

REPORT OF PROCEEDINGS BEFORE

PUBLIC ACCOUNTS COMMITTEE

INQUIRY INTO SUSTAINABILITY REPORTING

At Sydney on Friday 8 April 2005

The Committee met at 9.00 a.m.

PRESENT

Mr M. J. Brown (Chair)

Ms G. Berejikian

Mr P. E. McLeay

Mr G. R. Torbay

Mr S. J. R. Whan

MARK ANTHONY RONISVALLE, Deputy Secretary, New South Wales Treasury, Level 27, 1 Farrar Place, Sydney, and

ELIZABETH MARY COOMBS, Assistant Director-General, Premier's Department, Level 39, 1 Farrar Place, Sydney, sworn and examined:

ALEXANDRA MARGARET JANE GORDON, Director, New South Wales Greenhouse Office, Cabinet Office, Level 11, Bligh House, 4-6 Bligh Street, Sydney, and

BRIAN MARK PELLOWE, Acting Senior Director, New South Wales Treasury, Governor Macquarie Tower, Sydney, affirmed and examined:

CHAIR: We are looking forward to hearing your evidence. I have been advised that you have received a copy of the committee's terms of reference as well as the relevant standing orders of the Legislative Assembly, is that correct?

Mr RONISVALLE: Yes.

Mr PELLOWE: Yes.

CHAIR: The Committee has received a submission from you as a whole-of-government submission. Is it your intention that the submission be part of your formal evidence today?

Dr COOMBS: Yes, it is.

Mr RONISVALLE: Yes.

CHAIR: Would you like to make some opening remarks on that submission?

Mr RONISVALLE: Yes, I would just like to say a few words. First, I would like to say thank you very much for the opportunity to appear before this forum. Treasury, along with the Cabinet Office, co-ordinated the submission. The submission made a number of points that I will briefly run through. Firstly, the definition of what is sustainability reporting, obviously, is still a matter of some debate. There are widely differing views on the measures to actually be used; the appropriate measures to measure sustainability. Those measures tend to change over time, almost in a fashionable sense.

Although there are specific sustainability indicators for specific activities, bigger picture whole-of-government sustainability measures is a much more vexed question. If you think of sustainability as the economic, environmental, social type indicators, the economic part of that is pretty easy to get at handle on because there is a common unit of measurement—money. Money makes one able to say what is the value of one thing versus another thing. In the social and economic area, those trade-offs are actually much more difficult.

It is very easy to know that someone is better off if their real disposable income has actually gone up, but if you achieve a reduction in air pollution at the cost of increasing water pollution, is the community better off or not? It is a much more known thing. Also, if you change income distribution at the expense of real domestic income, again is the community better off or not? So the trade-offs between these sorts of indicators are very difficult to actually come to.

CHAIR: I understand that the trade-offs of those indicators are probably difficult policy decisions, but what does that really have to do with sustainability reporting? Can you not report on air pollution and water quality? Why do you have to make a trade-off?

Mr RONISVALLE: It is coming back to a global picture, which is much harder. You can report on those things, but to understand what it all means in the global sense is much more difficult.

CHAIR: Is it Treasury's view that it will not report on those specific indicators, but rather wants to find a global reporting mechanism?

Mr RONISVALLE: No. What I am saying is that you can look at specific indicators for specific areas, but it is much more difficult to put it all together and have a total picture and draw overall conclusions.

CHAIR: The Committee is not interested in overall conclusions. It is interested in reporting on sustainability indicators. We would like to hear what each of your agencies' roles is in developing what we are going to measure.

Mr RONISVALLE: Certainly, Treasury's role is more on the economic and financial side. We have some role in setting annual reporting requirements. We have that legislative basis.

CHAIR: As a central agency, do you think you have any role in providing guidelines to other agencies on how they should report on their areas of responsibility?

Mr RONISVALLE: Treasury's role is in the financial and economic area. That is where Treasury sees its role. I think the role of other agencies is something which they need to speak to the Committee about, rather than ourselves.

CHAIR: I am somewhat confused because we have a whole-of-government submission. The Committee has spoken to some individual agencies, but we were of the opinion that a whole-of-government submission would mean that central agencies, such as Treasury, would be assisting, supporting and directing other agencies on the indicators on which they should be reporting. I might hear from Dr Coombs when you finish.

Mr RONISVALLE: We are in the process of developing performance indicators for various agencies, through what we call our results and services plans. Essentially, those plans try to link the services that agencies provide with the indicators that they see as indicators of their success or not. Those indicators, in the case of the environment, would be indicators that measure the environment.

CHAIR: Are they standard across agencies?

Mr RONISVALLE: The indicators are specific to the agencies concerned.

CHAIR: So are they more of a performance measure than a sustainability measure?

Mr RONISVALLE: I think there is an overlap in performance measures and sustainability measures.

CHAIR: Dr Coombs?

Dr COOMBS: I would like to go back to your invitation to make some introductory remarks. I would like to draw the attention of the Committee to page 4, where we essentially talk about an initiative that is being run through Premier's Department. The Premier of New South Wales, in 2002, announced the establishment of a senior officers group to investigate options on how the public sector in New South Wales could incorporate sustainability into its operations. That was a useful introduction to the role that Premier's Department has played in this area. In the introductory comments, I would be happy to spell out some of the background, if that would be of assistance to the Committee.

CHAIR: Yes. Thank you.

Dr COOMBS: Essentially, through the Strengthening Communities Division of Premier's Department, there was recognition of how important sustainability concepts are. We had noticed an increased use of the term in a variety of forms, from the academic through to the more popular, the press and the like. The private sector too was coming forward with a range of reports addressing specifically sustainability in terms of their products, their service delivery, and their people. In those early years, 2000, there was recognition that we needed to start to work with agencies in order to get them to look at sustainability in terms of their particular activities as agencies. So that project

addressed agencies' activities. I am aware from the terms of reference that the Committee is conscious of that.

That work has kept evolving, because we need to work with agencies to get them to understand the project. There has been ongoing work in that area. For example, there has been an accountability emphasis within the sustainability project, and in August last year Premier's Department convened a seminar for agencies to learn about and discuss sustainability, drawing upon the knowledge of a range of experts. The Director-General of the Premier's Department opened that seminar.

The government is currently considering the way that it will be continuing in this area, and obviously I am not at liberty to discuss that when it is under active consideration. At this point I want to emphasise that we are very much aware that agencies have a lot of accountability reporting currently in place and we do not want to add to that with a prescriptive approach. We actually want to use what is there. Committee members will see in the attachments to our joint submission a very significant list of reports that occur at agency level in economic, financial, social and environmental areas, and obviously Treasury will be speaking further about the results and services plans: what happens across agencies, for example, the state of the environment report; and what happens at the whole-of-government level, for example, the participation of New South Wales underneath COAG regarding government services.

So there are a range of reporting and accountability mechanisms in place. We want to work to co-ordinate and integrate those. But the most important thing is that agencies actually understand and apply sustainability to their operations and incorporate that inside their existing planning and reporting processes, such as their business planning and the results and services plans, on which they work with Treasury.

CHAIR: Ms Gordon, do you wish to make a statement?

Ms GORDON: I think my colleagues have covered most of the strategic overview. I guess the role of the Greenhouse Office as a specialist unit within the Cabinet Office looks at greenhouse policy across government agencies. One area we have been looking at through the development of our greenhouse plan is actions across government to reduce greenhouse gas emissions. In the context of that, we have been looking at government energy management policy, looking at the opportunity of streamlining some of the reporting requirements across a number of different environmental areas.

We have an electronic database system within government that is commonly referred to as EDGAR, which is the energy data gathering and reporting system. That common database has been developed with the other States and the Commonwealth Government to facilitate the collection of energy data from government agencies, but we are looking at extending that to other areas of environmental reporting, including things like government car fleet management and water waste, which are requirements on government agencies that already exist for reporting but streamlining those into one electronic database system to make that data more accessible and useful as a management tool.

CHAIR: Dr Coombs, you said that you cannot go into the specifics and the Committee respects that. But how long has this been under consideration for?

Dr COOMBS: No doubt it will be an ongoing process. It is the next step that I am talking about which is under active consideration. This work has been under way since 2002, culminating in that seminar last year. We have had some reports in, and we have been working with agencies on that. What we are looking at are the next steps forward. If you look at Western Australia compared to Victoria and Tasmania, from memory, Western Australia has gone down an approach that is much more about frameworks, goals, policies and strategies, whereas in Victoria and Tasmania you have another approach which is much more metric based, and we have statistics and the like.

We need to be making some decisions as to the way between those two approaches that is the most appropriate for New South Wales. We are very aware through some advice that has been put to us by well-known experts in this area that the advantage of having an overall framework and principles can be very useful to agencies, and they are the sorts of strategies that we are considering at

that whole-of-government level. Needless to say, there is ongoing encouragement to agencies. As you can see, agencies themselves are picking up this issue very substantively. Not only do we list in here a number of agencies that are doing it, but I think we have two or three in particular that have already been winning awards for it, which is very encouraging.

Mr STEVE WHAN: I am sorry but I missed the start of your evidence. Can you tell me whether you see sustainability reporting as being about reporting, or do you see it as being about changing the behaviour and the actual motivation of what you are doing, including in the central agencies in terms of your own policy directions, for instance, in the preparation of budget submissions and things like that? Is that something that you then consider the impact of those things?

Mr RONSISVALLE: Certainly. We do not believe in reporting for reporting sake. The use of performance indicators is all about changing behaviours and that is part of the reason why, through what we call our results and services plan, we are concentrating at the agency level. We want to change the behaviours of individual agencies and the way they operate their businesses.

CHAIR: Change in which direction? How do you want to them to change? What are they doing wrong?

Mr RONSISVALLE: We want them to focus on what they see as government outcomes they are trying to achieve. At the moment what happens is that we have been talking to agencies and we have found that there is a degree of confusion as to what the individual agencies are attempting to achieve, and through our results and services planning program—

CHAIR: In what way? Are they concentrating too much on doing their basic front-line work?

Mr RONSISVALLE: Essentially.

Dr COOMBS: I think there are issues about understanding what sustainability is, which makes it hard for some agencies to understand the linkages between environmental, social and economic goals. Would that be fair, Mark?

Mr RONSISVALLE: Yes, but I think the agencies themselves have not been clear about what their overall objectives have been and therefore they have been unable to actually focus on achieving the objectives. Mark has a copy of a document that we give to agencies which explains the results and services plan. It explains the linkages between what they are doing and it is an example of being able to link what they are doing with the services and the outcomes we are a trying to achieve for government.

Mr PELLOWE: Would it be useful if I handed this up and talked to that?

CHAIR: Please.

Ms GLADYS BEREJIKLIAN: What is the status of the senior officers group currently? Does it still exist?

Dr COOMBS: It does still exist but I must admit that it has not met regularly in this time. I have just assumed responsibility for this area inside the Premier's Department. There have been some structural changes where the Strengthening Communities Unit went to the Department of Community Services and the responsibility for this project initially went to Community Services. It has been transferred back into the Premier's Department and underneath my oversight. So as a result we are just coming to terms with how we will structure that for the future.

Just to follow on from the points made by Treasury about the need to be taking this gradually, there is an article in "Public Administration Today"—I have brought a copy of it for the Committee—which talks about how the proven way of approaching this to get substantive change at the cultural level is by taking gradual manageable steps towards explicit objectives or sets of objectives in terms of the agency's broader vision. I thought that might be useful to you, but my colleagues will be talking about the results and services plan.

Ms GLADYS BEREJIKLIAN: What was the logic of moving it from the Premier's Department temporarily to DOCS? What was the connection with DOCS?

Dr COOMBS: I am not entirely familiar with that. All I know is that I have it now. We are taking it up as a priority.

Ms GLADYS BEREJIKLIAN: So it exists as a body but it has not met?

Dr COOMBS: Not since I have been, and I am not aware of the history of when it most recently met underneath the Department of Community Services and before that inside the Premier's Department, but it will be meeting certainly.

Ms GLADYS BEREJIKLIAN: Mark, you do not actually oversee what an agency is doing in relation to sustainability reporting, do you?

Mr RONSISVALLE: No.

Ms GLADYS BEREJIKLIAN: So if they choose to disclose it in their annual report or choose to put out a separate report, that is up to their discretion?

Mr RONSISVALLE: Yes, that is true, although we are trying to encourage them to link the sort of indicators they see as results government wants to achieve with the services they offer. Mark will briefly take you through that.

CHAIR: If you could take us through this because I am still unclear as to what that statement means.

Mr PELLOWE: Probably the best in terms of talking to this is to open up the second back page, which is appendix A, just to give you some examples. As you are aware, the global reporting initiative [GRI] issued, the public sector supplement in March 2005 and one of the key additions that they added for the public sector to the normal GRI framework was to request information on improvements in terms of the relationship between inputs and outputs and outcomes, that is, asking agencies to report on how they are actually becoming more efficient and effective through effectively showing the links between inputs, outputs and outcomes. You also note from the Government's submission on page 6 that we talk about results and services plans which are all about doing that.

To give some background on terminology, the GRI talks about outputs and outcomes. We talk about services and results, but they are really the same thing. The service is an output. It is what an agency does. The brown colour on this attachment is what an agency does on a day-to-day basis. These are the services they provide. The results or outcomes are what they are trying to achieve, why are they delivering those services. In the example here, the social outcome the agency is trying to achieve is a safer community. The results and services plans attempt to tell a high-level performance story about what agencies do, why they do it, how they do it and how they know they are doing a good job. They build their performance indicators around that performance story.

We tell that story through the results hierarchy, which is summarised on page 18. The hierarchy links the services they provide, in this case things like road safety services, with a high-level outcome that they are trying to achieve, which, in this case, is a safer community. A lot of other things affect the social outcome of safer communities. This is trying to track the influence, if you like, that this agency has on an overall outcome through a series of low-level results. To demonstrate through an example, if you go to the left-hand side of this hierarchy—this is a fictional agency, it is for training purposes for agencies—they provide community education programs that target the right group of road users in this case. That is the bottom left-hand green box. That should lead to better awareness of the dangers of inappropriate road behaviour, which leads to better road behaviour, which leads to—

CHAIR: How do you measure community education, by how many meetings they have?

Mr PELLOWE: I guess that is part of the challenge. When you document this you start asking questions about the real key performance indicators. At the moment a lot of agency annual reports focus on the 'busyness' stuff, which is really all the brown stuff. By doing this you start asking those types of questions. This is what we are trying to achieve. How do you measure that? This is not simple. We have applied this in Treasury, apart from anything else, to make sure that it works.

CHAIR: We are interested in reporting. To me that is a bit of a map as to how to make a safer community. I cannot see any economic indicators in it. I cannot see any environmental indicators in it. I see a lot of social and policy plans, which are unmeasurable. It is impossible for any agency to effectively measure that in their annual report to provide better accountability to the taxpayer.

Mr PELLOWE: This is an example in a social area. If you look at a similar agreement for an environmental agency—

CHAIR: Let us stick with the social agency. They also have cars, lights and paper in their offices, and a budget to manage. I am happy to stay with the social agency. How would you make them report better on the triple bottom line? What is your direction? What help and support are you giving them?

Mr PELLOWE: In terms of implementing this?

CHAIR: No.

Mr PAUL McLEAY: Are you saying this is an alternative? There is no doubt that Treasury and the Government are looking at better government.

Mr PELLOWE: Exactly.

Mr PAUL McLEAY: Are you saying this is one tool for doing it?

Mr PELLOWE: This is our key strategy at the moment.

CHAIR: But it does not seem to address our terms of reference.

Mr STEVE WHAN: Is it taking in just the outcomes from the programs, or, as the Chairman suggested, is it taking in the actual impact or footprint that the department has on the environment just through its day-to-day activities?

Mr PELLOWE: For an environmental agency they would be doing that. For example, they would run with the same kind of process. They might run a service that is about educating people.

CHAIR: I am not interested in environmental agencies.

Mr STEVE WHAN: But do you recognise that all agencies have an environmental impact? If all the workers in the social agency are workers driving around in V8 cars, that will have an environmental impact.

CHAIR: And it is going to cost more for that to happen.

Mr STEVE WHAN: Does that come into it at all?

Ms GORDON: The process Treasury is describing is looking at the role of government activities that are undertaken within each agency. In addition to that process a number of particular elements of overall sustainability have different mechanisms for reporting. They are not always in the one framework or one mechanism. For environmental reporting a different process is in train because it involves different people within the same agencies. With a lot of environmental elements, a number of government policies look at reducing the Government's impact on particular areas. For example, car use, greenhouse emissions and noxious air emissions from fleet use, greenhouse gas emissions from energy consumption and waste production. A number of these policies have different

environmental reporting requirements that essentially go back to the agencies that are assisting all the other agencies to implement them.

For example, with the Government energy management policy agencies report to the Department of Energy, Utilities and Sustainability [DEUS] because DEUS has a role in assisting those agencies in identifying opportunities and implementing them. There is a distinction between one overall framework that does everything and, perhaps, the number of different types of mechanisms that are employed to achieve different outcomes. That is probably where there might be a little bit of difference of understanding or approach between what the Committee is looking at, which is more of an overarching, all-encompassing framework and the approach that we have been taking, which is a little bit more a number of different mechanisms that lie side by side.

Mr PAUL McLEAY: We are not looking at that. Currently a number of programs, such as the State of the Environment Report, looks at it all. Results and services plans are absolutely essential. It is not new for agencies to comment in the first section of the annual report before it gets to the financial statistics about social, environmental and economic performance, as well as other impacts on their business, how they are going and what their goals are for the next few years. Is there a way that their annual report can be triple bottom line, or a full sustainability report? If every agency has its sustainability report as its annual financial report, do you then need to do a State of the Environment Report or a sector-wide thing? Your evidence suggests that we do a few sector-wide things and when we pick up an issue, such as the Two-Ways Together Plan developed by the Aboriginal people, you ask each agency how they measure it. But if you are sustainability report indicates relationships with Aboriginal communities and outcomes, can we develop a set of guidelines under which all agencies must report, and that be an indicator? We have heard evidence from Forests, which has its own set of indicators, the Montreal Protocol, which is a specific forest initiative. They have said that is the indicator they want to report on. Is it possible to say, "Here is a set of framework that everyone must report on", and then get rid of all the other reports?

Dr COOMBS: You have raised a number of very valid points. In the annual reports many agencies have moved forward to try to integrate the social, environmental and economic. As our submission says, we do not have a single framework at the moment inside New South Wales for addressing sustainability reporting at an individual agency level or at a whole-of-government level. That said we are continually moving to improve the quality of that. I have to go back, and I am aware you may have a different view on this, but we believe that at this stage it is more important to get agencies to understand what sustainability means.

Mr PAUL McLEAY: We do not have a view. We are not saying that agencies must do triple bottom line reporting and how are you doing it.

CHAIR: We might even decide it is a waste of time.

Mr PAUL McLEAY: If you convince us that we should not, that is fine. You are telling us what you are doing now?

Dr COOMBS: The approach we feel is appropriate at this stage—and, as I said, the Government is considering the next way forward, so possibly will be a little more general than you may prefer—we are recognising we have a huge number of reports, economic, social and financial, and there is a need for better linkage between them. We also recognise that we want agencies to understand a sense of what sustainability is. Some agencies see it purely in environmental terms; some agencies find it far more socially and others, similarly, far more financially. As you have pointed out, each agency does buy energy and creates waste. How do they incorporate that inside a social agency's way of monitoring its own performance and reporting that? We are trying to consolidate and refine the indicators we have and to get far better linkages between them. Through the results and services plan approach we will be getting agencies to do that, and building up through the results and services plan to a more rolled-up approach generally.

I mention again this article here which talks about some of the strategies that have proved to be successful in getting agencies to, to use the expression, walk the talk. They take it on and do that. It is much more about shifting mind-sets rather than being prescriptive and saying this is what you must report and this is how you report it and this is when you report it. I feel strongly that it is about getting

into agencies' operations and we do that through dialogue with them, to get a sense of what are their priorities, getting stakeholders involved in discussions about what those priorities should be and evolving through to better reporting and more defined reporting.

CHAIR: Is there validity in the statement we have heard from some agencies that once they start reporting on these indicators it has a culture shift because they are now reporting year by year on these things as they are trying to improve or in some cases deciding that they cannot improve on an environmental indicator because they want a greater social outcome? We heard evidence from Sutherland shire. It could lift its environmental indicators enormously by just stopping its community work and driving around and visiting people. So it could really cut down on the kilometres in the cars and cut down on fuel bills, but it would have a high social cost. It showed its arrow is down and it is weak in that area this year, but the reason is it has had more visits and it has achieved these other things. We saw that as valid. It is measuring it. It has created a culture and the shire is not criticised because it might have been weak in one area in one year.

We saw, from my point of view, fantastic evidence from NSW Forests, as well as Integral Energy. It is innovative, it is empirical and a person can understand it. Big documents and broad concepts are not understood by many of the constituent I represent. They want to see something in a few pages, not lengthy documents, that an agency is looking at these areas. I found that form of reporting very good and I suppose I was expecting the central agencies to look at some of the best practice we have in our agencies and say: You have some terrific indicators and they probably should be used across the board from all agencies. You want some specific indicators to help you with your management of your agency and we, the central agency, think that is a good idea, and you keep those specific indicators, such as the Montréal Protocol measurement, because that is specific to you and you need to work in that direction. But I am just not hearing that from your evidence today.

Dr COOMBS: Then I am obviously not being clear enough in the way I am communicating with you, because I think what you are saying is that the stories of success and the stories of good reporting are critical to changing the behaviour of other agencies. If I have not said that explicitly, I will say that absolutely now. The Sustainability Commissioner, Peter Newman, said this as well. Stories are important. Those agencies have gone through a process where they have got to the point now where performance indicators are understood, accepted and worked through but we need to acknowledge the work that has gone on over, I imagine, some years before to get the agency as a whole to that point. We have set up 130, 140 agencies within the New South Wales public sector and you are going to get different levels of evolution down that path. You will have some that are very good practice and others that need to work towards that goal. I do not feel we have any major disagreement with what you have just said.

Mr RONISVALLE: From my perspective, we have to make sure the reporting has changed the behaviour. You said that yourself. Effectively we want indicators that mean something and that you can do something about.

CHAIR: But that sort of reporting is optional. Until it comes from you that you must report on these, some agencies will say they think it is a waste of time.

Mr RONISVALLE: The Government has not yet asked us to mandate that sort of reporting.

CHAIR: But we as a committee are going to come up with some recommendations and we want to hear whether we should go down that path.

Ms GORDON: We do mandate reporting in a number of areas. The energy management policy reporting is mandatory. The new fleet requirements, reporting against those is mandatory. It is mandatory to report against the waste requirements. There are a number of different elements where there is already reporting that is of a mandatory nature. The example you gave is a good one, because it looks at why a single indicator like greenhouse gas emissions does not tell you the story behind it. So, it is important for agencies to be able to look in some detail at useful indicators for them of emissions in service delivery. So, the programs that are in place, for example with the government energy management policy, do go down to that level of detail. They provide a mechanism for responding to that information and the tools and management options for improving performance. So,

it is a mandatory requirement of agencies and it is having a significant impact on reducing emissions and energy consumption across agencies.

Mr PAUL McLEAY: Does the Greenhouse Office then publish a report or do you ask them to put those reports in?

Ms GORDON: At the moment it is different for those different policies I have mentioned—waste, fleet, energy. At the moment we are looking at bringing them together and having one streamlined system of reporting.

Mr PAUL McLEAY: So you are just collecting at the moment?

CHAIR: You do not force them to report that in their annual reports?

Ms GORDON: Different policies have different requirements. The waste reduction policy does have a requirement to report in annual reports. The government energy management policy has a requirement to report to the Department of Energy, Utilities and Sustainability. In the past it has publicly released a compiled version of overall government performance. We are looking now how we can streamline the data collection from agencies so they are not reporting to four different agencies on four different things but have one report electronically.

CHAIR: And then reporting it themselves?

Ms GORDON: And then looking at what sort of whole-of-government reporting we should have. That is under consideration at the moment and what kind of ongoing oversight there should be to bring them together and streamline the approach. So, we are looking at that in the development of the greenhouse plan, which will be released later this year.

CHAIR: Then you get these aggregated results. What do central agencies do with them?

Ms GORDON: That is one of the issues that is under consideration at the moment. Agencies are required to develop an energy management plan under the energy policy so most of them have a management requirement related to the reporting. So, the reporting is not just for reporting's sake, it links back to a requirement for them to look at options to reduce emissions under the energy management policy or to reduce waste or to reduce water consumption. They do link back into a management process to try to influence behaviour as well. It is not just aggregated emissions at a government level.

Mr PAUL McLEAY: If there is an agency like the Department of Energy, Utilities and Sustainability that collects measures effectively, then you do not need to ask agencies to do triple bottom line reporting. Is that what you are suggesting?

Ms GORDON: No. Again, it depends on what behaviour you are trying to change.

Mr PAUL McLEAY: It can be both.

Ms GORDON: It comes back to what you are trying to influence, and in the example of the government energy management policy, you are trying to influence or improve the efficiency of energy use in agencies. So at that level it is actually more useful for agencies to have that information and for it to go back into some kind of management response. The reporting to whole of government is part of an oversight mechanism so again it is accountability and reporting on whole of government basis. But in terms of actually influencing behaviour, it is particularly important at an actual individual agency level for them to actually be able to respond to that information in terms of how they manage their energy or waste.

Mr PAUL McLEAY: I guess the concern is that you could imagine under the proposal, under that mechanism that we were just talking about, that, yes, you can manage, and actually the Government gets to set the indicators we think are important. We do not want to get a version of Integral's sustainability report, which gives itself a tick for using both sides of the paper when photocopying while still using a product that consumes millions of tonnes of coal. You guys are

saying what you think is important and you have pointed out the indicators that you think ought to be benchmarks and measures. The concern is that when we have had evidence from other groups that look at full sustainability reporting, They say, "If we use your way, all we are doing is measuring the outcomes that we already have." There are also ones who are saying, "Let's have proper sustainability reporting so that actually becomes a behavioural change." One of the firms that we heard from said that it is part of their depreciation and amortisation [D&A] because they know they are always doing full sustainability reporting under full GRI indicators. And everyone, all day, every day, thinks about why people are not printing on both sides of the paper because that is part of it whereas if we were doing it your way, all you are doing is simply reporting about the stuff that they give you. You are reporting on current data rather than changing behaviours.

Ms GORDON: I would not agree because the experience in government, particularly the government energy measured policy, is that agencies are responding. It is a cultural shift because they are measuring it and they have a requirement of options to reduce their emissions. It goes back to the old adage: you do not manage what you do not measure. If agents are measuring them, whether they report them and whether it is in their annual report or whether they have a different report that goes to the Department of Energy, Utilities and Sustainability [DEUS] can have some impact, but it depends on the particular issue that you are trying to influence.

CHAIR: Gladys has a question but I will come back to that afterwards. As a public accounts committee, we would like to hear about everything that is moving around in the complicated world of New South Wales bureaucracy and is not reported clearly and systematically in annual reports.

Ms GLADYS BEREJIKLIAN: I am interested in your macro rationale. I have heard you say a lot about changing behaviours but I am interested in actually improving outcomes more than changing behaviours because that is an inherent assumption in the terminology. I want to hear the rationale on whether you think sustainability reporting actually improves outcomes. Connected to that question is this graph. For example, you have put safe roads in here, but where in that equation would be the quality of the road? The agency would clearly be responsible for providing a good quality road, and road users obviously would have an obligation to obey the laws, but I am not getting a sense of relating sustainability to the core service or the core outcomes which agencies are meant to provide. Where in this equation, for example, would be the actual quality of the road? How would you measure that as part of an outcome?

Mr RONSISVALLE: This was a model that was planned for a law enforcement agency. A similar result would be expected for a road provider and they would also have as an outcome safe handling or safe roads. That would be one of their outcomes.

Ms GLADYS BEREJIKLIAN: I guess that unless it is integrated, it is really a bit loose. It is linked to the other, and I am trying to get a sense of that. A position in isolation is not of much use if you do not know what the quality of the road is, for example.

Mr PELLOWE: This is a contribution which this particular agency makes. What we are starting to see now is that other agencies that have related services and objectives are working together to integrate, so these agencies should work together with the agency that is developing better quality roads, if you like, to make sure that they pursue the same outcomes.

Ms GLADYS BEREJIKLIAN: As you have noted in my question and in this example, clearly different agencies have different emphases in terms of their reporting. For example, the Department of Community Services [DOCS] would have a greater emphasis on social reporting rather than on environmental and economic. Clearly other agencies such as State owned corporations [SOCs] would have a greater emphasis on economic reporting. But I guess I am not getting a good sense at a macro level of what your rationale is in planning for better outcomes, not so much changing behaviours and reporting for the sake of reporting. If you do not think that is a necessary requirement, I would like to hear that so that we do not go down the path of making recommendations which, firstly, are not workable and, secondly, are not going to improve outcomes. Reports do not do anybody any good unless services improve.

Mr RONSISVALLE: I suppose that one thing I would say is that, yes, you can change behaviours and have no impact on outcomes. What you are required to do is pick the indicator or the

performance measure that results in a change in behaviour which is actually linked to a change in outcome. I suppose that this is what this framework actually does. It actually traces through what we call the results logic which clearly links what you are doing with the outcome you are trying to achieve. Therefore you pick the indicator that actually measures that along the way. So there is a linkage between changing behaviours and outcomes, provided you pick the right indicators.

Ms GLADYS BEREJIKLIAN: Sure.

Mr PAUL McLEAY: We, as a public accounts committee, think that results and services plans are important, but it is not really an annual report, is it?

Mr RONISVALLE: Just to be fair, one of the things we tried to do is use that for developing a project.

Mr PAUL McLEAY: This is a tool that will lead to an annual report.

Mr RONISVALLE: That is right. I think that what we are playing around with is the concept of linking the results and services plan to things that we report in budget papers, to the things that agencies actually put down in reports, and we will come up with an integrated set of unit performance reporting. So it is bringing the three things together, the annual reports, the budget papers and unit performance reporting.

Mr PAUL McLEAY: An outcomes-based budget?

Mr RONISVALLE: Essentially, what we are trying to do is link the spending of the Government's money to the things that the Government actually wants to achieve.

Mr PELLOWE: It is actually funding a plan. This is a plan of what we want to achieve with the money that we get.

Mr PAUL McLEAY: Exactly. That is what I am trying to say. The resultant services plan is more related to outcomes-based reporting but I do not think that is actually what we are after in this inquiry.

CHAIR: That is not the point of this inquiry. We are not here to measure outcomes or achievements of the Government's plans. We are here to look at whether agencies should have sustainability reports.

Mr PAUL McLEAY: We are happy to inquire into outcomes-based budget estimates.

CHAIR: We could start drafting the terms of reference. But, should they have them? If so, what should they report on? As I have said, we have heard some terrific submissions from other agencies and I also understand that you as Treasury have received quite a few submissions from individual agencies which we have not been provided with yet. In order for us to get a better understanding of those responses, can you forward those submissions to us and let us know in your opinion who the star performers are?

Mr RONISVALLE: We have to take that on notice. The Government has asked us to coordinate a submission and we have to talk to the Government.

CHAIR: It is not addressing specifically some of those issues, but if you could take that on notice, that would be great.

Mr PAUL McLEAY: We also noticed that the ones that are reporting are reporting well and, as you have said, have received awards mainly from SOCs or government trading enterprises. They have done it because of their own innovation or their niche. They want to be able to demonstrate their competitive edge by reporting. Do you know of any in-government in-budget agencies that have validated sustainability reporting?

Dr COOMBS: Not per se specifically sustainability reports. I know that many agencies take the perspective when they put together their annual reports of trying to balance social, economic and environmental factors. But in terms of a labelled sustainability report from department X or department Y sitting here it is somewhat through default.

Mr STEVE WHAN: Is Treasury doing a sustainability report on its own operations? Will it be doing a similar sort of thing?

Mr RONISVALLE: I do not think anything like that is commissioned at this stage, no.

Mr STEVE WHAN: Do you think that that is something that it should be doing, the same as all agencies—

Mr RONISVALLE: We comply with the Government's waste management policy. Those things are part of—

Mr STEVE WHAN: We talked a bit before about changing behaviours. If Treasury is going through its day-to-day work and, hypothetically, proposing that there should be a saving from a departmental program of, say, the Soil Conservation Service or something like that, at what stage do you say, "Yes, this might save \$6 million but it might also lead to a worsening environmental outcome because of poor practices in New South Wales land management"? At what stage does this sort of sustainability process influence your policy and your processes within Treasury?

Mr RONISVALLE: When savings are asked of agencies it is firstly the Government's decision to impose those savings. It is then a matter for an agency to point out what might be the consequences of those savings and for Government then to consider the side-effects that may result from the savings.

Mr STEVE WHAN: But would there be any point where Treasury would believe that it should have as part of its practice the broader impact of the work that it does and then report on that in the same way as other agencies are expected to do, not just in your use of resources, which we have talked about and which is important, but in terms of the social and environmental impact of your day-to-day activities?

Mr RONISVALLE: What you are asking is very broad. Really what you are asking is: What is the impact of Treasury's activities on the whole of the public sector? I am not sure how we would go about measuring that.

Dr COOMBS: When proposals go forward to Government they are considered on the three levels of those specific sustainability issues—economic, social and environmental. They do go through those filters, if you like. Proposals considered by Government have to outline their impact at those three levels. Similarly, in our submission we outline that, including I think the regulatory impact statements, how those criteria are considered before an assessment and a decision is made.

Mr STEVE WHAN: But at what stage would the recommendation from Treasury say, "The environmental impact of this outweighs the financial benefit"? For instance, we talked to a private sector companies that indicated—its aim is to make money for its shareholders—that its investment decisions are informed by the environmental impact those investment decisions will have. It sees that as a proper way to go about business now, a responsible way to go about business. At what stage do our central agencies see those other factors outweighing financial factors?

Mr RONISVALLE: Treasury, as such, is a financial agency.

Mr STEVE WHAN: So is a bank.

Mr RONISVALLE: The decision-making process of Government weighs those things and takes them into account. We make a recommendation from our perspective on an issue. Other parties make recommendations to Government on the same proposal and Government takes those things into account. Treasury is not in the business of weighing up all the various competing objectives of

Government and coming to a conclusion. It is part of a process which assists Government in coming to its conclusions.

Ms GORDON: If you look at a lot of the different sustainability reporting frameworks around I am not sure that they would necessarily give you the information that you are talking about, because if you are looking at sustainability reporting about the impact of government activities on the environment, for example, you are looking at a lot of the direct impacts of energy or water use. If you are looking at the potential implications of a Government decision, that is not something that would necessarily be picked up in the sort of reporting frameworks that are often used even in the corporate sector. What you are talking about is how you go about decision-making in Government, which is a bit different. As Treasury pointed out, when we are looking at a whole of government decision on something each of the different agencies has a different view brought to the table. Treasury's view is based on an economic perspective. Environmental perspectives are looked at in that process but I am not sure sustainability reporting per se in Government would suddenly change that decision-making process about the implications of policy decisions on external factors.

CHAIR: You do not think sustainability reporting of an agency would change the culture of that agency?

Ms GORDON: No, that is not what I am saying. In terms of the reporting frameworks, whether it is GRI or others, when they have a whole suite of indicators that you have developed—

Mr PAUL McLEAY: For example, Landcom does a sustainability report and says, "Here are the indicators. We sold \$333 million worth of stock this year and we made \$1 million profit to Treasury. But one of our reporting indicators is that we have cleared thousands of hectares of woodland. We are an urban land developer in the fringes of suburbia and had to cut down a certain area of trees but we build houses." It does not say, "This is the trade-off and you have to weigh it up."

Ms GORDON: But that is a direct impact that they have. Treasury, in the advice it provides on a particular policy decision, does not have that direct impact. Treasury does not clear the trees but a recommendation that Treasury may make—for example, with the Soil Conservation Service—may have a certain result. It will not be picked up in a suite of sustainability indicators that are reported against by Government. You need a different mechanism to then have those implications considered in the decision-making process. That is about direct reporting. The Chair also raised the issue about changing cultures and whether that would then influence the recommendations provided. That is a slightly different issue. It is about cultural change within agencies. A lot of the work Premier's Department is doing is trying to foster that cultural change right across a suite of sustainability issues. Again, sustainability reporting helps raise awareness but the different elements of reporting that have already been undertaken also achieve that.

Mr STEVE WHAN: What about broad statewide indicators? Treasury presumably focuses on gross State product and things like that. Is there room to go down the track in New South Wales of some of those broader indicators that many people such as the Australia Institute are talking about with genuine progress indicators, broader statewide indicators that take into account social and environmental impacts as well? I do not entirely accept some of the arguments we just heard about Treasury just being almost like the devil's advocate in some ways in putting things up and then expecting someone else to argue them down if they have a negative impact. Treasury's aim at the moment presumably is to achieve a certain budget outcome, which I understand is politically set and all that sort of thing, but also to produce good results with economic growth rates et cetera. Should we also be having some local indicators that bring in those other environmental and social factors which would be reported in the headline reporting each year?

Mr RONISVALLE: Yes, the role of those other indicators is something which governments can take on. We have published the "State of the Environment Report" to the extent that the Government's economic policies are having differing impacts on the environment; something that the Government has actually taken into account. The development of that progress indicator has received a lot of debate, about the methodology by which you do that. I am sure that those have been settled at this stage.

Mr STEVE WHAN: I am sure that if we went back and looked at how we determined the gross State product [GSP] we could probably debate the methodology of that too. We had to start with something.

Mr RONISVALLE: That is right, I could probably list half a dozen different things wrong with the with the GSP measure at this stage.

CHAIR: The Committee has further questions for you, but we are time limited. They will be provided to you, through this transcript, and I ask you to take them on notice.

Mr RONISVALLE: Yes, we can do that.

CHAIR: You will be sent a copy of the transcript and the questions on notice will be in that. In your submission you state that there is no agreement on suitable measures of sustainability. I see that as a leadership role from Treasury, to actually identify suitable measures rather than identify that there are none. Could you comment on whether it is your role to identify some suitable measures? You mentioned also that many of the performance indicators reported by organisations are particular to their business at hand and cannot be consolidated to provide the big picture. I suppose that goes back to the leadership role that Treasury is providing on suitable indicators.

You mentioned also that readily available indicators are often used rather than fully appropriate ones. Which ones are often used? Why are they not appropriate? I would like you to give some examples of why they are inappropriate. Could you give an example of why, using those results, the reports are of limited practical value? Could you give an example of someone reporting whose report is of limited practical value? You also mentioned that data can often be difficult to access, analyse and present in a consistent meaningful way within an integrated reporting framework. I would agree with that statement. However, some agencies, particularly Forests and Integral, have shown that they can present data in a very meaningful and consistent way.

Some reports are short, only a few pages. I was able to get a good picture of that organisation compared to looking at their reports from 10 years ago. I may have misinterpreted your statement, so could you provide some feedback on that?

Mr RONISVALLE: Yes.

Mr PAUL McLEAY: I have some questions that I would like you to take on notice. Are your reports, including the "Government Energy and Management Policy" and the "State of the Environment Report", independently verified? If so, by who? If Government were to go down the line of suggesting that government agencies, where appropriate, do sustainability reporting, do you believe that their social and environmental activities should be verified or audited in the same way as their financial reports?

(The witnesses withdrew)

JUDY ISABEL HENDERSON, Chair, Global Reporting Initiative, Post Office Box 1016DT, Amsterdam, affirmed and examined:

Mr PAUL McLEAY: I am advised that you have been issued with a copy of the Committee's terms of reference and of the Legislative Assembly's Standing Orders Nos 332, 333 and 334 that relate to the examination of witnesses. Is that correct?

Dr HENDERSON: That is correct. Address of the Global Reporting Initiative is – PO Box 10039, 1001 EA Amsterdam The Netherlands. I now reside in Australia. If the Committee wishes to send something to me, please send it to my home address, which I have provided in writing to the Committee.

Mr PAUL McLEAY: Would you like to give an opening statement?

Dr HENDERSON: It is excellent that the Committee is looking at the issue of sustainability reporting. I welcome the opportunity to appear before the Committee.

CHAIR: I was in Amsterdam last year with a colleague from the Committee, John Turner, the member for Myall Lakes—who, unfortunately, is not present today. It was the first formal meeting of this Committee into sustainability reporting. Back then the public sector guidelines or measurements were being discussed but had not been finalised. They have only recently been launched in Australia, so this inquiry is very timely. Would you outline for the Committee some of the benefits that the GRI process offers the public sector in regard to sustainability reporting?

Dr HENDERSON: First of all, the benefits that GRI offers sustainability reporting as a whole are important. We have come in a global level to set a framework for sustainability reporting for all organisations. It was focused initially on the private sector, but it covers all organisations. The reasons behind this are to provide some consistent and comparable reporting framework that can go across geographic jurisdictions and industry sectors, if you like. One only has to do look at the history of financial reporting. Financial reporting has been around for about 70 or 80 years and there are different standards in different jurisdictions all around the world. They are now in the process of trying to harmonise those standards at an international level.

The objective for GRI was to come in at a global level to set a global standard framework that would be applicable in all jurisdictions and would set that standard internationally. The core guidelines of GRI have been translated into nine languages for use in 51 countries around the world. It is gaining significant credibility at international level as being the standard for sustainability reporting. Really, the credibility comes particularly from the multi-stakeholder nature of the process. It is the process that gives it credibility, as much as the product.

In terms of public sector reporting, it became clear to us early on that the focus of the second generation of guidelines, launched in 2002, were written in language that was much more applicable to the private sector. A number of public sector agencies approached us and asked if we would look at a sector supplement. I might add that we are producing sector supplements for a number of industry sectors, but we were asked to look at a particular sector supplement that would be applicable to public sector agencies. A lot of this came from Australia. There was a lot of interest, in particular the City of Melbourne, local government agencies and some Federal Government agencies.

First of all we got a resource document, to have a look at what was the situation with sustainability reporting in public sector agencies around the world; what were the issues that were different for public sector agencies than they would be for private sector agencies; and what were the areas that we needed to concentrate on. They included such things as: terminology—terminology for the public sector differs in some aspects to terminology for the private sector; organisational purpose—what is the purpose of public sector agencies that differs from that of the private sector, which is based on profit, et cetera; policy—what is the effect of policy on sustainable development, and how does an agency look at its policy formulation in terms of a sustainability focus. Another aspect was reporting boundaries, which in fact is the same for a private sector agency. Where are the boundaries. Where does an agency's influence impact begin and end. We got the resource document and then the multi-stakeholder working group worked on some of those issues.

Mr STEVE WHAN: I am interested in delving a bit further into the work you did on researching where a government agency's influence begins and ends. Earlier a Treasury witness spoke about the difficulties encountered in assessing how policy decisions affect environmental and social outcomes. How much work have you done in that area and what conclusions did you reach?

Dr HENDERSON: There is a boundaries working group. The issue of boundaries is not restricted to public sector agencies; it is a very pertinent issue for private sector agencies as well as to how far out that influence is. The boundaries working group is, I have to say, struggling with that at the moment because it is a difficult issue. With regard to public sector agencies, you have the core organisational performance—how much water usage and how much energy. That is virtually the same for both public and private sector agencies. But the next layer, which is what you are alluding to, is: What impact do policies have on sustainability, and how much is the agency responsible for that.

That is a much more difficult area and the way that we have approached it—because we can have only a few indicators. You cannot have 50 indicators, so you have to get down to what are the really important indicators. I think you can look at it in terms of process indicators and output indicators. You can say: Well, what is the output? Probably more important is: What are the administrative processes, the internal management policies, you have in place to determine what the impact is going to be, in terms of sustainability. How do you monitor that? How do you look at the efficiency and the effectiveness of what you are doing, in terms of what the impact will be? So, the process indicators are as important as the output indicators.

Mr PAUL McLEAY: Do you report the process indicators?

Dr HENDERSON: As you will see in the supplement—and this is where the supplement is different from the core guidelines—a public sector agency is asked to report on the performance of key public policies, priorities and implementation measures related to sustainability, although they may not have full control over the outcome. That is recognised, that you do not have full control over the outcome. So there is a definition. You say: What is the definition of sustainability used by the agency? What aspects of sustainable development has it developed policies for? What are the specific things? The particular agency says: Well, these are the aspects of sustainable development that are important for our agency.

What are the goals of the organisation for each of those aspects? What is the process by which those goals were set? How did you work out how those goals would be set? What were the implementation measures for each goal? What prior assessment was there of the effectiveness of the implementation measures, the targets and key indicators focusing on outcome, the process as measured against the goals and targets, and the actions that the agency is taking towards continuous improvement for the goals? So it is not just focused on: What was the outcome of your policy? It is focused on: How did you actually get there? How are you monitoring how you get there? How are you going to improve that process?

CHAIR: Initially, GRI was set up for the private sector. It is an independent non-government organisation that looks at these issues.

Dr HENDERSON: It was not really set up for the private sector; it was set up to develop a framework for sustainability reporting for all organisations. The initial focus was on the private sector because that is where a lot of the noise was, if you like.

CHAIR: And the funding came from the private sector?

Dr HENDERSON: Funding has come from a number of areas. Quite a bit of the funding has come from the private sector. We do not get nearly enough funding from governments that we would like to.

CHAIR: You have moved into the government area now. You were saying earlier that a number of governments—you mentioned some Australian governments—wanted you to do this work. What other governments want you to do this work? Which governments are now helping to fund GRI to do this work?

Dr HENDERSON: The main support we have had at a government level has been from the Netherlands Government. I have to say that it is very disappointing to GRI that a lot of other governments have not come on board. We have had discussions with the United Kingdom, Germany, Sweden and all the Nordic countries, which you would think would be interested. There is not a lot of government support. They say, "It is a great idea; do it. This is a wonderful idea." But it is a funding issue. We have had support from the Federal Department of Family and Community Services and from the Federal Department of Environment and Heritage for this sector supplement.

Mr STEVE WHAN: You mentioned that you were working with some local governments and other departments in Australia and you also have those two Federal departments involved. Are they involved only in funding, or are they involved in trying to implement the index for their own use?

Dr HENDERSON: Both those Federal agencies are GRI reporters. The Department of Environment and Heritage recently produced its sustainability report, which is based on GRI indicators. Based on the GRI it then developed a set of environmental indicators for specific Australian companies, if you like. So it used those but it also used the social and economic indicators. That was prior to the public sector supplement. So both the Department of Family and Community Services and the Department of Environment and Heritage produced GRI reports before the supplements came out. They were really interested in the fact that the supplement came out.

Ms GLADYS BEREJKLIAN: In my lay opinion, for what it is worth, there seems to be a lag in the public sector as opposed to the private sector in relation to GRI reporting. The market seems to have driven certain conditions and put pressure on various organisations to comply. In an ideal world, would you see central agencies managing GRI initiatives and then giving some type of liberty to their agencies in their implementation? As it currently exists various departments have chosen to take a more concerted approach to GRI reporting. How would you see governments responding to the whole issue?

Dr HENDERSON: I would certainly like to see this as a whole-of-government approach. There was a 1998 report on Organisation for Economic Co-operation and Development [OECD] countries. Five to 18 per cent of gross domestic product in the OECD is due to government procurement, with an average of 9 per cent. That is an enormous impact; it is huge impact. Government as a whole must recognise that just in organisational performance those basic indicators have a huge impact on sustainability, just through procurement policies alone. I believe that it needs to be a whole-of-government approach. It is good that individual agencies are putting their heads above the parapet, if you like, because they are being brave.

Mr PAUL MACLEAY: When you say "whole-of-government response" do you mean that every government agency should do this, or do you think that the Premier's Department should produce a GRI report that factors in what everyone else is doing?

Dr HENDERSON: It is difficult. It is like asking a huge multinational corporation whether it does a central report or whether it does individual reports for all areas. You could do both, actually. When I say "a whole-of-government approach" I think it should be government policy to say, "This is important for our agencies to be doing their own sustainability reporting." I think it needs to be at an agency by agency level because it is will be different for different agencies. Whether you then collate that to a whole-of-government response, I have not really thought that through enough. It certainly needs to be a decision of government as a whole.

When I say "a whole-of-government approach," that agency should do a sustainability report because of the impact, as I said, on procurement alone. But, of course, there are all the other impacts of policy, et cetera. What we need to distinguish also is the sustainability report of a government or a government agency as opposed to the state of environment report. These are two different things. A GRI does not get into a state of environment report; that is a different sort of level. We see that as a different process from the organisational impact.

Mr PAUL MACLEAY: So if you were doing a GRI or sustainability report using those indicators it would not necessarily release some of the burden on you of participating in other reports? People ask, "Should we do this reporting? Will it free us up from doing anything else?"

Dr HENDERSON: I know that a number of government agencies have a lot of reporting requirements. I think it would free them up from some. It would assist towards the state of environment reports, but there are a lot of other issues that go into a state of environment report other than just the impact of government itself. So I still believe that a state of environment report will be a separate report. But government agencies are required to do annual reports in the same way as private companies are required to do annual financial reports. Both the private sector and government agencies should also do a sustainability report on the impact of their non-financial activities and eventually those should be together. At the moment they are usually separate reports. But I believe that it should be part of the annual reporting process—just a sector of it.

CHAIR: Why GRI? Why not eco-accounting, International Standards Organisation [ISO] standards, or the footprint?

Dr HENDERSON: There are a number of other processes. I think that GRI is understood to be the leader in sustainability reporting in the corporate social responsibility landscape. If we look at the private sector we see that a couple of years ago a report was done by the World Bank to establish which standards are the most influential in business practice. The top was the ISO standard and GRI came next. GRI was above all the others. GRI has only been around since 1997. It is extraordinary what influence it has had at a global level for being a relatively young organisation.

Ms GLADYS BEREJKLIAN: An ISO, or international standards organisation?

Dr HENDERSON: The ISO is looking at a corporate social responsibility supplement as well at the moment. That looks at management systems. They are process indicators. They look at whether the company has the management systems in place to produce these results.

Mr PAUL McLEAY: With regard to the ISO, you do not even report it in your annual report, do you? Once you are certified, you can use other ISO customers?

Dr HENDERSON: That is right. We say we are certified by the ISO, and that means we have the systems in place to do these things. It does not say that you actually do them, but simply that you have the systems in place to do them.

Mr PAUL McLEAY: You cannot even report that, because once you are certified—?

Dr HENDERSON: Once you are certified, that is right.

Mr PAUL McLEAY: Do you then report your indicators, or do you use them to develop the report?

Dr HENDERSON: You actually report on the indicators. The GRI report has a specific structure. I will briefly outline the structure. It starts off with the vision and strategy of the organisation, then the profile of the organisation and so on, and then government structures and management systems. So you have the government structure, what the stakeholder engagement has been, and the overall policies and management position systems. What we are suggesting for public sector agencies is this extra bit on public policies and implementation measures, which I spoke about earlier, as to the impact in a sustainable development sense. But then there are the performance indicators, and these are really specific indicators on the economic, environmental and social aspect. We have looked at them in the supplement, and looked at the core indicators in the original framework. There is an interpretive in the sector supplement as to what this means for a public sector agency as opposed to a private company.

CHAIR: I think you heard the evidence of the Treasury officers.

Dr HENDERSON: I could not hear the evidence very well; the acoustics in this room are not good.

CHAIR: The Treasury officers said that perhaps this is just too large an expense, that other reporting is taking place, and that perhaps they will look at it. I do not know whether a clear picture

was given, but definitely the issue of expense was referred to. You may have heard me read the evidence in which they said it would involve too much time and expense. I understand that GRI has a different policy framework to that, in that you seek reporting as a justifiable end in itself.

Dr HENDERSON: Absolutely. Companies tell us—it is not just what we think—that the actual reporting process is as important for an internal management tool as it is for an external communication tool. So it assists an organisation, an agency or a company to look at its internal management processes, look at areas of efficiency and saving, the alignment of policies, and so on. The actual process is an efficiency mechanism in itself, if you like.

Sure, to actually set up the systems to do the reporting is an expense, like any capital expense. To set it up is not inexpensive, but once the processors and systems are set up, and the second and third reporting phases are in place, the expense certainly goes down. But most of the indicators that GRI is asking agencies to report on will be measuring this in some way anyway. We know the old adage "You can only manage what you measure". They should be measuring that.

CHAIR: One of our private trading enterprises, Integral Energy, uses the GRI process and also manages to communicate a very short and what I think is an effective sustainability report. What you like to comment on whether there should be headline indicators, agency-specific indicators, or both? You may have heard me ask this question of the Treasury officers. Should there be major indicators for all public sector agencies, and a requirement for agencies to report on other matters, such as the Montreal protocol, such as NSW Forests does? We have heard evidence that if they are simply locked into a set of indicators, their initiative and drive to look at other areas that could drive some efficiencies and comparisons would be lacking.

Dr HENDERSON: The extra set of indicators that we are suggesting for the public sector, to do with the public policies and implementation measures, will allow that sort of flexibility within agencies, to look at various other measures that are applicable for that agency.

If an agency wants to report on other things outside GRI framework, that is perfectly legitimate as well. For example, there may be things, such as the Montreal protocol et cetera, that are specific for that agency and are important. But I would imagine that that could come within the public policy and implementation measures in this extra section that we put in for public agencies.

Mr PAUL McLEAY: But that is purely for forest consumers, is it not? You saying it should be built into your indicators?

Dr HENDERSON: No. I am saying that the agency has the flexibility to identify it as an issue. The agency can say, "This is an issue for us. These are the goals we are setting, this is the process we have gone through to set those goals, and this is how we are measuring it." Flexibility is then given to the agency to enable it to say, "This is important for us for these reasons, and this is what we are doing about it."

With regard to the second generation of the guidelines, the core guidelines came out in 2002. We are now in the process of developing G3, which is the third generation of the core guidelines, and that will be released at the end of 2006. The basic indicators will be the same, but they will be refined, better, more measurable, and that sort of thing. But one of the other aspects we are bringing out is a relevance test, so that an agency, organisation or company can look at the core indicators, put it through a relevance or materiality test, if you like, and say, "These are the tailored set of indicators for us and this is the process we have gone through to say which is relevant for us and which is not relevant." That will be a new part of the third generation of the guidelines.

Mr PAUL McLEAY: Are all your indicators verifiable?

Dr HENDERSON: Hopefully. In the third generation they will be more verifiable. We are acutely aware of the importance of measurable indicators. As you would know, environmental indicators are much easier to measure. Social indicators are the ones that are quite difficult because they are much more qualitative, rather than quantitative. But we are trying very hard, particularly in the next generation, to get much more specific measurable indicators.

Mr PAUL McLEAY: You referred to the materiality test. Is that materiality test a transparent process as well?

Dr HENDERSON: Yes. It has to be.

Mr PAUL McLEAY: As a consumer, can I ask why department X has not put in indicator Y?

Dr HENDERSON: It will have to be a very transparent process—for example, why did we choose this and not that? What is the relevance of this for our agency and why is that one not relevant? It has to be a very transparent process and it has to be in the document. As I have said, this is all new stuff. It is just being developed at the moment and I am flagging what will come in the future.

Mr PAUL McLEAY: Should we wait?

Dr HENDERSON: No.

CHAIR: Drawing from your international experience, what advice can you offer to the New South Wales public sector from a GRI perspective?

Dr HENDERSON: I would really encourage the New South Wales Government to have a process of sustainability reporting for the agencies for all the reasons I have given—impact and so on. I think New South Wales could show some leadership in a global sense. As I said before, we have individual Federal agencies. There was certainly no overall policy at the Federal Government level. Internationally, New Zealand is somewhere along the way but public sector reporting is being driven from Australia in terms of the GRI process. That is why we launched the public sector supplement here. The Victorian Government is very interested in this. They do not have sustainability reporting across agencies. I would like to see New South Wales take a leadership role in this.

Mr STEVE WHAN: What is New Zealand doing? Is it taking a whole-of-government approach?

Dr HENDERSON: I do not know. I will take that question on notice. I think one of the agencies within the New Zealand Government produced a sustainability report using the GRI guidelines. But to my knowledge—and I will do a bit more research on this—there is no whole-of-government approach in New Zealand. I will check on that.

Mr STEVE WHAN: Thanks.

Mr PAUL McLEAY: If a couple of agencies use the GRI can you then compare one annual report with another or would there be simply similar methodology in the two documents?

Dr HENDERSON: No. The aim of the GRI process is comparability between reports—and certainly between one agency and another. The difficulty becomes whether you can compare a Department of Community Services sustainability report with BHP Biliton or something like that. Across sectors it becomes more difficult. But certainly within a sector—

Mr PAUL McLEAY: So banks compare to other banks—

Dr HENDERSON: Yes, banks compare to other banks and the mining industry compares to other mining industries et cetera. Within an industry sector there should be comparability and consistency of reports. You can also go across sectors to a certain extent.

CHAIR: Dr Henderson, thank you for your evidence and for your time today.

(Luncheon adjournment)

GARY MOORE, Director, Council of Social Service of New South Wales, 66 Albion Street, Surry Hills, affirmed and examined:

CHAIR: Thank you for appearing before the Committee today. I understand you have been provided with a copy of the Committee's terms of reference and the appropriate Legislative Assembly standing orders. Is that correct?

Mr MOORE: Yes.

CHAIR: In what capacity are you appearing before the Committee today?

Mr MOORE: As Chief Executive Officer of the New South Wales Council of Social Service.

CHAIR: We have received a submission from you. Thank you very much for the effort you have made to put that together. Is it your desire that the submission form part of your official evidence?

Mr MOORE: Yes.

CHAIR: Would you like to make an opening statement or address some key aspects of your submission?

Mr MOORE: There are just a few points I would make in summary. Firstly, we strongly support the introduction of sustainability reporting for all New South Wales government agencies. There are two levels at which the question needs to be examined, firstly government-wide and then individual government agencies, and the linkages between the two have to be explicit. At the government-wide level, at present we have economic measures, such as gross State product, budget surplus and deficit, and public sector debt. We have some environmental measures, such as greenhouse gas emission reduction targets and land clearing benchmarks. At the social level, we have not yet agreed on some broad targets and indicators to cover social performance.

From our view, and drawing from the submission and some subsequent work that we have done—and, in that regard, I would like to table a report called "Measuring Up", of which I have copies for each of the members—we think a system of sustainability reporting in the public sector should involve the following. The first is that government should establish, and publish, objectives in each of the economic, environmental and social areas. The Premier should report to Parliament, on an annual basis, on the achievement or otherwise of those objectives. The Treasurer should indicate in the budget just how spending and revenue measures will contribute to the achievement of those objectives. That is at the government-wide level.

At an agency level, we think government agencies should reframe their annual reports so that they report on a triple bottom line, based on those government-wide measures and any other specific ones that are pertinent to their business and their activity. The Auditor-General should be asked to, and should be resourced to, audit agency performance against those triple bottom line indicators. Chief executive officers' performance agreements and agency corporate plans should include the sustainability objectives and indicators. We think this system should be legislated and reviewed after three years.

Mr STEVE WHAN: What government-wide indicators should the government report on each year?

Mr MOORE: I would direct the attention of Committee members to page 7 of the document "Measuring Up". In the diagram is a list of what we would social objectives, or ultimately wellbeing objectives of the community. Within the cluster on the left side of the page are some of the social performance objectives, at a broad level, that we think should form part of the targets of government, sitting alongside some of the existing economic ones and some environmental ones. NCOSS has done the social side. On that page you see "Results". Most of that is already collected, in some way or another. We are not suggesting that we want to see 40 indicators. This is a choice. But these are some

of the critical ones that we say have something to do with performance and results and the sustainability framework. They relate to actions that the State Government either directly or substantially drives. That is our current wish list against which you draw upon.

Mr STEVE WHAN: You say that you do not want to see 40 different items reported on. What do you want to see that pulls it together?

Mr MOORE: Probably there are two or three in each of those boxes. For example, if I go to housing the 30 per cent benchmark of housing costs has been around for a long time. A proportion of New South Wales households pay more than 30 per cent. The question about numbers of households on the public household waiting list or the one beneath, for instance, generally is considered to be an effective proxy for saying something about the trends and moves in the housing market that we know at the moment. If I go to education, we think some critical ones there would be a proportion of four-year-olds receiving preschool education. We think that is a significant proxy for early childhood education and preparedness, something for which State Governments have a direct responsibility or can affect. Probably we would think that early leaving and year 12 completion and the existing—

Mr PAUL McLEAY: How do we affect four-year-olds in preschool? You said the State Government has a responsibility for it.

Mr MOORE: Currently the New South Wales Government provides funding to community-based organisations through DOCS to provide preschools and the Department of Education and Training provides more than 100 preschools directly on premises. But I can tell you that New South Wales spends the lowest per child on preschool of any of other jurisdiction in Australia. The figure is around the mid 80 per cent, but in Victoria it is 95 per cent of four-year-olds in preschool. It is, in our view, a State Government responsibility.

Mr PAUL McLEAY: Even though most of the funding is federally based?

Mr STEVE WHAN: No, not for preschools

Ms GLADYS BEREJIKLIAN: No.

Mr MOORE: Not for preschools.

Mr STEVE WHAN: It comes from DOCS.

Mr PAUL McLEAY: You certainly will not see any of the childcare rebate extended to preschools.

CHAIR: In your discussion paper you set out in detail benchmarks and indicators of government agencies. Do you think there is much support from agencies to move towards a high level of reporting?

Mr MOORE: We have a difficult situation at the moment where a lot of government agencies report on things to central agencies a lot, which do not mean very much at the end of the day. For some years, importantly, we have had reporting and policy statement reporting. However, I am not really sure, and having spent a fair amount of time in government over the past 15-odd years I would have to question the extent to which those things deliver or are used to deliver change and reforms in those areas. Sure, agencies report to Treasury in terms of spending and now, under the results-based approach, I would still say it is very primitive and the extent to which it delivers is open to question. The problem is that many agencies say they report to all sorts of central agencies or other masters and get very little back. It is seen as an old chore on top of what you do already for your business. Part of the problem is that because their system of reporting is not integrated, is not simple, is time consuming, does not deliver on results, it is hard to see that difference. If you cannot see benefits, why do it.

Mr PAUL McLEAY: You say in your submission that from interstate and national experience a lot of data is already collected. You believe it would be a relatively low cost if currently

collected information were used as a primary source of data on which reporting took place. How easily do you think it can be done?

Mr MOORE: The Chief Health Officer produces a report each year, which has a massive number of pieces of data in it about health. Some, not all, is based upon data collected by area health services and New South Wales Health. It seems to us, and a number of other agencies report to the Government Service Productivity Commission, that if they work together to put that together in a more strategic fashion the effort is not terribly much at all. We are not talking about creating whole new data sets. We are not talking about creating whole new moves. Part of the difficulty, and we recognise this in our submission, is that it is likely to have a set of data that is statewide. We all know about locational differences, social grouping, income grouping and population group differences.

You would certainly want to have a way of looking at regional variations. Some of this data, not all of it, is getting better at local areas sourcing and some of it is not. We recognise that. But by and large, we think it is an incremental job as well. You do not go for the perfect system on day one because it would not be. And that would also mean, I think, reducing and removing a number of existing reports. You would not add it on. You would incorporate or get rid of a number of things.

Mr RICHARD TORBAY: There is quite a lot collected now, it is there not? That is what you are saying?

Mr MOORE: Well, there is quite a lot collected now but, as I say, you would have to ask the value of doing it.

Mr PAUL McLEAY: But if, for example, every agency was doing an environmental bottom line, there would still need to be a state of the environment report?

Mr MOORE: That is an interesting question: Depending on how you put it together, arguably, no. If I can go back to what I originally said, the two levels to look at are really a New South Wales societywide whole of government level which is a state of the environment report, and then you look at the agency level. I would have thought that it would be possible to bring together some of the data from the state of the environment report, the fiscal data that Treasury produces in budget papers and predictions, and some of this stuff into a base sustainability report for the State. Underneath that, depending on what your agency business is, you get an alignment to, perhaps, all of it or some of it. That is the thing that we think makes sense.

CHAIR: We have had some interesting evidence from the government agencies to date. Some of our government agencies who are doing sustainability reporting are sort of saying the same thing as you in that it does not actually cost us a lot of money because we gather this information anyway, and when we report it, we can use it as a management tool so that we can actually generate some savings. People who are not doing it are spending a lot of time and resources convincing themselves that they cannot do it and they are saying that it will cost them too much money. Do you think there are serious financial reasons why this sort of reporting cannot happen?

Mr MOORE: No.

Mr PAUL McLEAY: Do you believe it should be in their annual report?

Mr MOORE: Yes, I think in the same way as in the private sector. In particular, the focus for an agency should be on how it reports its performance to the public.

Mr PAUL McLEAY: Do you find at the moment that a lot of annual reports will have the financial pages at the end but they also have a lot of information on community, environment and social impacts? Then there are other statewide reports like management to reduce waste and energy management programs instead of environment reports. What is the need to shift to sustainability reporting?

Mr MOORE: Well, if you read some of those reports, they are often statements about things that we do, not statements about the effect of what we do. I think part of the bottom line of this has to be that we are talking about performance results. We are not talking simply about a list of things

which we have done. If I can give you the best example from my knowledge, that would be the social justice budget statements of the late 1990s. That is simply a list of things which government said it was going to do or was doing, and often they were restatement of restatements.

Mr PAUL McLEAY: We do not do those statements any more, do we?

Mr MOORE: No, you do not, and I think that one of the reasons you chose not to do it—well, I am not sure why you actually chose not to do it any more, but they certainly were really useless documents. Why were they useless? Because you would not have a clue about what it meant.

Mr RICHARD TORBAY: You could not measure it against anything?

Mr MOORE: You did not know what the results were. Sure, I am not saying that the government should not be saying what it is going to do, but the focus has to move, particularly in a budgetary environment with limited resources. It has got to move on what bang we get from the taxpayers' money.

Mr PAUL McLEAY: And the only way to do that is by actually measuring it and putting an indicator in.

Mr MOORE: I think so. If you are not prepared to do that and are just going to say, "We are doing things", I am not quite sure where that really takes us at the end of the day, you know.

Mr RICHARD TORBAY: It is a bit like the mentality of annual reports in many cases. There is a minimalist approach to tabling it in Parliament.

Mr STEVE WHAN: Tick this box?

Mr RICHARD TORBAY: Tick this box to show that it has been done. Some evidence was given that with sustainability reporting, it seems to be, as the Chairman has indicated, a culture of positive momentum within itself because it is actually driving towards an objective rather than ticking a box and tabling it in Parliament, never to be seen again.

Mr MOORE: It is a benefit equation, you know, as part of the culture in an organisation that is focused around a vision.

CHAIR: We have noticed from evidence also that those who are reporting are coming up with new indicators which they can communicate throughout their organisation to achieve ends, and we hear from other agencies that they simply comply with current government guidelines.

Mr RICHARD TORBAY: It is a significant difference.

Mr MOORE: Yes.

Mr PAUL McLEAY: Are you suggesting that governments should set the guidelines that they must report against?

Mr MOORE: Yes, we do believe that, but we do think that there should be some stakeholder consultations around as part of that process. But, no, it is a government responsibility.

Mr PAUL McLEAY: Integral took four years of community consultation before it came up with its indicators.

Mr MOORE: Yes.

Mr PAUL McLEAY: And is now reasonably happy with that.

Mr MOORE: Yes.

Mr PAUL McLEAY: But when you look at it, there are a few things that make you think that maybe it is missing a few.

Mr MOORE: As I say, I do not think it is about getting it right on the first go. I think it is about getting something that is usable and says something, and then reviewing it and improving on it. But just on taking that bold step, I think that the time is ripe and the opportunity is here. It is not radical at all. It is certainly bold. Do it robustly.

Mr PAUL McLEAY: You also say that it should be verified and you have suggested that should be done by the Auditor-General's office.

Mr MOORE: Yes. We were thinking along the lines of not wanting to create a whole new bureaucracy in terms of this. It makes sense. If you take a proposition that we are moving from one to three bottom lines, and if the principal agent is looking at the one bottom line for agencies and independently of the Auditor-General is doing that, why not sort of grow those skills because of the responsibility in that office as an independent office to show that the triple bottom line is being met?

CHAIR: Are you confident that they have those skills?

Mr MOORE: I think they would have to take on additional training. I do not think they do that at the moment. Having said that, I have been trying to talk with Bob Sendt in recent weeks about exactly this issue and have not yet managed to.

Mr PAUL McLEAY: He has just walked in behind you, so you can ask him. What were you saying before about him?

Mr MOORE: It is not through his fault. It is just through our lack of getting ourselves together. It is all right.

Mr PAUL McLEAY: The acoustics are a bit worse at the back. There are firms, obviously, that do financial auditing.

Mr MOORE: Yes.

Mr PAUL McLEAY: It goes out to tender all the time.

Mr MOORE: Yes.

Mr PAUL McLEAY: Is there a process to do social auditing, or is this a new income strand for NCOSS?

Mr MOORE: No, it is not an income strand for NCOSS. We are talking here about taxpayers' money and accountability to the citizens which is why, in our view, it has to be statutory based. It is not just about contracting somebody—an agency, Treasury or whoever—or contracting somebody in Premier's to do it. That is why I argue that the Auditor-General's office is where it should be. But there are 15 or 20 firms in Australia—that is what I understand; I do not know—that have signed up to a social auditing standard. They exist around the place. Some of the big five now have social auditing teams within offices, though it is still very much an add-on activity. Certainly, it would be possible to head towards the private sector in academia. The point is, it is a statutory responsibility and really should be handled in a government-wide way.

Mr PAUL McLEAY: So, it is essential. They put in an annual report and therefore it is tabled in Parliament, and open to public scrutiny.

Mr MOORE: In the same way, we want to vest in a third party the right to scrutinise physical performance. I think we should also say in terms of environmental and social performance.

CHAIR: I am very impressed with your efforts in identifying indicators in the different areas that you have highlighted in your discussion paper. Did you utilise GRI to get those indicators?

Mr MOORE: Only in part. We looked at approaches in Victoria, Tasmania, the UK, Canada and a number of US States. Then we looked at what was available in New South Wales, going back to my other point.

Mr STEVE WHAN: Using available statistics?

Mr MOORE: Yes. Looked at the public sector supplement, the GRI, and that is how we arrived at it.

CHAIR: Do you want to comment on GRI? Do you want to discuss it, support it or otherwise?

Mr MOORE: It is certainly worthy of discussion. I am not sure whether its social performance is across the range of areas that we would like to see. But it is certainly worthy of discussion. I guess I go back to say that we do not have to get it right in the first instance; we have to take the step. It would be better to make the step with perhaps not the full bells and whistles.

CHAIR: Are you saying that GRI is moving in the right direction?

Mr MOORE: It is, but if you are asking about the State, what we regard as social performance in the public sector, it is certainly not there.

Mr PAUL McLEAY: I want to make that clear. Are you saying it should be part of an amendment. Are you suggesting an amendment to the annual reporting Act?

Mr MOORE: The public sector Act, or whichever is relevant.

Mr PAUL McLEAY: It seems you have to do an annual report. The current indicators are in there, such as workforce diversity. They should be added on to include two others, environmental and social performance?

Mr MOORE: Yes.

Mr PAUL McLEAY: And they should all be verified?

Mr MOORE: Yes.

Mr PAUL McLEAY: And it should be able to be done by an independent firm, in the same way as the current financial auditing?

Mr MOORE: No, we think it should be done by an independent statutory body. That is why we said the Auditor-General, as opposed a firm, or Ernst and Young.

Mr PAUL McLEAY: You believe it could be implemented easily?

Mr MOORE: It can be implemented reasonably cheaply and also within the short to medium term, given that there would have to be stakeholder consultation.

Mr PAUL McLEAY: With stakeholder consultation, are you saying that there would be a level of innovation and therefore not all of them would have the same indicators and processes?

Mr MOORE: At the government-wide level, we are talking about a set of objectives which government establishes and signs off on. In the annual reports of agencies those objectives that are relevant to the agency's businesses have to be reported on as well as their own sense of whether there are any other specific triple bottom line measures. You have to make the link between the two is the other point I make. It is not for us, it is not just about agencies reporting their triple bottom line performance. It is about government having a vision objective and targets for reporting as well.

CHAIR: I can see the two aspects to that. Will NCOSS and other non-government organisations practice what you are suggesting the Government should practice?

Mr MOORE: Yes. NCOSS have a very strong view that the not-for-profit sector should be sustainability reporters. We have engaged one of those social and auditing organisations to advise my board on exactly the way we might move forward. We have also been engaged, pro bono, with Linda Funnel-Milner, the secretary of the Australian GRI group.

CHAIR: As the chief executive officer, when you move down that line do you see it as adding value to your organisation in the way of management. Or do you simply say, "Look at my organisation, I have got triple bottom line reporting."?

Mr MOORE: I think it is external and internal. Internally it certainly is, we believe it enables us to talk more about benefit and value than we currently do. It also probably enables us to better describe what we actually do too. Externally, it helps to raise the credibility of our transparency and accountability.

Mr PAUL McLEAY: Somewhere in your submission you say that one of the ways that the New South Wales Government can show leadership is by doing work with other people who are doing sustainable reporting. You may have mentioned purchasing. Are you saying that maybe in five years time we do that? If we cannot do it, how can we enter into contracts with people who do?

Mr MOORE: No, it is an aspirational target that one might look for, but there are certain private sector firms. As far as filling their supply chains they will deal only with other firms who do sustainability reporting and/or practice ethical practices. You would not want the kettle calling the pot immediately if you were not doing it yourself. It is the next order thing down the line. It is part of the whole practice.

Mr PAUL McLEAY: ISO have that?

Mr MOORE: Yes.

Mr PAUL McLEAY: To be a certified ISO you have to have contractual arrangements with others who are ISO compliant?

Mr MOORE: That is right. It is the way of the Government exercising its significant purchasing and other muscle in the market place.

CHAIR: As usual, you are straight to the point, and given good evidence.

(The witness withdrew)

ROBERT JOHN SENDT, Auditor-General, Audit Office, New South Wales, 1 Margaret Street, Sydney, affirmed, and

STEPHEN HORNE, Assistant Auditor-General, Audit Office, New South Wales, 1 Margaret Street, Sydney, sworn and examined:

CHAIR: I thank the Auditor-General and Mr Horne for attending our Committee hearing today. I have been advised that you have been given our terms of reference and the relevant standing orders for this Committee, is that correct?

Mr SENDT: That is correct.

CHAIR: We received a submission from you and thank you for it. Is it your desire that that submission form part of your evidence?

Mr SENDT: It is, Mr Chair.

CHAIR: Would you care to make an opening statement?

Mr SENDT: Yes, thank you. As I indicated in the Audit Office submission, we welcome the opportunity to have an input into the Committee's deliberations. We have long argued for better performance reporting by government agencies, as well as at the whole-of-government level. The standard of financial reporting by New South Wales improved significantly over recent decades. As Auditor-General, I generally find relatively few issues of major concern in my annual audit of agency and total State sector financial reports. However, financial results give only a very partial indication of how well New South Wales citizens are being served by their Government and its agencies.

Neither government as a whole nor most of its individual agencies exist primarily to make a profit or to achieve a financial return on their assets. I have advised Parliament on many occasions that in my view better reporting of non-financial indicators is required in this State. More formally, we have twice reviewed the quality of information in agencies' annual reports and have found them wanting. The Public Bodies Review Committee has made similar findings. While we have not formally called for the introduction of triple bottom-line reporting or sustainability reporting, such terms are consistent with the way we believe government reporting should move.

In addition, we have devoted a significant part of our performance audit program to examining wider social and environmental programs, as recently as our report on air quality released earlier this week. While we have a strong interest in better reporting, we do not claim to be experts in the concept of sustainability. However, we are more than happy to assist the inquiry in any way we can.

Ms GLADYS BEREJIKLIAN: My question relates to your frequently held position about informal and non-financial reporting. Do you think there should be a whole-of-government approach, or should each agency or department be left to its own devices, so to speak?

Mr SENDT: I certainly believe there should be an overarching framework by government, together with a set of guidelines that will lead to some greater consistency in the way individual agencies report. I believe, generally, that agencies are closer to government service clients and have a better knowledge of what constitutes success and failure. But unless those results are compiled and produced in a format that can be compared and aggregated across the whole-of-government sector, I think the result will be very much a second rate product.

Ms GLADYS BEREJIKLIAN: Under whose auspices in the public sector should that framework be managed?

Mr SENDT: Clearly it has to come from a central agency or the Minister—whether it is the Premier and the Premier's Department, or the Treasurer and the Treasury. It is a matter for the Government to decide. The Treasurer certainly has responsibilities under the annual reports Act. The Premier has responsibility for whole-of-government service delivery and accountability to citizens.

CHAIR: Do you think there are two aspects to that question? The first is developing the overarching policy of reporting and the second is its annual management? Perhaps you could finetune the answer when you deal with those two aspects.

Mr SENDT: I might have given a different answer a couple of weeks ago. You may or may not be aware that recently Budget Committee decided to curtail or finish the role of the Council on the Cost and Quality of Government in collecting data on overall government service provision. Last year Council drafted a framework for government reporting, but now that Council no longer has a mandate in that area it seems that the vacuum, if you like, has been or will be filled by Treasury. Treasury requires agencies to provide information on service delivery mechanisms, outputs and outcomes as part of its budget process. It has, or is, developing a framework for that reporting. So the responsibility at the moment seems to rest largely with Treasury, although I think it would more appropriately be a Premier's Department responsibility to set the framework.

CHAIR: If Treasury were to do the management after the framework had been set it would have a leadership obligation to set out its own reports in a way that demonstrates the way things should be done by other agencies?

Mr SENDT: Perhaps I could clarify that. Are you referring to Treasury in the production of its own annual reports, or are you referring to the Total State Sector?

CHAIR: I am referring to its own reports.

Mr SENDT: I think central agencies, including Treasury, should set leadership and set the example in that regard.

CHAIR: Most of the innovation seems to be coming from our trading enterprises and State owned corporations. Some of our departments, such as the Roads and Traffic Authority, are moving that way, but our larger central agencies simply seem to comply with current government requirements and nothing further.

Mr SENDT: Yes. I do not believe that the Premier's Department and Treasury are resourced at the moment in a way that would allow them to devote time and effort to providing that leadership. Large organisations such as the Roads and Traffic Authority, Sydney Water and State Forests are able to devote resources and also have a more direct relationship with the public and with those who might judge their performance. Treasury and central agencies are behind the scenes, if you like—in the back room parts of government. What they produce may not have the same currency in the general community.

CHAIR: However, they still would have a social and environmental footprint, would they not?

Mr SENDT: They certainly would. Within our own organisation we are trying to get elements of wider reporting in our annual report through benchmarking, which is more of a process type of reporting. We are hoping not only to widen our report; we are hoping to adjust our activities and to widen our reporting of them to indicate environmental issues.

Mr PAUL McLEAY: Mr Sendt, with regard to government agency annual reports, a lot of discussion takes place before you get to the financial papers. For example, there is discussion about what government agencies are doing, and their impact on the community and the environment. You might have 100 pages of discussion about the things we are talking about under the triple bottom line. Are you able to validate any of that information, or do you, as the Auditor-General, comment on it? Is any scrutiny given to annual reports, besides the fact that they are tabled in Parliament as important documents? Do you verify the information?

Mr SENDT: The only information we, as auditors, are required to verify in the balance of the annual report is any financial information or statement that might conflict with the audited financial statements. That is a requirement that all auditors have, in both the public sector and the

private sector. Beyond that, we have no mandate to audit performance information. That has been an issue of contention between the Government and us for some time now.

In June or July 1998, after agreement by Cabinet, Treasury issued a working paper which proposed many changes to the Public Finance and Audit Act and the Annual Reports Act. One of the changes Treasury proposed was to give the Auditor-General the mandate to audit key performance indicators. Some six and a half or almost seven years on, the Government has not acted on that. Nor has it said it will not introduce it. In the meantime, the number of States where the Audit Office does have that mandate has increased. Western Australia had that mandate in the early to mid-1990s, but more recently the Auditors-General of Victoria and the Australian Capital Territory, and, I believe, possibly Tasmania, have been given the mandate to audit KPIs, either on a selective basis as determined by the Auditor-General or across the whole of government.

Mr PAUL McLEAY: Has it changed the way they do performance audits? If New South Wales had a triple bottom line, would you have less of a need to do performance audits?

Mr SENDT: I believe they are two different issues. A performance audit looks at how well an agency provides its services, whereas auditing KPIs simply looks at the veracity and perhaps the appropriateness of the information being produced.

Mr HORNE: If I may supplement that. What has happened where they have moved into auditing KPIs is a change in relationship between performance and financial audit, because all of a sudden the middle ground has been filled better. Performance audits still look at the big-value questions of government, that is, outcomes and performance. Financial audits still look at financial statements. Then there is this territory in the middle, where both performance and financial information is being provided. Performance audits then assist financial audits to develop the methodologies and skills to assess that information. It is very much an audit function, but it has a different flavour to it. So the two work together quite well. It just gives them a wider range of validation tools.

In response to your previous question, may I also say that while we have not been able to audit indicators in annual reports because we did not have a mandate for them, there also were not too many indicators in annual reports to look at in any event. But we have twice reported to Parliament on looking at agency annual reports.

The biggest question we raised about that was that the Annual Reports Act says that agencies need to provide some performance indicators, but after that agencies are left to their own best endeavours as to what they should be. So we tried to build some principles into it. We issued a better practice guide, to try to give some form to that. Largely we based that upon the GRI and other relevant local frameworks, to try to get some measure of consistency to agencies, which they seem to be quite glad about, so they can look at how they might do it.

Mr STEVE WHAN: You provided them with guidelines, did you?

Mr HORNE: Yes. We published better practice guidelines on putting performance information in annual reports, to give them some guidance. A lot of energy and resources are being applied in many agencies towards this, but in a very fragmented way. So agencies themselves seem quite pleased about having some clarity.

Mr PAUL McLEAY: And you based those guidelines on the GRI?

Mr HORNE: That is right.

Mr RICHARD TORBAY: Mr Sendt, earlier you indicated that you had been recommending for some time that the broader indicators be considered, looking at social and other issues.

Mr SENDT: Yes.

Mr RICHARD TORBAY: It sounds like it has been some time. What obstacles other than resources have stopped this from progressing?

Mr SENDT: A lack of indication by the Government that it wants to go down that path—that is in terms of both auditing the accuracy of KPIs and in terms of developing a framework under which agencies can report. I think that lack of overarching framework and lack of guidance means that probably agencies are currently putting in a lot more effort trying to come up with their own frameworks than they perhaps would if there were some central direction.

It also means, as I said, that agencies providing related services each produce their own set of data that cannot be compared, or cannot lead to an overall analysis. For example, if you look at statistics from the Police Service, Courts Administration, the Department of Corrective Services, Juvenile Justice, and perhaps the Department of Community Services, you do find no consistency in not only the way the data is collected but what it covers.

Mr HORNE: The Western Australian experience is very interesting. The Auditor-General in that State was given a mandate to audit KPIs many years ago now, but in the first seven or eight years of Western Australia doing that they were asked to form an opinion on the performance information. They could not do that, because agencies were not good enough at producing it. So, rather than give out qualified opinions which would not have helped anybody, they spent quite a lot of time working with agencies to help develop some sense of what good KPIs would look like if they had any.

So there was an absence of a framework in that State at that point, but giving an audit mandate progressed that along. Now they do have frameworks, standards and so forth in that State. Sometimes it is a question of where do you start, and in Western Australia the choice was made to have an auditing mandate given. That then started something rolling. It took many years for it to happen, though, but at least something happened. We do not seem to have started the ball rolling on any front here.

Mr PAUL McLEAY: Do you think there are private sector firms to provide the internal-external audit function to verify social and economic indicators? Or could a financial accounting firm do it?

Mr SENDT: Certainly the big four, and, I suspect, the second-tier accounting firms, are doing this work now, particularly in terms of environmental auditing. A number of private sector companies are wanting to have some external verification of their environmental data that they publish in annual reports. There is no standard, either in Australia or at an international level, that deals with environmental auditing, or indeed auditing of KPIs more generally. But the big four, I know, are moving into this area—probably slowly because, understandably, they are concerned about getting into an area where there are no independent standards guiding their audit. But it is happening.

Mr PAUL McLEAY: Can you tell us about Corporate Law Economic Reform Program 9, also known as CLERP 9, reporting?

Mr SENDT: Not in a detailed way. There is some reference in our submission to the increased emphasis on environmental performance as a key reporting concern, but only in respect of environmental issues that have an impact on the bottom line of the organisation. I do not think we will suddenly see a vast increase in the amount of environmental reporting by agencies.

Mr PAUL McLEAY: If you are reporting on the environmental impacts that affect your bottom line, is that not the first place to start?

Mr SENDT: It could be. But environmental issues, by their very nature, quite often do not affect your bottom line; they affect society as a whole—perhaps not through a bottom line financial measure.

Mr HORNE: If you look at the origins of something like CLERP 9, it is very much a corporate financial regulatory framework. So one would expect to talk more about bottom line than anything else.

One of the problems is that there are so many frameworks and standards around, which ones do you take notice of? If you look at the AS 8000 series of standards on corporate governance put out recently by Standards Australia, one of the building blocks within that suite of standards is on corporate social responsibility. That then says a number of things about the sorts of issues that organisations should be considering by way of their obligations to the world as a whole. It moves towards your triple or even quadruple bottom line reporting idea. Those standards are obviously not mandatory: They are not specified as a regulatory requirement. But they are designed to apply equally—and this is unusual—to the private sector, the public sector and to the not-for-profit sector whereas CLERP 9 has a very small basis. I think standards like that are starting to get the message out—I think this is the point you are making—that, yes, there is now an obligation to expand your reporting beyond the limited financial reports. The question is: How far and what reliability can one then place upon the figures that you publish?

Mr PAUL McLEAY: You say that you would like to audit triple bottom lines. What extra resources would the Audit Office need? At present a lot of your work is put out to the private sector. Would the ratios be similar?

Mr SENDT: It is a bit hard to estimate the resources without knowing the width of the mandate. For example, in Western Australia the Auditor-General must form a view on not only the accuracy of KPIs but also their appropriateness. The proposal in New South Wales by Treasury in 1998 was that the Auditor-General should be given a mandate to verify the accuracy but not to look at appropriateness.

Mr PAUL McLEAY: What is your view on that?

Mr SENDT: I think I am probably a bit agnostic. I think if there were a very clear framework that guides the appropriateness or the decisions as to the appropriateness of KPIs that I was happy with personally, I would be quite relaxed about looking at just the veracity of the indicators. But in the absence of that framework, I think it is difficult to give an opinion and say, "Yes, these indicators are accurate" because that conveys an impression to the general public that the agency is reporting properly; whereas the indicators might not be timely, they might cover only a portion of the entity's activities and they might not be reproducible. There might be a whole number of reasons why they did not paint the full picture.

Mr HORNE: That adds clarity to my earlier point about the West Australian situation. The Auditor-General has made a good point. What took them so many years was not attesting to the accuracy of indicators—they could have done that straight away; that is a relatively straightforward audit function—but looking at the appropriateness was a far more difficult question. That is what took some years because there was no framework within the State to work that out so they had to work with agencies. Some years ago I spent some time looking at how the West Australians had progressed that within the Audit Office: what was required, what it took to make that transition and, hence, anticipating that that might happen here some time in the future, what would be involved. We made some sort of assessment of the transition that is needed—the effort that is required, the skills involved with that type of thing and the length of the journey in moving along.

Of course the starting point is the mandate: If we had a more limited mandate that was looking at accuracy only—which is what Treasury has been proposing here, although they have not acted on that any way—that is a different task. That is a relatively straightforward task. Looking at appropriateness brings performance and financial audits together more and we have to do it slightly differently. But we have looked at both those options and how we would advance them.

CHAIR: I would like to hear a little about your view of GRI and its relevance.

Mr PAUL McLEAY: Before you answer that question, may I ask: Have they been able to measure or certify appropriateness without taking on government policy? That obviously keeps you awake at night, Auditor—worrying about not stepping into government policy. Were they able to do that with appropriate KPIs?

Mr SENDT: There have certainly been no longstanding issues in relation to treading on government policy objectives in Western Australia. There might have been the odd argument along the way but it is quite unexceptionable now—the auditing of appropriateness.

Mr HORNE: Without commenting about what the Western Australian Auditor-General may have said, their approach has been to look at an appropriate range of indicators to measure the results against what the government policy of the day was. So it is a matter of not questioning what that policy was but saying, "If that is the policy and these are the health outcomes we are looking for, for example, what would a reasonable range of measures be to judge that?" and then auditing against those. We would not say the policy should be something different.

CHAIR: I suppose the biggest area of contention would be at the beginning because when they are finally agreed upon they will not change their minds.

Mr HORNE: That is why it took some years to do it. Obviously that discussion took some while but once that had settled down and everyone was comfortable it then became an auditing process that was fairly routine. They now routinely issue audit opinions that, in the main, I understand are clear. To begin with all audit opinions were qualified on information but now they are generally clear—obviously there are some exceptions. They seem to have moved through that phase quite well.

Mr SENDT: I do not think I answered fully Mr Macleay's earlier question about whether we would or could contract out some of this work. I think there is probably no greater level of understanding what is involved in the private sector or any greater level of experience in the private sector. I would ultimately see the auditing of KPIs probably being carried out by the same staff who audit the financial results within agencies rather than having two teams going out. When the indicators are either determined or agreed, the auditing of the processes of their compilation—the controls over them—is really not that much different from a financial audit. So I would envisage that our staff, once they are trained in that area, would conduct the financial and KPI audits concurrently.

CHAIR: What sort of help can the GRI give to agencies, if any at all? Do you think it is a valid set of indicators for agencies to report against or do you think going through all the GRI indicators is too onerous an obligation?

Mr SENDT: I think the principles are fine. There are about 10 or 11 overarching principles within the GRI. In fact, Mr Horne has them open beside me. I think they are quite good. Stephen is probably more of an expert on GRI because the work that he did with Standards Australia on the transparency standards draws very much on the GRI initiative.

Mr HORNE: GRI has, for better or for worse, become a global standard that environmental and sustainability reporting seems to have moved along. I think the momentum behind it is probably now unstoppable in any case. It is a pretty awesome bunch of material. When you first look at it it appears quite daunting. But when you break it down it is fairly layered and the underlying principles are very safe. When we looked in New South Wales at what agencies were doing in their annual reports and found that it was a bit of a hotchpotch, we said, "Okay, let's get a bit more standardisation." So the guidelines that we put out were based chiefly on the GRI principles—perhaps slightly tweaked to meet the annual reporting framework in New South Wales but basically fairly much the GRI core principles.

I chaired a committee for Standards Australia in which we wrote a handbook on transparency and disclosure to supplement those governance standards. Again, we looked at the annual reporting framework that we put out for the New South Wales Government and we looked at GRI. It was clear that most organisations would be in a position to use the GRI framework and it would provide a standard approach. I think the best thing we can hope for with any reporting framework is to get standardisation. One of the troubles we have in New South Wales, and in any jurisdiction, is lots of different standards. At the end of the day you go, "Well, that's very interesting but how do I compare that to anything else and does it really mean anything?" I think the GRI has complexity. I understand that recently it has been developing some public sector guidelines that would be useful. I have not seen them yet but they have been working on them for a while. That will be a good move because it will give a public sector flavour to them a little better. At the moment GRI is perhaps a little vague in some areas. I think it is a starting point; I think that is where we have to go from.

CHAIR: We have a copy of that, so we will forward a copy to you. GRI, of course, is a non-government organisation. Do you see it as any role of the Audit Office to give them some funding each year and contribute to each process of consultation?

Mr SENDT: For the Audit Office to give GRI funding?

CHAIR: If you are going to use, implement and discuss them.

Mr SENDT: I think any funding we could give would be a drop in the ocean given the resources they have.

CHAIR: I am just curious. We have this independent body creating these international guidelines.

Mr HORNE: I think GRI pulls funding from places like the OECD and other organisations as well, so I think it probably has access to funding. I think the bigger problem that GRI has may be in obtaining endorsement. Like a loss of these global principles, they float around and people say, "Yes, that is very nice, but no thanks." No-one actually then says, "Let's apply them." I think the momentum for GRI would come from people saying, "We think they are useful, and we are going to apply them." We would certainly give that sort of support.

Mr PAUL McLEAY: You have said that you have already done some preliminary investigations and you do not expect it would be difficult for agencies to implement the GRI. The previous witnesses suggested it would not be expensive to implement the reports because a lot of the data is already available and it is a matter of simply giving it a framework. Could you advance on that?

Mr SENDT: There is a lot of data in the public sector and in public sector agencies. Often, it is compiled for different reasons, on different bases, perhaps covering the same subject matter. Data is compiled for annual reports, for internal management, for budget papers, for the Council on the Cost and Quality of Government, for the Productivity Commission's review of government service provision, and for interstate ministerial committees. In fact, there are almost so many sets of data that one could take a Machiavellian view that there is so much data it loses its clarity, its relevance and its utility. That is why we have argued there should be a framework. It is open to debate whether it should be a GRI framework. I had previously argued, before the GRI public sector framework came out, that the New South Wales government should look at the framework developed by the Productivity Commission for the review of government service provision. That had the advantage of having had some intellectual rigour in its development. It was the result of an initiative of States and the Commonwealth. It provided a basis for benchmarking services between jurisdictions. But, again, there was no acceptance of that view. The current view seems to be: We will just continue to develop statistics for our own ad hoc needs, whether for budgeting, for annual reports, or whatever.

Mr STEVE WHAN: On an individual department-by-department basis?

Mr SENDT: Yes, on an individual department basis.

Mr PAUL McLEAY: If we did have that framework, would there be a need to produce other reports, such as the state of the environment report, if every agency was mandated to produce a state of the environment report?

Mr SENDT: You would still need some overarching reports. Agencies can report on their activities, but you would need reports that bring together activities on a whole-of-government level, because there are many areas of government activity in which many departments may be involved. That is why we have also argued there needs to be, at the whole-of-government level, reporting at a high level that sits alongside the total State sector financial reports. This has been done in some jurisdictions overseas. It is still very much at an introductory level, but I think it is providing some valuable lessons.

CHAIR: We will have to discuss the options and make some recommendations at the end of this inquiry. Should the Committee decide that sustainability reporting is a good idea and that agencies should implement it—and we have yet to come to that decision—would you recommend a separate sustainability report or one that is incorporated in the annual report? Or, in the infancy, say for three or four years, should a separate report be worked on before it goes into the annual report?

Mr SENDT: Ultimately, I think you will need both sets of reports.

CHAIR: You would not think a sustainability report and an annual report could be incorporated?

Mr SENDT: I think individual agencies will still need to be held responsible for their contribution to sustainability issues through their own annual reports, but you will need reporting on a whole-of-government basis for the reasons that I have just mentioned.

CHAIR: Perhaps my question was not clear. Should each agency, each year, have two reports, one a sustainability report and one an annual report, or should there be just one report?

Mr SENDT: I would favour one report.

CHAIR: And would that be tabled as an annual report?

Mr SENDT: I believe it would be the annual report.

CHAIR: I ask that question because some agencies now release a sustainability report that is not tabled.

Mr HORNE: One of the questions that goes with that is how well they present in summary information. One of the other tasks I do is adjudge on the annual reports awards, so I get to look at annual reports from all over the place. Many include sustainability reporting and are becoming so long that they are like the A-K phone book. I think there is a problem then about how to produce material in a pithy way and make it user-friendly, otherwise we just get a lot of data that does not help anybody, and we just keep adding in more and they keep getting bigger and bigger. I think if it is not in one report it starts to fragment what it is that it is saying.

CHAIR: I was particularly impressed with the forests report: it was quite pithy and used diagrams, and addressed matters in that way. My concern was that it was not part of the annual report, and it was not tabled. Moving forward again, some agencies seem to be reporting on the same indicators across the board, that is, there seems to be some commonality of indicators, then agencies want to start to report on agency-specific indicators or areas that their CEO wants to have communicated across that organisation, so that it can use that as a management tool. Do you think there should be just one band of indicators for all agencies that is uniform and can be cross-referenced, or do you think there should be some innovation and use of the reporting of agency-specific indicators as well, or only agency-specific indicators?

Mr SENDT: I think they need to be at a higher level than individual agencies. If individual agencies feel the need, either for internal or external reporting purposes, to have a greater range of indicators, they need to be consistent with and reconcilable with the overall statistics.

Mr STEVE WHAN: Should they be additional to the overall statistics or limited to the overall statistics?

Mr SENDT: I do not believe they should. I think the danger is that the overall sets of statistics may become so large and overwhelming that they become impossible to produce or lose their timeliness. I instance as an example the exercise that the Council on the Cost and Quality of Government did in pulling together information from across all agencies. I think it has only just released the 2003 report. By the time it comes out, it is virtually two years out of date.

Mr HORNE: If we look at the report that we put out yesterday on air quality, one of the issues there was that there were six national standards on air quality. It is a hugely complex area, and

there are a million and one things that one can measure, so that within agencies there may be lots of things, but it is very helpful to have a relatively simple set of common indicators that are applied nationally, which everyone can work towards, because that is where policy formulation comes from. That drives policy development and performance. You may need to measure a lot of other things underneath that, and agencies will then have subprograms and so on and so forth. They may need additional ones, but it is really good to have a common set of framework-type indicators.

CHAIR: Would the Audit Office be able to provide the Committee with the indicators it thinks each agency should report on in terms of social, environmental or economic?

Mr SENDT: That is not something we have put together.

CHAIR: But do you think that for our report to have any relevance we should say, "You should report on these things. We want to see these in every report"?

Mr STEVE WHAN: You mean in terms of broad headers rather than specific indicators?

Mr SENDT: We indicated in our report on the total State sector accounts, I think it was 2003, some broad headings that an overarching whole-of-government report might address. It was not down to individual measures of ozone levels on a four-hour basis, et cetera, but it covered the broad headings.

Mr PAUL McLEAY: GRI said they have a materiality test that might have X number of indicators. You can say you are not going to report on that one but you have to say why. It may be the amount of trees cut down and if you are in Forest you will put it in, but if you are in the Audit Office it might be different.

Mr HORNE: You ask a very complex question. Wherever national indicators have been developed on anything they have taken many years of debate by a lot of people. It is quite difficult.

CHAIR: But to get the thing moving in a direction, should not someone draw a line in the sand and say, "Report on this." I am concerned that if we decide to have a sustainability report, and I table it in Parliament, "Yes, we should have one. There should be uniform indicators." everybody nods their heads and thinks, yes. The Committee spent hours in deliberation and discussion and took up hours of witness' time for us to say there should be broad indicators. Do you not think debate would be advanced much further if we put in a report to which the Government has to respond, in which we set out what each agency should report on?

Mr HORNE: I guess the GRI provides some first steps down that track. The public sector report they are talking about probably gets us closer to that question than we have ever been. But we have not had a chance to review it, so I would not want to comment on whether it is a good thing.

Mr SENDT: The other principle to address is the 80-20 principle. There are 450 government agencies at least in New South Wales, most of which are very small and probably have very little impact at a State level on social, economic and environmental outcomes. I think you could get most of the benefit by concentrating probably on the most significant 30, 40 or so agencies in the State.

CHAIR: In taking that on board, once we concentrate on that, what indicators do you think the Audit Office could take on notice and provide back to us after looking at the GRI?

Mr STEVE WHAN: Perhaps even a response to the GRI, the public sector part of it.

CHAIR: We are not experts on this, but we do not want to give a report that is just bland words.

Mr SENDT: I accept that, but, as I said at the opening, we are not experts either. We do not have a mandate in this area so we have not developed skills. It is one thing to decide that an agency, or take a view that an agency has come up with appropriate indicators. It is another thing for an auditor to stand back and say, "These are the appropriate indicators for the Department of Health." I could suggest there are some indicators that are accepted around the world as being measures of hospital

systems, unplanned readmissions, et cetera. They are statistics that are fairly commonly used. But to say that these are the top 20 for health and the rest are not as important is a difficult call for an auditor to make.

CHAIR: What if they were not so agency specific? The broader heads in GRI are not so agency specific, they are public sector headings.

Mr SENDT: We could certainly have a look at it. As I said, we indicated in the 2003 report on total State sector accounts, some broad headings. We can look at that in terms of the GRI and perhaps suggest some directions.

Mr PAUL McLEAY: Do you think the agencies should get some community or stakeholder consultation before they develop their indicators?

Mr SENDT: I certainly agree that consumers of government services should be taken into account in measuring the success of the services. The difficulty is that you might lose the comparability with other jurisdictions, for example, if consumers of the services have a major input into the selection of the indicators.

Mr PAUL McLEAY: Do you audit things like waste reduction, purchasing policy, the government energy management policy and diversity in this broad whole-of-government approach?

Mr SENDT: No, but we can always do a performance audit of the Government's program and how it is being managed. To date we have not done any in that area.

(The witnesses withdrew)

(The Committee adjourned at 2.55 p.m.)