



AUDITOR GENERAL
for Western Australia

PERFORMANCE EXAMINATION

**A Roof Over Our Heads:
Maintenance of Public Housing**

Report No 8
October 2003





AUDITOR GENERAL
for Western Australia

THE SPEAKER
LEGISLATIVE ASSEMBLY

THE PRESIDENT
LEGISLATIVE COUNCIL

PERFORMANCE EXAMINATION – A Roof Over Our Heads: Maintenance of Public Housing

This report has been prepared consequent to an examination conducted under section 80 of the *Financial Administration and Audit Act 1985* for submission to Parliament under the provisions of section 95 of the Act.

Performance examinations are an integral part of the overall Performance Auditing program and seek to provide Parliament with assessments of the effectiveness and efficiency of public sector programs and activities thereby identifying opportunities for improved performance.

The information provided through this approach will, I am sure, assist Parliament in better evaluating agency performance and enhance Parliamentary decision-making to the benefit of all Western Australians.

A handwritten signature in black ink, appearing to read 'D D R Pearson'.

D D R PEARSON
AUDITOR GENERAL
October 29, 2003

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Executive Summary

Key Findings

Homeswest is satisfactorily managing the maintenance of public housing properties in a challenging environment. Nevertheless there is scope for Homeswest to improve the way it administers its maintenance processes. These include:

- ❑ revising budget models and making more use of property inspections to plan maintenance;
- ❑ more comprehensive recording and monitoring of responses to maintenance requests;
- ❑ tighter controls over the commissioning of maintenance work;
- ❑ managing contractor performance by regularly testing the marketplace and using available sanctions for poor performance;
- ❑ improving the assessment, review, and accounting for the cost of Tenant Liability; and
- ❑ improving consistency in application, transparency, and due process in Tenant Liability appeals.

Background

The Western Australian government provides and manages some 35 000 public housing properties valued at \$3.3b across the State. In doing so, the Government aims to provide people on low to moderate incomes with access to affordable and secure housing. The cost of maintaining public housing, excluding the cost of refurbishments and improvements, was \$33.2m in 2002-03.

Maintenance of public housing is not directly comparable to private sector property management. Homeswest has unique responsibilities as a public landlord and housing provider of last resort and must balance:

- ❑ public accountability for the maintenance budget;
- ❑ transparently fair and equitable treatment of all tenants; and
- ❑ the special needs of tenants, many of whom find themselves in difficult social and economic circumstances.

Public housing maintenance figures highly in tenant complaints to Homeswest, the Parliamentary Commissioner for Administrative Investigations, and the Equal Opportunity Commissioner. Homeswest has been criticised for the standard of its housing properties, the timeliness of urgent maintenance and repairs, the quality of work conducted by contractors, discrimination in the allocation and conduct of maintenance funding, and the adequacy of its overall maintenance budget. Homeswest tenants also come under public criticism for failing to properly respect and maintain their rental properties.

Maintenance of public housing is a government activity that affects both a significant public asset portfolio and the lives of many Western Australians. In conducting this examination, we aimed to provide an independent review of the efficiency and effectiveness of public housing maintenance in Western Australia. In particular, we examined:

- ❑ The effectiveness of maintenance planning and budgeting.
- ❑ How Homeswest manages maintenance, including
 - responding to tenant requests, and
 - managing maintenance contractors.
- ❑ Management of Tenant Liability for maintenance costs, including tenant appeals.

We conducted the examination between April and June 2003, using Homeswest's expenditure and maintenance records for the 2001-02 and 2002-03 financial years and focusing on two country and one metropolitan Homeswest regional areas. The examination did not encompass strategies and programmes for improving or refurbishing properties and public housing estates, such as the New Living programme.

What We Found

Maintenance Planning and Budgeting

Homeswest plans and budgets maintenance using computerised budgeting models and information from annual property inspections. We found that:

- ❑ Homeswest's maintenance budget averaged \$948 per property in 2002-03;
- ❑ eleven per cent of properties consume 50 per cent of expenditure directed at maintaining property condition;
- ❑ eighty-two per cent of expenditure directed at maintaining property condition is unplanned; and
- ❑ while maintenance budget allocations based on budget models are satisfactory in a global sense, they have limited relationship with actual expenditure at Accommodation Round level.

Homeswest could improve the way maintenance budgets are allocated across the sector by revising the budget models for Day-to-Day and Vacated Maintenance. Homeswest has advised that, by introducing new technology, it expects to improve the way it uses information from property inspections to plan maintenance.

EXECUTIVE SUMMARY (continued)

Maintenance Management

In general, Homeswest has implemented appropriate processes for managing maintenance. Sixty-seven per cent of Job Orders are completed within target response times. Homeswest could be more effective in this area by improving the way it captures and monitors maintenance requests, including:

- ❑ monitoring response times from the maintenance request rather than the issue of a Job Order; and
- ❑ analysing the 33 per cent of Job Orders that did not meet target response times, or had missing or inaccurate data, to identify opportunities to improve responses.

Homeswest should also exercise greater control over the commissioning of maintenance work by:

- ❑ improving compliance with existing Job Order policies; and
- ❑ closer monitoring of Job Order variations.

Homeswest should tighten its current processes for managing maintenance contractors by:

- ❑ regularly testing the marketplace and refreshing pre-qualified contractor panels; and
- ❑ more rigorously managing contractor selection and performance.

Tenant Liability

There are opportunities for improving the way Homeswest manages Tenant Liability for damages and repairs. These include:

- ❑ more rigorously managing assessment, review, and accounting for the cost of Tenant Liability; and
- ❑ revising appeal procedures to improve consistency in application, transparency, and due process.

Introduction

Background

Public housing in Western Australia is managed by the State Housing Commission operating as Homeswest. This encompasses 35 025 properties valued at \$3.3b (see Figure 1). Rental receipts from these properties totalled \$124m in 2002-03.

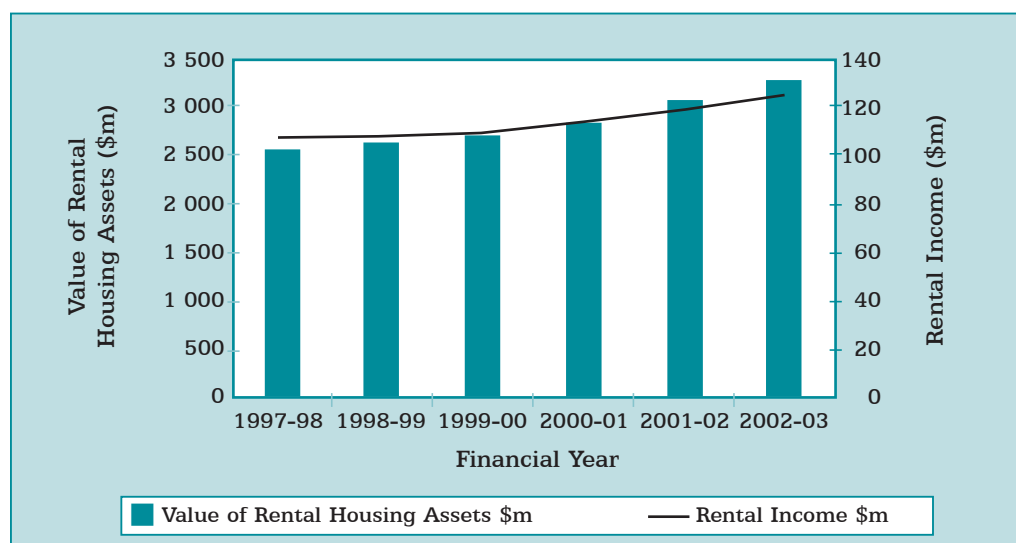


Figure 1: Public housing asset values and rental income 1997-98 to 2002-03

Source: DHW and OAG

The Department of Housing and Works (DHW) is currently preparing a State Housing Strategy that will guide the provision of public housing until 2029. The strategy will consider factors affecting both demand and supply of public housing. The draft strategy identifies the following major issues facing the social housing sector (which includes public housing):

- ❑ changes in tenant profile resulting in an increase in rental rebates and a mismatch between current stock and the needs of tenants;
- ❑ a decrease in the supply of low cost rental accommodation in the private sector;
- ❑ decline in Commonwealth funding;
- ❑ decreased viability of the (fragmented) community housing sector; and
- ❑ the need for regeneration of older public housing stock.



INTRODUCTION (continued)

Maintenance of Public Housing

The 2001 National Social Housing Survey conducted by Donovan Research found that a home's condition has the greatest influence on tenant satisfaction with public housing services. One quarter of Homeswest tenants responding to the survey indicated that they were 'very satisfied' with the condition of their rental property and 41 per cent indicated that they were 'satisfied'. However, 24 per cent indicated that they were 'dissatisfied' with property condition. The Western Australian results are similar to national findings.

Homeswest's Maintenance Responsibilities

The majority of the public rental properties maintained by Homeswest are single detached family dwellings. Other types include seniors, disabled, crisis, and Aboriginal accommodation. Homeswest also maintains an additional 4 000 dwellings on behalf of the Government Employee Housing Authority (GEHA). This examination did not include these GEHA properties. Maintenance of rental properties is largely managed by Homeswest's 140 Accommodation Managers, who are located across Homeswest's nine regional offices.

Homeswest has a number of short, medium, and long-term programmes to maintain and improve public housing properties (see Table 1). In 2002-03, Homeswest spent \$55.6m on public housing maintenance and improvements (see Figure 2). This examination focused on programmes to maintain the current condition of Homeswest properties, and did not incorporate programmes to improve properties or estates. Therefore, the following programmes were examined:

- ❑ *Day-to-Day Maintenance*, which occurs in response to tenant notification;
- ❑ *Vacated Maintenance*, which occurs when a tenant vacates a dwelling;
- ❑ *Planned Maintenance*, which is conducted to an annual cycle and budget on the basis of annual property inspections; and
- ❑ *Programmed Maintenance*, which is carried out on a needs basis and involves external painting and associated repairs.

		TIMEFRAME		
		Short-Term	Medium-Term	Long-Term
OBJECTIVE	Maintain Property Condition	Day-to-Day Maintenance Vacated Maintenance	Planned Maintenance Programmed Maintenance	
	Improve Property Condition	Improvements		Refurbishments
	Maintain and regenerate public housing estates	Estates Maintenance		New Living

Table 1: Homeswest programmes to maintain and improve public housing

The performance examination focused on strategies to maintain property condition.

Source: OAG

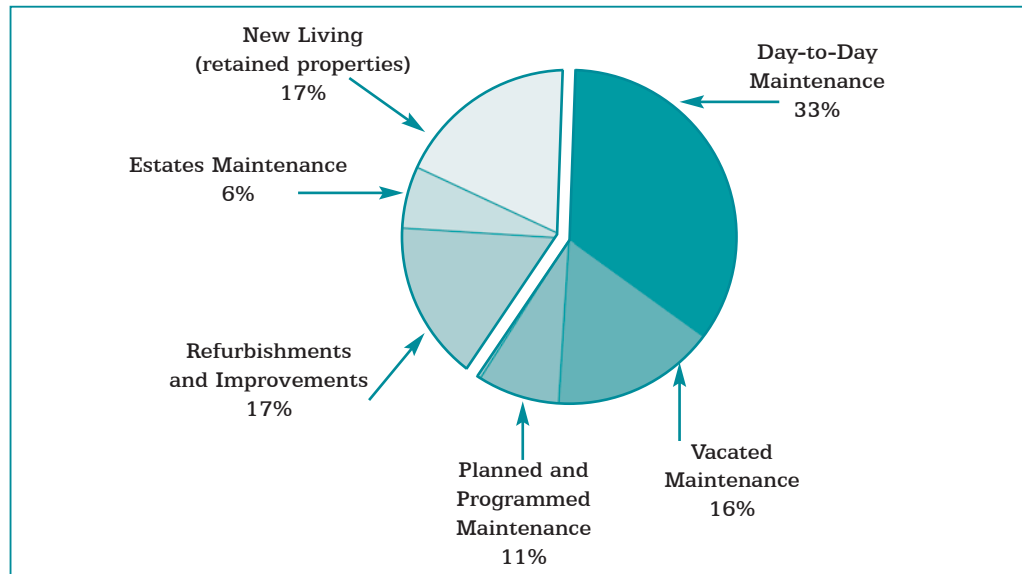


Figure 2: Maintenance and improvements expenditure 2002-03 financial year

Homeswest spent \$33.2m on maintaining and \$22.4m on improving public housing in 2002-03.

Source: OAG and DHW

INTRODUCTION (continued)

Tenants' Maintenance Responsibilities

Tenants must pay for:

- repairs that arise from neglect, wilful damage, and misuse; and
- heavy cleaning and rubbish removal.

These obligations are called Tenant Liability, and accounted for 15 per cent (\$3.9m) of Day-to-Day and Vacated Maintenance costs in 2001-02 (see Figure 3).

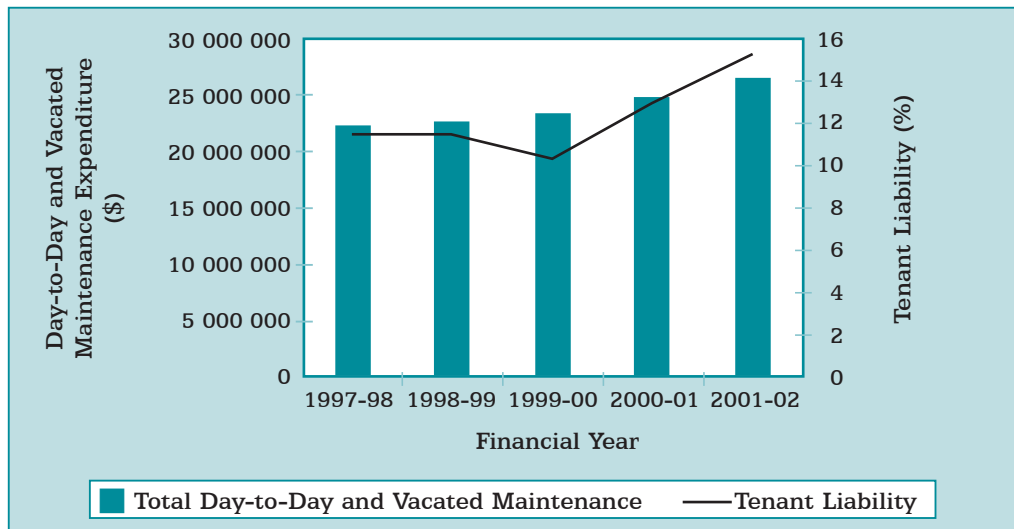


Figure 3: Tenant Liability as a proportion of Day-to-Day and Vacated Maintenance expenditure 1997-98 to 2001-02

The proportion of maintenance expenditure represented by Tenant Liability has risen in the past two years.

Source: DHW and OAG

Examination Focus and Approach

This examination reviewed the efficiency and effectiveness of the maintenance of public housing in Western Australia. In particular, we examined:

- ❑ The effectiveness of maintenance planning and budgeting.
- ❑ How Homeswest manages maintenance, including:
 - responding to tenant requests, and
 - managing maintenance contractors.
- ❑ Management of Tenant Liability for maintenance costs, including tenant appeals.

The examination focused on Homeswest activities to maintain the condition of public housing; it did not include property improvement programmes such as refurbishment and improvement expenditure and the New Living programme.

The examination encompassed operations in three of Homeswest's nine regional areas: North Metropolitan, Pilbara, and Southern, including the following maintenance records for these three regions:

- ❑ 2001-02 expenditure, maintenance, and property inspection records for a total of 450 properties;
- ❑ a total of 636 Job Orders issued in the final quarter of the 2002 calendar year;
- ❑ all Programmed Maintenance commissioned in 2001-02; and
- ❑ tenant liability identified and appealed for properties vacated in the first quarter of 2002.

We consulted with Homeswest staff in each of the three regional areas and in the Perth head office throughout the examination. The review team also accompanied Accommodation Managers on inspections of tenancies in each region. Representatives from the Tenants' Advisory Service, the Aboriginal Deaths in Custody Watch Committee, and the Equal Opportunity Commission were also consulted during the review.

Consultation with interest groups was valuable in confirming that the issues addressed in this examination were also issues of concern to the tenants who have been represented by these groups. However the consultation did not provide a sufficient evidentiary base to support audit findings. We did not, therefore, directly use material provided during external consultation to support audit findings. All audit evidence was derived from Homeswest records and advice from Homeswest staff.

Maintenance Planning and Budgeting

- ❑ *Homeswest's maintenance budget for its 35 025 properties is tight, with an allocation of \$33.2m. This averaged \$948 per property in 2002-03.*
- ❑ *Eleven per cent of properties examined consume 50 per cent of expenditure directed at maintaining property condition. However, closer examination of high maintenance properties indicates that these costs are reasonably explained.*
- ❑ *While maintenance budget allocations based on budget models are satisfactory in a global sense, they have limited relationship with actual expenditure at Accommodation Round level.*
- ❑ *Homeswest's planned introduction of technology is designed to improve information about:*
 - *the condition of the housing portfolio, and*
 - *current and future maintenance liabilities.*

Background

Maintenance is most effective when it is linked to a strategic asset management plan that aims to optimise the use of an asset over its lifetime. Effective maintenance planning can:

- ❑ ensure that assets are effective in supporting government objectives;
- ❑ ensure that appropriate property standards are met;
- ❑ enable government to allocate maintenance funds to priority areas;
- ❑ minimise emergency maintenance and the associated costs to government and inconvenience to tenants; and
- ❑ preserve the life of an asset.

Effective maintenance planning can also help to demonstrate that tenants have equitable access to maintenance services.

Resource constraints increase the importance of a well-planned maintenance programme in allocating available funding. This is particularly important in Western Australia, where the average budget for maintaining the condition of a Homeswest property was \$948 in 2002-03. A recent review of maintenance management commissioned by Homeswest reports that Western Australia's maintenance expenditure per property is the lowest among Australian state public housing authorities.

Homeswest uses two different methods to plan and budget maintenance expenditure (see Figure 4). A computerised maintenance budgeting model predicts Day-to-Day and Vacated Maintenance for each property by applying the location, age, type, and construction of each property to a standard cost. Annual property inspections identify Planned and Programmed Maintenance needs by generating a list of required maintenance items for each property. Final maintenance budgets are allocated within the constraints of Homeswest’s global annual budget allocation.

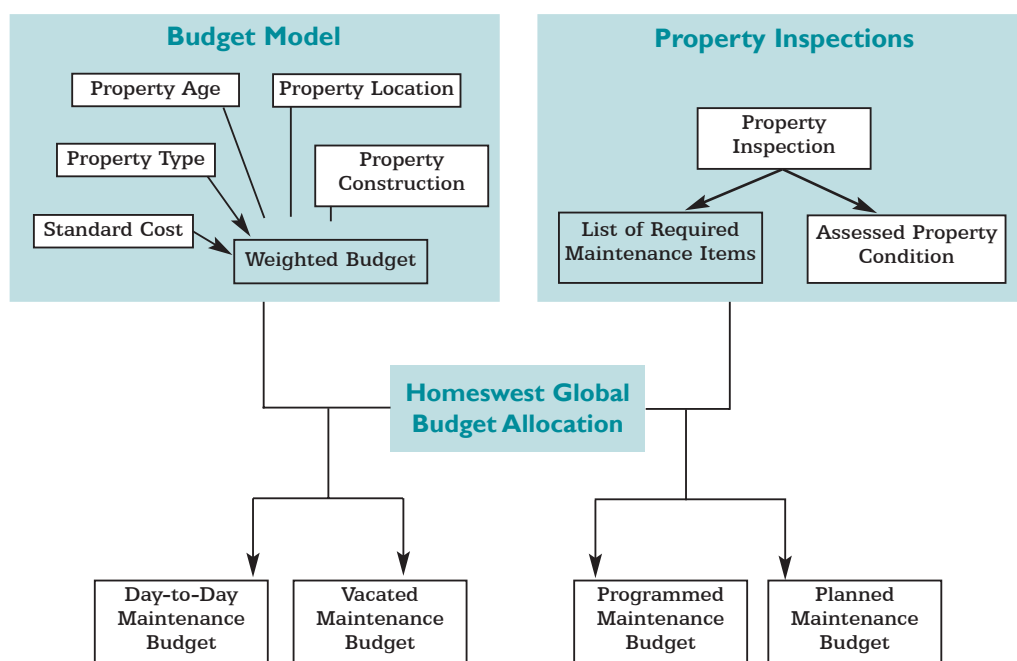


Figure 4: Homeswest’s Maintenance Planning and Budgeting

Effectiveness of Maintenance Planning

Homeswest’s maintenance planning and budgeting processes are designed to:

- ❑ identify maintenance needs; and
- ❑ allocate maintenance budgets based on identified need.

We found that, notwithstanding the model delivers results within five per cent of the global budgeted figures, Homeswest could improve the effectiveness of these processes by:

- ❑ revising the budget models to better predict and allocate maintenance budgets for Accommodation Rounds; and
- ❑ more comprehensively using annual property inspections to identify and plan maintenance.



MAINTENANCE PLANNING AND BUDGETING (continued)

High Maintenance Properties

As expected, actual maintenance expenditure is not evenly distributed throughout Homeswest's tenancies. Of a sample of 450 properties reviewed as part of this examination, 11 per cent consumed 50 per cent of the total maintenance budget for 2001-02 (see Figure 5). These properties individually incurred between \$1 970 and \$24 700 in maintenance expenditure in 2001-02.

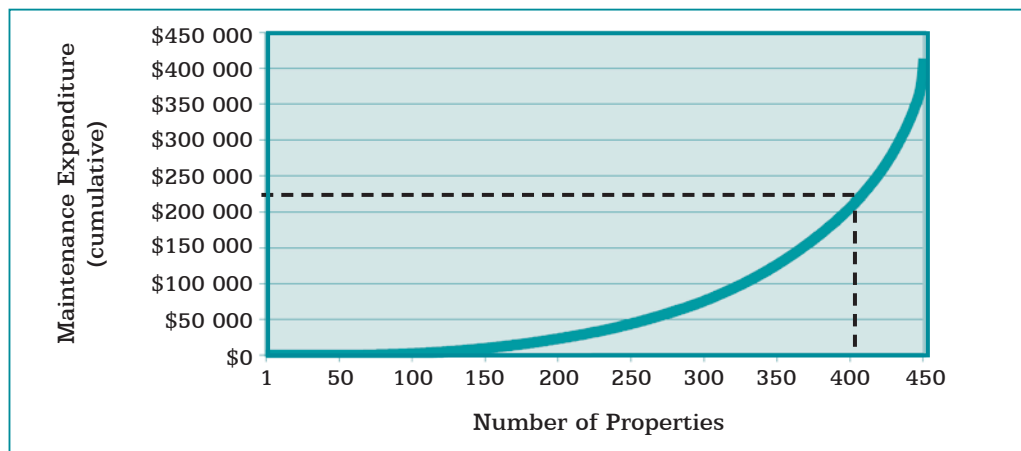


Figure 5: Cumulative Maintenance Expenditure

Eleven per cent of properties accounted for 50 per cent of Homeswest's maintenance expenditure in 2001-02.

Source: OAG

While this result on first examination looks exceptional, closer examination of these high maintenance properties indicates that these costs are reasonably explained. For example, 45 per cent of the high maintenance properties examined had costs associated with bringing properties to a lettable standard after tenants had vacated. This is consistent with the policy to allow tenants to manage their own property standards during a tenancy.

At a further 22 per cent of high maintenance properties tenant liability was the main cost. Homeswest plans to either sell or demolish half of these properties, and will retain the rest as rental stock.

At the remaining 33 per cent of high maintenance properties there were a combination of factors, including exceptional Day-to-Day Maintenance. Each of these properties, except one, is to be retained as rental stock.

Budget Models

Most of the activity aimed at maintaining the condition of public housing properties (82 per cent) is unplanned and conducted in response to:

- breakdowns, faults, or damage (Day-to-Day Maintenance), or
- tenants vacating a property (Vacated Maintenance). (See Figure 6.)

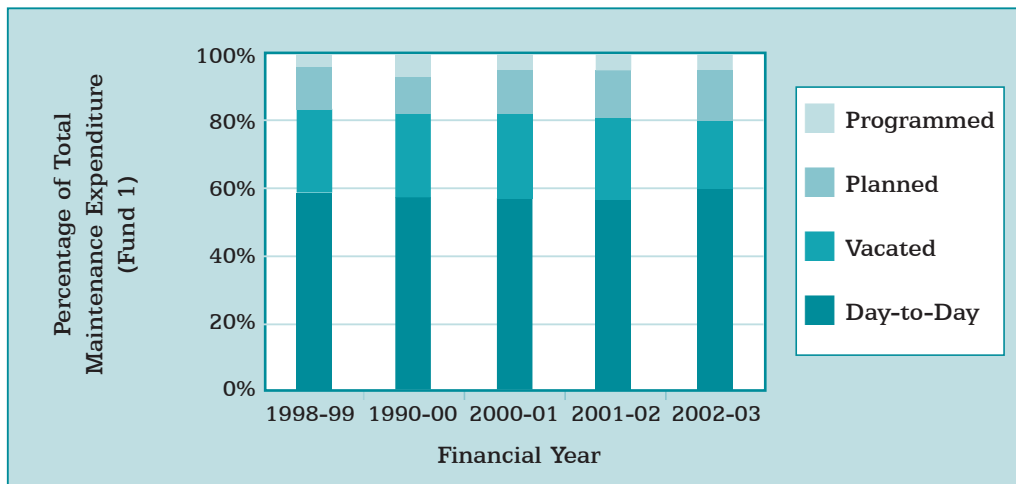


Figure 6: Maintenance expenditure by type of maintenance 1998-99 – 2002-03

Eighty-two per cent of expenditure aimed at maintaining property condition is reactive.

Source: DHW and OAG

We found that the budget model for allocating Day-to-Day and Vacated Maintenance has limited effectiveness in predicting actual expenditure at the Accommodation Round level. Day-to-Day and Vacated Maintenance budgets are allocated to individual Accommodation Rounds (a group of approximately 400 properties managed by one Accommodation Manager). The Accommodation Manager responsible for each Round can then allocate the budget across their property portfolio. Actual Day-to-Day Maintenance expenditure for 60 per cent of Homeswest's Accommodation Rounds was either under or over budget by more than 10 per cent in 2001-02 (see Figure 7).



MAINTENANCE PLANNING AND BUDGETING (continued)

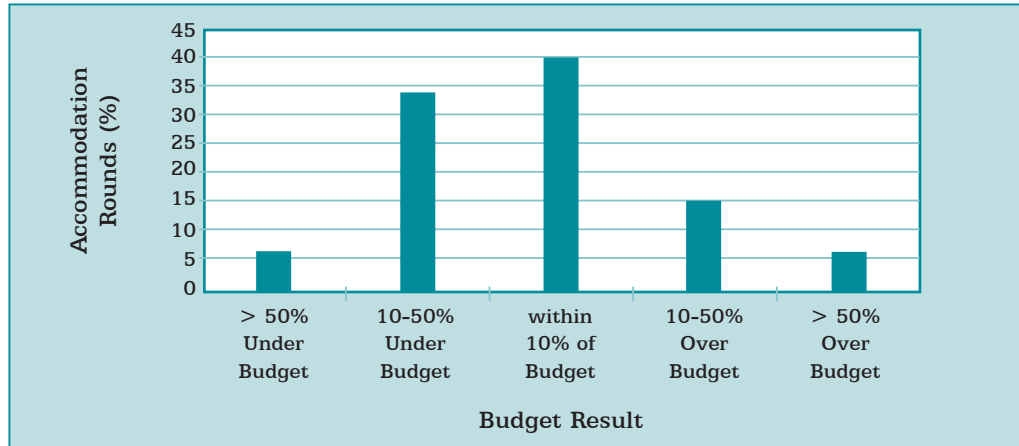


Figure 7: Budget results for Day-to-Day Maintenance 2001-02

Day-to-Day Maintenance expenditure for 60 per cent of Homeswest's Accommodation Rounds was either under or over budget by more than 10 per cent in 2001-02.

Source: DHW

Actual Vacated Maintenance expenditure for 81 per cent of Accommodation Rounds was either under or over budget by more than 10 per cent. In addition, 95 per cent of individual properties reviewed by Audit were allocated a Vacated Maintenance budget. However, only 14 per cent of properties actually incurred Vacated Maintenance expenditure, indicating a need to revisit the basis for budgeting for Vacated Maintenance.

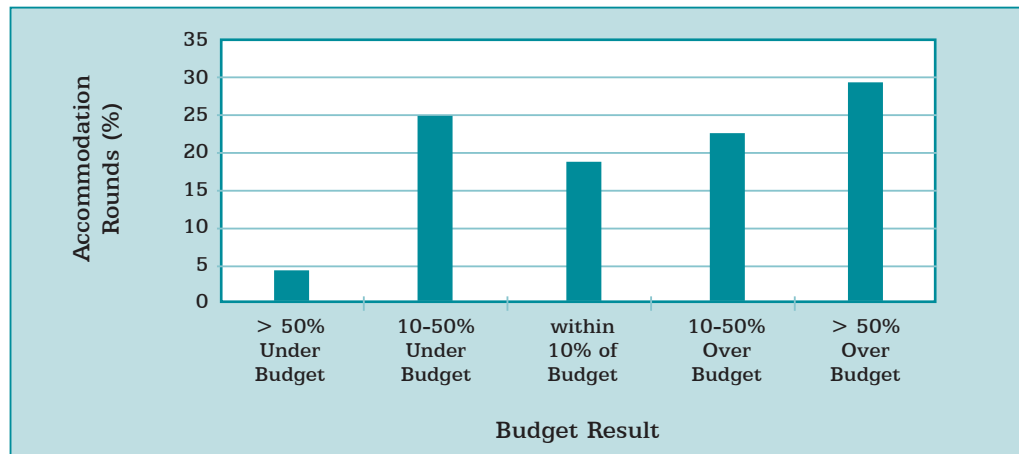


Figure 8: Budget result for Vacated Maintenance 2001-02

Actual Vacated Maintenance expenditure for 61 per cent of Accommodation Rounds was either under or over budget by more than 10 per cent.

Source: DHW

These results suggest that there is room to improve the budget model for Day-to-Day and Vacated Maintenance in order to better plan and allocate maintenance expenditure. At present, the limited ability of the budget model to predict actual expenditure means that Homeswest cannot reliably use the budget model to:

- ❑ accurately identify current and future Day-to-Day and Vacated Maintenance liability;
- ❑ reliably predict maintenance costs to make decisions regarding property refurbishments or replacements; or
- ❑ identify and address reasons for significant over-budget expenditure.

Property Inspections

Homeswest's property inspections have scope to generate valuable information regarding Homeswest's maintenance liability and to plan maintenance programmes in the short and medium term. Property inspections are also consistent with the Government's strategic asset management policy, which notes the importance of planning asset maintenance based on "*periodic inspection, audit and evaluation*"¹.

We found that property inspections are used primarily as a tool for monitoring tenant obligations. Homeswest acknowledges that this is an important objective of property inspections, as they give:

- ❑ Accommodation Managers the opportunity to assess tenancy standards and discuss tenancy problems, such as rental arrears; and
- ❑ tenants the opportunity to discuss any concerns with the Accommodation Manager.

We found that property inspections are not used effectively to support maintenance planning and budgeting. For example, Homeswest does not retain Property Inspection Sheets as part of the inspection and maintenance history of each property. These are held on the Tenants' Personal Files as a record of the tenants' property standards. The Property Inspection Sheets reviewed as part of this examination contained only brief information describing property condition and maintenance requirements. There was little evidence that identified maintenance items were being translated into maintenance plans, budget requests, and funding allocations.

Homeswest is currently trialing the use of new technology to improve the effectiveness of property inspections in recording property condition and maintenance requirements. This will address many of the issues identified above by transforming the current paper-based, manual process into one where information is recorded electronically on-site. Accommodation

¹ Strategic Asset Management Information Kit. Department of Contract and Management Services.



MAINTENANCE PLANNING AND BUDGETING (continued)

Managers will use hand held mini-computers to record property condition and maintenance needs during an inspection. This information will be uploaded to Homeswest's management information system and will automatically feed into:

- a sector-wide database describing property condition; and
- maintenance planning and budgeting.

Homeswest could also improve the effectiveness of property inspections by developing more objective property standards. This would help Accommodation Managers to consistently apply an identified standard when assessing properties and identifying maintenance needs.

Homeswest currently specifies housing condition standards in very broad terms. At the commencement of a tenancy, properties should be:

- clean;
- the appliances should be in good working order; and
- the property should provide safe and habitable accommodation.

Homeswest also provides additional detail to support property condition inspections at the commencement of each tenancy. On an Ingoing Property Condition Report, Accommodation Managers assess properties as being:

- As New;
- Good; or
- Fair.

Homeswest's definitions of As New, Good, and Fair are shown in Table 2. While these descriptors help to minimise subjective assessment of rental properties, Homeswest could usefully expand the descriptors in terms of cleanliness, 'good working order', and 'safe and habitable condition' to:

- more consistently define and apply a minimum standard of housing across the sector;
- more effectively communicate to tenants what they should expect from a Homeswest property; and
- more effectively identify the proportion of properties that do not meet minimum standards for rental.

ITEM	AS NEW	GOOD	FAIR
Ceilings Walls Woodwork Windows Cupboards External Walls	Freshly painted.	Paint sound and clean, no obvious chips, flakes or discolouration. Very minor marks only.	Paint clean, but some minor chips and/or discoloured patches and/or marks.
Floor	New vinyl or recently stripped and sealed.	Timber, Tiles, Vinyl or Carpet – Clean with only very minor marks or discolouration.	Timber, Tiles, Vinyl, or Carpet – Clean but some marks and/or patches and/or discolouration.
Laminex Top	New or unmarked condition.	Minor scratches only.	Minor burn marks and/or some scratches.
Stoves Basins Baths	New or as new condition.	Clean with only minor stains.	Clean, with some stains and/or chips.

Table 2: Definitions of As New, Good and Fair in Ingoing Property Condition Report

Source: DHW

Recommendations

Homeswest should:

- ❑ Review the utility of the budget models for planning Day-to-Day and Vacated Maintenance.
- ❑ Better integrate annual property inspections into maintenance planning.
- ❑ Expand current property condition descriptions into objective, measurable property condition standards for public housing and use these to:
 - monitor and report the condition of public housing across the sector;
 - plan and prioritise maintenance, including short and long-term maintenance needs;
 - identify current and future maintenance liability; and
 - communicate property condition expectations to tenants.

Maintenance Management

- ❑ *Sixty-seven per cent of Day-to-Day Maintenance Job Orders examined were completed within target response times, 17 per cent were not, and achievement of targets could not be determined for 16 per cent.*
- ❑ *The clock for monitoring maintenance response times starts with the issue of a Job Order, rather than the tenant's request for maintenance.*
- ❑ *Practices for authorising and checking maintenance work should be consistently applied.*
- ❑ *Accountability for contracting out Programmed Maintenance should be strengthened.*

Background

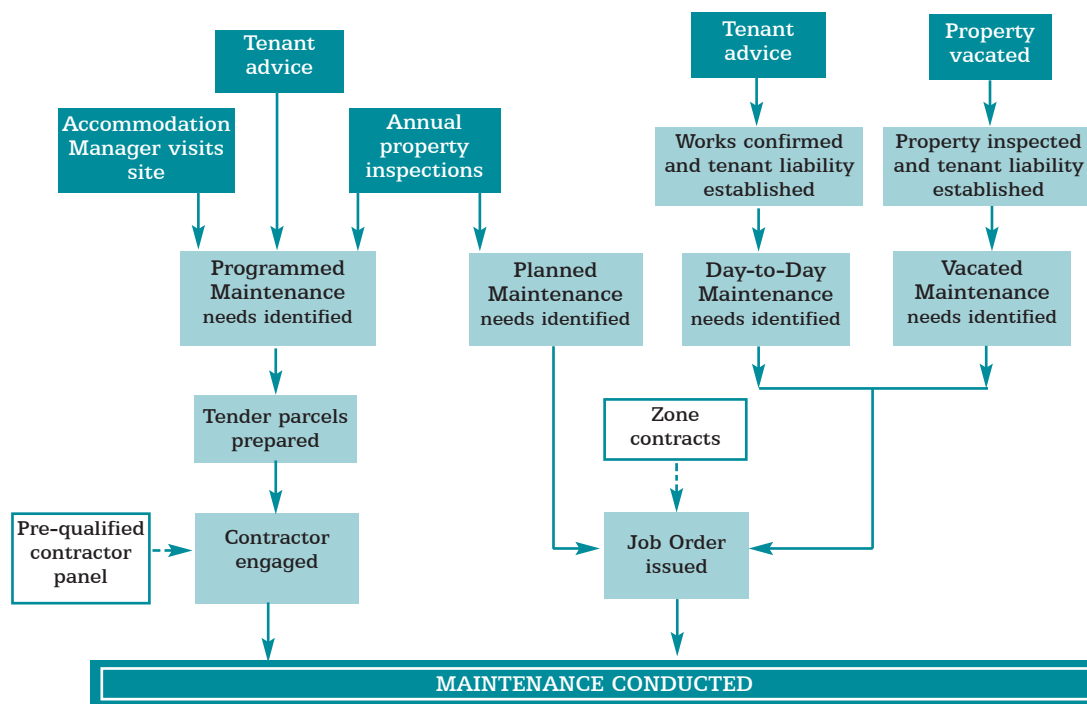


Figure 9: Overview of Homeswest Maintenance Management

Source: OAG

Homeswest regional offices manage public housing maintenance. Maintenance needs are identified through annual property inspections, tenant notification regarding damage or faults, other site visits by Accommodation Managers, or when a property is vacated (see Figure 9). Homeswest then issues Job Orders for all types of maintenance except Programmed Maintenance. Homeswest issued just under 250 000 Job Orders in 2001-02. Job Orders are completed by Zone Contractors, who are pre-appointed contractors in each region. Programmed Maintenance is managed by requesting quotes on tender parcels from a regional preferred tenderer panel.

Responding to Tenants' Maintenance Requests

Timeliness of response to maintenance requests is a key factor in overall tenant satisfaction with public housing. Homeswest recognises the importance of timely maintenance by setting and monitoring target response times. These are:

- Emergency Maintenance 3 hours*
- Priority Maintenance 48 hours*
- Routine Maintenance 10 calendar days*

Homeswest expects all Job Orders to be completed within these target times. Homeswest monitors compliance by telephoning tenants to confirm that Job Orders were completed on time. At least 10 per cent of Job Orders in each category every month are monitored in this way. This monitoring suggests that more than 90 per cent of Job Orders are completed on time.

We examined 582 Emergency, Priority, and Routine Job Orders issued by three regional offices in the December quarter of 2002 to confirm compliance with response targets. This involved checking actual Job Order completion dates and times recorded by maintenance contractors on the Job Order.

MAINTENANCE MANAGEMENT (continued)

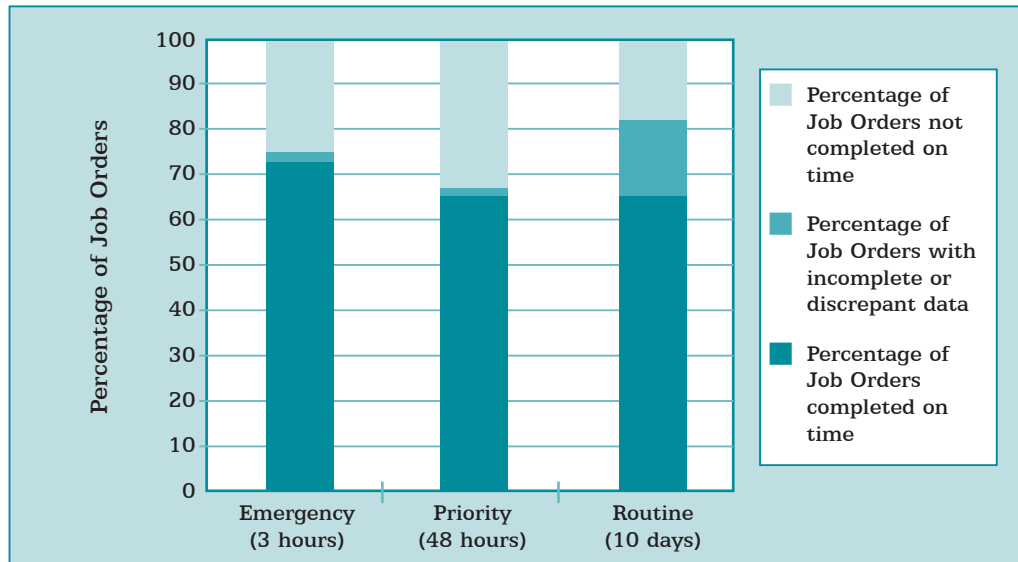


Figure 10: Percentage of Emergency, Priority, and Routine Job Orders completed on time

Sixty-seven per cent of Job Orders examined were completed on time, 17 per cent were not, and a further 16 per cent contained insufficient or discrepant information describing completion time to enable an assessment.

Source: OAG

We found that 67 per cent of Job Orders examined were completed on time (see Figure 10). A further 16 per cent of Job Orders contained insufficient or discrepant data including:

- no completion time or date recorded by the contractor; and
- completion dates that pre-dated the Job Order issue date.

This prevented us from determining compliance with target response times for these Job Orders and has the potential to skew any aggregate reporting of response times to overstate the level of compliance. It is also in breach of a Homeswest Maintenance Circular issued in February 2002 prohibiting the conduct of maintenance works in the absence of a Job Order.

The Job Order is Homeswest’s record that a contractor has been authorised to undertake work. In the absence of this record, Homeswest must rely on the contractor to advise that the work was requested and has no reliable basis for determining whether the work was undertaken with Homeswest’s authority.

Homeswest's target response times measure the elapsed time between the issue and completion of a Job Order. This shows the timeliness of contractors' responses and is useful for managing contractor performance. However it does not show how quickly Homeswest translates tenant requests into Job Orders. It also does not record how many requests are not translated into Job Orders – the 'drop-off rate'.

Homeswest should monitor both of these performance issues by recording tenant requests for maintenance and noting the date and time of the request on the ensuing Job Order. Taking a record of all tenant requests for maintenance would also assist tenants to follow-up the progress of their requests, by providing tenants with a call reference number. A 1994 Homeswest maintenance manual provides instructions for maintenance officers to manually record requests on a maintenance memo. However, interviews with maintenance staff and examination of maintenance records indicated that there is no systematic recording of tenant requests for maintenance at the three regional offices reviewed.

Programmed Maintenance

Programmed Maintenance includes all external painting and is identified through tenant notification, annual property inspections, and site visits by Accommodation Managers. Unlike Day-to-Day and Vacated Maintenance, which is allocated to a Zone Contractor as it arises, Homeswest contracts out Programmed Maintenance using a tender process (see Figure 9).

Each of the three regions reviewed maintains a panel of approximately five to 20 pre-qualified contractors from whom it invites quotations. In each of the regions reviewed, the current panel of pre-qualified contractors had been operating since the mid-late 1990s, when Homeswest devolved Programmed Maintenance to regional offices. The process for establishing and managing the pre-qualified contractor panels varied between the regions.

One region initially populated the panel using references from head office, and adds contractors to the panel on request and after demonstrating required insurance coverage. Contractors with a record of poor performance are struck off the panel. The regional office selects pre-qualified contractors to quote based on the known capacity of contractors (for example, small contractors are not asked to quote on large contracts). The office awards tenders to the contractor with the lowest quote.

A second region established a pre-qualified contractor panel by calling expressions of interest by advertisement in a local newspaper in 1996. Comprehensive records of the tender process show that the pre-qualified contractors were selected based on known past performance on Homeswest contracts and local presence. This panel is currently operating.



MAINTENANCE MANAGEMENT (continued)

The third region advertised for expressions of interest in 1995 to undertake minor capital works, including external painting. No other record exists of the establishment of a pre-qualified contractor panel in that region with the exception of a 1998 letter to a private firm. The letter notes the use of a pool of local builders to undertake minor works and advises that the pool remains in use for 12 months, after which the regional office will again call for expressions of interest. No records of subsequent requests for expressions of interest were supplied to this examination.

The establishment and management of Programmed Maintenance pre-qualified contractor panels and contracts lacks accountability and transparency. In two of the regions reviewed, Homeswest was unable to demonstrate that contractors are awarded maintenance contracts based on proven ability to provide a quality service at a reasonable cost.

Public sector procurement principles suggest that Homeswest should improve the contracting out of Programmed Maintenance by:

- ❑ establishing pre-qualified contractor panels using public expressions of interest;
- ❑ assessing expressions of interest against pre-determined criteria;
- ❑ implementing guidelines for the operation of pre-qualified contractor panels, including guidelines for
 - managing contractor performance; and
 - inviting quotes on tender parcels.
- ❑ limiting the operation of pre-qualified contractor panels to fixed terms; and
- ❑ retaining records of the establishment and operation of the pre-qualified contractor panels.

Homeswest has advised that they will review current tender panels and, where appropriate, will re-tender in line with State Supply Commission procurement guidelines. This process will be standardised across all regions.

Monitoring Maintenance Work

Authorising Payment for Completed Works

Before approving Job Orders for payment, Accommodation Managers check the quality of maintenance work, by sighting a target percentage of completed works (see Table 3). We examined 101 Job Orders issued in the final quarter of 2002 to confirm that Accommodation Managers had sighted completed maintenance works as required. We found that Accommodation Managers had confirmed sighting all Job Orders as required except for two categories of Job Orders (see Table 3).

	Percentage of Job Orders required to be sighted	Percentage of Job Orders sighted in audit sample
Vacated Maintenance	100%	100%
Tenant Liability	100%	100%
Recoverable Insurance	100%	89%
Planned Maintenance	100%	100%
Amounts exceeding \$400*	100%	96%
Other Job Orders	10%	100%

* or \$500 for properties located above the 26th parallel.

Table 3: Percentage of Job Orders required to be sighted and percentage of audited Job Orders sighted

All Job Orders in the audit sample were sighted as required by Homeswest except in two categories.

Authorising Variations to Job Orders

Contractors must carry out maintenance according to the Zone Maintenance Contracts and individual Job Orders. Contractors may vary a Job Order, but must first obtain authority from Homeswest if the variation exceeds \$200.

Homeswest expenditure records over a five year period indicate that over half of the Job Orders issued vary by some dollar amount. To determine the extent of these variations and test whether they were authorised as required, we examined 630 Job Orders issued by three regional offices in the December quarter of 2002. A small percentage (six per cent) of these Job Orders varied by more than \$200. However, only 22 per cent of these variations were authorised by Homeswest as required. Homeswest should ensure that variations are authorised as required by Homeswest policy.

Annual Inspection of Zone Contractor Performance

Homeswest monitors Zone Contractor performance and rigorously follows-up and rectifies identified sub-standard work. Homeswest could be more proactive in utilising available contract sanctions where ongoing sub-standard performance is identified.

Homeswest checks contractor performance annually by inspecting a contractor's work conducted for all Job Orders issued in a randomly selected pay run. Homeswest can issue a 'strike' against a contractor when poor performance is identified and can terminate a contract after three strikes.



MAINTENANCE MANAGEMENT (continued)

We examined Homeswest's records of performance inspections for 36 pay runs in 2002. This encompassed 25 of 176 Zone Contractors. We found that Homeswest identified substandard work, and over or under charging in 16 per cent of the works inspected. In each case, these anomalies were queried with the responsible contractor and rectified.

We found that Homeswest is less rigorous in translating identified poor performance into contract sanctions. None of the 25 Zone Contractors reviewed had incurred any formal warnings, or 'strikes' for poor performance. This was despite ongoing concerns regarding poor performance in a number of cases. For example, one Zone Contract file contains copies of 12 letters that were sent to the contractor during 2001 and 2002 identifying anomalies in completed works. Internal Homeswest memos indicate that the contractor's work performance was deficient to the extent that a strike could be imposed. Additional correspondence to the contractor expresses Homeswest's concern regarding the contractor's failure to provide a timely response to the previous correspondence. Despite these ongoing concerns, Homeswest did not raise a strike and continued to use the contractor.

Recommendations

Homeswest should:

- More rigorously monitor Job Order responses, so that:
 - all tenant requests for maintenance are logged;
 - the elapsed time between the tenant request and the issue of a Job Order is known; and
 - the percentage of tenant requests that do not result in Job Orders is known;
- Monitor and improve compliance with Maintenance Circular 2/2002 prohibiting the conduct of maintenance works in the absence of a Job Order, and enforce the recording of maintenance completion dates on Job Orders.
- Authorise all Job Order variations prior to payment.
- More rigorously manage Zone Contractor selection and performance.

Tenant Liability

- ❑ *Tenants are charged the assessed, rather than the actual, cost of repairs if maintenance work has not been completed before Homeswest advises the tenant of the charge. Testing indicated that this results in the tenant being under charged in one-third of cases.*
- ❑ *The Homeswest Appeals Mechanism (HAM) lacks transparency and due process and is not consistently applied.*

Background

The *Residential Tenancies Act 1987* requires Homeswest tenants to:

- ❑ keep rented premises clean;
- ❑ notify Homeswest of any damage to the premises; and
- ❑ not intentionally or negligently cause or permit damage to the premises.

Consistent with the *Residential Tenancies Act*, Homeswest charges tenants for the costs of cleaning and maintenance associated with damage beyond fair wear and tear. This is commonly called Tenant Liability and includes damage caused by other people who are lawfully on the property.

Homeswest usually determines Tenant Liability charges during a property inspection immediately after a tenant has vacated a property. Homeswest practice is to allow tenants to manage their own property standards during a tenancy, but expects the property to be in a lettable condition when they are vacated. A consequence of this practice is that only a small proportion of Tenant Liability is charged during a tenancy. The Accommodation Manager inspects the property, comparing the property condition against the Ingoing Property Condition Report. The Accommodation Manager records any required cleaning and maintenance on a Vacated Property Condition Report, including the percentage to be charged to the tenant. The tenant is charged 100 per cent of the assessed cost of the work unless it involves painting or fly screens, where a sliding scale is applied based on a five-year life cycle. The Tenant Liability charge is based on the Accommodation Manager's assessment of the amount of work required and Zone Contractor scheduled rates.

A senior Homeswest officer reviews the charges before Homeswest notifies the tenant. This is called a Tier One review. Tenants can appeal charges through the Homeswest Appeals Mechanism (HAM) if they believe the charges have been incorrectly levied.

We reviewed 98 property vacations that occurred in three Homeswest regions during the first quarter of 2002. Vacated Tenant Liability was incurred at 74 (76 per cent) of these properties. Tenants lodged an appeal in 11 (15 per cent) of these cases.

TENANT LIABILITY (continued)

We observed that Homeswest faces particular challenges in managing Tenant Liability. The disadvantaged social and economic circumstances of some Homeswest tenants can mean that some tenants have insufficient skills and resources to effectively maintain a rental property. This can contribute to poor property condition when a property is vacated and subsequent high Tenant Liability charges. As a housing provider of last resort, Homeswest has implemented a number of mechanisms to help tenants in this position avoid eviction and maintain access to housing. These mechanisms include:

- ❑ debt repayment schemes to help tenants with high Tenant Liability debts; and
- ❑ the Supported Housing Assistance Programme, which helps tenants develop the skills to maintain their rental properties.

It is nevertheless important that Homeswest's processes for determining and managing Tenant Liability, including the appeals process, are transparently fair and equitable.

We found that processes for determining Tenant Liability could be improved to provide greater consistency and fairness in assessment of Tenant Liability charges. Although Homeswest has reviewed and reinvented the appeals process over a considerable period, there is still scope to improve this process in terms of:

- ❑ consistency;
- ❑ transparency; and
- ❑ due process.

Identifying Tenant Liability

Fair Wear and Tear Versus Damage and Neglect

Fair wear and tear is not defined in the *Residential Tenancies Act* or Homeswest policy. The Department of Consumer and Employment Protection (DOCEP), however, does provide examples of fair wear and tear (see Table 4).

At present, Accommodation Managers exercise considerable discretion in determining whether the condition of a property represents fair wear and tear or damage and neglect. While Accommodation Managers undertake an initial three-day training course that covers the concept of fair wear and tear, in the absence of a working definition there is little to guide the consistent application of this discretion. A working definition of fair wear and tear would also assist Homeswest and tenants to have a common understanding of what constitutes fair wear and tear.

Normal Wear and Tear (LANDLORD LIABLE)	Neglectful Damage (YOU LIABLE)
<ul style="list-style-type: none"> ■ Curtains faded from years of sun. ■ Carpet in hall or other areas worn because it is used frequently. ■ A lock broke because it was old and had worn out. ■ Paint flaking because it is old or not applied properly. 	<ul style="list-style-type: none"> ■ Your cat tears the curtains. ■ Stains or burns from things you dropped or placed on carpets. ■ You forgot the key and broke a lock to get in. ■ Mould/mildew formed because you didn't properly air the building.

Table 4: Wear and Tear versus Neglectful Damage

DOCEP provides examples of fair wear and tear.

Source: DOCEP

Assessed Versus Actual Costs

After inspecting a vacated tenancy, Accommodation Managers assess the cost of any required maintenance based on Zone Contractor scheduled rates and an estimate of the amount of work required. The assessment becomes the Tenant Liability charge. If maintenance work has been completed before the tenant is advised of the charge, the Accommodation Manager charges the actual costs. Homeswest does not reconcile assessed charges with actual costs, or deduct or add any differences to the amount charged to the tenant.

We examined ten cases of Vacated Tenant Liability in depth to assess whether there was any difference between the Tenant Liability charge to the tenant and the actual cost of the maintenance works to Homeswest. In four cases, Homeswest charged tenants the actual maintenance costs. However, in the remaining six cases, Homeswest charged tenants the assessed costs. This resulted in tenants being charged less than the actual cost of repairs in two out of six cases.

TENANT LIABILITY (continued)

Tenant Liability Appeals

Homeswest hears disputes regarding Tenant Liability through an internal Homeswest Appeals Mechanism (HAM). Under the *Residential Tenancies Act*, tenants can further escalate disputes through to the Small Disputes Division of the nearest Local Court. Tenants can submit complaints to the Parliamentary Commissioner for Administrative Investigations (the State Ombudsman) at any point.

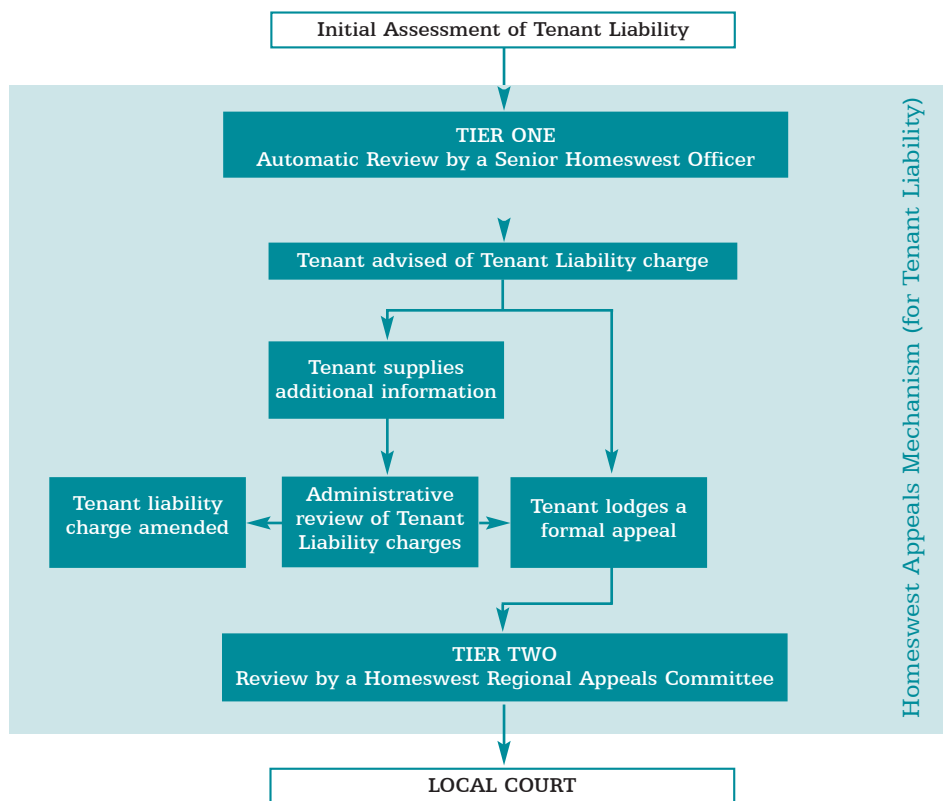


Figure 11: Homeswest Appeals Mechanism for Tenant Liability

Source: OAG

HAM, as it applies to Tenant Liability disputes, is a two-tier process (see Figure 11). Tier One is an automatic review of the Accommodation Manager's initial Tenant Liability assessment. A senior Homeswest officer reviews the assessment to determine:

- ❑ the facts of the case;
- ❑ what policy was applied in making the assessment;
- ❑ whether the policy was relevant;
- ❑ whether the policy was correctly applied to the facts;
- ❑ whether the tenant's situation was given comprehensive consideration; and
- ❑ whether Homeswest's discretion was fairly exercised, having regard to the facts and policy.

Tier One occurs before Homeswest notifies tenants of the Tenant Liability charge and is not, therefore, technically part of an appeals process. Instead, it should be considered part of Homeswest's internal management process for ensuring the accuracy and quality of decision-making.

Homeswest invites tenants to contact their regional office if the damage is not their responsibility. This initiates an administrative review, which can result in the Tenant Liability being reduced or dropped.

Tier Two of the appeals mechanism commences when the tenant makes a formal appeal. A Regional Appeals Committee, consisting of a senior Homeswest Officer not involved in the original decision and a community representative, conducts the Tier Two review at a formal hearing. Tenants may attend the hearing to present their case.

We reviewed the way the appeals mechanism was applied in 74 instances of vacated Tenant Liability that occurred in the first quarter of 2002. We found:

- ❑ inconsistent application of HAM; and
- ❑ lack of transparency and due process.

The appeals process was not applied consistently across the three regions reviewed. For example, a senior Homeswest officer did not, in all cases, conduct the Tier One review. One region routinely treats Tier One as a peer review (where Accommodation Managers review their colleagues' decisions). In another region, subordinates reviewed a senior officer's Tenant Liability decisions.

TENANT LIABILITY (continued)

We also observed a lack of transparency and due process in the HAM, including:

- ❑ costs added to the total Tenant Liability charge after the Tier One review;
- ❑ minimal documentation of the reasons for decisions;
- ❑ failure to retain original Tenant Liability assessments; and
- ❑ different information provided to decision-makers and appellants.

Recommendations

Homeswest should:

- ❑ Develop and communicate to Accommodation Managers and tenants an objective definition of fair wear and tear.
- ❑ Reconcile estimated Tenant Liability charges with actual costs and recoup or reimburse the difference.
- ❑ Improve consistency in application, transparency, and due process of the Homeswest Appeals Mechanism.

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