LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

**REVIEW OF
AUDITOR-GENERAL'S REPORT
NUMBER 3, 1994**

PUBLIC HOUSING MAINTENANCE

Report Number 17 of the Standing Committee on Public Accounts
November 1994

RESOLUTION OF APPOINTMENT

On 27 March 1992 the ACT Legislative Assembly established a Standing Committee on Public Accounts with the following terms of reference:

(1) Examine -

(a) the accounts of the receipts and expenditure of the Australian Capital Territory;
(b) the financial affairs of authorities of the Australian Capital Territory; and
(c) all reports of the Auditor-General which have been laid before the Assembly;

(2) Report to the Assembly, with such comments as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them to which the committee is of the opinion that the attention of the Assembly should be directed; and

(3) Inquire into any question in connection with the public accounts which is referred to it by the Assembly and to report to the Assembly on that question.

MEMBERSHIP

Mr Trevor Kaine MLA (Presiding Member)
Ms Annette Ellis MLA (Deputy Presiding Member)
Mrs Kate Carnell MLA
Mrs Ellnor Grassby MLA
Mr Michael Moore MLA (from 25 February 1993)

Secretary: Mr Bill Symington

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RECOMMENDATIONS

The committee recommends that

as a normal procedure, pre-work inspections are carried out. (Paragraph 6.5)

the Housing Trust review all its asset maintenance procedures with a view to developing and implementing a comprehensive strategy to contain future asset maintenance costs. (Paragraph 10.1)

COMMITTEE REQUESTS

The committee requests that:

the Government inform the Assembly, in due course, on the outcome of discussions between the Bureau and the Auditor-General matters relating to maintaining the value of the housing stock and associated matters. (Paragraph 2.10)

the Government keep the Assembly informed on cost reductions in average maintenance costs carried out by AMS. (Paragraph 3.7)

the Government keep the AMS management fee under review to ensure that it is appropriate to the service provided. (Paragraph 4.5)

the Government to inform the Assembly on progress with the establishment a more comprehensive and strategic approach to housing maintenance. (Paragraph 5.6)

1. INTRODUCTION

1.1 Auditor-General's report no 3 of 1994 is the result of a review of the economy with which the ACT Housing Trust (Housing) has procured maintenance services for the residences it owns.

1.2 Housing owns about 12,300 residential properties. Its annual operating expenditure is some $90m and over 20% (19.5m) is expended on maintenance of the properties.

The Audit

1.3 In developing the audit opinion, the Audit Office used a number of procedures including comparison of ACT maintenance costs with those of other State Housing Authorities and analysis of maintenance expenditure into major categories.[1]

1.4 Audit procedures were those operating at the time of the audit and costs analysed were those of the last complete financial year, namely 1992-93.

1.5 The audit concluded that the management of maintenance services has only been partially effective in ensuring appropriate quantities of maintenance services have been acquired at the lowest achievable costs. These matters discussed in detail in the following sections of this report in the context of the major findings of the audit.

Committee Approach

1.6 The committee invited the Minister for Housing and Community Services to comment on the audit findings and the Minister's response is indicated as appropriate in the following sections of this report.

1.7 The committee also sought additional comment from the Auditor-General and, with the agreement of the Minister, held discussions with officers of the Housing and Community Services Bureau, the ACT Housing Trust and the ACT Assets Management Service (AMS).

2. COMPARISON WITH OTHER HOUSING AUTHORITIES

2.1 The audit found that after adjusting for accounting methodology differences the average cost of maintenance expenditure in 1992-93 for each public housing residence was $1222 compared with the average of $824 for

[1] Audit Report, pp2,3

other States.[2] The audit concluded that the ACT cost is about 33% higher than the average.

2.2 Responding to this finding, the Minister for Housing and Community Services noted that the audit recognised that differences in political and social expectations, relative quality standards and the relative condition of properties would account for differences in maintenance costs compared to other States. The Minister said the audit had shown a reduction in maintenance costs between 1991-92 and 1992-93.[3]

2.3 The Minister asserted that the report could not measure what is being achieved by maintenance programs over time and whether current expenditures are sufficient to maintain the value of assets.[4] The Minister noted that more than 50% of the ACT housing stock is greater than 25 year old compared to NSW, for example, where 35% of public housing is greater than 25 years old.

2.4 The Minister pointed out that free-standing houses require more maintenance than flat complexes, noting again that in the ACT more than 60% of the housing stock is houses and in NSW less than 50%.[5]

2.5 Taking the above into account, the Minister expressed the view that maintenance costs in the ACT are generally in line with other States. Nevertheless, the Minister advised he had asked the Housing Trust and AMS to continue to cooperate in seeking to improve the cost effectiveness of maintenance services.[6]

Committee Comment

2.6 The Auditor-General advised the committee that the Minister's comment about expenditure reductions between 1991-92 and 1992-93 was used out of context. It was also noted that the Minister acknowledged that Housing's Annual Management Report could leave the impression that the 1993-94 reduction in repairs and maintenance expenditure was the result of improved management and/or line efficiencies rather than a deliberate management decision to defer certain repairs and maintenance expenditure into 1994-95 and 1995-96.

2.7 Officers of the Bureau and AMS suggested that the audit comparisons were a matter for interpretation but that if the official response had been out of context on this particular matter, it was not one of substance.

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[2] ibid, p7
[3] Minister for Housing and Community Services, letter to the committee dated 18 October 1994
[4] ibid
[5] ibid
[6] ibid

2.8 The committee recognises that there is room for debate as to whether comparisons between the ACT and the States are completely valid in terms of comparing like with like.

2.9 The committee's principal concern is that there be no confusion as to whether expenditure is adding to capital value or just maintaining the value of assets. Officials advised the committee that this matter and related issues concerning adjustments for the age difference of the housing stock in the ACT compared with that of other States will be analysed in discussions between Bureau officers and the Auditor-General.

2.10 **The committee notes these intentions and requests that the Government inform the Assembly, in due course, on the outcome of those discussions.**

3. COMPARISON OF PRIVATE CONTRACTOR AND AMS COSTS

3.1 The audit found that AMS service charges were on average 10% to 15% higher in 1992-93 than those charged by private contractors for similar work and, that if AMS charges were similar to private contractors, maintenance costs would be up to $620,000 less.[7]

3.2 The Minister for Housing and Community Services refuted the audit claim.[8] The Minister stated that AMS does charge private sector prices and clarified this comment by pointing out that the open public tender system has led to a situation in which low overhead, family based, contractors have won a majority of vacant, urgent and minor works. The Minister stated that the next most competitive contract prices - those proffered by master painters and larger maintenance companies - tend to be significantly higher. The Minister also noted that the AMS management function would have to be performed by the Housing Trust if AMS did not do it.

Committee Comment

3.3 The Auditor- General advised the committee that as AMS does not engage in the competitive tendering process its fees are set at the highest tendered price at which a private contract is awarded, but the fees AMS charges Housing, including the management fee , are insufficient to cover its costs. The Auditor-General concluded that other AMS customers are subsidising the Housing maintenance program.

3.4 AMS officers advised the committee that open tenders are called for all work at given rate schedules and that the lowest acceptable tender is selected.

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7 Audit Report, p16

8 Letter to the committee op cit

AMS confirmed that it is paid at the level of the highest successful tenderer, again noting that the majority of contract operators are small sub-contractors.

3.5 The officers advised the committee that there is a limit on the supply of small operators who are prepared to do urgent call out work and that this work tends to fall to the AMS, the area which the audit had focussed upon.

3.6 While the pros and cons of AMS charges and potential savings or otherwise are arguable, the committee considers that the audit has correctly identified an issue which will need to be kept under close review by Housing and AMS. The committee notes that Housing and AMS are achieving reductions in maintenance costs, a point acknowledged by both the audit,[9] and the Minister[10]. Further, AMS officers advised the committee that the single line budget in 1992-93 for Housing maintenance was now budgeted on a full direct cost basis and that from July 1995 will be full cost recovery.

3.7 **The committee requests that the Government keep the Assembly informed on cost reductions in average maintenance costs carried out by AMS.**

4. AMS MANAGEMENT FEE

4.1 The audit found that the management fee currently paid to AMS is not supported by available cost information and that while the fee is agreed, it appears not to be based on an allocation of the actual costs involved.[11]

4.2 The Minister for Housing and Community Services noted that the audit referred to a situation in 1992-93 and advised the committee that subsequent introduction of a computer interface between Housing and AMS now provides accurate cost data on which to base the delivery of Housing maintenance programs.[12]

Committee Comment

4.3 The Auditor-General advised the committee that the computer interface should lead to efficiencies including an improvement in the flow of information and financial transactions between AMS and Housing but would not address the appropriateness of the management fee. The Auditor-General noted that the original (apparently arbitrary) fee of 18% in 1991-92 (now 12%) was set on the basis of an agreement between Housing and AMS.

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[9] Audit report, p4
[10] Letter to the committee op cit
[11] Audit report, p32
[12] Letter to the committe, op cit

4.4 Housing and AMS officers advised the committee that the current fee was not an arbitrary one and that the Auditor-General now has a complete budget document on the matter.

4.5 **The committee requests that the Government keep the AMS management fee under review to ensure that it is appropriate to the service provided.**

5. COMPREHENSIVE MAINTENANCE PLAN

5.1 The audit found that Housing does not have a comprehensive planned approach to maintenance nor does it have the information to prepare such a plan.[13]

5.2 The Minister for Housing and Community Services advised the committee that Housing is continuing to refine its planning and that it is no longer true that the only form of cyclical maintenance is external painting.[14] The Minister advised that during 1993-94 there had been progress in furthering the development of a stock audit and linking this with an expanded and improved computer capability so that storage, retrieval and manipulation of information for planning purposes can be achieved.

5.3 The Minister advised that Housing is progressing with a planned approach through, inter alia, an external painting program, a three year maintenance program designed for large flats complexes and AMS/ Housing weekly strategy meetings. The Minister further advised that he has asked that a more comprehensive and strategic approach to maintenance be developed.

Committee Comment

5.4 The Auditor-General advised the committee that actions by Housing to develop a stock data base were acknowledged but that the stock audit has been halted. Housing officers assured the committee that the audit had only been suspended while data was being obtained.

5.5 Officers also advised the committee that a cyclical program would have to move from a base of knowing the condition of each of the 12,500 properties. The data base would be completed later this year and it would take about 12 months to develop a program. Officers noted that there has been a cyclical painting program for the past four years.

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[13] Audit report, p19
[14] Letter to committee, op cit

5.6 **The committee notes that the Minister has sought a more comprehensive and strategic approach to maintenance and requests the Government to inform the Assembly on progress with the establishment of the necessary program.**

6. PRE-WORK INSPECTIONS

6.1 The audit found that inspections are not normally made before work is carried out.[15]

6.2 The Minister for Housing and Community Services stated that pre-work inspections are undertaken for most categories of work and that inspections are also carried out for urgent and minor works where the value of orders is more than $500. Inspections are also commonly carried out where the value of work orders is $100 to $500.[16]

Committee Comment

6.3 The Auditor-General advised the committee that inspections are undertaken by both Housing and AMS officers who have different roles and responsibilities and that there was evidence that work is inspected after completed and other work is approved without inspection.

6.4 AMS officers acknowledged that different officers do inspections, maintenance is inspected by AMS staff and vacancy work is inspected by Housing inspectors.

6.5. **The committee recommends that, as a normal procedure, pre-work inspections are carried out.**

7. EXCESSIVE SERVICING OF RESIDENCES

7.1 The audit noted that factors supported a view that excessive servicing of residences was occurring.[17]

7.2 The Minister for Housing and Community Services advised the committee that adequacy of servicing can be a matter for value judgement but that Housing Trust tenants receive a good service and the Trust continues to review the adequacy of that service.[18] The Minister advised that, for example, the glazing policy was reviewed in 1993-94, the extent of after-hours services is similarly being reviewed and that there may be scope for further work in this area.

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[15] Audit report, p23
[16] Letter to the committite, op cit
[17] Audit report, p22
[18] Letter to the committee, op cit

7.3 The Minister also advised the committee that tenants are not qualified to accurately determine the extent of required work. The Minister noted that 10% to 30% of all variations in urgent and minor works costing less than $100 are inspected at completion and all general variations costing more than $100 are inspected.

Committee Comment

7.4 The committee notes that the Auditor-General has reservations as to claims that all variations costing more than $100 are inspected.

8. RECOVERY OF REPAIR COSTS FROM TENANTS

8.1 The audit found that the success rate in recovering repair costs from tenants responsible for damage was low in 1992-93.[19]

8.2 The Minister for Housing and Community Services advised the committee that, as acknowledged by the audit, the situation has changed and that during 1993-94 the Housing Trust commenced a program of sundry debt recovery which is likely to achieve a significant reduction in tenant debt.[20]

9. PERFORMANCE INDICATORS

9.1 The audit found that Housing performance indicators for 1993-94 could have been improved and may have been misleading.[21]

9.2 The Minister for Housing and Community Services advised the committee that a misleading impression could have been given that the 1993-94 reduction in repairs and maintenance expenditure was the result of improved management and/or line efficiencies rather than the result of a deliberate management decision to defer $3m of repairs and maintenance into 1994-95 and 1995-96.[22]

9.3 The Minister advised that the deficiencies in the performance indicators had been noted and would be reviewed in future Housing reports and corporate planning documents.

Committee Comment

9.4 The committee notes the Minister's advice that a strategic review of public housing services has recently been undertaken and that the review has

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[19] Audit report,p33
[20] Letter to the committee, op cit
[21] Audit report, p38
[22] Letter to the committee, op cit

recommended improvements in housing services provided by the Housing Trust. The Minister advised the committee that the organisational changes necessary to achieve these improvements are about to be implemented.[23]

10. CONCLUSION

10.1 The committee regards the audit report as a valuable contribution to ensuring the good management of the ACT's public housing assets. The committee notes and fully supports the audit recommendation that Housing review all its asset maintenance procedures with a view to developing and implementing a comprehensive strategy to contain future asset maintenance costs.[24]

10.2 However, the committee acknowledges that Housing and AMS are making efforts to address the matters of concern raised by the audit. It would expect improvements in asset management to continue to improve and will as a committee maintain a watch on progress.

Trevor Kaine MLA
Presiding Member

[23] ibid
[24] Audit report, p6