing the Performance Management System, contract management plans and strategic finance including budget forecasting'.
- 2.36 The Contract Management Group reports to the Joint Consultative Committee. The terms of reference for the Group describe its role 'to manage and monitor the delivery of the Services under the TFM Contract'. In practice, the Group's meetings are divided into three rotating pillars, each of which is underpinned by individual terms of reference: Quality Management and Risk; Operational; and Social Inclusion and Continuous Improvement. Over each quarter, there is an individual meeting for each of the three pillars. The *Contract Management Group Process Instructions* document covers support arrangements for meetings of the Contract Management Group such as membership, meeting papers and distribution of papers, out of session approvals, agenda and location of meetings and provides useful guidance on the conduct and operation of the Committee and its meetings. The Group has been effective in its support of the total facilities management arrangements and the delivery of services by Programmed.

## Contract Operations Group

### Purpose of the Contract Operations Group

- 2.37 The role of the Contract Operations Group is to provide oversight, assistance and advice on operational matters, ICT activities, and financial and reporting matters. Its focus is on the implementation of decisions of the higher levels of the governance structure and escalation of issues for further discussion and decision.

2.38 The role and purpose of the Contract Operations Group was initially set out in *Schedule 14 - Governance Arrangements* of the contract. In September 2020 revised terms of reference for the Group were agreed by the Joint Consultative Committee. The role of the Group is described in the revised terms of reference as including:

- managing the day-to-day operations for the delivery of the agreement and services;
- implementing and identifying issues associated with policies and procedures associated with the management of the agreement and the delivery of the services;
- ‘implementing the Service Delivery and Management Plan and the Contract Management Plan’; and
- monitoring and providing to the Contract Management Group at its meetings, written reports on incomplete and/or overdue work orders.

2.39 The revisions to the Contract Operations Group’s terms of reference were accompanied by a statement of the type of activities that were to characterise the focus of the Group, i.e. operational matters specific to services under the Contract. The revised terms of reference state:

The Contract Operations Group will undertake activities such as:

- consider operational matters specific to services under the Contract;
- review, implement and maintain controls (both existing and additional) as outlined in the operational risk register and where appropriate make recommendations or escalate matters to the Contract Management Group;
- establish and maintain communication with relevant parties to ensure that operational matters are managed and actioned in a timely manner;
- develop and implement processes and procedures relating to services delivered under the Contract; and
- consult with Housing ACT and TFM line areas and seek advice prior to the introduction of new processes or procedures or other related changes in services.

2.40 The changes to the terms of reference provide a clearer focus for the Contract Operations Group from those in the original terms of reference, which were drawn from the contract.

### Membership of the Contract Operations Group

2.41 Membership requirements of the Contract Operations Group were initially set out in *Schedule 14 - Governance Arrangements* of the contract as ‘each parties’ relevant operational personnel working within collaborative contracting principles’. The Chair of the Group has been routinely rotated between Housing ACT and Programmed. The membership for the Group is not prescriptive, and a review of meeting minutes indicates that attendance from both Housing ACT and Programmed is at an appropriate level for an operationally focussed committee. Housing ACT’s Assistant Director Governance noted that:

More recently there has been a lot more consistency in membership and attendance.

There is still a lot of work to do to articulate the responsibility of representatives in the room. Generally, the representation between Housing and Programmed is roughly equivalent in level of participants.

### Meetings of the Contract Operations Group

- 2.42 *Schedule 14 - Governance Arrangements* of the contract identified that the Contract Operations Group was to meet fortnightly. Except for meetings in July 2019, December 2019 and February 2020 that were cancelled, the Group has met at the frequency set out in the contract for the period July 2019 to June 2020. The Group has also routinely reported to the Contract Management Group after each meeting.
- 2.43 Contract Operations Group meetings follow a discipline with a regular and routine agenda; a register of action items is maintained, and action items are allocated to appropriate individuals and tracked and followed until closed. Business discussions are appropriately focussed on the day-to-day implementation of the contract and provision of services to tenants.
- 2.44 The Contract Operations Group provides oversight, assistance and advice on operational matters, ICT activities, and financial and reporting matters. Its focus is on the implementation of decisions of the higher levels of the governance structure and escalation of issues for further discussion and decision. The role and purpose of the Group was initially set out in the contract; and later revised in September 2020 as agreed by the Joint Consultative Committee. These changes focus the group on operational matters specific to services under the contract; operational risks and risk treatments; service delivery; and consultation about new service delivery processes and procedures. The changes to the terms of reference provide a clearer focus for the Group from those in the original terms of reference. These changes should help the Group be more effective in its support of the total facilities management arrangements and the delivery of services by Programmed.

### Quality Assurance Group

- 2.45 *Schedule 2 - Services Specification, under Governance, Reporting and Performance Review* and *Schedule 14 – Governance Arrangements* set out a requirement for a Quality Assurance Group as part of the required governance arrangements. The Group was to meet monthly and membership was to 'comprise each parties relevant operational personnel as the voting members, with either party able to have additional non-voting representatives attend any meeting ... to assist in the considerations at any meeting'.
- 2.46 Three meetings were held (19 July 2019, 15 August 2019 and 19 September 2019) before the Quality Assurance Group became the third pillar of the Contract Management Group (refer to paragraphs 2.28).

## Finance Group

### Purpose of the Finance Group

- 2.47 The role of the Finance Group is to oversight, manage and monitor Programmed's performance against the financial aspects of the contract. The role and purpose of the Finance Group was initially set out in *Schedule 14 - Governance Arrangements* of the contract.
- 2.48 The Finance Group first met on 14 February 2019. At that time, the Finance Group's functions included:
- providing oversight, assistance, and advice on the financial activities of Programmed 'to ensure transparency and integrity of financial information provided to Housing ACT';
  - reviewing the Contractor's financial performance against the budget, including achievement of value for money outcomes; and
  - managing, monitoring and reviewing financial risk management and mitigation strategies and reporting issues of concern to the Contract Management Group.
- 2.49 After its November 2019 meeting, the Finance Group was incorporated into the Contract Operations Group and no longer met as a separate governance group. From January 2020 the role of the Finance Group was covered by a 30-minute agenda item at every second Contract Operations Group meeting.
- 2.50 In September 2020, in response to the budget overspend of \$7.6 million for reimbursable services for 2019-20, the Finance Group was re-established as a separate entity. The re-establishment of the Group sought to improve the scrutiny of budget management.

### Membership of the Finance Group

- 2.51 Membership requirements of the Finance Group were initially set out in *Schedule 14 - Governance Arrangements* of the contract as 'each parties' relevant operational personnel as the voting members, with either party able to have additional non-voting representatives attend any meeting ... to assist in the consideration at any meeting'.
- 2.52 The re-established Finance Group met for the first time on 22 September 2020. Membership of the Group includes the senior contract managers from both Programmed and Housing ACT as chair(s) of the Group. Membership of the group includes Finance staff of both Programmed and Housing ACT, with additional senior finance staff identified as voting members. Additional financial expertise is available through non-voting members including the Housing ACT Director, Finance.
- 2.53 These changes were implemented at a meeting of the Finance Group in September 2020. By re-establishing the Group as a separate group that is to meet monthly and by making the Senior Contract Manager from Housing ACT the chair of the Group, there was an intention

to strengthen the operation of the Finance Group. This was to facilitate more effective monitoring of the contract's overall budget and financial performance.

### Meetings of the Finance Group

- 2.54 A review of the Finance Group's minutes, and the discussions of finance matters in the Contract Operations Group, indicates that issues with work orders and invoices have been discussed, including the allocation of expenditure between capital and planned works; and reconciliation of cost codes in preparation for the end of the financial year. A key shortcoming, however, has been an absence of discussion relating to overall progress of the budget or the end of financial year outcomes.
- 2.55 At the first meeting of the re-established Finance Group on 22 September 2020, the agenda included a presentation by Programmed on cash flow and expenditure; and a presentation by Housing ACT on performance against budget. Another agenda item addressed financial risk management.
- 2.56 The Finance Group seeks to oversight, manage and monitor Programmed's performance against the financial aspects of the contract. The Group met for the first time in February 2019 before it was incorporated into the Contract Operations Group. A key shortcoming of the Group was an absence of discussion relating to overall progress of the budget or the end of financial year outcomes. In September 2020 in response to the budget overspend of \$7.6 million for reimbursable services for 2019-20, the Finance Group was re-established as a standalone group with monthly meetings. Membership of the Group now includes the senior contract managers from both Programmed and Housing ACT as chair(s) and Finance staff of both Programmed and Housing ACT, with additional senior finance staff identified as voting members. Additional financial expertise is available through non-voting members including the Housing ACT Director, Finance. The September 2020 changes to the operation of the Finance Group have sought to facilitate more effective monitoring of the contract's overall budget and financial performance.

## ICT Group

### Purpose of the ICT Group

- 2.57 *Schedule 14 - Governance Arrangements* of the contract specifies the requirement for an Information and Communications Technology Management Group (ICT Group). Schedule 14 outlined the role of the group as including:
- providing oversight, assistance, and advice on ICT activities to contract managers to ensure transparency and integrity of ICT activities;
  - managing and monitoring and annually review the ICT Management Plan;
  - addressing any matters relating to the quality and standard of ICT Services; and
  - reviewing as necessary policies and procedures and suggested changes associated with the management of ICT and the delivery of the services.

### Membership of the ICT Group

- 2.58 Membership requirements of the ICT Group were initially set out in *Schedule 14 - Governance Arrangements* of the contract as 'each parties' relevant operational personnel as the voting members, with either party able to have additional non-voting representatives attend any meeting ... to assist in the consideration at any meeting'.

### Meetings of the ICT Group

- 2.59 By virtue of *Schedule 14 - Governance Arrangements* of the contract the Information and Communications Technology Group is to meet on a quarterly basis. It has met three times, in November 2019, February 2020 and May 2020. The Group provides the Joint Consultative Committee with a routine agenda item reporting on its activities.
- 2.60 The terms of reference for the Information and Communications Technology Group is identical to that set out in *Schedule 14 - Governance Arrangements* of the contract. These are underpinned by an Information and Communications Technology Plan updated in May 2020 which sets out the Information and Communications Technology priorities for the period August 2019 through until June 2020. This is an operational document that tracks project updates and is discussed and updated at each Group meeting. Items in this plan have a unique identifying number and are shown as either completed or underway against each identified Information and Communications Technology task.



## 3 PERFORMANCE MANAGEMENT

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- 3.1 This chapter considers the effectiveness of Housing ACT's management of Programmed Facility Management's performance under the contract. The chapter considers Housing ACT's management and administrative arrangements as well as quality assurance and performance reporting arrangements in place to manage the delivery of services. The chapter also discusses financial management arrangements for the management and monitoring of expenditure under the contract.

### Summary

#### Conclusion

The total facilities management contract sets clear outcomes which are to maintain the housing assets, achieve value for money and deliver social outcomes to Housing ACT tenants. Nevertheless, there is an underlying complexity to the effective implementation of the contract.

The contract includes quality assurance activities and the development and implementation of a Performance Management System. The Performance Management System is designed as a balanced score card approach that is aligned with the key principles for how Housing ACT expects Programmed to operate and deliver the services. It is both comprehensive and complex. Monitoring and assessing performance across the fifty key performance indicators requires reliable, robust, and repeatable measurement methodologies as well as accurate, complete, and verifiable data. This had not been achieved at the time of the audit. Housing ACT and Programmed continue to seek to improve the accuracy of performance and financial reporting.

In 2019-20 \$51.83 million was spent on reimbursable expenses for work performed under the contract; an overspend of \$7.55 million (17 percent). Poor financial management systems and processes meant that the overspend was not identified until June 2020 and quantified until September 2020. The overspend occurred despite comprehensive governance and performance management arrangements. Housing ACT must ensure that the arrangements are actively managed to be effective in supporting the Commissioner's objectives for social housing. Housing ACT and Programmed have since strengthened the governance and performance management activities of the contract in order to improve performance monitoring and financial reporting.

#### Key findings

Housing ACT's Senior Contract Manager has a pivotal role in the implementation and management of the total facilities management contract. They manage a team of eighteen staff across three functional areas and have the key role in managing the relationship with Programmed. The Senior Contract Manager also participates in the

Paragraph

3.10

governance committees and groups, either as a voting member or chair. In the event of contractual non-performance, it is the Senior Contract Manager's decision to issue a contractual notice to Programmed. The Senior Contract Manager accepts (or rejects) a cure plan from Programmed that addresses the issues identified in the contractual notice. This approach is founded in the relationship-based approach to the management of the contract, whereby the Senior Contract Manager determines the seriousness of the contractual issue, and then agree the cure plan to be provided with the contractual notice for the consideration of the relevant governance committees. The multiple roles and responsibilities of the Senior Contract Manager give rise to risks in the management of the contract. The multiple roles and responsibilities overlap and compromise the accountabilities of the Senior Contract Manager with respect to the management of the contract and their role in contract governance forums and groups.

In October 2019, Housing ACT established the role of the Assistant Director Governance to provide dedicated administrative support and secretariat functions for the Joint Consultative Committee, Contract Management Group and Contract Operations Group. The role of the Assistant Director Governance was created in 2019 to add capability to Housing ACT's Contract Management Team and recruitment to the role added new skills and capabilities in relation to support for governance committees. The ongoing work of the Assistant Director Governance has improved governance committees' processes, including management of their meetings and agenda, records of action items and the consistency and quality of documentation associated with committee meetings. 3.16

The contract sets out the responsibility of Programmed to develop and implement a series of contract management plans, which provide a detailed and documented approach to how Programmed intends to deliver the services required under the contract. The contract's Performance Management System also relies on these plans to evidence performance ratings and support the calculation of performance incentives and abatements. Progress in completing the plans has been slow; many of the plans were completed more than twelve months late despite some initial drafts of these plans being provided early in contract implementation. 3.28

The contract sets out a series of requirements for Programmed to undertake quality assurance over the delivery of its services. This includes requirements to develop an annual audit program and conduct monthly work order audits, spot checks and targeted audits. The number of work order audits, spot checks and targeted audits are reported as key performance indicators on a monthly and quarterly basis by Programmed. The monthly and quarterly reporting provides an understanding of what quantum of quality assurance activity is undertaken, but does not provide a measure of the quality or effectiveness of these assurance activities. 3.46

The contract allows for Housing ACT to undertake quality assurance over the delivery of services by Programmed. To support its quality assurance activities Housing ACT has developed the *Total Facilities Management (TFM) Contract Quality Assurance Framework*. The Framework sets out clear principles for quality assurance activities, a risk-based planning and prioritisation approach and clear lines of reporting and 3.60

accountability for the quality assurance activities within an ISO 9000 framework. It is supported by a Standard Operating Procedure with policy guidance on what constitutes a spot check or audit, guidance on how to respond to quality assurance spot checks as well as a forward work plan. Quality assurance activities are undertaken by both the Contract Management Team and the Quality Assurance and Risk Team, which has separate responsibility and accountability. The reports of the Quality Assurance and Risk Team are provided to the Quality Assurance Group, which allows for the Contract Management Group to be aware of quality assurance issues. Representatives of the Housing ACT Quality Assurance and Risk Team also attend Contract Operations Group meetings. Housing ACT's quality assurance activities provide a strong basis on which to oversee the delivery of services under the contract.

The contract provides for an ambitious and comprehensive approach to monitoring, assessing and rewarding contractor performance. It is predicated on the Performance Management System, which is designed as a balanced score card approach that is aligned with the key principles for how Housing ACT expects Programmed to operate and deliver the services. The Performance Management System consists of two 'domains' (Qualifying and Performance) 'that establish mandatory requirements, minimum standards and drive performance' and includes 'a mix of financial, non-financial, qualitative and non-qualitative indicators'. Incentive payments cannot be made if there are any areas of underperformance. The Performance Management System is comprehensive and complex. Monitoring and assessing performance across the fifty key performance indicators requires reliable, robust, and repeatable measurement methodologies as well as accurate, complete and verifiable data.

3.69

Accurate performance reporting supported by robust data is crucial to the operation of the Performance Management System. Monthly and quarterly performance reporting from Programmed has been poor. Reports have contained both qualitative and quantitative errors and have been inconsistent both internally and from one report to the next. There have also been significant differences in the data reported in quarterly reports to the data reported in the three relevant monthly reports for the period. Reports have consistently required amendment because of multiple errors. In July 2020, a contract non-conformance notice was issued to Programmed with respect to the quality of its reporting. Poor quality reporting has compromised the management of the contract with Programmed.

3.81

In 2019-20 \$51.83 million was spent on reimbursable expenses for work performed under the contract; an overspend of \$7.55 million (17 percent). Poor financial management systems and processes meant that the overspend was not identified until June 2020 and quantified until September 2020. Programmed's monthly reports for 2019-20 shows that its monthly financial reporting was characterised by routine errors, inconsistencies and changes to data relating to budget spend, both on a month-to-month and year-to-date basis. Poor monthly and quarterly reporting meant that neither Programmed or Housing ACT had effective visibility over expenditure associated with the services.

3.119

In January 2020 Housing ACT's financial systems were showing the value of reimbursable services expenditure could exceed the budget for 2019-20. Housing

3.120

ACT identified actual expenditure of \$23 million for completed maintenance work done as at January 2020 (58 percent of the annual budget) and committed expenditure (completed work orders not yet invoiced, invoices received but not processed and some scoped work orders not invoiced) of approximately \$10 million. No further examination or analysis was undertaken to reliably estimate the value of committed works and its impact on the annual budget. Information that potentially 78 percent of the 2019-20 annual budget had either been spent or committed by January 2020 was not effectively recognised as a risk and managed by Housing ACT.

In response to the 2019-20 overspend Housing ACT and Programmed have instituted a series of governance, system and process improvements. Programmed has: established a new Contract Financial Accountant role that is 'focused on financial monitoring and reporting for the contract'; developed new financial reports 'utilising correct sources of data and additional information'; and prepared 'budget vs actual variance analysis' on a weekly basis for discussion with Housing ACT 'on a regular basis'.

3.131

A key improvement has been the re-establishment of the Finance Group as a stand-alone governance group. It meets monthly and reports to the Contract Management Group, with representation by both organisation's finance and contract managers. Finance and budget considerations are also now standing agenda items at all Contract Management Group and Joint Consultative Committee meetings. Housing ACT also advised of the Finance Group's initiatives to strengthen budget management and monitoring, including: 'improved rigour, especially around commitment and analysis processes, such as a line to line reconciliation; redesigning a budget report that will bring information from both Programmed and HACT systems together; review of the work order process and understanding liability for the remainder of the year'. Housing ACT also advised of the 'development of a common lexicon/language for the Finance Group reports to ensure both sides understand the report and the meaning of data, calculations and issues to manage in the year ahead'.

3.132

## Housing ACT's TFM contract administration function

- 3.2 Primary responsibility for managing the total facilities management contract rests with the Infrastructure and Contracts Branch in Housing ACT. The functional area with key responsibility for the management of the contract is the Contract Management Team, which is headed by the Senior Director, Contract Management (the Senior Contract Manager).
- 3.3 The Contract Management Team consists of approximately 18 staff in three teams:
- the Contract Operations team;
  - the Governance team; and
  - a team that looks after energy efficiency projects integrated with the contract.

## Role of the Senior Contract Manager

- 3.4 The Senior Contract Manager plays a pivotal role in the implementation and management of the contract. The Senior Contract Manager's responsibilities includes being a:
- team leader for 18 staff across three functional areas, which together have responsibility for the ongoing management of the contract;
  - relationship manager between Housing ACT and Programmed; and
  - member and Chair of governance committees and groups.

### *Relationship Manager*

- 3.5 The Senior Contract Manager has an important role in the management of the relationship with Programmed. The Senior Contract Manager has a weekly meeting with their Programmed counterpart on a wide range of both tactical and strategic issues. Discussions might cover lower-level issues such as choice of bathroom fit outs and higher level issues such as schedules of rates for tradesmen and contract provisions covering innovation in service delivery offerings. These Contract Manager meetings are documented by the Assistant Director Governance and are presented to the Contract Management Group as a regular agenda item.
- 3.6 In the event of contractual non-performance, the decision to issue a contractual notice to Programmed is made by the Senior Contract Manager. The Senior Contract Manager generally issues contractual notices upon referral from the Assistant Director Governance or the Housing ACT Quality Assurance and Risk Team. The decision whether to issue a notice is guided by an established and agreed framework. The decision is noted on the referral form as well as a register of contractual notices. The Senior Contract Manager then accepts (or rejects) a cure plan from Programmed that addresses the issues identified in the contractual notices. This approach is founded in the relationship-based approach to the management of the contract, whereby the Senior Contract Manager determines the seriousness of the contractual issue, and then agree the cure plan to be provided with the contractual notice for the consideration of the relevant governance committee(s). The key risk of this approach is the accountability of the Senior Contract Manager and the need to balance the potentially competing priorities of relationship management with performance management and contract operations.

### *Governance committee representation*

- 3.7 The Senior Contract Manager has participated in all of the governance committees. The Senior Contract Manager has attended meetings of the:
- Joint Consultative Committee (as a voting member);
  - Contract Management Group (as a voting member);
  - Finance Group (as Chair); and
  - ICT Group.

- 3.8 On occasion the Senior Contract Manager has also attended the Contract Operations Group. Although the original terms of reference state that the Group comprises operational personnel, sometimes the Senior Contract Manager has attended the Group as Chair. As of September 2020, the Senior Contract Manager is the Chair of the re-established Finance Group.
- 3.9 The Senior Contract Manager has three broad roles at the Joint Consultative Committee:
- voting member of the Committee, thereby participating in decision-making on agenda items and resolving issues brought to the committee, for example the issue of contractual notices or the decision to apply abatements;
  - advisor to the Committee. The Senior Contract Manager provides the Committee with agenda items for consideration at each meeting, including reports to the Committee from the ICT Group, financial briefings, and the operational risk register; and
  - recipient of action items arising out of Committee meetings, thereby acting as a delegate of the Committee, for example monitoring the completion of the Contract Management Plans and the implementation of the Performance Management System.
- 3.10 Housing ACT's Senior Contract Manager has a pivotal role in the implementation and management of the total facilities management contract. They manage a team of eighteen staff across three functional areas and have the key role in managing the relationship with Programmed. The Senior Contract Manager also participates in the governance committees and groups, either as a voting member or chair. In the event of contractual non-performance, it is the Senior Contract Manager's decision to issue a contractual notice to Programmed. The Senior Contract Manager accepts (or rejects) a cure plan from Programmed that addresses the issues identified in the contractual notice. This approach is founded in the relationship-based approach to the management of the contract, whereby the Senior Contract Manager determines the seriousness of the contractual issue, and then agrees the cure plan to be provided with the contractual notice for the consideration of the relevant governance committees. The multiple roles and responsibilities of the Senior Contract Manager give rise to risks in the management of the contract. The multiple roles and responsibilities overlap and compromise the accountabilities of the Senior Contract Manager with respect to the management of the contract and their role in contract governance forums and groups.

**RECOMMENDATION 1 SENIOR CONTRACT MANAGER ROLE AND RESPONSIBILITIES**

Housing ACT should review the roles and responsibilities of the Senior Contract Manager and ensure that risks associated with their competing responsibilities and accountabilities for the management of the contract and their role in governance forums and groups are recognised and managed.

## Role of the Assistant Director Governance

- 3.11 In October 2019, Housing ACT established the role of the TFM Contract Administrator (subsequently re-titled Assistant Director Governance), to provide dedicated administrative support and secretariat functions for the Joint Consultative Committee, Contract Management Group and Contract Operations Group.
- 3.12 The role of the Assistant Director Governance was created in 2019 to add capability to Housing ACT's Contract Management Team to:
- build and strengthen governance from the previous contract; and
  - implement effective administrative support for the governance committees.
- 3.13 The role includes managing a register of variations to the contract as well as recording action items for governance committees. Recruitment to the role added new skills and capabilities to the Contract Management Team including specific knowledge of support for governance committees. The Assistant Director Governance has since developed and implemented standard templates for minutes of meetings, action items and compliance registers and policy guidance to assist the members of committees better understand their obligations and responsibilities.

### *Compliance register*

- 3.14 The Assistant Director Governance established and maintains a compliance register to support the Contract Management Group and the Joint Consultative Committee. The register takes the form of a table that lists the contract's compliance obligations under the categories of governance, reporting, service delivery and general obligations.
- 3.15 The table is a comprehensive identification of all obligations contained in the contract, which is organised by responsible entity, due date and received date for each month of the year. There is a total of 64 identified compliance requirements listed on the register. The compliance summary is presented to the Joint Consultative Committee as an agenda item at each meeting.
- 3.16 In October 2019, Housing ACT established the role of the Assistant Director Governance to provide dedicated administrative support and secretariat functions for the Joint Consultative Committee, Contract Management Group and Contract Operations Group. The role of the Assistant Director Governance was created in 2019 to add capability to Housing ACT's Contract Management Team and recruitment to the role added new skills and capabilities in relation to support for governance committees. The ongoing work of the Assistant Director Governance has improved governance committees' processes, including management of their meetings and agenda, records of action items and the consistency and quality of documentation associated with committee meetings.



## Contract management plans

### Implementation of contract management plan(s)

- 3.17 A key responsibility of the Joint Consultative Committee is ‘monitoring the Contract Management Plan’. In practice, this requirement has been interpreted with respect to the obligations of Programmed to develop and maintain a series of management plans for the delivery of the services.
- 3.18 *Attachment 9 – Planning and Reporting* of the contract sets out the responsibility of Programmed to develop and implement a series of management plans. The contract identified 28 management plans, which were later consolidated into 16 plans by agreement with Housing ACT (refer to Table 3-1). Together these 16 plans provide a detailed and documented approach to how Programmed intends to deliver the services required under the contract, including consideration of methodology, legislative compliance, procedures, processes and systems. They are intended to be produced on an annual basis.

**Table 3-1 Contract Management Plans (original and revised) (October 2020)**

| Original contractual requirement   | Revised contractual requirement                                       |
|--|---|
| Service Delivery and Management Plan   | Operational Delivery Plan   |
| Asset Management Plan  |   |
| Operational Delivery Plan  |   |
| Subcontractor Management Plan  | Subcontractor Management Plan   |
| Customer Service Centre Management Plan (and including a Stakeholder Engagement Plan); | Customer Service Centre Management Plan                               |
| Human Resources Management Plan  | Human Resources Management Plan                                       |
| Local Industry Participation Plan  |   |
| Induction and Training Plan  |   |
| Industrial Relations Management Plan   |   |
| ICT Management Plan  | ICT Management Plan   |
| Disaster and Emergency Management Plan (including ICT disaster recovery process)       |   |
| ICT Security Policy  |   |
| Change Control Policy and Procedure  |   |
| Communications Plan  | Communications Plan   |
| Quality, Quality Assurance and Continuous Improvement Management Plan                  | Quality, Quality Assurance and Continuous Improvement Management Plan |
| Complaint Management Plan  |   |
| Risk Management Plan   | Risk Management Plan  |
| Financial Management Plan  | Financial Management Plan   |



| Original contractual requirement   | Revised contractual requirement                  |
|------------------------------------|--|
| Workplace Health and Safety Plan   | Workplace Health and Safety Management Plan      |
| Safety Management Plan             |  |
| Annual Planned Maintenance Program | Annual Planned Maintenance Program               |
| Business Continuity Plan           | Business Continuity Plan                         |
| Performance Management Plan        | Performance Measurement Systems Assessment Guide |
| Audit Management Plan              | Audit Management Plan                            |
| Environment Management Plan        | Environment Management Plan                      |

Source: Housing ACT 2020

### Monitoring the delivery of contract management plans

3.19 The Assistant Director Governance has monitored the delivery of the contract management plans as an ongoing contractual compliance obligation. The Contract Management Group has considered progress of the development of the management plans as a regular agenda item at each of its meetings. The Joint Consultative Committee has also been informed of progress in the development of the management plans at its meetings.

### Progress in the delivery of the contract management plans

3.20 In October 2018, Programmed submitted draft Contract Management Plans to cover the initial contract transition period. Programmed then revised, updated and resubmitted these plans to cover the first full year of contract implementation 2019-2020.

3.21 In November 2019 (approximately 12 months after the contract commenced) the Senior Contract Manager informed the Joint Consultative Committee:

Housing ACT is working with Programmed to ensure that all outstanding documents are finalised.

... Housing ACT is satisfied with the progress here with both parties working closely to finalise these documents. ... the delay was mostly due to reporting period not being a full year.

3.22 At that meeting, Programmed 'committed to having these documents finalised by the end of December 2019'. The Chair of the Joint Consultative Committee 'asked for full compliance with requirements by next [meeting]'.

3.23 In March 2020, Programmed provided the Contract Management Group with a schedule to complete the delivery of the management plans. At the March 2020 meeting of the Joint Consultative Committee, the Senior Contract Manager advised that 'work continues progressing the Contract Management Plans. Programmed have provided a schedule for provision of the remaining contract management plans'.

3.24 In April 2020, the contract management plans were discussed by the Contract Management Group as a contract compliance issue, with the Senior Contract Manager noting that 'work

is continuing on contract management plans and Housing ACT and Programmed are continuing to work through these'. In May and June 2020 the Senior Contract Manager again noted to the Contract Management Group, in response to the contract compliance report, the 'ongoing work with contract plans'.

3.25 At the 2 June 2020 meeting of the Joint Consultative Committee, the Senior Contract Manager advised that 'the Contract Management Plans are still ongoing with a push to finalise these as soon as possible'.

3.26 On 30 June 2020 a Contract Default Notice was issued in relation to the late delivery and quality of the contract management plans. The Notice stated:

Since commencement of the contract in November 2018, Programmed Facility Management have not prepared and/or maintained the required management plans as per the obligations of the contract. Not having these plans in place and maintained poses a number of risks to the delivery of services under the contract. It also impacts on the ability to effectively implement the Performance Management System that relies on these plans in order to accurately evidence performance calculations. This matter has been escalated through both the Contract Management Group and the Joint Consultative Committee, however remains unresolved.

... Based on the endorsed Contractual Issues Framework, It is recommended that a Contract Default Notice be considered under Attachment 9 – Planning and Reporting - 3.0 General obligations 3.1.1 of the Contract.

3.27 At the September 2020 meeting of the Joint Consultative Committee, the Senior Contract Manager informed the Committee that 'Contract Management plans continue to be worked on'. At the time of this meeting, nine plans remained outstanding and Programmed committed to finalising all plans by the end of September 2020. The Joint Consultative Committee raised an action item for 'Programmed to complete all compliance reporting requirements by December' and that all plans to be submitted to and cleared by Housing ACT by the end of the first full week of October (9 October 2020). In response to the Committee's concerns, the Senior Contract Manager committed to working with Programmed to 'work to a hard close of management plans by the end of first week in October'. In October 2020, Housing ACT advised that all Contract Management Plans were finalised and agreed.

3.28 The contract sets out the responsibility of Programmed to develop and implement a series of contract management plans, which provide a detailed and documented approach to how Programmed intends to deliver the services required under the contract. The contract's Performance Management System also relies on these plans to evidence performance ratings and support the calculation of performance incentives and abatements. Progress in completing the plans has been slow; many of the plans were completed more than twelve months late despite some initial drafts of these plans being provided early in contract implementation.

## Quality assurance

3.29 *Schedule 3 - Quality Management, Quality Assurance and Audit Regime* of the contract sets out a series of requirements for Programmed with respect to quality assurance activities. Schedule 3 also identifies quality assurance activities that Housing ACT may also undertake at its discretion.

### Annual audit program

3.30 *Schedule 3 - Quality Management, Quality Assurance and Audit Regime* of the contract requires Programmed to:

- develop an annual audit program to cover both compliance and performance of the Agreement;
- establish a quality framework and audit program, within agreed timeframes, for completion the following financial year;
- ensure the audit program includes targeted audits, reviews and spot checks; and
- track, manage and report to the Housing ACT Quality Assurance Manager, within agreed timeframes, the outcomes of all audit recommendations.

3.31 Audit reports are to be tabled at meetings of the Quality and Assurance Group.

### Audit Management Plan

3.32 In November 2018 Programmed provided Housing ACT with a draft Audit Management Plan (as one of the contract management plans required to be prepared by virtue of *Attachment 9 – Planning and Reporting*) (refer to Table 3-1). The initial draft plan underwent four revisions and was accepted as a final document for 2020-21 in August 2020 (almost two years after the initial draft). The Audit Management Plan includes as an appendix an annual audit program for 2020-21, as required by *Schedule 3 - Quality Management, Quality Assurance and Audit Regime*.

3.33 The Audit Management Plan identifies how Programmed will develop and implement its own audit program each financial year. It identifies contractual requirements to conduct:

- monthly work order reviews;
- inspections;
- quarterly targeted audits; and
- quality spot checks on services.

3.34 Notwithstanding that the Audit Management Plan for 2019-20 was not formally signed off and agreed until August 2020, the activities described in the draft plan were used to inform Programmed's quality assurance activities in the interim.

### Key performance indicator reporting

3.35 The development and implementation of the quality assurance program set out in *Schedule 3 - Quality Management, Quality Assurance and Audit Regime* is reported to Housing ACT as key performance indicators. These are:

- KPI 2.10 – % of all work orders audited each month to the required standards;
- KPI 2.11 – the number of spot checks that have been completed by the Contractor in a quarter; and
- KPI 2.12 – the number of targeted audits that have been completed by the Contractor in a quarter.

3.36 Programmed's annual performance report for 2019-20 provided information on its performance against the three quality assurance key performance indicators. Programmed self-assessed its annual performance against these indicators as 'superior'.

### Monthly work order reviews

3.37 *Schedule 3 - Quality Management, Quality Assurance and Audit Regime* requires Programmed to conduct monthly work order reviews, the results of which are to be provided to Housing ACT within two days of completion. Monthly work order reviews seek to provide assurance that repairs and maintenance are undertaken as required by the work order and that documentation associated with the delivery of the service complies with the requirements of the work order. Monthly work order reviews are routinely reported on monthly, quarterly, and annually by Programmed. As part of its monthly reporting, Programmed is required to provide a 'comprehensive report to the Housing ACT Quality Assurance Manager within 12 days of the end of each month that addresses':

- all defects and/or deficiencies detected;
- trend analysis including behavioural, environmental and systemic issues;
- corrective actions and associated costs that have resulted or should result from all issues identified in the audit;
- recommendations regarding continuous (quality) improvement; and
- notes of other actions or recommendations regarding preventative measures and/or trends.

3.38 Monthly reviews of work orders are important for the effective management of the contract. In 2019-20 payments of around \$44 million were made to subcontractors providing maintenance services based on work orders issued by Programmed. This includes both responsive repairs, planned maintenance and capital upgrades to social housing properties.

3.39 For 2019-20 Programmed self-assessed its performance against KPI 2.10 (work order reviews) as 'superior' given that it had audited an average of ten percent of all work orders each month. Programmed reported that for the period 1 July 2019 to 30 June 2020:

- 3280 audits passed the quality assurance audit; and
- 385 failed the quality assurance audit.

#### *Quality spot checks*

3.40 *Schedule 3 - Quality Management, Quality Assurance and Audit Regime* requires Programmed to undertake spot checks for compliance against controls, policies or procedures. Spot checks may be a precursor to an audit if issues or risks are identified; they involve a 'quick look' to see if there are any issues in a certain area which can be quickly turned around.

3.41 For 2019-20 Programmed rated its performance against KPI 2.11 (spot checks) as 'superior' given that 12 spot checks were completed in the year. However, this self-assessment is based only on the number of spot checks conducted and does not consider whether the recommendations from the spot checks reported each quarter have been actioned by Programmed, or if any underlying issues have been appropriately addressed.

3.42 The annual audit program for 2020-21 identifies 15 spot checks to be undertaken in 2020-21 including in relation to:

- the customer service centre;
- claims processing; and
- the complaints management process.

#### *Quarterly targeted audits*

3.43 *Schedule 3 - Quality Management, Quality Assurance and Audit Regime* requires Programmed to conduct four targeted audits per year as part of the annual audit program addressing identified risks or on issues identified by Housing ACT.

3.44 For 2019-20 Programmed reported its performance against KPI 2.12 (targeted audits) as 'superior' given it had undertaken four targeted audits between 1 July 2019 and 30 June 2020. However, this self-assessment is based only on the number of audits conducted and does not consider whether the recommendations from the targeted audits reported each quarter have been actioned by Programmed, or if any underlying issues have been appropriately addressed.

3.45 The annual audit program for 2020-21 identifies three quarterly audits to be conducted in 2020-21 as well as a placeholder for a fourth audit, which will be informed by risks to performance that emerge through the year. The three identified audits for 2020-21 relate to:

- the performance of the responsive repairs and maintenance process;

- financial management processes; and
- planned/capital upgrade processes.

3.46 The contract sets out a series of requirements for Programmed to undertake quality assurance over the delivery of its services. This includes requirements to develop an annual audit program and conduct monthly work order audits, spot checks and targeted audits. The number of work order audits, spot checks and targeted audits are reported as key performance indicators on a monthly and quarterly basis by Programmed. The monthly and quarterly reporting provides an understanding of what quantum of quality assurance activity is undertaken, but does not provide a measure of the quality or effectiveness of these assurance activities.

### Housing ACT quality assurance

3.47 *Schedule 3 - Quality Management, Quality Assurance and Audit Regime* states that Housing ACT may:

- ‘at its own cost, conduct audits on any aspect of work orders and the Contractor’s audits, reviews and spot checks/inspections’ – the reports are to be provided to both parties’ contract managers and are to be tabled at the Contract Management Group meetings;
- ‘at any time and at its own cost, audit the Contractor’s performance with respect to any aspect of the services’; and
- ‘survey customers to inform itself of, among other things, the contractor’s contract compliance and performance, customer satisfaction with the services and the contractor’s management of subcontractors and suppliers’.

### Housing ACT Quality Assurance Framework

3.48 In April 2020 Housing ACT developed the *Total Facilities Management (TFM) Contract Quality Assurance Framework*. The purpose of the Framework is ‘to provide guidance for all Housing ACT [quality assurance] activities in relation to the Contract’. Its overall aim is to ‘assist the contract management team to ensure that the [total facilities manager] administers the contract and delivers the contract objectives and requirements to the required, quality, time and cost’.

3.49 The *Total Facilities Management (TFM) Contract Quality Assurance Framework* (April 2020) sets out clear principles for quality assurance activities, a risk-based planning and prioritisation approach and clear lines of reporting and accountability for the quality assurance activities within an ISO 9000 framework. It is supported by a Standard Operating Procedure with policy guidance on what constitutes a spot check or audit, guidance on how to respond to quality assurance spot checks as well as a forward work plan. There is guidance for categorising quality assurance actions in the form of formal notifications of notices to rectify; contract non-conformance notices; and contract default notices.

- 3.50 The *Total Facilities Management (TFM) Contract Quality Assurance Framework* (April 2020) identifies quality assurance governance through a ‘three lines of defence’ model:
- management activities as the first line of defence;
  - quality assurance activities as a second line of defence; and
  - internal audit as a third line of defence.

## Management

- 3.51 The *Total Facilities Management (TFM) Contract Quality Assurance Framework* (April 2020) identifies that:

Housing ACT Contract Management team will undertake performance checks to review the contractual performance of Programmed FM. These performance checks are designed to provide an insight into the operation of the Contract and how well services under the contract are performing to deliver the contract outcomes.

- 3.52 The *Total Facilities Management (TFM) Contract Quality Assurance Framework* (April 2020) further states:

While the program of work for performance checks will be developed collaboratively with the QAR team and Programmed FM, the Housing ACT contract management team will undertake these performance checks independently of the QAR team.

The scope, findings and recommendations from performance checks will be tabled at relevant CMG meetings.

- 3.53 The Contract Operations Group, through the Assistant Director Governance, has undertaken reviews of work order and invoice processes to provide further assurance over these activities. This is considered a management activity as it was undertaken within the Contract Management Team by the Assistant Director Governance and reported to the Senior Contract Manager. Issues about the reconciliation of invoices, work orders and Programmed systems and processes were initially raised in the Contract Operation Group by the Assistant Director Governance in November 2019 and again in January 2020. This assurance work and its analysis of the contract’s budget position is further considered in paragraph 3.115.

## Housing ACT Quality Assurance and Risk Team

- 3.54 The Housing ACT Quality Assurance and Risk Team is separate to the Housing ACT Contract Management Team. It is part of the Policy and Business Transformation Branch and comprises a Senior Director, a Senior Officer and another two officers. The team reports to the Executive Branch Manager, Policy and Business Innovation; a Housing ACT Executive who is separate to the Executive responsible for the contract. This means that this program of quality assurance activities is conducted independently of the Contract Management Team activities. The Housing ACT Quality Assurance and Risk Team’s activities may include:
- spot checks – these are designed to provide assurance that there is adequate compliance against controls, policies, or procedures;

- process reviews – these are a review of adherence to stated business process;
- quality assurance audits – these seek to review compliance and performance and identify areas for improvement and risk mitigation; and
- evaluation – these seek to evaluate the results of quality assurance activity to determine if objectives have been met and continuous improvement adjustments are made where necessary.

3.55 The Executive Branch Manager, Policy and Business Transformation in collaboration with the Senior Contract Manager agrees the scope of any quality assurance activities that are conducted including a planned calendar of work.

#### *Housing ACT Quality Assurance and Risk Team activities*

3.56 At the time of audit fieldwork, the Housing ACT Quality Assurance and Risk Team had carried out around 11 spot checks since February 2019; including work order spot checks as well as reviews of the quality of work done by Programmed. Other spot checks included a check on the call centre, the Performance Management System framework and sub-contractor work quality.

3.57 The reports of the spot checks were provided to the Quality Assurance Group. This reporting allows the Contract Management Group to be aware of quality assurance issues. Representatives of the Housing ACT Quality Assurance and Risk Team also attend Contract Operations Group meetings. Their role is advisory and non-voting.

3.58 The reports of the spot checks were also reported to Housing ACT's Senior Contract Manager to feed into and inform contract management actions. Contractual notices have been issued to Programmed by the Senior Contract Manager on the basis of issues identified in spot checks and work order audits conducted by the Quality Assurance and Risk Team. The Executive Branch Manager, Policy and Business Innovation, who is accountable for the Housing ACT Quality Assurance and Risk Team activities supporting the contract, has routine visibility of subsequent contract management decisions made by the Senior Contract Manager in relation to these reports. This means that Housing ACT Quality Assurance and Risk team have transparency of the decision making for issuing contractual notices.

3.59 The Senior Director, Quality Assurance advised that findings arising from quality assurance activities were being recognised and actioned:

Quality assurance advice provided to governance committees has led to changes; every recommendation made by Quality Assurance and Risk has been accepted and adopted. However, a lot of these recommendations have been about small things, but very relevant to provider management and compliance with the contract. Current work involves examining past recommendations that Quality Assurance and Risk has made to establish if they were implemented (or not). The Quality Assurance and Risk recommendation register is tabled at every governance meeting.

3.60 The contract allows for Housing ACT to undertake quality assurance over the delivery of services by Programmed. To support its quality assurance activities Housing ACT has



developed the *Total Facilities Management (TFM) Contract Quality Assurance Framework*. The Framework sets out clear principles for quality assurance activities, a risk-based planning and prioritisation approach and clear lines of reporting and accountability for the quality assurance activities within an ISO 9000 framework. It is supported by a Standard Operating Procedure with policy guidance on what constitutes a spot check or audit, guidance on how to respond to quality assurance spot checks as well as a forward work plan. Quality assurance activities are undertaken by both the Contract Management Team and the Quality Assurance and Risk Team, which has separate responsibility and accountability. The reports of the Quality Assurance and Risk Team are provided to the Quality Assurance Group, which allows for the Contract Management Group to be aware of quality assurance issues. Representatives of the Housing ACT Quality Assurance and Risk Team also attend Contract Operations Group meetings. Housing ACT's quality assurance activities provide a strong basis on which to oversee the delivery of services under the contract.

## Performance management

### Performance Management System

3.61 *Part 11 - Performance Framework* describes the requirement to measure and report Programmed's performance against a Performance Management System. The Performance Management System is defined in the contract as 'the system of monitoring and measuring the performance of the Contractor in delivering the Services, as set out in Schedule 8 and Attachment 10'.

3.62 *Schedule 8 – Performance Management Framework* describes the Performance Management System:

The purpose of the Performance Management System is to provide a coherent, integrated and holistic mechanism to monitor, measure and influence the performance of the Contractor in delivering the overall objectives of the Agreement.

#### *Balanced score card approach*

3.63 The Performance Management System is designed as a balanced score card approach that is aligned with the key principles for how Housing ACT expects Programmed to operate and deliver the services. It consists of two 'domains' (Qualifying and Performance) 'that establish mandatory requirements, minimum standards and drive performance' and includes 'a mix of financial, non-financial, qualitative and non-qualitative indicators'.

- 3.64 The *Qualifying Domain* consists of system health indicators<sup>4</sup> that set out the minimum mandatory requirements that must be met and the mechanism to monitor these on an ongoing basis. The *Performance Domain* consists of two components, *customer service delivery* and *customer service experience*, each of which is supported by key performance indicators. The *customer service delivery* key performance indicators are grouped around the key services of the contract, with clear (minimum) expectations for targets and incentives for superior performance.<sup>5</sup> These are essentially quantitative targets to be achieved each month. The *customer service experience* component is about repairs and maintenance but in the context of service provision to vulnerable people and their satisfaction with the maintenance services offered by Programmed.
- 3.65 Attachment 10 of the contract identifies all performance indicators in a standard tabular format for both the *Qualifying Domain* and the *Performance Domain*. The purpose of the performance indicator, how the indicator is to be monitored, the key principles underpinning the choice of the performance indicator, the outcome sought and how the indicator is to be measured are defined. This is accompanied by a separate sub-table that sets out the quarterly assessment framework and level of performance that must be achieved over the quarter. There are 50 key performance indicators defined in Attachment 10 (25 for each domain). This represents twice the number of performance indicators as in the previous contract.

### Development of the Performance Management System

- 3.66 The Performance Management System is described in the *Performance Management System Assessment Guide* document. The development of the *Performance Management System Assessment Guide* fulfilled the contractual obligation to prepare a Performance Management Plan as one of the contract management plans required under the contract (refer to paragraphs 3.17 to 3.18).
- 3.67 The *Performance Management System Assessment Guide* was finalised in April 2020. The first draft of the Guide was prepared in September 2019 and provided to Housing ACT for its consideration. Multiple iterations followed. In March 2020, the slow development of the Performance Management System was raised by the Chair of the Joint Consultative Committee. Programmed committed to finalising the Performance Management System and using it to calculate that quarter's performance outcomes.
- 3.68 According to the Senior Director, Quality Assurance 'the Performance Management System has not yet been fully realised' due in part to 'Programmed staff changeover which has led

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<sup>4</sup> System health refers to the overall performance of the Contractor's organisational systems to manage the Agreement and deliver the Services to a high standard. This provides Housing ACT with an assurance that legal and statutory requirements are being met, that systems and processes are in place to effectively manage the requirements of the Agreement and that there is adequate emphasis on human resource management, industrial relations and value for money.

<sup>5</sup> Responsive repairs and maintenance; condition assessments; vacant dwellings; quality assurance services; warranty periods.

to a gap between intention and outcome'. The Senior Director also noted that 'the IT system that generates Programmed's current performance reports is limited, it only recently came online and there is not a lot of confidence in the data'.

- 3.69 The contract provides for an ambitious and comprehensive approach to monitoring, assessing and rewarding contractor performance. It is predicated on the Performance Management System, which is designed as a balanced score card approach that is aligned with the key principles for how Housing ACT expects Programmed to operate and deliver the services. The Performance Management System consists of two 'domains' (Qualifying and Performance) 'that establish mandatory requirements, minimum standards and drive performance' and includes 'a mix of financial, non-financial, qualitative and non-qualitative indicators'. Incentive payments cannot be made if there are any areas of underperformance. The Performance Management System is comprehensive and complex. Monitoring and assessing performance across the fifty key performance indicators requires reliable, robust, and repeatable measurement methodologies as well as accurate, complete and verifiable data.

## Performance monitoring and reporting

- 3.70 It is the responsibility of Programmed to implement the Performance Management System and provide Housing ACT with assessments of its performance together with supporting evidence including source data and calculations of performance assessments. Accurate performance reporting supported by robust data is crucial to the operation of the Performance Management System.

### *Monthly performance reports*

- 3.71 *Attachment 9 – Planning and Reporting* of the contract requires Programmed to provide a monthly performance report to Housing ACT no later than the tenth day of each month. The monthly performance reports are provided to the Senior Contract Manager and are then distributed throughout Housing ACT via a central administration mailbox. At the time of audit fieldwork, Programmed had provided Housing ACT with thirteen monthly performance reports covering the period July 2019 to August 2020.
- 3.72 The monthly performance reports follow a consistent format. The first part of the report is an executive summary that provides a summary of key actions or achievements in nine broad performance categories. Subsequent sections of the monthly reports present each performance indicator, a description of the performance indicator, a monthly result for each indicator (as either a qualitative rating or as a quantitative result) with commentary against each indicator. All performance indicators in both the *Qualifying Domain* and the *Performance Domain* are reported against in this section. The report also provides a commentary of key activities and outputs for the month as well as a summary comment on performance achievements for twelve broad categories of operation.

### *Quarterly performance reports*

3.73 *Attachment 9 – Planning and Reporting* of the contract requires Programmed to provide a quarterly assessment of its performance to Housing ACT for the preceding quarter. The quarterly assessment is due to be provided to Housing ACT no later than the fifteenth day after the end of each quarter. The contract requires the quarterly report to ‘contain information on the performance against the Agreement objectives, principles and outcomes with a focus on risk management’ and address:

- ‘performance against the Performance Management System over the preceding quarter and year to date, including advice on improving performance over the life of the Agreement’;
- ‘the provision of Core Capabilities over the preceding quarter and year to date, including quantitative and qualitative analysis and reporting with advice on how to improve performance’; and
- ‘the provision of Reimbursable Services over the preceding quarter and year to date, including quantitative and qualitative analysis and reporting with advice on how to improve performance’.

3.74 At the time of audit fieldwork four quarterly reports had been considered by the Joint Consultative Committee in 2019-20.

### *Annual performance reports*

3.75 *Attachment 9 – Planning and Reporting* of the contract requires Programmed to submit an annual performance report to Housing ACT, as the basis for the annual rating of its performance by the Senior Contract Manager and consideration by the Joint Consultative Committee. At the time of the audit, Programmed had provided two reports:

- November 2018 to June 2019; and
- July 2019 to June 2020.

3.76 Clause 11.4 of the contract provides for Housing ACT to conduct an annual performance review of Programmed’s performance. There was no annual performance review for 2018-19. The performance review for 2019-20 period was deferred at the Joint Consultative Committee meeting of 11 September 2020 and rescheduled to December 2020.

### **Quality and accuracy of Programmed performance reporting**

3.77 Housing ACT staff advised of concerns associated with the quality of Programmed’s reporting:

Monthly reporting from Programmed has been sloppy and would benefit from a stringent QA process, poor data, errors. Housing ACT is way too involved in checking it. Maintenance of the report is a continuous theme and its often late. We need to stick to timelines.

...

The contract has been in place for 18 months and there has been a lot of risk around getting accurate performance information and data and sharing data with stakeholders.

...

What we were seeing and being told, at the end of the day wasn't accurate.

- 3.78 Analysis of Programmed's monthly reports shows that they contain both qualitative and quantitative errors and have been inconsistent both internally and from one report to the next. The matters reported on for the same key performance indicator have been variable from month to month.
- 3.79 There have also been significant differences in the data reported in quarterly reports to the data reported in the three relevant monthly reports for the period. The quarterly report for January 2020 to March 2020 was returned to Programmed for correction and resubmission. Programmed confirmed that there were both data errors and errors in calculating the scoring of indicators in that report and that it was trying to reconcile data back to July 2019 to ensure that the data was accurate. This included reconciling data for all key performance indicators.
- 3.80 In July 2020 Housing ACT issued Programmed with a contract non-conformance notice covering the quality of its reporting. In August 2020 Programmed provided Housing ACT with a cure plan in response to the notice. The cure plan acknowledged that:
- ... the current reporting processes to be largely manual and therefore time intensive, resulting in reports being submitted with minor errors and inconsistencies.
- 3.81 Accurate performance reporting supported by robust data is crucial to the operation of the Performance Management System. Monthly and quarterly performance reporting from Programmed has been poor. Reports have contained both qualitative and quantitative errors and have been inconsistent both internally and from one report to the next. There have also been significant differences in the data reported in quarterly reports to the data reported in the three relevant monthly reports for the period. Reports have consistently required amendment because of multiple errors. In July 2020, a contract non-conformance notice was issued to Programmed with respect to the quality of its reporting. Poor quality reporting has compromised the management of the contract with Programmed.

## Performance rewards and penalties

- 3.82 *Schedule 8 – Performance Management Framework* notes that the Performance Management System is used to calculate performance incentive payments as well as abatements:
- ... the Performance Management System is used for financially rewarding and determining Incentive Payments for above standard and superior performance, calculated on a sliding scale with the maximum incentive available for superior service.
- 3.83 An incentive payment of up to a maximum of 10 percent of the contractual Base Management Fee is available for 'above standard' and 'superior' performance. A maximum

of 5 percent of the contractual Base Management Fee may be withheld as an abatement for 'unsatisfactory' performance.

3.84 The Performance Management System and its associated financial rewards and penalties differs from the previous total facilities management contract. Under the current contract Programmed will receive an incentive payment only if its performance is rated as standard or above and no performance incentive is to be paid if any indicator is rated poor. This differs from the construction of the previous total facilities management contract where the provider was able to receive incentive payments despite unsatisfactory performance against some performance indicators.

3.85 To date, Programmed has not received any incentive payments for superior performance. Due to the 2019-20 financial overspend of \$7.55 million (refer to paragraphs 3.88 to 3.132), an abatement of \$71,837 was applied for 2019-20 and an abatement of \$14,208 was applied for the first quarter of 2020-21.

## Financial management

3.86 Housing ACT expenditure related to the total facilities management contract comprises:

- the payment of reimbursable expenses for work performed under the contract, i.e. payment for invoices submitted for maintenance and repairs work undertaken; and
- the payment of a management fee to Programmed in consideration of its administration of the arrangement.

3.87 The Commissioner's key objective is to preserve and maintain the social housing dwellings. Accordingly, it is important that Housing ACT has effective financial management controls in place to make sure there is enough funding to ensure properties are maintained and tenants are safe.

## Reimbursable expenses budget

3.88 Programmed has an annual budget for reimbursable expenses for work performed under the contract. Table 3-3 shows the budget for reimbursable expenditure for the financial years between 2018-19 and 2021-22. The budget for reimbursable services has been adjusted for a variety of reasons including budget initiatives, rollover of unspent capital in the first year of the contract and, most recently, to recoup an overspend of \$7.55 million in 2019-20 through reductions in future years.

**Table 3-2 Annual reimbursable expenses budget (2018-19 to 2021-22)**

| Financial year | Baseline Budget (\$m) | Budget Adjustments (\$m)                                     | Revised Budget (\$m) | Performance against budget   |
|----------------|-----------------------|--|----------------------|------------------------------|
| 2018-19        | 26.28 <sup>1</sup>    | Nil  | 26.28                | Underspend (approx. \$4.48m) |
| 2019-20        | 41.2                  | 1.07 <sup>2</sup><br>2.0 <sup>3</sup>                        | 44.28                | Overspend (approx. \$7.55m)  |
| 2020-21        | 41.2                  | (4.12) <sup>4</sup><br>1.3 <sup>5</sup><br>0.88 <sup>6</sup> | 39.26                | N/A                          |
| 2021-22        | 41.2                  | (4.12) <sup>4</sup><br>5.0 <sup>5</sup>                      | 42.08                | N/A                          |

Source: Housing ACT

Note 1: There was a total full year budget of \$39.15 million for total facilities management services in 2018-19. The contract with Programmed commenced on 1 November 2018 and \$26.28 million of this total was allocated to Programmed.

Note 2: \$1.07 million in 'COVID 19 screwdriver ready funding' from ACT Government and monies received from other Directorates (window, blinds and gas stove replacements) was added to the budget.

Note 3: \$2.0 million in unspent capital monies was rolled over from 2018-19.

Note 4: \$4.12 million was removed from the 2020-21 budget and 2021-22 budget as a result of the overspend of monies in 2019-20.

Note 5: \$1.3 million from ACT Government stimulus funding was added to the 2020-21 budget and \$5.0 million was added to the 2021-22 budget (a total of \$6.3 million over two years).

Note 6: \$0.88 million in capital monies from Housing ACT own source revenues. Once the capital budget was expended the construction programs had a small amount remaining, which was allocated to upgrades.

### 2018-19 financial results (underspend)

3.89 The contract with Programmed commenced on 1 November 2018. For the period 1 November to 30 June 2019 a reimbursable services budget amount of \$26.28 million was provided to Programmed, which was the amount of the total reimbursable services budget of \$39.15 million that remained unspent at 30 October 2018.

3.90 An amount of \$4.48 million was unspent as at 30 June 2019. Housing ACT rolled over \$2.0 million of this to the 2019-20 financial year.

### 2019-20 financial results (overspend)

3.91 For 2019-20 there was a reimbursable services budget of \$44.28 million. This was an increase of \$3.07 million on the original budget of \$41.2 million.

3.92 At the end of the year total expenditure was \$51.83 million; an overspend of \$7.55 million. Notwithstanding the significant overspend, up until late May 2020 there was an expectation that there would be another underspend of expenditure and another roll over of capital funds.

### *Expected underspend of funds (2019-20)*

3.93 At its May 2020 meeting, the Contract Management Group was informed by Programmed about a reconciliation of data for the 2019-20 financial year, which was expected to result in an underspend for the year and, consequently, a rollover of funds:

... a large spend was put against the wrong budget code because of the use of a default code. ... the coding correction on the capital works budget will result in a change of approximately \$1.4 million. All financial data is being reconciled and will be presented in a way that allows for Housing to reconcile the data and process the amendments. ...

... This will provide the actual amount of expenditure leftover for roll over.

3.94 In response to this information the Contract Management Group requested Programmed identify the cause of the expected underspend and escalated the issue to the Joint Consultative Committee for further discussion.

3.95 At the 2 June 2020 meeting of the Joint Consultative Committee, Programmed advised that it 'has reviewed the financial reporting and ... the actual spend is approximately \$42 million of the \$44 million budget.'

3.96 On 12 June 2020, Programmed provided Housing ACT with its May 2020 monthly performance report. The budget management component of the report showed year-to-date expenditure of \$41.11 million at the end of May 2020.

3.97 On 29 June 2020, the Executive General Manager, Housing ACT wrote to Programmed to express concern about two issues discussed at the June 2020 meetings of the Joint Consultative Committee and Contract Management Group; staffing changes and the reduced delivery of capital upgrades to Housing ACT properties and expected underspend of funds. In relation to the reduced delivery of capital upgrades to Housing ACT properties the Executive General Manager, Housing ACT advised:

My other area of concern is the reduced delivery of capital upgrades to Housing ACT properties. There was a significant underspend in the 2018-2019 financial year budget and the current year to date figures are also significantly underspent. This is disappointing as it means tenants have not had the benefit of upgrades, nor local sub-contractors the benefit of the work. I appreciate that there is a rectification plan and the financial position is improving. I would ask that you ensure this trajectory.

### *Actual overspend of funds (2019-20)*

3.98 At its 11 September 2020 meeting, the Joint Consultative Committee was advised that final reimbursable services expenditure was \$51.83 million; an overspend of \$7.55 million or approximately 17 per cent.

## **Financial monitoring and reporting**

3.99 The audit considered the effectiveness of systems, processes and controls in place for financial monitoring and reporting under the contract.



3.100 The management and monitoring of financial expenditure under the contract was to be primarily achieved through monthly and quarterly reporting by Programmed. As discussed in paragraphs 3.71 to 3.76, Programmed was to provide monthly and quarterly reporting against key performance indicators for the purpose of the Performance Management System.

### Key performance indicators

3.101 Programmed's financial management of the total facilities management services was reported to Housing ACT through a series of financial-related key performance indicators:

- KPI 1.21 – planned vs responsive repairs and maintenance ratio of 70:30;
- KPI 1.22 – management of the predetermined financial year budget spend within agreed tolerances; and
- KPI 1.23 – management of capital expenditure on upgrades and refurbishments.

3.102 Table 3-4 shows the relevant financial management key performance indicators in the contract and how they are to be measured.

**Table 3-3 Financial management key performance indicators**

|          | Key performance indicator  | Requirement   |
|----------|--|---|
| KPI 1.21 | Planned vs responsive repairs and maintenance ratio of 70:30                         | <ul style="list-style-type: none"> <li>• an annual ratio of 70:30 or better is achieved in the planned vs responsive repairs budget</li> <li>• Programmed will Identify Planned/ Capital works through Property Condition Assessments</li> <li>• all work orders are accurately recorded under the correct budget code</li> </ul> |
| KPI 1.22 | Management of the predetermined financial year budget spend within agreed tolerances | <ul style="list-style-type: none"> <li>• all work orders are accurately recorded under the correct budget code</li> <li>• the overall spend of the predetermined annual budget is within 1.5% of the allocated amount calculated as total annual maintenance expenditure</li> </ul>   |
| KPI 1.23 | Management of capital expenditure on upgrades and refurbishments                     | <ul style="list-style-type: none"> <li>• all work orders are accurately recorded under the correct budget code</li> <li>• the overall spend of the predetermined annual budget is within 1.5% of the allocated amount calculated as total annual maintenance expenditure / budget</li> </ul>                                      |

Source: Performance Management System Assessment Guide (April 2020)

### Programmed monthly and quarterly budget reporting

3.103 For the purpose of the Performance Management System, Programmed provided monthly and quarterly reports that included information on its performance in managing the reimbursable services budget (KPI 1.22 - 'management of the predetermined financial year

budget spend within agreed tolerances' shown at Table 3-3). Each month, with the exception of June 2020, Programmed reported against this performance indicator.

3.104 Over the course of 2019-20 the format of the reports and the information shown in the reports changed (refer to paragraph 3.107). Towards the end of 2019-20 the reports *generally* showed:

- a budgeted amount for a range of maintenance categories;
- monthly expenditure against the maintenance categories; and
- year to date expenditure against each of the maintenance categories as well as an 'estimated accrual' amount.

3.105 The reports showed historical monthly information to varying degrees. For example, the May 2020 monthly report showed data back to July 2019 (as had the preceding monthly reports), while the June 2020 report showed data back to September 2019.

3.106 Programmed's monthly reports are provided to Housing ACT's Senior Contract Manager and are then distributed throughout Housing ACT 'through a central administration box'. The governance team summarises Programmed's reports for the Executive Branch Manager, Infrastructure and Contracts and in doing so identifies risks, key performance indicators by exception and any non-conformances. This is an additional step that Housing ACT implemented because of recognised issues with the quality and accuracy of Programmed's reports. As the Finance Group was not meeting separately during this time, there was little evidence of informed budget analysis by an appropriately senior governance body.

#### *Quality of monthly budget reporting*

3.107 A review of Programmed's monthly reports for 2019-20 shows that its monthly financial reporting has been characterised by routine errors, inconsistencies and changes to data relating to budget spend, both on a month-to-month and year-to-date basis. The review shows:

- a lack of consistent presentation: reported categories of information were inconsistent between reports and the content of reports changed throughout the year;
- missing data and reporting: no monthly report was provided for June 2020. Reports throughout the year regularly did not include information to reliably inform budget management. This included reports missing grand totals, estimates of the ratio of planned to unplanned maintenance, forecast accrued expenses, or the value of committed works;
- poor data quality: reported monthly figures were continuously updated throughout the year with no explanation of the updated values resulting in discrepancies from one month to the next in reported monthly spend; and
- calculation errors: monthly reports contained errors of calculation in data and totals.

- 3.108 The inaccuracy of the monthly reporting is highlighted by the May 2020 monthly report (dated 12 June 2020) showing a year to date expenditure figure of \$41.11 million and the final reimbursable services expenditure figure for 2019-20 being \$51.83 million.
- 3.109 In its response to the draft proposed report, Programmed advised that inconsistency in presentation of reports 'was due to some aspects of the report not being relevant to the reporting month or not having a material update that needed to be on the report'. Programmed also advised that no financial report was provided for June 2020 'as the data was still being finalised as there was an additional payment run authorised on the 8<sup>th</sup> of July 2020 and the financial expenditure for the year had not been finalised by the 10<sup>th</sup> July, the due monthly reporting date' and that it was agreed between the contract managers that the data 'would be best reported in the quarter and annual report'.

#### *Re-categorisation of expenses*

- 3.110 In February 2020 Programmed also conducted a major manual journaling exercise that re-categorised \$4.6 million in expenses from unplanned to planned maintenance. An error in budget coding was cited as the reason for the re-categorisation. This resulted in changes to previously reported monthly data and also resulted in a significant change to the key performance indicator relating to the ratio of planned to unplanned maintenance (KPI 1.21 – planned vs responsive repairs and maintenance ratio of 70:30).
- 3.111 The favourable ratio of planned to unplanned spend (80:20) of February to May 2020 was reported consequent to the journaling exercise which reallocated funds from unplanned maintenance to planned maintenance. This reporting did not take into account the value of committed works and likely overspending the planned budget by the end of the financial year. Housing ACT stated that 'this favourable ratio was associated with the rejournalling and that this ratio can't be properly realised until the reconciliation at the end of the financial year. On a month-to-month basis the spend doesn't work this way'.

#### *Quality of quarterly budget reporting*

- 3.112 Throughout 2019-20, Programmed self-assessed its budget performance on a quarterly basis against KPI 1.22 - 'management of the predetermined financial year budget spend within agreed tolerances' as part of the quarterly reporting cycle.
- 3.113 Programmed rated its performance for the first and second quarter of the 2019-20 financial year as 'standard' meaning that expenditure was within agreed tolerances of +/- 1.5 percent of the budgeted spend for that quarter. Programmed rated its performance for the third quarter as 'inferior' based on an average result of a 2.33 percent underspend; and 'inferior' for the fourth quarter based on a greater than 5 percent overspend.
- 3.114 A review of Programmed's quarterly performance reports over the period July 2019 to June 2020 shows that the format of these reports changed during the year. The first two quarterly reports contain a monthly spend figure that can be compared to that in Programmed's monthly reports. However, for the third quarter report, year-to-date spend

is reported rather than monthly spend; and neither monthly spend or year-to-date spend is reported in the fourth quarter report.

### Housing ACT analysis

- 3.115 In January 2020 Housing ACT and the Contract Operations Group sought to ‘try [and] resolve the issues with the reporting of financials for the contract (in particular the current reported level of accrued/committed expenditure)’. At this time, Housing ACT’s financial systems were showing the value of committed works could lead to exceeding the budget for the 2019-20 financial year.
- 3.116 Work conducted in December 2019 and January 2020 sought to identify how work orders were treated in the Housing ACT finance system, and whether their treatment was having an impact on financial reporting, or potentially raising duplicate invoices. Through this work Housing ACT estimated a spend of \$23 million or around 58 percent of budget for completed maintenance work done as at January 2020. This was consistent with the year to date expenditure figure of \$23.65 million that Programmed reported in its January monthly report.
- 3.117 However, the total of \$23 million did not include the commitment for work that ‘is in the pipeline but not yet paid out’. This would include completed work orders not yet invoiced, invoices received but not processed and some scoped work orders not invoiced. If this ‘work to be paid out’ was recognised, the total would have been approximately \$34.5 million or around \$10 million more than the January year-to-date budget. Housing ACT noted there were issues of duplication with how committed works were being treated in these systems, which was expected to reduce this amount, but no further examination or analysis was undertaken to reliably estimate the value of committed works and its impact on the annual budget.
- 3.118 Having information that potentially 78 percent of the 2019-20 annual budget had either been spent or committed by January 2020 should have been recognised as a risk and managed. This did not occur.
- 3.119 In 2019-20 \$51.83 million was spent on reimbursable expenses for work performed under the contract; an overspend of \$7.55 million (17 percent). Poor financial management systems and processes meant that the overspend was not identified until June 2020 and quantified until September 2020. Programmed’s monthly reports for 2019-20 shows that its monthly financial reporting was characterised by routine errors, inconsistencies and changes to data relating to budget spend, both on a month-to-month and year-to-date basis. Poor monthly and quarterly reporting meant that neither Programmed or Housing ACT had effective visibility over expenditure associated with the services.
- 3.120 In January 2020 Housing ACT’s financial systems were showing the value of reimbursable services expenditure could exceed the budget for 2019-20. Housing ACT identified actual expenditure of \$23 million for completed maintenance work done as at January 2020 (58 percent of the annual budget) and committed expenditure (completed work orders not yet

invoiced, invoices received but not processed and some scoped work orders not invoiced) of approximately \$10 million. No further examination or analysis was undertaken to reliably estimate the value of committed works and its impact on the annual budget. Information that potentially 78 percent of the 2019-20 annual budget had either been spent or committed by January 2020 was not effectively recognised as a risk and managed by Housing ACT.

### Outcome of the 2019-20 overspend

3.121 Following the September 2020 meeting of the Joint Consultative Committee:

- Programmed was asked to provide a formal response;
- Programmed's management fee was withheld for the months of July and August 2020; and
- Programmed was issued with two contract default notices and a contract non-conformance notice for:
  - Quality of reporting (default notice); and
  - Financial overspend (default notice).

#### *Programmed's response to the budget overspend*

3.122 Programmed conducted an internal audit in relation to the budget overspend. The internal audit reported a range of issues in relation to the following themes:

- financial governance and reporting;
- the Housing ACT budgeting process;
- quality assurance activities; and
- key performance indicator reporting.

3.123 The internal audit report identified a number of actions taken by Programmed to address the findings including:

- the establishment of a new Contract Financial Accountant role 'focused on financial monitoring and reporting for the contract';
- the development of new financial reports 'utilising correct sources of data and additional information';
- the provision of training to work order approvers in relation to budget code allocation; and
- preparation of 'budget vs actual variance analysis' on a weekly basis and discussion of these reports 'on a regular basis' with Housing ACT;

3.124 In a letter to Housing ACT dated 18 September 2020, Programmed formally responded to the September 2020 request of the Joint Consultative Committee. In its response Programmed noted:

... we acknowledge there is certain approval related procedural and reporting aspects that need to be strengthened by the Programmed delivery teams to ensure that timely approvals and comprehensive reporting of the spend are in accordance with the requirements laid down by Housing ACT. The identified improvements have been duly considered and going forward, the addition of specialised resources to the contract team, enhanced reporting and data alignment along with a regime of close management of events and incidences that influence the spend will provide the necessary enhanced controls to managing budget. ... [Programmed has] also initiated the process of introducing a quarterly financial close to be completed every three months with the involvement of the Programmed National finance team.

#### *Re-establishment of Finance Group*

3.125 As discussed in paragraphs 2.47 to 2.50, the Finance Group was incorporated into the Contract Operations Group in February 2019. The Programmed internal audit report noted that 'Internal Audit reviewed the Contract Management Group meeting minutes and found insufficient evidence to suggest that Finance Group matters were properly discussed'.

3.126 Since September 2020 the Finance Group has been re-established as a standalone governance group. It meets monthly and reports to the Contract Management Group, with representation by both organisation's finance and contract managers. Furthermore, finance and budget considerations are now standing agenda items at all Contract Management Group and Joint Consultative Committee meetings.

3.127 In January 2021, Housing ACT also advised of the Finance Group's initiatives to strengthen budget management and monitoring. These initiatives include 'improved rigour, especially around commitment and analysis processes, such as a line to line reconciliation; redesigning a budget report that will bring information from both Programmed and HACT systems together; review of the work order process and understanding liability for the remainder of the year'. Housing ACT also advised of the 'development of a common lexicon/language for the Finance Group reports to ensure both sides understand the report and the meaning of data, calculations and issues to manage in the year ahead'.

3.128 Housing ACT also advised that an audit of 2019-20 expenditure will be conducted to determine which processes and systems require improvement. This is expected to be undertaken by an external provider and collaboratively managed by Housing ACT's Quality Assurance and Risk Team and the Community Services Directorate's Internal Audit & Risk Management team. The audit is expected to be reported to the Joint Consultative Committee and the Community Services Directorate's Audit and Risk Management Committee.

### *Contractual abatements*

3.129 Housing ACT has also invoked the contractual provisions to apply the following abatements to Programmed:

- 2019-20 (full year) \$71,837; and
- 2020-21 (quarter 1) \$14,208.

3.130 This penalty is immaterial to Programmed's estimated management fee for 2019-20.

3.131 In response to the 2019-20 overspend Housing ACT and Programmed have instituted a series of governance, system and process improvements. Programmed has: established a new Contract Financial Accountant role that is 'focused on financial monitoring and reporting for the contract'; developed new financial reports 'utilising correct sources of data and additional information'; and prepared 'budget vs actual variance analysis' on a weekly basis for discussion with Housing ACT 'on a regular basis'.

3.132 A key improvement has been the re-establishment of the Finance Group as a stand-alone governance group. It meets monthly and reports to the Contract Management Group, with representation by both organisation's finance and contract managers. Finance and budget considerations are also now standing agenda items at all Contract Management Group and Joint Consultative Committee meetings. Housing ACT also advised of the Finance Group's initiatives to strengthen budget management and monitoring, including: 'improved rigour, especially around commitment and analysis processes, such as a line to line reconciliation; redesigning a budget report that will bring information from both Programmed and HACT systems together; review of the work order process and understanding liability for the remainder of the year'. Housing ACT also advised of the 'development of a common lexicon/language for the Finance Group reports to ensure both sides understand the report and the meaning of data, calculations and issues to manage in the year ahead'.





# APPENDIX A: CONTRACT SCHEDULES AND ATTACHMENTS

## Contract schedules

| Schedule | Title  | Contents  |
|----------|--|---|
| 1        | Contract information                                   | Routine information about the contract, including Contract Officers, Term, Services Budget, Base Management Fee, Specified Personnel, Undertaking etc.  |
| 2        | Services specification                                 | Outlines the principles underpinning the contract including efficiency and value for money, customer experience, social outcomes, quality and innovation; the design of the collaborative contracting model, services, including reimbursable services responsive repairs and maintenance, planned maintenance and upgrades, fixed plant and equipment, disability modifications, vacants, community housing maintenance, common area maintenance, core capabilities, complaints, condition assessment services, quality assurance services, specified personnel, training and education, ICT systems, governance, performance and reporting. |
| 3        | Quality management, quality assurance and audit regime | Specification of a quality management system compliant with ANZ/ISO 9001:2015, including annual audit program, monthly work order reviews, inspections of completed works.  |
| 4        | Management fee schedule                                | Specification of the monthly management fee and payments, including indexation, adjustments based on the services budget and innovation.  |
| 5        | Acceptance testing requirements                        | Part of Information, Communications Technology (ICT) Management Plan  |
| 6        | Management information system                          | Part of ICT Management Plan   |
| 7        | Planning and reporting requirements                    | Specifies requirement for contractor to maintain a framework for regular reporting around the Performance Management System. Includes monthly, quarterly, and annual reporting and developing a Performance Management Plan.  |
| 8        | Performance management framework                       | Sets out the Performance Management System objective as a coherent, integrated, and holistic mechanism to monitor, measure and influence the performance of the agreement.<br><br>Sets out the incentive and abatement quanta. Outlines the balanced score card, its construction and how it will be calculated and applied.  |
| 9        | Expert determination procedure                         | Procedures to be applied for an event, act or omission that gives rise to compensation.   |
| 10       | Not used   |   |
| 11       | Reimbursable expenses principles                       | Sets out the calculation of reimbursable expenses, including the application of a Schedule of rates for each 12 month period of the contract.   |

| Schedule | Title                    | Contents   |
|----------|--------------------------|--|
| 12       | Procurement principles   | States the competitive threshold process, procurement principles applying to reimbursable services.  |
| 13       | Subcontractor warranties | Statement of warranty periods applying to subcontractor provided services.   |
| 14       | Governance arrangements  | <p>Sets out the minimum governance framework comprising:</p> <ul style="list-style-type: none"> <li>• Joint Consultative Committee</li> <li>• Contract Management Group</li> <li>• Contract operations Group</li> <li>• Finance Group</li> <li>• Quality Assurance Group</li> <li>• ICT Governance Group</li> </ul> <p>The composition and operation of each group is then specified.</p>  |
| 15       | Special conditions       | <p>Ten items relating to:</p> <ul style="list-style-type: none"> <li>• Changes to dwellings</li> <li>• Safety and well-being of vulnerable people</li> <li>• Business continuity</li> <li>• Fit and proper person</li> <li>• Delays beyond the control of the contractor</li> <li>• Certification and accreditation</li> <li>• Industrial action</li> <li>• Child protection-Reporting and Training</li> <li>• Industrial Relations and Employment</li> <li>• Unconditional undertaking</li> </ul> |

Source: Total facilities management contract.

### Contract attachments

| Attachment | Title   | Contents   |
|------------|---|--|
| 1          | Undertaking contractor                        | Sets out the financial undertaking required of the contractor.   |
| 2          | Ethical suppliers declaration                 | Declaration required by all providers to the ACT government.   |
| 3          | Subcontractors warranty                       | Subcontractor warranty in the form of a Deed for subcontract work provided under the contract.   |
| 4          | Local Industry Participation Plan             | A statement to assess the potential economic benefits for the Canberra region made by the contractor.  |
| 5          | Schedule of rates                             | An agreed market tested schedule of rates for reimbursable services.   |
| 6          | Related company guarantee                     | A continuing guarantee that the contractor will perform and observe all obligations under the Contract and discharge all liabilities under the Contract. |
| 7          | Agreement Objectives, Principles and Outcomes | A schematic, illustrating the alignment of the performance Management System with Objective, Principles and Outcomes.                                    |
| 8          | Fixed plant and equipment                     | Specification of items of fixed plant and equipment by item, site and performance requirements.  |
| 9          | Planning and reporting                        | Sets out the reporting obligations including monthly, quarterly and annual reporting and timeframe for such reports.                                     |
| 10         | Key performance indicators                    | Sets out 50 key performance indicators, including how they are to be reported and assessed.  |
| 11         | Management information systems                | Sets out the required functionality of the contractor's management information systems   |

Source: Total facilities management contract.



## Audit reports

| <b>Reports Published in 2020-21</b> |   |
|-------------------------------------|---|
| Report No. 01 – 2021                | Land Management Agreements  |
| Report No. 10 – 2020                | 2019-20 Financial Audit – Financial Results and Audit Findings  |
| Report No. 09 – 2020                | 2019-20 Financial Audits Overview   |
| Report No. 08 – 2020                | Annual Report 2019-20   |
| Report No. 07 – 2020                | Management of care of people living with serious and continuing illness                                     |
| <b>Reports Published in 2019-20</b> |   |
| Report No. 06 – 2020                | Transfer of workers' compensation arrangements from Comcare   |
| Report No. 05 – 2020                | Management of household waste services  |
| Report No. 04 – 2020                | Residential Land Supply and Release   |
| Report No. 03 – 2020                | Data Security   |
| Report No. 02 – 2020                | 2018-19- Financial Audits – Computer Information Systems  |
| Report No. 01– 2020                 | Shared Services Delivery of HR and Finance Services   |
| Report No. 11 – 2019                | Maintenance of ACT Government School Infrastructure   |
| Report No. 10 – 2019                | 2018-19 Financial Audits – Financial Results and Audit Findings   |
| Report No. 09 – 2019                | 2018-19 Financial Audits – Overview   |
| Report No. 08 – 2019                | Annual Report 2018-19   |
| <b>Reports Published in 2018-19</b> |   |
| Report No. 07 – 2019                | Referral Processes for the Support of Vulnerable Children   |
| Report No. 06 – 2019                | ICT Strategic Planning  |
| Report No. 05 – 2019                | Management of the System-Wide Data Review implementation program  |
| Report No. 04 – 2019                | 2017-18 Financial Audits Computer Information Systems   |
| Report No. 03 – 2019                | Access Canberra Business Planning and Monitoring  |
| Report No. 02 – 2019                | Recognition and implementation of obligations under the <i>Human Rights Act 2004</i>                        |
| Report No. 01 – 2019                | Total Facilities Management Procurement   |
| Report No. 12 – 2018                | 2017-18 Financial Audits – Financial Results and Audit Findings   |
| Report No. 11 – 2018                | 2017-18 Financial Audits – Overview   |
| Report No. 10 – 2018                | Annual Report 2017-18   |
| Report No. 09 – 2018                | ACT Health's management of allegations of misconduct and complaints about inappropriate workplace behaviour |

These and earlier reports can be obtained from the ACT Audit Office's website at <http://www.audit.act.gov.au>.