

REPORT OF PROCEEDINGS BEFORE

PUBLIC ACCOUNTS COMMITTEE

INQUIRY INTO VALUE FOR MONEY FROM NSW CORRECTIONAL CENTRES

At Sydney on Friday, 24 June 2005

The Committee met at 9 a.m.

PRESENT

Mr M.J. Brown (Chair)

Ms G. Berejiklian
Mr P.E. McLeay
Mr G.R. Torbay
Mr J.H. Turner
Mr S.J.R. Whan

MICHAEL VANCE, Industrial Officer, Liquor Hospitality Miscellaneous Union, Level 7, 187 Thomas Street, Haymarket, sworn and examined:

DEPUTY CHAIR: I am advised that you have been issued with a copy of the Committee's Terms of Reference and also a copy of the Legislative Assembly's Standing Orders 332, 333 and 334 that relate to the examination of witnesses. Is that correct?

Mr VANCE: That is correct.

DEPUTY-CHAIR: The Committee has received a submission from your organisation. Is it your desire for that submission to form part of your evidence?

Mr VANCE: Yes it is.

DEPUTY-CHAIR: Would you like to make any opening statements?

Mr VANCE: Only to reinforce the point that I think I have already made about the importance of case management in prisons generally, particularly at Junee. Since 2001 the advice that we have received from membership is that it is increasingly difficult to perform case management at the same level due to a lack of access to inmates. It was the case that officers had access to inmates for up to 14 or 15 hours per day via the working of two eight hour shifts by the correctional officers. Since that time they have moved to a 12 hour shift roster, which offers certain advantages to the system and certain advantages in terms of the price at which a job can be contracted for. However, it allows our members less time to interface with the inmates and appropriately perform case management.

DEPUTY-CHAIR: Are all correctional officers at Junee represented by your union?

Mr VANCE: We have jurisdiction or coverage of them all. Approximately between 90 and 95 per cent of employees there are members of my union, yes.

DEPUTY-CHAIR: Does your union represent any other correctional officers in Australia?

Mr VANCE: Yes, we represent the correctional officers in the private prisons around Australia. I should clarify that. There are prisons in Victoria that I am aware of that are covered by the ? Union (CPSU). One is at Gippsland.

DEPUTY-CHAIR: Do you have an opinion on how the Junee Correctional Centre compares with other jurisdictions?

Mr VANCE: I have only had an opportunity to look at Junee Correctional Centre. I have spoken to a number of my colleagues in other branches, in particular in Queensland where there is a prison operated by the same operators as Junee Correctional Centre. In my view the industrial situation in Queensland is quite a bit different to that in New South Wales.

DEPUTY-CHAIR: We will go back to the 12-hour shift situation. You mentioned that one impact is less access to inmates, often two eight hour shifts to one 12 hour shift, what are the other outcomes of having a 12 hour shift and how do your members feel about the longer shift?

Mr VANCE: I must say that initially it was not supported by members and it was trialled after a lengthy arbitration in 2001 where Commissioner Tabbaa of the New South Wales Industrial Commission directed that there be a 12 month trial of 12 hour shifts. A number of people were exempted from that trial for family-type reasons. At the conclusion of the 12 months - or I should say about 18 months because the trial went on a little longer than was envisaged - the great majority of members accepted that the 12-hour shifts offered some advantages, especially in terms of having

extended days away from work, at the expense of spending longer time actually at work.

It is now the case that the great majority of employees would not be happy at all if 12 hour shifts were to be removed, but they do have a rider on that, and that is that although they enjoy the 12 hour shifts they do not believe it appropriately allows them to perform their work, especially in relation to case management. That is also affected by the high level of casual employees, or casual correctional officers, at Junee Correctional Centre who have historically not performed case management, and that places a further burden on the permanent officers who pick up for them.

Mr WHAN: The management of the centre, when we visited there, said that the 12 hour shifts allow inmates more out of cell time and I certainly got the impression from that they have more access to programs, which is directly contradictory to what you are saying. How do you respond to that?

Mr VANCE: They have more out of cell time than I understand occurs in the departmental correctional centres. They do not have more time than they used to. It used to be the case that there were three eight hour shifts per day and on the day and afternoon shifts there was a full complement of officers and that allowed inmates to be out of their cells up to 14 and a half hours per day. They are now under a 12 hour regime, out of their cells for about 11, or sometimes a little less than, hours per day. It is certainly not the case that they are out for longer than they were prior to the introduction of the 12 hour shifts. If they were out of cells now for 14 and a half hours you would have the eight officers who run the prison of an evening shift looking after all of those prisoners out of cells.

DEPUTY-CHAIR: What is the impact of casuals? You said they do not have as much ability to case manage.

Mr VANCE: It is not so much ability as they have all had the same training. The casuals, once they have been there a while can provide the same skills as permanent officers. The problem is that they are not on any fixed type roster. They are not always working in the same unit or with the same particular inmates. That would mean were they case managing an inmate they might only have that inmate for the duration of a roster. We run on six week rosters down there.

When a correctional officer picks up a new inmate for his case load, he is required to review the notes. Depending on how long the inmate has been in the system, that can be anything up to a foot of paperwork. You do not want to be reviewing that regularly. It takes some time to get up a relationship with an inmate that allows case management to run properly. If you are changing all the time that is difficult to manage, and I think one of the things that the Committee should consider in terms of whether it is value for money is the effectiveness of case management and whether 12 hour shifts and the amount of officers who are actually able to do case management adequately allows for case management and proper rehabilitation doing the job they are supposed to be doing.

Mr WHAN: I cannot remember who raised this with us, but it was discussed at some stage that 12 hour shifts had the effect of, as you said before, allowing people more days off and that they then went and got second or other jobs and that may lead to increases in fatigue or more work injuries because of that fatigue. Have you seen any evidence of that?

Mr VANCE: There is a reasonable proportion of officers down there who do have second jobs. It is very common during the harvesting season for them to have them. They will go and get jobs driving trucks, or harvesters, or whatnot, and do that on their days off. I have not heard that performing those jobs on other days leads to fatigue but I am aware that there is less availability of the casual pool of officers during that period.

Mr WHAN: Have you seen any evidence that the 12 hour shifts make people less able to perform their duties towards the end of the shift, as opposed to eight hours? Are you finding there are more injuries or security issues towards the end of the 12 hour shift?

Mr VANCE: Only anecdotally. A number of officers, as you would expect, do find it difficult at the end of the 12 hour shift, particularly if they have worked two or three 12 hour shifts in a row. I think that generally there is never any more than four worked in a row.

DEPUTY-CHAIR: You mean with a break? By in a row you mean with a 12 hour break?

Mr VANCE: Yes. Nonetheless, if you work four days a row where you are working 12 hours each of those days - some of the people are travelling a fair way and probably two thirds of the workforce reside at Wagga, which is 40 minutes away. I know people reside at Gundagai and Cootamundra, which are over an hour away. If you are doing 12 hour shifts and you have that on at the end of it, it is unavoidable that people are going to be a little exhausted at the end of the 12 hour shifts, particularly where there is a number of them in a row.

DEPUTY-CHAIR: Have you found a higher level of staff turnovers?

Mr VANCE: I cannot say there has. They are probably what is known in Junee as the best jobs in town. There is an employer who is going to be there for a period. There is some security. People are attracted to that. It has not been my experience that there has been an increase in turnover.

DEPUTY-CHAIR: What about salaries? Have the salaries increased over the last two years?

Mr VANCE: There has been not an increase since June 2003. The 2001 arbitration before Commissioner Tabbaa that I commented on previously led to a number of increases. The last of those was on 30 June 2003 and there has been no increase since that time. There is currently an application for a new award before the Industrial Commission. That will be heard commencing in July, beginning of July. The union is seeking increases under the work value principle. We say there has been an increase in the value of the work performed by our members. The application would have increases between 25 and 30 per cent, depending upon classification, over the next three years were it to be granted.

DEPUTY-CHAIR: How does the nil movement compare with the other department employees?

Mr VANCE: If we compare where people are at present, that is at the 2003 rates at Junee with what is being paid under the island agreement, or the agreement which applies at Dillwynia and Kempsey in the public sector, our people are about 20 per cent behind the public sector. If you look at the annual salaries in each of the agreements, you will see they are not dissimilar. They are not a long way apart. However, the Junee award functions on the basis of incorporating all of the penalties for weekend and shifts and what have you, all penalties other than public holidays, where penalties are paid, whereas under the island agreement there are penalty rates paid depending on whether people work night or weekend shifts and they are significant penalties. Overall there is about a 20 per difference between the two.

DEPUTY-CHAIR: What about in other jurisdictions, other States?

Mr VANCE: In New South Wales we are, on my reading of it, a little ahead of where we are privately in Queensland, albeit the officers in Queensland generally work an average of 42 hours a week, whereas you work 40 in New South Wales, so I think if you in factor in that they are working a couple of extra hours we are probably all in the same band of salaries, but in Queensland they are working a little longer in order to achieve that. The application we have before the commission also seeks to reduce the ordinary working hours from 40 hours to 38, which is generally the community standard.

Mr WHAN: What do you think the impact of the Federal Government's industrial relations changes is going to be on your members?

Mr TURNER: Point of order to relevance, Mr Chairman.

CHAIR: We have had evidence about the New South Wales Industrial Commission. Are you under a New South Wales award?

Mr VANCE: Yes. There is an enterprise award that applies in New South Wales. Whilst we have not seen the detail of the proposed legislation it is envisaged that those conditions would need to be included in a Federal enterprise agreement or a Federal award. There may be difficulties with that. Certainly some of the things in the award at present would not be allowable matters under the present legislation and further matters that would not be allowable under the proposed legislation. That would mean that employees would need to enterprise bargain for those entitlements that they currently have and do that again every three years in order to maintain what they have currently had awarded to them by the Industrial Commission.

Mr MCLEAY: Can you comment on if you are aware of any rates of recidivism and education processes in Junee compared to what they are in other States?

Mr VANCE: I do not have any knowledge of that area.

Mr MCLEAY: The Committee visited Junee. I asked the management if I could speak to the union delegate. They said sure. There was a number of them and a couple of them came up straight away and seemed to be very happy to assist in that process. The delegates said that they are getting better and things are okay. How would you generally describe relationships with the operators of the gaol?

Mr VANCE: At times it has been difficult, they are entitled to argue their position as they wish. We also argue our position strenuously. I will say, though, that I have looked after this site from the union's position since 1998. I have been with the union since 1990. I have never found another employer where so many things have to go to the industrial commission. Generally you do have to have an industrial instrument determined by an outside body occasionally. This has happened at least four times since the opening of the gaol, that we have not been able to agree upon terms and conditions and something has been arbitrated. I must say the union has been more than happy with the arbitrated outcome. I know the 2001 occasion, what was awarded was nearly identical to what had been proposed by the union to settle the matter before the case.

DEPUTY CHAIR: Have you seen a change recently or is it just modus operandi, the standard operating procedure?

Mr VANCE: When you say recently, talking about the last several months, I don't think that there has been any particular change within the centre other than the general manager has changed recently. The previous fellow had been there for quite a while.

DEPUTY CHAIR: I was going to ask, do you find that staff are generally happy to work there and do they feel that their gaol is any different to any other correctional centre?

Mr VANCE: They feel it is different to other correctional centres in New South Wales in that they are receiving less remuneration for what is basically the same job. They are aware of what occurs in other states in the private areas and recognise they are not alone in respect of being behind the public sector by way of other states. What they do tell me, is they are happy to have the jobs, they are secure jobs in the area and they are worthwhile jobs. You mightn't be aware when the gaol was first built it were as if it were a replacement for the railway. Jobs disappeared from that and jobs appeared at the correctional centre a few years later. Whilst they are happy to have those jobs they are very happy at the end of the 40 hours to have done their hours. There has been a push for some years for a reduction in working hours. It is difficult to get people to work overtime. They

want to do their hours and finish their job. I think that means that although they are happy to have the jobs they could probably think of jobs they would rather be doing. So could many of us. There are other people who love the job, can not get enough of it. On the whole most of our members tell us that they are very happy to get out at the end of the week and have those days off.

DEPUTY CHAIR: Do you have any other final comments?

Mr VANCE: No, I don't.

(The witness withdrew)

(Short adjournment)

IAN RUSSELL McLEAN, Senior Assistant Commissioner, Department of Corrective Services, Roden Cutler House, Campbell Street, Sydney, and

GERARD KENNETH SCHIPP, Executive Director, Finance and Asset Management, Level 9, 24 Campbell Street, Sydney, sworn and examined:

CHAIR: I have been advised that you have been issued with our Terms of Reference as well of those of the Legislative Assembly; is that correct?

Mr SCHIPP: That is correct.

CHAIR: We have received a submission from you. Thank you for that. Is it your desire that this submission appear as formal evidence before the Committee?

Mr MCLEAN: Yes it is.

CHAIR: Would you like to make an opening statement?

Mr MCLEAN: To the Committee I would like to state that in relation to the matters before you, comparison of costs between Junee and Kempsey, we believe that the initiatives being taken by the department at the commencement of these proceedings have been shown clearly in the submission and we would also like to state that those initiatives are starting to show quite fruitful rewards to the department.

CHAIR: On behalf of the Committee let me formally thank you for showing us around the Kempsey Correctional Facility. After speaking to many of my colleagues it was a new experience and one that provided much value to us in our determinations for this inquiry. We can see from your submission that the Way Forward reform package is more than just a new award. How is the implementation of this program progressing?

Mr MCLEAN: To date we have shown three levels of progress, we believe. In the submission we clearly show that with Dillwynia and Kempsey the cost structure that we have been able to negotiate in relation to staffing levels and overall costs of the facilities is showing rewards in terms of the inmate cost per dollar. I will ask Mr Schipp to give you an overview of inmate costs at this stage, what we have realised to date, in comparison to the traditional system that we operate under in the rest of New South Wales.

Mr SCHIPP: Certainly whilst it is still relatively early days in Kempsey, having been commissioned in July 2004, the costs that have been borne out at Kempsey are in line with the budgets that have been allocated and the projected costs that were put forward to the Government in securing it as a public facility. That is in the light of experience in commissioning new facilities, whereby typically the start-up costs associated with commencing the operations of a new facility usually increase the inmate costs per day in the first year. It is pleasing to see that the costs of Kempsey and Dillwynia are very much tracking to budget.

In terms of that part of the implementation of the Way Forward, the department is very pleased with the outcomes that are being achieved at Kempsey from a financial point of view and certainly from a non-financial performance perspective the outcomes are similarly bearing out to be as projected.

CHAIR: I am looking forward to taking more questions on those statements in a little while, but to backtrack a little bit, what or who were the key drivers of the development of the Way Forward program and are you utilising any national or international best practices in correctional centre management in that program?

Mr MCLEAN: The key drivers were obviously taken from the need to align ourselves with national indicators of reduction, not just of overheads and costs, but reductions in line with such as deaths in custody and escapes, and looking at the way the centres operated to better those programs and how we could facilitate that. We took the choice early in the piece to look at the structure within the traditional system of every centre with the Way Forward. We believe that the overtime costs within the system also from a financial point of view have led us to look at better ways of doing business in relation to the development of the Way Forward.

In saying that, we also believe that finance is obviously a main driver but, at the end of the day, we also have to look at the structure within the facilities and how we operate programs, plus security within the facilities, which we have shown in the submission in part, but they were the main drivers that we looked at in terms of the operation.

We believe that we have achieved significant results to date in what we developed in the first instance. Certainly in the development of the project we realised that we had to involve all staff in relation to it. In the public service or in the public system traditionally there has not been an opportunity for the management process to be involved to the lowest level, is my belief, and we have done that and the project development plans came from the centres in line with the principles that given by management to the Way Forward teams within the scheme.

Mr SCHIPP: Perhaps if I can add to that, one of the big drivers associated with the workplace reforms which are under the banner of the Way Forward, was the 16 per cent pay increase that was awarded to the Public Service Association, which includes the POVB and the COVB, the two main bodies covering prison officers. That award and the funding arrangements associated with that placed some demands on the department to achieve productivity savings in the order of six per cent of the 16 per cent and the department, along with every other agency, was required to put together a savings plan as to how it was going to achieve that six per cent productivity improvement. The Way Forward was a major part of the department's saving strategy in achieving that result.

In relation to your question, or that part of your question as far as comparisons with other jurisdictions and other providers, the department, along with every other jurisdiction, participates in annual data collections through the Productivity Commission and the Report on Government Services and the department's performance in relation to the other States is a matter of public record, and so in developing a lot of the Way Forward strategies and identifying, I suppose, the extent to which savings could potentially be made, or increases in productivity could potentially be made, we certainly used benchmark figures from other States as an external benchmarking exercise.

Internally we also looked at the comparative costs of our own facilities and the variance in the costs of operations between our own facilities, just as a bit of a gauge, as to whether or not the sorts of productivity improvements that we were looking for at Kempsey were indeed possible, and when we looked at the highs and lows, the peaks and troughs of different facilities within the department, clearly there were work practices and processes in some facilities that resulted in lower costs and in other facilities that resulted in higher costs.

So with all of that information, armed with all that information, the Commissioner and Senior Assistant Commissioner looked at the types of work practices and management practices which were necessary, whilst reducing staffing levels and costs, also increased the safety and the security of the facilities.

CHAIR: You mentioned before that we need to look at other things other than just costs and that seems to be the general view of the Committee. I am interested to know why you do not have any indicators in regard to recidivism or employment once an inmate finishes their term in the gaol. The reason I make that comment is, I suppose, the fact you presented to us at the gaol that 99 point whatever per cent of the inmates will be released into the community. If all of these inmates are coming out, why are we not measuring whether they come back in as a comparison between different

prisons?

Mr SCHIPP: That is a fairly complex question. Essentially the department's position has been that recidivism is a very crude measure of the department's overall performance from an outcome point of view. The department has had for a number of years with Treasury what has been referred to as a service and resource allocation agreement, which identifies key areas of performance at an outcome level. Recidivism has been utilised in the past in that reporting process and that measuring process.

The difficulty that the department has had, and there has been quite a lot of debate with Treasury on this point, the difficulty that the department has in having its performance measured by recidivism is that there are significant other contributing factors to an inmate's return to custody. An example is that policing strategies at the moment are targeting repeat offenders and so there is a situation where in one part of the justice portfolio there is a specific direction towards targeting repeat offenders, and in the other part of that justice portfolio, namely Corrective Services, there are some fairly significant resources being put in to keeping inmates out of gaol and to rehabilitate them.

Treasury, in recognition of that, partly have tried to identify a different set of performance indicators and a different set of measures for the department's performance. Certainly inmate costs per day is one of those and some of the other indicators that are identified in the national performance indicators, things like participation levels in education and those sorts of performance measures are identified more as intermediate results, whilst the return to custody, the recidivism type measures are becoming more of the measure of the whole justice system rather than of a particular agency.

CHAIR: One of the big differences we found between the Kempsey facility and the Junee facility was, I suppose, the difference in industries. I would not mind talking a little bit about that. On a very crude example, the industries we saw at Kempsey focussed on quite large purchases of products, the Department of Education. We saw the workshop there and we saw the production of computer cable, saw the making of computer cables. Both organisations did not really have a local presence as such in that Kempsey community, whereas Junee on the other hand seemed to be using more local businesses in the way that they were working with their industries. We heard evidence down at Junee that some of the inmates who were seen by local employers as good workers were often offered jobs once their term in gaol expired.

Do you want to address that, as well as the point in that when we were at Kempsey, especially with the cables, which is quite a profitable business generating some millions of dollars towards Corrective Services and that particular facility, whereas what money was made, if any, at Junee was not allowed to be kept by that facility. Let me go back, the money made in Kempsey was allowed to extend business opportunities of that facility, whereas the money in Junee, that money had to go back to Corrective Services and could not extend business opportunities at Junee.

Mr MCLEAN: In the first instance, the relationship of the industries that are at Kempsey, one of the main thrusts of the development of an inmate's work ethics with us is development of contracts that can be lead through several centres so that the inmate when he is in a maximum facility can be involved in an industry that when they are moved to medium or to minimum they can continue along that vein of actually developing that trade, if it goes to trade qualifications. There is piece work involved in some industries also within Kempsey.

We have a central base of corrective services industries, as you are aware, and those contracts are awarded out where the need is for the development of each centre as we go across the inmate population. That, in itself, does not always specifically encourage industries in the local community. However, we do try through a community consultative group that we deal with to ensure as much as possible that such things as community projects that operate out of the facilities involve the community where possible.

The second part is in relation to the moneys, again just for pure accountancy procedures et cetera, we always centralise the bodies of funds back to one area. We do, wherever possible, develop the industry or the dollars from the industry within the centre, like at Kempsey.

Mr SCHIPP: Just picking up a couple of other issues that flow on from what Ian has said, industries within a correctional environment require fairly close management because of the stakeholders and the external issues that need to be managed. Clearly the public perceptions and the impact that prison industries have on the broader economic community have to be managed. We are governed, or at least overseen by a consultative committee which consists of people from industry as well as from the unions, to make sure that the prison industries are not encroaching into areas that could otherwise be serviced by the general community and commerce within the general community. It is always a very careful process of managing what industries are run and what industries are available to be run within a correctional centre.

The types of industries that are being run at Kempsey are not just the industries that may have a flow-on employment capability to the inmates that get out into the community locally, but also more broadly speaking. One of the things that Kempsey has done has been to look at organising the inmates for service industries, so the process of cleaning and doing the laundry and various other domestic-type situations that in a traditional gaol are done by each individual inmate in relation to their own personal belongings, or indeed the cleaning processes associated with their own accommodation, are actually being carried out, as we saw at Kempsey, in an organised and structured way in the same way as an inmate would be doing if they were working for a cleaning company, or in an organisation which was involved in that service provision in the hotel situation or whatever else.

It includes things like accounting for the linen in the laundry and all of those sorts of things, other than just sweeping floors and so on and so forth. There was an element of training and preparing people for employment as part of that process, as well as what was seen in the kitchen or the cable manufacturing area.

I think another example which perhaps relates more to Dillwynia than Kempsey, in terms of this process, that emphasises some of that a little bit better is the agreement that has been struck with Gloria Jeans in terms of how that is operating at Dillwynia and the female inmates that are participating in that program, that are operating a Gloria Jeans facility inside the gaol, have the accreditation and training levels necessary to secure employment outside of the prison environment.

From a financial point of view, the gaols pretty much operate the same in terms the money they earn offsets the costs associated with earning that money. If there are material costs that are required that need to be purchased to produce the output that is an offset against the income that is earned. That applies both in the case of Kempsey and in the case of Juneee. When we talk about what is returned to the department we are not talking about the income, we are talking about the income above the expenditure.

Now, in both the private and the public gaols the biggest component of cost associated with producing the output is the material costs and the labour costs. From that a proportion of the overhead, such as electricity or space, letting and water and so on and so forth, there is very little profit margin in industries being run within either a private or a public facility. So there is very little return to the budget either at Kempsey or at Juneee. I will leave Juneee to GEO to talk for themselves.

In terms of the actual profit associated with prison industries at Kempsey, there is a significant revenue, a significant income, but certainly the costs associated with running that, particularly the supervisory costs of the officers, outweigh a significant amount of that revenue.

Mr WHAN: You were mentioning earlier on in that answer that you have got industries which operate across gaols so people can carry skills over or continue, would not it be logical then that Juneee would be part of that system, if they are operating in a different way? Prisoners transfer in and out of Juneee and other gaols in the system, why would not they all operate in the same way?

Mr SCHIPP: I think they do, in terms of the actual inmate's involvement within that particular activity. Indeed, in moving from the previous contract with ACM, as they were at the time, to the new contract, one of the main differences, and I was responsible for the tendering process and the development of the specifics for tender in moving from the contract that completed in 2001 to the new contract, one of the differences between the old specification and the new specification was a greater acceptance that Junee, as a correctional facility, was an integral part of a system of gaols and not a stand alone facility.

The original specification going back to 1993, or whatever it was, that it was let, there was a lot of innovation that was sought as part of that specification. As I say, the major shift from the old specification and old contract and new specification and new contract was a greater appreciation that the facility was an integral part of a network of facilities and inmates would move between facilities and there needed to be a consistency of programs, of industries, of philosophy in terms of how inmates were being managed in terms of their case management, through care, theories and philosophies and so on and so forth. It is definitely the case that it is a desirable outcome to have a consistency between all the centres in respect of how the inmates are managed.

Mr WHAN: Corrective services have a contract with the education department, as you do with the furniture, can Junee access that work?

Mr SCHIPP: The Department of Corrective Services has a contract on specific deliverables, whether it is refurbishing, demountables, whether it is refurbishing tables and chairs or whatever else. That business, I suppose, is run through tendering processes. Invariably agencies, whether they are private agencies or public agencies that go out to tender, in the case of the public provider, CSI, will put in a tender and it is based on a particular capacity, somewhere within the system and similarly GEO would be tendering for business or negotiating with suppliers to undertake their business. Whether or not there was a sharing of customers between the two organisations, I suppose, is something we would have to sit down with GEO and work through.

CHAIR: You were saying before that industries do not generate much profit once you take costs into account. Is the way you measure profit the same in Kempsey as it is in Junee? For instance, is Junee allowed to subtract the cost of its correctional service officers from the profit as you seem to indicate you are doing in Kempsey?

Mr SCHIPP: We do not measure profit in Kempsey. Kempsey is a cost centre. We allocate certain amounts of money to it each year. Anything it earns, in terms of revenues, is deducted from the costs of operations.

CHAIR: Is Junee allowed to do that?

Mr SCHIPP: The original tender that was made by all of the tenderers at the time for the operations of the Junee Correctional Centre was a gross cost less an estimated revenue from industries income. That determined the fee that was going to be charged and then that fee has been escalated over the years of the contract.

If the level of income that is actually being earned through the activities of the centre has varied from that original estimate then obviously there is then the issue of what the initial costs were incurred in generating that additional revenue and, therefore, what profit. Our position is that we do not have a profit. We do not achieve a profit. We do not aim to achieve a profit and whilst we price the products within the industry's area on a competitive neutral basis, so that we are not unduly influencing the market place, it is not designed to generate a profit.

CHAIR: Another difference we noticed in the way the two facilities were run; Kempsey inmates the doors are open at eight o'clock. They go off and work. They have lunch together. They are then locked up again at four o'clock. Obviously between four o'clock in the afternoon and eight o'clock the next morning they are fed. It is a question I forgot to ask there, do they take the food in with them or do people deliver it?

Mr MCLEAN: The food at Kempsey is precooked food as you saw in the servery areas. That is

delivered in the centre. It is taken with them to their cell areas and they eat within their cells.

CHAIR: They take in their dinner and their breakfast before they are locked away?

Mr MCLEAN: That's correct.

CHAIR: That seemed to be a major way of reducing cost, is having that one shift during the day and after four o'clock, when every one is locked off, only five officers are there, compared to how many through the day?

Mr MCLEAN: We have 16 to let go. Across the board 32 operate within the facility plus the overseers. It is the lowest reduction we have made in any centre in terms of the evening shift.

CHAIR: In trying to compare apples with apples, which is always getting more difficult in this inquiry, Junee, for instance, if my memory serves me correctly, are let out at 7 a.m. rather than 8 a.m. and locked up at 6 p.m. rather than 4 p.m. and they have the option of eating breakfast or dinner in a centralised area with other inmates. Do you have any comment on how those longer shifts at Junee can compare with your shorter shifts?

Mr MCLEAN: Kempsey, in its design, is obviously purpose built to accommodate maximum facility inmates. The routine you have seen there to date, we are in the embryo stage of the development of that program, it is nearly in the completion of its first year of operation. The intent is to accustom staff to operate within those hours with very difficult inmates. It also intends to show inmates at that level how to develop a work ethic of in the morning having their bed, breakfast, everything completed to remove themselves to go to work as an individual.

One of the problems we often have with inmates with any system, when they come in they do not have that ethic. When they get out of the cell in the morning compliance is the main thrust of the model of that centre, they have to be completed, they have to be showered, have their breakfast, ready to hop on the muster lines and to go to work. We think those hours, four o'clock in the afternoon, is the best we can operate in terms of cost and the best we can provide for an inmate in terms of developing that program. There is nothing wrong with inmates mixing. In the afternoon they have an hour where they can mix together. I don't think we did see that on the day our there. About two o'clock, 2.30 when they return, that is when they have that opportunity before they go into their cells in the evening.

Mr SCHIPP: Can I make the point, having grappled with apples and apples for the last 25 years, I find when you do get apples with apples one is Granny Smith and one a Jonathan. The thing I have observed, having been to both of those facilities with you, the "out of cell hours" term needs to be looked at carefully. There is out of cell but there is out of cell but still locked in the day room, or there is out of the day room and doing something constructive and participating in a structured day. From the philosophy at Kempsey it is very much about that structured day, that routine, that discipline, that organisation. Still allowing the free time towards the end of the day but in the period that it is not free, that there is actually something constructive for them to do.

We made comment about the removal of gymnasiums, and things like that, because of the mentality that that developed and the pumping the iron and the steroid problems that it potentially causes and things like that. We probably could have had people out of cells for longer if they were locked in their day room pumping iron or standing around mixing or whatever else. I caution when we look at apples with apples.

Mr WHAN: Is there a difference in terms of program time with the longer release at Junee than at Kempsey in terms of the program time you actually spend with inmates?

Mr MCLEAN: That is the key thrust of what we develop and call work at Kempsey. Work is not just defined as CSI industry factory like you saw up there, or workshop. The program has to be considered part of that. Where we have specifically the design where they were able to move in and out of the programs area. That is matched with the industry area. They are clearly in the buildings, one is aligned with the other. You saw just as we went through one section there was groups of inmates coming out of the industry shops, they were being searched and taken across into

programs. That was actually drug and alcohol development on the day we were there. It is away from the accommodation areas. They are moved away from their comfort zone of being able to develop something, where they move from one area to another. Some of the inmates we asked at Junee on the day clearly spent all day in that area with the weights, or whichever area it was. With the program we have got at Kempsey, is what we want in the rest of the system, where they move away from the accommodation areas, for two reasons, one it is more cost effective for us, also we do not have to staff those areas, therefore, it is cost effective. When they go to an area of production, where they are actually doing something, they are doing something for the day.

CHAIR: Another interesting figure that I remember taking on board during the day was Kempsey has a 500 bed, facility and with pay and what have you of the workers there, injects around \$10 million a year into the economy. I understand Junee has a facility that is 750 beds and they inject I think it was \$12 million. Their costs seem to be lower in putting that money into the economy than the public prison. Have you got any comment on that?

Mr SCHIPP: I suppose the best way to answer that is to say that it is very difficult to gauge exactly how much money that goes in to the operation of a facility actually makes it in to the community, and then once it is in the community, with the various multiplier effects from an economic point of view, how much of it is generated into a net economic benefit to the community. In some of the studies that we have done previously, in terms of the impact of having a correctional centre within a regional community, we have identified various multipliers and various percentages of total costs that actually settled within the community.

In terms of the total operations of Kempsey versus the total operations of Junee; Junee is a 750 bed facility and the total fee that we pay to GEO is then broken up into the types of payment that they make, including payments of salaries and wages. How much of that salary and wage stays in the local community as opposed to the contribution that is made to Canberra for tax, the contribution that is made to union, superannuation, the contribution made to mortgages and various other payments where the money does not end up in the community is probably an issue for economic assessment rather than the purposes of identifying or estimating a figure for the local community's benefit.

The figure of \$10 million in terms of the figure for Kempsey has similarly been estimated based not on the total amount of salaries and wages that are paid to the staff, because clearly a percentage of that goes to Canberra for tax purposes, goes to superannuation funds and various other end buckets or end results, so there is only a percentage of the salaries and wages that has been included for the purposes of that figure. There are also inclusions in there for money that was spent locally from the operating budget. Once again whether the money is spent locally, even though that may be the cost of the centre, whether the money is spent locally is an additional argument given that the money we pay to Telstra for running the telephones in Kempsey may not directly end up in Kempsey from Telstra's coffers but it is money that is spent to run that gaol. That is a very vexed question.

Mr WHAN: One of the things that I have been interested in as we have been doing this inquiry, is the competition that seems to have developed between corrective services and GEO on the cost per inmate per day of Junee versus Mid North Coast Correctional Centre. We have seen various different figures here, around the \$80-82 mark provided to us and a dispute over what should and should not be included in the cost estimates there. I don't know if it is possible to come up with an agreed definition of that. What I wonder about that is it seems to me to say that corrective services sees itself in competition with GEO in trying to achieve that lower cost. I am interested in two things; does that conflict at all with your role in actually supervising Junee and GEO's performance in Junee? And, secondly, do you think that private prisons in New South Wales, how significant has that been as a driver of you developing the way forward and the cost structure of the new gaols?

Mr MCLEAN: I think obviously we are very keen on developing best practice in relation to the whole of the system. The development of the way forward in the initial stages and the stages we are going through definitely to achieve the best dollar value with the best programs and the best

structure within the centres. Comparison in relation to all the competition between Junee and Kempsey is not the intent or purpose of it in the first instance, but certainly we would be remiss in saying that with a private provider in the system at this stage we should not monitor with the monitoring of the rest of the system which you expand in that role as you develop a way forward, with that process we should be very aware of what the cost of the private provider is in as much as Junee is the only one we have got in terms of comparison.

Secondly, I should imagine that I don't see that as conflicting or compromising the department in relation to the running of Junee. Junee is an integral part of our system. We have 750 beds there and we most certainly see ourselves as the provider. The monitor keeps a track on what is happening at Junee, that is the purpose of it. At the end of the day we do not see ourselves compromised in relation to the running of the thing with the dollar value and competition you talked about in the first part of your question.

Mr SCHIPP: Whether you call it competition or comparison, I mean certainly there is a competition there but there is similarly a competition between facilities within the department. Inmate costs per day is an integral part of the department's performance management, both between ourselves and alternative providers, but also within the department or within the public providers between centres.

Through that process we are constantly identifying better ways of doing things and because of the incentive or the motivation to compete, people are identifying better ways of doing things, as I say, both within the department as well as between ourselves and other providers, and similarly between ourselves as a State collectively with Junee, and other States and the whole Productivity Commission, Government services rapport is about comparing the operations of State systems.

That brings us back to this issue of apples versus apples and within the apples whether it is a Granny Smith or a Jonathan, and certainly if we all had Jonathons then one would be peeled and one would not, and I am not sure if you would ever get to the point where we directly could compare facilities because, apart from the different inmate mix, there is then different program mixes. There are different scenarios in terms of how staff are sourced. Even though when Wellington is finished we will have an exact replica of Kempsey in Wellington, and we will apply the Way Forward operations to Wellington, some would argue that there would be a perfect comparison of costs, but that is without looking at the fact that Kempsey is located in a particular part of the State where employment is not a significant issue and there are lots of people who want to move over to the coast to get jobs. Wellington might be a different situation. We may have to pay premiums, as is the case with Junee, where premiums may need to be paid to encourage people to work there. There is always going to be a difference between facilities.

In terms of the debate around what costs are in trying to come back to a level of comparison, in the Auditor-General's reports in past years the Auditor-General has always identified what the costs of Junee are relative to the department's costs and in the most recent years they have indicated, and I will quote from the report here, "we believe that the department should calculate its own costs on a comparison basis, e.g. security level and gender, to Junee to allow an assessment of the relative costs of the private versus public provision".

In some of the materials that we have submitted to the Committee we have endeavoured to apply a weighting that can take a 750 bed facility that essentially operates minimum and medium with some remandees, and compare that with a facility that is 500 of male-female, minimum-maximum and medium security inmates. That calculation that was done, that delivered those comparative costs, was the application of various weightings and deflators to actually try to get back to two peeled Jonathon apples.

Mr WHAN: The fact that you are trying to get that comparative cost, and I notice in GEO's report they mentioned in comparing costs to the public system, publicly staffed system, that they included the health care costs and the public system did not. Why do we not have a single measure

which agrees on the costs incurred?

Mr SCHIPP: Partly because of the way in which organisation are structured and we, as a department, are funded for our activity, whereas Justice Health as part of the Department of Health are funded directly for their activity. When we provide our information to the Productivity Commission in the National Corrections Administrator's group, there are clear accounting rules as to what should and should not be included in the costs, and certainly health is one of those, so when we report our costs as a State system, against the costs of other State systems, we incorporate the costs of Justice Health in that exercise. It does not break that down on a gaol by gaol basis.

The calculation that we provided in our submission recognises that the New South Wales Corrective Services costs per inmate per day at the direct level do not include health, whereas the fee that we pay to GEO does include health costs and that calculation which was done actually extracts out of the fee that is being paid to GEO the costs of the health provision as it was indicated to us in the submission that was made in their tender back in the year 2000. In terms of the response to the Auditor-General's question in the last year Auditor-General's annual report, we have extracted what we understand is health costs based on the information that we had available at the time, from the management fee paid to GEO.

We have applied a weighting to allow for the difference in inmate classifications and we have come up with a comparative figure. We have actually submitted that to the Auditor-General's Department for them to comment upon and to work towards a set of words in their annual report.

CHAIR: In that figure did you weight the cost of GEO having a full-time health facility there at the correctional facility, as compared to the way Kempsey works without having a full-time doctor there every day?

Mr SCHIPP: We have extracted out the cost of health within Junee as we knew it at the time, which was in the year 2000 when the tender price was submitted to us, so that price was extracted out. We felt that was a fairer way of doing it than trying to add the costs of Justice Health into the figure at Kempsey because that would have then, I suppose, confused or compounded any comparison, because there are obviously different levels of service that are provided by Justice Health, as opposed to those provided by GEO.

Mr MCLEAY: What is the cost per day for health?

Mr SCHIPP: What is the cost per day for health where, at Kempsey or at Junee?

Mr MCLEAY: Both.

Mr SCHIPP: The cost, as we calculated it, for health at Junee was around \$9 per inmate per day. As I say, that was a year 2000 figure that was provided to us and it was the cost of the health staffing plus the medical expenses disclosed in the submission.

Mr MCLEAY: Not including CPI?

Mr SCHIPP: Yes. It was the year 2000. It was the costs included in the submission of both the staffing as well as the medical expenses. It was increased by CPI and it was divided by the number of inmates within the facility. The cost for health at Kempsey, the only comment that I could make there is it is possibly around about \$20 per inmate per day and that is probably an overstatement, and that is why I felt it better to extract the cost from the Junee figure rather than add that cost to the Kempsey figure, because when we do the inmate cost per day calculations for health, we take Justice Health's total operations for adult correctional facilities, and bear in mind Justice Health is not only providing health services within adult facilities, but also within juvenile facilities and also within court facilities, so it is a very crude inmate cost per day to take the total cost.

CHAIR: Does that include dental?

Mr SCHIPP: That includes dental. It includes nursing, medical, psychiatric, the full suite of health services. The other difficulty in calculating that figure - as I said, we get the total cost from Justice Health and divide it by the total number of inmates in the system. Clearly there is a more intensive service provided at the Long Bay hospital than there is at Kempsey or any of the other facilities.

Mr MCLEAY: You are saying the \$20 figure is the average per inmate per day across the system, or have you put a loading on it?

Mr SCHIPP: \$20 per inmate per day would be my estimate and with all the qualifications that it is probably an overestimate, because it is not founded on activity drivers, levels of activity and service within a centre by centre basis, it is a very crude distribution of the total costs.

Mr WHAN: Including Long Bay?

Mr SCHIPP: Including Long Bay. It is the total cost for Justice Health. The cost of Justice Health is publicly available information. Divide that by 9,000 inmates and you get around about \$20 per inmate per day. That could be \$5 at Kempsey and \$50 at Long Bay hospital. I am not in a position to say.

Mr MCLEAN: Is Justice Health in a position to say?

Mr SCHIPP: They would be probably able to provide a far more accurate figure than that, because they have their own activity based costing methodologies. We are working with them, or at least we have included them in activity based costing pilots and projects that we are undertaking to get a more accurate costing, so in future years we will be able to allocate more directly the cost of Justice Health to individual facilities.

Mr MCLEAY: We know that State-wide the health budget is increasing at about eight per cent per annum. Is Justice Health having similar rates of costings growth?

Mr SCHIPP: I would not be able to say. You are probably better addressing that to them.

Mr MCLEAY: You pay their bills?

Mr SCHIPP: No. It is directly appropriated through the Minister for Health. It is appropriated as a cost to them as an agency and we only take the figures that they give us in terms of the subset of that which relates to adult correctional centres, as opposed to juvenile correctional centres, or juvenile justice centres, or indeed their costs in court.

Mr MCLEAY: In your annual report will you be differentiating the Way Forward model and the traditional costing models?

Mr MCLEAN: I think the achievements of the Way Forward to date certainly will be shown in our annual report. It is our intention to make it very clear publicly of the savings and what the model has given to date and where we intend to head with it across the system as we move through it.

Mr WHAN: If you were providing policy advice to the Government on which way to go with building and managing a new gaol, are you confident you are giving advice which is looking at all the different models that exist around Australia and are able to actually give a fair cost comparison of those models?

Mr SCHIPP: With relation to Wellington, Wellington as a correctional centre was originally put forward as a potential for Publicly Financed Partnerships, which are now referred to as Public Private Partnerships. We did undertake a feasibility study as to what the value for money would be if in fact it was a PFP within the Government's private infrastructure provision guidelines. Those guidelines were that core services should be provided by the public sector. Non-core services and things like facility management, finance and various other costs could be provided by the private sector. That feasibility study failed to demonstrate that it would be more cost effective to deliver that project as a PPP, which is why it is now being delivered as a public facility. The issue of whether or not core services should or should not be publicly provided is probably more of a social issue than a financial or economic issue.

Mr MCLEAY: Does the department consider that it is healthy having a private sector comparator in the New South Wales system, a private sector benchmark, so it assists you in driving reforms like the Way Forward? If it was not for GEO operating Junee, might you have been as aggressively able to go with the Way Forward and is it helpful to have a private sector comparator in our market?

Mr MCLEAN: I believe regardless of a private sector prison being within the system that the opportunity for us to look at how we do business, not just with competing industries, just the way that we have a commitment and an obligation to the Government of New South Wales and the people of New South Wales to provide a cost effective service, regardless of the private providers. We certainly speak regularly with our unions in relation to the development of those methods, and that is difficult, but we think that regardless of that private provider we would be moving into best practice, looking at how we could operate better. We are very mindful of the style of inmate that has come into corrections over the last couple of years and how we can achieve that cost effectiveness against the requirements of our obligations to very damaged products. The inmates we are getting off the streets are very costly products, that we are now dealing with in terms of an inmate or a person. To answer it in short, I believe that we would be doing this regardless.

Mr MCLEAY: Do you believe that the prisoners are getting different treatment in the private sector versus the public gaols?

Mr MCLEAN: I believe in comparison, from what I have seen at Junee over the years and what we are providing at Kempsey, in particular Kempsey and other facilities, but Kempsey in particular, that we provide a better service. We provide better programs. Time out of cells varies from maximum obviously through to minimum and the areas of minimum that we have in Kempsey and the design that we have there and how we operate staff interaction with them in the open and certainly in the dynamic securities of the expectations of the staff, I believe we certainly have a higher standard of expectation of our staff within the public system compared with the private system.

CHAIR: Would we be able to forward some other questions that we cannot get through to you?

Mr MCLEAN: Yes.

(The witnesses withdrew)

PIETER BEZUIDENHOUT, Managing Director, GEO Australasia, Level 18, 44 Market Street, Sydney, and

COLIN VICTOR KELAHER, Executive General Manager Operations, GEO Australasia, Level 18, 44 Market Street, Sydney, sworn and examined:

DEPUTY CHAIR: I am advised you have been issued with a copy of the Committee's terms of reference and also a copy of the Legislative Assembly's Standing Orders 332, 333 and 334, which relate to the examination of witnesses, is that correct?

Mr BEZUIDENHOUT: Yes.

DEPUTY CHAIR: We have received a comprehensive submission from you for this inquiry, is it your desire that the submission form part of your formal evidence today?

Mr BEZUIDENHOUT: Yes.

DEPUTY CHAIR: Would you like to make an opening statement?

Mr BEZUIDENHOUT: Mr Chairman, members of the Committee, secretariat, firstly on behalf of GEO I wish to thank you for the invitation to address this hearing today. We are in a sensitive situation in that there is a comparison been drawn between us and our client. It is not our intention at any stage here to comment on the terms of reference because we have not been privileged to the initiatives as the department have them.

What we are, however, intent on doing and we have an obligation to it towards our stakeholders, is to present the facts relative to the costs and performance of Junee here. We can not, however, and neither do we intend to, comment on any of the terms of reference. As I say we have not been privy to the details of those.

CHAIR: Firstly, I would like to thank you as well and your group for hosting us in Junee recently. We were very interested in the way that you ran that program and very impressed with the community work, especially the railway station, the fence around that looked fantastic, and to see the inmates out there contributing to the community added great value to the town.

I suppose the first thing we would like to know, what strategies are in place to ensure your operating costs do not exceed the management fee?

Mr BEZUIDENHOUT: That is a normal commercial management matter, and for us to manage our costs in line the fee. If not we will go into a reverse profit situation and that will not be tolerated and can be tolerated and is not sustainable in the long run. We tendered and it was at the time of tendering we obviously had a view in terms of what cost escalations would be and certainly we must manage within those parameters.

CHAIR: Do you look at national or international best practices influencing the way you manage Junee?

Mr BEZUIDENHOUT: Certainly in the last 12 months, and also years, have embarked on what we would like to believe, and looking at innovation is one of our issues that distinguishes us from the rest of correctional facilities and specifically compared to other private operators and also the public systems, not only in New South Wales but in the other jurisdictions. We have got an international parent company that we can draw some expertise and experience from. It is not necessary to say that what is applicable in America or South Africa or the UK is applicable in Australia, so we would take and adapt and/or adopt what is most appropriate. I think a typical example of that would be where we have an iris scan retina methadone dispensing methodology deployed in Junee which is far as I know is one of the few facilities in Australia, apart from our other facilities, that is doing it that way.

CHAIR: Can you talk about the costing of that program?

Mr BEZUIDENHOUT: Our cost to the department is a one stop cost. We furnish an invoice, effectively, for a fully comprehensive service which includes security, medical, maintenance, whatever you want to call it. The cost of development and the cost of innovation is borne by us as a company, it is just normal commercial savvy to do so. If not, if we cannot, and it is part of our three year strategic vision, if we can in the distinguish ourselves from other operators, then there is a serious doubt about value for money ultimately in the long run. The only other thing that will distinguish us from our competitors is to make sure we supply innovative forward thinking ideas that could be adopted within the public systems.

CHAIR: How would they encourage these innovative forward thinking ideas when you have a particular contract with the department with your set obligations and different monitoring regimes; what incentives, if any, are there for such innovation?

Mr BEZUIDENHOUT: The incentive to us is to make sure we win the next tender. We will always make sure that we look at best practices around the world and deploy those.

Mr KELAHER: In the case of the methadone dose iris scan, we made up our duty of care too, we dose the most amount of inmates in a gaol setting in the State. Today there was about 165. Traditionally it has been an area where they can substitute the drug and overdose and there has been deaths in custody in the past. We have a duty of care to keep these people alive and keep them healthy. We took that as a business risk to make sure that that sort of instant does not happen. So far its proven very effective.

Mr MCLEAY: Why do you think you have the highest proportion of methadone cases in your gaol?

Mr KELAHER: It is something you perhaps should have asked the department. We contracted a fee for the provision of methadone per inmate per day and I guess it was attractive to the department to send that many inmates to our facility and we took cognizance of that and we introduced this sort of technology to manage it.

CHAIR: Just so we are clear about your inmate mix. There has been some discussion that you do not have female or maximum security inmates, you have a certain type of inmate, could you just explain for the record what your inmate mix is and how that is determined?

Mr KELAHER: We do not determine it. We do not have any process that influences the type of inmate we receive at our facility other than the classification of the facility. I guess today it was interesting to note the department's submission saying that it is a maximum security facility. I guess we are classified as a medium/minimum security facility. Today we had five maximum security facility inmates at Junee. I can tell you today at Kempsey there was none. Our mix is relatively similar, if you like, but it is predominantly medium security, protection profile of inmate. In other words they have special needs. Obviously there is a large number of those inmates on the methadone program. There is a lot of minimum security inmates there that we do manage and there is a higher movement amongst that population out in to the other facilities that the department operates.

CHAIR: You are doing business in other states in Australia. How does New South Wales compare? What is the comparison of performance of the different jurisdictions?

Mr BEZUIDENHOUT: It is a rather complex question that we certainly do not have the time, I am not being facetious, to elaborate in detail. There a different models in the different states. It is a difficult question for me to answer. I am not sure what the answer is you are looking for. In all of the states it is different, not one single State in the three states, and in New Zealand, that we operate follow the same sort of reporting format and the same reporting structure. I am not sure if that is what you are looking for, Mr Chairman.

Mr MCLEAY: If I might come back a step. When we are talking about your inmate mix or your inmate profile, do you have a standard set fee for each inmate or is there a different weighting or price for minimum, medium and maximum inmate?

Mr BEZUIDENHOUT: No.

Mr MCLEAY: If you get the five maximum today, do you get a higher allowance?

Mr KELAHER: No, we get a flat rate, it does not matter the classification of the inmate. We hold up to 80 remand inmates, coming off the street from the police and local courts, they are an unknown quantity. They have particular needs in their assessment process. We devote extra resources to that. That was part of negotiating with the department to accept that type of inmate, it is all included in the one fee.

Mr BEZUIDENHOUT: I think coming back to your question, the preceding question, with all the states where we contract we have basically got a set fee with them, except if there is different issues, like methadone dispensing, which could influence on a variable cost basis the fee. In terms of a fixed contracted fee, that is a one invoice amount that we submit to them on a monthly basis. In some of the other states there is a difference in how they award, if you meet all your contractual obligations then there is a bonus scheme attached to it, performance linked fee attached to it. It is a really complicated complex issue to try and detail for you here.

CHAIR: You were talking about the methadone program is, I suppose, one of the positive programs that you have in your facility. Are there other sort of service delivery options that you provide that exceed performance in any of the public facilities?

Mr BEZUIDENHOUT: We certainly meet and/or exceed all our contractual obligations in terms of New South Wales. But if you go back in history some of the innovations and new technologies or new concepts or ideas that we have brought into the public system is possibly our HRIT system.

Mr KELAHER: High Risk Intervention Team to look at profiling inmates that may be at risk of self harm and suicide. Centre emergency response teams. When you operate a facility independently you have to have minor versions of what a large organisation might have in a facility to operate. That includes a response team to quickly manage an incident should it happen on the day.

Mr BEZUIDENHOUT: In singing the praises of independent, whether you want to call them private or whether you want to call them independent facilities, one the greatest benefits to a public system, I am not trying to do a selling job here, is that you have an independent test bench where you can go and try new things. We find that with other jurisdictions that they would use us as the test bench, use us as the benchmark and see if it works throughout the rest of the system. It doesn't contaminate the rest of the system until it is proven in an independent facility.

Mr MCLEAY: What if it does not work?

Mr BEZUIDENHOUT: Then we stop.

Mr WHAN: Can I ask about the move to 12 hour shifts at Juneee. Have you seen any evidence that the move to 12 hour shifts has led to any increased problems with fatigue with your staff or with increased sick leave or anything like that?

Mr BEZUIDENHOUT: To the contrary. We are aware of the union submission and we have shared submissions with each other and we understand where they come from, from a philosophical point of view. From a 12 hour shift basis, no. Certainly over the last year, since the introduction of the 12 hour shift it is evident in our worker's compensation rates, these have come down substantially over the years. We certainly still run a very stringent and tight ship in terms of sick leave, and overtime is another issue. We certainly have not seen any deterioration. The 12 hour shift is very convenient for the individuals. The staff love it in a sense because they are shifted on three or four days a week. They normally end up with dual positions, not only with us, but in different positions with companies outside or hobby farmers, or whatever they do. They love the system.

Mr WHAN: Is it a concern to you that people have two jobs and some of your staff are

doing second jobs.

Mr BEZUIDENHOUT: No. I can not see why it should be a concern to us. The other thing that is evident and should be stressed at this point is that over 63, possibly 64 per cent of our staff have been serving with us for five years and longer.

CHAIR: Your doctor was there from day one.

Mr BEZUIDENHOUT: Yes, a number of people from day one. I think something like 40 per cent of our staff have been there for ten years or longer. Certainly it is not an unhappy staff. Remember the 12 hour shift was introduced in 2001.

Mr KELAHER: It was introduced to comply with the specifications of the new tender where we had to provide a minimum 11 hours out of cells. The 12 hour shift fell in ideally to operating the facility that way.

CHAIR: The staff arrive half an hour before the doors are unlocked and leave half an hour after they are locked in?

Mr KELAHER: We have a briefing in the morning and debriefing in the afternoon.

Mr MCLEAY: They used to operate three eight hour shifts?

Mr KELAHER: That's right.

Mr MCLEAY: Two of those shift had inmates out of the cells. They were locked in their cells for one shift out of three and they were out potentially two shifts out of three?

Mr KELAHER: That is correct.

Mr MCLEAY: The Department of Corrective Services also has three shifts of eight hours and the inmates are locked in their cells two shifts of the three and only out one of the three, is that right?

Mr KELAHER: I have been out of the Government facilities for some time now, that was certainly the way it operated, yes.

Mr MCLEAY: The fact that you have 12 hour shifts where the staffing ratio is high enough to allow inmates out of their cells means you have more access time than the department's system but less than you used to have, is that right?

Mr KELAHER: I guess it is slightly less than we used to have. It certainly did not equate to 16 hours out of cells. It might have been 12 at the time. Obviously during the night time it is not good to have them out too long after dark, especially in the winter time at June. We did provide that 11 hours out of cells and it is working extremely well with out structured day and with the staff 12 hour shifts.

Mr WHAN: You said that was a condition of the tender. Do you think that is fair that you had a 11 hour condition in your tender and that the public operated gaols are less?

Mr KELAHER: I guess the first thing you look at when you are comparing prices; are we delivering a service. I think you raised a very valid point. That was just one specification out of hundreds that we had to comply with to operate the tender. So it is not a case of letting down on any particular service. I think up until recently, I am not too sure about the way forward in Kempsey, we were the only facility in the State that were monitored on a regular basis in terms of delivering service, delivery outcomes on a performance regime.

Mr MCLEAY: Do you think it is fair for this Committee to compare your gaol with the Way Forward gaol in June.

Mr BEZUIDENHOUT: I don't think it is appropriate for us to comment on that. It is the Committee's prerogative whether they want to measure or not measure. It is a sensitive issue to us because certainly we sit here and we are being compared with our client and obviously we are very sensitive to what we say or do not say. I am not saying we are hiding anything but one must take cognizance of the fact that there is a client contracting relationship here on the other side of the fence.

I think what the Committee, and I can't tell you what your obligations are, but what you should be doing is trying to get to a comparable cost as far as possible and in our submission we are trying to draw your attention to that and by saying that you should look strictly, I am repeating that for the record, one should be looking at direct operating costs. It would be wrong to look and say the department is working on \$200 per day per inmate because that includes a whole structure, so that should be eliminated as far as possible. One should look at the direct operating cost.

Once you draw down to that level then you should look at total cost comparing with each other, not separate budget or maintenance and separate budgets for health and so we can carry on. I repeat, the only reason why I am stating that factually, it is in our interest to make sure our stakeholders, it is a factual issue, the stakeholders being our members of our union and our staff, are the people that I must protect in this environment.

CHAIR: On the issue of health because it is been an issue of interest to the Committee, when you set up in Victoria can you explain how Justice Health in Victoria either saved or lost money once you took over the health administration of the facilities there?

Mr BEZUIDENHOUT: That was done, it was long before my time, it was done in 1997. Certainly at the time we took over the health provision and it was a competitive tender process, and a number of other companies tendered for that; St Vincent's Health, Forensic Care, which is a Government instituted facility, and ourselves tendered. At the time it was proved it was a far cheaper alternative to them. I think the appropriate people to talk to would be possibly Victorian corrections about that.

Mr KELAHER: It was during a time of the very vigorous campaign of privatisation in Victoria. They privatised well over half the gaol population. They privatised the health services within the correctional facilities and they privatised the transport and court security escort.

Mr BEZUIDENHOUT: At the time there was definitely a major cost benefit to them.

CHAIR: We have heard figures such a 40 per cent; is that too high? Perhaps you could take that on notice.

Mr BEZUIDENHOUT: I can take that on notice, thank you.

Mr McLEAY: What about the submission we heard earlier where the department's estimate of cost per inmate per day is about \$20 for Justice Health and they have estimated your costs at around \$9 per day? Is that a fair figure?

Mr BEZUIDENHOUT: Our estimate comes from the same source. It is really Justice Health's costs allocation to the Department of Corrective Services divided by the number of inmates and by days. Our cost of \$9 is certainly in the ball park. It was a little lower last year but in our submission we have a figure of about \$7-something. This year it will be running higher. It will be running at around about the \$8 plus, so the \$9 is a fairly accurate assessment of the health costs. There is a distinction here. So far as I know, the MRC and the Long Bay hospital are the only other facilities within the State system that would supply a 24-hour medical facility to the inmates. Ours is a 24-hour facility with a full-time doctor, dentist twice a week, and so on. We can elaborate.

CHAIR: Have you any figures about what percentage of your total salary expenses are overtime and sick leave?

Mr BEZUIDENHOUT: We have. One of the issues why we possibly are cost competitive is that we control issues like sick leave. We control overtime very tightly. We would rather use a casual pool of people because it also spreads wages amongst more people in the community. We certainly have those. I would hasten to add that I would deem those to be commercially in confidence and it is an issue that we control and you can be confident that you are looking at less than the two per cent level for overtime.

CHAIR: One item that the Committee spoke of after our visit was the close working relationship between your industries and the private employers and businesses. Do you know if that has had any effect on recidivism rates?

Mr KELAHER: I agree with the department's submission in that regard. It is extremely hard to measure recidivism. I guess we are a pathway for an offender to go from other facilities to our facility and maybe to another facility, so it is very hard to judge which gaol or which facility contributed to preventing that inmate coming back into the gaol. That said, we are very proud of the industries and the programs we have got to assimilate the inmates back into the community. Our work programs in that regard work very well. There are a number of cases where we have released inmates out into the community with employment and it has worked very well. To measure the recidivism rates is extremely difficult.

A number of years ago, and I think it was about 2001, we held the major population of offenders, sex offenders, in the State. We had an excellent sex offenders program running at the time and we spent a considerable amount of funds getting that program evaluated. There was an indication that that did have an effect on the recidivism rates of inmates. Unfortunately those offenders were moved down to Long Bay facility so we could not continue that evaluation.

We would be very interested in participating in any role which could accurately predict or determine whether certain programs are working at facilities that could prevent them coming back into the prison.

CHAIR: Are you aware of any other such programs run at any other privately run facilities in either Australia or New Zealand?

Mr KELEHER: I think in the UK some of the tenders are so specific that they conduct their full sentence within the one facility, so they come in off the streets, undergo the assessment, go into a program within the facility, and eventually they get released from that facility so they would be able to conduct more accurate comparisons in that regard in the future.

Mr MCLEAY: Could you, for the Committee's benefit, explain in your own words what are the types of things you do better than the department's system?

Mr WHAN: Or tell us the things you do well?

Mr KELEHER: I am not going to be so bold as to say we do it better, but what I can say is we do have a very strict contract to deliver the key accountabilities of the department's strategic plan and our specifications that we deliver are certainly developed in line with that strategic plan. All of our programs are approved by the department, and it is very difficult with those sorts of constraints, if you like, to develop areas where you can, I suppose, really push innovation and do things differently.

Mr BEZUIDENHOUT: I can give you an example, not to say we do better than the department, but we certainly do exceed our requirements in terms of our contractual obligations, if you take meaningful employment of inmates, we have a base level of 60 per cent if my memory serves me correctly, and last month we had 76 per cent and for the full year last year we had 74.5 per cent of inmates meaningfully employed.

Mr MCLEAY: Is that in industries?

Mr BEZUIDENHOUT: It could be in industries, it could be that they work in the grounds, it could be that they work within the community outside. Bear in mind that we have a number of people outside in the Junee community, working outside the facility. 76 per cent compared to a base level of, I think it is, 60 per cent.

Mr MCLEAY: When we were at Kempsey the department indicated, I think, 99 per cent activities and employment. How could you think it gets to that?

Mr BEZUIDENHOUT: I cannot comment on Kempsey because I have not been there, but certainly 76 per cent I would tell you is better than what is base level and certainly better than our requirements, and as far as I know it is a fairly high percentage.

CHAIR: We heard from the department recently that on average the investment going back into the community is about \$10 million for their 500 bed facility. I cannot remember the exact figure that was told to me from your facility going into the regional community. Do you have a ball park figure? I thought it was around \$12 million.

Mr BEZUIDENHOUT: I am trying to quantify multipliers and that sort of thing. One of the strengths of the submission and one of the things we do, and strongly believe in, and it is part of our strategic vision and it has always been there, we have a purchase local policy. If we can park salaries, wages, and on costs to one side and look at what we do, we do not buy on a national or Statewide basis, we buy from the local community. We would source our food supplies and would source just about everything from the local community. With a high level of confidence, I would say that up to 90 if not 99 per cent of all our expenditure outside of salaries and wages would go into the local Junee-Riverina area. To quantify that figure, I would imagine that you would be looking in the region of about \$10 million for our facility, but that does not include any effect of any multipliers, that is straightforward dollar for dollar what we put back into the community.

CHAIR: That is including wages?

Mr BEZUIDENHOUT: No, excluding wages.

CHAIR: So it is wages plus \$10 million.

Mr BEZUIDENHOUT: Bear in mind that you are obviously going to have a higher cost structure, total cost figure in a 750 bed facility compared to a 500 bed facility.

Mr MCLEAY: You originally opened with 600 inmates.

Mr KELEHER: That is right.

Mr MCLEAY: You now have 750.

Mr KELEHER: Yes.

Mr MCLEAY: Besides the extra accommodation that was provided, did it provide any benefits in you having more prisoners? Were you able to have more innovation and be able to run more efficiently?

Mr KELEHER: It certainly required us to look at where we house these particular inmates, look at how we manage them within the structure, look at how they interact on a day to day basis. Normally in a facility where it is not designed for that amount of inmates you would traditionally get

an increase in incidents. We have very careful systems in place for separation of the inmates, even though a lot of them get to assimilate during the day, and that is one of the things we have been very proud of in what we do. There has always been a problem with what they call protection or strict protection inmates within the department. When they come to Junee we assess them and, where possible, we certainly get them to assimilate during out of cell hours. When they go back to the accommodation blocks they are kept separate.

That has been a standard by the numbers of inmates we have been able to gradually assimilate back into what we call a normal protection environment, and that has played a large part in how we have kept the incident rates down in Junee, building up to the numbers of 750, and taking into account that there is very complex problems in that population with remands, protections, strict protections and inmates with different needs, particularly those suffering from drug problems, and they are on the methadone program. It has worked extremely well and we give credit to the staff because of the way they interact down there.

I think one of the benefits that we have got down there is that the general manager, the nursing unit manager, the health services manager, and the prison officers on the ground all have the same uniform. It is a non-threatening uniform and they are all seen as part of a multi-disciplinary team in managing the inmates throughout the day, and that has worked very well.

Mr MCLEAY: Do you think if you had a larger contract with more inmates you would continue with the efficiencies, that you would still maintain that low price?

Mr KELEHER: At Junee?

Mr MCLEAY: Not necessarily at Junee.

Mr BEZUIDENHOUT: I think one has to be careful because any facility, if the facility itself becomes too large in its numbers, can become a definite security risk and the optimal levels at which you can operate really depends on the design. Certainly GEO as a company, looking at it from a different angle, manages a 3,024 maximum security bed facility in South Africa and they have some of the longest serving individuals in there. They have people serving something ridiculous like 995 years and that sort of thing in that facility, and it is a 3,024 bed facility. I am not saying that is applicable or could be applied in Australia at all. You do get certain economies of scale, but there is always a point where you need to be careful in what you do and that depends very much on the design.

Mr KELEHER: With any new contract you look at what the client wants, what they have in the specification and you have to look at world's best practice to provide what the client wants. A new facility might be totally different in their needs and totally different in the profile of inmate they can house there. That is where we come into our own. We look at the innovative practices for the management of a particular profile of inmate in the way that the client wants.

CHAIR: We appreciate the difficult position that you are in and we also appreciate the effort that you have put into putting forward your submission and giving us a very frank view and tour of your facilities. Are there any closing words you would like to leave us with?

Mr BEZUIDENHOUT: I would like to touch on five issues and I would not spend more than five minutes of your time on those issues. A lot of it we have said, and it is a rehashing and a recapping of what we have said earlier in answers to your questions. The cost in Junee of \$82 is a fully inclusive cost. That is the first thing you need to take cognisance of. There is no other hidden costs. There is nothing else that is kept in separate budgets. That is a one stop cost. It is a fully inclusive cost of medical and maintenance and so on.

The cost comparison, any cost comparison, can only be meaningful, and I support what was

said earlier, that it is difficult to do cost comparisons. It is difficult for us to do cost comparisons between our facility here and the facility down in Victoria because they have a different program content. It is difficult to do cost comparisons. Whatever you do, you need to do that on a direct cost per facility basis, without any apportionment, or weighting of factors or other things associated with it. It should be based on the actual numbers of inmates there because June, for instance, has a capacity of 750. The costs that we have provided to you, the per diem rate, was done on the actual numbers, not the capacity numbers, the actual numbers being lower, so you can deflate the cost if you work on the artificial capacity numbers rather than the actual numbers.

The critical issue here to us, and that is why we looked strictly at per diem costs, is the sensitivity around cost increases. For every \$10 increase that you would incur in June per inmate per day, so instead of the cost being \$82 it goes to \$92, that would have a spin on effect of \$2.7 million per annum to the department or to us, not to the department, because we supply them in any event. Typically, if you start talking about a cost escalation or a cost run out and instead of \$82 you are looking at a cost of \$112 for a similar facility at June, we are talking about \$8.2 million extra per year in costs. That should be taken cognisance of.

The big benefit also that we believe we bring to the party and that has not been touched on is what we call, and that is a second issue, the transfer of risk. In the model that we have and what we supply to the department, they do not carry the insurance costs, they do not carry the workers compensation costs, they do not carry any potential liability for inmate claims or staff claims. We carry that. That is a huge cost and peace of mind that is transferred, if you can call it that.

The third issue I want to briefly touch on, and we have mentioned the other stakeholders involved in the community and we are certainly part of that community. We feel we are an important part of that community and we love to be part of that community and I think they have given you a supportive letter in that regard. Not only do we spend the money there but we have also got scholarships running.

The second element of part of our stakeholders is our union and we believe that we are building a better relationship with the Miscellaneous Workers Union. They have an ambit claim on the table. That ambit claim is in the region of anything between 25 and 35 per cent. It will be heard before Justice Marks on 4 July of this year and that claim hinges very much on work value increases. Some of those were compensated in 1996 and 2001 to some extent. Our members have had increases in the region of 50 per cent over the last 10 years, escalated over the last 10 years.

Lastly, the differential between the cost comparison is difficult but the differential between what we pay and what is paid, particularly at Kempsey, for a banded officer would be only in the region of \$1,200 a year assuming that we allow escalations. Also in terms of why the issue is going to the Industrial Relations Commission, we do not have common ground. We certainly have the offer on the table that exceeds CPI, but they are at a different level and there is no common ground or mutual ground for us to negotiate at this stage. We do see the union as a very important part to this issue.

We have touched on the misconceptions that exist. People often say that we get all the easy inmates. That is not factually true. I can prove that to you. The inmate demographics make it a particularly difficult facility.

The last thing I will touch on is the benchmarking. We could be seen or could act as an independent benchmark and certainly we have tried to be that up to now for the State system. In conclusion from my side I have appreciated the opportunity to talk to you. I know that we could not be too helpful but we have tried as best we could.

(The witnesses withdrew)

(The Committee adjourned at 4 p.m.)