

AUDITOR-GENERAL'S REPORT

PERFORMANCE AUDIT

Follow-up of Performance Audit: Maintenance of Public Housing



The Legislative Assembly
Parliament House
SYDNEY NSW 2000

The Legislative Council
Parliament House
SYDNEY NSW 2000

In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **Follow-up of Performance Audit: Maintenance of Public Housing**.

R J Sendt
Auditor-General

Sydney
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Foreword

Periodically we review the extent to which agencies have implemented the recommendations they accepted from our earlier audits. This gives Parliament and the public an update on the extent of progress made.

Maintaining public infrastructure - whether social or economic - is a topic that is attracting significant attention.

In this follow-up audit, we examine changes following our April 2001 report on how well the Department of Housing managed its public housing maintenance.

Approximately 400,000 people in New South Wales live in public housing provided by the Department of Housing. The majority of these people are assessed as not being able to afford private rental.

The Department's stock of some 138,000 housing units is valued at over \$28.5 billion. Maintaining that stock in a condition that meets the needs of its tenants and minimises the long-term cost to the taxpayer is an ongoing challenge. Balancing expenditure between maintenance and expanding the housing stock is another challenge.

The findings from this audit should be of interest to all government agencies that are responsible for the maintenance of public infrastructure.

Bob Sendt
Auditor-General

March 2005

Executive summary

Executive summary

The New South Wales Government is the largest provider of public housing in Australia. The NSW Department of Housing is the largest landlord in the state, responsible for over 138,000 residential properties valued at \$28.5 billion.

We conducted an audit of the maintenance of public housing in 2001. At that time the backlog of maintenance was estimated to exceed \$750 million. The Department projected that despite significantly increasing expenditure on maintenance, the backlog would continue for the foreseeable future.

This report updates progress on implementing the recommendations as at December 2004.

Audit opinion

Since the 2001 audit, the Department of Housing has made some progress in implementing the recommendations from our report.

The Department has developed a number of scenarios for long term asset needs, and at the time of this audit, was waiting for the Government to decide on the preferred approach. It still needs to develop and fully implement 5-10 year maintenance plans and 15-20 year strategic asset plans.

The Department has developed a pilot program to introduce major changes to the way it conducts and assesses maintenance work. The Minister for Housing announced the new approach to maintenance in December 2004, and the Department advises the program commenced in January 2005. The program aims to improve service delivery and the standard of properties, and to reduce maintenance costs.

The Department has increased its spending on maintenance almost every year since the original audit, and now estimates its maintenance backlog to be \$650 million.

Despite this progress, the Department's maintenance is still largely responsive rather than planned, the maintenance backlog has not been substantially reduced since the 2001 audit, and a low level of properties are maintained to an adequate standard. The complete implementation of the new maintenance program over the next five years is expected to address these issues.

2001 audit findings

Funding maintenance	We found that the Department faced declining income and uncertain capital funding. The projected maintenance expenditure was unfunded and indications were that the maintenance backlog would not be eliminated for the foreseeable future.
Planning maintenance	We found that the Department conducted minimal planning for property maintenance. There were few, if any, plans describing the condition of each property, the work needed to be done in future years, their planned timing and estimated cost.
Contract management	We found that the Department had improved its contract management, including developing standard conditions of tendering and contract, a code of conduct for contractors, contract administration guidelines, contractor performance systems and audit procedures. The Department had moved to using larger multi-trade contractors, but these new contract models needed to be monitored and assessed.
Performance reporting	We found that monitoring of property maintenance services was based largely on reports of activity and expenditure against budget allocations. There was limited performance reporting on maintenance or benchmarking of maintenance functions within regions and across the Department.

2004 audit findings

The Department of Housing has partially implemented all the recommendations it accepted from our original audit. Appendix 2 provides a summary of the level of implementation.

Funding maintenance	The Department has assessed alternative funding options and developed a strategy to reduce its maintenance backlog and plan for future maintenance needs. The Department does not report whether its maintenance budget is adequate to maintain properties in a reasonable state of repair.
Planning maintenance	Almost all properties have been surveyed against Department Property Standards using a standard survey. However, different aspects of a property's details are maintained in various information systems. The Department is planning to upgrade its principal system for maintaining property and tenancy data, and has implemented a new system to help with forward planning of its maintenance. The Department has indicated that it will develop complete medium-term maintenance plans and long-term strategic asset plans.

Contract management

The Department continues to use Schedule of Rates contracts for most of its planned and responsive maintenance. The Department has stated it is contractually required to use Schedule of Rates until June 2006, however it has negotiated lump-sum contracts for specific works such as painting and smoke detector servicing.

The Department reviews a portion of completed work against maintenance requirements, based on the dollar amounts of claims for work completed. The Department has established a separate unit to manage its multi-trade contractors. It cannot advise whether moving to multi-trade contractors has lowered costs and improved tenant satisfaction, as it never reviewed the prior contract method.

Performance reporting

The Department has established some standards and performance indicators for contractors and jobs. It benchmarks and internally reviews contractors against each other. It has started a project to benchmark itself against Victoria, Queensland and New Zealand.

Response from the Department of Housing

Thank you for the opportunity to respond to the Performance Audit Report on the follow-up audit of Maintenance of Public Housing.

Since the 2001 performance audit, the Department has pursued the following reforms to its asset management and maintenance policies and processes:

- Consolidated its maintenance contractors, via a staged reduction from 3,000 individual contractors in 2000, to 14 multi-trade 'head' contractors in 2004.*
- Introduced "lump sum" contracts for specific works such as painting and smoke detector servicing.*
- Conducted a thorough review of all business systems in 2002, which led to a specific Asset Management Review Project, conducted in 2003, involving 120 staff, and resulting in 100 recommendations, which are being progressively implemented by the Department.*
- Provided ongoing funding for the Accelerated Improvement Program to bring the most needy assets to standard (in 2003/2004, the Department spent \$118.5 million bringing 8,881 public housing properties up to standard under this program).*
- Implementing a 'whole of life-cycle asset management' framework, which is currently being piloted in Sutherland, and will also be piloted in 16 other metropolitan and regional locations from July 2005 for a 12-month period.*
- As part of whole of life cycle asset management, the Department will develop 5-10 year maintenance plans. The whole of life cycle maintenance program will achieve economies of scale and scheduling, with cost efficiencies shared with contractors.*

As acknowledged by the Audit Office, the implementation of the Department's asset management and maintenance reforms will eliminate the maintenance backlog and improve the ratio of planned to responsive maintenance, thus contributing to the Department's long-term sustainability.

In conclusion, the Department is committed to continuously improving the efficiency and effectiveness of its maintenance functions as a key element of its drive to secure its long-term sustainability. I would also like to acknowledge the cooperative atmosphere in which this follow-up audit has been undertaken.

(signed)

TERRY BARNES
Director-General

Dated: 11 February 2005

Public housing maintenance

Background

The New South Wales Government is the largest provider of public housing in Australia. The NSW Department of Housing is the largest landlord in the state, responsible for over 138,000 residential properties valued at \$28.5 billion.

The Department has a responsibility to ensure its portfolio of housing is well maintained, aligned to the needs of its tenants and financially sustainable.

We conducted an audit of the maintenance of public housing in 2001. At the time the backlog of maintenance was estimated to exceed \$750 million. The Department projected that despite significantly increasing expenditure on maintenance, the backlog would continue for the foreseeable future.

Our 2001 audit concluded there was a need to ensure that maintenance of assets was adequately planned for and funded. Without adequate maintenance, the value of an asset will deteriorate rapidly and can result in significant losses.

At the time, the Department acknowledged that housing maintenance had, in the past, become a secondary consideration to increasing the supply of housing to meet demand, and maintenance was treated as a balancing item in its operating budget.

What is the current state of maintenance?

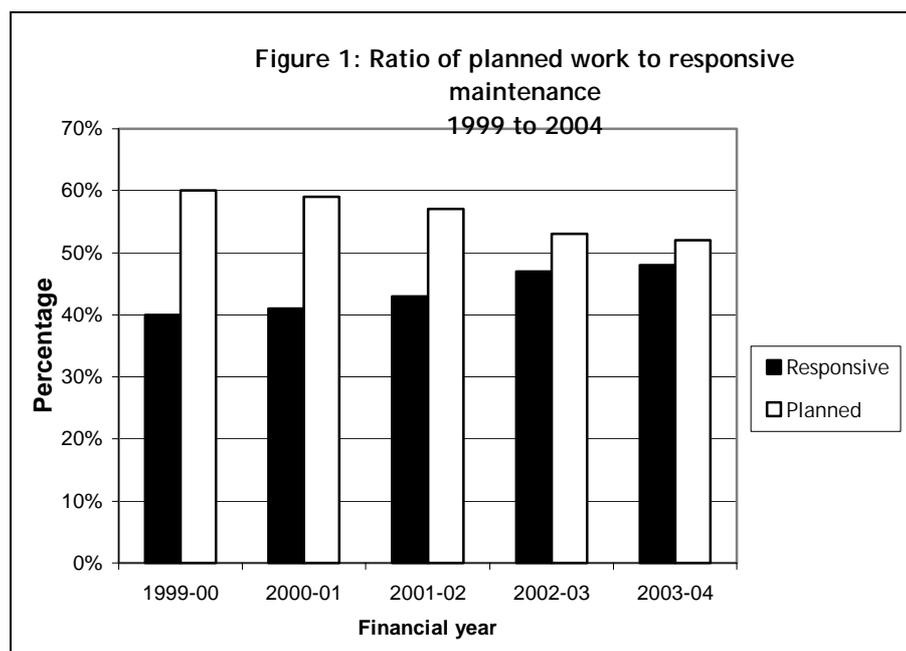
The Department has increased its spending on maintenance in almost every year since the original audit, as shown in Table 1.

Year	1999-2000	2000-01	2001-02	2002-03	2003-04
Amount (\$ million)	274	306	330	315	340

Source: original audit and Department of Housing Annual Reports from 2001-02 to 2003-04

Maintenance expenditure per dwelling has increased from approximately \$2,000 at the time of the original audit in 2001, to approximately \$2,500 in 2003-04.

However, the Department's level of responsive maintenance work has been increasing since the 2001 audit, whilst its level of planned maintenance has been decreasing, as shown in figure 1. The benefits of increasing planned maintenance would include increased service life of a property, early identification and correction of deficiencies, and lower maintenance costs over the life of the property.



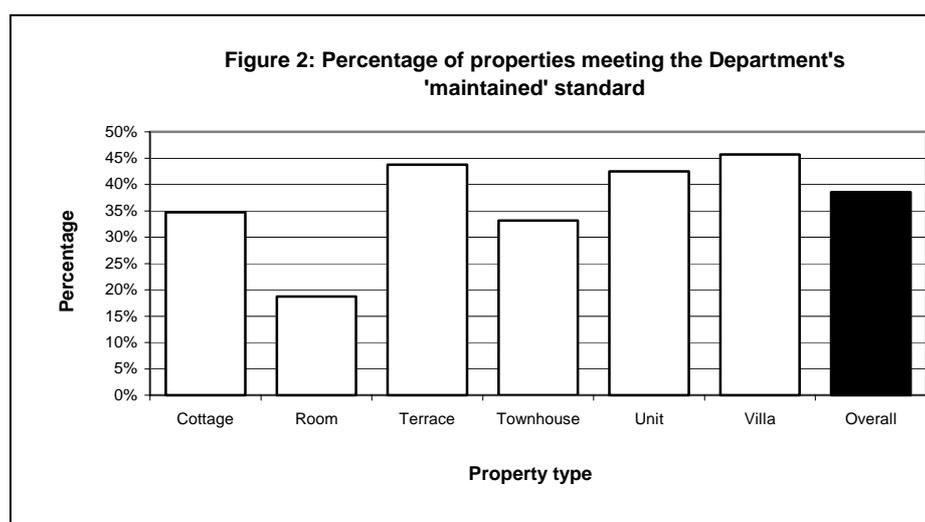
Source: Department of Housing reporting system, September 2004

The Department advises it has addressed these issues in the proposal to implement a new maintenance regime recently announced by the Minister for Housing. Under the new approach, the ratio of planned work to responsive maintenance is projected to change to 80:20 by 2015.

The Department still has a significant amount of backlog maintenance. Maintenance backlog was estimated to be \$750 million at the time of the original audit. In 2003-04 the Department estimated backlog maintenance to be \$650 million.

A low rate of properties are maintained to the Department's defined standards. The Department has identified that at present about 35 per cent of its properties are adequately maintained.

Figure 2 shows the percentage of assets by housing type that the Department has assessed against its own standards as being adequately maintained.



Source: Department of Housing report, September 2004

Twenty eight per cent of public housing tenants are generally dissatisfied with the condition of their home. At the time of the original audit 22 per cent were dissatisfied.

As shown in Table 2, customer satisfaction with maintenance services has not improved since the original audit. The Department advised this was because the latest survey was conducted a few months after implementing new maintenance contract arrangements.

Criteria		Emergency maintenance	Day-to-day maintenance
Overall satisfaction	2003	68% satisfied	55% satisfied
	2000	75% satisfied	56% satisfied
Treatment by contractors	2003	87% satisfied	79% satisfied
	2000	84% satisfied	79% satisfied
Quality of work	2003	68% satisfied	60% satisfied
	2000	72% satisfied	66% satisfied
Time to fix a problem	2003	62% satisfied	47% satisfied
	2000	75% satisfied	48% satisfied
Confident something will be done to resolve problem	2003	61%	61%
Advised how long it will take to resolve	2003	77%	70%
	2000	88%	77%
Advised timeframes met	2003	71%	61%
	2000	74%	60%

2003 - Latest results; 2000 - results at time of original audit.

2000 figures shown where available

Source: National Social Housing Survey of Public Housing 2000 and 2003, Commonwealth Department of Family and Community Services

Progress in maintenance of public housing

What has been achieved in relation to our recommendations?

Our audit in 2001 looked at the Department's management of public housing maintenance. We examined:

- the way in which standards and improvement targets for public housing maintenance were set and reform programs implemented
- the availability and use of maintenance information
- management oversight and organisational arrangements
- arrangements for assuring the future sound management of public housing maintenance.

The Department accepted all our recommendations from the original audit. The table in Appendix 2 provides a snapshot of the implementation status of each recommendation. The Department has made some progress in implementing the accepted recommendations, with most progress being made since 2003.

The recommendations can be grouped into four main areas of improvement:

- funding
- planning
- contract management
- performance reporting.

These four areas are now discussed in more detail.

Funding - Maintenance requirements are identified, reported and adequately funded

The 2001 audit found that the Department faced declining income and uncertain capital funding. The projected maintenance expenditure was unfunded and indications were that the maintenance backlog would not be eliminated for the foreseeable future. The Department advised that funds were increasingly being diverted from adding new properties to improving homes because of the large backlog in maintenance.

We recommended that maintenance requirements be identified, reported and adequately funded. This included ensuring all properties are in a reasonable state of repair, identifying funding options for maintenance, and reporting in the financial statements whether the provision for maintenance is adequate and any shortfall.

Funding Options We recommended that the Department identify and consider all maintenance funding options.

The Department has assessed alternative funding options available to improve its maintenance of public housing. It has secured Government approval for funding of a strategy that includes:

- conducting a planned maintenance pilot during 2005-06 to upgrade properties to standard. If successful the program will be rolled out across the state over a five year period
- whole-of-lifecycle asset management, which involves assessing tenants' needs and asset condition at annual visits, and planning maintenance over a five year period.

Reporting in financial statements We recommended that the Department report in its annual financial statements whether the provision for maintenance is adequate to maintain properties to a reasonable state of repair.

None of the Department's Annual Reports to date include this information.

A note in the 2003-04 financial statements advises of deferred maintenance worth \$650 million. However, it does not state how it arrived at this figure, what it measures or how many properties this equates to. Although the present reporting meets current financial reporting requirements, we consider that the Department still needs to disclose this additional information.

Planning - Establishing a regime of planned maintenance

Our second major area of recommendation was for planning maintenance.

Our 2001 audit found the Department conducted minimal planning for property maintenance. There were few, if any, plans describing the condition of each property, the work needed to be done in future years, their planned timing and estimated cost.

The Department agreed with the audit recommendation of establishing a planned maintenance regime. This required a complete condition assessment of every property and complete documentation of their maintenance history. It also included reviewing information needs and the feasibility of the current information system. The Department also agreed to develop 5 to 10 year maintenance plans and 15 to 20 year strategic asset plans.

Property condition assessment surveys

As part of improving their planned maintenance, we recommended the Department conduct at least one complete independent condition assessment of each property using qualified surveyors, and provide regional staff with a clear means of prioritising maintenance works within available funds.

The Department currently has 138,773 properties. The Department advises that over the last two years 123,740 have been surveyed - 15,033 have not been surveyed because they are vacant, staff cannot gain access to the property, or the property is planned for sale or redevelopment.

These surveys are conducted by staff who have been trained and accredited in applying the Department's Property Standards.

Survey data is recorded in the Department's Property Survey Mart (PSM) system and is accessible for asset and maintenance planning by Housing Services Divisions. The Department reports all survey results are kept so that trend analysis can be conducted. The surveys have been recently modified and can now collect more accurate technical and cost information on components and maintenance needs. This should enable more reliable scoping and estimating of work required to maintain individual properties.

Complete documentation of maintenance history

We recommended full documentation of the maintenance histories of each property, to enable accurate assessments of work conducted and required on every property.

Information on a property's maintenance details are kept in a number of departmental systems. The Property Survey Mart (PSM) system has property condition data from surveys, the Predictive Asset Liability Maintenance (PALM) system has predicted lifecycle costs of assets and components, the Integrated Housing System (IHS) has property and tenancy data and repair history on reported faults, SAP has expenditure details, and staff have local knowledge.

The risk of having so many systems and methods containing various aspects of a property's history is that staff will not always have the time or energy to extract all necessary data to assess what work is required.

Review of information needs and systems

We recommended a review of information needs to proactively manage maintenance works, and assess the feasibility of upgrading existing systems or moving to new systems.

The Department's IT Strategy Group conducted a review on whether to further develop IHS or options to establish alternative systems and initiatives. The review of IHS looked at its strengths, weaknesses, underutilised areas and gaps in need.

The review assessed there has been changes in business practice and user and client needs over time that now need to be considered. It found that IHS has not met expectations in client management, does not meet local needs, is not integrated, the system was developed whilst policies and procedures were being developed, and is not fit for purpose.

The Department advises IHS can now provide regular data and reports to Housing Divisions, contractors and Department executives. However the review found that some teams responsible for housing have developed local systems to extract data that already exists in IHS, but not in an easily usable form.

The Department has issued an Expression of Interest request for alternative systems, and the Request For Tender is expected to be issued by March 2005. The Department has advised that by mid-2005 it will have selected and be implementing a new product, or committed to upgrading to the next IHS version.

The Department still needs to develop an easily accessible centralised system with full property maintenance histories and sufficient detail to develop maintenance plans for individual properties. It has advised the Predictive Asset Liability Maintenance (PALM) system will help with forward planning in a new planned maintenance regime. The system has been in place since 2002 but the Department is still developing and refining it.

Medium-term maintenance plans

The Department agreed with our 2001 recommendation to develop maintenance plans for a 5 to 10 year period for each property group or type.

The Department's program of planned maintenance works is the Accelerated Improvement Program (now called General Upgrade Program). It was designed to reduce backlog maintenance and bring all assets up to Department standard by making specific plans with dedicated funds. It has been in place since 1998-99, is 42% complete and has fallen four years behind schedule.

The Department has also implemented Local Area Housing Strategies covering a ten-year period. This involves assessing current demand and supply and future strategies for purchase, disposal and maintenance of properties.

These strategies are a precursor to, but not the equivalent of, a maintenance plan.

The Department will trial in one region a project that forward plans maintenance. It includes pre-emptive inspections and defining anticipated needs for future years to ensure properties are safe and functional.

The Department advises it is in the process of developing comprehensive plans for each property group/type. It expects to develop detailed three-year plans by November 2005, and detailed longer-term plans by July 2006.

Long-term strategic asset plans

The Department also agreed with our recommendation to develop strategic asset plans for a 15 to 20 year period covering all properties, including considering upgrading or replacing of properties.

The Department undertook an Asset Management Review in 2002-03. One outcome from this is the commencement of a 15-year asset Portfolio Strategy. The Strategy will cover the management, retention, re-configuration, maintenance, upgrading or disposal plans for all Department assets.

The Department has started to implement some components of the Portfolio Strategy. It advises it has established a team of dedicated positions to implement the Strategy, and a working group with representatives from all regions has been established to progress and monitor it. The Department plans to have the Strategy in place in 2005.

The Portfolio Strategy is considered in the Department's 2005-06 Business Plan Guidelines. The Department's ability to finance and provide adequate housing is also mentioned in its 2005-06 Business Plan Guidelines as part of the priority strategies that Housing Divisions should consider in developing their business plans.

Contract Management - Improve contract management

The third main area of focus is the management of contractors and contracts.

In 2001 we found the Department had improved its contract management, including developing standard conditions of tendering and contract, a code of conduct for contractors, contract administration guidelines, contractor performance systems and audit procedures. The Department had moved to using larger multi-trade contractors, but these new contract models needed to be monitored and assessed.

We recommended the Department further improve its contract management including limiting Schedule of Rates to responsive maintenance, greater control of large contractors, monitoring the new contract models and assessing for improvements, and using risk management to check the work of contractors.

Schedule of rates contracts

We recommended limiting the use of Schedule of Rates contracts to responsive maintenance. Schedule of Rates is an agreed contract price for each type of job between the Department and each contractor.

The Department continues to use Schedule of Rates contracts for most of its planned and responsive maintenance under the multi-trade contractor system. The Department has advised it has negotiated lump-sum contracts for specific works such as painting and smoke detector servicing.

The Department states that it plans to eliminate Schedule of Rates contracts in July 2006 and undertake new contract methods. It advised that by the end of 2005 it will have sufficient information to group together needed maintenance work to enter new contract arrangements and change the use of its contractors. If this is implemented the Department will have met this recommendation.

Greater control of contractors

We recommended that the Department control more tightly the work of large contractors across a number of zones and regional boundaries.

A 2004 Department review found inconsistent application of the Department's standards and policies statewide, so that contractors are treated unequally. For instance, non-compliance notices are raised in one area for an issue that another area may consider acceptable.

In the past, the Department has had difficulties in transitioning between contractors and changing its method for conducting maintenance work. However it has strengthened its internal management and staffing to better handle the work required in monitoring and controlling the contractors.

The Department has established a Maintenance Unit to centrally manage and review the multi-trade contractors as required in every contract, as well as their contracts that may extend across the state.

As a result of the contractor reviews, the Department terminated one contract, and in so doing, established a process to review and terminate contractors.

The Department still needs to increase the level of lump-sum negotiated contracts as a way to better control contractor work. The Department advises the new planned maintenance program will achieve this.

**Risk management
review of
contractors**

We recommended that the work of contractors needs to be more adequately checked against maintenance requirements using a risk management approach.

The current risk management approach used by the Department to assess contracted work is based on the dollar amounts of claims for work completed. Automatic inspections are raised for 1% of all claims up to \$500, 10% for claims between \$500 and \$5,000, and all claims over \$5,000, all vacant properties and housing work done under the Accelerated Improvement Program. It reviews if maintenance work was completed as authorised, was compliant with standards, and claims were submitted correctly according to the Schedule of Rates.

The Department has established policies and procedures to conduct pre- and post-work inspections and desktop audits. It has also started to conduct more detailed analyses of claims made to assess the work of contractors both locally and across areas. The aim of the audits is to sample sufficient contractor activities to see if the contractor is implementing the quality assurance programs required in the contract, and to identify areas needing improvement.

At least one region uses a more sophisticated risk model to decide where to focus their inspections for both jobs and contractors. The Department advised this practice has not yet been implemented across the state, however information gained on this model is being implemented with new asset manager roles in all regions. This appears to be a more effective approach to implementing risk management.

**Monitoring
contractor
arrangements**

The Department agreed with our recommendation of monitoring and assessing the new contract models to establish whether lower costs and improved tenant satisfaction have resulted.

The Department did not review the contract model in place prior to using multi-trade contractors. It has started to monitor costs and client satisfaction as part of the current contractor review process. No comparison can be made to assess whether improvements have been achieved with the change in practice.

The Department needs to monitor and assess the results of its multi-trade contractor system to assess whether lower costs and improved tenant satisfaction have resulted and where areas of improvement exist.

Performance reporting - Improve performance measurement and reporting

The final area of our recommendations was for improving performance reporting.

Our 2001 audit found that monitoring of property maintenance services was based largely on reports of activity and expenditure against budget allocations. There was limited performance reporting on maintenance or benchmarking of maintenance functions within regions and across the Department. As a result, management could not assess the efficiency and effectiveness of its maintenance function in an objective way.

We recommended improving performance measurement and reporting by providing a way to assess the efficiency and effectiveness of the Department's maintenance function and implementing a common performance reporting framework.

Assess efficiency and effectiveness of maintenance

The Department agreed with our recommendation to provide a means of more readily assessing the efficiency and effectiveness of its maintenance function.

The Department has established some standards and performance indicators for contractors and jobs. Each team is to receive weekly information on contractor performance, and this is summarised at higher levels to regions and for reporting to the Board.

The Department also reports on some aspects of maintenance performance for the national Report on Government Services. All states agreed to develop and report on comparable indicators. However, information included in the Report is very general.

The Department has established a group of representatives from across the Department who analyse maintenance work data and spending, benchmark across teams, scoping of work and better practice and quality issues.

The Department has not provided any information that evaluates what benefits have accrued from their changes in process, or what improvements in the efficiency and effectiveness of the maintenance function have been achieved over time.

It is important for the Department to implement strong monitoring and assessment methods for its maintenance programs and expenditure, especially as it is planning to introduce major changes to practices in conducting and assessing maintenance work.

The Department advised that it has included a performance reporting procedure and key performance indicators in its new maintenance program to enable internal monitoring and external reporting.

Common performance reporting framework

We recommended implementing a common performance reporting framework, including the benchmarking of maintenance functions across the Department and with public housing authorities in other states.

The Department prepares quarterly reports of statistical information on work orders raised, completed and voided for each contractor, by region and over time.

The Department commenced developing a benchmarking project in August 2004 with Victoria, Queensland and New Zealand. The benchmarking project covers various aspects of public housing provision including asset management and maintenance. Definitions and spreadsheet templates have been established and were distributed for input in November 2004.

Some of the benchmark indicators relevant to maintenance practices include:

- actual expenditure as a proportion of budget for maintenance programs
- ratio of dollars spent on planned compared to responsive maintenance
- proportion of properties maintained to standard
- average number of maintenance calls per dwelling
- proportion of tenants satisfied with maintenance services
- proportion of non-compliance at inspections.

Monitoring and reporting on the implementation of recommendations

As part of this audit, we also reviewed whether and how the Department managed the implementation of our 2001 recommendations.

To assist agencies, we developed a better practice guide and checklist for monitoring and reporting on our performance audit recommendations. Agencies need to assign responsibilities and establish processes for implementation and follow-up of recommendations, and raise awareness of the issues with relevant parts of the agency.

The Department of Housing had not established a Committee or working group to monitor the implementation of the audit recommendations.

However, the Department advised that the Asset Management Review conducted in 2002-03 incorporated the audit and addressed the issues raised. A steering committee monitored the implementation of the Asset Management Review.

The 2001 audit was mentioned in the Department's 2000-01 Annual Report. The name of the audit and its finding on the amount of backlog maintenance has been mentioned in a note to the financial statements every year since.

The audit and its recommendations have not been referred to in any other Annual Reports. However, some matters covered by the recommendations were discussed in the 2002-03 Annual Report.

Appendices

Appendix 1: About the audit

Audit objective The objective of this follow-up performance audit was to determine whether or not the Department of Housing made progress in implementing accepted recommendations from our report *Maintenance of Public Housing* (April 2001), and what impacts flowed from implementation.

Audit criteria We judged changes in practice or performance based on whether:

- the Department had assessed the impact of the recommendations, determined the course of action, and implemented accepted recommendations
- the implementation plan was monitored and progress reported (eg, through an Audit Committee or other monitoring mechanisms)
- the Department had reported its progress in subsequent annual reports.

Audit scope and focus We examined the extent to which the Department had implemented the recommendations it accepted from our 2001 report, the impact and magnitude of any change, and if recommendations were not fully implemented, what action the agency has taken to address the issue.

Audit approach We obtained sufficient specific evidence to show what the Department had done to progress accepted recommendations, and what changes had occurred as a result of implementation. Findings were based on the evidence collected through document analysis, the Department's formal response to the recommendations, and interviews with Department staff.

Cost of the audit Including printing and all overheads the estimated cost of this audit was \$101,800.

Acknowledgement The Audit Office gratefully acknowledges the cooperation and assistance provided by representatives of the Department of Housing.

Audit Team Our team leader for this performance audit was Chris Yates, who was assisted by Sandra Tomasi.

Direction and quality assurance was provided by Sean Crumlin.

Appendix 2: Status of the implementation of recommendations

Recommendation	Status	Changes in practice
<p>Ensure that the maintenance requirements for public housing are identified, reported and adequately funded. To that extent:</p> <ul style="list-style-type: none"> • all options need to be identified and considered to support the funding of maintenance • planning should proceed on the basis that all premises need to be maintained in a reasonable state of repair, and Department of Housing needs to be in a position to assure the public to that effect • annual financial statements should state the extent to which the provision (for maintenance) is adequate or not adequate, and any shortfall, for the maintenance of properties to a reasonable state of repair. 	<p>Partially implemented</p>	<p>Funding proposal approved by Government to increase maintenance and improve the quality of the Department's housing.</p> <p>The Department accepts this principle. It has developed property standards, and all planned maintenance is based on these standards.</p> <p>No change in practice. The Department reports its backlog maintenance in annual reports, but does not comment on the adequacy of budgetary funding levels.</p>
<p>Establish a regime of planned maintenance, including the:</p> <ul style="list-style-type: none"> • conduct of at least one complete independent condition assessment of each property, using qualified surveyors, and provide regional staff with a clear means of prioritising maintenance works within available funds • full documentation of maintenance histories of each property • development of maintenance plans for a 5 to 10 year period for each property group or type • development of strategic asset plans for a 15 to 20 year period covering all properties, including consideration of upgrading versus replacement of properties 	<p>Partially implemented</p>	<p>Department conducted an Asset Management Review, some outcomes reflect some of these recommendations.</p> <p>The Department has surveyed 90 per cent of its properties.</p> <p>Different aspects of a property's maintenance history recorded in Property Survey Mart (PSM) system, Integrated Housing System (IHS) system, and financial system.</p> <p>Change in practice has not occurred to date. Action taken is described in the detailed report.</p> <p>Department has commenced developing a Portfolio Strategy.</p>

Recommendation	Status	Changes in practice
<ul style="list-style-type: none"> review of information needs to pro-actively manage maintenance works and assess the feasibility of upgrading existing systems, or alternatively moving to new systems. 		<p>Review conducted on the value of the main housing record system (IHS). Request issued for new system.</p> <p>A Predictive Asset Liability Maintenance (PALM) system established in 2002 that predicts maintenance costs of assets and components over their expected life.</p>
<p>Further improve contract management, including:</p> <ul style="list-style-type: none"> limiting 'schedule of rates' contracts to responsive maintenance controlling more tightly the work by large contractors across a number of zones and regional boundaries monitoring and assessing the new contract models to establish whether lower costs and improved tenant satisfaction have resulted (a performance based facilities management contract should be considered for comparison purposes) using a risk management approach, the work of contractors needs to be more adequately checked against maintenance requirements. 	<p>Partially implemented</p>	<p>The Department has implemented lump-sum contracts for some specific maintenance works. Action taken is described in the detailed report.</p> <p>An internal review found inconsistent application of Department standards and policies statewide.</p> <p>Maintenance Unit established to centrally manage and review multi-trade contractors.</p> <p>Change in practice has not occurred to date. Action taken is described in the detailed report.</p> <p>Department conducts post-work inspections based on the value of the claim and random desktop audits.</p>

Recommendation	Status	Changes in practice
<p>Improve performance measurement and reporting by:</p> <ul style="list-style-type: none"> • providing a means of more readily assessing the efficiency and effectiveness of its maintenance function • implementing a common performance reporting framework, including the benchmarking of maintenance functions across Department of Housing regions and with the public housing authorities of other States. 	Partially implemented	<p>Some standards and performance indicators for contractors and maintenance work established for reporting to the Board.</p> <p>Benchmarking project established with Victoria, Queensland and New Zealand in October 2004. Definitions and templates have been established and distributed for input.</p>

Appendix 3: Glossary

AIP	Accelerated Improvement Program - a program to reduce backlog maintenance and bring all properties to a defined, consistent maintenance standard. Renamed the General Upgrade Program.
Asset compliance	There are three levels of compliance - minimum (fully functioning, safe and habitable), maintained and fully compliant.
Asset Management Review	Review of business processes conducted by the Department to improve asset management processes. It covers a quality assurance regime, a total contract cycle, assessment of multi-trade contractors, asset standards, and a guide to decide when to fix or sell a property.
Asset Portfolio Strategy	A 15-year plan covering the management, retention, reconfiguration, maintenance, upgrading or disposal plans for all Department assets.
IHS	Integrated Housing System - a computerised system that contains the property and tenancy details, including recent repair history and dates of inspections.
Life cycle	The estimated period of time over which an asset or its component is expected to be usable.
Local Area Housing Strategy	A decision making guide for local housing areas about acquisition, operation, maintenance, allocation and disposal of property.
Multi-trade contractors	Contractors to the Department who cover more than one trade area.
PALM	Predictive Asset Liability Maintenance - the system that predicts maintenance expenditure based on the asset's age and quality at the time of the property assessment survey.
Planned maintenance	The maintenance or replacement of an asset component based on an assessment by Department staff that it has fallen below standard or is due to be replaced.
Property Assessment Survey	An inspection of properties by trained Department staff every two years to record those elements that are defective or deteriorated, together with their functional impact, recommended rectification, costs and priority rating. Formerly know as a property condition survey.

Property standards	<p>There are three components</p> <p>Basic Provision - what the Department is prepared to provide eg hot water to the kitchen, power outlets, etc.</p> <p>Condition - the current state of repair and wear and tear on the asset. It covers safety, function and appearance.</p> <p>Amenity - quality of the property and its surrounds (subjective).</p>
PSM	<p>Property Survey Mart - contains property condition data results from all property surveys.</p>
Public Housing	<p>Dwellings owned (or leased) by the state and rented to low and moderate income earners.</p>
Regional Housing Strategy	<p>A strategy to provide a strategic framework for housing provision in each region. Local Area Housing Strategies identify specific actions to address this Strategy.</p>
Report on Government Services	<p>A report on the effectiveness and efficiency of Commonwealth, State and Territory government services.</p>
Responsive maintenance	<p>Urgent, priority or necessary repairs, generally in response to tenant requests, to make a place safe or habitable.</p>
SAP	<p>The Department's financial system.</p>
Schedule of Rates	<p>An agreed contract price for each type of maintenance job between the Department and its contractors.</p>
Total Asset Management	<p>Management of assets from a whole-of-life perspective. It involves assessing tenants' needs and asset conditions at annual visits, and planning maintenance over a five year period.</p>

Performance Audits by the Audit Office of New South Wales

Performance Auditing

What are performance audits?

Performance audits are reviews designed to determine how efficiently and effectively an agency is carrying out its functions.

Performance audits may review a government program, all or part of a government agency or consider particular issues which affect the whole public sector.

Where appropriate, performance audits make recommendations for improvements relating to those functions.

Why do we conduct performance audits?

Performance audits provide independent assurance to Parliament and the public that government funds are being spent efficiently and effectively, and in accordance with the law.

They seek to improve the efficiency and effectiveness of government agencies and ensure that the community receives value for money from government services.

Performance audits also assist the accountability process by holding agencies accountable for their performance.

What is the legislative basis for Performance Audits?

The legislative basis for performance audits is contained within the *Public Finance and Audit Act 1983, Part 3 Division 2A*, (the Act) which differentiates such work from the Office's financial statements audit function.

Performance audits are not entitled to question the merits of policy objectives of the Government.

What conducts performance audits?

Performance audits are conducted by specialist performance auditors who are drawn from a wide range of professional disciplines.

How do we choose our topics?

Topics for performance audits are chosen from a variety of sources including:

- our own research on emerging issues
- suggestions from Parliamentarians, agency Chief Executive Officers (CEO) and members of the public
- complaints about waste of public money
- referrals from Parliament.

Each potential audit topic is considered and evaluated in terms of possible benefits including cost savings, impact and improvements in public administration.

The Audit Office has no jurisdiction over local government and cannot review issues relating to council activities.

If you wish to find out what performance audits are currently in progress just visit our website at www.audit.nsw.gov.au.

How do we conduct performance audits?

Performance audits are conducted in compliance with relevant Australian standards for performance auditing and operate under a quality management system certified under international quality standard ISO 9001.

Our policy is to conduct these audits on a "no surprise" basis.

Operational managers, and where necessary executive officers, are informed of the progress with the audit on a continuous basis.

What are the phases in performance auditing?

Performance audits have three key phases: planning, fieldwork and report writing.

During the planning phase, the audit team will develop audit criteria and define the audit field work.

At the completion of field work an exit interview is held with agency management to discuss all significant matters arising out of the audit. The basis for the exit interview is generally a draft performance audit report.

The exit interview serves to ensure that facts presented in the report are accurate and that recommendations are appropriate. Following the exit interview, a format draft report is provided to the CEO for comment. The relevant Minister is also provided with a copy of the draft report. The final report, which is tabled in Parliament, includes any comment made by the CEO on the conclusion and the recommendations of the audit.

Depending on the scope of an audit, performance audits can take from several months to a year to complete.

Copies of our performance audit reports can be obtained from our website or by contacting our publications unit.

How do we measure an agency's performance?

During the planning stage of an audit the team develops the audit criteria. These are standards of performance against which an agency is assessed. Criteria may be based on government targets or benchmarks, comparative data, published guidelines, agencies corporate objectives or examples of best practice.

Performance audits look at:

- processes
- results
- costs
- due process and accountability.

Do we check to see if recommendations have been implemented?

Every few years we conduct a follow-up audit of past performance audit reports. These follow-up audits look at the extent to which recommendations have been implemented and whether problems have been addressed.

The Public Accounts Committee (PAC) may also conduct reviews or hold inquiries into matters raised in performance audit reports. Agencies are also required to report actions taken against each recommendation in their annual report.

To assist agencies to monitor and report on the implementation of recommendations, the Audit Office has prepared a Guide for that purpose. The Guide, *Monitoring and Reporting on Performance Audits Recommendations*, is on the Internet at www.audit.nsw.gov.au/guides-bp/bpglist.htm

Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards. This includes ongoing independent certification of our ISO 9001 quality management system.

The PAC is also responsible for overseeing the activities of the Audit Office and conducts reviews of our operations every three years.

Who pays for performance audits?

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament and from internal sources.

For further information relating to performance auditing contact:

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Performance Audit Reports

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
65	Attorney General's Department	<i>Management of Court Waiting Times</i>	3 September 1999
66	Office of the Protective Commissioner Office of the Public Guardian	<i>Complaints and Review Processes</i>	28 September 1999
67	University of Western Sydney	<i>Administrative Arrangements</i>	17 November 1999
68	NSW Police Service	<i>Enforcement of Street Parking</i>	24 November 1999
69	Roads and Traffic Authority of NSW	<i>Planning for Road Maintenance</i>	1 December 1999
70	NSW Police Service	<i>Staff Rostering, Tasking and Allocation</i>	31 January 2000
71*	Academics' Paid Outside Work	<i>Administrative Procedures Protection of Intellectual Property Minimum Standard Checklists Better Practice Examples</i>	7 February 2000
72	Hospital Emergency Departments	<i>Delivering Services to Patients</i>	15 March 2000
73	Department of Education and Training	<i>Using Computers in Schools for Teaching and Learning</i>	7 June 2000
74	Ageing and Disability Department	<i>Group Homes for People with Disabilities in NSW</i>	27 June 2000
75	NSW Department of Transport	<i>Management of Road Passenger Transport Regulation</i>	6 September 2000
76	Judging Performance from Annual Reports	<i>Review of Eight Agencies' Annual Reports</i>	29 November 2000
77*	Reporting Performance	<i>Better Practice Guide A guide to preparing performance information for annual reports</i>	29 November 2000
78	State Rail Authority (CityRail) State Transit Authority	<i>Fare Evasion on Public Transport</i>	6 December 2000
79	TAFE NSW	<i>Review of Administration</i>	6 February 2001
80	Ambulance Service of New South Wales	<i>Readiness to Respond</i>	7 March 2001
81	Department of Housing	<i>Maintenance of Public Housing</i>	11 April 2001
82	Environment Protection Authority	<i>Controlling and Reducing Pollution from Industry</i>	18 April 2001
83	Department of Corrective Services	<i>NSW Correctional Industries</i>	13 June 2001

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
84	Follow-up of Performance Audits	<i>Police Response to Calls for Assistance</i> <i>The Levying and Collection of Land Tax</i> <i>Coordination of Bushfire Fighting Activities</i>	20 June 2001
85*	Internal Financial Reporting	<i>Internal Financial Reporting including a Better Practice Guide</i>	27 June 2001
86	Follow-up of Performance Audits	<i>The School Accountability and Improvement Model (May 1999)</i> <i>The Management of Court Waiting Times (September 1999)</i>	14 September 2001
87	E-government	<i>Use of the Internet and Related Technologies to Improve Public Sector Performance</i>	19 September 2001
88*	E-government	<i>e-ready, e-steady, e-government: e-government readiness assessment guide</i>	19 September 2001
89	Intellectual Property	<i>Management of Intellectual Property</i>	17 October 2001
90*	Intellectual Property	<i>Better Practice Guide Management of Intellectual Property</i>	17 October 2001
91	University of New South Wales	<i>Educational Testing Centre</i>	21 November 2001
92	Department of Urban Affairs and Planning	<i>Environmental Impact Assessment of Major Projects</i>	28 November 2001
93	Department of Information Technology and Management	<i>Government Property Register</i>	31 January 2002
94	State Debt Recovery Office	<i>Collecting Outstanding Fines and Penalties</i>	17 April 2002
95	Roads and Traffic Authority	<i>Managing Environmental Issues</i>	29 April 2002
96	NSW Agriculture	<i>Managing Animal Disease Emergencies</i>	8 May 2002
97	State Transit Authority Department of Transport	<i>Bus Maintenance and Bus Contracts</i>	29 May 2002
98	Risk Management	<i>Managing Risk in the NSW Public Sector</i>	19 June 2002
99	E-Government	<i>User-friendliness of Websites</i>	26 June 2002
100	NSW Police Department of Corrective Services	<i>Managing Sick Leave</i>	23 July 2002
101	Department of Land and Water Conservation	<i>Regulating the Clearing of Native Vegetation</i>	20 August 2002

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
102	E-government	<i>Electronic Procurement of Hospital Supplies</i>	25 September 2002
103	NSW Public Sector	<i>Outsourcing Information Technology</i>	23 October 2002
104	Ministry for the Arts Department of Community Services Department of Sport and Recreation	<i>Managing Grants</i>	4 December 2002
105	Department of Health Including Area Health Services and Hospitals	<i>Managing Hospital Waste</i>	10 December 2002
106	State Rail Authority	<i>CityRail Passenger Security</i>	12 February 2003
107	NSW Agriculture	<i>Implementing the Ovine Johne's Disease Program</i>	26 February 2003
108	Department of Sustainable Natural Resources Environment Protection Authority	<i>Protecting Our Rivers</i>	7 May 2003
109	Department of Education and Training	<i>Managing Teacher Performance</i>	14 May 2003
110	NSW Police	<i>The Police Assistance Line</i>	5 June 2003
111	E-Government	<i>Roads and Traffic Authority Delivering Services Online</i>	11 June 2003
112	State Rail Authority	<i>The Millennium Train Project</i>	17 June 2003
113	Sydney Water Corporation	<i>Northside Storage Tunnel Project</i>	24 July 2003
114	Ministry of Transport Premier's Department Department of Education and Training	<i>Freedom of Information</i>	28 August 2003
115	NSW Police NSW Roads and Traffic Authority	<i>Dealing with Unlicensed and Unregistered Driving</i>	4 September 2003
116	NSW Department of Health	<i>Waiting Times for Elective Surgery in Public Hospitals</i>	18 September 2003
117	Follow-up of Performance Audits	<i>Complaints and Review Processes (September 1999)</i> <i>Provision of Industry Assistance (December 1998)</i>	24 September 2003
118	Judging Performance from Annual Reports	<i>Review of Eight Agencies' Annual Reports</i>	1 October 2003
119	Asset Disposal	<i>Disposal of Sydney Harbour Foreshore Land</i>	26 November 2003

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
120	Follow-up of Performance Audits NSW Police	<i>Enforcement of Street Parking (1999) Staff Rostering, Tasking and Allocation (2000)</i>	10 December 2003
121	Department of Health NSW Ambulance Service	<i>Code Red: Hospital Emergency Departments</i>	15 December 2003
122	Follow-up of Performance Audit	<i>Controlling and Reducing Pollution from Industry (April 2001)</i>	12 May 2004
123	National Parks and Wildlife Service	<i>Managing Natural and Cultural Heritage in Parks and Reserves</i>	16 June 2004
124	Fleet Management	<i>Meeting Business Needs</i>	30 June 2004
125	Department of Health NSW Ambulance Service	<i>Transporting and Treating Emergency Patients</i>	28 July 2004
126	Department of Education and Training	<i>School Annual Reports</i>	15 September 2004
127	Department of Ageing, Disability and Home Care	<i>Home Care Service</i>	13 October 2004
128	Department of Commerce	<i>Shared Corporate Services: Realising the Benefits, including guidance on better practice</i>	3 November 2004
129	Follow-up of Performance Audit	<i>Environmental Impact Assessment of Major Projects (2001)</i>	1 February 2005
130	Fraud Control	<i>Current Progress and Future Directions</i>	9 February 2005
131	Follow-up of Performance Audit Department of Housing	<i>Maintenance of Public Housing (2001)</i>	March 2005

* Better Practice Guides

Performance Audits on our website

A list of performance audits tabled or published since March 1997, as well as those currently in progress, can be found on our website www.audit.nsw.gov.au

If you have any problems accessing these Reports, or are seeking older Reports, please contact our Executive Officer on 9275 7220.