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THE LEGISLATIVE ASSEMBLY FOR

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GOVERNMENT RESPONSE TO

AUDITOR GENERAL'S REPORT INTO MAINTENANCE OF PUBLIC HOUSING

REPORT NO: 2/2016

Presented by

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Introduction

The ACT Auditor-General conducted an audit of the management of Public Housing maintenance activities as part of the approved 2015-16 audit work program. The audit provided an independent opinion of the effectiveness of Housing and Community Services (HACS) management of the Total Facilities Management (TFM) contract with Spotless Facility Services Pty Ltd (Spotless) for the delivery of public housing maintenance activities.

The report on the Maintenance of Public Housing (Report No. 2/2016), was tabled in the Legislative Assembly on 14 April 2016. The ACT Government is required to respond formally to the Auditor-General's report within four months of receipt and the Government Response is also required to be tabled in the Legislative Assembly.

Background

The management and delivery of maintenance, repair and upgrades to ACT public housing properties has been outsourced to the private market since 2001-02 under a TFM contract model. The TFM is a best practice model of providing one point of responsibility for the provision of out sourced services. This model delivers an integrated management system and delivery of all support services associated with public housing assets.

As established by the TFM contract, the Joint Consultative Committee (JCC) is the primary governance group that has oversight and responsibility for contract management. The JCC has overall responsibility to manage contract governance (including all subsidiary committees) and the strategic management of service delivery. The JCC actively manages the Performance Management System and considers proposed variations to the contract. The JCC is accountable and responsible for the escalation of all issues to the Commissioner for Social Housing.

Spotless was first awarded the contract in 2005 and, following an open procurement process, it was awarded a second contract in May 2012.

In 2014-15 the public housing maintenance budget was $41.25 million and the management fee paid to Spotless was $6.92 million. Over the five years of the current contract, total payments to Spotless are expected to reach $242 million, making it one of the ACT's largest ongoing contracts.

Spotless is responsible for the planning and management of maintenance and service upgrades for HACS properties. It is also responsible for the management and performance of all sub-contractors. In 2014-15 more than 80,000 work orders were raised.

The audit focus was on the timeliness, quality and cost of planned and responsive maintenance activities undertaken by Spotless and the suitability and effectiveness of the governance and contract management arrangements instituted by HACS. The audit found that HACS had positioned itself well to effectively manage this $48 million per annum contract, particularly through the establishment of a sound governance framework. The audit found no evidence of financial mismanagement or impropriety.

However, the audit also found that management of the contract was not fully effective and the Auditor-General made 18 recommendations for improvement relating to quality assurance and performance management systems; work order audits; IT connectivity; contract management activities, especially around the management of contract variations and the enforcement of contractual obligations; risk management; work timeliness; and condition audits.

The ACT Government has accepted all the recommendations. Details of the actions being taken in response to each of the recommendations are presented below.

Government Response to 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 Service Quality Framework.

Government Position

Agreed

The Government agrees with the recommendation and notes that Spotless has been required to revise its Quality Management Plan as recommended. Revisions are being made to specify quality assurance activities in relation to key risk areas, to ensure that Spotless' sub-contractors deliver work of the required quality and to ensure that the plan is aligned 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.

Government Position

Agreed

The Government agrees with the recommendation, noting that the Performance Management System (PMS) is a key process function of the Total Facilities Management contract. The PMS drives the main activities of the contract and its outcomes and performance are reviewed stringently. Housing and Community Services has commenced work to scope the priority areas for a targeted review of the PMS, focussing on Key Performance Indicators with the aim of achieving quality outcomes. Given the current contract requirements the review must be undertaken jointly with Spotless. It will be progressed over the next four months.

An independent review of the PMS and Key Performance Indicators will be undertaken to inform the next procurement process.

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.

<u>Government Position</u>

Agreed

The Government agrees with the recommendation and has initiated an independent audit of Spotless' conduct of Works Order audits. This audit is being coordinated by the Community Services Directorate's Internal Audit and Review team and conducted by audit firm Axiom and Associates. The audit findings will be considered by the Community Services Directorate's Audit and Risk Management Committee which will monitor the implementation of all recommended actions.

Housing and Community Services issued two Non-Conformance Notices to Spotless in relation to aspects of the Work Order audits on 23 March 2016. Spotless has provided Cure Plans addressing these Notices and the implementation of these plans is being closely monitored by contract managers.

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.

<u>Government Position</u>

Agreed

The Government agrees with the recommendation and has developed an annual Quality Assurance Plan that identifies quality assurance activity to be undertaken during the year including spot checks, investigations, reviews and target audits. The Plan identifies a number of joint audits that will also be undertaken with Spotless.

Further, the role of the Housing and Community Services Quality Assurance Team has been strengthened by implementing independent reporting lines to both the Contract Management Team and to the Executive Director Housing and Community Services. The Housing and Community Services Quality Assurance Team has developed a number of audit tools and templates to improve internal monitoring of the outcomes and recommendations of quality assurance activities. This includes the development of a Quality Assurance Register that will be tabled at the quarterly Joint Consultative Committee meetings along with all quality assurance activity reports completed in the previous quarter.

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.

Government Position

Agreed

The Government agrees with the recommendation and a timeframe for full integration of the Spotless Workflow Management System (WMS) and HomeNet interconnectivity has been determined.

A joint working group has been established, including Spotless Management and IT Support, the Housing and Community Services Contract Manager and Housing and Community Services IT Support to develop and implement the data transfer process. Agreement has been reached on the property element information to be transferred between WMS and HomeNet, and property element details are being made consistent across both systems.

The test interface between WMS and HomeNet is currently being designed. Testing is scheduled to be completed by June 2016 to support full integration by the second quarter of 2016-17.

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.

Government Position

Agreed

The Government agrees with the recommendation. Housing and Community Services has created a Compliance Register that details when obligations are due under the Total Facilities Management contract, including all reporting requirements. The Compliance Register is in place and stipulated reporting requirements are being met. The Compliance Register is a standing item on the Contract Management Group monthly meeting agenda and a formal report is provided to the Joint Consultative Committee each quarter.

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.

<u>Government Position</u>

Agreed

The Government agrees with the recommendation. An external agency, with expertise in developing appropriate risk management plans, will be engaged to develop a risk management plan that addresses comprehensively the risks associated with the Total Facilities Management contract. Any key risks identified during the development of the risk management plan will include appropriate risk mitigation strategies. Key contract risks will also be included in the Housing and Community Services risk register and will be routinely monitored and reviewed through the Contract Management Group and reported formally to the Joint Consultative Committee.

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).

Government Position

Agreed

The Government agrees with the recommendation and has taken steps to strengthen the processes used to amend records and monitor all contract variations. It should be noted that the intent of any contract variation is to ensure the delivery of quality services for tenants and value for money for the ACT Government.

Housing and Community Services is working with Spotless to formalise all contract variations that have been made to date and has developed a comprehensive register of all contract variations since 2012. Processes have been instituted to ensure the register is routinely updated to include any future contract amendments.

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 timeliness data; and
b) conducting Quality Assurance audits or joint audits on this matter.

Government Position

Agreed

The Government agrees with the recommendation. Spotless is required to provide a detailed action plan to address the issues that their 2015 audit identified. Monitoring and evaluation of implementation activities will occur through the quarterly Joint Consultative Committee meetings.

Any systemic issues flowing from the audit will also be considered by the Housing and Community Services Quality Assurance Team as areas for future audits and for inclusion in the annual Quality Assurance Plan.

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.

Government Position

Agreed

The Government agrees with the recommendation. The Quality Assurance Plan identifies quality assurance activity to be undertaken during the year including spot checks, investigations, reviews and target audits. The Plan identifies a number of joint audits that will also be undertaken with Spotless.

The Housing and Community Services Quality Assurance Team has commenced additional spot checks and targeted audits of inspected Work Orders, as part of quality assurance activities under the annual Quality Assurance Plan. Importantly, these spot checks provide a further opportunity for Housing and Community Services to receive feedback directly from tenants on the quality of the work undertaken by sub-contractors. These spot checks also supplement the on-line and paper surveys that can be completed by tenants at the time of the work. Findings from the spot checks are considered at the monthly Quality Assurance Group meetings and reported on quarterly to the Joint Consultative Committee.

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.

Government Position

Agreed

The Government agrees with the recommendation. The Housing and Community Services Quality Assurance Team has commenced a joint audit with the Directorate's Internal Audit and Risk Management Team to examine payments to sub-contractors under the contract. Findings from the audit will be considered by the Commissioner for Social Housing and the CSD Audit and Risk Management Committee.

The Housing and Community Services Quality Assurance Team has commenced planning for a joint audit with the Directorate's Internal Audit and Risk Management Team to examine work undertaken by the in-house maintenance provider. This will consider payments, probity, compliance and value for money. The findings will be presented to the Commissioner for Social Housing and the CSD Audit and Risk Management Committee.

Decisions about the need for further quality assurance measures will be informed by advice from the CSD Audit and Risk Management Committee with input from the Joint Consultative Committee, as required. Further quality assurance activity is identified in the annual Housing and Community Services Quality Assurance Plan that is delivered by the Housing and Community Services Quality Assurance Team. The Quality Assurance Team reports independently to the Contract Management Team and to the Executive Director Housing and Community Services.

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).

<u>Government Position</u>

Agreed

The Government agrees with the recommendation. Housing and Community Services acknowledges that tenant satisfaction is one of a series of key indicators of contract performance. Housing and Community Services is reviewing the process of using tenant satisfaction surveys as part of the targeted review of the PMS. In particular the review will consider the present process and identify reasons for low tenant participation rates and recommend actions to increase the tenant response. The review will focus on the process to ensure that the tenant response rate delivers a sample size that is appropriate for determining incentive payments under the contract.

This review is being conducted jointly with Spotless and will be completed in the 2016-17 second quarter. The findings and recommendations from this review will be provided to the Joint Consultative Committee for consideration and approval.

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.

Government Position

Agreed

The Government agrees with the recommendation. Housing and Community Services has initiated a review of continuous improvement activities which are critical component of the contract management. This work will be completed in the 2016-17 first quarter. Regardless of any changes to continuous improvement activities flowing from the review findings, Spotless is required to produce a continuous improvement plan and conduct Service Delivery reviews every six months.

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.

Government Position

Agreed

The Government agrees with the recommendation. A report is being prepared for the Minister for Housing, Community Services and Social Inclusion. This will include Key Performance Indicator (KPI) results for the period 1 July 2012 to 31 December 2015. This report will be provided to the Minister by the end of the 2016-17 first quarter.

Further a review of the suitability of these KPIs and reporting requirements will also be undertaken.

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.

Government Position

Agreed

The Government agrees with the recommendation. Housing and Community Services has commenced a review of existing asset management information records and systems and will assess these records and systems against the Australian National Audit Office (ANAO) Better Practice Guide. The outcomes of this review will inform future planning in this area.

A project is also being initiated to implement a long term solution for the management of asset information within Housing and Community Services that meets the objectives of the ANAO Better Practice Guide. This project is scheduled to be completed by the end of the 2016-17 second quarter.

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 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’.

Government Position

Agreed

The Government agrees with the recommendation. Housing and Community Services is reviewing the arrangements between Spotless and the sub-contractor to ensure the targets for condition assessments continue to be met. Of note, initial analysis has shown that all required reports have been provided in a timely manner since October 2015. This occurred after Spotless engaged a new sub-contractor to progress all required condition assessment reports.

Housing and Community Services is also assessing the appropriateness of KPI 3.1 as part of a targeted review into the Performance Management System, to ensure that all property condition assessments occur within a 5-year cycle. Appropriate monitoring and reminder systems are in place. In addition, Housing and Community Services has requested documentation from Spotless to support the independent review of the quality and timeliness of the delivery of condition assessment reports. These processes are being monitored by the quarterly Joint Consultative Committee meetings.

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.

Government Position

Agreed

The Government agrees with the recommendation. Housing and Community Services has commenced a review of the budget codes used for the classification of expenditure and the relevant business rules, to improve reporting on planned versus responsive maintenance. Revised business rules and expenditure classification systems will be implemented from 1 July 2016.

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.

Government Position

Agreed

The Government agrees with the recommendation. Housing and Community Services has initiated a review of planned maintenance activities as part of the annual business planning process and will ensure that condition assessments remain a priority for identifying planned maintenance.

Housing and Community Services is monitoring Spotless' arrangements to ensure assessment targets for the completion of condition assessment reports continue to be met. The quarterly Joint Consultative Committee is also monitoring progress in this area.