

REPORT OF PROCEEDINGS BEFORE

PUBLIC ACCOUNTS COMMITTEE

**EXAMINATION OF THE AUDITOR-GENERAL'S PERFORMANCE
AUDITS SEPTEMBER 2012—MARCH 2013**

At Sydney on Monday 23 June 2014

The Committee met at 10.20 a.m.

PRESENT

Mr J. R. O'Dea (Chair)

Mr B. E. Bassett

Dr G. Lee

Mr G. M. Piper

ANTHONY PAUL CRANDELL, Commander, Surry Hills Exhibit Centre, NSW Police Force,

IAN JAMES COLLIER DICKSON, Director, Prosecuting Operations, NSW Police Force,

PAUL JONATHAN GLINN, Forensic Services Group, NSW Police Force,

GRANT MILTON HEHIR, Auditor-General, Audit Office of New South Wales, and

ROBERT CAMERON MATHIE, Assistant Auditor-General, Audit Office of New South Wales, affirmed and examined:

ANTHONY THOMAS WHITFIELD, Deputy Auditor-General, Audit Office of New South Wales, sworn and examined:

CHAIR: I declare open this public hearing of the Public Accounts Committee as part of the follow-up of the Auditor-General's performance audits from September 2012 to March 2013. I apologise to witnesses who were kept waiting because we had some technical difficulties that have put us behind schedule. The Committee authorises the audiovisual recording, photography and broadcasting of the public hearing in accordance with the New South Wales Legislative Assembly's guidelines for coverage of proceedings of parliamentary committees administered by the Legislative Assembly. Have you been issued with the Committee's terms of reference and information about the standing orders that relate to the examination of witnesses?

Mr CRANDELL: Yes.

CHAIR: I welcome witnesses from the NSW Police Force and the Audit Office of NSW.

Mr CRANDELL: I am representing the NSW Police Force in an organisational capacity.

Mr MATHIE: I am responsible for the performance audits that are the subject of today's hearing.

CHAIR: Does anyone have any questions concerning any procedural information or the procedures of today's hearing process?

Mr GLINN: No.

CHAIR: We have received a number of submissions, one from the Audit Office and submissions from or on behalf of the NSW Police. I take it you would like all those written submissions to form part of formal evidence?

Mr CRANDELL: Yes.

Mr HEHIR: Yes.

CHAIR: I ask the Auditor-General to make an opening statement or highlight any issues from his office's perspective.

Mr HEHIR: I thank the Committee for the opportunity to participate. Our report highlighted that the management of drug exhibits and other high-profile goods involves a lot of police time and police space. It also highlighted the significant risks involved in that including: loss, deterioration and the health of people handling them. Our review was concerned to make sure that the management, including risk management, was efficient and effective. Our recommendations were mainly aimed at reducing the time exhibits were stored and encouraging a more risk-based approach to controlling the storage and disposal.

We are encouraged by the direction of progress reported by NSW Police in implementing the recommendations and taking the actions that they have agreed to take. Progress in a number of them has been slower than what was anticipated, but we are pleased to see that the Minister for Police and Emergency Services recently put out a press release indicating that they were about to take some important action with respect to one of the more important recommendations in the report around the early destruction of drug exhibits. That progress, which I think was about last week, is welcome.

CHAIR: Do any of the representatives from NSW Police wish to make an opening statement before the commencement of questions?

Mr CRANDELL: Yes, I am happy to make an opening statement. In August 2011 the Strategic Drug Exhibits Project was developed to implement a number of procedures and examine a number of issues surrounding exhibit management, in particular, drug exhibit management, which formed part of the high-profile goods audit that was conducted by the Audit Office. Some of the important areas that were looked at were the development of standard operating procedures for exhibit management; developing standard risk assessments for the transportation, storage handling and disposal of exhibits; revising the police handbook on all those processes and whether they are contemporary; developing training material for not only police involved in exhibit management but also the broader spectrum of police officers; and also to research and determine whether there is a need for legislative change.

By mid 2012 we met with the audit team and we were able to encourage them, on behalf of the commissioner, to have a good look at processes and procedures of not only drug exhibits but also firearms, ammunition and vehicles and vessels. But we were certainly very, very focused on drug exhibits because there had been at least 12 months' worth of work put into that particular area prior to that, and certainly it was with the commissioner's blessing and certainly at his instigation that the audit team came on board and had a look at our processes from an independent perspective.

We worked with a number of other agencies not only in conjunction with the Audit Office but arising from and even prior to their findings: the NSW Ombudsman, the EPA [Environment Protection Authority], WorkCover, State Records, the DPP—both Commonwealth and New South Wales—because part of our recommendations for change was to import many of the AFP procedures and the Commonwealth procedures for early destruction of drug exhibits. In a really broad perspective what we are saying is that the determination upon retention or disposal of drug exhibits ought to be with police rather than the judiciary, and certainly the Audit Office encouraged us to continue along those lines.

We have had a look at our management of drug exhibits from a safety, legislative and educative perspective. In April 2013 the Strategic Drug Exhibits Project presented 37 recommendations for change within the area of drug exhibits management to the commissioner's executive team. The commissioner himself and his team endorsed all 37 recommendations in principle and asked for the development of an implementation team to bring those recommendations into being. Many of those recommendations crossed into the fields that the Audit Office had also looked at and also made recommendations for change in very similar terms. So there were two driving forces behind our change of procedures.

The implementation team has made a great deal of progress, certainly in the last 18 months, and that progress includes the distribution of safety material including posters and procedures, and safety packages to introduce anybody to exhibit handling procedures. Today is the first day of the exhibit managers course, which is the first of its kind in the NSW Police Force. That is a week-long course that will give accreditation to officers handling and managing exhibits so that we have corporate comfort that exhibits are being appropriately managed and in accordance with all of our legislative requirements, whether that be from a WorkCover perspective or from the EPA perspective, and certainly to look after our people and to get rid of drug exhibits quickly.

We welcome the legislative change and the response from government in getting the Cabinet minute approved. What that change will look like will depend upon a great deal of regulation change. Not only do we welcome that but we also understand that we have got to get our systems in place so that when we are in that legal position to be able to get rid of those exhibits early we know exactly when those exhibits can be disposed of, and to do that we need to automate the systems and get the exhibit forensics information and miscellaneous property system [EFIMS] in particular—which is the predominant system for exhibits management—to speak with our Computerised Operational Policing [COPS] system and make sure that we can then have exhibit officers on the ground that can get rid of exhibits quickly so that they do not deteriorate and we do not carry them for years and years; we can get rid of them within a matter of months.

In those terms we have certainly also had a look at reviewing our storage capabilities across the State. That is important because it also ties in with our Environment Protection Authority [EPA] obligations for local destructions. We have also undertaken work on our exhibit bags because PVC bags can only be destroyed at one

place in the State, and that is SteriHealth. It is important that we get an environmentally suitable product to be able to be destroyed by incineration in conjunction with our exhibit disposal procedures.

To wrap up, there has been a great deal of work done in this space. We have appreciated our contact with the Audit Office. The audit team was an exceptional group of people that really provided us with a lot of guidance and I thought they really consulted well with a lot of police in key positions throughout the organisation. We agree with their findings. There is still some work to be done, there is no doubt about that, but there has certainly been a solid start. That is thanks to the independence and direction that has been provided by the audit team to us.

CHAIR: Do either of your colleagues wish to add anything by way of an opening statement?

Mr DICKSON: No, thank you.

CHAIR: The Committee members will now ask some questions. If representatives from either the Audit Office or the NSW Police Force wish to make comments to each other I ask that they be made through me as Chair. I am happy to entertain a degree of exchange or cross-dialogue if appropriate. To what extent would NSW Police say that the Safety Management System is now properly in place?

Mr CRANDELL: The Safety Management System [SMS] was put in place some years ago but it has been a challenge to obtain understanding and educate the senior officers in commands to really drive that safety culture. The Safety Management System fits in well with risk assessments for drug exhibits particularly in relation to collection, storage, handling and disposal as well as transport. Those risk assessments and that risk assessment documentation is all contained within the Safety Management System. It is also contained in the command management framework, which is a corporate risk-based system that allows a degree of remote monitoring to make sure that each individual command out of the 76 across the State is complying not only with the Safety Management System but also with requirements for the safe handling, management, storage, disposal and transportation of drug exhibits and high-profile goods.

CHAIR: That Safety Management System as you have described it has been in place for some time. I presume it was in place when the high-profile incidents occurred that resulted in NSW Police being fined \$350,000 for exposing police officers to hazardous materials while conducting audits of drug exhibits at the Sydney Police Centre at Surry Hills. Was the same system in place at that stage, or how has it changed since then?

Mr CRANDELL: No, Mr Chair. The Safety Management System was developed beyond those exposures. Those exposures occurred in early 2009. The Safety Management System has been developed to really draw together all of our safety management obligations and all of those different policies and procedures into the one area so that they can be easily digested and we understand all of our obligations under the work health and safety legislation.

CHAIR: How can you assure the Committee and indeed the community that the Safety Management System would now help to avoid such situations in the future, mindful of the fact that it was mentioned in the previous case that the NSW Police had a record of previous convictions?

Mr CRANDELL: The Safety Management System certainly is one part of the whole package but there is also the work that has been done in relation to standardised risk assessments of not only exhibit management facilities but also transportation arrangements notably for prohibited drugs but also other high-profile goods. There is also the work that has been done in the safety systems and posters as well as a great deal of work in terms of education such as the exhibit managers' course, creating an exhibit officers muddle that allows us to communicate with every exhibit officer across the State, and elevating the importance of the exhibit manager and the exhibit manager's position corporately so that there is recognition that there are skills and abilities of those particular people that have been trained.

Addressing every exhibit officer in the State in annual forums has been undertaken in 2012 and 2013 and will be scheduled for 2014. That gives us an opportunity to explain to all of those people involved at the core of exhibit management exactly what needs to change and what processes and legislation need to be followed. In addition to that, every commander in the State in 2013 was presented with obligations in this particular space in relation to exhibit management and disposals as well as WorkCover obligations, State Records Management obligations and EPA obligations.

In addition to that, the 37 recommendations that were made by the Strategic Drug Exhibit Project included the purchase of 94 air purifiers that will be installed into every drug exhibit safe in the State with standard operating procedures to allow the elimination of odours and therefore reduce the number of drug exposures to police officers as much as possible in the current system. We need to bear in mind that we need to work in the current system and not in the proposed legislative change position, which I anticipate will change the environment dramatically because it will allow us to then remove drug exhibits early, not wait or keep them on hand and then wait for them to deteriorate. The longer they are held the more dangerous they become.

The education of officers really pertains to the current environment. The future environment will look at really reducing our levels of dangerous goods that are being stored so that they do not become carcinogenic and dangerous to police. Just to recap, the SMS is one part of a very large process. Yes, it does all feed into the SMS but there are other systems and other initiatives that have been put in place to ensure the safety of our people so that we do not have a repeat of what happened in the WorkCover prosecutions for the 2009 incidents.

CHAIR: You are painting a picture in which we get a clear sense that there has been an improvement in the information on drug exhibits stored and an increase in their timely disposal and better management generally from a range of measures that have been introduced, including annual auditing, changing the reporting framework and education measures. How are you quantifying that improvement so that we can see there is a real, noticeable improvement?

Mr CRANDELL: One of the things that we measured prior to going into this area was the number of exposure-related incidents that were reported to police. The reporting procedures probably in the last four or five years have been upgraded in that we have a P902 system now that basically allows us to collate all reports of accidents or near misses in the workplace. Since the introduction of that system we have been able to quantify how many incidents or near misses of exposure to drugs or fumes or harmful substances have occurred or have been reported. In reality the number of those incidents compared to all other incidents that police are involved in is very small.

CHAIR: Can you give us numbers?

Mr CRANDELL: The percentage at the time of the Strategic Drug Exhibit Project was around about 0.25 per cent compared with the number of other accidents or near misses reported across the NSW Police Force.

CHAIR: How has that figure changed over time?

Mr CRANDELL: I do not know, sir. I will have to take that on notice and check those figures. But notably in those documents a lot of the exposure incidents related to cannabis and odours arising from the storage of cannabis over lengthy periods of time. Cannabis and cannabis plants have been a rather large problem for the NSW Police Force. According to legislation, if an order is made for the destruction of plants, police must wait for seven days before destroying those plants. Cannabis plants deteriorate rather rapidly and very soon after being removed from the ground, become carcinogenic mush, so it is very important for us to get rid of that exhibit rather quickly.

So the legislative change that we really look forward to will address that. Going back to those numbers, the vast majority of police complained of exposure to the odour of cannabis. That gave them nausea, headaches and all sorts of things not only in storage facilities but also during transportation. You can appreciate that police who are required at the moment to travel to Sydney for greater than trafficable quantities to be sampled by NSW Forensic and Analytical Science Service [FASS] personnel in Sydney can be in the vehicle with pungent odours from cannabis for several hours and when they arrive they are distressed. We need to address that.

CHAIR: In taking that question on notice can you give us the relevant areas you are measuring, what the trend has been over time, and what your targets are for the future?

Mr CRANDELL: Sure.

CHAIR: While they might be fairly low numbers it is a little like airplane crashes—you do not want to see any. If you can give us those figures in the relevant areas over time and targets for the future that would be great.

Mr CRANDELL: Sure.

Dr GEOFF LEE: I want to follow up on questions asked earlier by the Chairman. It sounds as though you have done really well. The Auditor-General gave you a good report on safe storage, handling and protection so well done, guys. It seems as though a lot of cost is involved in the transportation of drugs to court and back again, and in storing them. The Auditor-General noted that in some cases the time delay in the storage of drugs and their final destruction was two years. Is the situation getting better? Do you keep records and the metrics on those? I notice that you have an electronic tagging system. Is that improving? The quicker you destroy them or get rid of them the better it is for everybody and it costs less for storage, maintenance and security relating to the whole issue.

Mr CRANDELL: Absolutely. We do have figures relating to drugs that have been collected and then disposed. Just for comparison with the Auditor-General's report, the Auditor-General assessed the 2011-12 year for drugs. I do not know the exact numbers they arrived at but essentially they indicated that approximately 40 per cent were disposed of as opposed to those collected. So we were only disposing of 40 per cent. The figures up to June 2014 indicate that we have increased that to 90 per cent. That sounds fantastic but let me qualify that because that 90 per cent is not just of those exhibits collected. We collected 100 per cent of exhibits but we also have a backlog or storage of drug exhibits that were not collected in that time but that were disposed of. I would like to drive that figure above 100 per cent which sounds impossible but it is not.

Dr GEOFF LEE: Not if they are collected prior to the—

Mr CRANDELL: Yes, the backlog. The other interesting thing was that in 2011-12 a number of exhibits were held over a lengthy period. However, in 2014 that number has increased by at least 10,000 to 15,000 individual drug exhibits. What we are seeing is that we are disposing more but we are also collecting more. I anticipate that that is because of society moving forward—the fact that police are collecting more and more drug exhibits. Whether or not they are greater quantities I am not in a position to tell you, but certainly the individual numbers of exhibits are significantly more in 2014 than they were in 2011-12.

Dr GEOFF LEE: You have collected 300,000-odd exhibits overall but you have enough information about their monitoring, their destruction and the time that those exhibits were held to track your efficiency.

Mr CRANDELL: Yes.

Dr GEOFF LEE: The first few years might be bumpy but after a while it should indicate a trend.

Mr CRANDELL: Absolutely. That 90 per cent trend was pleasing to me. However, I would expect that to be vastly improved with new legislation. New legislation will allow us to destroy exhibits within a matter of months rather than a matter of years. At present we are waiting for the end of trials and trials can take many years. The bulk portions of those drugs remain in place. There is no real need to retain the drug bulk because they do not get produced in court. The only thing of evidentiary value that gets produced in court is the analyst's certificate and perhaps some photographs but the bulk is the thing that is most dangerous to us. The NSW Police Force needs to look at that bulk from a safety and legislative perspective, as in an evidentiary perspective, rather than the courts which are not necessarily looking at it from a safety perspective because they are not required to. They are simply looking at it from an evidentiary perspective.

Mr GREG PIPER: I do not know whether anyone has expanded the acronym EFIMS as I might have missed it, but we were talking about it earlier.

Mr CRANDELL: I am glad that you asked as I wrote it down. The acronym EFIMS stands for Exhibits Forensics Information and Miscellaneous Property System.

Mr GREG PIPER: This is a bit off track from what has been presented to us. The management of these materials insofar as it relates to exposing officers to health risks is significant. I was wondering whether the Police Association of NSW is actively involved in developing management strategies. I have not seen anything in your submission.

Mr CRANDELL: They have been. They have had a vested interest since 2011. We had a Police Association of NSW representative as part of the strategic drug exhibits project. Certainly one of the main

concerns of the Police Association of NSW was ventilation because they were getting complaints as a result of exposures to cannabis. So the introduction of the air scrubbers, which start next week, is welcome news to the Police Association of NSW.

Mr GREG PIPER: Can you give us some indication of what happens? You were talking earlier about transporting cannabis to Sydney. Let us go to one of the great agricultural areas, such as the area of the Member for Lismore where a lot of dope is grown in the hills. If you find a crop—and we are not talking about small amounts; it might be a couple of truckloads, 20 cubic metres or so—is that managed on site or is it removed to a safe location? Is a sample taken for analysis and reporting? How is that managed? I am interested in establishing why it is being driven all the way to Sydney, in what sort of vehicle and how that happens.

Mr CRANDELL: That is a really good question. There is a difference between a cannabis leaf and a cannabis plant which opens up an interesting area. When rather large crops of cannabis plants, particularly in Lismore and in other areas, are removed they need to be identified. So we get an agronomist, usually from the Department of Primary Industries, to certify that those plants are in fact cannabis plants. Once that occurs and we have that evidence, section 39C of the Drug Misuse and Trafficking Act allows a commander of police, superintendent or above, to authorise the destruction of those plants on site. That is interesting because I am really mindful of the advice I have been given from the Environment Protection Authority [EPA], that there must be an interplay between our obligations under the Drug Misuse and Trafficking Act to allow us to destroy those plants in a timely fashion and then our obligations under the Protection of the Environment Operations Act that states we need to be mindful of damage to the environment. Those are some of the aspects that we are talking to the EPA about and getting some advice on.

The other thing is that if there is cut cannabis—so if you have cannabis leaf that is in large quantities, certainly over 300 grams, then that needs to come to Sydney and be stored at the Surry Hills Exhibit Centre, which is my area, before being analysed. One of the problems is that not only for cannabis but also for powders and tablet drugs the analysts need to take samples from that. Currently, under section 39 (b) of the Drug Misuse and Trafficking Act it says that the analyst must take three times the sample required. What happens is they take three times the sample required before they go to analysis and then there is obviously residue left over. So the police not only take the bulk drug exhibit there and the samples get taken; they also take the bulk drug exhibit back to the police station. They must then return to get any residue that is left over after the analysis process and then return that back to the police station as well.

So some of the changes legislatively will perhaps address that but you can imagine police coming from country areas, coming in and then having to organise the next time to pick up residue, take that back and they are taking it right back to the police station. So if they come from Lismore they are taking samples either all the way back to Lismore or to the Surry Hills Exhibit Centre. Current arrangements that we have in place, which have been driven strongly by the Deputy Commissioner Field Operations, is that all tablet and powder drugs in PVC drug bags must be destroyed at the SteriHealth facility. We are taking an overly cautious approach. That has great implications in terms of transport, which will not make the New South Wales audit people happy because they have shown us the problems with transport. But at this point in time, until we get that legislative framework through, this is what we must do.

We have a lot of country police bringing a lot of drugs to Sydney. Normal destruction processes mean that they would have to bring an exhibit officer to identify the drug, an independent person who can also identify that they have been destroyed and a commissioned officer. They bring all the drugs to the Surry Hills Exhibit Centre, the Surry Hills Exhibit Centre staff, my staff, compile all those drugs for disposal and then we send out the exhibit officer, the independent officer and the commissioned officer on their behalf. So that is how we are managing it from all the country regions at present and the city regions are to use SteriHealth as well. Cannabis does not apply to that arrangement unless it is in a PVC plastic bag. If cannabis is in a paper bag then we say at present that they can be destroyed at local facilities but only the local facilities that are authorised to destroy that particular substance. We are in conversation with the EPA at the moment to ensure that we are complying with the Protection of the Environment Operations Act.

Mr GREG PIPER: You probably touched on it, but can you explain why the PVC bag is different? I think you are saying that there are specific disposal requirements if something is in a PVC bag.

Mr CRANDELL: PVC is a chlorine-based plastic. As soon as you burn chlorine into the environment that breaches the Protection of the Environment Operations Act. So we have engaged the University of Technology, Sydney to run tests on alternatives to PVC bags. We have had a look at polyethylene and

polypropylene which have tested very well when exposed to precursor chemicals and other drugs that have been advanced in age by heat. When we compare all three we think that we have some viable alternatives to PVC. If that happens then we hope to be able to resume destroying drugs in local areas because at the moment we are removing local officers from local communities and that is not what we want.

Mr GREG PIPER: So it was just around the incineration of polyvinyl chloride and things like that.

Mr CRANDELL: Yes. We are sort of stuck there with that because we do not want police taking drugs out of drug bags once they are in. The alternative is to take the drugs out and then I think we can get away with burning the chlorine-based material. But we cannot have that either because that creates another safety risk. So we must stick to incineration of the entire bag with the content inside.

Mr GREG PIPER: The system, EFIMS or however you describe it, also records motor vehicles and vessels. If we are talking about any of the narcotics obviously there is some legality and there is criminality around it. I understand that that is not going necessarily to any vehicle or vessel that has come into the possession of police, whether or not it is through criminal action or activity. Does that create any problems for the system? Is it likely to bog it down? Is it sensible to have something that has come into the possession of the police for any purposes other than criminality to be within the same system?

Mr CRANDELL: We are comfortable with that recommendation on the basis that the EFIMS also includes miscellaneous property. Miscellaneous property might not be evidence of a crime. We discussed this earlier in relation to people who have been involved in motor vehicle accidents, for example, and the police may well arrange for the towing of that vehicle. We are not sure whether that fits into the EFIMS system at all but we are happy to record vehicles and vessels on EFIMS because it gives us a tracking ability and an ability to report back and find out how long we have had them on hand. Generally, if we are storing vehicles in particular at locations it is costing us something. So it is incumbent on every local area commander across the State to minimise their costs and to make sure they are reducing the times that these vehicles and vessels are kept in custody.

Mr GREG PIPER: The use of your facility at Surry Hills for receipt and processing of drug exhibits, is that just an historic situation—the Sydney metropolitan area would have been a hotspot for criminal activity around drugs and certain policing on drugs and therefore it was at Surry Hills? If that is the case, is there any argument or benefit in either duplicating or decentralising, or whatever? From the borders and out west there must be a lot of activity. It might not be methamphetamine and ecstasy and all sorts of other drugs but probably bulkier stuff like cannabis. Is there any value in something like that?

Mr CRANDELL: I would be happy to disperse my exhibits centre to other commands. It is a big undertaking. I think you are quite correct in saying that there is an historic reason for it all coming to the Surry Hills Exhibit Centre. We take all drug exhibits from Kings Cross, the City, Redfern, Surry Hills and the State Crime Command and the Professional Standards Command. It is a very large repository. The other thing is that we have drug exhibit vaults so we have the capacity. At present we probably have about 15,000 drug exhibits in our vaults, bearing in mind we are receiving drugs from across the country.

The advantage of decentralisation, particularly in country areas, such as Broken Hill and that sort of thing, is that there is not an expectation that exhibits be transported. So we get out of that transport process. The challenge for us then is to get consistency across the State in relation to our exhibit handling processes and procedures. While it works okay in the city, I think in country areas I can see the need for decentralisation. Certainly there is also a Forensic Services Group component in the country where they will soon, hopefully, be doing some analysis for us. That is kind of a hub that services a whole heap of different centres, albeit they are not receiving exhibits in that fashion. But there are arguments for both sides. Certainly it has been an historical case for the Surry Hills Exhibit Centre which remains today probably for those historical reasons.

Mr GREG PIPER: You are referring to the vaults which I assume obviously is to safeguard against external risk of theft, or whatever. If drugs are being held in a local police station, some of which are not always secure, somebody whose firearms and ammunition have not been picked up by the system could attempt to liberate what was seen as his or her drugs. I assume that there would be some concern relating to internal fraud that was uncovered by that system or is it aimed mainly at protecting from external risk?

Mr CRANDELL: I suppose there is an element of both in relation to internal and external protection. As soon as you walk into the police station or an exhibit handling facility now it is on closed-circuit television

[CCTV] so you have that CCTV confidence. You also have a dual locking system for every exhibit safe, so you must have two police officers in order to get into that safe. If you are lodging an exhibit it goes through an exhibit chute. So one officer can lodge an exhibit, but two need to open up the safe to get it back out again. So there is an element of, I guess, corruption prevention in there. We do need to look across the State more thoroughly at the security arrangements for individual stations, particularly if we are going to be holding larger quantities of exhibits at those centres.

It is not an issue at all at the Surry Hills Exhibit Centre because we have fingerprint scanners, eye scanners and all that sort of stuff to get into what we call a high-risk vault which is the high security and then we have a general vault for all the smaller quantities. At present the police handbook instructs officers to move any exhibits above trafficable quantities to Surry Hills. They should not be retaining anything over trafficable quantities. Once again that is a matter of education. The audit team found that a number of police stations were hanging on to exhibits that were clearly over trafficable quantities. Once again that is a matter of education and it is something that we need to look at.

Mr GREG PIPER: If commands are holding on to more than trafficable quantities in some cases could that be because they might have had a particularly bad period for long-term sick leave or there are resource issues in a local area command?

Mr CRANDELL: Yes.

Mr GREG PIPER: We are talking about the logistics of fairly significant transport overheads, if you like?

Mr CRANDELL: Yes.

Mr GREG PIPER: I imagine there are other factors that impact on that?

Mr CRANDELL: Yes certainly, particularly in country areas. Those are the ones that are most impacted. If you put yourself at Broken Hill, or even Lismore, it is a day trip either way just to get there and back. It is a resource issue. A clause in the Drug Misuse and Trafficking Regulation says that any quantity over a trafficable amount needs to be in the hands of an analyst within 14 days of seizure. That will go with the new legislative arrangements, thank goodness. Requiring police to do that really impacts on those country regions. You are really taking police out of play just to get there within the 14 days.

If a commander decides that he wants to meet that 14-day requirement there are a vast number of additional trips to Sydney which is taking police away from their core business. With the risk assessment we have introduced for transportation of drugs, we are recommending that you start with two police to escort those drug exhibits. We are asking that commander to take two police out of his command. If he is in Lismore it is at least three days—one day to get there, one day there and one day back. Nowadays police work 12-hour shifts so that is basically a week for both officers. That puts a lot of pressure on local communities and police in local communities.

CHAIR: I want to clarify two areas that were touched on earlier in evidence and then I will invite Mr Bassett to ask questions. The first question relates to legislative change. Will you outline to the Committee where we are now at in relation to the Interagency Working Party on the proposed model for a more efficient analysis and destruction of drug exhibits? In clarifying what position has been reached, what is the critical path to be taken in relation to legislative change? Is it with us or is it with the Interagency Working Party?

Mr CRANDELL: I would say that is with you. When the legislative change comes through the Forensic Services Group [FSG] will be preparing for that change. I will defer later to Mr Glinn. Until last week when we had confirmation that the Cabinet minute was acceptable we could only anticipate that it might get through.

CHAIR: What is the proposed time frame?

Mr CRANDELL: For the legislative change?

CHAIR: Yes.

Mr CRANDELL: We are optimists and we are hoping for before the end of the year.

CHAIR: It may well be that this Committee gives that a push along?

Mr CRANDELL: That would be fantastic.

Mr GLINN: Mr Chair, so far as the FSG component is concerned, one of the things that is underway in the country now is presumptive drug testing. At five regional sites throughout the State there are specially trained officers with equipment who have the capacity to provide an initial assessment as to what a prohibited drug may be and that then allows a certificate to be given that potentially is able to be used in a Local Court. That, in turn, will lead to pleas of guilty at the Local Court and hopefully allay the need for drugs to have to be analysed at a later stage for small amounts.

As Mr Crandell alluded to earlier, one of the things for forensic services that is consistent, I guess, with proposed changes so far as the Drug Misuse and Trafficking Act is concerned, is that we have been running a fairly significant project that is looking at where we are at the moment and where we may need to be in the future. Plans are progressing fairly well as to where we may end up. It may result in further work for us to determine whether we have the capacity to do drug sampling in the country and then potentially we will look even further to see what else we can do to try to minimise the amount of resources that are being taken from the country to get these drugs to the city for analysis.

CHAIR: My second clarifying question relates to timeliness, which in this case sits more on your side, and to the progress in updating the handbook and the standard operating procedures concerning the management of vessels through the Exhibits Forensics Information and Miscellaneous Property System [EFIMS]. Your submission states that the due date for that action was April 2014 and the target of the Auditor-General was June 2013. Likewise, there were indications in your response to the Auditor-General's recommendation that all vehicles and vessels were to be incorporated into EFIMS by June 2013. However, your submission to the Committee indicates that you intend to assess the feasibility of monitoring exhibits by April 2014. Will you explain the delays and also the slight change in response?

Mr CRANDELL: I hesitate to tell you that since 20 May that has been in place by the NSW Police Force.

CHAIR: Good.

Mr CRANDELL: So it was a touch late. In relation to the delay, one of the stumbling points was vessels. We received advice from the Marine Area Command talking about how we track vessels that are not necessarily trailered because we do not have facilities to store them in the water. One of the things that we were considering was whether we include all vehicles and all vessels or whether it should be just vehicles. The other matter that we had to determine was what vehicles should go in there and what should not. Should the ones to which I referred before relating to motor vehicle collisions where the driver is incapable or requests police to arrange a tow for the vehicle be put into the EFIMS? The answer to that was that we are not sure.

There was a fair bit of work around trying to determine what should go in and what should not. In reality, in the wash up of it all, we simply determined that it was acceptable to put all vehicles and vessels into the system. Once we came to that conclusion then it was simply a case of getting in touch with the EFIMS people who had designed the system. I do not know whether there was any development of the system itself but it seems that any alteration we make operationally does need to be reflected within some sort of systemic change. So I suspect that the delays may well have been through manipulation of the system, although I am not entirely certain of that position.

CHAIR: Does the Auditor-General or his colleagues have any comment or clarification to make on that point?

Mr HEHIR: No.

Mr BART BASSETT: I have a quick question about the exhibits manager. First of all, is there an exhibits manager at every command or is it regionally based? Secondly, how are you going to prioritise the exhibits manager course you have mentioned?

Mr CRANDELL: That is a good question. The very first exhibit managers' course, the pilot course, commences today. We actually prioritised the country areas for that particular course. But that was really a prioritisation based on our experience with exhibits management, and particularly the volume of drug exhibits that we are getting in. We found that in the country areas, whilst there may not be a large volume of powder and tablet drugs, there was a great volume of cannabis. Cannabis and cannabis plants are one of our major concerns in relation to disposal and compliance. So that was the process of prioritisation for the very first course.

There will be exhibits managers attached to every local area command. We think that is really important. I believe that corporately we have not given exhibits officers the level of recognition required, backed up with that level of training, to say, "Look, you are competent in exhibits management. You do know what the Environment Protection Authority [EPA] and the work, health and safety requirements are. You know how to manage this particular area." It is so important and so vital. It is encouraging that we recognised that early on and that our human resources command has now put in place an ability for us to designate people as exhibits managers in the same way that we do for custody managers. If a person has done the custody managers course or the safe custody course then they can be designated as a custody manager. It is the same for a brief manager—you do a brief managers' course and then you are designated as a brief manager. We want to do exactly the same thing for exhibits managers. We want to get them trained up and skilled to the point where they can occupy that position at every local area command.

Mr BART BASSETT: I have a quick follow-on question regarding the criteria and procedures to assist commands to make those decisions about whether they have the capability to do this. Has that been developed and published now?

Mr CRANDELL: It is being developed. It is something over which we are all in discussions with the police properties group. I think it really needs some criteria to be developed so that we can say what is a secure site and what is not—and if it is not then how do we get it up and running. That is really critical to us getting ready for the legislation to come in, because we are talking about local retention.

Mr BART BASSETT: When you were answering earlier questions I was thinking about this with the commands and the actual physical buildings. Are they are up to speed on that and what will be required? So you are developing those criteria. When is that likely to be completed to fit in with the legislation?

Mr CRANDELL: I want that to be completed well prior to the legislation coming in. For example, if we had a country command that did not meet that standard then we may need to put in place interim arrangements until it comes up to scratch. It is on my mind. But I really need to sit down with the police properties group and say, "What does 'secure' mean to you and what do you say is a 'secure' arrangement?" so that we corporately can look at that and say that we are comfortable there are sufficient security arrangements in place for local destructions and retention.

Mr BART BASSETT: You mentioned drug exhibit bags earlier. How are you going with the interim testing of those? You said that you have done some comparisons. What is required to actually make the decision to change? When is that likely to happen?

Mr CRANDELL: There is a trial starting next week. I have contacted our supplier, who has provided us with about 1,000 polyethylene bags—so they are not polypropylene but rather polyethylene. They look very different. We are also trialling a number of different sizes. There will be A5, A4 and A3 sizes. So when we do get those large quantities in the country we will not have to try to stuff them into an A4 bag; we will be able to use the larger bags. They do look different, but what is important to me is that I know they perform in the same way as the PVC bags.

We are going to trial them in some of the city local area commands and get some feedback from the police. To be honest, the police feedback will be more form than substance because the substance has arisen from the testing that we have put all these bags through over the last six months. So the University of Technology, Sydney, is giving us encouraging signs to say that not only should we go to polyethylene over polypropylene but also that PVC really does not perform to their level at all. On that basis, there will be some changes. I would hope that there are changes before the legislation comes in, simply because we really need to promote local destructions rather than bringing all police to the capital city.

Mr BART BASSETT: Logistically it sounds like exactly what is needed.

Mr CRANDELL: Yes.

Mr BART BASSETT: Lastly from me, what is the proposed timeline for the implementation of the updates to the policies and procedures concerning the storing and transporting of firearms and ammunition?

Mr GLINN: With firearms and ammunition, at the moment there is a review which is very close to being completed—I guess it is a project by the ballistics unit. They have been engaged in that for, I would say, the last eight months. I did see a draft document late last week, when I became aware that I would be coming here today. So that is fairly close to being finalised. Part of that will certainly consider a number of issues which relate to both the storage and the transporting of firearms from around the State into the city. Obviously the firearms are largely examined at the Sydney Police Centre in Surry Hills, which is where the ballistics unit is. They are then disposed of—either by going back to the police locality from where they came or through the Weapons Ordinance Disposal Unit, which is located out in north-western Sydney. It is a secure facility where items are destroyed and disposed of.

At this point there are a number of options being considered as far as the movement of those firearms goes—to make sure that we comply with current legislation and to potentially look to the future. Once there has been consultation internally within the police, there may well be a need to consider the legislation that we currently have, which is the Firearms Act 1996, and reviewing internal guidelines as to how we comply with the legislation.

CHAIR: I now invite, first of all, representatives from the Audit Office of New South Wales to highlight any issues or questions they would like to cover. I will then ask the police to make any closing statements or responses.

Mr MATHIE: I have one point of follow-up, if I may. If the results of the pilot scheme are successful in terms of the ability to dispose of drugs in plastic bags safely, do you have access to sufficient facilities locally to make those long transports not a factor any more?

CHAIR: I invite Superintendent Tony Crandell to reply, through the Chair.

Mr CRANDELL: This issue is part of our discussions with the EPA. We need to make sure that we can use facilities that are appropriately licensed. The only facility in the State that we are extremely safe with using at the moment is SteriHealth at Silverwater, but obviously it goes against the recommendations of the Auditor-General for us to continue to go to Silverwater. So that is why we are putting so much time, effort and expense into developing appropriate drug exhibit bags so that we can have at least half a chance of doing these local destructions. I know local destructions have been carried out in the past. But we must comply with the legislation and we must ensure that the EPA is comfortable with what we are doing locally. So that is a further conversation and a good point. It is the subject of further discussions.

CHAIR: Superintendent Crandell, would you or one of your colleagues like to make any final comments or statements?

Mr CRANDELL: The only thing I would say is that I appreciate the opportunity to come here and give evidence this morning. I appreciate this process, and I appreciated the processes of the Audit Office of New South Wales. I think the way they conducted their business was exceptional. One may have thoughts of an auditor coming in and saying, "Well, bad luck, whatever you want; we're going to tell you what you got wrong." That was the furthest thing from the truth. The audit team sat down with us and worked out the goals and objectives with us. They worked out the process with us and then consulted us at the end. It was a really positive experience.

I think that independence not only allowed us as an organisation to say, "Look, we've got some issues here" but also allowed an external party, if you like, to say, "Look, we can see that there are some issues here as well." We also are very appreciative of the new legislation that is coming. I think that will make a fantastic difference. There is a bit of work that we need to do in terms of systems, but with the legislative change that has certainly put a smile on our face and we appreciate it.

CHAIR: Thank you very much and thank you all for appearing before the Committee today. The Committee may wish to send you some additional questions in writing over and above those that we have already foreshadowed to be taken on notice, particularly around those statistics. The replies to all of those will

form part of your evidence and be made public. Would you be happy to provide a written reply to any further questions?

Mr CRANDELL: Yes.

CHAIR: Thank you very much. That concludes the proceedings for now. Thank you again for attending.

(The witnesses withdrew)

ROSS KEITH WOODWARD, Chief Executive, Office of Local Government, sworn and examined:

CHAIR: Thank you very much for appearing before the Committee today to give evidence. I apologise that we are running behind schedule due to some unforeseen technical issues at the beginning of the day. Can you please confirm that you have been issued with the Committee's terms of reference and information about the standing orders that relate to the examination of witnesses?

Mr WOODWARD: Yes, I have.

CHAIR: Before we proceed, do you have any questions concerning the procedural information sent to you in relation to witnesses or the hearing process generally?

Mr WOODWARD: No.

CHAIR: We have received a submission from your organisation. I take it you would like that submission to form part of your formal evidence?

Mr WOODWARD: Yes, I would. Thank you.

CHAIR: Before we commence asking any questions, would you like to make an opening statement?

Mr WOODWARD: Yes. Firstly, similar to the previous witnesses, I would like to express my appreciation of the process of the Audit Office. It was a very professional and very helpful process that we welcomed. It was an important time for our organisation where we had just restructured our organisation to focus on our two core areas of business, one being to support and build the capacity of the sector and the other around compliance. It was the compliance area that really needed the most attention and that is where the Audit Office was able to actually focus in and really assist our processes, so we found it a very useful process. I have to say also that some of the actions are dependent upon the Government making some decisions following the Independent Local Government Review Panel and the Local Government Acts Taskforce, and those decisions have not yet been made by the Government so some of the actions that are recommended in the report are part of that process.

CHAIR: The Committee notes that the final reports of the Independent Local Government Review Panel and the Local Government Acts Taskforce have been released, I understand. Can you briefly summarise their findings for the Committee?

Mr WOODWARD: Yes. The Independent Local Government Review Panel was set up by the Government to have a holistic review of local government following a workshop we held in Dubbo in 2011 called Destination 2036, where we really began the conversation with the sector between state and local government around local government reform. Coming out of that exercise were a number of recommendations and actions, and the Government picked up the recommendations that really needed some independent eyes, if you like, at the request of the then Local Government and Shires Associations that requested some independent eyes look at the overall scope of local government.

That is what the panel is designed to do. At the same time the Government also set up the Local Government Acts Review Task Force to look at the Local Government Act because the two needed to go together and they were part of the outcomes of the Destination 2036 workshop. Those two exercises had very extensive public consultation, workshops with councils—a very holistic look at reform options for local government. A draft report and discussion papers were put out, and so forth, and finally the reports were then finalised and provided to the Government late last year. The Government decided to then put those reports out for public consultation again before making any final determination.

In summary, the recommendations by the panel are very holistic. They look at the whole system of local government and they make 65 recommendations, including picking up some recommendations made by the Audit Office as part of the review of our organisation. The task force also has made substantial recommendations about a new Local Government Act and has also picked up some of the recommendations made by the Audit Office to be rolled into a new Local Government Act. It is a very holistic review of local government to strengthen the whole system of local government and put more accountability into the system as part of the outcome we are looking for.

CHAIR: Given that all those elements you have talked about are coming together and we are going to hopefully get a holistic and comprehensive response from government, do you have any indications as to when the Government's response will be made clear?

Mr WOODWARD: I really cannot answer that. It is really up to the Government to decide.

CHAIR: There has been no indication to you?

Mr WOODWARD: Not at this point, no. If I can just say, though, the conclusion of the exhibition was on 4 April and we have been assessing all of the submissions that were made—over 400 submissions were made to both those reports—and we have been providing that assessment to the Government to assist with the decisions on what the Government's decisions will be around the panel and task force reports.

CHAIR: I am sure we will all await that with interest. I have not been on a local council but I have two former mayors in my presence so they even more so will await that with a significant degree of interest. On that note, I invite Mr Piper to ask any questions he may have.

Mr GREG PIPER: In your opening statement and in the submission there is reference to the fact that certain changes are dependent upon actions that must be taken. Can you explain what those actions are, why they are critical and what your expectation is around the other actions that are required?

Mr WOODWARD: We have already started on some work. There is some work that needs to be done; the Audit Office recommended it and we have started it. One of those is around sustainability, the new sustainability program. The whole sector has identified that the sustainability of local government is the key question, so together with the sector we have been starting work on the new sustainability program but the first step that needed to happen was the TCorp assessments needed to be done for all councils. So for the first time in New South Wales we get an understanding of what was the picture in regards to sustainability in local government from a financial point of view.

So that piece of work was done. We also did an infrastructure audit, which is the first time also, of understanding what is the scale of the issue around the backlog of infrastructure. Those two pieces of work were done and they all fed into the panel's work to give us a picture of where the sector stood in terms of its financial sustainability. So we have that as a baseline point, but that is just the first step. The next part is to look at what we do with that information and development of a new program to actually help councils achieve sustainability in the long term. That is one of the pieces of work that we have started and that is involving players like TCorp, the Independent Pricing and Regulatory Tribunal [IPART] and others who will work with us to work up this new program. That is one of the recommendations of the panel and it is something that the sector widely supports, as do we. We are already working on that.

Another recommendation by the Audit Office was around performance indicators. For many years, as you know, we have had our comparatives publication, which really identifies a number of the areas within councils on which we would provide data, but it has never been really in any way that you would call performance indicators or benchmarks because they are just comparisons between like councils of certain activities. It has never actually assessed the benchmark that councils should be actually striving to achieve. Setting benchmarks is a particularly difficult exercise, I have to say. It has been one of those ones that in some respects, I guess, has been the Holy Grail for many states.

As part of the process of the panel's recommendations and as part of the Audit Office's review, we have started working on that. We have looked at what other states are doing and we have set up a group of people within the sector to work with us on establishing some benchmarks. As part of the overall process of sustainability in the longer term, all people—communities, states and councils—will be able to understand and see when their council is either meeting the benchmarks or not. This is a very important piece of work but it does take time to do. As I said, we are working with the sector to develop that right now. We have council representatives, IPART and other players on that process as well. My view is that we need to do that collaboratively. We cannot just suddenly produce a whole bunch of new reporting requirements for councils without them understanding why we are doing it.

We also want to move away from only having financial indicators because in the past that tends to have been the only easiest thing to measure. Therefore, jurisdictions tend to fall back on financial indicators. That can

sometimes drive some different behaviours than what you really want, so we are trying to look at indicators that really are about community wellbeing and then come back from that: What difference is a council making to its community? What sorts of indicators do we need to measure what that difference is? That may well include, or will include, some financial indicators, but it will also include some others around assets and other areas.

Mr GREG PIPER: So it is a triple bottom line of reporting in those areas?

Mr WOODWARD: Sort of, yes. Exactly.

Mr GREG PIPER: Ross, you were talking about looking at the financial status of councils around infrastructure backlogs and things like that. We had a look and a discussion at our last committee meeting about what defines a backlog. It is a good question. There are a lot of aspirations out there as to what councils want, but how would you examine that? What do you consider to be a backlog for inclusion in there? My view was it should be something that is not just aspirational or out there in the ether, but it should have been clearly identified in a strategic plan or a capital works plan. At some stage it should be put in as a requirement, not just part of a wish list. You can certainly build up a big backlog if you throw everybody's wishes in. Is it an objective measure, do you believe? Do you feel that it has been properly assessed?

Mr WOODWARD: We are moving towards that. Because the whole backlog area is not audited, it has been a real problem because, as you have rightly pointed out, councils are required to provide what is called Special Schedule 7 details around what their backlog is, but it depends on who does it and on what basis they are doing it, as to what the outcome is. For example, if a council wants to minimise it to make it look like they do not have much of a backlog, then they will do certain things with that process and other councils may wish to make it bigger. We have always had an issue with that, so what we did with the infrastructure audit is that it links to the integrated planning and reporting reforms that we introduced in 2009 whereby councils are required to do long-term financial plans and asset management plans. In those plans there is a requirement that there be some standards set around what is the infrastructure backlog and what it is built around.

I have to say that there is still a problem with that because it is still not audited. That is one of the things we are moving towards now: looking at how we might be up to do that. One council has initiated an auditing process for its Special Schedule 7, which is the first time that has been done. The view has always been that it cannot be audited, but we are looking at how we can actually improve that. But what we have done is link it to a council's asset management plan, which is a 10-year plan around its assets that is worked with the community on some standards that the community accepts around its infrastructure. As part of that process what we have found is that some councils in the past have had a certain figure for their infrastructure backlog. When they have gone through this process with their communities and they have agreed on certain standards of assets, in fact that figure has changed. Sometimes it has gone up and sometimes it has gone down.

We now have a more accurate picture but we need more work to actually get that picture to be more accurate. Now it is council by council. There was an audit of infrastructure, council by council, of its asset management and financial plans. There still are differences between councils on how those are worked out and a lot of it is not audited to the degree that we would like, but we are getting closer to it. That is one of the next exercises we will be working on, or are working on.

Mr GREG PIPER: Okay. As we know, there are councils and councils. Some are very large geographically but very small as far as actual resources and personnel to do these things are concerned to the standards required by the community. Certainly they are oversighted by your division, or by your office, as it is now called. There is a lot of expectation there, and growing. Where they are a smaller council, are you looking at lending resources, or will there be resource sharing across councils to try to assist the smaller councils in coming up to speed? As I say, a relatively poor small council in far western New South Wales would still have a massive job to try to identify their infrastructure needs, including backlog and all those sorts of things. I think they would lag behind, for example, North Sydney.

CHAIR: Maybe they should be merged? Sorry.

Mr GREG PIPER: We will get there.

Mr WOODWARD: What we found is that when we introduced the requirement for the asset management plans and the long-term financial plans, New South Wales was behind the other States. One of the reasons for that was, when I pursued this with councils, that there was no legislation requiring them to do it.

That is one of the reasons we built the legislation and the guidelines that sit with it. What we found was a real keenness by councils to actually get on board with working through it as a sector. One of the things that we have been driving very heavily is that really the sector is as weak as its weakest link, or as strong as its weakest link. Therefore, councils have been helping each other substantially. We have been encouraging that. We have been working in regional groupings of councils.

Asset management is one of those areas where there is a lot of expertise in the sector. Councils are sharing that expertise because it is very important that everybody understands what the baseline figures are and where the problems are. Recommendations, such as one of the recommendations in the panel's report, are around where financial assistance grants could be slightly amended to put some more money where it is required or needed. It is that information across the sector that helps those decisions to be made. I would say that really we have not provided any financial assistance to councils as such because we do not have financial assistance to provide, but it was not necessary because the councils themselves are actually working with each other. We have been a conduit to that. Where councils have been struggling, we have put them in touch with other councils that are happy to help and work with them. There has been a lot of sharing of information and data and staff to help each other do it.

CHAIR: I wish to clarify something before Mr Bassett asks questions. You spoke about TCorp's financial assessments for councils, and they have been finalised, but the Auditor-General noted that the data on infrastructure backlog was not audited by TCorp, which is consistent with what you said, Mr Woodward. Can you explain what you think the effect of auditing that data on infrastructure backlog might be in terms of the outcomes of the financial assessments?

Mr WOODWARD: I would hope it would not be that much different because TCorp did a lot of extensive work with each individual council. They then went back to the council to verify the data. They did everything possible, other than the final audit, I guess. Our view is that it is pretty accurate information, as we understand it. Some councils, when the final results have come out, have criticised the process and TCorp have agreed that in future there are some amendments they will make to the process. That is why we are working with them around the sustainability project. The auditing process would have been the icing on the cake but the overall picture is unlikely to have changed very significantly, in my view, from the work that was done. But it is something in the future that needs to be done.

We need to have absolute surety that the information we have got around financial sustainability of councils we can absolutely rely on. It is an area of work that still needs to be done. That is part of the sustainability program that I mentioned, where we are going to work up a more detailed way of keeping the sustainability of councils on the radar and making sure that all the rules are clear and the outcomes are accepted by everybody because they are audited.

CHAIR: Whilst we are on the financial sustainability program for local councils, can you tell us more about the program and what it specifically involves?

Mr WOODWARD: It is still in the early stages of development but basically, in a nutshell, we have promoted better practice reviews where we go council by council—we do about 12 every year—and look at a whole range of indicators within the council. What we have found as we have gone through that over many many years is that more and more we need to be looking at finances. Part of this is looking at how we can morph what we have done so far with promoting better practice review. That is a generalised look at the local government arrangements and the work that happens in detail within councils and focusing on financial sustainability. It is really taking the work that TCorp has done. It would be focused around the long-term financial plans and asset management plans: Are they realistic? Have they consulted with the community? Are they consistent with all the guidelines required, and so forth? It is really around honing in whether a council understands its finances, does it know where it is going and does it have the right strategies in place to get there.

Mr BART BASSETT: In regard to the Local Government Amendment Act 2013, the early intervention, can you give the Committee a briefing on that and how it is travelling since it has been put into place?

Mr WOODWARD: One of the findings of the audit office review was that the Government and our organisation had limited ways of intervening when councils were starting to show signs of dysfunction. There was a letter to say "improve your game" through to a very expensive and time-consuming public inquiry and potential dismissal of councillors and not a lot in between really. The recommendation was that there should be

other steps along the way to enable the Government to intervene before it got to that serious stage where you are looking at dismissing the whole council. The amendments were brought into the Local Government Act and became effective a year ago this week.

The sector has been keen on this, they like the fact that we can intervene earlier. Nobody wants to see the sector brought down by one poor performing council. They support having this ability for us to intervene and having a wider range or suite of intervention options. It has been successful. Even the fact that it sits there in itself changes behaviour because councils know that we do have the ability to step in at various times. It is on our website. We have provided a framework of our interventions. It is a hierarchy of when we intervene, why we intervene and the process. It is all transparent and clear. We have not had to use the powers terribly much.

The first suspension of a council was Central Darling for financial reasons. The Government decided to use the intervention powers to enable an interim administrator to look in detail at a council that was struggling significantly around its finances. In my view that has been very successful. We are able to intervene in a more informal way because we have those back-up powers. Councils now understand if we start making inquiries about certain things or certain councils are showing signs of dysfunction and we start intervening on an informal basis by picking up the phone and saying, "What is going on?", they know the next step along the way is that we do have the powers to intervene and do something. My view is that it has been very successful. It does not mean must be used all the time to be successful. The fact that it is there and we have a hierarchy of intervention methods show councils where they sit in terms of how serious it is getting.

Mr BART BASSETT: The Auditor-General recommended that you develop improved measures to identify councils at risk by July 2013. Are you able to identify councils which are at risk and how?

Mr WOODWARD: Part of the framework that we have on our website has an internal process that we are constantly monitoring councils. It is an ongoing area. It is not something where you have a unique formula. We have an internal monitoring group. We review all correspondence, complaints, media issues and a whole range of things to get the intelligence and the surveillance across the sector. We get inundated with information about councils and by councils, so there is no shortage of information. We have an internal committee which monitors that and reports to me on a weekly basis around the councils where things are emerging.

We are doing that on a weekly or constant basis. We have a group of people across the organisation who do that. In the past we used to have one area in the investigations team that really took primary care of that, but what we have said across the organisation is it is a holistic look at local government and councils. We now have an internal process which does that and I then brief the Minister each week on any councils that we are keeping an eye on for a particular reason that week.

Mr BART BASSETT: The old code of conduct management issues that were changed were extremely hungry with resources. Have you seen changes since the code of conduct rules were changed and has there been a drop-off in the amount of resources being allocated across the sector in that area?

Mr WOODWARD: Mind you, we never really had a total cost beforehand. Under the new process councils are required to report to us each year on how many code of conduct matters they had and costs and so forth. Shortly we will have a picture of that, which we can compare. But it does seem that there has been a significant drop. The processes have made it easier for early intervention, once again. It is only the most serious cases that go to formal investigation. More than half the councils have had no conduct complaints at all and of the half that have, more than half of those have been dealt with in an informal way and resolved.

There are not too many that are coming forward. The feedback from the sector is that it is working well. From our perspective we think it is working well. We are getting involved in only the most serious cases. When you couple that with the early intervention powers in the Local Government Act it means we have more teeth for councils to see that they need to resolve those issues themselves. The whole onus should be on the councils themselves managing this process and that is what is happening in the majority of cases. We think it is a success.

Mr BART BASSETT: In your submission you state that you are developing a performance measurement framework and that this framework will be developed in consultation with stakeholders and piloted. Can you give us an update on the progress of the consultation and the pilot projects?

Mr WOODWARD: Yes. This is one of the examples I was giving previously. We are at the early stages where we are working up what it looks like. This is poor performance improvement?

Mr BART BASSETT: Yes.

Mr WOODWARD: We are working out with the councils what that would look like. The next step is to have a discussion paper and then to pilot. We are a way off piloting. We have been working up what the performance indicators could look like and have been looking at Victoria. Victoria has taken a lead in this area and we have been working with the Victorians to see what they have done and how successful it has been. We have a group set up of councils and state agencies to work through the process. The next step is to have a discussion paper for the sector to see what we are talking about. Local Government NSW is part of that process. Once we have got an agreement on what are the suite of indicators we will then pilot it. We are a bit of a way off in terms of time from piloting it but we hope to do that this year.

Mr BART BASSETT: With the performance indicators and what you mentioned in Victoria, is that trying to assist councils to stay focussed on their key objectives so that they do not necessarily go outside of those boundaries, if you like, and they maintain their area of responsibilities? Is that to assist them to stay on track?

Mr WOODWARD: It would do that. In a way, it is probably not designed to do that but it would actually do that because what it would be asking is: What do we expect of every council in New South Wales and what is the level of performance that we expect? One of the outcomes would be to stick to what the council is there for. So the key to it is getting the right indicators. That has always been the problem because whenever this task has been done in the past it has come down to simple financial measures. That is not always what one wants because one might want something non-financial to achieve the community outcome. It is getting that balance right and that is what we are working with the sector on. In a way, at the moment we are piloting the indicators by working with a number of councils. The councils involved are councils such as Lake Macquarie, Randwick, Broken Hill and Tamworth. Those councils are working with us on what the framework should look like. We will then take it to the sector to see what the sector thinks and then pilot it in some specific councils before we roll it out.

Mr GREG PIPER: What you are saying begs the question, because you are talking about other objectives of a council. Of course, the Act is quite broad as to what a council must do but, obviously, everything is underpinned by governance and financial sustainability. If you have not got that nothing else happens. You are talking about community building and about other things the community needs which are to be delivered by council. It goes back to the Chair's comment earlier about amalgamations. Of course, this is something that is hanging over a lot of councils at the moment and something they feel is a veiled threat. I support Hunters Hill merging with Lane Cove and Bogan shire merging with another council. There has been discussion about other Sydney metropolitan councils merging. From the independent review has come an extraordinary recommendation for Lake Macquarie—if I can be parochial—to be dismembered and distributed largely to Newcastle City Council and somewhat to Wyong Shire Council. It is causing a lot of disquiet in the community. What is your view as to the way forward, if it is to be resolved one way or the other?

Mr WOODWARD: That is a matter for Cabinet, as part of the consideration of the panel's report. But the Government has repeatedly restated its policy of no forced amalgamations. So the focus of our work has been on what makes a sustainable and successful council? Then, under the Government's policy of no forced amalgamations, if a council wished to look at either amalgamation or shared service, or some other way to achieve those benchmarks, that is up to the council and its local community. That is the policy framework. The focus of the Office of Local Government is on making sure we get good performance indicators and solid information that everybody accepts as the base point. Conversations can then happen around how to achieve it.

Mr GREG PIPER: Out of the suite of recommendations that came out of that review, I understand local government generally was supportive of the vast majority. There were only a few amalgamations that were contentious. You would obviously be supporting and promulgating, where possible, many of those recommendations. However, you are telling me that in those more contentious areas, such as amalgamations, you defer to previous government policy on that matter and you are not taking a position, through your office, to facilitate an outcome for amalgamations?

Mr WOODWARD: No, because the report is out there for comment. We have been looking at those submissions and then providing advice to the Government. What the Government then decides to do with the

recommendations is really up to the Government. Our focus has always been on making sure the sector is fit for purpose and fit for the future and to do that we must consider sustainability. A lot of recommendations in the panel's report and the task force's report on the Act, to facilitate it, is actually about putting the focus back onto who is the council accountable to? It is accountable to the community. That is what the integrated planning and reporting process was about. So the recommendations coming through all of the work have been: How do we strengthen that relationship between a council and its community; and make sure it has got the people and the assets and the money to deliver on what that community wants with its council?

All the other conversations tend to be on the periphery because if you can get a system of local government that works for its community, works in partnership with the State and is financially sustainable then you have a good system. Our focus has been on making sure that system is right. Sitting underneath that, as the key part, is financial sustainability. The bulk of the panel's recommendations have been along those lines: How do you strengthen the governance? In terms of the task force, its main recommendation was putting integrated planning and reporting up front as the core element of the Local Government Act—in other words, councils working strategically with their communities and making sure they are delivering for their communities.

CHAIR: Mr Woodward, I am sure you are aware that in conjunction with the independent quadrennial review that this Committee commissioned as part of the process last year we undertook an inquiry into the efficiency and effectiveness of the Audit Office. There were two aspects I particularly wanted to highlight that related to local government and seek your comment. The first is, albeit a broader recommendation, that the Audit Office should have follow the money powers, which would potentially extend into local government, albeit perhaps rarely used, and have the ability to do a performance audit, perhaps with a selection of local government areas, to help benchmark and better explore that area. That is an area that this Committee has continued to push for. Do you have any comment on that proposal or any perspective from the sector's feedback on that suggestion?

Mr WOODWARD: I do not know about the sector's feedback but certainly in my view it would be a useful exercise. Because one of the issues we have found, as an example in Central Darling, was that there was sometimes a lack of accountability within councils around where the money actually ended up. That is an area that we do not have the capacity or the power to do—to follow the money trail. I think there would be an added value in having the ability to do that.

CHAIR: Thank you for the reinforcement of this committee's opinion. Secondly, in undertaking that inquiry we consciously did not pursue too hard the line of inquiry of who should be undertaking the financial audits of the sector, in part because it was within the purview of one of those other inquiries that you have referred to. But we did observe that in the university sector there was easier benchmarking, in comparison, of that sector because the Audit Office had an oversight role in terms of setting the parameters and the framework within which those audits took place. I note that one of the frustrations in attempting to benchmark the sector in local government is that there is not always uniformity or an overarching framework consistent across the sector. Again, I invite you now—and you might want to refer to findings of one of those other subsequent reports—to make any comments in that area.

Mr WOODWARD: The independent panel did a lot of work around this area and talked with the sector and with the Audit Office. It has made a recommendation in that vein, that the Audit Office, in fact, take over the responsibility for the auditing of local government. I can say that the sector, in its responses to the panel's recommendations, has broadly supported that approach. So there has not been any reaction against it other than potential additional costs, which would probably need to be sorted through. But overall, there was an acceptance that this could add value.

CHAIR: I will invite the Audit Office representatives to respond on all issues in a moment, and they may argue that it might cost less, but certainly the model that is undertaken or in place in the university sector is that while there might be that overarching involvement, the Audit Office itself does not need to undertake the audit. Certainly consistent with our view on the university sector is that it should not be undertaking all the audits because there is some value in a contestability model.

Mr WOODWARD: Sure.

CHAIR: Unless you have anything to add on any of those issues, I now invite the Audit Office representatives to comment or ask any questions through the Chair that might facilitate our further deliberations.

Mr HEHIR: I do not think we have a lot of comments. The response to our report generally has been positive. I think the key issue with respect to this is that it has been slow. The nature of the other reviews that have gone on and government responses to them has meant that in a number of areas the direction seems to be good, but it is at a relatively slow pace in the implementation of it. In the discussion today there has been talk about infrastructure backlogs and the quality of data related to that. I think the concept of audit has been loosely thrown around in that context. It has been noted the data has not been audited. I am not certain that the concept there is one of an audit, given that there is not really, to my understanding, a standards framework against which you could actually undertake such an audit. I think one of the things that our report pointed to was that having a consistent framework for performance measurement, performance assessment and the development of performance information might allow that type of review audit process to be done in a more rigorous way than it has been in the past.

I think that flows on to your comments, with respect, to the mandate of the Audit Office. Clearly, as we have observed to you in the past, there are a number of areas where we find the mandate of the office being not allowing us to follow the dollar, or to have an engagement with the local government area is constraining, given the significant amount of services delivered by local government for the community. I make the observation that we would certainly think there would be value added if the type of comparative report that we put together for the university sector was done for the local government sector, and a lot of the issues around benchmarking and the quality of data I think could add a fair amount of value if we did that. Certainly, on the cost, I cannot make any direct observation on the costs until we undertook it, but your observation that just because we were given the mandate for that, if we were, would not necessarily mean we would do it in-house. In fact, it is such an expansive sector I suspect not much would change in terms of how things were done in the short term.

With respect to the university sector, we are putting out another audit for private provision next year. We have just discussed that through with the vice-chancellors group and basically locked that away. In summary, I think the conversation progress is in the right direction, just slow. I think there is a lot that can be done if a standards framework was in place to allow a more consistent reporting framework, consistent with what our report has said.

CHAIR: Would it be useful for this committee to push a bit harder in any respects in time frames?

Mr HEHIR: I would have thought that keeping the pressure on to get these decisions made would be very positive.

CHAIR: Do you see that applying across government, as in Cabinet decisions, or more within the department?

Mr HEHIR: I think the conversation we have got to today is that there is a bunch of macro things that are being driven by the reviews that have been undertaken where it is government that needs to make a decision. I think the one with respect to the department would be around the performance measurement framework. Our recommendation was July 2013, which was over 12 months after the report, and we are now looking probably two years later than that. From the department perspective, that seems to be a bit slow in driving some of those things.

CHAIR: On that specific issue, can I clarify with you, Mr Woodward, is there a D-Day for performance management?

Mr WOODWARD: In a way it is linked to the Government's response on the panel's report. So we are working parallel with that at the moment. Our goal is to get it as soon as possible, because I totally agree.

CHAIR: Is that a responsible response, Mr Auditor-General?

Mr HEHIR: I am not aware of any barrier for the framework to be implemented. It just seems to be going slowly. There may be something around the policy response which may be a barrier, but it is not clear to me what that is. I would have thought setting a date for it and getting it done would be a positive outcome.

CHAIR: I am inclined to go that way but to be informed equally if there are barriers, what they are. I invite your comment again, Mr Woodward, because you are far better placed to form an informed judgement perhaps with the Audit Office than with any of us individually. I would just like to pursue this line of inquiry.

Mr WOODWARD: Certainly. Our priority was supporting the panel and the task force and now to support the Government in its responses, and one of those responses being this very thing. I guess in terms of our resourcing and priorities, it has been around the whole of the local government sector, but at the same time continuing to work on some of these important things. I accept that this has slipped in terms of what the original time frame was, but it needs to be done as part of the overall government reform direction for local government. It needs to be done with the sector. It does take time and it does take a lot of work to actually get to this point that we actually have got it to but, certainly, it is a priority for us.

CHAIR: Can we set a target date now or is there a real barrier in having to wait for other information?

Mr WOODWARD: The barrier is actually defining what are the appropriate performance indicators because there is no agreement on them. No matter how much work we put into it, the sector has to agree to it and has to be able to report it. There is no point in us coming up with a whole bunch of things that councils cannot report on. We are working with the sector. It is not a simple task. It is one of those things that jurisdictions have tried before and failed on numerous occasions. So we are trying to get it right and that is going to take some time. I make no apology. It all takes some time.

CHAIR: Is that working within the sector or having to get information or guidance from the Government, that is, the Cabinet?

Mr WOODWARD: No. That is working with the sector.

CHAIR: I am happy for you to take that on notice.

Mr WOODWARD: Yes, I can come back with a time frame.

CHAIR: But I ask you to put a proposed time frame for all those steps?

Mr WOODWARD: Certainly.

CHAIR: So that we have something clearly that everyone can see you are working towards as an amended, albeit slower, commitment than vested in the Audit Office.

Mr WOODWARD: Certainly. I am happy to do that because it is a priority for us. This underpins, in fact, the future sustainability of the sector, which is why we really have to get it really, really right.

CHAIR: Thank you for appearing before the Committee today. The Committee may wish to send you some additional questions in writing, including the one I just alluded to, the replies to which would form part of your evidence and be made public. Would you be happy to provide a written reply to any further questions?

Mr WOODWARD: Certainly, yes.

CHAIR: Thank you, Mr Woodward, and also representatives of the Audit Office for appearing before the Public Accounts Committee today. We have concluded the public hearing.

(The witnesses withdrew)

The Committee adjourned at 12.19 p.m.
