



Government of South Australia  
SA Housing Trust



# Housing Trust Maintenance Contracts Review

## Audit Report

September 2024

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## Message from the Board

The South Australian Housing Trust Board (the Board) is pleased to provide this report to the Minister for Housing and Urban Development.

The Board is committed to ensuring safe and sustainable housing for our tenants, with robust maintenance services a core component of our offering.

While the review highlights some key focus areas, it is also acknowledged that the SA Housing Trust (the Trust) and its external contractors have continued to update and maintain homes right across the state and to enhance capacity for skilled workers, including through the Trust's 250 Apprenticeships Program.

The Board wishes to thank the Audit Committee members and all parties who provided submissions to the Committee and/or met with the Committee to provide insights and recommendations for the improvement of the Trust's maintenance contracts.

We will now be seeking detailed management plans from the Trust's Executive and Head Contractors to address the recommendations of the Audit Report and will closely monitor the actions and outcomes.

I also wish to specifically acknowledge the contribution of the SA Housing Trust employees who continue to work tirelessly for the Trust and thank them for their ongoing collaboration and commitment to providing services to our tenants.

Finally, I'd like to acknowledge the work of the Trust Executive and Audit Review staff who worked to ensure both a high quality and timely report.

# Executive Summary

## Introduction

Maintenance of South Australian Housing Trust (the Trust) homes is currently provided through external service providers under service contracts which commenced in January 2023.

Recently, reports of potential concerns with non-payment of subcontractors and associated service providers by the prime contractor have come to light. Any instance where subcontractors are not being paid for completed works which meet the service delivery standard is unacceptable.

As a result, the South Australian Housing Trust Maintenance Contracts Review (the Review) was announced as part of the Housing Roadmap by Premier Peter Malinauskas on 25 June 2024.

The Housing Roadmap also emphasised the high priority of reducing delays on the maintenance of vacant properties, thereby making them fit for tenancy sooner.

The Maintenance Contracts Audit Committee (the Audit Committee) (see Appendix A for terms of reference) was established to undertake the Review in the form of the South Australian Housing Trust Maintenance Contracts Audit (the Audit) pursuant to and in accordance with audit powers existing under the Trust's maintenance contracts with its three Head Contractors.

The Review commenced on 1 July 2024 and concluded with the delivery of this report to the Minister for Housing and Urban Development in September 2024.

The Audit Committee has made observations, findings, and recommendations with respect to the Head Contractors. It should be noted that the extent to which these apply, and to the level of action to be taken in relation to recommendations, varies according to individual Head Contractors.

## Background

The Trust has contracted parties to undertake scheduled and responsive maintenance for its housing portfolio. The Head Contractor for Maintenance Services (HCMS) contracts are held with Spotless Facility Services, RTC Facilities Maintenance and Torrens Facility Management (TFM). These contracts were executed in September 2022 and commenced on 1 January 2023 for a term of five and a half years with a two-year extension option.

The Trust has operated its maintenance services under several different delivery models:

- Pre 2013: Direct in-house management of single-trade contractors.
- 2013 - 2022: Outsourced management to Multi-Trade Contractors (MTC)s.
- Since 2023: Outsourced management to Head Contractors (HC)s.

Prior to 2013, the Trust operated an in-house facility management model with internal maintenance teams managing 500plus trade subcontractor contracts. This model provided benefits to the Trust including control of work allocation and greater visibility of work status due to direct relationships with trades, but this also required a far greater number of staff and full ownership of contract and delivery risk.

The outsourced MTC model, operating from 2013 to 2022, transferred the responsibility for the contract and delivery management of the subcontractor trade companies to facility managers with expertise in housing maintenance.

From 2023, the new Maintenance Service Delivery Model (MSDM) looked to further advance the MTC contract model. It was intended to better clarify the HC role to enable the Trust to focus on front-line

customer services. Major changes to the contract structure included a new payment framework that includes a management fee and passthrough schedule of rates to subcontractors, and a more robust Performance Management Framework (PMF).

This current model was designed and procured through an extensive process that included a review of lessons from previous models, significant stakeholder consultation, comparison with other jurisdictions and several independent reviews of the design and procurement process. The current contract structure and service delivery model used in South Australia is typical of those used by other states, including some adopted more recently.

The Trust initiated the MSDM Implementation Program to transition maintenance contracts from previous MTC contracts to the new HCMS contracts and transform the business systems and processes to support the new MSDM.

The Audit Committee was advised that since contract commencement, the Trust's Executive and leaders have focused on key risks relating to maintenance service delivery, especially the improvement of services. Maintenance governance and leadership has included a temporary Maintenance Leadership Team (MLT) to monitor performance and provide direction for HC contract management and service improvement, along with increased reporting to the Trust's Board.

## Scope

The Audit Committee considered the performance of each Head Contractor in respect to specified aspects of their operations, including with a view to informing the Trust, and the Minister for Housing and Urban Development, as to the effectiveness of existing Maintenance contracts and service delivery model, considering current economic conditions and considering opportunities to improve service outcomes.

The 90-day Review included consultation and formal submissions from key stakeholders, public submissions from tenants and subcontractors, analysis of service delivery performance data, review of contracts and the current delivery model, and consideration of opportunities for improvement.

The scope of the Audit, as defined in the Terms of Reference (TOR) ([Appendix A](#)), was:

- Reviewing data on the level, standard and timeliness of maintenance works achieved (TOR1).
- Ensuring the appropriate arrangements are instituted to enable subcontractors to be paid in full, and in accordance with existing legislative timeframes (TOR2).
- Ensuring an appropriate and effective dispute resolution mechanism exists (for subcontractor payment) (TOR3).
- Reviewing and providing advice to Government on the existing South Australian Housing Trust Maintenance Contract in the context of the current economic conditions (TOR4).
- Considering alternative delivery or service improvement models that could improve and enhance the maintenance outcomes for the South Australian Housing Trust and its clients (TOR5).

The Audit Committee has provided [Observations](#) for each of these scope areas, as well as [Key Findings](#) and [Recommendations](#) of the Audit.

The Review applied to the three HCMS contracts, with the service providers and contract areas including:

- Spotless Facility Services (Spotless) – four contract areas covering the Adelaide Metro, Adelaide Hills, Barossa and Fleurieu.
- Torrens Facility Management (TFM) – South-East and Riverland.
- RTC Facilities Maintenance (SA) (RTC) – Western Country and Far North.

A map of HCMS contract areas is shown in [Appendix B](#).

## Remote and Aboriginal Housing

The Government of South Australia is signatory to the National Agreement on Closing the Gap 2020-2030 (Closing the Gap) which includes specific targets to increase training, employment, and economic participation outcomes for First Nations people. This includes SA's Closing the Gap Implementation Plan for Housing and Community Infrastructure (Schedule 4) in partnership with SA's Closing the Gap Peak Body to establish an Aboriginal Housing Sector in South Australia. The South Australian Aboriginal Housing Strategy 2021-31 also commits to:

- improving economic participation outcomes for Aboriginal people
- engagement and local decision making
- better housing outcomes.

While focused on achieving these longer-term goals there are short-term opportunities to explore how to increase local employment opportunities for Aboriginal people in the housing maintenance supply-chain. This includes accessing information about 'shovel-readiness' skills in communities and regions and working with Head Contractors to provide direct employment, possibly outside of the current supply-chain contracting model, to help address the real time maintenance backlog. This becomes a stepping stone for building a stronger place-based capacity for future focused service delivery approaches.

## Key Findings

The Audit Committee has reviewed submissions and undertaken consultation with all key stakeholders and has made the following findings in relation to the scope of the Audit.

### Works Order Backlog

There is a significant backlog of overdue works orders (jobs that have not been completed within the contracted completion times), for both responsive and vacancy maintenance works, which equates to approximately a month's worth of work. The backlog developed in the first six months of the contract due to poor completion rates and has been largely stable since then.

This backlog directly impacts service delivery performance of Head Contractors, as many of the jobs completed each month are overdue from the previous month, and ultimately results in tenants experiencing longer than acceptable wait times for repairs and longer turnaround times for vacant properties.

This poor performance puts significant administrative strain on all maintenance service delivery contractors and staff due to the high volume of customer follow-up enquiries, complaints to the Trust and Ombudsman, and Ministerial enquiries. Current systems and processes are not effectively managing this high volume of escalations, further impacting tenants and front-line staff.

This backlog must be reduced as quickly as possible and improved processes (which may require additional resources) put in place to effectively manage communications with tenants, staff, and other significant parties (e.g. Ombudsman SA).

### **Vacancy Maintenance**

A major issue is that vacancy maintenance works are being completed well outside of target timeframes, resulting in a rise in the number of vacant properties. Vacant property turnaround times must be improved, and homes made available to new tenants as quickly as possible.

In some regions there is insufficient capacity within the current contractors to deliver all standard and complex vacancy works within the required vacant property turnaround times. Therefore, an alternative contracting approach is required.

The current practice to complete all maintenance works while a property is vacant is no longer suitable given the current housing crisis and economic conditions. An appropriate alternative for the current conditions is to allocate the property once essential works are completed, and follow-up work scheduled with the tenant, after occupancy.

### **Trade Availability**

Trade availability is a major factor impacting the ability for contractors to deliver the level of work to the required standard and timeliness. Industry bodies report moderate and substantial undersupply of trades in Adelaide and regional SA respectively.

This low market capacity places choice of work in the hands of tradespeople. Maintenance work in public housing is often seen as less desirable work due to interaction with tenants, condition of the homes, and rates of pay.

Whilst medium and longer term government initiatives will look to address skills shortages more broadly, it is vital that the Trust and Head Contractors make necessary improvements to financial terms, subcontractor relationships/collaboration, and systems and processes to better attract and retain trades for this work.

### **Market Rates**

The current pricing within the pass-through Schedule of Rates is below market rates. This pricing gap compounds other commercial factors such as market capacity and has the following impacts:

- Subcontractor profit margins, thus viability to deliver services.
- Attraction and retention of subcontractors and tradespersons.
- Investment in skills development and training.
- Service delivery performance (level, standard and timeliness).

A review of the Schedule of Rates, as well as travel, location and health and safety related loadings, must be undertaken to ensure it provides a more conducive environment for subcontractors.

While competitive rates are an essential factor in the current economic environment, it is the Audit Committee's view that a rate increase alone will not fully address the issues listed above, as Head Contractor systems, processes and relationships must also be improved.

### **Subcontractor Payment**

The Audit has found no evidence of systemic underpayment or payment delays with respect to completed works, however two Head Contractors were found to have a minor non-compliance in relation to payment processing, with average payments just outside of the 10-day contractual

requirement, but still within the 15-days required under the *Building and Construction Industry Security of Payment Act 2009* (SA).

The Audit Committee noted several potential causes for dispute over specific claims, some of which can be caused by confusion around technical specifications or the Schedule of Rates and/or administrative processes.

Head Contractors are providing monthly Statutory Declarations to the Trust to report any payments under dispute, including the reason for dispute, as required under the HCMS contracts.

Head Contractors should continue to remind subcontractors of complaint and appeal processes available to them, including via the Small Business Commissioner.

## Recommendations

The Audit Committee makes the following recommendations to address the key findings/concerns.

1. The approach to Vacancy Maintenance to be adjusted to ensure that contracted vacant property turnaround times are achieved, by:
  - a. removing major capital works associated with vacancy maintenance from the contract and tendered separately, including permitting Head Contractors to tender for the works.
  - b. changing the scope of vacancy maintenance works such that non-essential works are programmed and completed after a property is tenanted, within an agreed timeframe.
2. Reviewing the Schedule of Rates to better align with market rates appropriate for social housing contracts, including travel, location and health and safety related loadings.
3. Increasing the Trust's annual maintenance budget to address the cost pressures associated with any change to the Schedule of Rates, changes in tendering processes and alternative delivery models for regional and remote Aboriginal communities.
4. Reviewing the impact that the current Treasurer's Instructions and Financial Delegations have on the speed of delivery and recommend variations or exemptions that may be required.
5. Head Contractors improving communication with Trust staff and customers regarding the progress of works on all jobs, through:
  - a. addressing administration and/or resourcing issues to provide timely and accurate updates in systems and responses to enquiries.
  - b. working collaboratively with the Trust to implement system and process improvements that address the identified issues.
6. The Trust improving communications with key stakeholders, including:
  - a. proactive communications and feedback mechanism for tenants,
  - b. streamlining enquiry and escalation processes for internal staff and the SA Ombudsman,
  - c. introducing new channels with Subcontractors (and Head Contractors) to facilitate sharing of technical specifications, compliance standards and receive trade feedback.

## Observations

The Audit Committee has made the following observations in relation to each of the items of scope within the terms of reference.

### TOR1 – Maintenance Works Performance

*Reviewing data on the level, standard and timeliness of maintenance works achieved.*

The Audit received submissions and analysis of the level, standard and timeliness of the maintenance works achieved since the commencement of the HCMS contracts, including both responsive and vacancy maintenance works and across all 6 HCMS contract areas.

The Audit considered the following measures of performance:

- **Level:** The volume of work issued to and completed by Head Contractors.
- **Standard:** The quality of the works using the compliance inspection results.
- **Timeliness:** The completion of works based on contracted service levels.

### Observations

#### Level / Volume

The volume of maintenance works issued to Head Contractors across the portfolio **has remained relatively consistent** over the life of the HCMS contracts, including both responsive and vacancy maintenance works.

Approximately 2,700 responsive and vacancy works orders have been issued to Head Contractors on a weekly basis, with the ratio aligned to the contract area sizes, which is consistent with what was issued to the market for consideration at the time of tender.

There has been some variation to the volume of some types of works issued (e.g. more kitchen upgrades and less bathroom upgrades), however these are within tolerance for a contract of this size and scale, and the contract has mechanisms to allow for this variation.

Subcontractor availability varies across contract regions, and by trade type. Head Contractors are actively working to increase capacity of existing and new subcontractors, but some barriers have been reported by them and the industry which include pricing of works, relationships, and system/process issues causing administrative delays and increased cost overheads. This availability, which is discussed further in [TOR4 Observations](#), has impacted on the ability to deliver new works and address the backlog.

Works order completion rate was below 80% in the first 6 months of the HCMS contracts but is now averaging close to 100%; this has stabilised the level of overdue works but not addressed the backlog. Figure 1 shows the volume of responsive works issued and completed, and the number overdue by month.

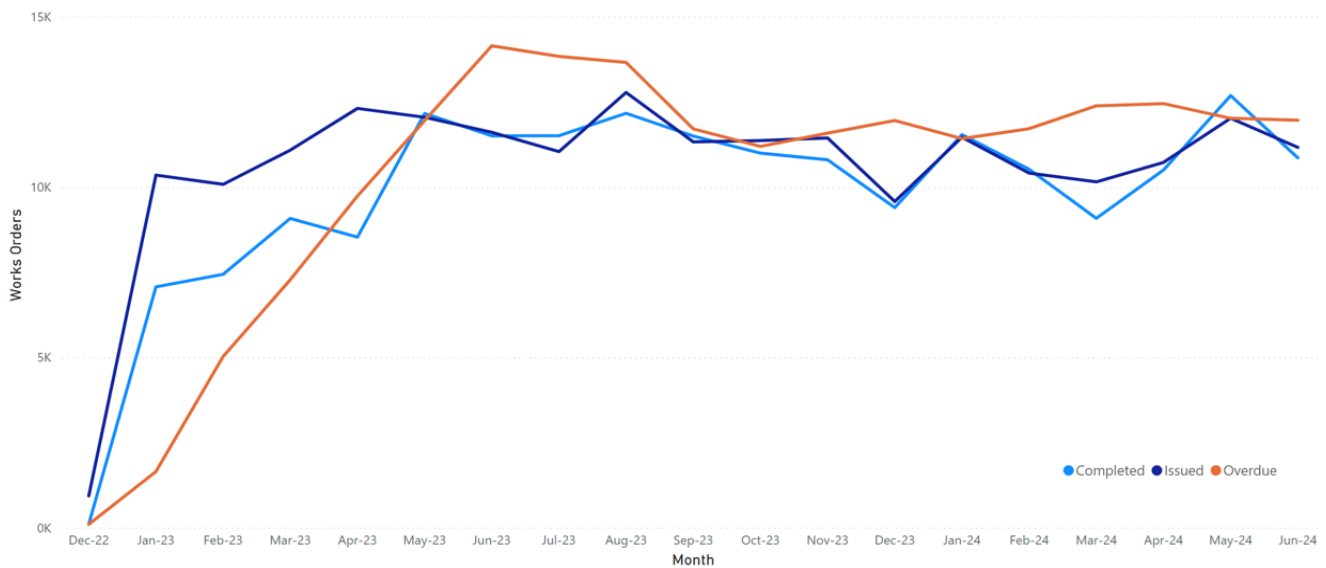


Figure 1: Responsive works order volume.

### Overdue Works Orders

**There is a substantial number of overdue works orders**, both responsive and vacancy, resulting in longer wait times for tenants to have repairs completed and longer turnaround times for vacant properties.

Overdue work orders peaked in June 2023 at 15,677 and have now stabilised at around 13,000 (representing approximately a month of work orders). Overdue work orders under the previous MTC contract peaked at 14,155 and averaged 12,177 over the last 12 months of the contract.

During the transition from previous MTC contracts to the new HCMS contracts, some subcontractors, who were engaged by both Multi-Trade Contractors and Head Contractors, carried over a quantity of MTC works orders into 2023. This combined with other teething issues during the transition-in grace period resulted in the poor completion rate (<80%), resulting in the high number of overdue works orders and higher vacant property number that currently exists.

The level of overdue works must be reduced from the current volume to improve tenant experience, reduce vacant property numbers, and reduce the administrative burden that overdue works put on Trust, Head Contractor, and Subcontractor staff.

**The number of vacant properties has increased by 20% since the commencement of these contracts.** Overdue vacancy maintenance works orders peaked in September 2023, but the number of vacant properties continued to rise and peaked in June 2024.

### Timeliness

**Timeliness service levels are not being achieved**, with current underperformance largely due to the backlog of overdue works orders. The percentage of urgent works completed on time is considerably higher than that of non-urgent works, meaning focus is placed on safety issues, although all are below Key Performance Indicators (KPI) targets.

Timeliness is linked to several KPIs within the PMF, which measure the percentage of works that are completed on time, for each works order priority (P0 - P4). All Head Contractors are failing to achieve timeliness KPIs; therefore, abatements (reduction in management fee paid to the Head Contractor) are applied to the Head Contractors, in accordance with the contract.

Performance fluctuates by month and varies by HC, but over the last 12 months the average timeliness performance for urgent works (P0 – P1) is approximately 90%, high priority works (P2) is approximately 70% and standard priority (P3 – P4) is approximately 55%. Figure 2 shows the timeliness performance (percentage of works completed on time) for the different priorities. It should be noted that some Head Contractors are performing better than others.

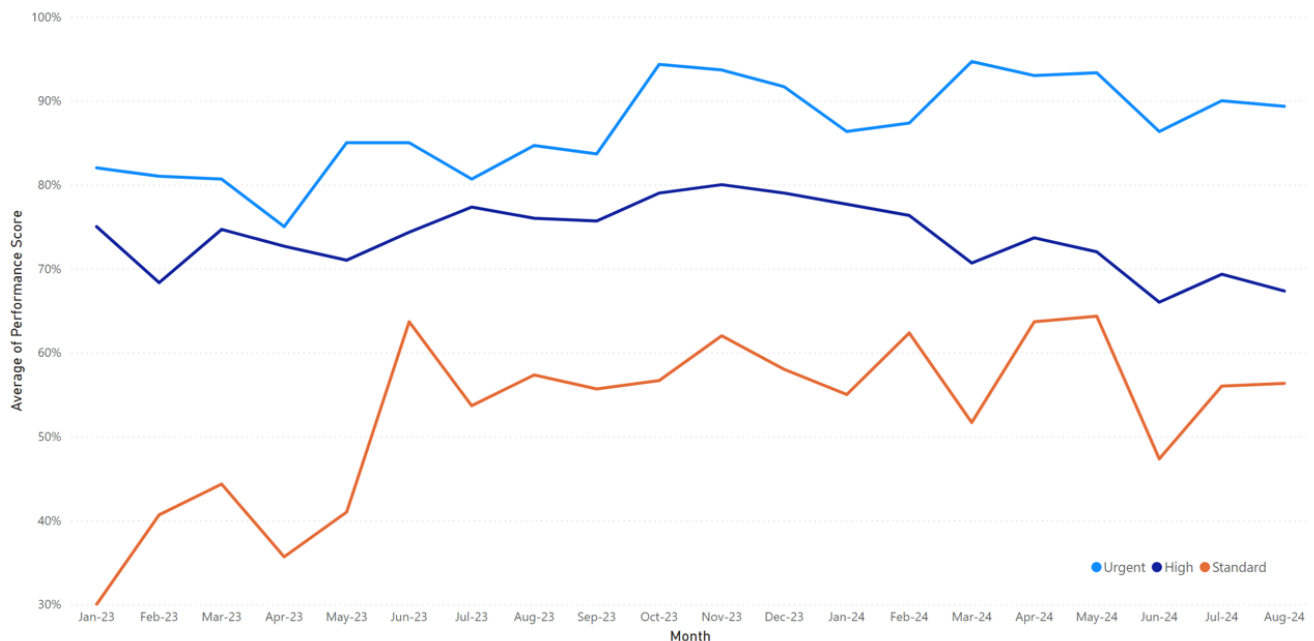


Figure 2: Timeliness performance.

### Regional Locations

**Some regional locations, in particular remote Aboriginal communities, experience increased issues with response times.** A key contributor to this is the regional trade availability and proximity to these locations. The Audit Committee notes that the Trust has commenced working with other SA Government departments to investigate alternate maintenance delivery contracting models to enable sharing of trade resources in remote communities.

### Private Property Fencing

Private property owners, who are adjacent Trust properties and seeking fencing upgrades/replacement, are also affected by delays as the Trust’s fencing process is impacted by service delivery timeliness, administrative issues, and resourcing issues of the Trust and Head Contractors.

### Standard / Quality

Internal Trust compliance inspections and audits have revealed issues with work quality. It was noted that due to the large volume of works, only a small sample of responsive works are inspected, but all vacant property works are inspected on completion. The percentage of works orders with Non-Conformity Reports (NCRs) raised against them has steadily increased during the contract but is still only around 1% of all works orders raised.

### Tenant Experience

The Australian Institute for Health and Welfare conduct bi-annual surveys to gauge tenant satisfaction with maintenance for social housing across Australia. While there is opportunity for improvement, South Australian public housing tenants’ experience is consistent with that at the national level. The 2023 survey indicated that public housing tenant satisfaction in South Australia was 71.9% for emergency maintenance and 61.5% for day-to-day maintenance, both 1 percent higher than the national average.

Maintenance issues are a major reason for complaints made to the Trust and the SA Ombudsman. These come in the form of call centre or front counter enquiries, formal complaints to the Trust, Ombudsman SA complaints and Ministerial enquiries, with the key themes being service wait times, property condition, contractors, fencing and hot water.

The Committee noted the invidious position of front line Trust staff who received complaints from tenants but were unable to track or influence the progress of maintenance issues, providing them with no ability to provide any positive responses to the complaints. Better communication from Head Contractors is essential to empower these staff in their dealings with customers.

## TOR2 – Subcontractor Payments

*Ensuring the appropriate arrangements are instituted to enable subcontractors to be paid in full, and in accordance with existing legislative timeframes.*

The South Australian Government is committed to the prompt payment of suppliers and expects this to be carried through into subcontracting arrangements.

Payment for completed works must be actioned in accordance with the *Building and Construction Industry Security of Payment Act 2009* (SA) and relevant contractual terms and is critical for the effective operation of the Trust's maintenance suppliers, including the Head Contractors and Subcontractors.

Media articles published in early June 2024 reported that subcontractors were left unpaid by Head Contractors after completing maintenance work for the Trust.

The Audit Committee has reviewed submissions and consulted with Head Contractors, Subcontractors, and Industry Bodies to consider the appropriateness of the contractual terms relating to payment terms, and to investigate reports of delayed or partial payment.

## Observations

### Payments Terms

Subcontractor payment terms stipulated in the Trust's HCMS contracts, and passed through to Subcontract agreements, mandate payments be made within 10 business days, which is better than the 15-days required under the Act.

Contract terms mandated by the Trust, and included in all Subcontractor agreements by Head Contractors, require the following evidence/documentation for a compliant claim. This documentation to confirm the work is complete and to standard, is consistent across other public housing jurisdictions:

- before and after photographic evidence of the works
- certificates of compliance (where applicable)
- warranty documentation (where applicable)
- Job Safety Analysis (JSA) documentation

**The Audit found limited evidence of material underpayment or payment delays with respect to payment of compliant claims**, although anonymous submissions from subcontractors were received with claims of payment issues.

Head Contractor submissions confirmed their average payment times for compliant claims range between 6 and 14 days. The justification for >10-day processing is administrative processing and weekly payment cycles.

A separate contract audit of payments to subcontractors, conducted by the Trust in June 2024, found that one Head Contractor was compliant, and two had minor non-compliance with the contract requirement for 10-day payment processing. The Audit Committee noted that the Trust is working with the two Head Contractors to improve payment processing mechanisms to fully comply with HCMS contractual obligations.

The Trust confirmed that its payment systems automatically pay Head Contractor invoices for approved works within 3 days.

### Statutory Declarations

HCMS contract requirements require Head Contractors to provide the Trust with monthly Statutory Declarations that includes details of any subcontractor payments under dispute, including:

- Subcontractor details (name, ABN etc)
- Dates for completion of works and payment claim
- The reason the subcontractor has not been paid

The Trust's Contract Management team monitor these monthly declarations.

### Work In Progress

Head Contractors expressed concern at the level of Work-In-Progress (WIP) liability they carry, reflecting payments made to subcontractors prior to reimbursement from the Trust. It was noted that the Trust is working with Head Contractors to make system enhancements to address this.

### Industry Advocates

It was also noted that during the design of the new MSDM and HCMS contract terms the Trust's procurement team consulted with the Small Business Commissioner and with the broader industry, with support from the Office of the Industry Advocate, to improve the payment terms from the previous MTC contracts. This feedback and advice were incorporated into the HCMS contracts, providing terms consistent with or better than industry benchmarks.

## TOR3 – Dispute Resolution Mechanism

*Ensuring an appropriate and effective dispute resolution mechanism exists (for subcontractor payment\*).*

The Audit Committee has reviewed submissions and consulted with Head Contractors and Industry Bodies to consider the appropriateness and effectiveness of contractual terms relating to dispute resolution.

## Observations

### Legislative and Contractual Compliance

**The Audit has found no evidence that Head Contractors are operating outside of either contractual or legislative requirements.**

Subcontractors have existing protections under the *Building and Construction Industry Security of Payment Act 2009* (SA), and there is no evidence of Head Contractors breaching this Act.

The Trust has a mechanism under the contract where Head Contractors are required to self-report any disputes between the Head Contractor and their subcontractors. Evidence provided to the Audit Committee has confirmed that this process has been used with some Head Contractors previously reporting delayed/disputed claims as part of a monthly statutory declaration.

Causes for disputes between HC and their subcontractor could include:

- no Job Safety Analysis submitted with the claim,
- photo of finished work missing / disputed,
- over charging or duplication of charge,
- work not finished as claimed or found non-compliant,
- rectification work still outstanding.

Contracts between Head Contractors and subcontractors prevent subcontractors from making comment or statements which could damage reputation or create negative media attention for the Head Contractor. This type of clause is a standard commercial clause in contracts of this type.

### Small Business Commissioner

The state government established the Small Business Commissioner to assist subcontractors and provide advice. Industry consultation found that subcontractors may be reluctant to formally seek independent support, such as from the Small Business Commissioner, fearing it may impact the level of work allocated by the Head Contractor.

The Audit Committee expects the Trust and Head Contractors to promote dispute resolution mechanisms with subcontractors, including supporting the engagement of the Small Business Commissioner.

## TOR4 – Maintenance Contracts

*Reviewing and providing advice to government on the existing South Australian Housing Trust Maintenance Contracts in the context of the current economic conditions.*

The suitability of the existing contracts in the context of the current economic conditions is a critical factor for successful delivery of maintenance services by the Trust and partners.

The Audit Committee has reviewed submissions and undertaken consultation with key stakeholders including Head Contractors, Subcontractors, Industry Bodies, and other government agencies and makes the following observations.

### Observations

#### Contract Mechanisms

**The HCMS contracts include mechanisms/levers to manage and enforce the contracts and adapt to the changing economic conditions.** Key mechanisms include the passthrough schedule of rates, with indexation controls, the PMF with KPIs for timeliness, quality and safety, and the ability to source quoted works packages through Head Contractors and/or other suppliers.

**The Trust and Head Contractors have already adjusted these mechanisms,** and will continue to do so, to address the current economic environment. Contract variations may also be necessary to adjust other contract terms to address the evolving environment.

**There has been consistent under performance,** compared with the KPI's of the PMF, for all Head Contractors, albeit at different levels and with greater impact on services delivery in different regions. The PMF was updated to better align abatements / incentives with the trade labour market.

Current contracts are structured with one Head Contractor supporting the entire Metropolitan area and a single Head Contractor in each of the regional contract areas. These structures limit the Trust's ability to respond quickly and directly to trade capacity or service delivery issues.

The Audit Committee notes that contracts allow for Head Contractors to directly employ tradespersons, if approved by the Trust, to address trade capacity issues. The Audit Committee supports this approach as a short-medium term solution to address immediate performance issues and reduce backlog, but notes that the preferred model is to grow Subcontractor capacity to meet full demand.

### Trade Availability

**Trade availability is low**, with the Housing Industry Association (HIA) Trade Availability report (June 2024) describing regional SA as having a substantial undersupply and metropolitan Adelaide described as a moderate undersupply. The HIA report also notes strong competition for skilled trades from all construction sectors, especially public infrastructure but also mining and other non-residential sectors which will sustain skills shortages.

**Scarcity of trades places choice in the hands of tradespeople**, allowing greater choice for the work they commit to. Maintenance work in public housing is often seen as less desirable due to interaction with tenants, condition of the homes, and pay rates. This choice further compounds trade availability, attraction, and retention.

**Construction costs have risen** by 28% between March 2022 and September 2023. The schedule of rates offered in the HCMS contracts have increased by 9.07% in FY23/24 & 5.1% FY24/25 but have not 'kept pace' with the market maintenance rates over the same period.

### Schedule of Rates

**Despite the indexation mechanisms of the HCMS contracts, the current Schedule of Rates is below current market rates**, which impacts subcontractors' delivery of work, ability to improve quality and safety systems, and investment in training and apprenticeships.

It is necessary for the contract to pay the appropriate trade rates, for high volume social housing works, to allow for:

- Extraordinary market inflation
- Trade attraction and retention
- Market capability through skills training

An increase to the Schedule of Rates will put considerable pressure on the existing Trust maintenance budget, and if not mitigated through additional budget funding may result in the Trust's inability to delivery non-essential maintenance works. This impacts tenant experience, asset condition and reputation of Trust and the Government.

When considering any variation to the Schedule of Rates the Trust must consider the benefits relating to subcontractor attraction and retention, and service delivery outcomes, as well as any risks relating to competitive commercial arrangements for Head Contractors and subcontractors.

### Skills Development

The Audit Committee also heard from contractors and industry bodies in relation to training and skills development within this contract. The Audit Committee notes that these initiatives form part of the South Australian Government Housing Roadmap but also encourages the Trust, Head Contractors, and Subcontractors to investigate opportunities for skills development and apprenticeship programs within this contract.

### Programmed Maintenance

Head Contractors anticipated a far greater volume of programmed maintenance than has been issued since the commencement of the contract. In addition to service delivery benefits, programmed works supplement Head Contractor management fees with additional program management funding.

## TOR5 – Service Improvement

*Considering alternative delivery or service improvement models that could improve and enhance the maintenance outcomes for the South Australian Housing Trust and its clients.*

The key drivers for effective maintenance service delivery are to enable tenants to live in safe and accessible homes, to improve the quality and life of public housing assets, and to ensure that vacated properties are made available for new tenants as quickly as possible.

The Audit Committee received numerous suggestions via submissions and through consultation with Trust staff, Head Contractors, Subcontractors, tenants, Aboriginal bodies, Industry bodies and housing sector partners, and makes the following observations.

### Observations

#### Service Delivery Model

The current MSDM is a common model in use across most public housing jurisdictions of Australia. It enables the Trust to focus most front-line staff on customer and support service functions. All models were extensively considered prior to commencing the procurement of the HCMS contracts.

Some stakeholder submissions recommended a return to an in-house facility management model; although this is not considered a practical option at this time, the Audit Committee notes that the Trust will thoroughly assess this option again prior to the end of the HCMS contracts, noting lessons learned.

#### Head Contractors

The primary delivery approach within this HCMS contract model is for all responsive, vacancy and programmed maintenance works to be allocated to the Head Contractor responsible for the designated contract area and subcontracted to subcontractors. This high reliance on the Head Contractor means that insufficient trade capacity or capability results in performance degradation (timeliness and quality of services).

The Audit Committee received several submissions and general industry feedback that raised concerns about relationship, communication, and administrative process issues, mostly relating to the Metropolitan area.

**Existing communication processes, especially for follow up on works order status (customer call back enquiries, Ombudsman complaints, Ministerial enquiries) are ineffective due to lack of accessibility of information and/or administrative issues.** The Audit Committee noted the significant impact this has on staff and tenant experience.

**Current systems and processes are not effectively delivering priority works and specialised work programs.** Issues noted by the Audit Committee include system and process issues, inadequate resourcing, and communication failures.

#### Vacancy Maintenance

All Vacancy Maintenance works are currently issued by the Trust, and delivered by Head Contractors, as instructed works under the HCMS contracts by the same pool of subcontractors, including complex upgrades that involve major capital works (e.g. bathroom or kitchen replacement). **The Audit Committee has found that in some regions the current contractors do not have capacity to complete all standard and complex vacancy works in the required timeframes.**

The Trust's current approach to Vacancy Maintenance is to undertake all works, including major capital works, while the property is vacant. This practice, which has been in place for many years, enables the works to be undertaken without disruption to tenants; however, given the current housing crisis, the

Audit Committee recommends allocating tenants into properties after essential works are complete and scheduling follow up works.

### Service Improvement

Service Improvement Plans had an initial impact but with the breadth of activity, trade availability and capability has not achieved the full required improvement. Further improvements in project management planning, aligned with new Action Plans from some Head Contractors, and the subsequent resourcing changes, has seen recent improvements and is expected to drive further improvement.

The MSDM Implementation Program, and other operational action plans, have implemented and continue to make system/practice changes to achieve process efficiency gains and improve tenant experience.

It is noted that some Head Contractors have developed Actions Plans to address service delivery issues. It is the Audit Committee's view that the Trust and Head Contractors must ensure that these Actions Plans also address communications, and systems and process issues.

### Asset Condition Inspections and Programmed Maintenance

Programmed maintenance, including routine asset condition inspections and planned works, is a vital component of effective asset lifecycle management to proactively maintain the condition of the housing stock and reduce the impact on the responsive and vacancy maintenance works.

**The Trust has limited data related to asset condition, resulting in a challenge to accurately plan and forecast programmed maintenance works for Head Contractors.**

The Audit Committee noted that the Trust is implementing a robust program of asset conditions inspections and programmed maintenance, in line with the Trust's Asset Management Strategy 2023-2030, to reduce the impact on responsive maintenance.

### Treasurer's Instructions

TI8 mandates that any expenditure through contractual arrangements, or payment to a supplier must be approved by a Trust employee with appropriate financial delegation; this includes raising of works orders and variations to those orders. The Treasurer granted the Trust a variation to TI8 allowing the Trust's third-party call centre to raise works orders to the value of \$6,000 and variations up to the value of \$1,000 to be automatically approved, with appropriate audit controls in place.

The authorisation requirements under TI8, and the existing variation, generates a high number of works order variations approval tasks (approximately 600 per week), which cause significant delay in the delivery of works (including crucial urgent works) and results in considerable administrative overhead to all parties.

### Subcontractor Collaboration

Current processes limit direct collaboration between the Trust and Subcontractors. Directions from the Trust in relation to policy & procedures, technical specifications, and quality standards, as well as subcontractor/trade feedback to the Trust is only provided via the Head Contractors.

The Trust's current quality management approach is predominately reactive, and compliance focused, with performance abatements applied for non-compliance. Head Contractors, Subcontractors and Industry Bodies have proposed more proactive engagement to clearly communicate standards and expectations, and for more clear technical specifications from the Trust.

The Audit Committee noted that the Trust is looking to develop improved communication channels with Subcontractors to facilitate proactive sharing of technical standards/specifications, quality and compliance standards, and process improvements.

## Appendix A - Terms of Reference

The South Australian Housing Trust Maintenance Contracts Review was announced as part of the Housing Roadmap by Premier Peter Malinauskas on 25 June 2024. The Maintenance Contracts Audit Committee (the Committee) has been established as a result.

The South Australian Housing Trust Maintenance Contracts Audit (the Audit) will audit the performance of each Head Contractor in respect to specified aspects of their operations, including with a view to informing the Trust as to the effectiveness of existing Maintenance contracts and service delivery model in relation to current economic conditions and opportunities to improve service outcomes to the people of South Australia.

The Audit will be conducted pursuant to and in accordance with audit powers existing under the Trust's maintenance contracts with its three Head Contractors. These powers permit the Trust to carry out or cause to be carried out in a fair and reasonable manner an audit of any aspect of the operations of the Head Contractors relating to the contract.

The Committee will ensure that the Head Contractors are provided reasonable notice in writing prior to any investigations involving access to Head Contractor premises, staff (being persons employed or contracted by the Head Contractors or their subcontractors), Books and Records.

The Committee will, subject to any notice requirements to the Head Contractors as set out in the contracts, consult with Head Contractors, subcontractors, tenants, and industry bodies/ advocates in addition to staff of the Trust.

The Committee will respect contractual obligations of the Trust and all commercial entities involved in the delivery of maintenance services and treat all materials and consultation feedback as commercial in confidence.

The Committee will consider, report on, and make recommendations to the Trust and the Minister to enable the following to occur:

- Reviewing data on the level, standard and timeliness of maintenance works achieved.
- Ensuring the appropriate arrangements are instituted to enable subcontractors to be paid in full, and in accordance with existing legislative timeframes.
- Ensuring an appropriate and effective dispute resolution mechanism exists (for subcontractor payment).
- Reviewing and providing advice to Government on the existing South Australian Housing Trust Maintenance Contract in the context of the current economic conditions.
- Considering alternative delivery or service improvement models that could improve and enhance the maintenance outcomes for the South Australian Housing Trust and its clients.

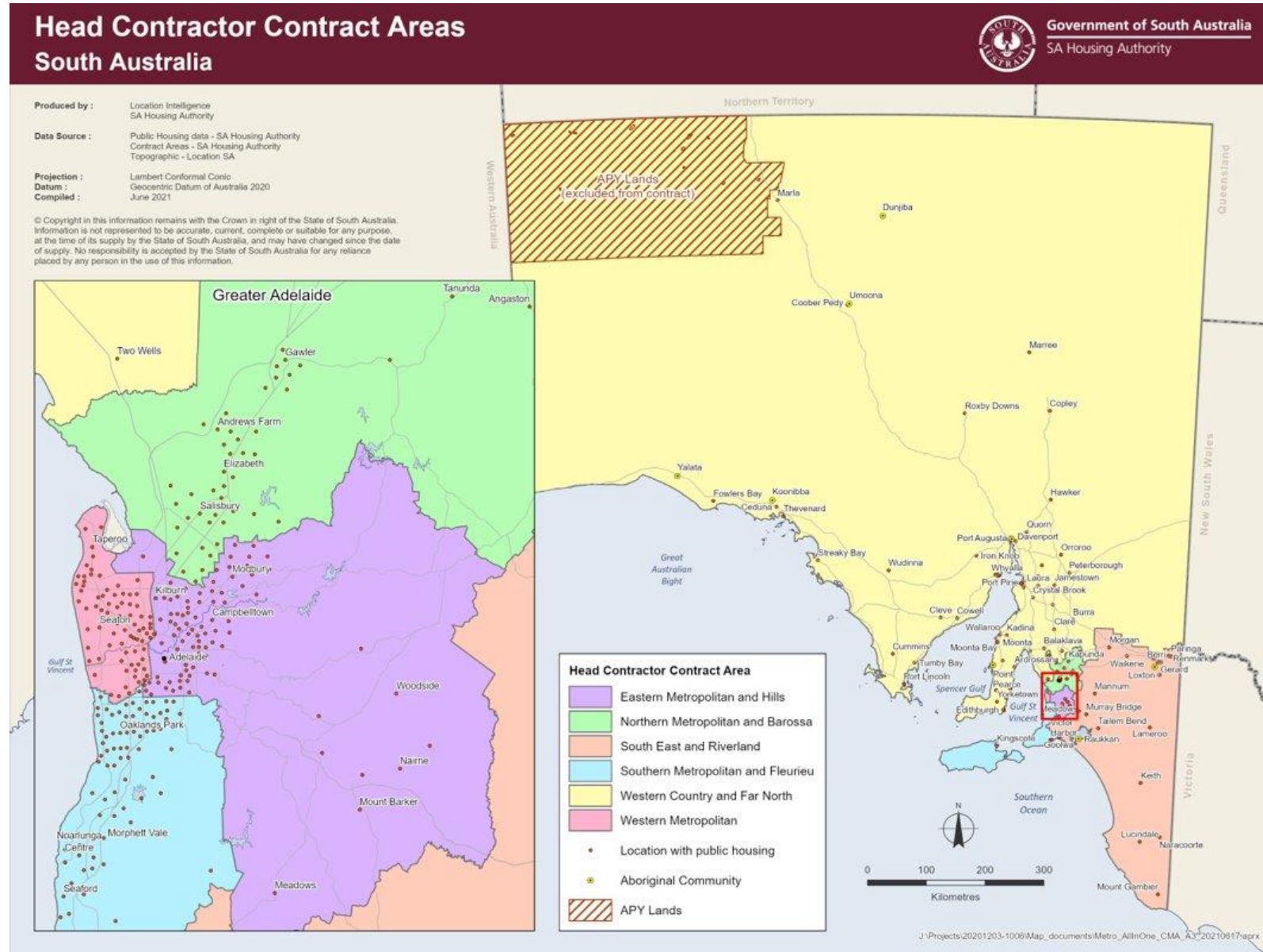
The Committee is responsible for delivering a report to the Board of the South Australian Housing Trust. The Board will provide this report to the Minister for Housing and Urban Development by 30 September 2024. The report will consist of the findings from the Audit and provide recommendations for the Board and Minister's consideration.

The Board and Minister will be responsible for considering the Committee's findings and recommendations and ensuring appropriate action is taken in response.

The Committee consists of chairs of boards of the three statutory agencies that are part of the Department for Housing and Urban Development, and the Chief Executive Officer of the department:

- South Australian Housing Trust Board Chair (Committee Chair)
- Urban Renewal Authority Board Chair
- SA Water Board Chair
- Department for Housing and Urban Development Chief Executive

# Appendix B - Contract Areas Maps



## Appendix C - Consultation Register

The Audit Committee received the following formal submissions.

Submission Type	Stakeholder	Quantity
Organisation – Internal	Trust Management	1
Organisation – Head Contractor	Spotless Facility Services Torrens Facility Management (TFM) RTC Facilities Maintenance (SA)	3
Organisation – Subcontractor	Various - Names Withheld	7
Organisation – Industry Body	Housing Industry Association	1
Organisation – Tenant Advocacy	Anti-Poverty Network SA	1
Individual – Tenant	Name Withheld	1
Individual – Staff Member	Various - Names Withheld	10

The Audit Committee consulted with the following stakeholders.

Meeting Type	Stakeholders
Trust Consultation Briefings and Consultation Meetings	Trust Maintenance Leadership
Head Contractor Briefings and Consultation Meetings	Spotless Facility Services Torrens Facility Management (TFM) RTC Facilities Maintenance (SA)
Community Housing Round Table	Community Housing Industry Association of South Australia (CHIA SA) St Vincent de Paul Society Housing Australia Community Housing Ltd (CHL) Uniting SA Housing Choices Unity Housing Junction Australia
Industry Round Table	Communications, Electrical, Energy and Plumbing Union SA (CEPU SA) Master Plumbers Association SA (MPA SA) Master Builders Association SA (MBA SA) National Electrical Contractors Association SA (NECA SA) Housing Industry Association (HIA) Small Business Commissioner (SBC) Office of the Industry Advocate (OIA) Ombudsman SA
Aboriginal Experience Consultation	Trust Aboriginal Advisory Committee
Tenant Experience Consultation	Trust Customer Service representatives

The Public Service Association was also kept informed of this review given its members involvement.