

**MEDIA RELEASE****14 April 2016**

### **Maintenance of Public Housing**

The ACT Auditor-General, Dr Maxine Cooper, has presented a report on the **Maintenance of Public Housing** to the Speaker for tabling in the ACT Legislative Assembly.

Maintenance of public housing is a key function of the ACT Government, with public housing assets valued at over \$4 billion and providing accommodation for nearly 6 percent of the ACT population. Public housing maintenance in the ACT is planned and arranged by a private sector company (Spotless Pty Ltd), under contract to the ACT Government. The current contract with Spotless was signed in 2012 and is valued at \$240 million over five years, including the direct cost of maintenance and the value of the management fee payable. It is one of the Territory's largest ongoing contracts.

'The provision of maintenance for the Territory's public housing stock is a significant task' said Dr Cooper. 'Last year, public housing tenants made nearly 75 000 calls requesting maintenance services, and over 80 000 individual maintenance and improvement jobs, valued at more than \$41 million, were commissioned.'

'Managing the public housing maintenance contract poses many challenges' said Dr Cooper. 'While Housing and Community Services has positioned itself positively to meet these challenges, particularly through establishing a sound governance framework for the maintenance contract, its management of the contract has not been fully effective. In particular, in the course of the audit we found a lack of effective risk management, and deficiencies in Housing and Community Services' oversight of Spotless' quality control arrangements. This included a failure to enforce key provisions of the contract with Spotless in relation to quality and continuous improvement.'

Dr Cooper has called for improvements in the management of the contract, including fully implementing the planned governance framework, improving the identification and management of risk, strengthening the oversight of quality control systems, and better managing contract variations.

The Summary of **Maintenance of Public Housing: Report No. 2/2016**, with audit conclusions, key findings and recommendations is attached to this media release.

Copies of **Maintenance of Public Housing: Report No. 2/2016**, are available from the ACT Audit Office's website [www.audit.act.gov.au](http://www.audit.act.gov.au) . If you need assistance accessing the report please phone 6207 0833 or go to 11 Moore Street, Canberra City.

## Summary chapter:

### Overall conclusion

Managing the Total Facilities Management contract poses many challenges. While Housing and Community Services has positioned itself positively to meet these, particularly through establishing a sound governance framework for the contract, its management of the contract is not fully effective. Importantly, there is scope for Housing and Community Services to improve its contract management through fully implementing the governance framework as provided for in the Total Facilities Management contract, improving its identification and management of risk, strengthening its oversight of Spotless' quality control systems and better managing and documenting contract variations.

### Chapter conclusions

#### GOVERNANCE

Housing and Community Services has established a generally sound governance structure to support the Total Facilities Management contract, including requiring parties to define key strategies for contract delivery and quality control, establishing committees to deal with both day-to-day administration and higher level oversight, and having a mechanism for financial control and dispute resolution. Contract management is also supported by a comprehensive Performance Management System for incentive payments and abatements to drive the achievement of key contract outcomes.

However, this sound governance structure has not been fully implemented and Housing and Community Services' oversight of Spotless has been inadequate. There is no risk management plan specifically for the contract, and Housing and Community Services does not have visibility over the delivery of works managed by Spotless. Importantly, work order audits undertaken by Spotless have been problematic and Housing and Community Services has not enforced the necessary and required standard for these audits. It has not provided effective oversight of, and has not followed-up in relation to, targeted quality audits that were undertaken by Housing and Community Services Quality Assurance team. Some contractual provisions designed to drive quality and innovation, and provide employment of target groups have not been enforced. Although initiatives to address some of these matters have been introduced, more remains to be done.

Contract variations have not been effectively managed as changes to the contract have not been documented or, if they have, the documentation is inadequate. Accordingly there is no audit trail or transparency of decision-making related to contract variations. Poor documentation of variations presents a risk that the contract will not be effectively managed or enforced.

### **TIME, QUALITY AND COST**

Spotless has met timeliness targets for the delivery of the more urgent maintenance services, but not for routine tasks. While this is the case, the reliability of the timeliness data is uncertain and Housing and Community Services needs to assure itself of its reliability.

Housing and Community Services does not have sufficient oversight of Spotless' quality control activities; in particular over Spotless' work order audits and the allocation and quality of maintenance work undertaken by Spotless' in-house maintenance provider.

Spotless' payment incentives or abatements are dependent on the results of customer satisfaction surveys. These have a very low response rate and problems with them have been identified in quality audits. While Housing and Community Services has initiated action to improve the response rate, it remains low. If this persists then an alternative means for determining Spotless' incentives and abatements will need to be pursued.

Spotless has not delivered the continuous improvement plans or Service Delivery reviews required by the contract.

Housing and Community Services and Spotless have established cost and price control arrangements and implemented processes for effectively managing payments to subcontractors.

### **PLANNED MAINTENANCE**

Housing and Community Services is planning maintenance activities using multiple information system. A long-term plan to consolidate information to create a centralised comprehensive asset register of ACT housing assets is needed.

Spotless has made significant progress in increasing the proportion of properties that have had a recent condition assessment audit. Given this it would be timely to assess whether the relevant key performance indicator should be changed to better drive performance by identifying a desired outcome rather the conduct of a specific number of annual audits. Furthermore, condition assessments are an important tool in determining the program of planned maintenance but the priority given to these in influencing the planned maintenance program has declined. This needs to be corrected.

Some maintenance tasks that are classified as planned maintenance are not. This can lead to an overstatement of the amount spent on planned maintenance. The 70 percent requirement for planned maintenance, in the Total Facilities Management contract, is an important element of the Public Housing Asset Management Strategy and also contributes to Spotless' incentives or abatements. It is important therefore that the claimed planned maintenance expenditure is accurate.

## Key findings

### GOVERNANCE

### Paragraph

The committee structure provided for in the Total Facilities Management contract has been implemented. While all committees have been generally operating as planned, governance would be strengthened if the most senior committee, the Joint Consultative Committee, improved its oversight of audits, risk, quality and contract management. 2.11

The Housing and Community Services' Contract Management Plan is current and provides broad guidance to staff, but does not address risks. 2.20

Spotless' Quality Management Plan does not adequately specify quality assurance activities in relation to key risk areas, such as sub-contractor performance. Importantly, it does not specify what Spotless will do to ensure its sub-contractors deliver work of the required quality. 2.23

The Spotless Quality Management Plan is not well aligned with the Housing and Community Services Quality Framework, as it has too broad a focus. The Housing and Community Services Quality Framework deals extensively with the accountabilities and strategies for delivering the quality assurance measures required by the contract. 2.26

The Quality Assurance team in Housing and Community Services has been below its planned strength for most of the Total Facilities Management contract term. While the Community Services Directorate has recently addressed this, it is a concern that adequate resourcing was not provided earlier, given the importance of this team's role. 2.33

While the key performance indicators set out in the Performance Management System provide a comprehensive framework for driving the achievement of key contract outcomes, opportunities exist to further refine the Performance 2.38

Management System to improve its focus on measuring impact and outcomes, rather than activities and process throughout the life of the contract.

The Joint Consultative Committee provides active oversight of the application of the Performance Management System and has proven to be an effective forum for resolving disagreements about the application of individual performance measures and therefore the extent of incentives or abatements applied to Spotless' base management fee. Over the life of the contract to date, the net impact of the incentives and abatements has been a slight reduction (less than 2 percent) in the base management fee payable to Spotless. 2.45

Given the importance of work order audits in the overall quality framework, it is a concern that significant issues identified by the Housing and Community Services Quality Assurance team in relation to the conduct of these audits, including the recommendation to cease related incentive payments, were not formally reported to the Joint Consultative Committee. 2.56

Housing and Community Services has not enforced the necessary and required standard for work order audits as set out in the Total Facilities Management contract, putting at risk assurance of the quality of maintenance overseen/performed by Spotless and its sub-contractors. 2.60

Having regard to issues associated with work order audits identified by both Housing and Community Services and the Audit Office, it would be prudent for Housing and Community Services to arrange for a comprehensive independent audit of Spotless' conduct of work order audits and the effectiveness of related controls. 2.61

A review of Joint Consultative Committee minutes shows that final reports and findings of targeted audits undertaken by Housing and Community Services Quality Assurance team have not been formally referred to Joint Consultative Committee at any time since the current contract commenced in May 2012. 2.66

Housing and Community Services' monitoring of the implementation of recommendations from targeted audits undertaken by the Quality Assurance team, including through its participation in the Joint Consultative Committee, has been inadequate. 2.67

Recent policy changes which increase the involvement of the Community Services Directorate's internal audit group in the conduct of designated 'high risk' targeted audits, and require the reports of these audits to be tabled with both the Joint 2.73

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|--|-------|
| Consultative Committee and the Community Services Directorate Audit and Risk Management Committee, have strengthened assurance in relation to the administration of the Total Facilities Management contract.  |       |
| Extending the Joint Consultative Committee's oversight to include all targeted audits would provide a more comprehensive overview of risk and further strengthen assurance in relation to the management of the Total Facilities Management contract.  | 2.74  |
| Full interconnectivity of Spotless and Housing and Community Services IT systems has not been achieved. Improved interconnectivity, in accordance with the requirements set out in the Total Facilities Management contract, would improve the planning of maintenance activities and thereby reduce the risk of inappropriate maintenance occurring, or needed maintenance not occurring. | 2.78  |
| Housing and Community Services has no visibility over the reviews undertaken by Spotless' Works Supervisors for checking that work orders have been completed.   | 2.81  |
| Spotless' quarterly performance evaluations have not been routinely provided and, as Housing and Community Services have not insisted on their provision, it has not adequately enforced the Total Facilities Management contractual requirements.   | 2.83  |
| Ethical suppliers' declarations, which Spotless are required by the contract to provide to Housing and Community Services every six months, were not produced until August 2015, following a request from Housing and Community Services.  | 2.86  |
| Formal complaints by Housing and Community Services to Spotless, such as Non-Conformance Notices and Notices to Rectify, have generally been adequately addressed.   | 2.91  |
| Spotless have not met the targets for employment of target groups set in the Total Facilities Management contract, although Spotless and Housing and Community Services are continuing to work together to address this matter.  | 2.96  |
| Given the importance of the Total Facilities Management contract it needs to be supported by its own comprehensive risk plan. At the time of the audit, Housing and Community Services has not established a risk management plan specifically for the Total Facilities Management contract.   | 2.98  |
| Housing and Community Service's management of contract variations has not been adequate over the life of the contract.   | 2.115 |

## TIME, QUALITY AND COST

## Paragraph

Timeliness of repair tasks managed by Spotless has been satisfactory for the more urgent maintenance categories but the target was not achieved for routine (within 20 day) tasks and consequently Spotless did not receive an incentive payment in relation to this category of maintenance.

3.11

Housing and Community Services needs to assess whether Spotless has addressed the problems in the reporting of timeliness that were identified by Spotless in its 2015 audit. This audit was limited in scope to the examination of a random sample of 111 work orders allocated to a single sub-contractor over a five month period in 2014, which was around 10 percent of the work orders allocated to this contractor over the period. However, in light of the nature of the findings and their impact on the reliability of related timeliness data, it would be prudent for Housing and Community Services to initiate action to assure itself that the problems identified in that audit are not experienced more generally, and that Spotless staff and sub-contractors are undertaking the correct processes for the completion of work orders and for data entry into relevant systems.

3.16

Current reporting does not provide Housing and Community Services with adequate visibility over Spotless' Work Supervisors inspections of works undertaken by Spotless or its sub-contractors.

3.24

Given the key role of work order audits in providing assurance around service delivery and in contributing to incentive payments, the significant and persistent gap between the failure rates found by Housing and Community Services (for example 19 percent and 57 percent) and the failure rates reported by Spotless (for example 3 percent and most recently 0.3 percent) is a matter of concern which Housing and Community Services needs to address.

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Housing and Community Services does not have visibility over the work orders selected by Spotless for its audits; therefore it does not have any assurance that the audit results are representative and reliable.

3.30

Spotless and Housing and Community Services have instituted a process that allows for joint audits of work orders. Over the period of the contract, 85 work orders have been subject to a joint work order audit, although the last one was conducted in January 2015. Audits of work orders by Spotless, for which the number conducted is a key performance indicator that leads to incentive payments, are not conforming to requirements under the contract and not providing adequate assurance on the quality of work performed by Spotless or its sub-contractors.

3.33

To date, the work done by Spotless' in-house maintenance provider, Asset Services, has been inspected by in-house supervisors but has not been subject to independent quality assurance. Independent quality assurance of the work undertaken by Asset Services would provide assurance that this arrangement is delivering value for money for the Territory, and would assist in managing any real or potential conflicts of interest that may arise from Spotless overseeing the maintenance services provided by Asset Services.

3.36

Measurements of tenant satisfaction with maintenance services managed by Spotless (used as a basis for incentive payments to Spotless) are based on very low tenant response rates. While Housing and Community Services provide some incentives for tenants to complete survey forms, response rates have not significantly improved and there has been no formal follow-up to address the critical findings of Housing and Community Services' 2012 audit into the conduct of the maintenance survey.

3.42

The Total Facilities Management contract encourages continuous improvement initiatives. For example, the contract requires that Spotless produce a continuous improvement plan and conduct Service Delivery Reviews each six months with the intent of identifying improvements. Neither the improvement plan nor the reviews have been delivered by Spotless and Housing and Community Services has not required them to be delivered.

3.46

Through the development and maintenance of a comprehensive schedule of rates, and the implementation, in cooperation with Spotless, of arrangements for allocating and reviewing costs for individual tasks, Housing and Community Services have established a generally sound framework for the control of costs allocated to individual tasks.

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## **PLANNED MAINTENANCE**

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The report to the Minister on specified performance indicators that is required by the Public Housing Asset Management Strategy 2012-2017 has not been produced.

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Housing and Community Services lack a centralised asset register that contains comprehensive information on public housing properties. Such a register would reduce the risk that scheduled maintenance decisions may be based on incorrect or incomplete information.

4.11

Housing and Community Services acknowledge that information on public housing assets is not centralised, but have advised that the core requirements of a

4.12



comprehensive asset register are met within its business systems. While this is noted, it would be prudent to develop a long-term plan for progressively centralising information on public housing assets as IT systems are upgrade and/or replaced.

Spotless' condition assessment audits have not met the target in any quarter from contract commencement in 2012 through to October 2015, and Spotless did not provide required Energy Efficiency Rating reports in the first two years of the current Total Facilities Management contract. 4.20

Changes made by Spotless, in consultation with Housing and Community Services (including outsourcing the conduct of condition assessment audits) have resulted in the target being met each month since the revised arrangements were implemented in October 2015. Housing and Community Services needs to monitor the revised arrangements to ensure targets continue to be met. 4.21

Given Spotless' progress in completing condition assessments of properties Housing and Community Services needs to adjust the key performance indicator to reflect progress toward the objective, namely having all properties with a condition assessment no more than five years old, rather than maintaining its focus on the number of assessments conducted. 4.24

Current business rules governing the classification of maintenance expenditure as either planned or responsive need to be improved so that the ratio of planned to responsive maintenance is correctly reported. Accurate reporting of this figure is important because it informs Housing and Community Services strategic decision making, and is linked to incentives and abatements under the Total Facilities Management contract. 4.30

Condition assessment audits are an important source of information to drive strategic decisions about the maintenance of the Territory's public housing asset. While condition assessment audits have been an important driver of new planned maintenance work over the last three years, the priority attached to work identified through the condition assessment audit process has been declining. The condition assessment audit drove less than 25 percent of new work planned for 2015-16, a substantial reduction from 68 percent in 2014-15 and well below the three year average of 40 percent. Given the extent of works carried over, the low priority accorded to works identified through condition assessment audits increases the risk that they will not be completed in the year initially planned. 4.35

## Recommendations

### RECOMMENDATION 1      QUALITY MANAGEMENT PLAN

Housing and Community Services should initiate action so Spotless revises its Quality Management Plan to cover key quality assurance risks and directly align this plan with the Housing and Community Services Quality Framework.

### RECOMMENDATION 2      PERFORMANCE MANAGEMENT SYSTEM

Housing and Community Services should initiate action to review the Performance Management System to increase its focus on impact and outcomes.

### RECOMMENDATION 3      WORK ORDER AUDITS

Housing and Community Services should initiate action to improve work order audits undertaken by Spotless by:

- a) identifying, in consultation with Spotless, the best way to provide for assurance of work order quality (and define the role of audits by visit or telephone, when to target complex works and the place of joint audits). This should be documented and presented to the Joint Consultative Committee for endorsement;
- b) fully documenting any agreement with Spotless to vary the requirements for work order audits as set out in the May 2012 Total Facilities Management contact;
- c) monitoring the quality of work order audits by Spotless, including conducting targeted Quality Assurance audits;
- d) bringing the work order audits function in house if the quality of the audits remains inconsistent; and
- e) arranging for a comprehensive independent audit of Spotless' conduct of work order audits and the effectiveness of related controls.

### RECOMMENDATION 4      QUALITY ASSURANCE

Housing and Community Services should improve its quality assurance by:

- a) improving internal monitoring of the outcomes of targeted audits, including by documenting actions agreed with Spotless to comprehensively address all audit recommendations;
- b) directing the Quality Assurance team to progress the development of a joint program of targeted audits that are based on a risk analysis; and
- c) requiring the Joint Consultative Committee to consider all findings of targeted audits, and to monitor the implementation of agreed recommendations.

#### **RECOMMENDATION 5      CONNECTIVITY OF IT SYSTEMS**

Housing and Community Services should initiate action to resolve outstanding issues on connectivity of IT systems and establish realistic target dates for implementing needed actions.

#### **RECOMMENDATION 6      CONTRACTUAL OBLIGATIONS**

Housing and Community Services should enforce all the requirements of the Total Facilities Management contract including requiring Spotless to provide quarterly performance evaluations and ethical suppliers declarations.

#### **RECOMMENDATION 7      RISK MANAGEMENT**

Housing and Community Services should improve its risk management by:

- a) developing a comprehensive risk management plan for the administration of the Total Facilities Manager contract; and
- b) including in the overall Housing and Community Services risk register key risks that relate to this contract.

#### **RECOMMENDATION 8      MANAGING CONTRACT VARIATIONS**

Housing and Community Services should improve its management of variations to the Total Facilities Management contract by:

- a) developing and sharing with Spotless an accurate up-to-date register of contract amendments which identifies the provisions of the 2012 Total Facilities Management contract that have been varied, the nature of the revised provision, and the date from which the revision should be applied;
- b) centrally maintaining documentary evidence that clearly demonstrates agreement between the contract parties as to each of the amendments, and where agreement to prior amendments is not available, liaise with Spotless to develop appropriate documentation; and
- c) implementing a system whereby all future amendments are clearly specified and adequately documented. Matters considered in agreeing to an amendment should form part of the documentation (including but not limited to measures to protect risk and value for money).

#### **RECOMMENDATION 9      TIMELINESS OF MAINTENANCE TASKS**

Housing and Community Services should strengthen assurance in regard to the reported timeliness of maintenance activities by:

- a) assessing the extent to which the issues indentified in the Spotless 2015 audit in relation to sub-contractor practice have been rectified and whether it is satisfied with the reliability of timeless data; and
- b) conducting Quality Assurance audits or joint audits on this matter.

**RECOMMENDATION 10      INSPECTION OF WORKS**

Housing and Community Services should improve quality control of works undertaken by Spotless and sub-contractors through measures such as targeted audits of Spotless' Work Supervisor processes for undertaking inspections.

**RECOMMENDATION 11      IN-HOUSE MAINTENANCE PROVISION**

Housing and Community Services should initiate action to provide for independent quality assurance in regard to the maintenance work undertaken by Spotless' in-house maintenance provider.

**RECOMMENDATION 12      TENANT SATISFACTION SURVEYS**

Housing and Community Services should assess the appropriateness of using the tenant satisfaction surveys as a basis for Spotless incentive payments given the very low response rate. If this survey is considered appropriate, a mechanism should be developed to secure reliable data and a satisfactory response rate (formally addressing the critical findings of Housing and Community Services' 2012 audit into this issue may assist).

**RECOMMENDATION 13      CONTINUOUS IMPROVEMENT PLAN AND SERVICE DELIVERY REVIEWS**

Housing and Community Services should initiate action so Spotless produces a continuous improvement plan and conducts Service Delivery reviews each six months with the intent of identifying improvements, or remove these requirements from the Total Facilities Management contract.

**RECOMMENDATION 14      PERFORMANCE AGAINST THE PUBLIC HOUSING ASSET MANAGEMENT STRATEGY**

Housing and Community Services should report annually to the Minister on its performance against the Public Housing Asset Management Strategy 2012-2017 using the indicators specified in that Strategy or seek the support of the Minister to remove this requirement.

**RECOMMENDATION 15      ASSET REGISTER**

Housing and Community Services should develop and progressively implement a long-term plan for consolidating existing data sources to create a centralised comprehensive asset register of ACT public housing assets.

#### **RECOMMENDATION 16      CONDITION ASSESSMENTS**

Housing and Community Services should initiate action to improve condition assessments by:

- a) continuing to monitor the revised condition assessment arrangements implemented by Spotless to ensure the targets for condition assessments are consistently met and that Energy Efficiency Reports provide adequate support to maintenance planning; and
- b) assessing whether a Key Performance Indicator (3.1) should be changed to reflect the objective of 'all properties having a condition assessment no more than five years old'.

#### **RECOMMENDATION 17      DEFINITION OF PLANNED MAINTENANCE**

Housing and Community Services should initiate action to improve current business rules governing the classification of maintenance expenditure as either planned or responsive, so that the ratio of planned to responsive maintenance is correctly reported.

#### **RECOMMENDATION 18      CONDITION ASSESSMENTS IN PLANNED MAINTENANCE**

Housing and Community Services should review how it develops the annual program of planned maintenance to ensure that condition assessment audits remain an important priority for identifying planned maintenance work.