

**FOLLOW-UP REVIEW OF THE MANAGEMENT OF NSW PUBLIC
HOUSING MAINTENANCE CONTRACTS**

Organisation: Spotless Group

Date Received: 29 April 2021

29 April 2021

Attention: Greg Piper MP

Committee Chair
Public Accounts Committee
NSW Legislative Assembly
Parliament House
Macquarie Street
SYDNEY NSW 2000

Dear Mr. Piper,

Re: Follow-up Review into the Management of Public Housing Maintenance Contracts

As per your request to Mr. David Morris of 30 March 2021, for a response from a current head contractor carrying out public housing maintenance work on behalf of the NSW Land and Housing Corporation, Spotless submits the following response.

As a leading facilities maintenance provider in Australia and New Zealand with over 280,000 properties in our care, we have a deep appreciation of public housing assets. We strive to deliver a positive customer experience with a focus on value for money for our clients.

Spotless Facility Services (SFS) is now a wholly owned subsidiary of the Downer Group (ASX: DOW), an Australian based company that is committed to the Government market in Housing, Property, Rail, Roads, Defence and Infrastructure services throughout New South Wales and across Australia. As the "Facilities Services" division of Downer Group, a company that has been purpose built to comprehensively meet the needs of Government, we provide our Housing clients with a partnership that can seamlessly integrate services. Our in-house Works Management System has been specifically built to provide live information for these contracts to allow accurate decision making. Additionally, it has the ability to interface with Government asset management, procurement and other IT systems.

As an Australian leading and proven social housing and facilities management service provider since 2002, we partner with government agencies, who entrust us to maintain their social housing portfolios that accommodate tens of thousands of people. We have collaborated with government housing agencies to identify service delivery and process improvements to drive consistent delivery and unlock value.

Our experience in delivering social housing contracts include partnerships with Housing ACT, Community Services Directorate, The Housing Authority WA, NSW Land and Housing Corporation and Housing NZ. Our track record in maintaining large social housing portfolios across Australia and New Zealand is based on a performance record of consistently meeting and exceeding KPIs in relation to Tenant satisfaction, timeliness, reporting and quality of work.

<u>Current Contracts</u>	<u>Properties (under management)</u>
LAHC NSW	33,000 soon to increase to 40,000 with the inclusion of Contract Area 4 (LAHC NSW)
Housing WA	21,000
Housing NZ	5,500
Housing ACT	11,700 (expired contract)

Reference Item 1

Having had the experience of working under the pre and post 2015/16 regime changes, SFS makes the following observations:

SFS's perspective Prior to 2015/16 changes	SFS's perspective Post 2015/16 changes
Basis for payment to contractors: <ul style="list-style-type: none"> • Recipient Created Tax Invoices (RCTI) • <i>Same as current AMS</i> 	Basis for payment to contractors: <ul style="list-style-type: none"> • RCTI process works very well, with ability to rapidly cover operational costs (inv to pay)
Risk transfer to contractors: <ul style="list-style-type: none"> • Partial transfer used 	Risk transfer to contractors: <ul style="list-style-type: none"> • Full risk for Planned and Vacant works • Contract added more than just direct actions to risk, such as vandalism and arson, which contractors have limited ability to control. Not sustainable.
Performance management model/measures: <ul style="list-style-type: none"> • Quality & Timeliness only KPI's • No material KPI abatements 	Performance management model/measures: <ul style="list-style-type: none"> • Detailed KPIS and benchmarks (pain/gain mechanism) • Material KPI abatement fines
Apparent housing maintenance strategy/goals: <ul style="list-style-type: none"> • As with current AMS 	Apparent housing maintenance strategy/goals: <ul style="list-style-type: none"> • Difficult to provide a holistic asset management service, when lowest price, reactive focused servicing is the core of the workload.
Interaction/engagement with tenants: <ul style="list-style-type: none"> • Initiated via LAHC call centre operators 	Interaction/engagement with tenants: <ul style="list-style-type: none"> • Via SFS call centre operators • Face to face engagement at residences while work is completed.
Incorporation/achievement of social outcomes: <ul style="list-style-type: none"> • No spend targets • No KPI's re: CSP, Indigenous, Tenant employment and apprentices 	Incorporation/achievement of social outcomes: <ul style="list-style-type: none"> • Spend target for CSP and Indigenous challenging • KPI for tenant's participation and apprentices challenging with market pressures • The AMS is strong in this compared to previous contract and a definite advantage to the population • Fully support this level of min. requirement
Value for money achievable/actually achieved: <ul style="list-style-type: none"> • No material VFM as contract was all Schedule of Rates (SOR's) and agreed rates from bid (2008) 	Value for money achievable/actually achieved: <ul style="list-style-type: none"> • Currently VFM is seen as lowest price • LAHC office estimations are often under the market price, which contributes to quality and delivery complexity • Price Vs. quality under the AMS is more aligned to price
Appropriateness of contract terms & conditions: <ul style="list-style-type: none"> • Mostly similar core T&C's as AMS 	Appropriateness of contract terms & conditions: <ul style="list-style-type: none"> • Good clarity initially, but with time, open collaborative definitions become hard interpretations that are often a disadvantage to the contractor • More significant risk transfer
Balance of maintenance - reactive vs planned:	Balance of maintenance - reactive vs planned:

<ul style="list-style-type: none"> • Tenants called to LAHC Call Centre (not SFS) • No ACA, no BES, but still mostly reactive 	<ul style="list-style-type: none"> • Mostly reactive. • Planned works are usually based on large amounts of reactive works not urgent enough to do immediately. • There is no structural asset review and forward planning for preventative maintenance.
Utilisation of systems and technology for Vfm: <ul style="list-style-type: none"> • Not in place • SOR agreed rates (time and quality only material measurements) 	Utilisation of systems and technology for Vfm: <ul style="list-style-type: none"> • The interface between the LAHC and SFS systems is an advantage and should be retained moving forward in any future contract.

SFS suggestions on where to next and why:

SFS's view on potential further changes	SFS's view on likely improved outcomes
Basis for payment to contractors: <ul style="list-style-type: none"> • The current RCTI process is very efficient • The only fine tuning would be the ability to more easily adjust invoices due to real work changes to scope, works, costs etc. 	Basis for payment to contractors: <ul style="list-style-type: none"> • Further speed and ease of adjustment to improve payments to subcontractors (SFS contractors) • Ability to better reduce quoted costs to benefit LAHC
Risk transfer to contractors: <ul style="list-style-type: none"> • MPW/Vacant Vandalism/arson risk not appropriate to hold. Revert to MRPO8 model 	Risk transfer to contractors: <ul style="list-style-type: none"> • Streamlines risk to contractors, allows better VFM.
Performance management model/measures: <ul style="list-style-type: none"> • The Vacant Benchmark and responsive benchmark have both been significant issues, and the associated pain/gain share. • This has been recognised and the vacant benchmark was stopped in Contract Year 3 and the responsive benchmark will end CY5. 	Performance management model/measures: <ul style="list-style-type: none"> • Significantly less admin and pain for both parties • More direct meta data to LAHC on Vacant and responsive volumes, • No incentive to reduce services to avoid pain/gain share fines due to high volumes
Apparent housing maintenance strategy/goals: <ul style="list-style-type: none"> • More opportunity for the contractor to workshop with LAHC on the long-term maintenance planning programs, change of use and forecasting planned capital work streams 	Apparent housing maintenance strategy/goals: <ul style="list-style-type: none"> • Better long-term cost per asset • Reduced reactive, better VFM with preventative maintenance. • Use of accumulated meta data for better targets forecasting.
Interaction/engagement with tenants: <ul style="list-style-type: none"> • A closer and faster connection with DCJ should be created, as our experienced with tenants, tenants' issues, security and vandalism doesn't seem to reach DCJ 	Interaction/engagement with tenants: <ul style="list-style-type: none"> • Material reduction in undue stress for both tenants and providers. • Safer residences, and worker safety.
Incorporation/achievement of social outcomes: <ul style="list-style-type: none"> • We applaud and support the CSP, indigenous and tenant employee requirements, but the apprentice targets (20%) is impossible to maintain due to significant fluctuation in work volumes versus length of apprentice programs 	Incorporation/achievement of social outcomes: <ul style="list-style-type: none"> • Further concentration on CSP and indigenous targets until apprentice target can be realigned with current business environment.

<p>Value for money achievable/actually achieved:</p> <ul style="list-style-type: none"> Regular estimated market price consultation with LAHC. 	<p>Value for money achievable/actually achieved:</p> <ul style="list-style-type: none"> Faster servicer (faster approval) better expectation control for LAHC and DCJ, loss of wasted time/ effort in quoting for work that the market doesn't match the LAHC estimates MRP08 was more successful in this regard. Agreed SOR and fixed pricing
<p>Appropriateness of contract terms & conditions:</p> <ul style="list-style-type: none"> No real concerns, but language clarity changes over time with different LAHC staff internally. Disadvantaging the contractor with frequent reinterpretations Reduce the 'back to contract start' rebate calculation based on a contract reinterpretation. Current date forward only from new interpretation 	<p>Appropriateness of contract terms & conditions:</p> <ul style="list-style-type: none"> Much reduced contractual conflict Allow for a review of the intended changes via an NTC (notice to contractor) directed by the Principal, so as to ascertain the possible and often real impact of change on the contractor. A large number of NTC's have been issued with no change to the contractor's price, to support the changes directed.
<p>Balance of maintenance - reactive vs planned:</p> <ul style="list-style-type: none"> Change from focus on reactive. Planned works based on data review of actual ACA and recommendation from providers, not on large amounts of reactive works not urgent enough to do immediately (postponed reactive program) A structural asset review and forward planning for preventative maintenance. 	<p>Balance of maintenance - reactive vs planned:</p> <ul style="list-style-type: none"> Better long-term cost per asset Reduced reactive, better VFM with preventative maintenance Use of accumulated meta data for better targets forecasting.
<p>Utilisation of systems and technology for Vfm:</p> <ul style="list-style-type: none"> Significant Upgrade and faster Ariba and SPM LAHC could invest in a portfolio wide CAFM system and have all contractor use it, instead of multiple systems held by contractors attempting to work with LAHC resident systems. 	<p>Utilisation of systems and technology for Vfm:</p> <ul style="list-style-type: none"> Less indirect reporting (reporting from contractor system as LAHC system doesn't have ability to draw information itself) SPM and Ariba to be better linked to allows easier quoting and work scheduling and adjustments if needed. 'global asset' CAFM system would streamline LAHC's macro and micro data and hold all assets info.

Reference Item 2

SFS was one of 5 head contractors engaged under the AMS contract, servicing the Central Coast, Illawarra and Sydney's Inner West. Recently SFS had its contract extended 18 months to 31 December 2022 and awarded an additional region (Southern Highlands) commencing 1st July 2021. SFS has provided services under both contract regimes (MRP08 and AMS) so has a unique perspective on being able to comment on commercial outcomes as a service provider.

We note the AMS contract commenced in April 2016 whose main aims¹ were to:

- improve quality and cost of maintenance (though audit and compliance)
- improve efficiency of responsive works to redirect more funds to planned maintenance; and
- focus on social outcomes (tenant participation, training and local industry, community participation).

We also note some of the key changes introduced by LAHC through the contract extension period were:

- Increasing controls over high cost responsive repairs
- Improving LAHC's ability to monitor delivery of disability modifications
- Adjusting KPIs to place an even greater emphasis on outcomes such as quality, timeliness and value for money
- Refocussing LAHC's auditing regime to contribute directly to the adjusted KPIs
- Enhancing the abatement regime which applies when contract standards are not met and increasing LAHC's ability to seek liquidated damages for quality failures
- Clarifying aspects of the contract that have generated excess administrative work or disputes between parties
- Introducing new scripting and processes to improve communication to tenants of Technical Inspection outcomes and scheduling of planned works
- Updating the meeting and reporting framework to further improve accountability.

Contract Performance & Collaboration

SFS have provided a quality service throughout the contract period and have complied with and have been compliant with the Service Specification. There are 22 Key Performance Indicators (KPIs) based on the Timeliness; Quality; Work, health and safety; Governance (including tenant satisfaction surveying). We note LAHC has a dedicated Audit and Verification Team to 'analyse transactional maintenance data to verify self-reported performance'. SFS has found the self-reporting regime to work well and would like to affirm (to the Committee) the high level of transparency and rigour of the audits undertaken by LAHC.

One area that has evolved under the contract is the refining of data and job type classifications for reactive maintenance linked to the former pain/gain mechanism. SFS believes, as a leader in the industry, that a significant amount of value can be harnessed from asset management data. Under the AMS contract we have seen gains in LAHC's awareness of its asset portfolio due to the collation of data which has driven quality and better commercial outcomes. We believe through collaboration on working with LAHC on the detail of responsive job type classifications that performance has improved overall, and responsive costs have trended downward over time. SFS also welcomed the removal of gain/pain mechanism on responsive volumes from Year 6 (1 July 2021). SFS supported this decision to reorientate KPIs under contract towards quality outcomes. SFS also believes in the future a gain share regime correctly calibrated to reactive spend would work better overall for all parties. SFS recommends this as one of the key considerations for LAHC to review in the next evolution of the commercial structure as the AMS contract (& data utilisation) reaches full maturity.

¹ As per the Department Planning Industry & Environment submission February 2021

LAHC meets with SFS on a monthly and quarterly basis to review our performance. SFS believes that under the AMS contract and in recent years the working relationship between the Executive and Contract management team has improved significantly culminating with the award of the extension to the Head Contract and the award of an additional region, being Contract Area 4. We also note that SFS worked collaboratively with LAHC on delivering the COVID19 stimulus packages as positive variations to the AMS contract. We note per the DPIE's response LAHC's COVID-19 stimulus package of \$60.5m was allocated \$47m to planned maintenance and the remainder (\$13.5m) to a deep cleaning program as a proactive response to the threats of COVID-19. This additional funding made it possible for LAHC to bring forward planned maintenance scheduled for future years. SFS fully supports LAHC COVID-19 stimulus initiative under the AMS contract. SFS has proved to be a vital channel to provide much needed support to small businesses during the pandemic. Given SFS was able to deliver on time and in full we hope that the Committee and LAHC will look to further stimulus measures knowing they will be supported by the efficient contract delivery and quality services provided by SFS.

Spotless Facility Services experience of the contractual mechanisms

We note LAHC's learnings from MRP08; *"a key drawback ... was its administrative focus. It privileged stability of internal LAHC processes over commercial drivers such as value for money and tenant satisfaction."* The main issues highlighted by LAHC were:

- Embedded fixed prices for responsive repairs for the life of the contract
- No capacity for LAHC to negotiate on procuring large parcels of work
- Duplication of internal LAHC activities such as scoping of planned maintenance
- Tenants not being able to communicate directly to maintenance contractors
- The Performance Framework inadequately developed resulting in LAHC bearing most of the risk

SFS acknowledges and broadly supports LAHC's findings.

However, we note that in LAHC's response it was highlighted: *"Under this arrangement no single contractor could be awarded more than 40% of all Contracts area across the State and no more than 75% of Contracts areas within a single Region, thus reducing the delivery risk if a contractor is underperforming."* SFS believes that this procurement rule, despite its' good intentions, may limit value for money outcomes for all parties (including tenants). The additional savings which would be achieved via economies of scale in procuring trades would be significant.

The enhanced procurement savings (or value benefit) would out-weight the cost of poor performance by a single Head Contractor, which can be managed through existing contract mechanisms (such as the Performance Framework or termination for convenience).

Economies of scale can simply be achieved by reducing the pool of head contractors from 5 to 3 (or less). The benefits flow through to subcontractors and local SMEs who can then build capacity (and take on additional apprenticeships) by higher work volume allocations. Separately we note there are various procurement channels to consider when selecting services for tenant housing. Recently we have observed the increasing use of the non-profit sector as a delivery vehicle e.g. northern suburbs social housing. SFS acknowledges the critical support services non-profit organisations can provide however further fragmenting the market could negatively impact the economies of scale able to be achieved.

We also hope that there is growing awareness that existing FM providers also provide a range of soft services and would actively work with government to find a commercial solution (where they believe there is gap in the market). Naturally progressive procurement initiatives can be delivered by head contractors through higher volumes and structured planned maintenance work packages (such as Building Essential Services). We note that with the extension of the AMS contract LAHC has removed 1 head contractor due to performance. SFS welcomes this change and believes it is a step in the right direction for improving value for money for all stakeholders.

SFS notes the core reasons for LAHC NSW to move away from MRP08 to AMS was (1) fixed pricing on reimbursable work and (2) risk sharing. We agree that this was the correct decision and recommend the AMS *commercial model* could be further *enhanced* in the future. SFS recommends the following:

- **Focus on *Strategic Asset Management*** i.e. long-term planning and cost certainty:
- **Enhance the contractual & commercial mechanisms where Head Contractors take on more risk for the assets they maintain** (and incentivised to reduce costs).
- **Adapt the *incentive model* to drive year on year cost savings and budget certainty**

LAHC has budgeted for average annual maintenance expenditure over the **next four years** \$278m per year for responsive maintenance and \$131m per year on planned maintenance. **LAHC NSW' projection means from 20/21 to 23/4 means an estimated \$1.6bn re-invested into the housing stock.** Hence SFS believes the scale of investment means there are significant opportunities to improve value for money outcomes by enhancing the AMS commercial model.

Focus on Strategic Asset Management

SFS is an experienced FM Head Contractor under the NSW Whole of Government FM contract and has worked with the NSW Government's Department of Education on transitioning to targeted fixed term pricing on statutory and planned maintenance spend for public school assets. This commercial model includes other key NSW government agencies including NSW Fire & Rescue, Emergency Services and Tafe NSW.

The commercial model is more mature where a share of the reactive asset maintenance risk is taken by head FM contractors by way of fixed fees for *planned statutory and routine maintenance* (in addition to the fixed management fee). Hence if the assets break down out of their planned cycles due to lack of maintenance by the Head Contractor, they absorb the cost of the reactive spend which is part of fully funded by the annual fixed fee.

Further to this, specific planned maintenance work packages are defined effectively by a 'Fee per Service' model and asset register volumes (or data) are reviewed semi-annually. New assets (via additions or discovery) are then treated through the contractual variation mechanism, agreed by both parties and approved by the Principal.

For LAHC NSW we understand that under MRP08 the intention was to cap reactive spend. However, for reasons conveyed above under the AMS structure was later treated as pass through with an incentive regime to cap volume. The AMS structure could be improved by re-visiting the reactive maintenance spend via a targeted 'Fee per Service' pricing mechanism linked to planned statutory and routine maintenance. Hence LAHC NSW would have greater certainty on annual planning around specific asset types and services.

Further to the above, we believe that the LAHC NSW AMS model would benefit by utilising lead Head FM Contractors to deliver *strategic asset management* that will optimise the performance, efficiency and lifecycle of NSW public housing's assets and facilitate strategic decision-making regarding repairs, refurbishments and replacements. Under this approach, SFS would assume a large proportion of the risk for the maintenance of the assets, with an abatement model calculating a financial deduction from SFS' management fee for any failure in asset performance or service delivery.

Risk Sharing – Head Contractor FM risk models

Table 1 outlines various FM management models, ranging from a simple management fee + pass-through model (similar to AMS) to the comprehensive fixed fee model whereby a Head Contractor such as SFS would assume most of the asset life cycle risk and responsibility for the management and maintenance of public housing assets.

As noted, LAHC has moved away from a broader fixed pricing model under AMS contract however reintroducing fixed fee elements (in a targeted manner) is fundamental mechanism for pricing risk in a commercial contract structure. Hence SFS would encourage LAHC to enhance the AMS contract model by considering fixed price elements that look at the whole of life costs regarding asset maintenance & replacements.

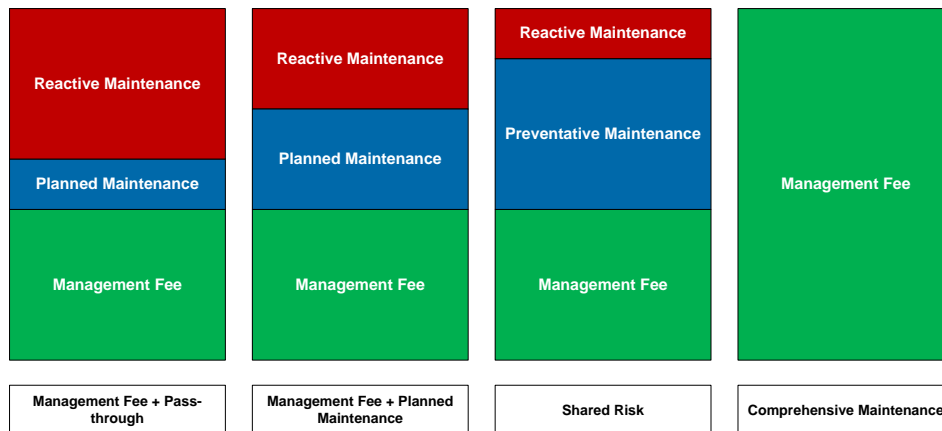
By maximising and extending the life of assets the government ultimately will maximise the \$1.6bn in asset maintenance spend to across specific asset types and statutory requirements. Ultimately reducing the reactive share of their expenditure via targeted a strategic assessment of assets and their planned maintenance cycles. The public sector can drive down costs by shifting risk back to the private sector lead FM head contractors who will be incentivised to efficiently price in the risk of maintaining public sector assets over the term of contracts, often with lengthy horizons.

As LAHC consider and commence the next generation of AMS contract, we recommend re-visiting the risk sharing equation and challenge Head Contractors to put a price on their expertise to assess the portfolio assets and long-term life cycle costs of the public sector estate with its range of asset classes. *Table 1: Various FM Models*

	Management fee + Pass-through	management fee and Planned maintenance	shared risk and planned maintenance	comprehensive asset management
Financial model	Management fee + pass through contractor cost	Schedule of rates for each maintenance task	Set budget per asset category for reactive and proactive asset maintenance	Maintenance budgets managed by SFS, with abatements for asset or service failures
Service approach	Reactive and compliance tasks	Focus on planned maintenance tasks	Focus on preventative tasks	Lifecycle and asset management approach
Risk	Minimal risk transfer	Some risk transfer	Greater risk transfer	Significant risk transfer
Cost-benefit	Low	Low - Medium	Medium	High
Ability for you to focus on core business	Low	Low – Medium	Medium – High	High

As a general guide, *Figure 1* depicts how the total maintenance expenditure would be distributed for each of the four models.

Figure 1: Cost Distribution for Each FM Model



Incentive model to reduce year on year costs

SFS would also recommend that there are additional pathways to reduce reactive maintenance spend and the potential for over servicing of assets. SFS' experience of government clients is that they are seeking:

- budget certainty
- lower maintenance costs to reallocate funds to new capital expenditure
- better value for money from service providers.

SFS knows that if the AMS contract model is enhanced towards long term planning underpinned by strategic asset management the ultimate beneficiaries will be tenants. The private sector are the experts in extending the natural life of assets and assessing the timeframes for asset replacement.

If public spending of the \$1.6bn is channelled correctly reactive spend will fall and there will be a natural reallocation to new assets for tenants to experience better quality outcomes. Also, the NSW government can reallocate spend to rejuvenate the public estate and inject new assets. Hence, we believe the AMS contract model could be improved by introducing an incentive where the private sector can be rewarded for helping the public sector to achieve year on year savings.

Incentives can be 'self-funded' where a small portion of the savings achieved by the Head Contractor being a reward for identifying and achieving those savings. The reporting and monitoring of savings can form part of the Performance Framework, reviewed on a quarterly basis and incentive payments made on an annual basis. An incentive model fashioned on year on year savings ultimately places a higher emphasis on forward planning and annual budgeting. This improves budget certainty and public expenditure on assets can be more targeted for tenant outcomes.

There is a growing trend for government RFT's to invite tenders to bid their own performance regimes (e.g. NSW Police FM). Ultimately tenders need to strike the right balance between what is considered industry best practice key performance measures and those that play to their individual strengths as FM providers. Similarly, the next generation of AMS contract could invite tenders to submit their alternative proposals to the Performance Framework to include recommended incentive models based on cost savings and value for money outcomes.

Alternatively, we believe the AMS contract would benefit by LAHC taking incremental steps towards an incentive model that aligns cost savings to long term planning initiatives, tenant outcomes and strategic asset management.

Reference Item 3

The current condition has to be viewed with respect to two major driving forces, age of stock and type of stock. The age of the portfolio is increasingly meaning that reactive works are trending higher over time, as the buildings age simply repairs become more complex.

With regards to the type of stock, we are now seeing an increasing number of standalone houses with single occupants, as the population of end users ages. This brings with it the reality that many elderly single occupants of houses cannot perform basic care of their houses and the increased cost for LAHC can be arbitrated over time to the stock type being not fit for the user base.

In addition, we have noticed a material increase in vandalism and damage via 3rd parties, which is also a driver in condition of stock and repair status. From individual lights, windows and signage, up to arson, the trend is increasing and costly to LAHC.

Reference Item 4

Please refer to the DPIE submission (No 22) pages 14 to 16 regarding expenditure, of which our costs form part.

Reference Item 5

SFS believes Public Housing tenants will benefit from making sure its Head Contractors and Service Providers (private, public and non-profits) continually move towards standardisation with respect to services and quality standards. SFS Services has worked hard in attaining ISO standards in strategic asset management as a way of providing quality assurance to our government clients and tenants that they will receive high standards in asset maintenance.

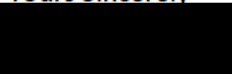
We expect that LAHC would look to improve the level of expectations on all its service providers. This can also be achieved through the de-lineation of asset service providers particularly in Building and Essential Services (BES). Our experience in the field is that multiple service providers provided multiple BES to one asset (or part thereof) in one regional area. Often it is difficult to have quality controls in place when multiple providers are attending one asset.

Therefore, our general recommendation is that the AMS contract could further improve quality outcomes and improve efficiency by streamlining the number of asset services vs the number of service providers at particular sites.

Reference Item 6

No further comment made on other related matters.

Yours Sincerely



David Morris
General Manager
Spotless Government & Citizen Services