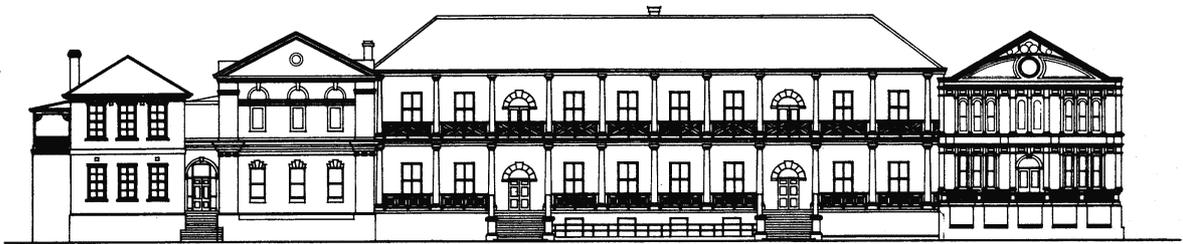




**LEGISLATIVE ASSEMBLY**

**STANDING COMMITTEE ON PUBLIC WORKS**

**REPORT ON GOVERNMENT BUILDING MAINTENANCE**



**Report No. 52/9**

**MAY 2002**



*LEGISLATIVE ASSEMBLY*  
*STANDING COMMITTEE ON PUBLIC WORKS*

**Ms DIANE BEAMER MP**

**Mr Matthew Brown MP**  
Vice Chairman

**Mr Paul Gibson MP**

**Mr Graham West MP**

**The Hon Peter Collins MP**

**Mr Adrian Piccoli MP**

**Mr Richard Torbay MP**

**SECRETARIAT**

**Ian Thackeray** – Committee Manager

**Carolynne James** – Project Officer

**Jason Reodique** – Committee Officer

**Natasa Tasic** – Assistant Committee Officer

**Parliament House Macquarie Street Sydney NSW 2000**

**Telephone:** 02 9230 3308; **Facsimile:** 02 9230 3309

**Email:** [pubworks@parliament.nsw.gov.au](mailto:pubworks@parliament.nsw.gov.au)

---

# REPORT ON GOVERNMENT BUILDING MAINTENANCE

## TABLE OF CONTENTS

<b>FOREWORD.....</b>	<b>I</b>
<b>FINDINGS AND RECOMMENDATIONS.....</b>	<b>III</b>
<b>CHAPTER ONE – INTRODUCTION.....</b>	<b>1</b>
1.1 THE PUBLIC WORKS COMMITTEE .....	1
1.2 BACKGROUND AND TERMS OF REFERENCE.....	2
1.3 METHODOLOGY .....	4
<b>CHAPTER TWO – BUILDING MAINTENANCE OVERVIEW.....</b>	<b>5</b>
2.1 THE SIGNIFICANCE OF BUILDING MAINTENANCE .....	5
2.2 SCOPE OF THE “BUILDING MAINTENANCE” INQUIRY .....	6
2.2.1 Definition of Buildings for the Inquiry.....	6
2.2.2 Definition of Maintenance .....	7
2.3 APPROACHES TO BUILDING MAINTENANCE .....	8
2.3.1 Cyclical Maintenance Planning .....	8
2.3.2 Trade Based Approach .....	9
2.3.3 Facilities Maintenance .....	9
2.3.4 Bundled Options .....	9
2.3.5 Private/Public Partnerships.....	10
2.4 NSW ASSET MANAGEMENT POLICY.....	11
2.4.1 Background – Total Asset Management (TAM) .....	11
2.4.2 The TAM Asset Maintenance Plan.....	12
2.4.3 Compliance and Scrutiny of TAM and the Asset Maintenance Plan .....	13
2.4.4 Department of Public Works and Services Requirements .....	13
2.4.5 Further Roles of the Department of Public Works and Services .....	14
2.5 A GENERAL FRAMEWORK FOR MAINTENANCE MANAGEMENT .....	15
2.5.1 What Buildings do we Have? .....	16
2.5.2 What Buildings do we Need and Why?.....	16
2.5.3 What is the Condition of Current Buildings?.....	17
2.5.4 What Conditions are Required for Those Buildings to Perform Their Function?.....	18
2.5.5 What Maintenance Regime is Required to Sustain These Conditions? ...	18
2.5.6 What Maintenance Contract is Suitable? .....	19
2.5.7 Is the Maintenance Regime Working? .....	19
2.6 ASSET MANAGEMENT TOOLS .....	22
2.6.1 Asset Life Cycle Planning .....	22
2.6.2 Risk Management.....	23
2.6.3 Performance Indicators and Performance Contracts .....	24
2.6.4 Payment Options for Maintenance.....	25
2.6.5 Scale and Scope Issues .....	26

**CHAPTER THREE – NSW AGENCY MAINTENANCE ARRANGEMENTS.....29**

3.1 KEY AGENCIES EXAMINED BY THE COMMITTEE .....29

3.2 DEPARTMENT OF EDUCATION AND TRAINING .....29

    3.2.1 Background.....29

    3.2.2 Maintenance Management – The SFMC Model.....30

    3.2.3 Monitoring of SFMC .....31

    3.2.4 A Contractor's Perspective.....32

    3.2.5 Issues .....34

        3.2.5.1 Regional Contracts .....34

        3.2.5.2 Contract Effectiveness.....34

        3.2.5.3 Resources .....36

        3.2.5.4 Monitoring.....36

    3.2.6 Comment .....36

3.3 DEPARTMENT OF HOUSING .....37

    3.3.1 Background.....37

    3.3.2 Reform of Housing Maintenance.....39

    3.3.3 Maintenance Management.....39

    3.3.4 NSW Audit Office Review and Maintenance Backlog .....43

    3.3.5 Issues .....44

    3.3.5 Comment .....45

3.4 NSW POLICE .....46

    3.4.1 Background.....46

    3.4.2 Alliance Contract Arrangement .....47

    3.4.3 Issues – State Wide Single Agency Contract.....48

    3.4.5 Comment .....49

3.5 NSW Attorney General’s Department.....49

    3.5.1 Background.....49

    3.5.2 Maintenance Management.....50

    3.5.3 Issues .....52

    3.5.4 Comment .....53

3.6 NSW Department of Health .....53

    3.6.1 Background.....53

    3.6.2 Maintenance Management.....54

    3.6.3 Reforms and New Developments .....54

    3.6.4 Issues .....57

    3.6.4 Comment .....57

3.7 DEPARTMENT OF CORRECTIVE SERVICES .....57

    3.7.1 Background.....57

    3.7.2 Maintenance Management.....58

    3.7.3 Issues .....58

    3.7.4 Comment .....60

3.8 DEPARTMENT OF JUVENILE JUSTICE .....60

    3.8.1 Background.....60

    3.8.2 Maintenance Management.....61

    3.8.3 Comment .....62

3.9 DEPARTMENT OF COMMUNITY SERVICES, AGING & DISABILITY SERVICES.....62

    3.9.1 Background.....62

    3.9.2 Maintenance Management.....62

    3.9.3 Comment .....63

3.10 THE CROSS AGENCY MAINTENANCE PILOT .....64

3.10.1	Background.....	64
3.10.2	Agency Views .....	65
3.10.3	Comment .....	68
<b>CHAPTER FOUR – ISSUES AND RECOMMENDATIONS.....</b>		<b>69</b>
4.1	INTRODUCTION .....	69
4.1.1	Purpose.....	69
4.1.2	Data Summary .....	69
4.1.3	Comment .....	72
4.2	‘WHOLE OF GOVERNMENT’ ISSUES .....	72
4.2.1	A ‘Whole of Government’ Perspective .....	72
4.2.2	Comparisons Between Agencies .....	73
4.2.3	Total Asset Management (TAM) Compliance .....	74
4.3	BACKLOG MAINTENANCE .....	76
4.3.1	Background.....	76
4.3.2	Comment .....	77
4.4	HERITAGE MAINTENANCE .....	78
4.4.1	Background.....	78
4.4.2	Heritage Requirements .....	78
4.4.3	Comment .....	80
4.5	STRUCTURES OF MAINTENANCE CONTRACTS .....	82
4.5.1	Introduction .....	82
4.5.2	Regional Contracts .....	82
4.5.3	Cross Agency Contracts .....	84
4.5.4	Other Proposed Contracts .....	87
4.6	NEW DEVELOPMENTS.....	88
4.6.1	Private Financed Projects (PFP).....	88
4.6.2	Social Infrastructure and PFP .....	88
4.6.3	Comment .....	89

## APPENDICIES

1	List of Submissions
2	Hearings and Witnesses
3	Performance Contracting
4	An Alternative Maintenance Approach: The New Zealand Ministry of Education
5	Department of Corrective Services Maintenance Standards
6	List of Key Performance Indicator for the Regional Pilot



# FOREWORD

## RATIONALE

The NSW Government deploys about \$115 billion of assets for the provision of public goods and services and spends an estimated \$2 billion annually on maintenance of these assets. Although significant scrutiny is given to asset purchases, as large capital expenditures, the maintenance costs over the life of an asset can, in many cases, exceed the capital cost. The Department of Public Works and Services submits that maintenance costs for a typical asset over its life are around 35% of its total costs including capital procurement, operating and disposal.

Given this level of expenditure, effective maintenance management is a critical factor in achieving appropriate outcomes for government assets, and in turn, meeting government objectives and service obligations.

Traditionally, maintenance management in the public sector has been cyclical. However, in line with international trends, the NSW Government's maintenance management is generally shifting towards an outcomes based approach linked to each agency's service delivery strategies.

Outcomes based maintenance planning is about being *less prescriptive about how* a building may be maintained but *more specific about the acceptable condition* of a building that is required to sustain its service function.

The significance of government maintenance expenditure and this recent shift in approach to maintenance management are the two driving factors for this report.

## PURPOSE OF REPORT

The purpose of this report is to provide a snapshot of building maintenance trends and the status of building maintenance management in key NSW agencies. The report does not cover all agencies in detail. The Committee has focused on social infrastructure agencies whose building assets enable the delivery of government services.

The terms of reference for the inquiry have been to look at 'best practice' examples of building maintenance services, maintenance strategies and allocations of resources relating to these services, and the application of relevant policies.

The Committee has examined maintenance management techniques to establish how the NSW Government is performing and what future directions and reforms should be explored.

The Committee looks forward to the Government's response to its recommendations.

Diane Beamer MP  
**Chairman**



## ***FINDINGS AND RECOMMENDATIONS***

Recommendations 1 to 5 detail 'whole of government' initiatives to collate information concerning common maintenance issues facing agencies.

### **FINDING**

The Committee has looked at a variety of new approaches being used in 'best practice' maintenance management in NSW, Australia and overseas.

The Committee has found that the NSW agencies it has examined have all improved upon their historical maintenance arrangements and that the maintenance reforms taking place are consistent with 'best practice' principles. Whilst there is no 'one size fits all' maintenance approach, the Committee sees there are 'best practice' principles should be extended across all NSW agencies.

The Committee concludes that there needs to be a 'whole of government' perspective on maintenance to assess these improvements collectively, and recommends a program of projects to facilitate this.

### **RECOMMENDATION 1- 'Whole of government' program for maintenance**

**That a 'whole of government' program examining agency maintenance issues is required and should be directed by the Government Asset Management Committee (GAMC). The components of this program make up Recommendations 2 to 5.**

### **FINDING**

The Committee has found that measures need to be established to comparatively assess these new approaches against each other to enable a 'whole of government' perspective.

### **RECOMMENDATION 2 – Comparative performance of maintenance**

**That GAMC direct DPWS to consult with agencies to develop indicators that enable comparison of maintenance approaches between agencies and also comparisons with agencies in other jurisdictions, to inform the 'whole of government' maintenance program.**

### **FINDING**

The Committee has found that the compliance with TAM (Total Asset Management) requirements, including maintenance planning, varies between agencies. However, agencies that may not be complying with TAM are nevertheless making significant 'best practice' reforms in their maintenance management. The Committee feels that the reasons for poor compliance need to be identified.

### **RECOMMENDATION 3 – Compliance review of TAM**

**That GAMC oversight an investigation of agency compliance with TAM requirements, to identify the level of compliance and the reasons for non-compliance.**

## **FINDING**

The Committee has found that the quantum and impact of backlog building maintenance across agencies should be estimated and examined.

### **RECOMMENDATION 4 – Backlog maintenance**

That GAMC direct a ‘whole of government’ assessment of backlog maintenance which:

- Estimates the value of backlog maintenance and its future cost implications;
- Identifies the causes such as OHS liabilities or heritage requirements and also the sources of backlog such as inadequate funding, ineffective maintenance systems or structures, or inadequate matching of service demands to each agency’s supply capacity;
- Identifies the relevant service delivery impact of backlog maintenance to determine priority areas and possible rationalisation of backlog maintenance classifications and valuations;
- Examine whole of government strategies for backlog maintenance management and identification of possible preferences for structures of maintenance management. This may include changes in budget approaches and policy directives on maintenance management structures.

## **FINDING**

The Committee has found that the impact of heritage requirements for building maintenance across agencies should be examined.

### **RECOMMENDATIONS 5 – Heritage maintenance**

That GAMC direct a ‘whole of government’ assessment of the heritage building maintenance which:

- Distinguishes, where appropriate, ‘heritage’ building maintenance obligations from general maintenance requirements and backlog or deferred maintenance assessments.
- Estimates the future costs of ‘heritage’ building maintenance for the public sector taking into account:
  - a) Recent statutory heritage building maintenance requirements and heritage valuation and related administration costs for agencies;
  - b) The proposed Ministerial Principles and Heritage Council Guidelines for State owned heritage properties including any changes to agency reporting requirements;
  - c) Considers whole of government strategies including agency financing and budget approaches for addressing heritage building maintenance requirements; and
  - d) That the heritage maintenance assessment be in conjunction with the assessment of backlog maintenance

The Committee includes Recommendation 6 to 9 with specific reference to structuring of maintenance contracts or maintenance projects that:

- benefit regional development (Recommendation 6);
- share resources between agencies (Recommendation 7); and
- involve tendering processes and private financing arrangements (Recommendations 8 and 9).

**FINDING**

The Committee supports efforts to enhance regional development. However the Committee has found that it is difficult to establish and measure the benefits and costs associated with structuring agency maintenance contracts to promote regional development.

The Committee believes that the primary determinant for the structure of a maintenance contract should be the capacity of that contract and contractor to provide effective service delivery. Constraining the structure of contracts to a regional level to promote regional development is not appropriate if it significantly compromises value for money outcomes for the agency.

**RECOMMENDATION 6 – Regional maintenance contracts**

**That ‘regionally’ structured contracts adopted by agencies to promote regional development should be transparent, and that benefits and costs accruing to agencies and to the regions should be distinguished and monitored.**

**FINDING**

The Committee has found that cross agency maintenance arrangements, that include urgent or unplanned maintenance, are likely to have significant risk and associated cross subsidies, which can counter potential benefits and compromise accountability. This concern appears to undermine agency’s willingness to participate in cross agency arrangements.

Cross agency maintenance arrangements might be more attractive to agencies where they focus on low risk, planned maintenance activities that are common to agencies, such as heritage or OHS regimes.

**RECOMMENDATION 7 –Cross agency maintenance contracts**

**That the DPWS policy services consider piloting a regional cross agency ‘heritage maintenance’ contract arrangement.**

**RECOMMENDATION 8 – Tendering of DPWS projects**

**That ‘whole of government’ policy projects developed by the DPWS should be put to competitive tender for project management.**

**FINDING**

The Committee believes that specifying maintenance outcomes is critical to ensure service objectives will be met in new private financed projects.

**RECOMMENDATION 9- Maintenance specification in private financed projects**

**That the Government's assessments of new privately financed projects (PFP) include a specified maintenance regime articulated against service objectives of the relevant agency.**

# CHAPTER ONE – INTRODUCTION

## 1.1 THE PUBLIC WORKS COMMITTEE

The Standing Committee on Public Works was originally established in New South Wales in 1887. Its operations were suspended in 1930.

It was re-established by Motion of the Legislative Assembly on 25 May 1995 with the following Terms of Reference:

*That a Standing Committee on Public Works be appointed to inquire into and report from time to time, with the following terms of reference:*

*As an ongoing task the Committee is to examine and report on such existing and proposed capital works projects or matters relating to capital works projects in the public sector, including the environmental impact of such works, and whether alternative management practices offer lower incremental costs, as are referred to it by:*

- *the Minister for Public Works and Services, or*
- *any Minister or by resolution of the Legislative Assembly, or*
- *by motion of the Committee.*

The Standing Committee on Public Works absorbed the functions of the Standing Committee on the Environmental Impact of Capital Works, established during the 50<sup>th</sup> Parliament.

The terms of reference were renewed on 3 June 1999.

The Committee comprises seven members of the Legislative Assembly:

- Ms Diane Beamer MP, (ALP) Chairman
- Mr Matthew Brown MP, (ALP) Vice Chairman
- The Hon. Peter Collins MP (Liberal)
- Mr Paul Gibson MP (ALP)
- Mr Adrian Piccoli MP (National)
- Mr Richard Torbay MP (Independent)
- Mr Graham West MP (ALP)

(Mr Torbay replaced Mr Windsor by Motion of the House on 18 October; The Hon Peter Collins replaced Mr George by Motion of the House on 20 March 2002; and Mr West replaced Mr Hickey by Motion of the House on 9 April 2002)

The Parliament's intended role for the Committee was detailed in a speech given to the Parliament by the Hon Paul Whelan, Minister for Police and Leader of the Government in the House, on 25 May 1995:

*The Committee may inquire into the capital works plans of State-owned corporations and joint ventures with the private sector. The Committee*

*will seek to find savings in capital works programs whilst achieving a net reduction in environmental impacts by public sector developers. The Committee's work is expected to provide incentives to the public sector to produce more robust cost-benefit analyses within the government budgetary process and to give more emphasis to least-cost planning approaches. The Committee will be sufficiently resourced to enable it to conduct parallel inquiries into specific projects and capital works programs generally.... it will have sufficient resources to inquire into the capital works program of all government agencies whose capital works programs affect the coastal, environmental and transport sectors.*

In the Fifty-First Parliament, the Committee examined health, education, Olympics, waterways and transport infrastructure as well as urban and environmental planning issues. It also investigated the development and approval processes for capital works procurement across the public sector.

In the current Parliament, the Committee has tabled seven reports:

- *Report on Capital Works Procurement* (Report No.1, September 1999).<sup>1</sup>
- *Report on the 2000 National Conference of Parliamentary Public Works and Environment Committees*
- *Lake Illawarra Authority and School Facilities Reports: Follow-up Inquiry Report*
- *Report on the National Conference of Parliamentary Public Works and Environment Committees 1999, Hobart, Tasmania*
- *Inquiry into Infrastructure Delivery and Maintenance: Vol 1 - Report on Office Accommodation Management*
- *Inquiry into Infrastructure Delivery and Maintenance: Vol 2- Report on Land Fleet Management*
- *Sick Building Syndrome Report*

**Currently, the Committee is conducting the following inquiries:**

- Infrastructure Delivery and Maintenance<sup>2</sup>
- Government Energy Targets.

## **1.2 BACKGROUND AND TERMS OF REFERENCE**

### **The Infrastructure Delivery and Maintenance Inquiry Reference**

In June 1999, the Committee received the following reference from the Minister for Public Works and Services, the Hon Morris Iemma MP:

---

<sup>1</sup> This Report represents Volume II of a joint inquiry in the Fifty-First Parliament with the NSW Public Bodies Review Committee into the Provision of Goods and Services and the Delivery of Capital Works in the NSW Public Sector. The draft Report was carried over to the Fifty-Second Parliament by a motion of the Legislative Assembly of 29 June 1999, which referred all documents and proceedings of Committees of the Fifty-First Parliament to current Committees.

<sup>2</sup> The Infrastructure Delivery and Maintenance inquiry constitutes multiple reports including Government Office Accommodation and Property Services (released), Land Fleet (released), Asset Maintenance Systems (current inquiry), and the Role and Performance of the Department of Public Works and Services

*The Committee will examine and report on the acquisition and maintenance of building and infrastructure, with focus on the provision of management and technical services to government agencies and bodies, addressing:*

- 1. Examples of best practice in the provision of these services that have reduced unnecessary bureaucracy and real costs; and produced quality work on time and on budget;*
- 2. The strategies and allocations of resources by each agency or body for those services, whether provided in-house or by outside expertise;*
- 3. Areas of overlap and duplication across government agencies and bodies;*
- 4. The optimal utilisation of the available expertise; and*
- 5. The application of government policies.*

Given the scope of this reference, the Committee decided that the most effective approach would be to divide the inquiry into a number of discrete tasks, which would be subject to separate reports. Each report would address a specific issue in the light of the criteria determined by the terms of reference.

In July 2000, the Committee tabled its first report in this series, which focused on the provision of Office Accommodation Services<sup>3</sup>.

In March 2001, the Committee tabled its second report, titled 'Land Fleet Management', which examined the usage of heavy plant and equipment by select agencies<sup>4</sup>.

This report, the third in this series, examines building maintenance procedures for key government agencies with large property/building portfolios.

### **The Government Building Maintenance Inquiry Reference**

As noted above the Committee's general terms of reference includes the examination of maintenance of building and infrastructure across all sectors. NSW Government property ownership encompasses a variety of infrastructure types including transport and utilities infrastructure, significant portions of NSW land and diverse portfolio of buildings.

The Committee considered that there were common building maintenance requirements across some key government agencies that could be looked at collectively and would benefit from comparison. Infrastructure like roads, railway systems, dams, ports, sewerage plants etc were excluded by the Committee because of their specific, technical maintenance requirements which mean that they are unlikely to have compatible maintenance needs that have a 'whole of government' application. Vacant land holdings also have very different maintenance requirements and were also excluded from this report.

---

<sup>3</sup> Inquiry into Infrastructure Delivery and Maintenance: Volume 1 - Report on Office Accommodation Management, Report No. 52/3, July 2000.

<sup>4</sup> Inquiry into Infrastructure Delivery and Maintenance: Volume 2 - Report on Land Fleet Management, Report No. 52/6, March 2001.

The following terms of reference was subsequently agreed to by the Committee on 8 March 2001 :

---

**GOVERNMENT BUILDING MAINTENANCE INQUIRY**

**TERMS OF REFERENCE**

*To examine the provision of best practice building maintenance services in both the private and public sector, and the applicability of these models to the NSW public sector. In particular the inquiry will address:*

1. *Examples of building maintenance services for particular property types that are consistent with the Government service objectives, have reduced unnecessary bureaucracy and real costs, and produced quality work on time and on budget;*
  2. *The strategies and allocations of resources by each agency or body for those maintenance services, whether provided in-house or by outside expertise;*
  3. *The application of government policies; and*
  4. *Any other relevant matters*
- 

### **1.3 METHODOLOGY**

As noted in the terms of reference, the Committee's focus has been to consider 'best practice' building maintenance techniques and their application in NSW context. The Committee therefore canvassed new developments in maintenance management and existing arrangements in NSW.

Three inspection visits were undertaken:

- Albury and Griffith Regions, NSW on May 10-11, 2001;
- Wellington and Auckland, New Zealand on May 16-18, 2001; and
- St Clair, Liverpool, and Macquarie Fields, Western Sydney, NSW on June 15, 2001.

In May 2001 the Committee advertised for submissions from the public. It also sought specific information on building maintenance arrangements from relevant agencies through requests for submissions and meeting with agency officers (Appendix 1 – List of Submissions). Finally the Committee held public hearings on 29 June and 22 August 2001 with selected witnesses to clarify and expand upon particular issues (Appendix 2 -List of Hearings and Witnesses).

The next Chapter provides a detailed overview of building maintenance issues, concepts and policies, by way of background to the report and general information.

# CHAPTER TWO – BUILDING MAINTENANCE OVERVIEW

## 2.1 THE SIGNIFICANCE OF BUILDING MAINTENANCE

The NSW Government deploys about \$115 billion of assets for the provision of public goods and services and spends an estimated \$2 billion annually on maintenance of these assets<sup>5</sup>. Although significant scrutiny is given to asset purchases, as large capital expenditures, the maintenance costs over the life of an asset can also be considerable.

In many cases the maintenance costs on typical assets can exceed the capital cost. The Department of Public Works and Services<sup>6</sup> submits that the breakdown costs for a typical asset over its life are:

- Capital procurement: \_\_\_\_\_ 20%
- Maintenance: \_\_\_\_\_ 35%
- Operating: \_\_\_\_\_ 40%
- Disposal: \_\_\_\_\_ 5%

Given this level of expenditure, effective maintenance management is a critical factor in achieving appropriate outcomes for government assets, and in turn, meeting government objectives.

Traditionally maintenance management in the public sector has been cyclical, designed around the buildings' lifecycles, statutory requirements (such as occupational health and safety standards), as well as agency budget allocations. These programs have usually been quite prescriptive: defining tasks, inputs and time frames such as requiring replacement of parts or repainting at set periods.

However in line with the international trends, the NSW Government's maintenance management is generally shifting towards an outcomes based approach linked to agency's service delivery strategies.

Outcomes based maintenance planning shifts the focus from means to ends. It is about being less prescriptive about how a building may be maintained but more specific about the acceptable condition of a building that is required to sustain its service function. For example, an outcomes based approach would not prescribe how frequently a building may need to be repainted but would define an unacceptable level of deterioration at which a repainting program should be initiated.

The significance of government maintenance expenditure and this recent shift in approach to maintenance management are the two driving factors for this report.

---

<sup>5</sup> NSW Treasury Circular, Guidelines for Capitalisation of Expenditure in the NSW Public Sector, June 2000.

<sup>6</sup> Department of Public Works and Services, Draft Submission August 2001, page 2

The Committee has examined maintenance management techniques to establish how the NSW Government is performing and what future directions and reforms should be explored.

## 2.2 SCOPE OF THE “BUILDING MAINTENANCE” INQUIRY

### 2.2.1 DEFINITION OF BUILDINGS FOR THE INQUIRY

#### Background

There is considerable diversity in building types and management techniques within the NSW Government property portfolio. Putting aside infrastructure such as roads and land holdings, the scope of government buildings still captures a broad cross section of government services and activities such as:

- General agency accommodation – usually metropolitan head office and regional sites;
- Large agencies with multiple properties – such as schools and public housing properties;
- Properties for multi-agency use – such as shared regional offices for agencies like motor registries, Department of Community Services, State and Regional Development, and Fair Trading;
- Task specific buildings – such as hospitals, agricultural research institutes, gaols, hospitals, fire and police stations and court houses;
- Exclusive use / historic trust buildings – operated by statutory authorities or trusts such as Art Gallery of NSW, Opera House, Taronga Zoo, Olympics Complex and NSW Parliament House.

Overlaying these categories, there are three general ways that Government building maintenance are managed :

- By the lessor: when the Government is leasing property, the maintenance costs are usually the lessor’s responsibility and embedded in the terms and cost of the lease. For example, general Government office accommodation like that considered in the Accommodation Management report would be included in this category and would have maintenance costs built into the lease costs.
- By a government provider: historically, some building maintenance was provided by the public sector itself. For example up until 1995, the Government Cleaning Service was an in-house service, which provided cleaning services for most State schools and TAFEs. In-house maintenance providers are traditionally more common in major infrastructure areas such as rail and road repairs.
- By a private contractor: when the Government owns the property and contracts out its maintenance requirements. For example schools, public housing, police stations and court houses.

### Focus on Social Infrastructure Buildings

In light of this diversity in buildings, the Committee has refined its focus to agencies with significant numbers of buildings and hence large maintenance budgets such as the Departments of Education, Housing, Health, Police, and Attorney General's.

There are three key features common to these agencies:

- They are **social infrastructure** agencies, whereby their core business is service delivery;
- The majority of buildings used by the agency are **owned by the agency** (rather than leased); and
- There is the use or intended use of **private contracted maintenance** providers for these agencies.

### 2.2.2 DEFINITION OF MAINTENANCE

In this report maintenance is confined arrangements applied to buildings. Building maintenance are usually broken into 3 broad service categories :

- 'Urgent', Breakdown, Responsive or Unplanned Maintenance;
- Planned, Scheduled or Preventative Maintenance (such as that required for OHS and security purposes); and
- Backlog Maintenance (also referred to as Residual or Deferred Maintenance).

These categories reflect the 'scope of works' that is generally included in maintenance contracts. 'Scope of works' refers to the descriptions of maintenance tasks that would be specified in contracts.

From an accounting and budget perspective, NSW Treasury's Circular "Guidelines for Capitalisation of Expenditure in the NSW Public Sector", No: 00/13, denotes the current requirements for financial reporting of maintenance incorporating relevant Australian Accounting Standards and other NSW Government Guidelines

In these Guidelines, maintenance is categorised as:

- Regular Routine Maintenance – which is treated as an expense; and
- Major Periodic Maintenance – which is capitalised when it can be identified and if the maintenance enhances the asset or an asset component.

The NSW Audit Office's submission notes there are ongoing issues regarding the recognition and disclosure of maintenance costs in the financial statements of NSW agencies. The Office emphasises the need for agencies to:

conduct regular asset condition assessments at an appropriate level of disaggregation to reflect the condition of assets in their financial statements via depreciation and future capital commitments (p1).

The Committee is not examining the accounting and budget treatment of maintenance in this report. It is noted, however, that the 'scope of works' in maintenance contract arrangements often bundles various categories of

maintenance and that agencies do not generally describe maintenance in the same terminology as the Treasury's guidelines. Furthermore it is unclear in the context of backlog maintenance identified by agencies whether this is a consequence of deferring of regular routine maintenance and/or major period maintenance or a consequence of both. The Committee makes further comments on this issue in Chapter 4.

## 2.3 APPROACHES TO BUILDING MAINTENANCE

### 2.3.1 CYCLICAL MAINTENANCE PLANNING

Historically governments have generally operated maintenance arrangements on a cyclical basis. Cyclic maintenance involves scheduling of maintenance tasks on a periodic basis: monthly, yearly etc. Work is usually determined by an inspection at the beginning of each cycle and little maintenance is carried out between cycles. Under a cyclic system, maintenance could be planned and budgeted from year to year. Some level of emergency repairs service to cover urgent items would usually complement a cyclic plan.

Although cyclic maintenance plans vary in sophistication, little attention is given to how the plan matches agency objectives. For example, repairs may proceed on a building unnecessarily even though agency objectives have changed or the building is scheduled for disposal or vacancy.

Cyclic maintenance planning may also be limiting in terms of building functionality. For example, generally repainting of buildings would be scheduled to coincide with predicted deterioration rates. However there is little scope in a cyclical arrangement to vary the timing of a task or divert funds to an alternative task, if the repaint is not actually required. Contractor schedules, supply costs and the scale of contract mean that little flexibility is made available under cyclic arrangements to respond to these variations in needs.

Cyclic maintenance has been the dominant historical strategy for NSW agencies. The Department of Public Works and Services (DPWS) notes that cyclic maintenance has proven relatively successful but maintains that:

...in economies of increasingly scarce resources and greater demands, this [*cyclic*] strategy may not be sustainable. One of the shortfalls with a cyclic approach is the tendency for some of the elements to be over serviced, whilst others are under maintained. Other disadvantages include maintenance of more critical elements may be delayed too long resulting in greater cost and/or earlier replacement and end users may be frustrated with the delay in having maintenance undertaken.

It must be noted that cyclic maintenance activities are appropriate for certain maintenance requirements. Occupational health and safety regulations and other legal requirements call for routine checks on certain building features such as smoke alarms, fire extinguishers etc for both private and public sector buildings.

To address these requirements all government and non-government operators will always have a cyclical element within their maintenance regime. However cyclical

scheduling of remaining maintenance requirements may not be the appropriate or the most efficient and effective approach.

### **2.3.2 TRADE BASED APPROACH**

Maintenance has also been traditionally organised on a trade based approach, that is, a single trade basis that separates plumbing, carpentry, electrical contracts etc. Such arrangements might be managed with in-house resources or out-sourced to contractors with the provider on some permanent contract or on-call arrangement.

Trade based approaches have the advantage of flexibility and responsiveness to the provider and are still used by agencies particularly in specialised areas such as heritage buildings. However as pointed out by the Department of Public Works and Services there are also certain disadvantages:

- Where in-house resources are used, the government agency needs to maintain a certain level of workflow;
- Where services are contracted out, government agencies may use valuable resources in administering large numbers of small single trade contracts. This requires the agency to maintain in-house contract management expertise, which may not be the agency's core business.

Another disadvantage with the trade based approach is that most maintenance tasks and minor capital works require multiple trade persons. This involves additional costs to coordinate individual trade contractors.

### **2.3.3 FACILITIES MAINTENANCE**

Facilities maintenance is based on the holistic management of a particular site or group of sites. Planning, management and administration of maintaining a facility are integrated. There is usually a single point of contact for maintenance at the facility that coordinates contractor work on the facility.

Facilities maintenance arrangements can be applied to single government facilities, groups of facilities, whole departments or on a cross agency basis that captures a concentration of facilities within a geographic area.

### **2.3.4 BUNDLED OPTIONS**

Governments may often combine maintenance management with other requirements. These bundled options may combine maintenance and cleaning, or maintenance and minor capital works arrangements. Bundled options can fit well with achieving overall maintenance outcomes. The appropriate balancing of management of maintenance, cleaning and minor capital works can assist in minimising the life-cycle costs of a building whilst maximising the asset performance.

An extension of bundled arrangements is where the government might issue contracts for building and maintaining a facility. Arrangements might include contracts for:

- Design, construct and maintain;
- Build and maintain; or
- Build, operate and maintain.

The advantage of bundled options is that, because the contractor is responsible for maintenance costs, there is a significant incentive to deliver a better design that minimises maintenance costs, reduces administration costs and encourages innovation.

With bundled options, as for any other contracted task, specification of who is responsible for what elements of work and what standards the agency requires are critical to the effectiveness of the maintenance regime. As noted by the Department of Public Works and Services:

A key success factor for these types of contracts, however, where responsibility for work is assumed entirely by the contractor, is that the government agency must be able to define the maintenance outcomes it requires over the period. If the brief is not precise, there is potential for large variations and rectification work or work that is below an anticipated standard.

### 2.3.5 PRIVATE/PUBLIC PARTNERSHIPS

A further option for Governments is the use of public private partnerships (PPPs) to deliver government services. For some time PPPs have been utilised by governments for heavy infrastructure projects such as roads, railways, and power generation. More recently in the last 5 years, governments in Australia and overseas have extended consideration of PPP to the provision of social infrastructure such as hospitals and schools.<sup>7</sup>

Private sector funding of projects in NSW over the last ten years accounted for around 7 per cent of the State's capital budget. The NSW Government is currently considering the feasibility of extending PPP arrangements into social infrastructure.

There are various forms of PPPs such as<sup>8</sup>:

- Bundled options ( build, operate, maintain etc) where ownership of the facility is retained by the private sector, permanently or on a long term lease;
- Joint ventures and alliance contracts whereby partnership agreements are entered into by public and private sector and responsibility for project outcomes is shared. Joint ventures are usually short term projects. Alliance contracts are considered for long term arrangements. Incentives to encourage and reward

---

<sup>7</sup> The United Kingdom has an extensive program of PPPs (known as Private Finance Initiatives –PFIs) across a significant range of government activities. At December 1999 agreements for over 250 PFI projects had been signed by central and local government for procurement of services including roads, rail, hospitals, prisons, office accommodation and IT systems. These projects had an aggregate capital value of approximately 16 billion pounds. (*Value for Money Drivers in the Private Finance Initiative* – Report by Authur Anerson and Enterprise, commissioned by the Treasury Taskforce, January 2000)

<sup>8</sup> For information see Appendix 2: Description of Private Sector Arrangements in *Working with Government : Private Financing of Infrastructure and Certain Government Services in NSW*, NSW Government Nov 2000.

outstanding performance are included along with strong financial penalties for performance failure are included in alliance structures.

- Government office space leasing and long term service provision contracts are other forms of PPP that governments can consider.

Although PPPs have the attraction of supplementing government (and hence public) monies for certain projects at a particular time, it does not represent a replacement for government funding. All projects are ultimately funded, either through the incurrance of future lease liabilities for the government (and hence public) or direct charges on the affected public users (such as road tolls). Where public assets are sold by the government and then services or the facilities are leased back, the government effectively loses the equity in that asset.

The key advantage of PPPs is the immediate access to private finance and the potential to generate savings by delivering services more efficiently than a traditional public provider. The public resources saved through PPPs efficiencies can be redirected to other government priorities thereby benefiting the public interest.

Under PPP arrangements, the responsibility for maintenance lies with the contractor to ensure that the facility is maintained to the appropriate standard. This encourages the operator to optimise the design and construction of the project to reduce maintenance costs and to use innovative maintenance practices. As with bundled arrangements the key factor to ensure maintenance quality is accurate maintenance standard setting by the government.

## **2.4 NSW ASSET MANAGEMENT POLICY**

### **2.4.1 BACKGROUND – TOTAL ASSET MANAGEMENT (TAM)**

In 1993 the NSW Government's Total Asset Management (TAM) framework by the Department of Public Works and Services was released. The TAM framework is under continuing revision and refinement as practices and procedures change – a CD ROM version of TAM was released in 2001.

Broadly speaking, TAM involves a fundamental change in the way assets are considered by governments. The TAM manual attempts to shift focus from the traditional asset creation and capital investment mode of operations to the management of assets from a whole-of-life and system-wide view, including the adoption of uniform management practices, standards and forms of accounting.

TAM is defined as the sum of all those activities that are appropriate to the cost-efficient delivery of government services. Those activities have the following strands:

- Identification of the need for the asset;
- Provision of the asset including its refurbishment;
- Operation of the asset including its maintenance;
- Disposal and thus the effective removal of the asset from an agency's portfolio.

In this context, asset requirements are driven by government agencies' business/service needs and not viewed as a need in themselves. This ensures

capital resources are properly allocated and managed to maximise the return on investment.

The TAM has three components:

- A **Corporate Plan** for an agency that is the starting point for identifying community demand and how best to meet it.
- A **Service Strategy** that represents the translation of the community's demands or expectations into service needs and the best strategies to meet them. The Service Strategy must include or have direct relevance to the business development plan, finance plan, human resources plan, technical resources plan, etc.
- The **Asset Strategy** provides the framework for managing agencies' asset portfolios. The framework should clearly identify and focus the short and long-term rationale in terms of asset needs.

The **Asset Strategy** has four sub-elements:

- The *Capital Investment Plan*
- The *Asset Maintenance Plan*
- The *Asset Disposal Plan*
- The *Strategic Office Accommodation Plan*

The *Asset Maintenance Plan* is the planning element relevant to this report.

## 2.4.2 THE TAM ASSET MAINTENANCE PLAN

The Asset Maintenance Plan, as described by the TAM Manual, is aimed at ensuring that assets remain productive at the lowest possible long term cost.

Each agency's plan should involve:

- A detailed functional analysis of maintenance needs that will allow assets to meet the required service delivery outputs;
- The development of maintenance strategies; and
- The institution of procedures to ensure adequate control of the implementation of the maintenance plan.

Guidance for government agencies in preparing this plan is included in TAM 2000, which was developed by DPWS in partnership with the Government Asset Management Committee on behalf of the NSW Government. The Guideline outlines a seven step process of :

- 1 Define and segment assets to meet the service delivery strategy
- 2 Determining required asset performance
- 3 Define maintenance resources and overall strategies
- 4 Assess condition of assets and recommend maintenance action
- 5 Assess maintenance costs
- 6 Implement maintenance plan
- 7 Monitor and review maintenance plan

### **2.4.3 COMPLIANCE AND SCRUTINY OF TAM AND THE ASSET MAINTENANCE PLAN**

The adoption and implementation of TAM, including the subordinate Asset Management Plans, throughout the public sector is monitored as part of the overall process of capital works planning and implementation in NSW. Responsibilities of agencies and agency groupings are clearly defined in the New South Wales Government's *Total Asset Management Manual*.

#### **Agency requirements**

Each service agency is responsible for the ongoing maintenance of its assets.

Agencies with assets bases in excess of \$5 million replacement value are required, as part of the budget process, to develop an Asset Maintenance Plan, as part of their Annual Asset Management Strategy. Treasury reviews these plans prior to submission to the Budget Committee as part of the Capital Investment development process for the forthcoming financial year.

Agencies must also report their maintenance strategies and achievements in their Annual Report.

#### **NSW Treasury requirements**

NSW Treasury has issued Guidelines for the Capitalisation of Expenditure in the NSW Public Sector, latest revision at June 2001. The Guidelines provide the appropriate accounting treatment for capital and maintenance expenditures incurred by NSW agencies consistent with Australian Accounting Standards.

The guidelines require that all agencies develop Maintenance Plans as well as defining and classifying certain maintenance expenditures. A key issue is that given there is limited capacity to increase overall funding within the State Budget, maintenance of existing assets should take precedence over the acquisition of new assets.

Some issues that Treasury might examine when reviewing maintenance plans are:

- Does the maintenance strategy and methodology appear effective in achieving service objectives?
- Do cost estimates/maintenance standards appear comparable with industry standards?
- Is the proposed work priority justified by detailed analysis?
- Does the proposed level of funding exceed present maintenance allocations?

### **2.4.4 DEPARTMENT OF PUBLIC WORKS AND SERVICES REQUIREMENTS**

The DPWS reviews the asset maintenance plans of both budget dependent and non-budget dependent agencies as part of the review of their asset management strategies. The DPWS operates on behalf of the Government Asset Management Committee.

The review looks for consistency with service delivery strategies and effective linkages with Capital Investment, Asset Disposal and Asset Accommodation Strategic Plans.

#### **2.4.5 FURTHER ROLES OF THE DEPARTMENT OF PUBLIC WORKS AND SERVICES**

In its submission to the inquiry the DPWS identified three key roles:

- 1 developing ‘whole of government’ policy and guidelines on total asset management (TAM), government accommodation, procurement construction and capital projects;
- 2 providing independent expert advice;
- 3 delivering a range of technical and business services on a fee for service basis.

In relation to maintenance, the DPWS highlights two of these roles: its ‘whole of government’ policy development, and its commercial services role.

##### **• ‘WHOLE OF GOVERNMENT’ ROLE – POLICY**

The ‘whole of government’ role relates to policy development of asset management and construction procurement. This role is performed by the Policy Services Division and is undertaken in association with the Government Asset Management Committee and the Construction Policy Steering Committee.

The DPWS is an advisor and scrutineer of agencies’ TAM compliance. The DPWS reports on the quality of compliance to the agency, Treasury and GAMC who may then consider changes to improve compliance. The DPWS Commercial arm can help agencies develop an improvement plan on a fee for service basis.

##### **• DPWS MAINTENANCE SERVICES - COMMERCIAL**

The DPWS can also provide government agencies with a range of contestable maintenance services on a fee-for-service basis which includes:

- strategic planning, essential repairs service, contract management;
- program management, asset management systems; and
- project management, risk management.

The Essential Repairs and Service (ER&S) is offered to Government agencies to assist them with their building repair needs. Government agencies contact the ER&S call centre which is open 24 hours, 7 days and specify the level of service required. The DPWS then identifies a contractor from a panel of pre-tendered contractors who are engaged to undertake the work.

Current agencies using the Service include:

- State Rail Authority
- Department of Sport and Recreation
- National Parks and Wildlife Service
- Attorney General’s Department

The DPWS argues that ER&S provides a range of advantages to agencies including:

- ease of access and probity through the use of pre-tendered contractors in areas such as electrical plumbing and minor repairs;
- reducing duplication and increasing efficiency across government by reducing time spent seeking quotes, selecting tenders and issuing contracts, and scrutiny of invoices, site audits and dispute resolution services.

The DPWS' submission also highlights its role in the development and management of various maintenance projects and reforms such as the Schools Facilities Maintenance Contracts for the Department of Education and the cross agency regional maintenance pilot in the Riverina (referred to in this report as the cross-agency pilot). Each project is described in Chapters 3.1 and 3.10 respectively.

These projects in turn highlight the DPWS' dual role in policy development and improving asset management practices and as a provider of commercial services. The Committee's observations regarding DPWS roles and activities are discussed further in Chapter 4.

## **2.5 A GENERAL FRAMEWORK FOR MAINTENANCE MANAGEMENT**

Approaches to building maintenance management in both the private and public sector are constantly evolving and increasingly more sophisticated.

In the private sector, maintenance management is integrated with project management and facilities management. In the public sector, maintenance management systems must also be integrated with overarching policy objectives.

Although there are differences in specific approaches being utilised across governments and private industry, some common elements are apparent. These elements or stages reflect intuitive questions that any agency or organisation must answer to construct an effective maintenance management system. Put simply these questions are<sup>9</sup>:

### ***CORE QUESTIONS FOR BUILDING MAINTENANCE MANAGEMENT:***

1. WHAT BUILDINGS DO WE HAVE?
2. WHAT BUILDINGS DO WE NEED AND WHY?
3. WHAT IS THE CONDITION OF THE CURRENT BUILDINGS?
4. WHAT CONDITIONS ARE REQUIRED FOR THOSE BUILDINGS TO PERFORM THEIR FUNCTION?

---

<sup>9</sup> The questions above represent a simplification and synthesis of several key asset management documents including: International Infrastructure Management Manual, Australia/New Zealand Edition April 2001, New Zealand National Asset Management Steering Group and Institute of Public Works Engineering of Australia; Institute of Public Works Engineering Australia (NSW Division) and AUS-SPEC Joint Submission (No. 8), June 2001; NSW DPWS TAM Manual.

5. WHAT MAINTENANCE REGIME IS REQUIRED TO SUSTAIN THESE CONDITIONS?
6. WHAT MAINTENANCE CONTRACT IS SUITABLE?
7. IS THE MAINTENANCE CONTRACT WORKING?

Given historical approaches to maintenance, few governments including the NSW Government, have had the immediate capacity to respond to these questions without considerable research, modernising, and the establishment of certain management tools and systems. Outlined below are the tools and issues governments must consider in their maintenance framework.

### **2.5.1 WHAT BUILDINGS DO WE HAVE?**

Up to date information on the precise values and sizes of agency portfolios is an essential requirement for constructing an effective asset management system.

An **asset register** is the core tool to record the quantum, value and characteristics of an agency's building portfolio. The asset register becomes the basis on which other asset management systems such as a capital works program can be developed and integrated.

All NSW agencies have some form of basic asset register for accounting and budgeting purposes. However the detail of information varies considerably across agencies. The different nature of agencies will mean that asset registers will not be identical, however, there are common information requirements for whole of government management that should be included.

Key information in an asset register should include items such as:

- Service delivery functions and operational data
- Property title information, physical properties and technical data
- Financial information - valuations, depreciation
- Maintenance data and capital and minor works history
- Heritage significance/ environmental characteristics

Development, maintenance, and data collection for computer/database registers can be costly. A major important issue is the dedication of resources to update the asset register on a regular basis to reflect asset changes, purchases and disposals. New technologies such as computer database products are available to create register infrastructure such as CAMSYS designed by the NSW Department of Public Works and Services. In addition Geographic Information Systems, Global Positioning Systems, Data Loggers (such as lap tops and palm books) and compact disc technology are tools that can record data to feed into registers.

### **2.5.2 WHAT BUILDINGS DO WE NEED AND WHY?**

The roles and functions of an agency have to be understood in order to identify what purpose and needs are being fulfilled by its building assets. In many case agencies may own building assets that are ill suited to their current needs. Such assets may be

part of the building stock but are not connected with the agency functions. For example a building may require maintenance for heritage reasons but is quarantined from active use such as holding cells in older police and court buildings that are unsuitable for today's security and supervision requirements.

It is therefore vital that an agency has an accurate picture of its building portfolio through an asset register so it can begin to assess what it should actually have and why. The key task required is to relate the asset to the service delivery role of the agency. The same rationale is applied in asset management in the private sector where the relationship of assets to the output or product is examined.

Policies on agency roles and methods for service delivery are rarely static so the articulation of an agency's objectives can be complex, particularly when service delivery has a quality component.

Even though maintenance issues can be quite tangible, in terms of the observable deterioration of buildings, it remains difficult to assess at what point that buildings and their standards of maintenance actually influences the service delivery outcomes. For example, how and at what point, does repainting of hospital wards impact on health care outcomes?

When considering building use, the general asset management plan is also important. Care must be taken to match maintenance planning with long term building acquisition and disposal plans. For example, NSW public housing planning has to encompass future demand for dwellings and current mismatches in location of dwellings.

Technical innovations must also be taken into account when looking at maintenance planning. On the one hand, buildings themselves may be deemed as obsolete in light of electronic delivery/ online government initiatives which might replace the need for physical services, for example, on-line licensing capacity replacing administration centres. In other instances advance technology may require specialist building design and fit-outs such as in hospitals and research institutions. In such cases specialist maintenance regimes might be required.

### **2.5.3 WHAT IS THE CONDITION OF CURRENT BUILDINGS?**

An assessment of the condition of the agency portfolio is an essential component to determining maintenance needs. As either an adjunct to the asset register or as a separate exercise, a *condition survey* is essential.

*Condition surveys* can take considerable time, cost and staff resources particularly for large agencies, for example, the NSW Department of Housing has 130,000 properties. The design of a survey must include some objective measurement and classification system so that information is consistent and can be standardised, particularly when information is collected from many officers.

Buildings should be examined and maintenance needs defined and categorised into areas such as backlog maintenance, planned and unplanned maintenance, minor repairs or minor capital works. The ranking of maintenance requirements will be

influenced by criteria such as legislative OHS requirements and those needs which are critical to service functions.

The *condition survey system* is used repeatedly within the maintenance regime. It is the mechanism to monitor future maintenance performance. Hence establishment of effective computer systems, data procedures and forms, and staff training are all necessary.

#### **2.5.4 WHAT CONDITIONS ARE REQUIRED FOR THOSE BUILDINGS TO PERFORM THEIR FUNCTION?**

Once a picture of current condition of assets is known through a condition survey, the next step is to evaluate these conditions against some kind of benchmark. An evaluation must recognise the link between asset conditions and service function of the asset.

DPWS points out that an asset will have many attributes that contribute to the achievement of service function. These might include availability, security, hygiene, comfort, aesthetics and image. However maintenance of some attributes are more necessary than others, and hence will influence the maintenance planning priorities. Agency staff and client consultation is integral to determining end user needs.

For example, air quality control is more critical in an operating theatre than in a hospital ward, whilst lighting levels for reading are more critical in a classroom than in school corridors. As for the condition survey, determining these asset standards and their priority can be time consuming and difficult.

For example in the NSW Department of Housing with over 130,000 properties, has identified 100 components of a standard property that need to be surveyed. Each standard of safety, function or finish is individually measured against benchmarks of: a) meeting; b) nearly meeting; or c) failing to meet the standard.

Once benchmarks are determined they can be reconciled with the condition survey. This is often termed a *condition audit*. The audit provides the agency with an effective maintenance task list which becomes the basis for the specifications of the maintenance contract.

#### **2.5.5 WHAT MAINTENANCE REGIME IS REQUIRED TO SUSTAIN THESE CONDITIONS?**

The maintenance task list, drawn from the condition audit, should be structured into various maintenance components such as urgent, planned, and backlog components as noted in Section 2.2.2. Costs, timeframes and resources to execute tasks can be projected recognising requirements such as council permits and environmental approvals, hazard protocols for certain works (such as asbestos removal or high noise tasks), and asset lifecycle plans.

Supporting maintenance infrastructure should also be considered such as the need for call centres for reporting maintenance requirements from agencies or clients directly (such as Department of Housing tenants or school principals) to the maintenance provider. Integration of materials suppliers into the maintenance

program is also a consideration. An agency may have established suppliers for building materials or fixtures which maintenance providers are compelled to use.

From this assessment agencies can gauge if current funds are adequate and put in place funding requests or re-allocations of funds.

### **2.5.6 WHAT MAINTENANCE CONTRACT IS SUITABLE?**

As noted in section 2.3 there are a variety of approaches and organisational structures for maintenance provision including in-house provision, cross agency arrangements and out-sourcing options.

Agencies need to determine the following in their maintenance program:

- The form – Is it best delivered in house or contracted out?;
- The scale – Should it be local, regional, whole agency, cross agency?;
- The basis– Trade based, facilities maintenance, bundled with other functions?;
- The timeframe –The appropriate length of contract period?; and
- The payment regime – By annuity, performance bonuses, or efficiency dividends?

The appropriate contract structures for an agency will depend on a multitude of issues such as the service delivery objectives, the scale and geographic dispersion of the building portfolio, and the risk assessment of maintenance requirements.

Nevertheless all contract structures should:

- Align contract with maintenance plan;
- Define the scope of the contract to particular maintenance tasks;
- Allocate risks and responsibility between contractor and agency;
- Have work order collation systems– through client reporting hotlines or officer reporting systems
- Create a schedule of rate items, if appropriate;
- Have data management systems and integration with agency systems;
- Generate contract schedules and work orders;
- Audit and record systems for work undertaken and condition maintenance;
- Have inventory control, recording and reordering;
- Specify protocols for complains and requests.
- Have performance assessment, tender management and processing systems
- Include interface of contractor with the agency and client

### **2.5.7 IS THE MAINTENANCE REGIME WORKING?**

An effective maintenance program must incorporate a performance monitoring and assessment system to enable revision of arrangements and improve maintenance.

Performance measurement indicators and systems built into the maintenance contract are one level of performance monitoring. Analysis of contract performance might be done collectively between the agency and contractor, or by a third party such as the Department of Public Works and Services, or by a third party auditor or consultant. Common techniques might be written monthly reports with photographic pictorials of works in progress, and periodic site inspections.

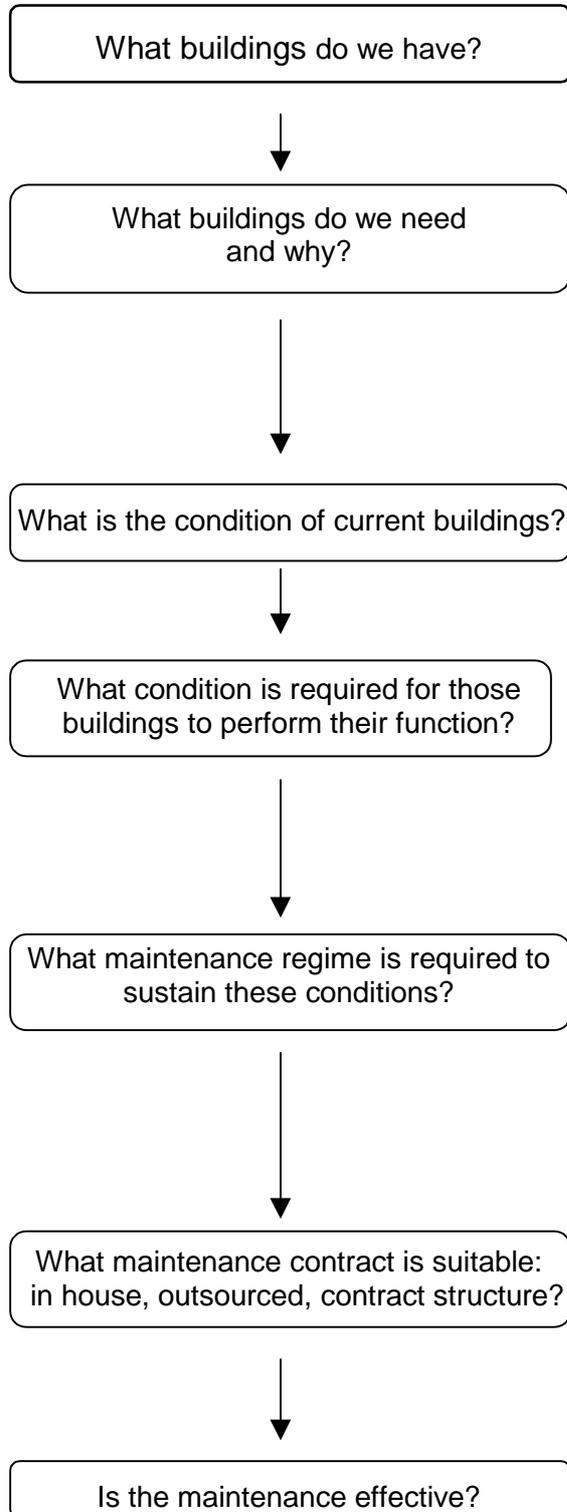
Additional mechanisms might be used to measure performance such as client satisfaction surveys and industry benchmarking. A more detailed discussion of monitoring techniques is outlined in the performance indicator section.

A summary of the framework and steps is outlined overleaf in Figure A.

**FIGURE A**

**GENERAL FRAMEWORK FOR MAINTENANCE MANAGEMENT**

**KEY QUESTIONS**



**AGENCY RESPONSE**

Establish **asset register** with details of buildings owned/ operated by agency.

Examine core agency function and **future service demand** to identify building needs within its service delivery strategy and in turn within its asset strategy. This should encompass property acquisition and disposal plans.

Undertake a **condition survey** of buildings to identify maintenance needs including backlog, planned repairs, minor works etc

Establish minimum **condition standards** or benchmarks for condition assessment. Identify key building requirements.\*\*

Identify what buildings are below benchmark standard – **condition audit**.

Identify key **types of maintenance** requirements:

- types of maintenance: planned preventative, responsive, urgent, backlog
- timeframes: short term, asset life cycle
- resources: contractors, call centres, databases, supplies, agency facilitation.

Consideration of **contract options** eg condition based, scale of contract, level of risk sharing, incentives, penalties and payment systems.

Establish a **performance measurement** system which includes client agency and contractor input. Review processes and contract renewal protocols

\*\* *Building needs might include: OHS requirements, security issues, heritage requirements, 24hr operation and amenity requirements.*

## 2.6 ASSET MANAGEMENT TOOLS

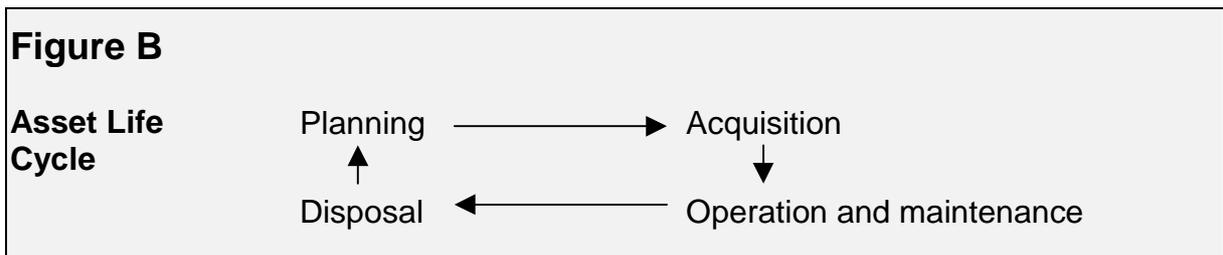
There are a number of asset management tools that are relevant to this discussion. These tools are described below:

### 2.6.1 ASSET LIFE CYCLE PLANNING

Government building assets have a long life and consumer considerable resources. Because of these characteristics, assets are often considered in terms of their “life cycle”, a term used frequently in asset management guidelines.

The phases through which an asset passes during its life are:

- the identification of need, where the requirement for the new asset is planned for and established;
- the acquisition phase, where the asset is purchased, constructed or created;
- the operation and maintenance phase, where the asset is used for its intended purpose;
- the disposal phase, initiated when the economic life of the asset has expired or when the need for the service provided by the asset has disappeared.



Life cycle costing is a decision-making tool to estimate the total cost of an asset over its life. The process allows for decisions to be made with full cost implications. The DPWS TAM Manual outlines the relevance of this approach for maintenance planning:

An asset is initially created and owned by a developer or manufacturer and may then belong to a number of occupants or operators before it ends its life as scrap. Each owner has the opportunity to benefit from Life Cycle Costing approach. For example, a developer may choose to increase construction costs of a building by using rust proof guttering in the hope that he can sell it for a higher price as a low maintenance building. Similarly, first owner operator of an asset (who only needs the asset for five years) may choose a maintenance program that will prolong its life for ten years so that he can sell it to the next buyer as an asset with potential for another five years operation.

Asset life cycles will reveal peaks and troughs in cost burdens over the life of the asset. This becomes a significant factor for assessing the viability of contracting out of asset maintenance.

## 2.6.2 RISK MANAGEMENT

**Risk** is associated with any activity or enterprise and arises because of limited knowledge, experience and uncertainty about the future.

Government asset management and service delivery have risks associated with non performance of asset and non delivery of services. At its broadest level governments face a plethora of risks including<sup>10</sup>:

- Demand risk – inaccurate estimation, fluctuation or variability of user demand for a service and hence an asset.
- Design and construction risk – building not constructed to specification, cost and time of construction higher and longer than expected
- Commissioning and operating risks – contractor under-performance, operating and maintenance costs inaccurately estimated
- Project financing risk – default risk by private financing partners
- Risk of contractor default – looks at costs of compensation for contractor default to meet costs of delay and engagement of replacement contractor
- Technology/obsolescence risk – asset need superseded by new technology asset obsolete before completion or within expected life of asset
- Residual value risk – where asset is returned to either the contractor or the agency and the value of the asset is not consistent with expectations (ie unexpected accelerated depreciation of asset)
- Regulation risk – variations in taxation, planning or other legal aspects which impact on asset arrangements
- Political /business risk –agencies should be aware that they cannot fully transfer the risk of political embarrassment of the risk to the delivery of their core business should the contractor fail.

The DPWS highlights some key risk categories associated with asset maintenance as (p5 TAM):

### Service delivery risk

- Delivery interruption (failure)
- Delivery level not achieved (eg water pressure or quality, voltage supply, asset image)

### Cost risk

- Higher maintenance costs from greater asset deterioration
- Litigation pay-out from failure of the asset

### Social Risk

- Occupational health and safety
- Litigation
- Community disruption

DPWS concludes that (p.5 TAM ):

---

<sup>10</sup>Risks identified in “Examining the value for money of deals under the Private Finance Initiative”, Appendix 2: Risk Allocation, Report by the Comptroller and Auditor General Commissioned, *National Audit Office*, United Kingdom 1999

Maintenance can therefore be regarded as an insurance premium against the underlying risks associated with the operation of an asset. The aim is to select the type and level of maintenance, which results in minimal overall costs.

A further risk of contracted maintenance is associated with the relationships between parties ie the agency and client, or agency and contractor.

**Risk management** is a technique involving risk identification and determining the appropriate system for treating risks. This process involves utilising approaches such as risk prevention, risk allocation and transfer, impact mitigation or risk acceptance.

Risk can be calibrated to consequences and probability asset failure. Consequences of failure might include:

- *Repair costs*
- *Loss of income*
- *Loss of service*
- *Loss of life or injury*
- *Health impacts*
- *Damage to property*
- *Failure to meet statutory requirements*
- *Third party losses*
- *Loss of image*

When the risk manager has identified and measured the risks, they then assign or allocate risks to the party that is in the best position to manage that risk effectively and at the least cost.

For maintenance contracts, this allocation of risk forms the scope of work for the contractor and also can influence the costs and payment responsibilities. For example, in some contracts the cost burden of repeat repairs might fall on a contractor when it is a result of an inadequate previous repair. This serves as an incentive for the contractor to make the initial repair properly. However if a repeat repair is required because of vandalism (a risk which the contractor may be less able to influence) then the agency might bear the repeat repair cost. This kind of distinction is seen in maintenance contracts for education and housing where student or tenant damage might occur.

### **2.6.3 PERFORMANCE INDICATORS AND PERFORMANCE CONTRACTS**

As noted in Section 2.1 a key trend in modern asset management is the shift from inputs based management to outcomes based management (see Appendix 3).<sup>11</sup>

Performance contracts differ significantly from traditional contracts in their objectives, monitoring, and payment structures. The basis of a performance contract is to establish a relationship between the parties that allows innovation and flexibility in contrast to a prescriptive fixed contractual regime.

---

<sup>11</sup> Appendix 3 provides a summary of the Organisation for Economic Cooperation and Development (OECD) Public Management Committee's Performance Contracting report of November 1999 which examines case studies of different performance contracting across selected OECD countries and compiled a 'Framework for Public Sector Performance Contracting' *PUMA/PAC (99)2*.

The relationships in performance contracts mean that issues like risk allocation can be accommodated and revised as circumstances change. New requirements on the contractor can be incorporated without automatic contract dissolution and creation of new agreements.

Performance contracts will usually feature benchmark measures or performance indicators (KPIs) that correlate to the agency outcomes and objectives.

The performance indicators or criteria might include items such as<sup>12</sup>:

- Savings goals – reductions in overheads, transaction costs, savings from discounted arrangements
- Time management – whereby a percentage of works is completed within specified response times
- Accuracy and quality of condition assessments matched to benchmark levels
- Completion rates – partial and remedial rates of workmanship are classified and categorised
- Contract administration – timeliness benchmarks for payments to subcontractors
- Client satisfaction – key client satisfaction ratings are maintained
- Sub contractor assessments and contractor self assessments
- Rates of data/ processing systems failures or service disruptions

Responsibility for each performance criteria is defined along with a timeframe and correlation of criteria to agency service objectives. Performance contracts will also include an audit process for performance criteria and a dispute protocol for the parties.

#### **2.6.4 PAYMENT OPTIONS FOR MAINTENANCE**

Payments for maintenance can be made in a variety of ways.

- **Schedule of rates**

Historically most maintenance payments to contractors have been based on “schedules of rates” where each type of maintenance task is defined and a set price attached (for labour and/or supplies). Contractors might submit their proposed “schedule of rates” as part of their tender for a maintenance contract.

“Schedule of rates” payments pays the contractor per repair task. The disadvantage with this approach is that the contractor benefits when more repair tasks undertaken. This can create incentives for over-servicing or poor quality repairs (to generate repeat repairs) and increase the contractor’s earnings. Nor does this approach encourage contractor take initiatives that would minimise repair requirements. Although the agency might be able to gauge a general cost for repairs based on historical repair requirements, costs are not contained by this mechanism.

- **Lump sum tenders and annuity payments**

An alternative approach to maintenance, particularly planned maintenance, is lump sum tenders based on packages of planned works. Facilities management

---

<sup>12</sup> For more detail on typical performance indicators see NSW government, *Total Asset Management* manual, Asset Maintenance, Section 4, Appendix B

approaches, where a contractor provides a full range of services to maintain a site, are often priced at fixed annual cost where an agency agrees to pay an annuity to the contractor over several years. The contractor has the discretion to use whatever maintenance management methods appropriate providing that a minimum standard of the facility is maintained. As noted previously, the key issue to successful lump sum and facilities maintenance approaches is the accurate specification of the work scope, outcomes, and the condition standards required.

Implicit in lump sum and annuity payment methods is the allocation of risk between parties. Effectively these payment systems transfer the risk of maintenance cost variations to the contractor. This risk exposure for the contractor has a cost that is factored into the contract price. The key issue for effective contracts is that the price of that risk is value for money. That is, the risk is allocated to the appropriate party who can best manage it at the lowest cost. As noted in Section 2.6.2, there are certain types of risk, such as regulation risk, that the private sector will not or cannot accommodate.

- **Profit Sharing**

More complex payment arrangements are now being used in performance contracts including profit sharing arrangement and incentive/rewards schemes. For example a performance based annuity contract would place the onus on the contractor to maintain the properties in accordance with predetermined condition criteria. The condition criteria are established, possibly through photographs within simple descriptions that show acceptable and unacceptable conditions. The contract does not prescribe the works that need to be undertaken as part of the contract- it is simply up to the contractor to achieve the condition criteria.

The contractor is held to a fixed maximum price for the term of the contract. The contract, if it covers planned maintenance and urgent maintenance, might also have other items paid according to a schedule of rates or a lump sum variation.

An option of the contract might be a Savings Sharing Scheme. Such a scheme would allow that all savings in the long term maintenance costs that are generated by the contractor are shared with the client. These savings can result from contractor's own efficiency gains, or from efficiency gains within agency's management of the contract.

Most of these techniques also require an "open book" arrangement whereby the contractor's dealings, tasks and payments are made transparent to the agency.

### **2.6.5 SCALE AND SCOPE ISSUES**

A key issue in maintenance management is achieving economies of scale and maximising efficiencies. An appropriately scaled maintenance arrangement would:

- sustain quality of service to the desired performance criteria;
- minimise transactions and processing costs;
- ensure and encourage delivery of services at competitive prices; and
- be transparent and accountable to the public.

The appropriate scale and scope of contractual arrangements for each agency will be also shaped by the nature of agency's maintenance requirements and availability of resources.

Some examples of different scales of approach to maintenance management are illustrated by three agencies examined in this report in detail. These include:

**Single Agency/ Single Contract Approach**

- NSW Police Statewide Contract. This contract consolidates police maintenance requirements across the whole state into a single contract.

**Single Agency/ Regional Contract Approach**

- Department of Education Schools Facilities Maintenance Contract –This contract divides 2200 state schools into 23 individual regional contract areas.

**Single Agency/ Facilities Management approach**

- Some agencies like Attorney Generals combine a general contract for maintenance of smaller facilities, but have facilities management contracts for larger sites.

**Multi Agency/ Regional Contract Approach**

- NSW Department of Public Works and Services Regional Maintenance Contract (the cross agency pilot). This contract consolidates maintenance requirements of a variety of agencies' offices/needs into a single regional based contract. Chapter 3.10 outlines this contract in detail.



## **CHAPTER THREE – NSW AGENCY MAINTENANCE ARRANGEMENTS**

### **3.1 KEY AGENCIES EXAMINED BY THE COMMITTEE**

With the forgoing Chapter and framework for best practice maintenance management in mind, the Committee looked at a variety of agency's maintenance arrangements as case studies.

Maintenance management varies significantly across NSW agencies. The Committee has focused on key agencies with large property holdings, which include Housing, Education, Health, Police, and Attorney Generals, whose arrangements are outlined in this Chapter. In addition Section 3.10 outlines the cross agency maintenance project being trialed in the Riverina, coordinated by the Department of Public Works and Services.

These case studies provide some insight into the diversity of approaches and techniques available for building maintenance management.

### **3.2 DEPARTMENT OF EDUCATION AND TRAINING**

#### **3.2.1 BACKGROUND**

The NSW Department of Education and Training (DET) manages approximately 2225 schools and 120 TAFE colleges. The replacement value of school buildings and facilities, which average around 30 years of age, is approximately \$13.7 billion. Some 1,150 properties are heritage listed.

The total annual maintenance budget of these facilities is around \$157 million for 2001/2002.<sup>13</sup>

In 1996, the Department of Public Works and Services and the Department of Education and Training jointly developed a conditions based facilities maintenance strategy for the 2225 NSW government schools<sup>14</sup>.

Until that time school maintenance was undertaken on a cyclic basis that involved maintenance being complete at set intervals irrespective of the condition of buildings and facilities. DET administered hundreds of individual contracts with companies, which led to potential variation of standards of maintenance depending on the contractor and their location within the state.

---

<sup>13</sup> On February 4, 2002, the NSW government announced an additional \$70 million to schools budget of projects capital funding (\$257million) and maintenance funding (\$157m) to be spent over the next 4 years.

<sup>14</sup> TAFE Institutes have different building maintenance requirements to schools and are not covered under the SFMC. However reform in maintenance management of TAFE institutes is under way to develop a maintenance management system aligned to the Total Asset Management Guidelines.

In 1998 DET introduced a new system for maintenance of school facilities. The **Schools Facilities Maintenance Contract (SFMC)** is a new “conditions based” contract issued to private sector contractors through competitive tendering.

The main feature was the aggregation of many individual contracts for 2200 state schools into 23 individual regional contract areas covering the State’s 40 school districts.

The development and implementation of the SFMC represents an innovative change in maintenance management for a NSW Government agency. The Department of Public Works and Services (DPWS) was extensively involved in the development and implementation of the new regime and now has key roles as contract manager for the Department of Education and monitoring the program’s overall effectiveness.

The program is the first of its kind implemented in NSW for a large scale property based agency. It is promoted by the DPWS as best practice approach to maintenance management consistent with the Government’s requirements under the Total Asset Management. The Committee recognises the merit of this innovative approach.

### **3.2.2 MAINTENANCE MANAGEMENT – THE SFMC MODEL**

The Schools Facilities Maintenance Contract (SFMC) required DET to define comprehensive maintenance standards and to identify the gap between the current condition of school facilities and the desired maintenance standards.

Work was then divided into 23 parcels based on school districts, 20 of which were competitively tendered. The DPWS Building Services Group, which has previously provided services to schools under the old maintenance regime retained the management of the 3 remaining parcels to provide a performance benchmark over the initial contract period.

The contracts were let in 1998 for an initial 6 year period with an option to extend based on performance to 10 years. The contract scope covers:

- Planned Maintenance (condition based maintenance)
- Essential Urgent repairs
- Demountable installation and disconnection
- Annual condition assessments
- Miscellaneous works

The contract also identifies key performance criteria against which the contractor is assessed every 6 months. The performance criteria include:

- Time Management
- Standard of Works
- Quality of Work
- Management and quality of site personnel
- Co-ordination of subcontractors
- Contract administration
- Occupational health and safety
- Environmental management

- School client satisfaction

Poor performance against any of the criteria is considered unsatisfactory and continued poor performance is a substantial breach of contract.

DET describes the key features of the Schools Facilities Maintenance Contract in its submission as follows:

- **Maintenance service contracts replaced cyclical maintenance**, which provided a periodic overhaul (on average, five years for external maintenance and ten years for internal maintenance) as opposed to a constant service. Under the maintenance service contracts schools receive a regular and responsive maintenance service, maintenance funds are targeted to areas of greatest need and a consistent standard of maintenance is applied across all schools.
- The maintenance contractors provide a **one stop shop maintenance service** for each school and a 24 hours seven days a week emergency repair service.
- Each year every school receives routine maintenance, based on the **annual condition assessment**, to ensure that the facilities are kept up to DET's minimum performance standard.
- **School principals are involved** in the annual planning of maintenance works with their local maintenance contractor.
- **The new maintenance contract system has saved up to \$6 million per annum in administrative costs** compared to the costs of administrating 500—600 contracts per annum under cyclical maintenance to only 23 contracts over a 6 year period.

### 3.2.3 MONITORING OF SFMC

There are several performance monitoring systems in place with the SFMC. These include:

- Contractor Distributed Service Questionnaires – which are surveys to School Principals (twice yearly)
- Independent Principal Initiated Surveys (DPWS random audit)
- Contractor Performance Reporting – measurement of contractor performance against key performances criteria (assessed twice yearly, measured quarterly)
- Contractors Self Assessment (quarterly)

A review of the entire SFMC is being conducted jointly by DPWS and DET in 2001 (mid-way through the 6 year contract period) to assess effectiveness as a template contract.

To date the review has observed that 90.8% of all principals surveyed believe the standard of maintenance was either good or excellent under the new contract arrangements. The condition of schools has significantly improved over the duration of the contract and a 5 % reduction in annual administrations costs have been achieved (DPWS submission, p15).

On the inspection tour and from within their electorates, Committee members noted anecdotal comments from school principals that quality of individual contractors in some regions was less satisfactory than others. It is generally acknowledged however, that the new system is a significant improvement on historical arrangements.

### 3.2.4 A CONTRACTOR'S PERSPECTIVE

A key private operator involved in the SFMC has been **Colin Joss and Co Pty Ltd**<sup>15</sup> (CJC) which is a construction company based in Wagga /Albury district of NSW. The Committee was briefed by the CJC in May 2001 as part of Committee's inspection tour of regional areas to examine the maintenance issues for rural and remote facilities.

After winning the 6 year SFMC, the CJC group established a new division called **CJC Maintenance Services (CJCMS)**. At present CJCMS is responsible for maintaining 200 school premises with an annual budget of approximately \$6 million. CJCMS employs 27 full time staff and operates offices in Albury, Deniliquin, Griffith, Wagga Wagga and Mildura.

CJCMS stated that the traditional service arrangement, which was for contracts let on a single school and single maintenance services basis, delivered under short term contracts, resulted in the following:

- Single trade or very small suppliers
- Uneven service delivery particularly in remote areas
- Limited trade availability resulting in poor service and high prices
- Sporadic short term demand for services
- Generally low volume expenditures by individual clients
- Limited, if any, competition amongst suppliers
- High levels of administration on the part of clients.

It was argued that these factors in turn led to:

- An inability to grow a business, to expand the skill base or to achieve savings in purchasing
- Difficulties in obtaining and retaining sub contractors
- Inability to reduce per unit overheads
- Difficulties in scheduling work and inability to guarantee service delivery timeframes
- Higher prices to cover demand uncertainties

Overall CJCMS argued that the historical approach to maintenance management by the Department of Education had acted as a:

*...barrier to entry or to growth of medium size firms in the provision of maintenance services in regional areas.*

The key features of the new contract that are attractive to the CJCMS are:

- Multiple schools covered by a single contract
- Long term contracts

---

<sup>15</sup> Information of this section is drawn from the CJC submission.

- Consistent levels of expenditure
- “One stop shop” concept of service delivery
- Contractor sharing risk
- Quality outcomes basis for service delivery

CJCMS argues that the regional contract structure of the SFMC service provides an opportunity to improve the quality of maintenance services and develop regional economies.

The scope of work, scale of facilities, and time frame of the contract enabled CJCMS to attract investment for the establishment of a medium sized enterprise. This investment allowed for the development of integrated technical, call centre and database systems, apprenticeship programs, and the capacity to tender for other maintenance contracts in both the public and private sector.

CJCMS maintains that the SFMC has delivered significant efficiencies and savings to the client (DET) including:

- Administration savings by agencies (approximately 5% of contract value) reduced from 500 to 600 contracts per annum to administering only 23 contractors over 6 years.
- Management savings by the prime contractor CJCMS. This includes reduced management costs through economies of size and consolidation through the use of a single contract structure, a single payment system and a single point of administration.
- Savings by subcontractors passed on to the prime contractor through price reductions (approximately 14% of contract value). These savings are derived from negotiated reductions in the prices of sub contracted services in return for continuity of work demand from long term contracts, and discounted material prices from bulk purchasing enabled by the increased scale of works.

The most significant benefit from the regional contract system from CJCMS perspective is the regional development advantages it has delivered.

CJCMS estimate that flow on employment from the regional contracts extends to approximately 800 regional sub-contractors, suppliers and their employees. It is argued that the income paid to these sub-contractors stays locally and stimulates local development. In addition CJCMS list investment in training, communications, technology, motor vehicles and plant and equipment as associated economic activity resulting from the regional contract.

CJCMS are strongly opposed to tendering agency maintenance into single State-wide contracts.

Any movement to State-wide contracting denies local regional industry the opportunity to compete and will inevitably destroy local businesses and is therefore contrary to the Government’s own policy... We stress that we do not seek subsidies or preferential assistance in order to compete, all that we seek is the opportunity.

CJCMS further recommends that:

The NSW Government should undertake all necessary actions to establish regional contracts for asset maintenance across all Government Agencies, using the same structure and principles as the School Facilities Maintenance Contract.

### 3.2.5 ISSUES

A number of issues arise from these new arrangements for school maintenance.

#### 3.2.5.1 REGIONAL CONTRACTS

One argument for grouping contracts to manage school maintenance on a regional scale is that it would be able to redress disparities in service quality. A regional bundling meant that contractors would have:

- sufficient economics of scale in workload to employ subcontractors on a permanent basis, thereby negotiate lower prices for services;
- the scale of client base to enable bulk procurement at discount prices and to lower unit costs of administration;
- length of the contract would also allow capital to be raised and provided business security to a regional provider.

The evidence provided to the Committee indicates that these outcomes have been achieved in the SFMC.

The Committee notes the CJCMS proposal for similar regional structuring of all State Government maintenance contracts and its strong objection to State wide contracting. While it is acknowledged that potential regional economic gains may result from regional contracting, it is not automatically the case that State-wide contracting would mean the loss of local economic benefits. Irrespective of the scale of contract, it is common that subcontracting at a local or regional level is still the main mechanism for service delivery. State-wide contracting may represent advantages for a large scale of administrative centralisation or discounted services which offers greater savings to the agency. This is the rationale put forward by the Police Service State wide maintenance contract arrangement, described in Section 3.4.

#### 3.2.5.2 CONTRACT EFFECTIVENESS

The Committee canvassed schools in the Albury/ Griffith area and also in Mulgoa area of Western Sydney in its inspection visits in May and June 2001. In terms of the effectiveness of the SFMC for the maintenance needs of the DET, the Committee has received generally positive feedback to the new arrangements in its visits to school facilities. However some comments were made to the Committee about variation in maintenance services between contract regions:

**Mr BROWN (Committee Member):** We have had a great look at the CJC contracts down in the Riverina area and spoke to many school principals and your initial comments are supported by the comments from the principals. It seems to us however, that the principals who benefited the most from this type of contract were those with some [*knowledge of*] maintenance in the first place and some principals who were not so au fait with maintenance and had a little bit of trouble I suppose communication with the contractors....

**CHAIR :**... I have got to say that one of the things that we did find in going around various schools is a degree of satisfaction with things like turning up quickly to remove

graffiti, particularly reactive maintenance they felt was very good and then the other thing was innovation that the contract – and we are talking about the Riverina here – had brought to saying, “This should not be repainted; it should be stripped, and therefore I will not have to repaint it ever”...

DET acknowledge that there are disparities in contractor quality:

**Mr BURKHARDT (DET)** : Certain the feeling is that some contractor are working better than others. The majority work well.

In hearings, DET officers highlighted various measures to address variation of contractor quality including: contractors bearing the costs of poor workmanship which is policed through performance audits, and continuing education of principals and facilitation of communication between contractors and principals. Ultimately DET envisage that long term, the contractors will develop a sense of pride and ownership over their schools in the same way as the schools community:

**Mr PEACE (DET)**: ...we have encouraged maintenance contractors to have a really good, close relationship with schools. So basically after a couple of years, schools could actually say, “ This contractor looks after our school and we are proud of it”.

Generally school management (school principals) have indicated that the SFMC provides a vastly improved service to the previous maintenance arrangements.

**Mr PEACE (DET)**: What we did find... was that in general terms principals were happy with the maintenance strategy. They were satisfied that maintenance was happening at their school every year as opposed to the previous strategy which was cyclical maintenance where they may have had maintenance undertaken probably once every 5, 6 or 10 years depending on the type of maintenance.

Some issues were raised about overall resources available to maintenance and capital works, and more specifically about the inclusions and exclusions in the current contract, and the payment pools from which certain maintenance tasks were to be sourced.

For example, various principals indicated difficulties with vandalism management. Vandalism in the schools was classified into two types – that which occurs during school hours and that which does not. The source of payment for funding varies. If vandalism occurs in school hours then the school is responsible and funding comes from school global budget allocations. For vandalism occurring outside school hours funding comes from a “managed fund” an insurance pool of monies. Some principals indicated these classifications did not reflect how schools functioned, and that “vandalism in school hours” tended to cross over with wear and tear and accidental damage classifications.

Another issue with the contract is balancing the flexibility given to the contractor to shape and time maintenance to save costs against the requirements of the school. This might see certain maintenance tasks scheduled to take advantage of bulk supplies or subcontractor availability, which may mean a less expensive repair can be made but the timing might be delayed. In turn the school might have savings from that repair passed on to another task within the school. However in some cases the Committee noted that this was taken to extremes as acknowledged by DET:

**Mr PEACE (DET):** There are some areas that we need to review and we've picked those up...They tend to relate to amenity of our schools, which sometimes has a conflict with pure maintenance. So if we repair a torn carpet, it may be that there is a couple of repair patches in that. Some of our schools feel that from an amenity perspective, "Why didn't you go and replace the whole carpet in that room?"

**CHAIR:** Some of them feel it would be nice if you replaced it with a similar colour.

### **3.2.5.3 RESOURCES**

Capital funding shortages for betterments or upgrading of facilities within schools is not covered by the maintenance contract arrangements and this is significant issue for the department.

**Mr BURKHARDT (DET):** ... you are entering into that area, where does maintenance end? There is an understanding now amongst principals that when the issues are maintenance – there is a system in place to address those. At the end of the day it is about upgrading the general fabric and functionality of our schools and for us that is now our next challenge... There is a recognition of the need in that area but it is going to be- and I was pleased to see the Treasurer when he said, "This is the beginning of a 10 year program"- and it is about picking our schools up.

The Committee notes that in NSW Budget for 2001/02, the Treasurer announced the commencement of a 10 year Schools Improvement Program with a \$1.1 billion capital allocation for new schools, school halls, replacement of demountables, improved OHS and disabled facilities and upgrades of classrooms.<sup>16</sup>

### **3.2.5.4 MONITORING**

A joint DET/DPWS review of the SFMC and the various performance monitoring mechanisms is being used to tease out and address any problems with the new contracting system in an ongoing manner. The Committee has raised the matters regarding specification in the contract and variation of contractor performance to the attention of the DET and the DPWS in its hearings and notes them again in this report.

On its inspection tour of maintenance management in New Zealand in May 2001, the Committee examined a completely different approach to schools maintenance management that correlated to the devolved school education system in New Zealand. However this approach contrasts significantly with the NSW approach and is not a viable option under current NSW education policy structures. This approach is described in Appendix 3.

### **3.2.6 COMMENT**

The key rationale behind the development of the SFMC model was to ensure consistency and improve quality and efficiency in maintenance services to school facilities. Under the traditional approach of DET, the quality of maintenance varied considerably around the state and the transaction cost of administration of large numbers of short term contracts was considerable.

---

<sup>16</sup> NSW Treasurer's Budget Speech, Budget Paper No 1, Delivered in the NSW Legislative Assembly, Parliament House, 29 May 2001.

The SFMC appears to be an effective improvement for maintenance management compared with the historical approaches of the DET and the Committee feels the current system is appropriate within the current NSW DET policy framework.

As evidenced in submissions and hearings, the DET approach has seen the clearer identification of service objectives and generated quality and service improvements. Administrative savings have been realised through the rationalisation of contracts from 600 to 23. Efficiency savings are anticipated within the new maintenance regime but these have to be countered with the considerable transaction costs in development of the new system.

The effectiveness of multi-regional contracts is yet to be ascertained. The Committee notes that contractor performance has varied, however the Committee was unable to ascertain whether this relates to the scale of the contracts or some other factor.

The Committee understands that DPWS is undertaking a comparative study of the effectiveness of this arrangement against a state wide contract approach being undertaken by NSW Police. However the Committee feels that this study should be broadened to examine other structures of contracting arrangements (see Chapter 4 - Recommendations Section).

Whilst noting these issues, the Committee feels that the DET approach can be viewed as an example of best practice model for maintenance management and intends to monitor the progress and development of this system to see if the anticipated long term benefits are realised.

The Committee recommends that there is room for improvement in vandalism management, and reconciliation of school and contractor repair priorities that need to be resolved within the contract review and assessment process.

## 3.3 DEPARTMENT OF HOUSING

### 3.3.1 BACKGROUND

The Department of Housing has an asset base of approx \$17 billion, comprising in excess of 130,000 dwellings. Approximately 15,000 new applicants will be housed next year and private rent assistance is provided to around 84,000 households.

The Department of Housing indicates it provides support to 480,000 people in need. Housing need is increasing while available funds decline. The Department of housing comprises:

- **Public Housing**, this includes management of public housing client call centre, client referrals, tenancy and portfolio management;
- **Office of Community Housing** manages community housing assistance for not-for profit community organisations as direct housing providers;
- **Home Purchase Assistance Authority** manages home purchase assistance schemes;

- **Residential Technologies Australia** is the Department of Housing's in house technical service provider which competes as a business unit for project management;
- **Corporate and Shared Service Divisions** deliver relevant policy, and corporate services, including resource allocation.

There are two main sources of Department of Housing income, the **Commonwealth-State Housing Agreement (CSHA)** and rental revenue from tenants. Historically CSHA funds have been used to build new dwellings, while rental revenue has funded council and water rates, loan repayments, maintenance of portfolio and administrative costs.

The Department of Housing maintains that:

In the past decades the maintenance of houses was seen as a secondary consideration to the increase in supply of new houses to meet increasing demand. This situation compounded by a gradual reduction in CHSA funds and net rental revenue (due to increases in low income tenants) has resulted in a significant maintenance backlog... Over the last few years the Department has balanced the pressure for new housing assistance with the need to maintain and improve the existing asset base. Increasingly funds have been diverted from adding new supply to improving existing dwellings.

In addition the Department of Housing notes:

**MS MILLS** (Dept Housing) : Approximately 18 months ago we changed out rental rebate policy so that tenants will progressively pay up to 25 per cent of their income in rent, and the additional revenue raised through that rent increase has been dedicated to maintenance.

Asset and tenancy management are regarded by the Department of Housing as parallel core functions and are integrated via a common service delivery centre and structure. This structure consists of a network of 7 Regional Offices, 71 Client Service teams and a Housing Call centre.

The Housing Call Centre provides a 24 hour, 7 days a week responsive maintenance service for public housing tenant and crisis accommodation services throughout NSW. The Call Centre helps tenants resolve a range of dwelling maintenance problems which require urgent (within 24 hrs) or a priority (within 7 days) response. Public housing maintenance work is referred to local client service teams for review and possible inclusion in planned works programs.

Private contractors carry out all of the Department's maintenance and capital works. The Call Centre processes and arranges payment of contractor maintenance claims and provides an around the clock contractor advice and information services. There are approximately 1500 contracts and 300 contractors. The Call Centre manages over 500,000 telephone calls each year – over 40,000 telephone calls and around 50,000 contractor claims per month.

### 3.3.2 REFORM OF HOUSING MAINTENANCE

The Department of Housing is currently reviewing its contracting arrangements for maintenance services with a plan to implement a new structure, primarily performance based contracts, from mid 2002.

The reforms involve several phases including:

- Development of **comprehensive condition standards**, including pictorial standards available CD ROM;
- A **condition survey** examining existing dwellings against developed standards, estimating the cost of bringing dwellings up to standard and predicting future costs and replacement. To date about 126,000 of the Department of Housing's 130,000 properties have been surveyed.
- Establishment of a **reporting framework to integrate maintenance** into the Department of Housing's overall asset plan and service program so that there is consistency with new investment and supply of housing, improvement planning of existing housing and divestment/ disposal intentions. Systems for this include:
  - condition survey data collation which is captured in the Department's **Integrated Housing System (IHS)**;
  - the **Property Survey Mart (PSM)** which reports on asset performance in terms of meeting condition standards;
  - The **Predicting Asset Liability for Maintenance (PALM) Model** calculates long term cost projections for asset management and calculates the future liability on an annual basis. PSM and PALM combined, identify current and future maintenance liabilities to guide management strategies;
  - The **Commercial Investment Methodology (CIM)** and the **Strategic Dwelling Performance (SDP)** methodology which combined can measure the Department of Housing's assets in both financial and service provision terms and ultimately determine a future use code for each asset (eg retain, improve, dispose and redevelop).

Using these predictive tools, the Department of Housing gains the capacity to measure asset performance against financial indicators, condition standards, demand/ need indices and community/ amenity. Performance will be measured for dwellings individually or in groups.

### 3.3.3 MAINTENANCE MANAGEMENT

The annual maintenance budget requirement for maintenance is around \$200 million. Additional funds of \$160 million per annum to 2006-7 is also budgeted to progressively address backlog maintenance (see section 3.3.4 for discussion of backlog).

The Department of Housing's maintenance and asset improvement programs comprises six sub programs:

**TABLE 3-B : Department of Housing Programs**

<b>Program</b>	<b>Maintenance / Improvement</b>	<b>Funding Source</b>
<b>Responsive Maintenance</b>	Urgent, priority or necessary repairs to dwellings, generally in response to tenant requests and carried out by schedule rate contractors on orders raised by Call centre or Client teams.	Net rental Revenue
<b>Service Contracts</b>	Maintenance of property components requiring servicing to a predetermined frequency (eg low risk: common area maintenance; high risk: fire protection, lift maintenance)	Net rental Revenue
<b>Planned Works</b>	Maintenance or replacement of property components that are deemed to have reached the end of their effective life, or which have fallen below a maintained state.	CSHA
<b>Special projects</b>	Major one off projects which are necessary in response to changing laws regulation community expectations or Departmental policy.	CSHA
<b>Accelerated Improvement</b>	Major one off project to bring dwellings with accumulated maintenance backlogs to a maintained state.	CSHA
<b>Disability Modification</b>	Works required to enable a dwelling to be utilised by disabled occupants.	CSHA

In 1998 the Department of Housing established the Maintenance Improvement Project. The Table below provided in the Department of Housing’s submission summarises the stages of the project, in terms of policy and delivery :

**TABLE 3-C : Summary of Maintenance Improvement Project**

**Part 1- Policy framework**

<b>Past</b>	<b>Present</b>	<b>Future</b>
-No condition standards -Lacking strategic approach or stated priorities for maintenance	-Condition Standards adopted -Asset priorities stated	-Provision & Amenity Standards adopted -Future priorities based on compliance with standards and strategies for assets
-Poor information on property condition -Property condition deteriorating	-Condition surveys nearing completion -Tool developed to capture data (PSM) -Life cycle forecasting model developed (PALM)	-Condition of all properties known and updated -Maintenance and disposal programs planned using condition and performance data.

**Part 2 - Operational delivery**

<b>Past</b>	<b>Present</b>	<b>Future</b>
- 3000 responsive contracts - 1500 contractors	- 1400 responsive contracts - 300 contractors (including 21 multi trade contractors)	-Contestable risk share contracts -Professional customer focused contracts -Mostly planned work -Responsive work residual

<p>-Variable standard of local contractor management -Many small contractors -Variable standard of customer service</p>	<p>-Improving DOH contract management capability -Greater professionalism in contractor base -Service standards improving</p>	<p>DOH role -Contract management -Audit and quality assurance</p>
---------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------

Key outcomes of the project are noted in the Department of Housing’s submission:

The Department has made substantial progress through the establishment of comprehensive asset condition standards, a centralised call centre improved systems procedures and program structures, the development of new maintenance contracts and contracting models put in place in early 2000 and the development of improved contract administration procedures and guidelines.

Improvements to the Department’s contract management systems and procedures include the development of standard specifications, standard conditions of tendering and contract, code of conduct for contractors, contract administration guidelines, contractor performance systems and audit procedures...

To achieve increased efficiency, e-mail is now used for delivery of orders and receipt of claims under responsive maintenance contracts. Payments to responsive maintenance contractors are made by electronic funds transfer. Most of these orders can be sent and claimed directly through the Housing Call Centre.

The Department is investigating the potential for achieving substantial cost savings through bulk procurement of materials to be used for maintenance work. Tenders have been called, and are under review, for cost effective delivery of carpets, stoves hot water heaters and a range of other items.

Ultimately the Department of Housing is looking at refining its maintenance contracts with consideration of:

- Scaling contracts to span a number of local or regional areas;
- Increasing the risk sharing capacity of contracts using an open book partnering approach;
- Consideration of consolidating contracts for multi-skilled, quality assured contractors and lengthening contracts (currently 2 years);
- Relationship building to attract contractors who might not have seen the old contract structure as attractive and the Department of Housing as a valuable client.

The Department of Housing is monitoring other government approaches to housing but has not yet determined the definitive ‘best practice’ approach to housing maintenance contracting. The Department of Housing notes that:

Many variants are possible, and more than one model may be desirable given the broad range of building types and geographical spread of the asset portfolio...

The final contracting models selected will be phased in at a rate subject to performance of trials and market capacity. It is most likely that the initial introduction of new performance based contracts will be linked to the Accelerated Improvement Program, piloting the concept with properties recently brought in line with the condition standard. Such contracts will be adopted more broadly if found to be a superior method of delivery, or in a more limiter form if found to be suitable only in certain situations.

The NSW Schools Facilities Maintenance Contract system and the New Zealand Government's public housing maintenance system are two key approaches that have influenced the NSW Department of Housings reform program. The Committee inspection tour of New Zealand in May 2001 took particular interest in the Housing New Zealand maintenance program. Box I below outlines the New Zealand program and its relevance to NSW.

**BOX I            HOUSING NEW ZEALAND APPROACH**

Housing NZ (HZN) owns and manages the Governments portfolio of low income residential rental properties formerly owned by the Housing Corporation of New Zealand. The Company is required to annually develop and negotiate a Statement of Corporate intent with its Shareholding Ministers.

HNZ manages a portfolio of over 59,000 properties which have an estimated replacement value of \$2.8 billion. Maintenance expenditure on these assets was around \$89.2 million (1.3% of replacement values).

In July 1999, HNZ awarded a contract to Transfield Pty Ltd to undertake total facilities maintenance of 3630 of these properties in Auckland and Hamilton as part of a pilot project. The pilot contact has a 6 year minimum period with option to max 18 yrs. The scope of the contacts covers conditioned based planned maintenance, reactive maintenance, 24 hour emergency call out and identification and recommendation for capital works. This includes electrical works, plumbing painting drainage carpeting glazing, joining ground maintenance roofing floor covering hardware and ancillary works.

The contract is a performance based annuity contract which places the onus on Transfield to maintain the properties in accordance with predetermined condition criteria for an annual lump sum fee, paid monthly. The condition criteria are established in photographs within simple descriptions showing unacceptable conditions as determined by HNZ. The contract does not prescribe the works that need to be undertaken as part of the contract.

Transfield is contracted to a fixed maximum price (CPI adjusted) for the term of the contract. In the first year the guaranteed maximum was NZ \$4.5 million which covers planned maintenance and urgent maintenance with all other items paid according to a schedule of rates or a lump sum variation.

As part of the contract Transfield has developed a Savings Sharing Scheme whereby all savings in the long term maintenance cost that are generated from Transfield's continuous improvement program are shared with the client. These savings can result from Transfields own efficiency gains, or from efficiency gains within HNZ's management of the contract.

Other properties in HNZ portfolio are being managed in-house using the traditional method of scheduled rates contracts, with lump sum contracts for planned maintenance. The performance of the pilot contract with Transfield is being benchmarked against HNZ's traditional mode of delivery to identify improvements and efficiencies that accrue. While HNZ have advised it is to early to make

assessments on the pilot, results to date show improved satisfaction levels and an overall costs reduction of around 20 per cent.

The HNZ pilot contract with Transfield has a number of similarities with the NSW SFMC. These include:

- requiring contractors to maintain the facilities to predetermined maintenance standards;
- long contract duration based on a multiple of 6 years;
- provision of an urgent repairs services, inclusion of incentive savings scheme within the contract;
- contract evaluation systems to measure contractors performance.

The HNZ pilot maintenance approach is being monitored by the NSW Department of Housing.

### 3.3.4 NSW AUDIT OFFICE REVIEW AND MAINTENANCE BACKLOG

In April 2001, the NSW Audit Office released *Maintenance of Public Housing*, a Performance Audit Report on the Department of Housing. The report outlined some serious problems with the historic maintenance management of the Department of Housing. The Office noted that the current reforms being undertaken in maintenance planning and delivery of maintenance services were underway. However overall the Office considered that the reforms to date were inadequate. Specifically the Office concluded that the responsive and planned practices maintenance do not comply with the NSW Government's TAM manual.

Significant concerns were also raised by the Audit Office about an overarching maintenance backlog of around \$750 million plus additional maintenance compliance obligations of \$350 million which are both outstanding from current routine maintenance allocated budget.

Despite funding increases and efficiency improvements in maintenance management, the Audit Office argues that the Department of Housing:

...faces declining income and uncertainty of capital funding. The projected maintenance expenditure is unfunded and indications are that the maintenance backlog will not be eliminated in the near future (p3).

The Audit Office notes the options for rectifying this issue include:

- Realising efficiencies elsewhere in the Department of Housing;
- Increasing funding from other sources such as seeking reimbursement from the Government for reductions in income associated with rental rebates granted to tenants on low incomes; or
- Progressively reducing public housing stock to a level where maintenance can be adequately funded.

The Audit Office recommended that the Department of Housing identify its minimum satisfactory maintenance position (ie that all premises need to be maintained in a reasonable state of repair) and that funding needs and shortfalls of the Department of Housing be made transparent in annual financial statements.

A scheme of “planned maintenance” to address the backlog be established to prioritise maintenance works within available funds should be undertaken to the standard consistent with the TAM requirements.

### 3.3.5 ISSUES

#### Call centre

The Department of Housing is by far the largest property owner agency and has certain attributes:

**Ms MILLS (Housing):** ...being a residential property manager provides us with some unique challenges and different approaches from being a large scale facilities manager. We deal with rural and remote areas, individual properties and people's homes and, bearing in mind the particular client base which we have and the needs of those people, this means our business is quite distinct in a number of ways.

A key difference with the NSW Department of Housing approach is the centralised call centre management. The Department of Housing has indicated that, although various contract approaches will be explored or piloted it is unlikely that the “one stop shop call facilities” would be out-sourced in maintenance contracts. This is a key difference to the approaches being undertaken in the NSW schools and NSW Police, and the Housing New Zealand pilot whereby the contractor takes the initial request from the customer through call centre managed by the contractor.

The Department of Housing view is that the call centre should remain in house because it is part of the core business of client management as it provides a multiple client services.

**Ms MILLS (Housing):** ...the Department believes that currently it is important to maintain the call centre in house, we see it as the front line of our client service. We have tried very hard to instil in the call centre operators more than just being a telephone answered; they are actually the front line representing the Department...We look at client satisfaction and people satisfaction with the call centre the fact that they actually understand the business, not only the business of maintenance but the business that we are in of assisting people who are disadvantaged and who often are not perhaps as articulate or perhaps are not used to be able to require a level of service that is appropriate...

Furthermore the Department of Housing argues that the call centre infrastructure can be utilised for other purposes, giving the example of contract work undertaken in the 2000 Olympics to run out-of-hours assistance for temporary accommodation.

It would appear that in the NSW Housing case, that there is a reservation about contracting out of direct contact operations with the public. NSW schools and police maintenance call centres deal with teaching staff or Department of Housing officers rather than the general public.

In-house services may be more able to deal and refer clients to multiple services of agencies. This observation is anecdotally supported by initial results of the Housing New Zealand pilot where client satisfaction of contractor call centre services was lower than that provided from in-house call centres.

At the same time the cost of running the centre to the agency must be considered. Care must also be taken by agencies in classifying call centre costs as maintenance related when centres delivers or blends various client services. Agencies should note that service delivery roles which involve direct interaction with clients may have different implications for contracting out of liaison and call centre services, particularly where agencies wish to maximise synergies in assisting clients.

### **Backlog**

As raised by the Audit Office, the Department of Housing's backlog maintenance problem is significant and not adequately addressed via the proposed maintenance reform program. The Committee has been made aware through this issue that treatment of backlog issues should be looked at across the 'whole of Government' and some systematic treatment is required. This issue is discussed and recommendations proposed in Section 4.

The Audit Office noted that the current and transitional housing maintenance contracts did not comply with the DPWS TAM manual with respect to the continuing use of schedules of rates instead of lump sum packaged works (Audit Office's *Maintenance of Public Housing* Report, page 35).

### **3.3.5 COMMENT**

The Department of Housing is in a transition stage in maintenance management. Overall the Committee is of the view that maintenance management reforms have the potential to significantly improve the services delivered to clients, but notes the issues raised by the Audit Office in relation to backlog maintenance.

The Committee feels that the Department of Housing has made considerable steps towards a best practice system for housing maintenance management. Survey and condition standard setting is a considerable task for the agency with such a large property portfolio. Also the agency has identified its service objectives in a manner that accommodates the current property profile and future trends and demands which is the ultimate goal of the reform project.

The Department of Housing approach illustrates another scale of contracting management. The current 1400 contracts issued to 300 contractors are issued on a regional basis. Some are single trade and others are multi trade based. The Committee notes that the long term scope and scale of contracts is yet to be determined.

The reforms are strongly influenced by the Housing New Zealand approach and that the Department of Housing has utilised expertise from New Zealand<sup>17</sup>. The Committee notes that the Housing arrangements have also incorporated elements from NSW Schools Facilities contract (with the exception of outsourcing of call centre). However immediate involvement with the Department of Public Works and Services, who were extensively involved in the Department of Education, has not occurred in the development of the Department of Housing reforms to date.

---

<sup>17</sup> Mr Brian Donnelly, Executive Director, Strategic Asset Management, NSW Housing, was formerly with Housing NZ and involved in the Housing NZ maintenance contract reforms.

## 3.4 NSW POLICE

### 3.4.1 BACKGROUND

The NSW Police has approximately 80 Region and Local Area Commands and approximately 1300 properties. The current valuations of land and buildings is around \$500 million with maintenance expenditure on police stations, police residences (approx 460) and leased premises totalling \$14 million in 2001/02.

To date, the maintenance of the property assets has been shared between Property Services Branch and Local Area Commands. The process has been managed using in-house resources and each maintenance task has been the subject of a discrete transaction contracted with individual service providers on a prescriptive basis.

Under these arrangements:

- In 1998/99 the NSW Police processed approximately 11,000 individual transactions associated with property maintenance.
- This approach required the processing of 11,000 invoices and 11,000 cheques through the accounting system.
- The average value was \$320.
- The largest transaction had a value of \$300,000.
- The smallest transaction had a value of \$18.
- 93% of transactions were for less than \$1000.
- 80% of the annual budget was spent in May and June – this infers poor planning and places considerable strain on the contracting system.
- Client satisfaction has been in the 60% to 70% range which does not meet client expectations.

The NSW Police submission acknowledges that this historic system is inadequate because it is resource intensive, delivers poor value for money and is input focused.

As a consequence NSW Police has developed a new approach to maintenance that sees maintenance tasks centralised and utilises a performance based “*alliance contract*” one of the forms of new private public partnerships outlined in section 2.3.5. The new system will identify a work scope based on condition audits for police stations and police residences. It recognises that maintaining property assets involves a high level of uncertainty where breakdown repairs, plant and equipment upgrades compete with routine maintenance tasks for resource allocation.

NSW Police argue that an alliance contract framework allows service delivery processes to remain flexible as priorities change. The emphasis is on achieving defined outcomes, maximising value for money and client outcomes and providing certainty. The alliance contract has the objective of creating a mutually beneficial relationship between parties which adopts a *best for project* attitude.

In general terms NSW Police identify the advantages of the alliance contracts as:

- Being flexible and therefore reactive to changing needs of the Police Service.
- Having a minimal contract administration effort-staff numbers have been substantially reduced as the emphasis shifts from individual contractor asset management.

- Being transparent (open book) and therefore it is possible to accurately identify and allocate risk.
- Having the scope to reward effort when goals are achieved and offer exceptional reward for exceptional effort.

### 3.4.2 ALLIANCE CONTRACT ARRANGEMENT

The key features of the NSW Police Alliance contract, recently awarded to Transfield Services are:

- Single state wide contract for all NSW Police Properties (excluding leased premises and 400 police housing properties);
- 24 hour urgent maintenance call centre will be included;
- 5 year term plus 2 options for extension for 3 years;
- Management is joint through an **Alliance Board** with 2 representatives from the contractor and 2 representatives of the Service;
- Performance based structure with successful proponent earning a Fee (in respect of profit and corporate overheads) based upon performance against an agreed set of key performance indicators (KPIs)
- Savings of 10% -15% are expected when the Alliance is active.

The remuneration structure for Transfield Services comprises of three key components:

- a) **Reimbursable** costs;
- b) Fixed amount for **project related overhead costs**;
- c) A **fee** in respect of profit and corporate overheads.

**Reimbursable costs** will include all direct costs (wages/salaries plus statutory on – costs, contractor–supplied materials, sub contracts and equipment) of the actual tasks performed but will exclude all overhead costs.

**Project overhead costs** are those which are contract/site specific and which will be submitted by proponent have been negotiated with Transfield Services and then fixed for the duration of the contract.

The **fee** was tendered by Transfield Services. Also tendered is a list of unit rates (exclusive of overheads and profit as noted above) which is representative of the contractors understanding of the maintenance tasks. **The entire fee component is put at risk against the contractors performance.** As the Police Service submission emphasises (p.9):

A fundamental component of the NSW Police Service’s contracting strategy is that the successful proponent should only earn its Fee through improving performance of the property maintenance services. Profit would be at risk in the event of failure ...to meet the agreed KPIs ie profit only starts to be earned after threshold performances against KPIs are met.

The **Key Performance Indicators (KPIs)** only impact on the fee, payable monthly with performance to indicators reviewed quarterly. KPIs have been negotiated prior to the execution of the alliance contract. However, to allow responsiveness and flexibility, they are reviewed annually by the Alliance Board.

The Police Services submission emphasises that as the contract moves forward the KPIs can be re-weighted to reflect the achievement of goals and changing priorities.

The contractor will operate sub-contracting arrangements and is free to adopt the most costs effective method of delivery. This includes giving the contractor discretion and delegation in maintenance servicing. It is expected that a sub-contractor who has performed well will be re-engaged by the head contractor.

If the achievement level measured against the key performance indicators for a given period yields for example a fee modifier of 1.15 then 115% of the value of the Fee applicable for work during that period would be earned and paid. Alternatively if the achievement fails to meet a performance indicator then the only say 80% of the value of the fee applicable for work during that period would be earned and paid. A fee modifier of 1, which would generate a fee of 100 %, is considered a good result.

Rework costs, non-compliance costs and supplied equipment failure costs are to be borne by the contractor. The contractor will be required to declare all such items to be a rework issue and warrant that its monthly payment claim is free of any rework items. This is subject to audit by the Police Service.

### 3.4.3 ISSUES – STATE WIDE SINGLE AGENCY CONTRACT

The NSW Police approach is a centralised model with a single state wide contract for maintenance. Maintenance responsibility is moved away from Local Commander management (ie police station administration staff) to property management professionals. This approach contrasts with the regional contract model of the Department of Education which relies on extensive participation of individual school principals.

Police argue the maintenance approach that is being adopted suits the special needs of Police buildings:

**Mr MULLINS (Police):** ... A police station works 365 days a year and often 24 hours a day. It has security issues that are somewhat unique I suppose and often have prisoner issues ... So I think I could contrast a school fairly readily because schools often close for a fair bit of time and there are opportunities to work there in the holidays. You have not got that luxury in a police station.

DPWS have not participated in the maintenance reform process for NSW Police. The Police identified their rationale for this in hearings:

**CHAIR :** How did you arrive at this [contract approach] and did you involve the DPWS who were building up various types of contracts?

**Mr MULLINS (Police):** ... Public Works had put on the table a suggested model for us to have a look at. It was fine and then we had a look at that, but all they suggested was that they take over the maintenance and basically put themselves between me and the contract as a management process ... It is not that important who did the work, but they would take over and put themselves as management, in a management role. That was looked at just before I arrived and the costs were significant... It was going to cost, well, some millions of dollars... then I looked at how a whole range of private sector organisations were going about their maintenance and public sector as well ... So I thought this is the way to go. It is not dissimilar to the Public Work's model and the

similarities are that we should have certainly have a help desk to handle urgent repairs. We should have electronic exchange of data, to cut the 11,000 invoices down to 12...

Police also engage in levels of cooperative maintenance management of facilities particularly for cell management in association with the Department of Corrective Services and the Attorney General's Department.

### **3.4.5 COMMENT**

It is difficult to evaluate the Police Contract as it is only just been initiated. However based on the arguments put forward by the Police the model appears to provide benefits tailored to the police needs. The Committee noted the Police Alliance Contract approach is similar to a pilot approach being undertaken by Housing New Zealand and that preliminary outcomes from that approach could inform the Police approach.

The Committee has observed that maintenance organisation has shifted from Local Commander responsibility to a more centralised management, freeing up officers to deal with core service delivery. This is an apparent contrast to School Education where the situation has evolved in the reverse, from a centralised approach with little input from school principals to a decentralised approach with more school principal participation in the maintenance management.

However these shifts in the Police and Education sectors are not inconsistent when put in context of their previous maintenance arrangements. Police have come from the perspective of too much maintenance responsibility at a local level, whilst Education were coming from an absence of local input and consultation. In effect both agencies have moved from extreme positions to a more balanced approach with a combination of local input with centralised guidance to improve maintenance management effectiveness.

## **3.5 NSW ATTORNEY GENERAL'S DEPARTMENT**

### **3.5.1 BACKGROUND**

The Attorney General's Department (AGD) provides a wide range of judicial, legal and administrative services through 39 Business Centres. It has an operating budget of approximately \$520 million annually and manages a portfolio of 167 court complexes located throughout the state. AGDs also lease a significant area of office space (approximately 70,000 sq metres) to service the many groups under the Attorneys umbrella.

The AGD submissions states:

Court Houses play an important role in the justice system and they have a significance beyond their appearance. They are buildings of authority, general possess a distinctive architectural style, and have strong links to the history of New South Wales. Approximately 80% of the State's Court Houses have been registered in accordance with Section 170 of the Heritage Act (1970).

AGD is not a large portfolio in comparison to some other Government agencies but the heritage nature of the court houses, the technical nature of the services within the courts, and the extensive community user base make this a very complex portfolio. The Department's submission notes that there are various expectations for the facilities environment:

- Expectations by users and customer alike for easy access of facilities including improved access for persons with a disability;
- Improvements to customer service interfaces in support of new services;
- The provision of an increasing number of service functions including victim support and remote witness;
- Security measures at court facilities appropriate to the level of risk to the judiciary, staff and users;
- Access to emerging technologies such as video conference for bail and arraignment hearings and web based technology which offer great opportunities to improve and extend legal services;
- Vigilance and awareness of OH&S standards of accommodation provided;
- Thermal comfort to meet user expectations;
- Improved energy efficiencies on building systems and operating plant with an objective to minimise wastage;
- Compliance with the Building Codes of Australia's Fire Codes to ensure the safety of all occupants and protection of important state assets.

### **3.5.2 MAINTENANCE MANAGEMENT**

Current allocations of maintenance and minor improvements of the court house facilities is approximately \$13.6 million annually. In 2000/2001 maintenance expenditure was \$7.5 million. Based on international comparisons which estimate that maintenance expenditure on buildings over time should be approximately 1-3 % of the assessed construction cost, then AGD maintenance expenditure requirements should be in the order of \$12 to 16 million, depending on the level of utilisation.

AGDs has a Capital Works Unit charged with the responsibility for maintaining and upgrading the Departments property. The Unit has 17 property related staff and also manages procurement of office equipment, property leasing, vehicle fleet and asset management policy.

To establish its maintenance plan and priorities, the Department requires that self-assessment of the condition of courthouses is undertaken by the Clerk of the Court every 2 years. A database collates information pertaining to the portfolio and supports all maintenance works in main maintenance areas of:

- Urgent Minor Repairs
- Major Facilities Maintenance
- Standard Court Facilities
- Asset Initiatives

In addition, formal assessments of the condition of assets and functionality of the courthouses are undertaken against formal standards. Defect analysis of air conditioning, fire safety audits, and disability access assessments are also undertaken.

A cyclical maintenance approach is used by AGD (5 year minor cycle and 10 year major cycle) for standard courts and a facilities approach is used for larger court complexes (20 complexes).

In 1998 the Department entered into a Service Level Agreement (SLA) with the DPWS. The purpose of this agreement was to develop a model for out-sourcing maintenance and minor improvement projects particularly in rural and regional areas of NSW where AGD itself has limited capacity to manage contracts.

The Service Level Agreement identifies DPWS as the **Preferred Supplier of Property Services** to the AGD. The five property service areas are defined as:

1. **Project procurement** (tendering and supervision of pre-design projects)
2. **Pre-Design** (feasibility studies and technical analysis)
3. **Design and documentation** (investigation, design and documentation of simple minor works projects)
4. **Major capital works** (total project delivery of Capital Works over \$0.5 million)
5. **Maintenance and minor capital works** (total project delivery of works under \$0.5 million)

AGD outlines the SLA relationship in its submission:

Over the last three years AGD has received considerable improvement in the quality and consistency of work received from DPWS. In addition project costs are now contained to 9% of the estimated cost of the project. These reduced costs require AGD to package work projects delegated to DPWS. Such packages are distributed regionally and include works such as routine maintenance and minor modifications...

In general AGD develop a formal project brief and DPWS provide a fee to undertake the project brief under a service provider model.

**AGD/ DPWS Service Level Agreement details:**

- Aim and objective of agreement ie DPWS as preferred supplier of property services
- Scope of works and projects
- Guarantee of service outcome
- Key roles and Responsibilities of project personnel – the AGD and DPWS representatives
- General conditions of service
- Dispute protocols
- Fee basis and conditions

Contracts are categorised into the following groups:

- **Building Services Contracts** (Three state wide contracts plus some specialist contracts). These are 3 year (plus 3 year option) contracts include lift service

contracts for mechanical services, fire protection and emergency evacuation contract. These contracts were developed in 2000 as a result of streamlining maintenance management within AGs.

The system replaced some 200 local service contracts. The project role undertaken by DPWS includes developing the contracts, review of legal clauses and apportionment of risk, calling for expressions of interest from competent providers and tendering the contracts. AGD staff manage the contract.

- **Cleaning contracts** (for all courts standard contract developed by DPWS and locally managed by Clerk of the Court).
- **Roof and Gutter Cleansing** contracts (3 year term tendered by DPWS).
- **Energy performance contracts** for five major courts.

**Urgent minor maintenance** constitutes a small component of building maintenance which, is strongly biased to a planned approach. Statistically however the need for urgent minor repairs in the courts is relatively low. Annual expenditure on urgent minor building works is in the vicinity of \$300,000 to \$400,000 or approximately 5% of the maintenance budget.

AGD has a management costs of approximately 3-4% for the development, planning and management of the overall maintenance program. Included in this cost is the provision of a Help Line to support the Clerk of Court needing to access local tradespeople to undertake minor repairs associated with the operations of a court.

AGD maintenance management involves interaction with other agencies who share jurisdiction or have adjacent facilities. There are often common access issues for Police, Corrective Services and Juvenile Justice agencies. The Justice Capital Works Committee examines such issues as:

1. Finalising standards for prisoner cells.
2. Review of each agency initiatives for development of new facilities and service implications such as when extensions of Courthouses are undertaken.
3. Coordination of co-located projects such as Waverley Police Station and Courthouse, and Worimi Children's Court.
4. Involvement in whole of government initiatives such as installation of video conferencing facilities.

Backlog maintenance for the AGD was assessed at \$34 million in 1994/95 of building fabric work. This primarily related to 4 courts that had older stonework and roof repair requirements. The Department estimates that a little over \$17 million of that backlog has been cleared, leaving an outstanding \$10 million. There is also a significant backlog of compliance work related to fire safety, OH&S and access and standards.

### 3.5.3 ISSUES

Three features of the AGD arrangements are noteworthy:

- The change of scale of maintenance contracts;
- The Service Level Agreement with DPWS; and
- The two pronged maintenance approaches: cyclical and facilities management systems based on location and usage of particular courthouses.

The most significant change for AGD is the Building Services Contracts introduced in 2000. Three state wide contracts administered by AGD were created to replace 200 local service contracts. The Department states:

The benefit of awarding three new state-wide contracts, at an annual cost of \$2.5 million, achieved at no additional cost to the previous system, and removes general repair coordination responsibility from AGD staff and places it with the contractor. AGD manage the contract.

AGD have had significant involvement with DPWS in restructuring their maintenance arrangements through the Service Level Agreement. AGD maintain that the new arrangements:

...have greatly benefited the performance of AGD in maintenance and upgrading its portfolio. It has allowed AGD to limit resources in this area and access the skills of DPWS. Policy advice is always of a high standard and the SLA between the agency is improved in the quality and consistency of work received.

AGD argues that:

Further streamlining the approach and implementation of electronic invoicing should allow both AGD and the DPWS to achieve further cost reductions, if this remains the predominant methodology for undertaking maintenance and minor upgrading.

The split of maintenance management: cyclical for smaller courthouses; and facilities based approach to larger complexes, reflects the intensity of use and complexity of facilities:

Many of the smaller complexes are in regional and remote areas, often with moderate to low utilisation proving the cyclical the most efficient.

### **3.5.4 COMMENT**

The management of AGD illustrates how agencies will mix their maintenance approaches to match their needs. The property of AGs is a mixture of smaller isolated, low use buildings, i.e. regional and local courthouses and large multi-purpose metropolitan centres. The mix of contract arrangements is designed to match this diverse portfolio.

As per other agencies examined in this report, AGD has made some significant reforms to maintenance management that are consistent with best practice principles, in particular the rationalisation of contracts. Yet the result has been a unique arrangement tailored to its needs, illustrating that best practice reforms does not have to result in a one size fits all best practice solution.

## **3.6 NSW DEPARTMENT OF HEALTH**

### **3.6.1 BACKGROUND**

NSW Health has an asset base of approx \$10 billion in 2001 (written down value of \$6.9 billion). This asset base comprising of 2147 land titles across the State. Properties range from nineteenth century heritage listed facilities to recent construction.

Currently there are 17 Area Health Services in NSW (9 metropolitan and 8 rural) plus the Ambulance Service, Corrections Health Service and the Children's Hospital at Westmead which also operate as separate entities (Business Units). AHS are autonomous entities, independent of the NSW Health.

NSW Health Services comprise of:

- 210 general hospitals (36 small hospitals are being converted to multi purpose services),
- 15 approved multi-purpose services,
- 280 community health centres,
- 500 early childhood health centres,
- 15 nursing homes

### 3.6.2 MAINTENANCE MANAGEMENT

Approx \$193 million was spent on repairs, maintenance and renewal (RMR) in 2000. The budget allocation for 2001 RMR is over \$170m.

The Area Health Services (AHS) and the Business Units (BU) are currently responsible for arranging their building maintenance work. They have stand alone systems and contractual arrangements vary between AHS. The Department through the Capital and Asset Management Branch also provides support through developing maintenance guidelines. The guidelines consolidate TAM, Heritage and other government requirements.

Most of the contracts are annuity contracts but some works is performed through cyclical maintenance, conditions based and also schedules of rates. AHS often have specialist and trades based contracts. There is no coordination of contract renewal cycles across areas although some contractors may service more than one area. Assistance from DPWS is sought on a needs basis. Each AHS monitors its contractors through standard contract management systems.

A key factor with maintenance planning in health is sustaining effective use of sites during maintenance, particularly sites which operate all year and 24 hours.

### 3.6.3 REFORMS AND NEW DEVELOPMENTS<sup>18</sup>

Since 1998 NSW Health has been undertaking reforms to consolidate maintenance arrangements into a cohesive program. This program is known as the Health Asset Management and Maintenance System (AMMS) with the overarching objective to link service delivery with asset management. The system is expected to replace the variety of systems currently under operation within area health services and business units. The system will provide a consistent asset management tools across the state, whilst maintaining local management by individual AHS and BU.

**Mr STOKES (Health):** The program (*the AMMS*) incorporates changes to the manner in which we brief the requirements for the adaptive re-use of our existing facilities, the acquisition of new facilities and how we maintain and operate existing infrastructure

---

<sup>18</sup> This section includes direct text portions from the NSW Health submission to the inquiry.

and how we dispose of the infrastructure which we recognise as becoming redundant, for reinvestment back into the capital program. The principal tool that we have used is the Government Total Asset Management Manual and .. the process of strategic resource planning , which directly links with the financial management process introduced by Treasury which seeks sustainability... Sustainability in terms of the match between our asset infrastructure and the profile of health services which are required to be delivered in each region...

The AMMS is the umbrella system for maintenance management to collect and collate standardised measures of asset cost and performance across Area Health Services. The Health AMMS will be implemented across the majority of the 20 AHS by December 2002, followed by consolidation of asset detail through to December 2003.

A key tool is the Health Property Information System (PIS). The PIS collates title information, survey current usage and heritage information. The capture and subsequent analysis of data facilitates a number of Department initiatives. The Health PIS has been progressively refined to be compatible with the emerging specifications for the Government PIS which is under development.

The Asset and Procurement Management Division is coordinating the Health AMMS reforms which also incorporates the following best practice initiatives that impact on building maintenance:

#### **Asset Management Framework, AM1**

Asset Management Framework is aimed at ensuring a commercially focussed and efficient management of health assets to return maximum benefits into local health services delivery. The Framework will set out policies, strategies and guidelines to achieve best practice in asset management, asset acquisition and redevelopment of facilities including benchmarking parameters and suggest strategies for change management.

#### **Asset and Property Management Strategies, AM2**

This system is being piloted in Northern Sydney AHS and South Eastern Sydney AHS. The objective is to optimise revenue through better asset management. Consultants have been engaged to work with the AHS to develop:

- Target Area Asset and Property Management Strategies
- Target Area Teaching and Research Utilisation ie to review the space usage for teaching and research purposes.
- Develop Property Management Guidelines (in conjunction with AM1)
- Conduct a statewide assessment of Property Strategies - application of learning from the pilot to be applied to the whole of the NSW Health asset portfolio.

#### **Capital Asset Charging and Asset Valuation Policy**

In the public sector capital funding process, there has been no cost to the enterprise in acquiring assets. One of the incentive initiatives proposed in the NSW Treasury's Financial Management Framework<sup>19</sup> is the introduction of capital charging. NSW Health is piloting capital asset charging where the service provider (the AHS) pays

---

<sup>19</sup> The Financial Management Framework for the General Government Sector, Policy and Guidelines Paper, Office of Financial Management, NSW Treasury, December 2000p. 21

explicitly for the capital in the form of an annual charge. The objectives of the capital asset charging are:

- To make explicit the recurrent cost of using capital
- To inform decision making about the acquisition, maintenance and disposal of capital assets
- To recognise the opportunity cost of using capital to deliver health services
- To reflect the full cost of providing health services
- To encourage the maintenance of capital assets in appropriate working order to meet service delivery needs
- To encourage the disposal of under-utilised assets and more productive use of assets

By making capital costs real and transparent, there will be improved incentives to achieve value for money and optimise the service provided. The capital assets charging policy has been developed over a three year period in consultation with Health Services and Treasury. A revised asset valuation policy has been adopted by the Department to effectively support capital charging and apply a consistent approach to the way the asset base is valued.

For NSW Health capital charging is where each areas share of assets to delivery requirements is measured against other areas asset shares then capital funding is adjusted:

**Mr STOKES (Health):** The way that it is going to happen is that each areas will be charged in terms of the value of assets that they have in terms of their state-wide share and they will be subsidised in terms of what they should actually have. So you will get an extreme from South Eastern Sydney, which has well over its state-wide share for historical reasons and also political reasons and... they will find that they are in a negative position because they have an excess of assets or in fact an unfair share of the State's assets as a whole and the opposite extreme to that would perhaps be in a growth area such as the Central Coast which is significantly under equipped in terms of assets. So they would have quite a positive cash stream which comes from their subsidy arrangement.<sup>20</sup>

The Department argues that by making capital costs real and transparent, there will be improved incentives to achieve value for money and optimise the service provided. The effect of the capital charge is to better reconcile Health's assets usage and maintenance, with its service delivery requirements.

### **Benchmarking Database**

A long term strategy to manage the large and complex asset portfolio must be guided by performance benchmarking for consistent and robust decision making. Establishment of performance benchmark database is essential to understand the effectiveness and efficiency of the assets in supporting service delivery. The benchmarks aid comparison of performance and budgets of various AHS asset portfolios. The benchmarks are also important for effective strategic planing. They will lead to target resource allocation to known asset condition and known poorly performing assets.

---

<sup>20</sup> In the May 2001 Budget, the redevelopment of Gosford and Wyong Hospitals was announced, which is intended to address the needs of the Central Coast Health Service.

### 3.6.4 ISSUES

Sustainability of assets is a key issue for service delivery in Health. The functionality of health assets is paramount rather than the building itself:

**Mr STOKES (Health):** ..community hugs the bricks and mortar but their only relevance is to create this envelope in which you can actually deliver the health services so therefore, unless they (the assets) are sustainable they are quite inappropriate.

NSW Health asset management reform program is multi-faceted and involves significant internal and external resources. External resources are estimated at approximately \$11 million in consultancies, which NSW Health maintains is only 0.11% spending against their asset base. Treasury is involved in the program through its collaboration on the capital charging project. Health has not involved DPWS in its reform program to date, with the exception of the participation of one AHS in the regional maintenance pilot.

NSW Health has a backlog in building maintenance but has not identified its specific value. Two distinct components of health asset maintenance backlog are :

- General run down of base infrastructure due to focusing of funds on frontline health service delivery
- The backlog in adaptation of existing spaces, which are no longer functional due to changes on health service delivery practices.

Occupational health and safety issues are dealt with continuously through recurrent budgets.

NSW Health has a significant heritage liability. The key issue is incorporation of heritage assets into functional requirements of the health facility. Where the heritage factor precludes effectiveness of the facility the Department actively seeks to dispose or transfer the site to a more appropriate custodian.

### 3.6.5 COMMENT

NSW Health has distinct maintenance arrangements shaped by the independence of the Area Health Services. Although AHS have a level of autonomy in their maintenance management decisions, there appears to be mounting pressure to make those AHS more accountable for collective improvement in health outcomes. Hence the development of supervising frameworks and strategies by NSW Health.

The Committee is mindful that the new capital charging policy being trialed in co-operation with Treasury should be monitored for its impacts on maintenance.

## 3.7 DEPARTMENT OF CORRECTIVE SERVICES

### 3.7.1 BACKGROUND

The Department of Corrective Services has 26 correctional centres around the state. Total asset value is around \$670million and maintenance expenditure around \$15-16 million per annum.

Corrective Services management is predominantly facilities based. Each centre manages its own maintenance program using a combination of in-house, staff skilled and unskilled inmate labour and local contractors.

Full out-sourcing of maintenance occurs for:

- Silverwater Correctional complex (Silverwater, Mulawa, and Metropolitan Remand and Reception) with an annual budget of \$1,700,000;
- South Windsor Correction Complex with \$850,000 budget;
- Further 6 correctional centres covered by an out-sourced contract for comprehensive security systems at an annual cost of \$1,100,000;

State wide service contracts are used for specific maintenance requirements such as fire protection, air conditioning, emergency generators, pressure vessels and liquid waste disposals.

A pilot project is being commenced at Long Bay Correctional Centre to **in-source maintenance** for a three year period. The pilot will be compared with the private sector competitor for cost effectiveness.

### 3.7.2 MAINTENANCE MANAGEMENT

Maintenance is divided into preventative, corrective, extended period maintenance and arrears maintenance.

Preventative maintenance is procured through 3 year contracts on a state-wide basis. Corrective maintenance will often include a component of inmate labour supervised by facilities staff. Arrears and extended periodic maintenance programs are contracted as a scope of works projects at a facilities level,

The Department is currently implementing a five year rolling plan for maintenance following a condition audit of all facilities earlier this year. The plan is integrated to the Department's asset management policy and guided by the service delivery strategies.

The Department identified a backlog of maintenance of around \$8 million which is to be recovered in the 5 year maintenance plan. This backlog is regarded as a relatively small issue given the asset base of \$1 billion, a considerable portion of which is relatively new.

Government policy is that correction facilities in NSW will be owned and operated by the government. However construction contracts can include allocation of long term building maintenance operations to the private sector.

### 3.7.3 ISSUES

Two key issues were discussed in hearing with officers from the Department:

- Special features of Corrective Services maintenance including vandalism management, contractor safety, and inmate labour; and
- Collaboration with the Department of Public Works and Services

**Vandalism management** is a key issue for maintenance management particularly corrective maintenance. Currently the Department does not differentiate what

maintenance is due to vandalism arguing that defining vandalism against accident or self-harm incidents is complex and subjective.

The costs of vandalism are difficult to estimate because although incidences occur daily the costs may vary significantly.

**Mr SCHIPP (Corrective Services):** In terms of the, say, \$15 million that we spend a year on average, corrective maintenance is probably around the \$4 million mark and a percentage of that would be related to vandalism. I could not say whether it is 50 percent or 10 per cent ...

**Mr HUMPHERSON (Committee Member):** A lot of those are relatively small events and are a daily occurrence but the individual cost is small. The costs, however, just accumulate.

In hearings the Department officer's pointed out that significant vandalism disturbances usually had separate insurance coverage outside maintenance budgets.

Most of the Department's maintenance contracts cover ongoing vandalism within a list of events or tasks included in the scope of work. For example the task description would be "window repair" irrespective of cause of breakage. This approach differs from the Department of Education, which differentiates which monies might be used to make repairs on the basis if the repair was due to vandalism after hours or during school time.

**Contractor safety** in maintenance for corrective services has unique risks. Contractors must adhere to strict controls regarding their work which can increase maintenance costs:

**Mr SCHIPP (Corrective Services):** ... there is a totally different regime of risks that need to be accommodated in terms of contractors or people coming into the [corrections] facilities... We have to assign overseers to supervise the contractor to make sure their personal safety is not at risk... we cannot have contractors leaving ladders around and things like that inside gaols so the overheads are the provision of the supervising overseer as well as the overheads to the contractors in getting through the gate and through the security processes.

Mitigating these additional costs is one reason that **inmate labour** is used for maintenance. However the Department's use of inmate labour has a broader rationale:

**Mr SCHIPP (Corrective Services):** ...Certainly the use of inmates' labour as part of our maintenance program is encouraged and pursued in virtually all areas so as not only to enhance the value that is being added to the department in terms of the costs of using inmate labour relative to commercial costs but also in terms of therapeutic and rehabilitative nature of using inmates and upskilling them as part of the rehabilitation process and correctional endeavour.

The Department is pursuing an in-house maintenance pilot for Long Bay Corrections Centre. The program, which would serve the six prisons within this complex, would have some level of economy of scale and would allow for the employment of trade skilled overseers to supervise inmate work. This would see savings from removing

the overheads of having each person escorted by a custodial officer alongside the contractor.

The **Department of Public Works and Services** has had extensive involvement in Corrective Services maintenance contracting:

**Mr SCHIPP (Corrective Services):** We have a very close relationship with Public Works. We have an alliance agreement with the Department from a total asset management perspective, and clearly maintenance is an integral part of that...Public works is the contract manager and contract superintendent for the outsourced maintenance contracts at Silverwater and John Maroney so there is very close contact in that respect.

DPWS assisted the Department in the establishment of the South Windsor Correctional complex.

DPWS highlighted their work with the Department of Corrective Services on the Junee Correctional Centre maintenance contract. This Centre was delivered in 1992/93 through a State Government funded design, construct and operate contract based on a five year plus three management contract. The contract was with Australasian Correctional Management and the prison was the first privately managed and delivered prison in Australia.

In 2000 the Junee Contract was re-tendered with the requirement for revised asset maintenance standards. Corrective Services has developed a generic set of standards which it applied to all facilities. The standards cover visual appearance, functionality economic performance and legal compliance. They are outcome orientated and do not dictate maintenance or cleaning tasks or budgets. The standards are attached in Appendix 5 for information.

#### **3.7.4 COMMENT**

The Department of Corrective Services deals with maintenance management through a facilities management approach and a state- wide contract approach (for specialist services).

Within the Department, best practice reforms are being undertaken with new long term plans, condition audits and establishment of asset standards. With the possibility of private sector construction and maintenance contracts being canvassed in the future, the Department may be adding yet another type of maintenance management approach to its system.

### **3.8 DEPARTMENT OF JUVENILE JUSTICE**

#### **3.8.1 BACKGROUND**

The Department of Juvenile Justice has 50 locations around the state, with the majority leased and not requiring maintenance.

The Department owns 9 juvenile justice centres which range in size from 23 to 120 beds. In addition there are 5 small properties for intensive units and 2 staff residences.

### 3.8.2 MAINTENANCE MANAGEMENT

Building maintenance is on a cyclical basis but is conditioned based. Although building repair needs are assessed on a cyclic basis, there is no prescription for certain maintenance activities unless they are assessed as necessary.

Engineering maintenance is on a 3 year period. Maintenance cycles vary from 3 to 6 years for internal work and every 6 years for external work. Budgets for maintenance range in size from \$100,000 to \$1.8 million for each centre. Approximately 70% of the Department's maintenance budget is for major building cyclic maintenance.

**Mr HERMANN (Juvenile Justice):** The maintenance arrangements for the whole Department include a cyclic maintenance approach... In addition we have in place a series of maintenance contracts for day-to-day maintenance for things such as security systems fire hydrants, air conditioning... Maintenance contracts in place for new centres and minor works are handled at a local level... Any urgent occupational health and safety or security matters valued at more than \$3,000 come through a central support office where we prioritise them and generally do the work very quickly.

All tendering and contract supervision is provided through the Department of Public Works and Services.

At an implementation level, each centre has an on-site maintenance officer who undertakes minor and urgent works and supervises contractors. Local contractors are generally used for works.

The Department maintains that a procurement strategy of undertaking small trade-based packages in lieu of lump sum coordinated tenders to be more cost effective and provides a better product. Savings are cited for Kariong Juvenile Justice centre where the tender change reduced costs from \$2.6 million to \$1.8 million using trade-based packages. The arguments for this position were expanded upon in the hearings:

**Mr HERMANN (Juvenile Justice):** The alternative procurement method agreed upon by my Property Officer and Public Works would that we would use trade based packages. That means instead of having a lump sum contract, where a contractor comes in and says "Okay. I will organise this whole project for you, I will bring in the electricians, I will bring in the plumbers, I will bring in the carpenters, or whatever" – of course, a financial risk element of a fairly significant margin is added on top of that – we decided to go back to trade based. With Public Works and our Property Officer we said "Right, for that building there we will bring in an electrician" ...It took a lot of co-ordination from our end, but each trade was taken into each of the buildings and fixed them up. That way it was a lot more definable for each of the contractors as well because, as you can appreciate working in a maximum security environment where you cannot leave a hammer sitting down, you have to be checked in and checked out, it is a hassle for a trade person.

But if you can take away those uncertainties for them and say, "On this day you will come in and do this building", the that particular trade quote comes back in significantly lower because the level of risk they build into the quotes is diminished.

### 3.8.3 COMMENT

As noted in Chapter 2 agencies have been moving away from cyclic maintenance because it imposed unnecessary costs requiring repairs where unnecessary and lacking in responsiveness and flexibility. However the Department of Juvenile Justice's condition based assessment linked to cyclic maintenance may minimise the unnecessary costs usually associated with cyclic programs.

It appears that the use of a trade-based approach has advantages for the juvenile justice portfolio because it allows for more direct planning of work and can counter the additional security risks and uncertainties faced by trade person which would normally increase contractor costs. However it is noted that the Department of Corrective Services also face the same security risks and impacts on contractor costs, but have used a facilities based maintenance system.

## 3.9 DEPARTMENT OF COMMUNITY SERVICES, AGING & DISABILITY SERVICES

### 3.9.1 BACKGROUND

The assets of the Departments' of Community Services, Ageing, and Disability Services and Homecare, are managed by the Department of Community Services Property Services Unit.

Community Services has 300 dwellings used for accommodation of persons under care (called group homes). Disability Services has large care centres (called residential centres). The 1999/2000 annual report indicates property assets at around \$125 million.

Asset maintenance funding for 1999/2000 was \$9.28m. Specific minor works \$5.72. Annual provisions for minor works \$2.72m.

The Government's has a policy to close large residential disability centres over the next 12 years and to rehouse clients in community based housing run by non-government organisations and smaller aggregated care. The Department is changing its portfolio mix as this devolution occurs and this will impact on maintenance management as noted in hearings:

**Mr HIBBLE (Community Services):**... The larger centres will wind down and the smaller assets become more numerous. We will then need to look at different ways of supporting those... We might end up with 1,000 houses total stock. That in itself is not a vast addition to something like the Department of Housing's stock but the maintenance needs are different and the requirements of the residents are different.

### 3.9.2 MAINTENANCE MANAGEMENT

The Community Services Property Services Unit has 13 staff across the state and looks after both owned and leased properties.

The Department utilises the Total Asset Management framework as a guide and Property Management Systems include a condition based information, building maintenance database and an asbestos register. Many of the properties have specialised disability fit-outs which means maintenance requirements are very specific. A five year forward planning program is used.

A backlog of around \$26 million has been identified which covers minor types of maintenance to refurbishment works. The Department has not identified if this backlog will be affected by anticipated large asset disposals.

**Group home maintenance** varies depending on the nature and complexity of works required. Minor repairs are managed by the group home manager. Major repairs are linked into condition information and needs assessments on homes. Maintenance programs are bundled into regional packages, which attract single head contractor. The property services group manages these types of projects on a fee basis ranging from 3.5% to 9% of the project value.

**Residential centres.** Most small residential centres are dealt with as per group homes. However the two largest residential centres in NSW have their own trades based staff.

A program is under-way to reduce in house staff and contract out operations. Full contracting out is not being undertaken completely because of the following:

- The poor asset condition would mean that an external contractor would not accept the warranty risk;
- The age of centres and high wear and tear generates a high level of minor repairs which is difficult to quantify;
- The 10 year phase out policy means that the uncertainty over scale of operations which presents a contractual risk.

DOCS is participating in the Riverina Pilot with around 30 properties affected. The project is still in the data collection stage because the Department's limited capacity to provide a scope of works given the uncertainty of budget allocations.

### 3.9.3 COMMENT

The Department uses a mixed approach of trade based and facilities management systems. With the transition to smaller property types, new opportunities and demands will arise for building maintenance. The use of non-government providers raises issues of agency responsibility for facilities:

**Mr HIBBLE (Community Services):** ... If we are the funder for the NGO and we are providing the asset it will be very difficult for some of these community based centres to have the resources to maintain that asset. You are leaving yourself into a position where you are on paper divested of the maintenance risk but in reality if the house becomes substandard it will fall back to the head agency to do something about that...

The Department's issue about unclear accountability for maintenance of non-government provided facilities is not dissimilar to the issue faced by private financed initiatives. Obviously in both scenarios the 'best practice' approach would be for Government to clarify accountability for maintenance within the contractual or

agreement documents when setting up arrangements. Nevertheless the Committee notes that there remains a public expectation that the agency is responsible for maintenance in relation to its impact on service delivery.

## **3.10 THE CROSS AGENCY MAINTENANCE PILOT**

### **3.10.1 BACKGROUND**

In December 2000, the Government approved a Regional Procurement Program. The aim of the program is to realise savings to Government, enhance regional service delivery and create economic and regional community benefits including more investment and employment.

One aspect of this program is the Regional Maintenance Pilot in the Riverina (or the **cross agency pilot**). This program utilises the contract prototype developed in the School Facilities Maintenance Contract by DPWS and the Department of Education. The SFMC contractor for the Riverina, CJC Maintenance Services, is the pilot contractor.

The purpose of the pilot is to test the carrying out of maintenance for all Government buildings on location rather than on an agency basis. The key task is the specification and co-ordination of a maintenance contract consisting of multiple agencies with in a regional location.

The pilot is covering around 130 sites with maintenance works up to \$1million from 6 participating agencies:

- Department of Education and Training (TAFE Colleges)
- Attorney General's Department
- Department of Community Services
- Department of Health (Greater Murray Area Health Service)
- Roads and Traffic Authority
- National Parks and Wildlife Service

The contract will cover the planned maintenance works and minor and major replacements of participating agencies, an urgent repair service, miscellaneous works and some specified items of works. DPWS see the benefits of the contract to include (p15):

- Reducing the resources required to tender maintenance services on an annual basis;
- Delivering administrative savings which will be obtained through the use of a single contract structure, a single payment system and a single point of administration;
- Improving service outcomes, including guaranteed service performance, consistent service regardless of location improved quality of service and enhanced volume of service due to the more effective use of funds;
- Benefits are also expected to flow to regional areas in terms of employment and local sourcing.

DPWS has developed a framework of **Key Performance Measures Against Pilot Objectives (Appendix 6)** which looks at savings, administration, maintenance outcomes, risk allocation, and regional opportunities.

It is understood that 10 agencies were approached to participate in the project. According to DPWS the agencies that declined had unsuitable asset bases or were unable to release themselves from current contract arrangements.

The pilot is currently in preparation stage. Participating agencies are defining their scope of work, determining condition standards, budgeting and contract structures.

### 3.10.2 AGENCY VIEWS

The Committee received a variety of comments both positive and negative regarding the pilot from both participating and non-participating agencies.

#### PARTICIPATING AGENCIES

- **Education**

The Department of Education is involved in the Pilot through TAFE Colleges in the Riverina. The Department is supportive of the pilot given its use of the same contractor, CJC Maintenance Services, used for the Schools Facilities Maintenance Contract.

- **Attorney Generals Department**

AGD is participating in the pilot and appears cautious at this stage:

DPWS is negotiating a packaged cost (*for the Riverina pilot*) rather than a number of competitive tenders on projects of reasonably small size. The increased scale of the packaged program may provide additional savings however, the methodology will require careful processing, mapping the approach for savings to be realised. The client is one step further removed from the work undertaken and coordination between agencies is unlikely to be easy.

Further concerns about the pilot were raised in hearings:

**Mr W M Brown (AGD):** ...we are looking to see what we can get out of the pilot project. I think on the positive side it has the potential to offer, by packaging, reduced costs...On the down side I think there are some issues there. It will bring another party into the chain, and that party brings with them three percent (3%) for the development of the contract and three and a half (3.5%) for the management of the contract. It brings in a necessity to co-ordinate all of the agencies and I think there are some difficulties. Particularly in the concern that the effort in co-ordinating may be underestimated and then we will need to look through carefully workflow improvements.

AGDs have also noted that the finalisation of the scope of works to be undertaken, costing work packages and programming has proven difficult in the cross agency pilot and reduced costs have not been realised in the initial stages.

- **NSW Health**

NSW Health is involved in the DPWS regional maintenance pilot through the participation of the Greater Murray Area Health Service (GMAHS). To date the involvement in the pilot has been driven by GMAHS with its responsibility for

maintenance. The GMAHS has identified a range of maintenance work where contractors are being used which could be included in the contract. GMAHS expects to reduce the need for numerous contracts with the pilot bringing – one contract, one person and one account.

NSW Health identifies the benefits from various stages of the pilot. Firstly the pilot provides a mechanism for the area health to collate information:

**Mr STOKES (Health):** ...Greater Murray is a particularly difficult health service due to its regional location and its overall geographic area and remoteness....Across the 29 odd small communities there was simply no information base that we had upon which we could form a strategic direction. So the synergy that was immediately recognised with this pilot is that if we are going to be looking holistically at across agency arrangement, it could in fact create a situation where you have a single contractual management arrangement over the maintenance which is occurring across out 29 diverse facilities... The synergy that we are thinking about is that we had no condition audit on these places and under this pilot contract that will actually be developing these condition assessments.

- **Department of Community Services**

The Department of Community Services have felt that the additional fees of DPWS to manage the contract may erode the agency's benefits with extra overheads. They note that agencies are concerned about the possibility of cross subsidising other agencies for maintenance. The Department also notes that the employment benefits are difficult to quantify and substantiate:

**CHAIR:** You were involved in the Riverina trial program. How are you finding that?

**Mr HIBBLE (Community Services):** It is early days yet. To a large extent, we are still in the data collection process at Public Works because our capacity to provide them with a reliable scope of works is dependent on our budget. It will be interesting to see how it goes. I think the idea is good. Because the area is so diverse and there is a relatively small pool of assets [30 properties] ... Of the agencies involved, the pool of assets and the investment that is being made is not large. So I am not sure whether that will be a good enough driver to determine whether those benefits that were mooted for a more streamlined management will be achieved. I think it is just a physical and dollar value issue. If you are only spending \$2 million, at the end of the day there is not a lot of margin for a builder to drive any employment growth... It might even have a detrimental effect on some regional employment. There is only a single head contractor. He is not driven by altruism; he is driven by his bottom line. There is potential for them to use their core assets of people, perhaps to the detriment of local providers that we might be using directly....

- **Roads and Traffic Authority**

The RTA is a participant in the Regional Pilot with 12 RTA sites included. The RTA submission notes that cost and time efficiency of arrangements are critical to service delivery (page 8):

At this stage, the pilot program appears to establish an extra layer of administration and cost on top of existing maintenance costs. The "standard condition maintenance contract" has also been proposed as a method of providing for regular maintenance. The RTA has not found that these arrangements to be satisfactory, as it does not allow for sufficient flexibility to adjust the maintenance program and shift or defer costs if required.

- **National Parks and Wildlife**

The National Parks and Wildlife Service is participating in the pilot. Currently all its building maintenance is contracted out but staff are involved in contract supervision and management. In its submission the Department states:

NPWS keenly awaits the commencement and eventual outcomes of this program, as it may represent significant improvements in the way maintenance is being delivered. This in turn may free up NPWS staff to concentrate on our core business of park and conservation management.

## **NON-PARTICIPATING AGENCY VIEWS**

- **Housing**

The Department of Housing declined to participate in the DPWS Regional Maintenance Pilot in the Riverina. At hearings the Department indicated its considerations:

**Ms MILLS (Housing):** Our regional director in western region, which covers that area, has been actively involved in considering the options around it (*the regional pilot*). My understanding at the moment is that the situation is one of wait and see. We have existing contracts so we cannot move ahead at the moment regardless, but we have indicated an openness to considering that option and want to stay part of the loop and stay monitoring its outcomes to see whether it would be appropriate when our contract comes up to pilot that approach ... We are open to those sorts of models but we still fundamentally have the issue that we are maintaining residential properties that are basically people's homes and we will be doing small amounts of work on those properties at any one time. That is somewhat different from other contracts the Government operates around facilities management or property management.

- **NSW Police**

The Police have not participated in the regional pilot in the Riverina. The reasons for this were outlined at hearings:

**CHAIR:**... I note that you did not choose to joint that regional pilot study for that small area and went State-wide...

**Mr MULLINS (Police):** When we looked at what was happening in maintenance, it became clear that there were three models that presented themselves for further investigation. One was the regional model. One was the model which broke up houses from police stations, that was looked at – and one was a State-wide model for everything. The regional model to me, the contract value would be quite small. My contribution in that would be quite small. I need a help desk. I need data management. That would be imposed on me if I have four help desks which I have got to pay for in a sense and I have got four issues and four lots of data coming in to manage. To me it was the economies were not there for me... whilst I have got a fair few properties the contract value would be minuscule.

## **Department of Juvenile Justice**

Although it is not participating in the regional pilot program, DJJ has noted its interest in the program and its potential application to juvenile justice centres. Their key concerns with the program are:

**Mr HERMAN (Juvenile Justice):**...We are trying to work out what the costs are, the different layers of fees, where the savings are, whether it is in dollars, whether it is in better service or whether it is better outcomes.

### **3.10.3 COMMENT**

The pilot is in preliminary stages. Scoping of works is still underway. The time taken to start the project has been an issue for participating agencies. It is not clear why this is the case: it may be that agency expectations have been too high, that coordination difficulties are greater than expected, or alternatively, that agencies are reticent to agree to common issues within the contract.

Agencies comments reflect concerns about realising efficiencies, possibilities of cross subsidies, and impacts on service delivery. These and other issues are discussed in detail in Chapter 4.

# CHAPTER FOUR – ISSUES AND RECOMMENDATIONS

## 4.1 INTRODUCTION

### 4.1.1 PURPOSE

The purpose of this report is to provide a snapshot of building maintenance trends and the status of building maintenance management in key NSW agencies. The report does not cover all agencies in detail. The Committee has focused on social infrastructure agencies whose building assets enable the delivery of government services.

The terms of reference for the inquiry has been to look at best practice examples of building maintenance services, strategies and allocations of resources relating to these services, and the application of relevant policies. The structure of this Chapter reflects this reference and outlines the Committee’s observations and, where appropriate, recommends further action or developments.

### 4.1.2 DATA SUMMARY

The Committee has observed that the methodology and form of maintenance management have evolved to each agency and its needs. **Table 4-B**, overleaf, outlines the characteristics of each agency’s approach.

**Table 4-A**, below, contains indicative data on key agencies maintenance approaches provided to the Committee. In interpreting this information it should be noted that:

- Asset values are in replacement values.
- Backlog values are variable. Some agencies have not defined backlogs in monetary terms. It is not possible to aggregate backlog estimates of agencies, however the notional aggregate backlog of maintenance is well over \$1 billion.
- The annual maintenance budget column reflects an average annual percentage spending against asset base.
- The last column shows the percentage of maintenance expenditure relative to value of asset base. Some “best practice” guides argue that this should be between 1.5% to 3% depending on the age of the asset.

**TABLE 4- A : Maintenance data of key NSW agencies**

AGENCY	PROPERTIES	ASSET VALUE*	BACKLOG	MAINTENANCE BUDGET P/A	% ASSET BASE
Education (not TAFEs)	2,225	\$13.7bil	Not available	\$157 mil for schools	1.14%
Housing	130,000	\$17bil	\$750mil	\$200 mil	1%
Police	80 commands (1400 properties)	\$500mil	Not Available	\$14 mil (includes cleaning)	2.8%
AGD	167 court centres	\$550 mil	\$16.6 mil	\$13.6 mil	2.5%
Health	2,147	\$7 bil	Not available	\$193 mil	2.75%
Corrections	26 facilities	\$670 mil	\$8 mil	\$16 mil	2%
J. Justice	19 facilities	\$136 mil	Not available	\$3 mil	2.2%
Community Services	300 properties	\$125 mil	\$26 mil	\$10mil	1%

**TABLE 4 –B : FEATURES OF NSW AGENCY MAINTENANCE CONTRACTS**

<b>AGENCY</b>	<b>Scale of contract</b>	<b>Scope of contract</b>	<b>Systems</b>	<b>Payment/ Term</b>	<b>Comment</b>
<b>Education</b>	23 regional contracts/ contractors for 2200 schools	Urgent and planned maintenance	Contractor hotline. Asset condition assessment and audit, condition based performance contracts	Annuity payment/ average 6 yr contract	Contract developed, facilitated, and monitored by DPWS in conjunction with DET. <i>* Cross Agency Pilot Participant (TAFE college) not part of School Maintenance Program.</i>
<b>Housing</b>	1400 responsive contracts and 300 contractors for 130,000 dwellings	Urgent (responsive) and planned maintenance	Department hotline. Asset survey under-way with 126,000 dwellings surveyed. Moving to performance contracts.	Payment by schedule of rates but moving towards condition based and annuity payment. Contract terms 1 –2 yrs (transition)	Arrangements are in transition. DoH model utilises elements from NSW Education model and New Zealand Housing arrangements.
<b>Police</b>	One state-wide “alliance contract” for 80 commands (1300 properties)	Urgent and planned maintenance	Contractor hotline. Joint management through agency/ contractor <i>alliance board</i> . Establishment of key performance indicators.	Unit rates for reimbursable and direct costs, but fee/ profit at risk against key performance indicators, 5 yr contract with 3yr extension	Only agency trying alliance style contract. DPWS not involved in process.
<b>AGD</b>	3 building services contracts for 167 court complexes, (5yr minor cycle, 10yr major cycle for maintenance works), 20 facilities management contracts	Urgent maintenance through DPWS Emergency Urgent Repairs Service, planned maintenance through contractors	Cyclical maintenance on small complexes, facilities management model on large court complexes (20 complexes)	Schedule of rates for breakdown repairs, fixed costs for preventative servicing. 3yr contracts	AG and DPWS have a Service Level Agreement. 80% of AG assets are heritage listed.  <i>*Cross Agency Pilot Participant</i>
<b>Health</b>	Each area health service (AHS) has in house contractors and subcontractors on performance and trade based contracts.	Urgent maintenance, planned maintenance and minor capital works	Comply with TAM but can be cyclical or condition based. Contracts vary between each AHS, contract renewal cycles are not synchronised between AHS.	Mixture of annuity payment systems and schedule of rates. Contract terms vary.	Strategic Health Management and Maintenance System is being developed by NSW Health. Includes consolidation of AHS property information and gives overarching asset management guidance. A capital charging policy is being piloted in some regions in association with Treasury.  <i>*Cross-Agency Pilot Participant – Greater Murray Area Health Service</i>

<b>AGENCY</b>	<b>Scale of contract</b>	<b>Scope of contract</b>	<b>Systems</b>	<b>Payment/ Term</b>	<b>Comment</b>
<b>Corrective Services</b>	Facilities based contracts for 26 centres. Mixture of in house, staff, skilled and unskilled labour and local contractors.	Preventative, corrective, extended period and arrears maintenance.	Five year rolling maintenance plan. Preventative maintenance on 3 year contracts on state-wide basis.	Variable in facilities management usually annuity payments.	Use of inmate labour adds specific dimension to maintenance management. Contractor safety issues increase overheads on contracts.
<b>Juvenile Justice</b>	9 juvenile justice centres each with on site maintenance officer.	Urgent and planned maintenance/ minor works, contractors for specialist activities also.	3 to 6 year cycles for internal and external work. Cyclic program is condition based.	Use of trade based packages for planned maintenance. This allows for better management of security issues.	DPWS involved at tendering and contract supervision. Same contractor safety issues as Corrective Services.
<b>Community Services and Aging</b>	300 dwellings/ group homes and large residential centres. 13 property services staff with DOCS	Regional based contracts managed by property services groups	Mixture of trade based and facilities management systems	Minor repairs in group homes managed by group home manager. Residential centres have trade based staff.	Larges centres are being wound up so there will be a transition to complete outsourcing of maintenance as these are converted to smaller aggregated care.  <i>*Cross-Agency Pilot Participant – 30 properties.</i>

### 4.1.3 COMMENT

Table 4.2 illustrates the various stages of NSW agencies maintenance management. It can be seen that some agencies are significantly advanced in their maintenance practices whilst others still have improvements to make. The difference in agency progress is in part due to the nature of the agency and the scale of the task, and in part to the priority given by agencies to maintenance management. For example, the Department of Housing with the State's largest property portfolio (130,000 dwellings) has taken much longer to complete each 'best practice' stage of operations such as asset registration and condition surveys.

The key issue from the Committee's point of view is whether agencies are changing their maintenance management for the better, i.e., that changes are consistent with 'best practice' principles. Generally the Committee is satisfied that, in the case studies, the agency reforms that have taken place represent 'best practice' improvements against each agencies historical approaches. However the respective agency improvements have not resulted in a uniform maintenance approach by all agencies. In effect there is no 'one size fits all' maintenance model for application to government agencies.

#### **FINDING**

The Committee has looked at a variety of new approaches being used for maintenance management in NSW, Australia and overseas. It has also examined the key elements for "best practice" maintenance, outlined in Chapter 2.

The Committee has found that the NSW agencies it has examined have all improved upon their historical maintenance arrangements and that the maintenance reforms taking place are consistent with best practice principles.

## 4.2 'WHOLE OF GOVERNMENT' ISSUES

### 4.2.1 A 'WHOLE OF GOVERNMENT' PERSPECTIVE

The Committee feels that agencies are improving their maintenance management through 'best practice' reforms. The next analytical step is to therefore determine those agencies whose 'best practice' reforms have created the most dramatic improvements and why. However the Committee has found that there is limited opportunity to make detailed conclusions about maintenance approaches for two main reasons:

- Firstly, a lack of 'whole of government' awareness of different maintenance approaches and reforms; and
- Secondly, a lack of indicators to compare the merits of different agencies approaches.

The Committee feels that there is no 'whole of government' perspective on maintenance reform. Although DPWS has indicated it is the monitoring agency

maintenance developments, various agencies such as Police, Housing and Health have been developing maintenance reforms without significant DPWS involvement.

The DPWS argues that it maintains a ‘whole of government’ policy role to systematically overview developments through its supervision and review of agencies Total Asset Management plans. However DPWS acknowledges that compliance with TAM varies considerably across agencies (see Section 4.2.3).

In light of these issues, the Committee feels that a renewed emphasis on asset maintenance is required. This involves greater direction from central agencies and initiation of component projects recommended by the Committee to make up a ‘whole of government’ program on maintenance.

The Committee believes that the emphasis needed on asset maintenance should come from the Government Asset Management Committee (GAMC). Established in June 1998, GAMC is the appropriate inter-agency group, with central agency input, to drive a ‘whole of government’ analysis of maintenance management reforms and to recommend action where appropriate.

#### **FINDING**

The Committee concludes that there needs to be a ‘whole of government’ perspective on maintenance to assess these improvements collectively, and recommends a program of projects to facilitate this.

#### **RECOMMENDATION 1- ‘Whole of government’ program for maintenance**

**That a ‘whole of government’ program examining agency maintenance issues is required and should be directed by GAMC. The components of this program make up Recommendations 2 to 5.**

#### **4.2.2 COMPARISONS BETWEEN AGENCIES**

To enable a ‘whole of government’ analysis of new maintenance approaches by agencies, measures need to be established to comparatively assess these new approaches against each other. *For example, how does Government compare a ‘facilities management’ approach in one agency to a ‘state-wide’ contract of another agency, or a cross-agency arrangement to a single agency approach?*

Table 4.A shows some comparators such as a ‘best practice ratio’ of between 1.5% to 3% of maintenance spending to asset value. However, this ratio alone is not an effective performance comparator between agencies because it fails to relate to outcomes in maintenance. Hence re-allocation of resources to meet this budget ratio will not automatically resolve maintenance problems.

Other indicators are needed to evaluate outcomes such as proportions of administrative savings, client satisfaction rates, and re-repair rates. These measures already exist within some agency systems but the measures are not standardised for comparison with other agencies. Information needs to be compared across agencies but also against equivalent agencies in other jurisdictions. This would enable a ‘like

with like' comparison in terms of service objectives eg NSW Police and Queensland Police.

The need for this kind of comparative performance information is not just confined to maintenance management. The Audit Office recently argued the need for agencies to improve their annual reports by providing performance measures that can be benchmarked in various ways including comparisons against other jurisdictions<sup>21</sup>.

The Committee recommends such mechanisms for comparative analysis of maintenance approaches should be developed and reported. The Committee acknowledges that care must be taken when evaluating these approaches against each other because of the unique needs of each agency. This project could be undertaken by DPWS and reported to GAMC.

#### **FINDING**

The Committee has found that measures need to be established to comparatively assess these new approaches against each other to enable a whole of government perspective.

#### **RECOMMENDATION 2 – Comparative performance of maintenance**

**That GAMC direct DPWS to consult with agencies to develop indicators that enable comparison of maintenance approaches between agencies, and also comparison with agencies in other jurisdictions, to inform the 'whole of government' maintenance program.**

### **4.2.3 TOTAL ASSET MANAGEMENT (TAM) COMPLIANCE**

As noted in Chapter 2 agencies must comply with Total Asset Management (TAM) requirements including Asset Maintenance Planning. It is understood that this is further scrutinised in the Budget process by the Treasury. However the Committee has found that the quality of compliance varies considerably. DPWS noted that compliance problems had been identified in a review in 1997:

**CHAIR:** What is the quality of agency compliance with these requirements?

**Mr JOHNSON (DPWS):** It is variable. Agencies are required to comply with the Government's total asset management policy that is set out in the TAMM 2000 document. A review was first conducted in 1997 and some 25 public sector agencies asset management plans... It would seem that agencies fell into three categories regarding the extent to which they were implementing total asset management. You must realise that TAM has been around since 1993 and that this review was conducted in 1997. At that time probably 70 percent of the agencies review were at the lowest level: they focused on the maintenance process as the main component of asset management. So the process was being managed rather than there being any kind of higher consideration or asset- providing service.

---

<sup>21</sup> *Judging Performance from Annual Reports*, Audit Office of NSW 2000, and *Better Practice Guide – Reporting Performance*, A guide to preparing performance information for annual reports, Audit Office of NSW 2000.

A small number of agencies – 15 odd percent – fell into a second category. They were looking at the output from the asset itself. The asset has to be at certain levels of conditions to provide services. However these agencies did not focus on the service itself. We assessed that a final 15 per cent were looking at providing resources to get service outcomes. All agencies probably found the most difficult part of the process establishing and determining the service levels and determining the what services they were supposed to be provide in enough detail to then plan their assets. There has been a major focus on addressing that issue since then...

DPWS stated that since 1997 the quality of compliance has improved with fewer agencies in the lowest performing group. However this figure is still about 50 per cent of agencies.

**Mr JOHNSON (DPWS):** Those figures may not be as bad as they sound in that the larger agencies that run infrastructure are in the top category. You would probably find that the small agencies with relatively small asset holdings are still languishing. They would all be non – infrastructure, and therefore social-type agencies.

**Mr COLLINS (DPWS) :** It is also fair to say that many agencies - particularly the larger ones have taken a lot of time to map down from the top.

Although agencies and GAMC are informed of these results there appears to be little impetus within the current arrangements to see these outcomes improved.

**Mr BROWN (Committee Member):** ...what this Committee often has a problem understanding is why some agencies are so far behind other agencies. We want to identify those agencies and try to work out how they can be improved. You are talking about social agencies and you put Police in that category. What other big agencies, like Police, are in that 50 per cent.

**MR JOHNSON (DPWS):** It would be reasonable to include Education and Health. Health plans were not reviewed but I put them into that same category. Maybe I could illustrate it by saying that it is not contentious to determine service delivery strategies when you are playing with the likes of a water supply... I would suggest that it is contentious if,...you have to be very specific about the levels of service you will provide. If you consider what that means it is not just saying, “ We will have the best police force or the best education system”. It is very specific because, remember you have to be able to get it specific enough that you can hand specific asset requirements on it. You then have to set standards for specific parts of that service. What does become daunting you will supply, de facto, you are saying what you will not supply.

DPWS appears to infer that social agencies quality of compliance with TAM and Asset Maintenance Planning as poor. Nevertheless the Committee has had evidence of how social agencies including Police, Housing, Education and Health have pursued reforms in maintenance management. Education has made changes to maintenance management in collaboration with DPWS, whilst Police, Health and Housing have initiated programs with little DPWS involvement.

On balance the Committee feels that further investigation is required to identify why compliance is not being actively pursued by some agencies. Various issues may give rise to poor compliance such as:

- complexity of TAM requirements;
- shortfalls in agency resources dedicated to compliance tasks; or

- lack of incentives or penalties attached to compliance by supervising agencies such as Department of Public Works and Services, and Treasury.

Given that DPWS and Treasury are supervising agencies and because TAM includes other asset management issues as well as maintenance, the Committee sees that GAMC is better suited to oversight the examination of this issue and should allocate the task at its discretion.

**FINDING – Compliance with TAM**

The Committee has found that the compliance with TAM requirements, including maintenance planning, varies between agencies. However, agencies that may not be complying with TAM may nevertheless making significant “best practice” reforms in their maintenance management. The Committee feels that the reasons for poor compliance need to be identified.

**RECOMMENDATION 3 – Compliance review of TAM**

**That GAMC oversight an investigation of agency compliance with TAM requirements, to identify the level of compliance and the reasons for non-compliance.**

## **4.3 BACKLOG MAINTENANCE**

### **4.3.1 BACKGROUND**

Backlog or deferred maintenance programs of several key agencies is a concern to the Committee. The Department of Housing’s maintenance backlog, which was made subject of an Auditor General’s Report in April 2001, has estimated a backlog of \$750 million. Other agencies have indicated various levels of backlog (see Table 4-A). The aggregate value of backlog over the entire NSW public sector has not been estimated by the Committee, but based on the agencies examined in this report, a conservative estimate would be at least \$1 billion.

Agencies point to insufficient budget funding as the primary cause of accumulated backlog. However, changes in legislative obligations such as fire safety upgrades and heritage requirements also add to this burden, particularly where these additional obligations have not been matched with additional funding. Heritage management and “backlog heritage maintenance” issues are detailed in Section 4.6.

The reforms to particular agency’s maintenance regimes that have been outlined in this report do not necessarily deal with backlog issues. In some instances the backlog component has been drawn into the new contracted arrangements. For example in the case of the Schools Facilities Maintenance Contracts, remedial maintenance to bring school facilities up to appropriate condition standards was included in the tender contract specifications. In other cases, such as the Department of Housing, maintenance backlog has not been dealt with because the process of maintenance reform is still in preliminary stages.

### 4.3.2 COMMENT

The Committee feels that a strategic approach to address significant backlog issues is absent from current arrangements, at least, in the identification of maintenance backlog and possibly more broadly. Backlog analysis is made difficult because of the classification of backlog is disputed to be too broad or inappropriate. The Committee feels that a general assessment of the value of backlog should be attempted to clarify these issues.

Moreover a compelling argument for analysis of backlog maintenance is the concern about its impact on service provision and service quality. The Committee believes that where backlog maintenance is identified to be significantly impacting on service outcomes, then maintenance “catch up” strategies should be considered a priority.

The DPWS TAM asset manual does not specifically detail revision or ‘remedial’ programs to assist development of “catch up” maintenance strategies. The TAM manual primarily focuses on agency ownership and tailored approaches to maintenance management within current policy and Treasury budget frameworks.

The Committee feels that backlog issues should be integrated into the management approaches more overtly, starting with a ‘whole of government’ assessment of the issue. There are various agencies, which may have an interest in managing an assessment of backlog maintenance including DPWS, the Audit Office, and the Treasury. Alternatively the task could be put to tender. The Committee has no preference for this arrangement. The Committee recommends that GAMC allocate the task at its discretion and coordinate a Government response.

#### **FINDING**

The Committee has found that the quantum and impact of backlog maintenance across agencies should be estimated and examined.

#### **RECOMMENDATION 4 – Backlog maintenance**

**That GAMC direct a ‘whole of government’ assessment of backlog maintenance which:**

- **Estimates the value of backlog maintenance and its future cost implications;**
- **Identifies the causes such as OHS liabilities or heritage requirements and also the sources of backlog such as inadequate funding, ineffective maintenance systems or structures, or inadequate matching of service demands to each agency’s supply capacity;**
- **Identifies the relevant service delivery impact of backlog maintenance to determine priority areas and possible rationalisation of backlog maintenance classifications and valuations;**
- **Examine whole of government strategies for backlog maintenance management and identification of possible preferences for structures of maintenance management. This may include changes in budget approaches and policy directives on maintenance management structures;**

## 4.4 HERITAGE MAINTENANCE

### 4.4.1 BACKGROUND

Heritage management in NSW is provided principally through the NSW Heritage Act 1977<sup>22</sup>, which is administered by the Minister for Urban Affairs and Planning. The Act establishes the Heritage Council, the NSW Heritage Office and various statutory heritage registers. Heritage items are predominantly public buildings but also include archaeological sites, parks, private buildings and indigenous sites.

There are standard heritage categories established under Department of Urban Affairs and Planning guidelines/ criteria. Heritage significance is generally determined by a professional heritage assessor. Agencies should have their heritages assets noted in their asset registers.

There are three main lists of heritage items managed by the Heritage Office. The State Heritage Inventory is an electronic database of over 17,500 statutory listed heritage items in NSW, both public and private, linked to schedules under local environment plans, regional environmental plans or the Heritage Act.

The State Heritage Register is a sub-list of the Heritage Inventory, and identifies both public and private heritage items of 'State Significance', gives that heritage item protection under the NSW Heritage Act, and requires approval from the NSW Heritage Council for certain kinds of work. There are approximately 1400 properties on this register including 580 State government properties across 80 agencies. Heritage items on this register must be approved by the Heritage Council and the Minister.

A further sub-list, known as a Section 170 Register, is required to be kept by government agencies which identifies all its remaining properties which have some level of heritage significance but are not captured as a State Heritage Register item.

### 4.4.2 HERITAGE REQUIREMENTS

The most relevant aspect of these heritage requirements to building maintenance is the recent imposition of minimum standards for maintenance and building repairs. With amendments in 1999 the Heritage Act now imposes Minimum Standards for Maintenance and Repair (MSMR), in relation to items on the State Heritage Register.

The maintenance standards focus on weatherproofing; fire protection; security and essential maintenance. The standards do not require restoration only the maintenance of a building to a minimum standard such that it does not deteriorate beyond repair. The arguments for these arrangements are noted in the Heritage Office submission (p2):

---

<sup>22</sup> Other relevant legislation includes NSW planning legislation, the National Parks and Wildlife Act 1974, Historic Houses Trust Act 1988, regulatory controls under local government legislation, and the Commonwealth Government's Australian Heritage Commission Act 1975.

Heritage assets that are not managed in accordance with these basic principles will invariably suffer deterioration, leading to higher long term costs to the agency and community because of:

- Higher deferred maintenance costs;
- OH&S considerations; and
- Lost economic opportunities from the use or adaptive reuse of the asset

The MSMR only applies to State Heritage Register items and obliges agencies to maintain their identified heritage items in accordance with best practice heritage management principles issued by the Minister and guidelines issued by the Heritage Office.

Since 1988 agencies are required to include a summary of their Section 170 heritage items and a statement on the condition of items in the care of agencies in their annual reports. Agencies' Section 170 items require maintenance provision that is consistent with the building needs but do not have the statutory MSMR requirement.

The Heritage Office does not specifically monitor all properties but relies on the information required in agencies annual reports to check agency compliance with the maintenance standards. The Office notes however that (p.3):

Although this requirement was introduced in the 1987 amendments to the Heritage Act, there has yet to be full compliance by all government agencies.

To improve current arrangements the Heritage Office is currently preparing Ministerial Principles and Heritage Council Guidelines as follows (p.3):

a) State Owner Heritage Management Principles

These principles will outline the essential heritage management obligations for agencies. Government agencies will be required to maintain assets on their heritage registers with due diligence in accordance with these principles. The Minister will be responsible for approving the principles and notifying government agencies of their responsibilities. The principles will ensure that an appropriate balance is reached between the need to conserve heritage and the need for the continued provision of services, having regard to public financial resources. The principles will also ensure that the State's publicly owned heritage assets are better protected and managed by requiring that agencies integrate heritage considerations in their asset management decision making.

b) Heritage Asset Management Guidelines

To supplement the broad guiding principles, the Act empowers the Heritage Council to issue detailed Heritage Asset Management Guidelines. The Guidelines will address matters including maintenance, repair, alteration, transfer of ownership and demolition. Under the Act State Agencies are required to comply with Heritage Council guidelines. The Heritage Council will consult government agencies and relevant community peak bodies to ensure that the guidelines are effective practical and comprehensive.

The Guidelines are expected to be developed in consultation with agencies and completed by mid 2002.

In the TAM manual, the Department of Public Works and Services outlines heritage management and processes, agency roles and responsibilities. It also suggests how heritage issues should be incorporated into strategic planning. The Department also

has a Heritage Design Services group that provides advisory services to agencies on heritage matters.

Funding for heritage maintenance of agencies properties is the agencies responsibility and is generally sourced from agency maintenance budgets through the normal applications for capital works and maintenance expenditure to Treasury. The TAM manual suggests that “Across Agency Capital Programs” for heritage works are available where there are economies of scale or management advantages to funding programs that affect several agencies. This is no reference to funding for across-agency maintenance programs.

#### **4.4.3 COMMENT**

The NSW Government represents the largest owner of heritage assets in NSW. Collectively the agencies examined by the Committee are responsible for a considerable number of properties with heritage features. For example, heritage buildings make up 80 per cent of Attorney General Department properties, and about half of the Department of Education properties are heritage listed. Obviously heritage considerations will increase as the quantum of buildings age and new heritage listings are added. Administrative and management costs to agencies to manage their heritage assets are also likely to increase.

Heritage requirements of properties impact on costs and must be incorporated into maintenance programs. However the extent of “heritage maintenance cost burden” is not clear. There appears to be a variety of reasons for this lack of clarity.

The Heritage Office notes that agency compliance with heritage requirements is not comprehensive, hence the impact of heritage issues may not be fully realised by some agencies. The Office’s initiative to develop Ministerial guidelines, suggests that overall agencies may not be effectively identifying and reporting on heritage management obligations nor accommodating heritage maintenance requirements.

The Heritage Office also suggest that there is definitional confusion as to what is heritage maintenance verses deferred (or backlog) maintenance (p.2):

It is important to note that all building assets require routine short and long term maintenance, irrespective of their age or condition. Agencies have been known to describe such costs as being related to the “heritage nature” of an asset only. This can give a misleading indication of the costs of operating “heritage” assets. The need to restore a heritage item is often a direct consequence of “deferred maintenance”.

Technically the only “heritage maintenance requirements” are those required under the State Heritage Registers. However heritage maintenance could also be seen as maintenance that imposes additional costs on top of standard maintenance requirements applying to active agency properties. This will generally be related to conservation plans for properties, which indicate a particular standard of finishes, specialist repairs or materials. However heritage maintenance might also include the costs of maintaining “heritage assets” that are not in active use but where the actual type of maintenance required such as fire proofing or security may not be of a specific heritage nature.

Determining what constitutes heritage maintenance and finding funding are likely to become pressing issues. Agencies are required to focus on core service delivery, which may lead to tensions and budget difficulties between agencies' primary roles and their heritage caretaker responsibility.

At this stage the particular costs of maintaining the State's heritage assets is not known but it will increase over time. Concerns about these issues are reinforced by the Audit Office's submission to the Committee, which suggests that the quantum and nature of future maintenance costs of heritage buildings needs attention and analysis.

The Committee believes the assessment of heritage maintenance would be most effective if undertaken in conjunction with the assessment of backlog maintenance and in consultation with the NSW Heritage and the Heritage Council. The Committee recommends that GAMC allocate the task at its discretion and coordinate a Government response.

**FINDING**

The Committee has found that the impact of heritage requirements for building maintenance across agencies should be examined.

**RECOMMENDATIONS 5 – Heritage maintenance**

**That GAMC direct a 'whole of government' assessment of the heritage building maintenance which:**

- **Distinguishes, where appropriate, 'heritage' building maintenance obligations from general maintenance requirements and backlog or deferred maintenance assessments.**
- **Estimates the future costs of heritage building maintenance for the public sector taking into account:**
  - a) **Recent statutory heritage building maintenance requirements and heritage valuation and related administration costs for agencies;**
  - b) **The proposed Ministerial Principles and Heritage Council Guidelines for State owned heritage properties including any changes to agency reporting requirements;**
  - c) **Considers whole of government strategies including agency financing and budget approaches for addressing heritage building maintenance requirements; and**
  - d) **That the heritage maintenance assessment be in conjunction with the assessment of backlog maintenance**

## 4.5 STRUCTURES OF MAINTENANCE CONTRACTS

### 4.5.1 INTRODUCTION

Examining each agencies arrangements in turn, the Committee has observed that although there is significant variation in each agency's maintenance contracts in terms of scale and scope, four major approaches appear to be running in parallel:

- **Single agency/ single state-wide head contract approach** – Police;
- **Single agency/ regional head contract approach** – Education, Housing, Health (AHS), Ags;
- **Single agency/ facilities management approach** – Corrections, Juvenile Justice and larger complexes in Ags; and,
- **Cross-agency/ regional head contract approach** – DPWS Regional Cross-Agency Maintenance Pilot (the Cross-Agency Pilot).

As mentioned previously, the Committee feels that the agencies it has examined have all improved upon their historical arrangements with their new maintenance contracts and maintenance reforms. However it is difficult to determine which new contract structure, if any, is superior to another. Hence Recommendation 2 to develop comparative indicators so that a 'facilities management' approach in one agency can be compared to a 'state-wide' contract of another agency, and a cross agency arrangement can be compared to a single agency approach.

The following discussion focuses on the two most recent variations in contract structures: regional contracts and cross - agency contracts.

### 4.5.2 REGIONAL CONTRACTS

A further structural element in some of the new contracts is the regionalisation of contracts to varying geographic areas. It should be noted that informal regionalisation of contracts occurs in almost all agencies through delegation of service delivery. Even a single state-wide contractor would be in contact or accountable to regional managers at a service delivery level. However in some cases a regional contract is created explicitly to achieve certain goals.

A particular example of this is the Department of Education's Schools Facilities Maintenance Contracts (SFMC) which, beside its maintenance focus, was structured to enhance regional development and promote preferred regionally based tenderers (splitting the State into 23 contract regions). The same regional development rationale underlies the Cross Agency Pilot discussed in Chapter 3.10<sup>23</sup>.

The Committee acknowledges that a regional contract might be a suitable structure for particular circumstances allowing benefits from economies of scale. The Committee is interested in whether there is merit in the additional argument asserted

---

<sup>23</sup> Page 20, DPWS Submission refers to the Regional Procurement Program approved by Government in December 2000. The Cross Agency Pilot was a key component of this program.

by some submissions, that regional benefits can be derived from bundling of maintenance contracts at regional scales.

The Committee has found that, to date, there is little evidence or comparative measures to evaluate how the impact of scale of contract generates particular regional benefits.

For example if we look at the Cross Agency Pilot, developed by the DPWS, the performance measures for “regional development” that are proposed are:

- increased use of regional small and medium enterprises participating in the contract;
- increased employment; and,
- increased regional investment in technology, plant and equipment<sup>24</sup>.

It is acknowledged that potential regional economic gains may result from regional contracting structures through the use of local subcontractors and suppliers, and the establishment of a local administration. However, it is not automatically the case that State-wide or facilities based contracting would mean the loss of local economic benefits. Irrespective of contract scale, it is often the case that local area subcontractors are used for service delivery.

State-wide or facilities based contracts may produce savings in the contract costs through economies of scale, which can benefit the agency and also improve services to regions. Furthermore, since restructured regional contracts may involve changing the scopes of works and additional resources, then measuring increases in employment against historical employment arrangements may be misleading.

The proposed regional development measures for the Cross-Agency Pilot may not be conclusive because of such considerations. It has been posed that the regional scale may even have negative impacts, where, for example, it replaces a facilities management arrangement:

**Mr Hibble (Community Services):** Of the agencies involved, the pool of assets and the investment that is being made is not large. So I am not sure whether that will be a good enough driver to determine whether those benefits that were mooted for a more streamlined management will be achieved. I think it is just a physical and dollar value issue. If you are only spending \$2 million, at the end of the day there is not a lot of margin for a builder to drive any employment growth... It might even have a detrimental effect on some regional employment. There is only a single head contractor. He is not driven by altruism; he is driven by his bottom line. There is potential for them to use their core assets of people, perhaps to the detriment of local providers that we might be using directly....

On this basis the Committee does not feel that set “regional” sized contracting is appropriate to promote regional development if it significantly compromises value for money outcomes for the agency.

As part of the framework for the SFMC, the Department of Education and the Department of Public Works and Services has also determined that no head

---

<sup>24</sup> Department of Public Works and Services Submission , Appendix C- Regional Maintenance Pilot, Key Performance Indicators.

contractor can be awarded more than three regional contracts. It is understood this constraint is to limit the opportunity for a monopoly contractor to emerge and in effect operate a State wide contract arrangement.

Given that the link between regional contracts and regional benefits is difficult to establish, the Committee has concerns about restricting the number of contracts that can be held between a contractor and an agency in order to promote regional development. The primary quality of the successful contractor should be their capacity to provide effective service delivery. Agencies should not preclude particular tenderers from competing because of the tenderer's other activities.

Despite these issues, the Committee supports regional contract arrangements such as the Schools Facilities Maintenance Contract that have the potential to deliver both improved services for agencies and provide regional benefits.

The Committee therefore proposes that agencies have an open approach about the scale of contract they require and focus on whether the proposal meets the fundamental contract objectives and outcomes. Regional packaging of contracts can be considered alongside other contract options (state-wide or facilities contracts). The impacts, including regional benefits, of various options can be considered transparently.

#### **FINDING**

The Committee supports efforts to enhance regional development. However the Committee has found that it is difficult to establish and measure the benefits and costs associated with structuring agency maintenance contracts to promote regional development.

The Committee believes that the primary determinant for the structure of a maintenance contract should be the capacity of that contract and contractor to provide effective service delivery. Constraining the structure of contracts to a regional level to promote regional development is not appropriate if it significantly compromises value for money outcomes for the agency.

#### **RECOMMENDATION 6 – Regional Maintenance Contracts**

**'Regionally' structured contracts adopted by agencies to promote regional development should be transparent, and that benefits and costs accruing to agencies and to the regions should be distinguished and monitored.**

#### **4.3.3 CROSS AGENCY CONTRACTS**

The DPWS cross agency maintenance pilot, (the Cross-Agency pilot) represents another significant variation in contract structure. As a pilot, the contract has been constricted to a regional area. The issues associated with the regional contracts are noted in the preceding section. This section focuses on the implications of sharing a maintenance contract between agencies.

Chapter 3.10 outlined the comments of agencies, both involved and not involved, in the Cross –Agency Pilot. Generally the main comments include:

- **Costs of DPWS management fees:** Department of Community Services and RTA have raised concerns that the additional fees of DPWS to manage the contract may erode agency benefits with extra overheads. AGs have noted that reduced costs are not being realised at initial stages.
- **Unnecessary duplication of systems:** NSW Police, which has a state-wide arrangement is not participating in the pilot because it would mean the creation of a second data and management system outside their State wide system. DOCs and AGs also raised coordination problems as agencies have to agree and define their scopes of work for inclusion in the contract. There are also difficulties in coordinating maintenance schedules to meet the demands of agencies.
- **Appropriateness of pilot to agency needs:** Department of Housing is not participating because of commitments to current contractors. However they also note concerns about unique maintenance requirements and procedures for Department of Housing maintenance which may not work well in a shared agency arrangement, specifically the special considerations involved in entering tenants residences.
- **Potential cross subsidies between agencies:** AGs and DOCs also raised the issue of cross subsidies arising from pooling maintenance budgets. There are also accountability concerns as the client agency is remote from the contractor via third party management and other client agencies. RTA has also noted that the “standard condition contract” does not give sufficiently flexibility to agencies to adjustment or to shift or defer costs if required.

Budget agencies require a high level of accountability for agency spending and Government policy requires that spending be aligned with service delivery objectives. Given these influences, agencies can be reticent to consolidate activities with other agencies where payments cannot be directly related to their individual needs. Combined arrangements have the potential for agencies to lose oversight of particular budgets and outcomes. This lack of transparency and the potential for cross subsidies between agencies in multi-agency contracts are key agencies concerns and acknowledge in part by DPWS

**Mr Collins (DPWS) :** Clearly, there are some understandable concerns. One thing is: Do I lose some control over how my assets go? That would be a fundamental and totally legitimate concern for any agency. One thing the pilot is about is trying to demonstrate how in effect you can do these things so they can get all the things they want out of the systems.

Agency comments about multi-agency maintenance contracts which include urgent or unplanned repairs, illustrates these concerns. Although a contract payment may be fixed (by an annuity), the averaging of different risks and un-predictability in unplanned maintenance works will be factored into contractors’ risk premiums and included in the overall value of the contract. Agencies may therefore face higher costs if they are combined with higher risk agencies than themselves.

For example, the Attorney General’s Department has relatively minor urgent repair incidences in its overall maintenance profile, whilst TAFE has more frequent urgent repair incidences (ie higher rates of vandalism). A contract which covers urgent repair services for many agencies would average out requirements between these extremes, and the contributions from each agency would reflect a cross subsidy.

Although it may be possible to separate or weight each agency's contributions to better reflect their needs and this limit cross subsidisation, in doing so the rationale for combining agencies requirements is undermined. If agency payments have to be decoupled, then the merit of combining arrangements in the first place is diminished.

On the other hand, where risks are insignificant or there are similarities in risk across agencies, a multi agency contract may allow for benefits of economies of scale that lead to price discounts from combining agencies' requirements. This scenario might be more appropriate for specialist repair programs such as OHS or heritage requirements, which have less risk of variation and more predictable, discrete scopes of work.

Generally the Committee feels that maintenance activities which have more risk and uncertainty, such as unplanned repairs, may not benefit from cross agency operations because the combination of risk could lead to higher combined costs. Agencies will have different base line maintenance requirements, which may influence the effectiveness of particular combinations of agency contracts. The Committee does not feel that a definitive policy that sets the type of maintenance contract scale across the whole of government is appropriate.

Consideration of cross agency planned maintenance contracts, with clearly defined scopes of works, may be more appropriate than cross agency programs where risk is averaged across agencies. This argument applies irrespective of whether the combination is made between agency maintenance programs at a State-wide level or within regions.

The Committee suggests consideration of a cross agency heritage maintenance pilot. As noted in section 4.4, heritage maintenance is often quite specialised, such as stone and ironwork, which suits trade based contractor structures. Regions will often have a grouping of heritage properties across different agencies with common heritage maintenance requirements, for example stonework repairs on the local school and courthouse.

A cross-agency contract for planned maintenance work such as heritage work may be more appealing to agencies than one dealing with unplanned maintenance. Since agencies are not placed in the position of cross subsidising other agencies for unplanned work. Given these characteristics a regional trade based heritage maintenance contract might be suitable to trial.<sup>25</sup> This could be undertaken by the commercial arm of DPWS as per the cross agency pilot or put to tender.

**FINDING**

The Committee has found that cross agency maintenance arrangements, that include urgent or unplanned maintenance, are likely to have significant risk and associated cross subsidies, which can counter potential benefits and compromise accountability. This concern appears to undermine agency's willingness to participate in cross agency arrangements.

Cross agency maintenance arrangements might be more attractive to agencies where they focus on low risk, planned maintenance activities that are common to agencies, such as heritage or OHS regimes.

**RECOMMENDATION 7 –Cross agency maintenance contracts**

**That the DPWS policy services consider piloting a regional cross agency “heritage maintenance” contract arrangement.**

**4.5.4 OTHER PROPOSED CONTRACTS**

In its submission the DPWS notes that it has a ‘whole of government’ policy development role in relation to asset management and it also operates a commercial arm for project management and other services.

Given the DPWS policy role, the Committee has already made recommendations for DPWS to develop comparative indicators for maintenance across agencies (**Recommendation 2**) and to develop a pilot project of a cross agency heritage maintenance contract (**Recommendation 7**).

In its ‘whole of government’ role overseeing asset management, DPWS can develop and initiate trials of innovative projects. Its collaborative projects like the School Facilities Maintenance Contract development and the cross agency pilot illustrate its overarching policy development role. DPWS argues that the lessons learnt from improved management projects such as the Schools Facilities Maintenance Contract are fed into the policy process to the benefit of the whole of government.

Because the Schools Management Project required a significant level of investment in development, DPWS shared the costs with Education. However with the cross-agency pilot, although these items are developed with agencies on a co-operative basis, the commercial management and costs are being charged by DPWS to those agencies.

In effect this arrangement enables DPWS to create commercial opportunities from its policy role. The Committee has reservations about the DPWS charging agencies for ‘whole of government’ policy development activities over which it has exclusive activity. The Committee has heard anecdotally that there are a variety of reasons why DPWS Commercial arm is not utilised by agencies, including:

- Uncompetitive tenders or management rates;
- Unnecessary layers of third party management for some agencies;
- Dissatisfaction with historical involvement or services from DPWS; and
- Lack of agency specialised knowledge.

The Committee has not investigated these issues but believes that such concerns would be negated if projects, once developed, should be opened to competitive

---

<sup>25</sup> The DPWS currently manages a Public Buildings Stone Conservation Program which collects and reuses stone from various restoration projects to resource other projects. The works are funded from each agency’s resources.

tender. This would remove any constraints in accessing the relevant expertise, be it public or private, and ensure projects were undertaken at the most competitive rates.

Obviously there are preliminary considerations in scoping a project, which have to take place and be co-ordinated through the policy arm of the DPWS in conjunction with its 'whole of government' role. However this is not a commercial activity to which agencies should necessarily contribute commercial fees. Hence the Committee has only recommended that the DPWS develop the policy projects and that the management of such projects should then be put to competitive tender.

**RECOMMENDATION 8 – Tendering of DPWS projects**

**That 'whole of government' policy projects developed by the DPWS should be put to competitive tender for project management.**

## **4.6 NEW DEVELOPMENTS**

### **4.6.1 PRIVATE FINANCED PROJECTS (PFP)**

As discussed in Chapter 2 there are a variety of new approaches to maintenance management, in particular, private managed maintenance associated with private/public financed assets. The Committee notes that the Government's Guidelines for Working with Government (November 2001) has identified a broad range of potential privately financed projects (PFP) in particular in the social services areas. The Government Guidelines identifies potential areas to include: new schools complexes, multi agency complexes (health and police) and court complexes.<sup>26</sup> As in this inquiry these social service areas are referred to as social infrastructure.

With PFPs the Government has identified that maintenance and refurbishment risk can be allocated to a private operator<sup>27</sup> and maintenance management provided under various contract options. The Committee agrees with the Government's risk allocation provided that maintenance standards are developed and articulated in these projects appropriately.

### **4.6.2 SOCIAL INFRASTRUCTURE AND PFP**

The case studies in this report have focused on social infrastructure, that is, agencies whose core business is service delivery. In Chapter 2 it was noted that 'best practice' maintenance regimes rely on agencies articulating service objectives and linking these to maintenance standards so that assets can appropriately and efficiently deliver services. Determining such standards and establishing systems to monitor such standards can be a complex and demanding task as illustrated by the varied progress in reforms by NSW agencies.

---

<sup>26</sup> Working with Government: Guidelines for Privately Financed Projects and supplement Emerging PFP Opportunities, November 200, NSW Government.

<sup>27</sup> Working with Government: Guidelines for Privately Financed Projects, November 2001, NSW Government – Appendix 3: Risk Table p70

DPWS notes that social infrastructure agencies tend to have a more difficult task when defining service standards for maintenance purposes compared to other infrastructure agencies:

**Mr JOHNSON (DPWS):** In terms of the types of agencies that were doing better than others, we discovered that the agencies that controlled infrastructure type assets – road infrastructure, water supply and so on found it easier to establish a service level. It was probably easier to define. They also found it easier to turn that service delivery standard into some kind of asset standard – bumps per kilometre type of standard that they could maintain. Overall, the social agencies have a harder time: they had more difficulty providing that linkage.

#### 4.6.3 COMMENT

The Committee notes the Government's proposal for privately financed projects of social infrastructure may involve out-sourcing of maintenance management.

The Committee understands that whilst private operators have an incentive to sustain maintenance in order to maximise property value, the timing and the sequence of maintenance provision is discretionary and may not automatically align with agency requirements. For example, a private provider may choose to perform certain maintenance just prior to lease expiry or asset resale. Asset maintenance may also be interrupted if there is early termination of the contract.

In recognition of these potential problems and the risk posed on the residual value of an asset, the Government has suggested that it impose maintenance and refurbishment obligations to avoid such inconsistency in maintenance provision<sup>28</sup>. Hence agencies need to have a thorough knowledge of maintenance outcomes necessary to meet service obligations in the PFP, so that maintenance risk and associated asset failure can be minimised.

Under the Government's PFP policy, *Public Sector Comparators* will be developed for all proposals to assist the Government in determining if a private finance arrangement offers better value over traditional methods of government delivery. Differences in economic and social infrastructure delivery are to be taken account of in the construction of the *Public Sector Comparators*.

The Committee has heard that in some agencies such as the Department of Housing (DOH), there are service synergies to be gained from retaining parts of the maintenance service provision in-house. DOH's centralised maintenance call centre deals directly with the public (tenants) and uses this contact point to refer clients to additional DOH services. This multiplicity of service delivery capability is the type of consideration that should be recognised in the construction of *Public Sector Comparators* for social infrastructure.

The Committee believes that a key factor in the success of PFP projects will be the precise specification of maintenance and asset service standards. Particular care should be taken in social infrastructure projects to ensure agencies clearly identify the links between service delivery and maintenance standards. Agencies should be

---

<sup>28</sup> Working with Government: Guidelines for Privately Financed Projects, November 2001, NSW Government – Appendix 3: Risk Table p76

encouraged to ensure that the maintenance regime in place under the private financing arrangements is responsive to service demands.

Where this can be achieved with confidence, the application of PFP models may be suitable for a variety of programs including cross agency initiatives and specialist programs such as the cross agency maintenance contracts and heritage maintenance programs noted earlier.

**FINDING**

The Committee believes that specifying maintenance outcomes is critical to ensure service objectives will be met in PFPs.

**RECOMMENDATION 9- Maintenance specification of new privately financed projects**

**That the Government’s assessments of new privately financed projects (PFP) include a specified maintenance regime articulated against service objectives of the relevant agency.**

## APPENDIX 1

### ***LIST OF SUBMISSIONS***

1. CJC Maintenance Services, Albury
  2. Shields Painting and Decorating
  3. Australian Procurement and Construction Council
  4. Minister for Corrective Services, New South Wales
  5. Audit Office of New South Wales
  6. New South Wales Fire Brigades
  7. Environment Protection Authority, New South Wales
  8. Institute of Public Works Engineering
  9. Minister for Juvenile Justice, New South Wales
  10. New South Wales Police Service
  11. New South Wales Department of Health
  12. Attorney General's Department, New South Wales
  13. Department of Education and Training, New South Wales
  14. Treasurer of New South Wales
  15. Department of Housing, New South Wales
  16. Department of Community Services, New South Wales
  17. Department of Public Works and Services, New South Wales
  18. Department of Administrative and Information Services, South Australia
  19. Civil Contractors Federation
  20. Department of Land and Water Conservation, New South Wales
  21. Department of Transport, New South Wales
  22. New South Wales Heritage Office
  23. National Parks and Wildlife Service, New South Wales
  24. State Contracts Control Board , New South Wales
  25. Local Government and Shires Association, NSW Division
-



## APPENDIX 2

### HEARINGS AND WITNESSES

FRIDAY 29 JUNE 2001

Organisation	Witness
Department of Health	<b>Mr Michael Stokes</b> , Director, Capital and Asset Management
Attorney General's Department	<b>Mr Bill Brown</b> , Director, Capital Works
NSW Police Service	<b>Mr Barry Mullins</b> , Director, Property Services
Department of Education and Training	<b>Mr John Burkhardt</b> , General Manager of Properties, DET <b>Mr Phillip Peace</b> , Director of Properties Services, <b>Mr John Zahn</b> , Program Manager, Schools, Department of Public Works and Services

WEDNESDAY 22 AUGUST 2001

Organisation	Witnesses
Department of Public Works and Services	<b>Mr Tony Collins</b> , General Manager, Project Management Group <b>Ms Christine Wong</b> , Manager Planning, <b>Mr Bryan Johnson</b> , Senior Policy Officer, Total Asset Management
Department of Housing	<b>Ms Carol Mills</b> , Acting Deputy Director General <b>Mr Brian Donnelly</b> , Executive Director, Strategic Asset Management
Department of Juvenile Justice	<b>Mr Robert Herrmann</b> , Director, Corporate Services
Department of Correctional Services	<b>Mr John Desborough</b> , Property Manager, Corporate Services <b>Mr Gerry Schipp</b> , Executive Director, Finance and Asset Management Division
Department of Community Services	<b>Mr Ivan Hibble</b> , Manager, Property Services



### **PERFORMANCE CONTRACTING**

The Organisation for Economic Cooperation and Development (OECD) Public Management Committee's Performance Contracting report of November 1999 examines case studies of different performance contracting across selected OECD countries and compiled a 'Framework for Public Sector Performance Contracting' *PUMA/PAC (99)2*.

Performance contracts in the public sector are increasingly being used in a variety of contexts from strategic planning of government service delivery to staff management.

The term 'performance contracts' covers a range of management instruments used to define the responsibilities of and expectations between parties to achieve mutually agreed results.

There are a variety of performance contracting arrangements being used by the public sector.

The common feature of these arrangements is a shift from a traditional contractual model to a relational model for the contractual parties. Traditional contracts are characterised by strictly legalistic documents with prescribed sanctions for redress and non-compliance. Performance contracting can be described as contractual relationships between parties which encompass flexibility in contractual specifications in order to recognise the difficulty in specifying targets and measuring results in delivery of types of government objectives. These arrangements may still entail legally enforceable elements.

PUMA identifies seven broad types of performance contracts:

**Framework agreements:** organisational performance agreements between a Minister and an agency head;

**Budget contracts and resource agreements:** between a central agency and a budget-funded agency;

**Organisational performance agreements:** individual performance agreements for agency heads;

**Chief executive performance agreements:** performance agreements between an agency head and a lower level line manager within the same organisation;

**Funder-provider agreements:** a partnership style arrangement between two independent agencies and the arrangement for the supply of goods and services between different agencies.

---

**Inter-governmental performance contracts and partnership agreements:** an agreement or understanding between central government and a sub-national government

**Customer service agreements:** a contract between a public agency and a private or not-for profit organisation for the supply of goods and services.

The most relevant performance contract type identified by PUMA that relates to maintenance provision in NSW is the customer service agreements. The maintenance contracts of this type in NSW are usually called “performance based contracts”.

## **KEY ISSUES IN PERFORMANCE CONTRACTING**

### **Objectives and benefits**

The PUMA report concludes that the common objectives driving performance contracting in public sector is the desire for greater efficiency, savings, effectiveness and responsiveness.

Some key merits identified by OECD countries include:

- An increased focus on outputs and outcomes (over process);
- Greater transparency in carrying out the business of government;
- Use of purchaser provider splits such as through the creation of performance based organisations;
- A renewed focus on performance management to foster value for money, efficiency gains and achieving results;
- Risk management rather than rule driven management;
- An emphasis on performance reporting (to the government and the public) and accountability for results;
- Better access to data on performance to strengthen governments capacity for policy development and service delivery.

### **Costs**

Costs of performance contracting are primarily from transaction and compliance costs.

Key sources of costs include:

- Negotiating and monitoring contracts
- Assessing and managing risk
- Difficulties in enforcing contracts

The key cost issue is when are costs of performance contracting too high? Significant up front costs may be incurred through investment in staff training and organisational change.

Care must be taken to assess costs and benefits from an appropriate time horizon. A long term perspective that is commensurate with the anticipated benefits of a new contracting regime during its life and recognises associated benefits such as data collection which feeds into policy management systems is appropriate. Short term

---

annual perspectives for cost assessment might lead to failure to investigate performance contract options. However even with a long term analysis, the additional burden of costs in performance contracting may significantly outweigh anticipated efficiency gains especially for small scale operations which can use alternative arrangements to generate efficiency gains.

## **Risk**

Risk assessment and management by parties in performance contracts is very important. Because a performance contract is less prescriptive and legalistic, a different form of uncertainty is introduced into the management relationship.

Risk management involves understanding what risks exist in a contract and who is responsible for them. Generally, policy risk is carried by the government party to the contract while service delivery risk is located with the contractor. Risk assessment is the identification and allocation of responsibility for the intermediate risks that lie between these two ends of an accountability spectrum. Inappropriate risk allocation will undermine the working of a performance contract exposing either side to inefficiencies and eroding the overall benefits of the contract.

## **Contract Specification**

The basic guideline in setting up a performance contract is to facilitate rather than to prescribe. Specifics and details should be dynamic and fluid. Enforceable contracts for performance or even quasi contractual agreements with a very high level of specificity, can impose significant transaction costs and risks, and may be counter productive to the relationship between parties.

The degree of specification varies on a case by case basis and, moreover, may change as the contract matures. Factors that influence specification include:

- The level of integration of the contract with other instruments for performance management ie budget cycles, legislative requirements;
- Level of trust (in a political/ governmental) context between contracting parties;
- How the information in the contract will be used.

## **Key elements of a performance contract are usually:**

- Core contractual agreement (preamble) designed to facilitate not prescribe
  - Separate plans that link contract to government/agency goals and specific activities
  - Determination of simple qualitative and quantitative performance measures
  - Procedures for reporting monitoring and appraising performance
  - Devices for dispute resolution
-



## APPENDIX 4

### **AN ALTERNATIVE MAINTENANCE APPROACH: THE NEW ZEALAND MINISTRY OF EDUCATION**

The structure and management of the education system in New Zealand contrasts significantly with NSW education system. School management is devolved to the local community to a significant degree and consequently maintenance management of education facilities in New Zealand is approached very differently.

Since 1989 New Zealand has been operating a system of school management which involves considerable input from local communities. Schools are governed by a board of trustees that consists of parent representatives, the principal, and staff and student representatives. The Board has significant autonomy over school management including the appointment of the principal and staff, and financial and physical resource management. The principal, in association with the school board and advice from the Ministry of Education, sets governance policy and is accountable for the operation of the school.

The Ministry of Education provides policy advice to Government, monitors school management and board performance and owns the land and buildings of the school system. The program is gradually being implemented across New Zealand schools as Boards are established and agreements constructed.

Property management is organised through a contract arrangement between the Ministry for Education and the school board of trustees, which is called Property Occupancy Document (POD).

The POD creates a relationship between the Board and the Ministry is similar to a landlord/tenant relationship with the exception that the property is rent free. In its role as tenant the Board of trustees:

- maintains the school property in good order and repair – in this respect the board is a property manager; and
- manages building projects at the school - the board does this by working along side a professional project manager.

In its role of landlord, the Ministry:

- acts on behalf of the Crown, the owner of the property;
- allocates funds to you for property related work;
- provides information and advice so that the Board can manage the school property more successfully.

These arrangements differs considerably from NSW situation where management of maintenance and maintenance priorities are determined by the Department and the contractor in accordance with predetermined conditions standards.

Under the program, each school develops a School Strategic Plan within which a 10 year property plan is prepared and a 5 year budget for funding allocation for property projects is made that is consistent with the agreed property plan. The effect is that schools are given certainty when they will receive funding for property.

Under the property management arrangements *capital spending* on buildings is the responsibility of the Ministry while the board is responsible for *maintenance spending* as apart of the overall operating costs. The board is also responsible for *minor capital works* which are described as small capital upgrades that a board may undertake without having to get approval of the Ministry.

Capital works paid for by the Ministry includes traditional capital programs such as increasing building capacity and modernisation of property. It also includes essential and urgent repair works related to health and safety reasons, access issues and usual items of capital works and significant replacement or upgrade works such as services floor coverings and roofs.

The key differential for classification of works and hence Ministry or board responsibility related to size or volume change. Hence examples of things that would not be capital works provided in the Ministry guidelines are:

- Painting
- Patching carpet
- Replacing small sections of spouting,
- Replacing roof portions

Maintenance funding is provided within the schools general operational funding. It is not tagged money which means that the money of the maintenance component does not have to be spent on maintenance.

Each individual school assesses its own maintenance needs and prioritises them. The board can then construct a project brief and selects and manages a contractor for the maintenance requirements of the school. The school may employ a consultant to manage the project and the maintenance contractor.

The devolution of school management to the local school level means that maintenance management is also devolved. This approach does not correlate to the current NSW Government education policy.

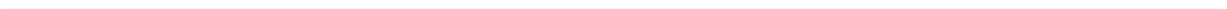
---

## **APPENDIX 5**

***DEPARTMENT OF CORRECTIVE SERVICES***

***MAINTENANCE STANDARDS***

Provided in Department of Public Works and Services Submission  
(Appendix B)





## **APPENDIX 6**

### ***LIST OF KEY PERFORMANCE INDICATORS FOR THE REGIONAL PILOT***

Provided in the Department of Public Works and Services Submission  
(Appendix E)

