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Housing NSW: A Journey in Change Management

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Introduction

There is no standard service delivery model currently in the market for managing public housing maintenance and outsourcing its delivery - an area which, in itself, presents a number of unique challenges. In response to those challenges, Housing NSW (**Housing**), in September 2008, implemented its New Maintenance Services Contract (**Contract**) for its Maintenance Reform Program (**MRP**) - a \$1.6 billion project aiming to fundamentally change the way maintenance services are delivered to its 140,000 properties. Key to the MRP is a strategy to reduce the public housing maintenance backlog of approximately \$630 million and generate cost savings through planned and preventative maintenance service delivery. This strategy is underpinned by a contract model which focuses on strong people relationships, co-operation, communication and the open flow of information.

The MRP is unique in many ways, employing new mechanisms to overcome difficulties commonly experienced in large FM projects. This paper will focus on various key tenets of the Contract, including collaboration, planning, real innovation, flexibility, performance monitoring and change management and will highlight how each will benefit Housing as the Principal.

NSW Housing: the background

Firstly, some history of public housing in NSW and a current day snapshot. Housing is the biggest landlord in the southern hemisphere and the second biggest landlord in the world - its property portfolio has an estimated value of \$29 billion. Being such a large owner of residential property brings with it a series of unique challenges, particularly as 77% of the portfolio was built prior to the 1990s. Maintaining a property to a lettable standard, meeting the requirements of the relevant tenancy legislation, providing public housing in a timely manner and maintaining an asset so as to avoid a drain on budget due to constant maintenance demands, are priorities which do not always neatly align.

When we think about facilities maintenance in a traditional sense, we often think about maintenance of commercial buildings and premises. Public housing throws up its own unique set of circumstances, primarily because there are multiple (in Housing's case approximately 140,000, as noted above) tenanted and occupied sites.

Public Housing's demographic has changed substantially from when the first public housing was established in NSW at Millers Point in 1901. In the early 1970s, over 70% of the applicants for public housing were married, employed couples with children. Today, over a third of tenants are single, another third are single parents and only 11% are couples with children, over a quarter of tenants are on the disability support pension and nearly a third are over 65 years of age. Over 90% of tenants receive some form of government assistance. This means that today's public housing tenants are increasingly the most vulnerable and disadvantaged in society; the unemployed, disabled, aged and frail.

Why did Housing need to change? - the road to the New Maintenance Contract

The need to change maintenance service delivery became a central focus of Housing's "Reshaping Public Housing" agenda in 2004-5, when the public housing maintenance backlog reached approximately \$630 million. That is, there was \$630 million worth of maintenance to be done on public housing properties to bring them to Housing "standards". Housing's annual budget of approximately \$300 million a year was not meeting the challenge of decreasing this backlog. In fact, the backlog was increasing each year due to the age of the stock and the method of delivery of maintenance services. Thus, the MRP was born out of a fundamental need to reduce the maintenance backlog and bring Housing's assets to a position where they met a basic level of safety and function standards (from 53% compliant to 99% compliant).

Housing embarked on the first step in changing maintenance service delivery and adopting new methods of contracting when, in 2002, it adopted a full multi-trade model and reduced the number of contractors delivering maintenance to its properties from approximately 300 to 18. This model, although reducing the number of contractors, continued to maintain a focus on reactive responsive maintenance (85:15 ratio of responsive to planned maintenance) and was administered using a schedule of rates for service delivery and payment. There were substantial challenges with this model, including no volumes of work being

available to contractors and thus a very limited ability for contractors to plan, budget, purchase in bulk or drive efficiencies through subcontractor and purchasing power management. In addition, the contract adopted a very traditional approach to relationship management and project delivery and included limited performance measures for monitoring and driving contractor performance.

The aims of the MRP

There were six aims of the MRP. These aims became an integral component of the "Collaborative Contracting Principles" that will be discussed below and are also key KPIs that Housing is required to report on to Treasury concerning the progress of the MRP. The aims are:

- a) all dwellings brought to a consistent and sustainable standard;
- b) better value for money with planned maintenance activities;
- c) reduced urgent responsive maintenance requests;
- d) improved client satisfaction;
- e) maintenance contractors better able to plan activities, achieve targets and deliver on time and on budget; and
- f) improved management of tenant damage.

Achievement of these aims was incorporated into specific clauses in the Contract, in addition to being set out in the Contract Objectives discussed below. At contract implementation, it was estimated that over seven years from 2008/09, the MRP would eliminate the \$630 million maintenance backlog. With the recent injection of funds from the National Building economic stimulus package, it is expected the time required to reduce the backlog will decrease significantly.

Contract Objectives and Collaboration

The New Maintenance Contract serves dual purposes - not only does it set out the legal rights and obligations of the principal and contractor, it establishes and fosters a commercial, collaborative "one team" approach to the Project up front. Key to this one team culture is the obligation placed on both the

Contractor and Housing to perform their respective contract obligations so as to maximise the achievement of the Contract Objectives in a manner which fully applies the Collaborative Contracting Principles, which include such concepts as collaboration, value for money, open communication, innovation, flexibility and trust.

The Collaborative Contracting Principles and the clearly defined Contract Objectives are set out at the beginning of the Contract and set the tone for the Contract. Not only is this a substantial shift in thinking from Housing's previous contract, it is a fundamental shift in thinking as to how maintenance services are generally delivered in the public housing sector.

The Collaborative Contracting Principles stress the importance of value for money to Housing, and place positive obligations on the Contractor to be proactive in its approach to meeting the requirements of Housing, its tenants and the sites and require the Contractor to adopt an integrated approach in delivering the Maintenance Services.

Key to the relationship flavour of the Contract is open honest communication between the Contractor and the Principal, as is the requirement for innovation and flexibility in performance and planning of the Maintenance Services. Given that the majority of service delivery is subcontracted under the contract model chosen by Housing, it is also critical that the Collaborative Contracting Principles and Contract Objectives are passed through to subcontractors and, thus, this obligation is also enshrined in the Contract.

The Contract may potentially operate over seven years and the nature and model for maintenance service delivery may alter during this period. The Contract specifically provides that the Contractor acknowledges it is a paramount objective of Housing that the Contract is flexible in response to the changing needs of Housing and its tenants and that Housing, in consultation with the Contractor, may adjust the Contract Objectives and Collaborative Contracting Principles during the Term. This flexibility will also enable Housing to consider embarking on a fully performance based contract, with a greater focus on total facilities maintenance, once the backlog has been controlled and eliminated.

Critical to the concept of collaboration is the establishment of trust in a contractual relationship. In the case of MRP, a two month "Transition-in Period" was used to set the scene of the contractual relationship, create transparency, clarify expectations and stress the importance of meeting commitments from both Housing and the Contractor's perspective. This was achieved through a number of start up workshops between key Housing staff and Contractor staff. In addition, a discrete training program mirroring that provided to staff, was provided to contractors to ensure each party began the contractual relationship with the same information. Discrete information concerning each Housing geographical area and needs, demands and challenges, was provided to contractors to ensure Housing's expectations and contractors obligations were clearly aligned.

It is important to remember that collaboration and requiring contractual compliance are not mutually exclusive concepts and that, although the Collaborative Contracting Principles set the tone for how the contractual relationship is to be managed and governed as between the contracting parties, they do not mean that Housing will not require contractor compliance with the obligations they have agreed to meet in the Contract. This premise is reinforced in the Contract, which states that the Contract Objectives and Collaborative Contracting Principles do not limit the parties' rights and obligations under the Contract.

A number of workshops were held with Housing asset staff during the Transition-in Period, and in the lead up to the "go live" date (27 October 2008) to ensure staff were fully cognisant of both the concept of collaboration and the importance of meeting contractual obligations and how these concepts interact. These sessions stressed that collaboration and an adversarial contract management style are incompatible and encouraged staff to begin the contractual relationship by following the Japanese tradition of "taking tea", whilst seeking to follow the Queensland Police Force motto "Firmness with Courtesy " in managing the contractual relationship. These sessions are discussed further below, when change management in the MRP process is considered.

Competitive tension

One of the unique things about the Contract is that Housing has engaged six individual contractors who share 22 Contract Areas in which they deliver Maintenance Services. Clearly this provides Housing with the maximum benefit of a competitive tender process, but what about after Contract award? The Contract continues to provide Housing with the benefit of competitive tension right through the performance of the Maintenance Services by establishing a detailed performance monitoring regime, including a Performance Management Framework (**PMF**) and by the use of benchmarking.

As six separate contracts have been awarded, Housing has a significant opportunity to benchmark the performance of its six contractors. This ensures ongoing competitive tension in service delivery. Further, the Contract imposes a positive obligation on contractors to nominate representatives to meet and discuss matters nominated by Housing with other benchmark contractors, including innovations they have implemented.

In interviewing both Housing's current contractor base and potential tenders, Housing's Project Director identified the contract term as critical to industry tendering for the Contract and providing real cost savings and ensure new providers had the opportunity to enter the market and provide a term which facilitated investment in the significant IT and quality management requirements imposed on contractors in the Contract.

Balanced with the need to provide a contract term which would generate market interest and cost savings was the need to ensure competitive tension was retained in the contractual relationship so that performance was not merely a matter of contractors "rolling the arm over", without reference to the Contract Objectives. To address the need to maintain competitive tension, the term was made conditional on contractors being able to respond to the changing requirements of Housing, including their ability to travel with Housing on a journey to a relationship model which fully embraced FM principles.

Thus, in keeping with the need to generate and maintain competitive tension, Housing may at any time during the Term, and particularly in Year 3 and Year 5, require a proposal from the Contractor identifying and implementing innovations and improvements in the value for money obtained by Housing in the way

the maintenance services are performed. Further competitive tension is generated by way of comparison between Benchmark Contractor proposals and Contractor proposals. If a Contractor proposal does not provide Housing with the level of value for money, innovation, improvement, productivity or other benefit which a Benchmark Contractor is providing, Housing may negotiate with the Contractor and, if not satisfied with the negotiations, end the Contract Term and engage a Benchmark Contractor to perform the maintenance services. The option to engage alternate contractors encourages and drives Contractor behaviour which meets Housing expectations, and offers real innovation and value for money in service delivery.

Planning

For the first time, Housing is requiring planned, preventative maintenance to its properties and focusing on reducing the backlog by identifying large parcels of planned works. This strategy will decrease the need for urgent repairs, prevent more serious problems arising and assist in reducing the maintenance backlog, ensuring that it does not reach such huge proportions again. In October 2008, the Director General of Housing told a parliamentary enquiry the following concerning planned and reactive maintenance:

"part of the approach that social housing authorities across Australia have taken historically has been a fix when fail approach, so the maintenance service has been responsive; you only fix something when it breaks. This means you are not able to forecast your needs or your costs, and you cannot provide programs of work to contractors because it is reactive".

Key to the preventative maintenance approach is the Asset Dwelling Service (ADS), the Service Delivery Program and the Business Plan.

The ADS is an annual preventative maintenance service addressing 13 key items (such as smoke alarm servicing, taps, doors and windows). The aim of the ADS is to prevent the major failure of key components and to ensure that responsive maintenance is minimised or prevented. Unique to the ADS is the requirement that the Contractor warrants the performance outcomes of certain items for 12 months,

irrespective of whether they have performed actual "work" on the items or not, thus bringing a performance contracting flavour to the delivery of public housing maintenance. For instance, if a tap fails during the warranty period, the Contractor will be liable to "make it good" to the standard specified in the Contract, and at no cost to the Principal, whether or not it performed any maintenance on the tap during the ADS inspection (subject to there not being any third party intervention).

A further key planning strategy contained in the Contract is the requirement that each Contractor prepare a Service Delivery Program every six months and record their compliance with the Program. The Service Delivery Program relates to Planned Services, which include the Life Cycle Quota (LCQ) Works. In a significant departure from previous practice, benchmark volumes were provided in the tender documents for the LCQ services (representing the six largest dollar value maintenance services to be delivered including external/internal paint and kitchens). The provision of the benchmark volumes for these services has allowed Housing to drive significant cost savings in service delivery and allowed contractors to align subcontractor resources and generate efficiencies in productivity and purchasing power that were not possible under a purely reactive, responsive model. Foreseeing the need to provide the "Benchmark Volumes" in order to drive pricing efficiencies and needing to establish with some certainty the true extent of the backlog, in 2006 and 2008, Housing engaged contractors to conduct property assessment surveys of all of its properties, to determine their compliance with Housing's "Standards" and the priority of works required to be completed to each property.

In keeping with the detailed focus on planning, and in order to ensure proactive maintenance service delivery which is tailored to the ongoing needs at the various sites, each Contractor is required to submit a Business Plan which must be continually updated and improved throughout the term. The Business Plan is essentially the methodology as to how the Contractor proposes to deliver the maintenance services and is a living, organic document that is updated by the Contractor on an ongoing basis to reflect changes in circumstances and requirements of Housing during the Term, and on an annual basis.

Real Innovation and flexibility

A key objective of the new Contract is driving contractor performance through innovative service delivery. For example, contractors are required to use their best endeavours to discover and identify innovations in the performance of the maintenance services, including offering Housing the benefit of innovations offered in future tenders and proposals (to third parties). The level of innovation is measured as a component of the contractor's quarterly performance reviews. In addition, contractors are required to meet and discuss matters, including innovations, and Housing may disclose (subject to commercial in confidence obligations) to "Benchmark Contractors" innovations identified by a contractor. Furthering the requirement for contractor innovation in service delivery is a best endeavours obligation on the Contractor to maximise the productivity of its employees and subcontractors and maximise its purchasing power in purchasing all goods and materials for use in the maintenance services.

Flexibility in service delivery is also fundamental to the innovative theme flowing through the Contract. The Contractor must keep itself fully informed of Housing's requirements (and changing requirements) concerning the delivery of the Maintenance Services and is required to continuously monitor the satisfaction of Housing and its tenants concerning the performance of the maintenance services and proactively manage and address any dissatisfaction identified as a consequence of this monitoring. Practically, this means that Housing expects the Contractor to be proactive in ensuring that the maintenance services are delivered in a timely manner, with as little disruption to Housing's tenants as possible. When dissatisfaction with the delivery of the maintenance services occurs, it is to be addressed and remedied in a manner that ensures there will not be a reoccurrence of the events leading to the dissatisfaction.

Performance monitoring

In large-scale long term FM projects, it is essential for the Principal to continue to receive delivery of quality maintenance services in accordance with the contract throughout the term. Driving contractor performance permeates a number of key measures in the Contract. Contractor performance is carefully

monitored to ensure delivery of quality maintenance services in a timely manner and in accordance with contractual obligations.

Each contractor's performance is monitored on a quarterly basis in each Contract Area (to identify differences in performance in different geographical areas, particularly between remote/regional Contract Areas and metropolitan Contract Areas) having regard to a number of factors, including:

- the Contractor's performance against the PMF;
- the Contractor's performance against the Contract Objectives and Benchmark Contractors;
- the Contractors compliance with its obligations under the contract;
- the Contractors compliance with the Collaborative Contracting Principles;
- the Contractor's level of innovation; and
- the purchasing power and productivity increases generated by the Contractor.

Four key areas of contractor performance management were identified and KPIs and weightings established for each as a component of the PMF. As identified above, the PMF is one element considered by the Principal in monitoring Contractor performance. Importantly, it is the PMF that governs whether a sanction for unsatisfactory performance may be imposed on a contractor.

The four key areas measuring contractor performance under the PMF are operational (includes time management, tenant satisfaction and standard of work), quality system (includes quality system end to end audit, contractor reporting and use of the reinspection fee (a form of liquidated damages imposed when Housing is required to reinspect defective work that the contractor reports has been corrected), financial (includes claims compliance and contractor quotations) and occupational health and safety. Following investigation of Housing needs, these four areas were identified as measuring the critical outcomes and outputs required by Housing concerning maintenance service delivery.

In the event the Contractor does not meet the minimum service levels required by Housing in the PMF, it may be subject to a sanction known as a "Profit at Risk Rebate", which becomes payable by the Contractor to Housing. That is, if a contractor fails to achieve a minimum threshold score for any 6

monthly period, it may be required to pay to Housing the equivalent of 1.5% of the Works claimed by it, and paid by Housing in the 6 month period in question.

The aim of this performance-based sanction is to drive contractor performance, and not create an additional income stream for Housing. With this in mind, the PMF has been structured so that it provides the contractor with an opportunity to repayment of a substantial proportion of the rebate, depending on how it improves its performance in the ensuing periods. For instance, a contractor who has been subject to the Profit at Risk Rebate who in the following 6 monthly period who achieves the threshold score, is entitled to repayment of 25% of the Profit at Risk Rebate paid in the previous 6 months. In addition, if the Contractor again achieves the threshold score in the ensuing 6 monthly period (ie 12 months from when the rebate was imposed), it is entitled to repayment of a further 50% of the rebate paid. Thus, a contractor may potentially recover 75% of the rebate paid to Housing if it improves its performance over a 12 month period, and meets in both Profit at Risk half years the minimum threshold performance requirement.

The Contract contains a detailed meeting and reporting framework and specific positive obligations concerning communication (including monthly contractor operational and risk management reports and internal monthly performance reports and issues and actions logs). The purpose of this framework is to allow Housing to proactively manage contractor performance.

Change Management - internal and Contractor training

Recognising that implementing real change across all levels in the approach to the provision of maintenance services required a significant investment in training, Housing undertook extensive training not only of contract administration personnel but of the contractors themselves. A discrete work stream concerning change management was established and a skills audit undertaken to determine where training was required to ensure staff were fully cognisant of the new Contract environment prior to it going live. The Contract represents a significant cultural change for staff and contractors and for this reason it was critical that the clear strategic vision of MRP was fully understood by staff and contractors, and reinforced continuously throughout the Transition In Period and the Contract Term.

For the first time in its history of maintenance contracting, a specific training program was scoped for all contract management staff, which provided general training regarding contract law and two intensive days focusing on the Contract to approximately 500 contract management personnel across NSW. A contract manual and ready reference sheets were also prepared as take home tools for contract management personnel. This was a new and exciting phase in the MRP, and crucial to the change management process adopted concerning the Contract.

Key to the successful delivery of the training was a focus on problem solving, group work and intensive question and answer sessions. The training was divided into discrete sessions which covered such concepts as collaboration, performance, subcontracting, quality, delay, variations and claims and disputes. 13 separate sets of problems were drafted based on known Housing or projected scenarios. A number of staff reported the training was the 'best they had ever attended' for content and learnings.

In addition to the training described above, a one day session was delivered to key contract management staff, particularly focusing on the elements of change management critical to ensuring the success of the New Maintenance Contract. This session focussed on the need to discard "old baggage" relating to the previous maintenance contract, its contractors and its management and the importance of beginning the new contractual relationship with a positive attitude. In addition, group discussions were facilitated with an emphasis on change leadership, avoiding negative emotions in managing contracts and recognising that the contract is only as good as those managing it. Thus, the destiny of the Contract is in the hands of those leading its implementation and management.

In keeping with the historic nature of events surrounding the Contract, and again for the first time, a training workshop was delivered to all contractors over two days concerning the Contract. All contractors were then provided with contract training presentations to facilitate training of their own staff. The contractor sessions were essentially identical to that delivered to Housing staff, ensuring common themes and key messages were delivered consistently to both parties to the contract relationship. Very positive feedback was received from contractors about these sessions, as they provided an environment

for constructive feedback from Housing concerning expectations and an opportunity for questions from contractors.

As the contract term is potentially seven years and there are so many staff playing in the maintenance space, it is critical that a consistent message and consistent contract management and administration is maintained for its duration. Thus, a video summary of the training delivered to all staff was also created. This, in conjunction with the contract manual, will be used as a resource to deliver both refresher and initial training to Housing staff concerning the Contract.

Conclusion MRP: 6 months of Full Service Delivery

The Contract has now been in place for 6 months, so what is the state of play?

The first 6 months of the Contract have been rewarding and challenging for Housing staff and its Contractors. The change management and training implemented by Housing prior to contract commencement has been recognised as vital to the Contract successful implementation of the Contract to date. Staff and contractors are committed to working collaboratively to achieving the Contract's objectives and seeking innovative solutions to service delivery. The introduction of the New Maintenance Services Contract has been reported by staff to be much smoother than the 2002 contract transition, due to the extensive planning and training implemented by Housing.

Key challenges that have arisen in the first 6 months of the Contract for contractors include:

- understanding the shift in the Contract's risk allocation from the 2002 contract;
- understanding the greater emphasis on planning and innovation in service delivery; and
- meeting the IT requirements of the Contract.

Key challenges that have arisen for Housing in the first 6 months of the Contract include:

- meeting the changed resourcing demands of the Contract;
- understanding the differing contractual risk allocation and contract delivery requirements from the previous contract; and
- implementing effective and appropriate business systems and processes to assure continuity of contract administration and management.

A formal 6 month post implementation "stocktake" of the Contract is about to commence, considering the strengths and weakness of the implementation process, the current gaps that exists in systems and processes, the actions required to address gaps identified and the learnings that can be applied in implementing future innovations in service delivery.

A key challenge to the successful transition to the New Maintenance Contract has been the Contract's commencement coinciding with the economic stimulus package for public housing maintenance, and the very tight timeframes in which these funds must be expended. The sudden arrival of the economic stimulus package funding has had a real impact on the Contractors' and Housing's ability to plan and program the delivery of the Maintenance Services. Although presenting a unique challenge to Housing and contractors, the economic stimulus package also presents a real opportunity to eliminate the backlog much early than anticipated. An earlier reduction in the backlog will enable Housing to consider future relationship contracting models much sooner, including, potentially, a fully performance based approach.

Conclusion - Where to from here?

Many challenges face Housing in moving from the MRP model to a fully integrated FM model which would also incorporate elements of other contract models such as alliancing and early contractor engagement. These challenges include:

- reduction, and ultimately elimination, of the maintenance backlog;
- full transition to a pricing model based on a lump sum service delivery for all maintenance services, with scope for extra payment only in limited specifically defined circumstances (i.e. intervention by a third party such as a Housing tenant);
- the Contractors' transition to (and market acceptance of) a full FM model with its particular risk allocation structure;
- acceptance of a risk-reward regime which not only provides sanctions but also provides incentives to drive contractor performance;
- simplification of KPIs and introduction of more detailed monitoring of 'relationship' KPIs; and

- staff transition to a full performance based contract where their roles will vary significantly from traditional contract management roles in public sector maintenance delivery (including a significant reduction in the ability to control and direct contractor behaviour).

A significant change management program will again be required to achieve the desired outcomes. This program will need to be commenced well before the transition to a full FM model (or other hybrid relationship contracting arrangement), in order to ensure successful adoption by both Housing staff and current and potential contractors.