

# CORRECTED TRANSCRIPT

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### Subcommittee on Corporate Governance in the Victorian Public Sector

#### Meeting No.4 / 2004

Melbourne – 21 June 2004

#### Members

Ms G. Romanes

Ms C. Campbell

Ms D. Green

Mr Bill Forwood

Chair: Ms G. Romanes

Deputy Chair: Mr Bill Forwood

#### Staff

Executive Officer: Ms M. Cornwell

#### Witnesses

Ms Marilyn Webster, Vice President, Victorian Council of Social Services;

Ms Cath Smith, Chief Executive Officer, Victorian Council of Social Services;

Mr Tony Fitzgerald, Managing Director, State Trusteed Limited;

Ms Susan Heron, Interim Executive Director, Australian Institute of Management;

Ms Catherine Dale, Chief Executive Officer, Nillumbik Council;

Ms Cheryl Batagol, Chair, Melbourne Water Corporation, and

Ms Tricia Greenway, Senior Manager Policy and Planning, Arthritis Victoria.

**The CHAIR** — I declare open the Sub-Committee public hearing on Corporate Governance in the Victorian Public Sector. I welcome Ms Marilyn Webster, Vice President, and Ms Cath Smith, Chief Executive Officer, of the Victorian Council of Social Services.

All evidence taken by this Sub-Committee is taken under the provisions of the Parliamentary Committee's Act and is protected from judicial review. However, any comments made outside the precincts of this hearing are not protected by parliamentary privilege. All evidence given today is being recorded. Witnesses will be provided with proof versions of the transcript shortly.

Ms Webster or Ms Smith, would you like to make an opening statement? Ms Smith.

**Ms SMITH** — What we thought was, there's a range of sort of questions and issues that we'd maybe like to make some comments about, and we're aware that it's quite limited time and it's quite a broad-ranging topic, so we thought if we can sort of deal with a couple of key questions and then, you know, hopefully there'll be a little bit of time for further sort of interrogation of those issues.

**The CHAIR** — Well if you could perhaps confine it to a few minutes, and then I'm sure, through our questions, we might cover some of the ground and focus on some of the areas that we have particular interest in.

**Ms SMITH** — Yes. So the sorts of issues and questions that we can make some reference to would be the sort of issues and questions around governance issues facing community sector organisations that are funded by DHS in particular, but funded by the Government, looking at the partnership agreement between the funded sector and the Department of Human Services, the ongoing development of good governance between the sector and as a result of or related to the partnership that we have, and looking at other sorts of reporting issues between the funded sector and DHS.

We're not well-equipped to make comments really broadly about the whole governance of the public sector. I mean we're really trying to focus our minds on those issues that we bump into as funded organisations.

**The CHAIR** — I think they're exactly the sorts of issues that we're interested in hearing from you about.

**Ms SMITH** — Okay. So maybe just to start off with some of the sort of issues that are facing community sector organisations, particularly those that are funded to engage in service delivery in the community, there's a whole range of sort of issues and concerns, obviously, about governance, and probably some of the growing pressures in terms of governance for the community sector are those issues around risk management, as issues around litigation and insurance and OHS and compliance with funding and a range of different funding requirements and data requirements tends to escalate rather than decline. So there's a requirement on any organisation receiving funds now to have an increasing level of confidence and competence in dealing with quite a complex range of governance matters.

Many of our members, particularly in regional Victoria, report that it's increasingly difficult to build a strong management committee or strong board, partly because there's not huge numbers of people available, the sense that it's escalating risk in terms of managing an organisation.

**Mr FORWOOD** — Personal risk.

**Ms SMITH** — Sorry?

**Mr FORWOOD** — Personal risk.

**Ms SMITH** — Yes. And in terms of the sort of competence and skills and resources that are required and the time requirement. Several of our members, actually, have raised, it's very difficult to find people who are willing to put in the time as well. However, on the other hand, there are increasing efforts, from quite a few quarters, to provide training and support.

As you know VCOSS used to run a Management Support and Training Unit. We've certainly been asked by our members to try and rebuild that and to provide training and support for community service organisations and a number of our peak members are providing a range of different governance and training support, some of which is resourced by different parts of DHS. So, for instance, the training of community health boards has been resourced by the community health area within DHS.

I think that's very useful to recognise the training and resourcing needs of the sector, and there's a lot of it going on but it at times is a little bit ad hoc and is not always coordinated and people don't always know what others are doing, and one of the things we've really noticed is the need for a bit more coordination within the sector. That's something which VCOSS has been asked to do, to provide a bit more coordination to what sometimes appears a bit ad hoc in terms of governance training and support. It's happening both within DHS and also, obviously, things like the ACE Community Building Hubs and the Department of Victorian Community Building Resourcing Service. It's happening quite a lot around the place but I think the sector sort of needs to be a bit more coordinated in helping to make the most of those resources.

Now did you want to talk further about that or should I go on and talk about some of the other issues?

**The CHAIR** — Why don't you just outline the three areas and then we can dig deeper in some areas if we require it.

**Ms SMITH** — Relating to the partnership agreement with DHS, I'd say the benefits of the agreement have been a greater - it's difficult to use moral accountability but I think it's not as if it's a greater legal accountability between the two partners, but I'd say there is a greater sense of moral accountability in terms of consultation and trying to work together to reach agreement in a range of cross-departmental areas.

So, for instance, there was a survey of DHS staff and of the community sector last year and the processes around that, the implementation of the survey, while there were some communication break-downs, I think having the partnership agreement in place meant that there was more opportunity for joint problem-solving and joint analysis of some of the shared issues between the funded and the Government sector, and I think even at times where there were some difficult tensions between the sector and the Government last year, such as around the finalisation of the price index to funded organisations, the fact that we had a partnership agreement and mechanisms for discussion meant that we managed to continue quite constructive discussions at times when there was quite high levels of tension in the relationship. So I think they were benefits.

I think that the agreement could still work better. I think that the work that is currently occurring around developing a consultation and communication protocol is imperative because unless the Department and the sector have got some quite concrete ways of working that have been agreed, we will continually be contesting that at key moments all the time. So I think that that protocol is pretty imperative and one of our concerns at the moment is that it will end up staying at a fairly principle level and there won't be the support within the Department for it to be made a bit more concrete in terms of 'This is the kind of turn-around time you can expect from a funded organisation'. For instance, if it stays at the principal level I'm not sure how useful it will be in the longer term.

Some of the activities under the partnership agreement around developing good governance. There has been a whole range of different activities going on at different parts of DHS. As I mentioned different departments are supporting governance, whether that be in disability advocacy organisations or community health boards, but I think there's probably some areas that still need to be addressed and I'd say that some sort of broader resourcing of the sector, for instance there's Government's modules up on the funded agency channel now which are useful but most organisations are not well placed to really access and use on-line training materials at this point. I think organisations, particularly community organisations, are still really needing some personal training and support and needing face to face contact, and so just having on-line training resources, while useful, I don't think is sufficient to really deliver good governance.

Then the sort of final area, I guess, was looking at the data reform. There's very clearly a need for data reform. The range of different funding requirements and compliance requirements is growing, particularly for multi-service organisations that are receiving funding from a range of places.

In terms of the new three-year-service agreements, there have been comments recently that with the three-year-service agreements and systems behind that, that payments have been received in a more timely fashion this year than has happened in the past, although there continues to be some disjuncture between receiving the money and receiving the notification as to what it's for people haven't experienced some of the cash flow issues this year that they have in the past, so I think that's a real positive. And it's also been raised the availability of service standards again through the funded agency channel on the web. There's a greater availability of service standards now than previously, which is useful, but I'd say the data reform project within DHS appears to be still quite early days and I would feel that it's a bit too early to say that there's a data reform project, there's a funding flexibility project. It hasn't really been going long enough, I don't feel, to be making really clear sort of comment on it because I think it needs to be given a chance to succeed before we assume that it's not working. I think it's probably too early to say.

They were my main comments. Did you want to say something?

**The CHAIR** — Is there something - or should we just open it up at this point? Marilyn?

**Ms WEBSTER** — Why don't we open it up to questions and then I'll cover anything that's not covered.

**The CHAIR** — Okay. Well, Cath, thanks for that very comprehensive outline of a range of matters. If we go back to your first point which was the complexity of governance issues, and you outlined a range of issues that are challenging NGO's. Could you tell us a little more about where you think the key weaknesses are and where there needs to be a lot of extra work and where the sector might get, you know, most value from putting resources and time and energy into improving governance?

**Ms SMITH** — Well, one issue that came up for me was observing the readiness or lack of it within the sector when we were looking at potential new charity legislation from 1 July this year, which is a Federal matter but obviously it affects Victorian organisations. Potentially we were looking at new draft legislation affecting what organisations are charitable and which ones aren't, and a range of new endorsement processes required of organisations in order to retain their public benevolent or other tax deductible status, and my observation was that with a very small number of exceptions the sector was not prepared - I mean we're really lucky in a way that that threat has been removed because the Federal Treasurer has now indefinitely deferred the new definitions and deferred by a year, in effect till after the election, well after the election, the new endorsement processes. But the thing that occurred to me was that the sector as a whole was not well prepared for quite a significant shift that I don't think the sector was quite aware of the role of the ATO and the compliance reviews which the ATO has already started doing with a range of public benevolent organisations.

**The CHAIR** — So are you suggesting there an understanding of the legislative framework within which NGO's operate?

**Ms SMITH** — I think understanding and I think the level of heads-up that is required to the sector, because there's so much legislation and so much going on, in terms of compliance. You know, some organisations will spend the year really focusing on cleaning up their OHS procedures or they sort out their insurance or something like that, but the number and range of different compliance requirements are not really well captured and gate-kept for the sector and I don't think there's an effective heads-up process working for many community sector organisations currently.

**Ms WEBSTER** — I'd agree with that because I think the level of advice, expert advice, on legislation, particularly as it related to the charities review was very limited and in fact as a sector we were almost corralled into the seeking of advice from a couple of people who were experts in the area, and that put incredible strain on those few experts that were prepared to do it on a pro bono basis because it was very important that organisations put in very well-developed and cogent arguments but weren't able to draw on their volunteer board members to develop that argument. So there were some really outstanding contributions made on a pro bono basis from people in the city.

But to kind of bed that down, if we had been actually faced with the change of legislation and have bed that down through the governance bodies of the non-profits would have been a very difficult thing I think.

The other things relating to the Companies Code, the Federal Companies Code, which is governed by ASIC and the Associations Incorporations Act, which is Consumer Affairs here, and I understand they're doing a review of it, while many non-profits understand, I guess, in very broad terms the legislation that they find their governance under, there's room for an active training available to those boards of managements, I think, about how that's played out in a practical sense. For instance, some organisations find that the responsibilities of the boards of directors only become known when the notice from ASIC arrives. And previously places like the VCOSS Management Unit had a role in translating that high level legislative framework into a practical doable list of actions for board members, but we've suffered from the vacuum there and we need to look at some ways of reactivating that if we can.

**The CHAIR** — Thank you. Mr Forwood?

**Mr FORWOOD** — Thanks. Human Services' annual report was tabled in Parliament towards the end of October last year. It's required to be tabled by 31 October. And if you read it, last year, the whole way through in a number of areas it had a note 'A', and this is in the output measure, saying, '2002–03 actual figure is estimated due to delays by agencies in providing data for the reporting period'. So DHS failed in its obligation to report to the Parliament against its output measures for the year, but they switched the blame, on numerous occasions, to the community sector, saying that you weren't providing the data on time. Frankly I don't accept. But my recollection is that in January, some seven months later, they were still saying that the sector hadn't provided the required data for the 2002–03 year to enable them to report accurately.

So I guess my question is, what is the problem with the sector in ensuring that the data does flow to DHS in time for them to meet their obligations under the Financial Management Act?

**Ms SMITH** — I mean certainly they were - last year was interesting in that a number of the 2002–03 data returns in the disability area were deliberately held up by the sector because there was this big issue about the funding index. And so that became part of the conflict, if you like, because the view of the sector was, 'If the Government is not willing to resource us to gather this data and to pay the increased costs of doing this, and to cover our increasing costs of doing business, then we're going to create some discomfort'. However, that was resolved and most of

that data was in fact data that was due under the Commonwealth State Disability Agreement. So that issue was resolved towards the end of last year, so I don't think that would be a reasonable explanation for that issue continuing beyond about October or November last year.

In general there have been some issues around not just data collected but it's the sorts of data sets that are collected, and then what the sector perceives is that they appear to go into the black hole which is called DHS.

**Mr FORWOOD** — Right.

**Ms SMITH** — And so some kind of broader analysis of those figures doesn't seem to re-emerge to assist organisations with service planning. And so we see that there's a very urgent need for data reform because DHS are the only place that have all the data, because they've had it provided and they know what their own operations have been doing. Services cannot do effective service planning unless they have a good sense of the information not only gone in but coming back out again in some digested form to be able to, you know, build a shared analysis for shared service planning and delivery. And our understanding is that it's more been around the systems, of non-congruent systems of keeping information, that have been problematic.

**Mr FORWOOD** — I see.

**Ms SMITH** — I don't know what your - - -

**Mr FORWOOD** — What, the IT systems are not compatible?

**Ms CAMPBELL** — They ask for different things.

**Ms SMITH** — Yes, asking for different things from different programs - - -

**The CHAIR** — But the data reform project is a collaborative one between the Government and non-Government - - -

**Ms WEBSTER** — Very largely. I think from the point of view of the NGO agencies, they're very much waiting to see what level of infrastructure and training support will accompany the change. Initially, for instance, we heard that the new client data system for out of home care wasn't going to be accompanied by any infrastructure support and that agencies would be wearing the cost on that. Now that's since been turned around, but given the productivity savings, agencies really can't find the wherewithal unless they're supported to do that.

**Ms SMITH** — Certainly. And certainly around CRISP that is going to be an ongoing issue because that's going to be a DHS-wide system and while it is useful for organisations that are planning their IT to know what the specs of CRISP are going to be and decide whether they're in or out, you know, in terms of providing harmonious - it is going to be a cost for organisations whether they're in or out, and there's no indication - at the moment there's no indication at all that there'll be any resources to support agencies to ensure that they will be able to provide the data.

**Mr FORWOOD** — Sorry, (indistinct) are you talking about CRISP?

**The CHAIR** — Chris, can we just clarify which CRISP you're talking about because I think we've heard of a few CRISPs.

**Ms SMITH** — Yes. There's CRISP which is the jobs program for skill shortage but I'm talking about the Client Relationship System something or other, which is the - it's kind of across DHS.

**The CHAIR** — Not relationship information.

**Ms SMITH** — Yes. It's the Client Relationship System.

**The CHAIR** — All right. So it's a different one.

**Ms SMITH** — Yes. It's not just (indistinct) CRISP.

**The CHAIR** — Okay. Ms Campbell?

**Ms CAMPBELL** — My question relates to templates. I understand and have great sympathy with boards who try and become well informed on a plethora of their responsibilities, particularly legislative interpretation which can take a DHS legally qualified staff member half a day to unravel and then someone on a board is expected to know and understand the terms of the legislation for which their committee actually or their organisation exists. So my question goes to templates. If templates were developed on, for example, you've mentioned a couple; ATO, ASIC, Consumer Affairs, you name it, who is best to do that from the non-Government sector perspective? Is it DHS, is it the NGO through VCOSS or is it, say, an organisation like PILCH, Public Interest Law Clearing House, that could get independent legal advice that would be neither wedded to the sector nor the Department?

**Ms SMITH** — Well, I mean, that's an interesting question because PILCH have to - they respond through brief, so whichever lawyer they're briefing, it's going to be a brief for a client. So if the client is the sector, then that's what the brief will read as, and obviously they'll be less inclined to provide free legal advice if the client is the Government; they would be more inclined to want to charge for that. But I think the question is around who's the client for these sorts of questions and at times material and communications that come from the Department very much address the needs, the communication needs of the Department, but they're totally incomprehensible to people who are not actually working within the Government, and I guess I would argue that it's really useful to have legal advice and to have a range of other resources, particularly communications, resourced outside of Government in order to interpret, 'This project within Government is going to achieve these things for the Department, this is what you need to do and this is the implications for your organisation', and I'm not sure that Departments are necessarily well-equipped to kind of think about it from the perspective of the organisation.

**Ms CAMPBELL** — So who would do those templates? Do you think templates are useful or do you think each Board should go through its own procedures guide, for example occupational health and safety risks?

**Ms SMITH** — Well I'd say expanding on what's currently happening, which is when VCOSS hears about some good training resources among one of our peak body members, what we're trying to do is set up a clearing house to be able to pass that around.

**Ms CAMPBELL** — Okay. Good.

**Ms SMITH** — And what's lacking is the clearing house. Because some organisations are doing some great work in one area but the work doesn't get passed around and so people are reinventing wheels. And there's a lot of wheels being reinvented all over, because of course DVC and Department of Justice and Consumer Affairs has relationships with community organisations as well, and I think there's quite a bit of reinventing going on at the moment because we haven't got some sort of clearing house function.

**Ms CAMPBELL** — Well how do we stop that? If we're looking at getting good governance with boards that are over-worked, with departments that have their own requirements, and in the course of all that we often forget the reason why organisations exist; they're not for Government, they're not for DHS, they're not for the boards of management, they're for the citizens who are supposedly the reason for us all doing so much of this work, so how do we get it back there?

**Ms SMITH** — Well I would advocate for resourcing and development of a non-Government clearing house.

**Ms CAMPBELL** — Okay.

**Ms SMITH** — Because that's what our members are saying to us that they need and certainly it's my observation - - -

**Mr FORWOOD** — How much money would you need?

**Ms SMITH** — Sorry?

**Mr FORWOOD** — How much money would you need?

**Ms SMITH** — Well it's not - because it's not about, necessarily, reinventing the wheel, I think we - I don't know, you'd be looking at, you know, one full time worker plus some resources, you know, to be able to reproduce and - - -

**Ms CAMPBELL** — And is there a willingness to share?

**Ms SMITH** — - - - bring out publications, you know, updating a whole range of publications.

**Ms CAMPBELL** — Yes, but is there a willingness to share though?

**The CHAIR** — So presumably attached to VCOSS?

**Ms SMITH** — Yes, I think there is. Yes. Yes there is. There's a desire to share.

**The CHAIR** — One last question. Ms Green?

**Ms GREEN** — Yes, and in your answer to Christine you started touching on what I wanted to know. In terms of - I mean I know that, you know, your members would primarily - their major partnership arrangements and relationships would be with DHS but you mentioned Department of Justice, Consumer Affairs, you know, I would imagine (indistinct), you know, anyone you can think of. Is there any one of those that does it better or worse than DHS that you'd like to single out, and I was also - the sort of secondary question to that, in terms of the data reform project, are other Government departments that fund community sector agencies working cooperatively with DHS on that or will you have to do it again with them as well?

**Ms SMITH** — I mean I think one department who's relationship with their funded sector is not particularly good at the moment is Consumer Affairs, and that's mainly because of these changes to community-based consumer advice and the main forum, the working together forum hasn't been held for a couple of months but I would say the relationship, because there isn't any kind of partnership agreement between Consumer Affairs and their non-Government kind of partners, I think some of the relationships are not good at the moment and I think the processes are not good. In terms of - DHS has got more experience, particularly through their regions of dealing with funded organisations, so I think some of the intention around the Department of Victorian Communities is very positive and it's got really great potential, however there's probably more experience to learn from within DHS because they've got longer term, larger scale, more diverse relationships with organisations. If you could get the positivity of intention within DVC combined with the experience of DHS, then we could see some very positive, I think, partnership arrangements emerging. At the moment it depends whether you look at the glass is half full or half empty as to, you know, there's some learnings to be had from all of them.

**Ms WEBSTER** — When the partnership work was being undertaken with DHS there was a parallel beginning process with Premiers across the whole of sector partnership with whole of Government. That fell into abeyance but I think the DHS model of partnership is a good one for looking at how you get it across Government.

**Ms SMITH** — Yes.



**Ms WEBSTER** — It's not ideal, but particularly on issues of understanding of what is consultation and what is information-giving. I mean I think early in the partnership process DHS considered information-giving as consultation and there have been parallel circumstances from other Government departments but you can see where the learnings have happened in DHS now that that partnership process has been there for a number of years, and it would be good to translate that across.

**The CHAIR** — Okay, well thank you very much for your valuable input.

**Ms SMITH** — Thank you.

**The CHAIR** — It's been very useful and we thank you very much for coming in to talk with us.

**Ms SMITH** — Thank you very much indeed.

**The CHAIR** — I welcome Mr Tony Fitzgerald, Managing Director State Trustees Limited, and Mr Ross McDonald, Chief Financial Officer, State Trustees Limited, to this public hearing on the Sub-Committee's inquiry into Corporate Governance in the Victorian Public Sector.

All evidence taken by this Sub-Committee is taken under the provisions of the Parliamentary Committee's Act and is protected from judicial review, however any comments made outside the precincts of this hearing are not protected by parliamentary privilege. All evidence given today is being recorded and witnesses will be provided with proof versions of the transcript shortly.

Mr Fitzgerald and Mr McDonald, we're pleased that you could attend this public hearing. Would you like to make an opening statement and then we can move to questions from there.

**Mr FITZGERALD** — Sure. Just I guess some background to State Trustees and it's structure. It's a Government business enterprise set up under the State Owned Enterprises Act and we ultimately roll up to Department of Treasury and Finance but we are a corporatised entity, so I guess the best comment I would make would be that the community gets the best of both worlds in the sense that we've got the private sector regulation that comes under Corporations Law and ASIC and a number of other pieces of legislation, as well as the public sector in Government overview and regulatory regime that would take into account the Ombudsman, the Auditor-General and a number of others. So I guess in terms of overview, we are one of the more regulated entities that operates within the public sector, because you've got both the private sector capture and a whole range of legislation under that, and then you've got the public sector stuff, as I said, with the Ombudsman and Auditor-General.

We have an independent Board that's appointed by the shareholder, which is the Government, of which I'm a Director, but the other six or the other soon to be six, will be independent Directors, so they're all non-exec directors appointed from business and community and covering most of the disciplines that you would want to see on a board in terms of accounting, legal, and also given the nature of our client base, disability. The disability sector as well will be represented.

So they overview the risk management framework that we have in place, they review the strategy of the organisation, at both organisational and sub-divisional level, and we've just gone through that process now as part of the annual budgeting process. They have a variety of skills and experience. Beyond that we also have sub-committees of the Board around audit, compliance, investment and remuneration, as well as a charitable foundation that manages the bequests that the organisation receives as part of its commercial business, where we get - people leave amounts of money and say that, 'At the direction of the Australia Foundation you can apply those funds to charities', and we've got a set of criteria that we apply those funds to.

Myself, as Managing Director, who's supported by a leadership team which has a number of sub-committees as well that reviews client complaints and client concerns. Some of the legislative framework that we work under, both in compliance and risk management, and various HR processes around OH & S and Codes of Conduct and that kind of thing for our employees.

So that's pretty much a going-in statement in terms of the regulatory regime we find ourselves in, but as I said, you get the best of both worlds with us because you've got the private sector and the Government sector both keeping an eye on us.

**The CHAIR** — Well thank you for that outline of the governance arrangements of State Trustees. Could you tell us whether or not there are some areas where you're working to make improvements in your governance arrangements?

**Mr FITZGERALD** — I think - we also have part of our business that is funded by DHS, and that's the Represented Persons area. We have a five year contract with Department of Human Services where we provide financial, legal, administration services for clients where we're appointed their financial legal guardian by VCAT, so VCAT overviews our performance there on a three yearly basis or sooner if it's warranted, depending on the personal circumstances of the client. But the actual work we do for those clients is where they can't afford to do it themselves is funded by DHS and that's subject to overview by our internal audit, external audit and also DHS' own review processes. We have a set of service standards that we must achieve and that involves financial penalty to us if we don't achieve those service standards, and they're monitored on a quarterly basis.

So the governance from that side of things is quite tight, and it's a matter of us working to get our overview and our service standards up to speed in terms of compliance with that contract. So that's, I think, tight enough as it is, and it's a matter of us - you know, the service standards being tweaked as necessary, depending on the feedback that DHS have got. And they do independent surveys of our performance and they've just completed one of those now which we're in the throes of reviewing, so there's some independent review of our performance directly with the customer base - or the client base that we have of State Trustees, so that'll be passed back to us for review once - - -

**The CHAIR** — And there's a very clear reporting requirement.

**Mr FITZGERALD** — Yes, framework. Absolutely. Yes. We have three new Directors which I believe are being appointed in the next couple of days to replace people who have retired through the rotational retirement that happens with the Board. We will obviously have to give them an assimilation process, and education process, about the business of State Trustees and some of the issues we're facing at the moment, so that's one area where obviously we've got to improve our performance in that sense. But that will happen over the next two months when we know who the new directors are and we can work with them to give them (indistinct) the business.

**The CHAIR** — Okay. Thank you. Mr Forwood?

**Mr FORWOOD** — Thank you. I have a two-part question, Tony.

**Mr FITZGERALD** — Yes.

**Mr FORWOOD** — The Treasurer can require you to provide certain information; business plans and financial information.

**Mr FITZGERALD** — Yes.

**Mr FORWOOD** — And annual reports.

**Mr FITZGERALD** — Yes.

**Mr FORWOOD** — I want to know how that works and how often that happens.

**Mr FITZGERALD** — Yes.

**Mr FORWOOD** — And secondly, you guys pay the Government a dividend each year?

**Mr FITZGERALD** — We do.

**Mr FORWOOD** — I'd like to know the process by which the amount of the dividend is decided.

**Mr FITZGERALD** — Yes. Your first part of your question. We have an annual planning process and that results in us presenting a strategic and operational plan to the Department of Treasury and Finance, and that's due at the end of April each year. And we then have quarterly performance reports which detail the financial performance of State Trustees as well as a number of service standards that they set us each year, and we report to them on the performance against those service standards in terms of the usual customer quality things around, you know, phone answering and correspondence and that kind of thing. So there's that, as well as the financial report about progressing against plan in terms of profit and that kind of thing. So we have those.

**Mr FORWOOD** — So it's a continuous reporting regime that's been set in place for some time and you don't often get requests for additional or further information, it's just something that's set up and happens?

**Mr FITZGERALD** — No, we do get questions from time to time, depending on what's happened to us in the last previous quarter. We would brief the Department of Treasury and Finance on a regular basis. I have a quarterly session with people who I report to within the Department, just an information exchange, and that normally coincides with our submission of our quarterly reports. The second part - - -

**Mr FORWOOD** — And the dividend?

**Mr FITZGERALD** — The dividend, yes. Currently we have a dividend policy which is set at 90 per cent of our profit that goes back to the Department of Treasury and Finance. That's done on a half-yearly basis. So we report to them our interim profit and we calculate a dividend on that basis and that's passed back to the Government. But it's currently 90 per cent of profit.

**Mr McDONALD** — After tax profit.

**Mr FITZGERALD** — After tax profit.

**Mr McDONALD** — And the history to that, it's been in place for I think a few years now and essentially we don't need any significant capital injections so the view is to be paying most of that back to the Government as a dividend, so if for some reason we needed significant cash or whatever to invest, well then maybe that would be reviewed, but that's certainly not the intention at this point.

**Mr FITZGERALD** — Yes.

**Mr FORWOOD** — Thanks.

**The CHAIR** — Thank you. Ms Campbell?

**Ms CAMPBELL** — My question goes to your Directors, and I should know this. Are they volunteers or do they receive some remuneration?

**Mr FITZGERALD** — No, they receive a Director's remuneration. Yes.

**Ms CAMPBELL** — They do?

**Mr FITZGERALD** — Yes.

**Ms CAMPBELL** — Okay. In terms of the people who come from the community sector, and I say this given you've had the advantage of hearing our first two witnesses.

**Mr FITZGERALD** — Yes.

**Ms CAMPBELL** — My question goes to templates that would be of assistance to the non-Government providers in community welfare who don't have the level of expertise and funding that you have. Have you got templates that you think would be - templates on risk, on health and safety, to name just two, that might be of assistance to non-Government providers, non-Government community sector providers?

**Mr FITZGERALD** — Certainly on risk management I think we've got some templates and some frameworks that we've used to assess the risk of the organisation. We've kicked off - - -

**Ms CAMPBELL** — Okay, well good. Well then my next question is do you see yourselves, then, as potential leaders in governance to others who may not be as well resourced as you?

**Mr FITZGERALD** — Yes, I think we can certainly provide information in that respect that might help out individuals to structure their risk management frameworks based on our experiences. There was a review done by the Auditor-General a couple of years ago, late 2002, which involved a study of ourselves, Western Health and I think one of the TAFE colleges, which gave us some ticks on our risk management framework that we'd had in place. We've fine-tuned it further since then. But yes, I think we could certainly pass on our experience to other areas to learn from the framework that we've got.

**Ms CAMPBELL** — Because looking at your annual report of 2003, you have got people who have been involved in the community sector.

**Mr FITZGERALD** — Yes.

**Ms CAMPBELL** — And I imagine that they make comment at board meetings about how well developed your work is.

**Mr FITZGERALD** — Yes, the - - -

**Ms CAMPBELL** — Would that be a fair assumption?

**Mr FITZGERALD** — The Director specifically that existed in 2003 in the annual report has now moved on. That was Kate Redwood. She was the representative from the disability sector that had experience in that sector that was on our Board. She retired at the end of June. I understand we're getting three new Directors to commence on 1 July who will have disability area experience, so certainly we'll be keen to share that information with them and utilise their knowledge to also improve our performance in the disability sector.

**Mr FORWOOD** — How big's your Board?

**Mr FITZGERALD** — At the moment we have four non-exec directors and myself as an executive director.

**Mr FORWOOD** — How big will it be after (indistinct)?

**Mr FITZGERALD** — Seven.

**Mr FORWOOD** — And of those seven, three will be in the disability sector, one will be a lawyer - - -

**Mr FITZGERALD** — No. No, one will be from the disability sector, one will be a lawyer, and I'm not sure of the other one. I haven't got the full CV's of the individuals because it had to go through Cabinet first.

**Mr FORWOOD** — But the Act specifies the skills that the Board will have?

**Mr FITZGERALD** — Not to my knowledge, no.

**Mr FORWOOD** — So this is a (indistinct) decision.

**Mr FITZGERALD** — Yes, this is a policy decision from the Department of Treasury and Finance, that because of the nature of the client base that we have, they feel it important that we have representatives from the disability sector, given that our represented persons area, which is about 8000 clients, actually all have a mental or intellectual disability.

**Ms CAMPBELL** — A perfectly reasonable assumption.

**Mr FITZGERALD** — Yes. So they ensure that we have some expertise from the disability sector to provide the guidance to the Board which is - yes. But it's not in legislation anywhere.

**The CHAIR** — And you're a full member of the Board?

**Mr FITZGERALD** — Yes I am.

**The CHAIR** — Okay.

**Mr FORWOOD** — Are you on a committee?

**Mr FITZGERALD** — No. I'm not a voting member of the audit committee.

**Mr FORWOOD** — But you attend audit committee meetings.

**Mr FITZGERALD** — Absolutely. Yes. I go to every one.

**Mr FORWOOD** — As the senior executive of the organisation.

**Mr FITZGERALD** — Yes, senior executive of the organisation. But that's just standard business practice; that the managing director wouldn't be a member of - a full (indistinct) member of the audit committee.

**Mr FORWOOD** — No, but he would attend.

**Mr FITZGERALD** — Yes. Absolutely.

**The CHAIR** — And the CFO would attend too?

**Mr FITZGERALD** — Yes. Absolutely.

**The CHAIR** — Ms Green?

**The CHAIR** — I declare open the Sub-Committee public hearing on Corporate Governance in the Victorian Public Sector. I welcome Ms Marilyn Webster, Vice President, and Ms Cath Smith, Chief Executive Officer, of the Victorian Council of Social Services.

All evidence taken by this Sub-Committee is taken under the provisions of the Parliamentary Committee's Act and is protected from judicial review. However, any comments made outside the precincts of this hearing are not protected by parliamentary privilege. All evidence given today is being recorded. Witnesses will be provided with proof versions of the transcript shortly.

Ms Webster or Ms Smith, would you like to make an opening statement? Ms Smith.

**Ms SMITH** — What we thought was, there's a range of sort of questions and issues that we'd maybe like to make some comments about, and we're aware that it's quite limited time and it's quite a broad ranging topic, so we thought if we can sort of deal with a couple of key questions and then, you know, hopefully there'll be a little bit of time for further sort of interrogation of those issues.

**The CHAIR** — Well if you could perhaps confine it to a few minutes, and then I'm sure, through our questions, we might cover some of the ground and focus on some of the areas that we have particular interest in.

**Ms SMITH** — Yes. So the sorts of issues and questions that we, I guess, can make some reference to, would be some of the sort of issues and questions around governance issues facing community sector organisations that are funded by DHS in particular, but funded by the Government, looking at the partnership agreement between the funded sector and the Department of Human Services, the ongoing development of good governance between the sector and, you know, as a result of or related to the partnership that we have, and looking at other sorts of, I guess, reporting issues between the funded sector and DHS.

We're not well-equipped to make comments really broadly about the whole governance of the public sector. I mean we're really trying to focus our minds on those issues that we bump into as funded organisations.

**The CHAIR** — I think they're exactly the sorts of issues that we're interested in hearing from you about.

**Ms SMITH** — Okay. So maybe just to start off with some of the sort of issues that are facing community sector organisations, particularly those that are funded to engage in service delivery in the community, you know, there's a whole range of sort of issues and concerns, obviously, about governance, and I'd say probably some of the growing pressures in terms of governance for the community sector are those issues around risk management, as issues around litigation and insurance and OHS and compliance with funding and a range of different funding requirements and data requirements tends to escalate rather than decline. So there's a requirement on any organisation receiving funds now to have an increasing level of confidence and competence in dealing with quite a complex range of governance matters.

Many of our members, particularly in regional Victoria, report that it's increasingly difficult to build a strong management committee or strong board, partly because there's not huge numbers of people available, the sense that it's escalating risk in terms of managing an organisation.

**Mr FORWOOD** — Personal risk.

**Ms SMITH** — Sorry?

**Ms GREEN** — Thank you, Chair. State Trustees recently entered into a new community services obligation contract with DHS.

**Mr FITZGERALD** — Yes.

**Ms GREEN** — And under this contract in '02/'03 State Trustees received 6.8 million from the Department.

**Mr FITZGERALD** — Yes.

**Ms GREEN** — What are the reporting requirements for State Trustees under the contract and do you believe that there are impediments to State Trustees reporting its performance under the contract more widely, such as to Parliament?

**Mr FITZGERALD** — The reporting requirements. Ross, you might be able to provide more information on this than me.

**Mr McDONALD** — On a quarterly basis we provide - there's some agreed service standards within the contract which are quite comprehensive, I think three or four pages covering a range of services. We report those to DHS on a quarterly basis, together with some commentary in terms of if we have or haven't met the service standards and any other issues around that. And then on an annual basis there's sort of a wrap-up report, if you like, in terms of how we've gone for the full year, again some commentary, and then there's some annual statistics that are also provided to Department of Human Services. And there's also an ongoing regular meeting process and other sort of feed-back mechanisms to work around that. Does that answer the first part of the question?

**Ms GREEN** — Yes.

**Mr McDONALD** — In terms of the second part of the question, in terms of whether that could be reported through to Parliament, I mean the actual contract itself, there's some confidentiality clauses within it that would need to be considered from a community - - -

**Mr FITZGERALD** — Yes. I mean that's just part and parcel of normal commercial contracts that you keep them in confidence between ourselves and the Department of Human Services, but certainly there is a full reporting, which the Auditor-General would have a look at as well, so there's an overview from that point of view. And if there's any customer complaints that come up with our own internal customer complaint process, that would be able to handle that. If the client is still not happy with that then they have recourse to the Ombudsman as well as another mechanism for a resolution of any issue that they might be unhappy with. So there are a number of mechanisms that we're subject to. Then you've got the private sector issues as well through the FICS, which is the Financial Institutions Complaints Service, which is an independent body that exists for the private sector. So we've got a number of complaint mechanisms that will provide overview if necessary, outside of both ourselves and DHS.

**Ms CAMPBELL** — Just a quick one. Your Statement of Financial Position, where would I find your payment to DTF in that?

**Mr McDONALD** — As the dividend?

**Mr FITZGERALD** — Yes.

**Mr McDONALD** — Well the dividend as such. There is a note in there that describes our dividends and I pointed out to you all - - -

**Ms CAMPBELL** — Sorry, I've just picked it up. I haven't studied it over the weekend.

**Mr McDONALD** — Yes.

**The CHAIR** — While you're looking for that, can you make available some of that information on the community service obligations that Ross was talking about before?

**Mr FITZGERALD** — The contract? Yes.

**The CHAIR** — Yes, the - - -

**Mr FORWOOD** — And if you want us to keep it confidential we will.

**Mr FITZGERALD** — We can submit that under confidentiality, that's fine. Yes. Normally we have to - disclosure has to require the consent of the Minister either way, so I presume we go through that process and get the Minister's permission and then submit it up, yes.

**The CHAIR** — In terms of where guidance comes from for your governance arrangements, you're not a public sector agency so therefore the requirements under the Financial Management Act don't apply, but I - is that correct?

**Mr FITZGERALD** — No, they do.

**The CHAIR** — They do.

**Mr McDONALD** — Yes, I mean there is - I am aware that there's some debate around whether we are actually covered under the Financial Management Act, but having said that, we operate under it anyway.

**The CHAIR** — You operate under it.

**Mr McDONALD** — Just as a matter of course, to avoid the - - -

**The CHAIR** — I was going to go on to say that - - -

**Mr FITZGERALD** — Avoid any potential conflict, no we keep ourselves in line with that.

**The CHAIR** — You would be encouraged to operate under that frame.

**Mr FITZGERALD** — Absolutely.

**Mr McDONALD** — Yes, that's right.

**The CHAIR** — And you do. Good. Any other questions?

**Mr FORWOOD** — When are you going to float?

**Mr FITZGERALD** — Yes, good question. I think we were corporatised, and as I said at the start, we're one step away from privatisation. It would be just a requirement for the Government of the day to sell the shares in the company and we're a privatised entity because we're set up just like a private sector company. But I think the community gets the best of both worlds, as I said at the start, with us because you've got the private sector regulation and overview and you've got the public sector ones, so you get the best of both worlds.

**The CHAIR** — All right. Any further question?

**Ms CAMPBELL** — If you wanted to provide to the Committee anything which you think is just outstanding in terms of your work on governance and templates that we may wish to study, that would be helpful.

**Mr FITZGERALD** — Okay. We'll have a look at that.

**The CHAIR** — Thank you very much for attending, and we will make sure that you get the transcripts very soon and you can look at those for any typos.

**Mr FITZGERALD** — Thank you.



**The CHAIR** — I welcome Ms Susan Heron, Interim Executive Director, Australian Institute of Management (Victoria and Tasmania), to this public hearing on the Sub-Committee's inquiry into Corporate Governance in the Victorian Public Sector. All evidence taken by this Sub-Committee is taken under the provisions of the Parliamentary Committee's Act and is protected from judicial review. However, any comments made outside the precincts of this hearing are not protected by parliamentary privilege. All evidence given today is being recorded. Witnesses will be provided with proof versions of the transcript shortly.

Ms Heron, we're very pleased that you're able to attend the hearing today. Would you like to make an opening statement or proceed directly to questions?

**Ms HERON** — I'm happy to proceed directly to questions, as that was my understanding as to why you would like me here today.

**The CHAIR** — All right, well I'll start. Leadership, ethics and culture were identified by the Auditor-General from the Commonwealth Office as the foundation to developing an effective governance culture. Could you tell us, in your view, how well equipped you think public sector leaders are to demonstrate leadership in this area and what areas of leadership need to be further developed?

**Ms HERON** — Okay. That's a broad question and I can only give you a general answer. I think in this, my experience of it has been that the organisations that I've been associated with is that generally I think the level of awareness and reception has actually been fairly high. I do think that that has been borne about because of the requirements that Government has made on the organisations as well as the ability for these particular organisations that I refer to, to be able to employ good quality internal auditors that have also been of help. That's actually been able to, I believe, prompt the organisations to become more outward looking in terms of their leadership and what that actually will require in terms of good governance and also in terms of recognising stakeholders and managing stakeholders, and I think that ability to bring in that objectivity from the private sector has been very handy.

**The CHAIR** — Thank you. Mr Forwood?

**Mr FORWOOD** — You have experience in both private and public Boards?

**Ms HERON** — Yes.

**Mr FORWOOD** — Is there a difference?

**Ms HERON** — I think there is. Look, I think fundamentally a public Board operates with four - it has a quadruple bottom line. It has an environmental, an economic, a political and a social bottom line. And private companies aren't necessarily driven the same way. And I think that the fact - that does make somewhat of a difference.

At the end of the day, in terms of what value you should be providing and the level of integrity, I don't think there is a difference. There is a difference in the sense that with private companies, they have to also, in terms of their governance et cetera, consider insider trading, positions such as that. That's not something that a public sector Board should have to face.

**Mr FORWOOD** — Do you think that the level of governance requirements in the private sector is higher than that required in the public sector?

**Ms HERON** — I don't think they're higher, I think in certain areas they're more onerous, because of the qualifications that I gave before. So it would be a matter of emphasis and priority, I think, more than higher.

**Mr FORWOOD** — In your experience do you think that public sector Boards have an appropriate level of governance? Particularly training of Board members, operation of audit committees, relationships with other agencies, all those sorts of - - -

**Ms HERON** — The ones that I'm involved with I'd have to say we continue to look at that. We continue to actually make sure that we're improving with it. I think that the awareness is quite high. The recognition of what we need to do is there. How we achieve it is something that I think each one of us is working to. I don't think - this is quite a complex area. I don't think that you can actually turn around and say, 'In totality we are there. We're at the leading edge.' I think it's actually people are still moving to it. Because I do think that the complexity of compliance in governance is still unfolding.

In America they're still trying to work out what they have done with (Indistinct) Oxley. And whilst that doesn't affect, you know, not-for-profits, et cetera, et cetera, there is an implication for us. You know, they're still trying to work out what they will do with the EC. There is implication for what is happening.

**Mr FORWOOD** — I'm on the Vic Health Board, which is a Government Board.

**Ms HERON** — Yes.

**Mr FORWOOD** — And we recently received a whole bunch of stuff from Treasury and Finance about how we should approach governance. I presume you go the same stuff. I think they were sending it to all - - -

**Ms HERON** — Yes. I think that the level of interaction is quite strong, and I think that that's good. But I think there's got to be - I think the Government has got to be a prime driver in this about what it wants in terms of - I heard you referencing templates before - in terms of what it wants as an outcome. Because this should be outcome-based. They should want to see an outcome from whatever the compliance or the governance procedures that they want, so they should be driven with them. I think the fact that many organisations are able to afford good quality internal auditors also enhances the position.

**Mr FORWOOD** — Yes. That's right. Thank you.

**The CHAIR** — Ms Campbell?

**Ms CAMPBELL** — I haven't had experience on very large Boards, such as yours, the CFA and Museums. I have had quite a deal of experience within DHS and what struck me in working within DHS as opposed to working as a volunteer or as a worker in small non-Government agencies was the level of expertise that's readily available on any topic within a large organisation such as DHS and between Government departments.

What worries me and where I'm looking for some advice from today is that many of the smaller organisations can become bogged down with a huge amount of administrative work and compliance work that they necessarily and willingly engage in but don't have the resources to get to the level of detail that, say, the CFA or State Trustees could provide. And I am grappling with how good governance can operate in the smaller organisations and are there any similarities with larger ones and could some of the larger ones provide, and I go back to the templates and goals, if you don't want to call it templates, you prefer to call it outcomes, how are we going to help the smaller ones?

**Ms HERON** — Look, I think your question is really valid and it's not just valid for the smaller public sector companies, this is valid for SMEs, it's valid for all of them. Implicit with this is that we are being saddled up with a huge cost. And what is a real concern to me is that unless we actually have very clear leadership, and I look back to the Government perhaps in sort of

setting some areas about where it needs looking at, is these smaller areas are going to have to perhaps needlessly comply or over-comply.

**Ms CAMPBELL** — Exactly.

**Ms HERON** — I don't know whether there is adequate compliance, under-compliance, over-compliance. What does that actually look like? Everyone talks about compliance. Where the smaller, less resourced entities, what they're facing is that every dollar that they put into compliance takes away from their objective and I think that's a real issue. I don't think it comes down, honestly, to a matter of templates, I think it actually comes down to a matter of understanding what is actually required. It's actually understanding the principle of governance and what is the outcome of that principle and how it's to be applied, and whether there are - there will be some obvious areas; financial, there will be risk management. But companies should necessarily, no matter what their size, they should understand what their risks are, they should be understanding what their risk management should look like. And I don't think that that necessarily is complex but it's whether what they do is going to be satisfactory when it's actually put together on a (indistinct) basis. And whether the Government, in entirety, is actually looking like it has complied, whether it has good compliance procedures.

So I don't think it's necessarily a matter of a template, I think it's actually understanding what's required.

**Ms CAMPBELL** — But if everybody has in their Funding and Service Agreement that they had Occ Health & Safety policies - - -

**Ms HERON** — Yes.

**Ms CAMPBELL** — - - - that they have garaging policies - - -

**Ms HERON** — Yes. Yes.

**Ms CAMPBELL** — - - - for their vehicle, to just name two, it seems to me that many of them spend an inordinate amount of time to comply with those FASAs that they're willing to comply with - - -

**Ms HERON** — I agree.

**Ms CAMPBELL** — But, you know, proportionately it takes up a disproportionate amount of their time.

**Ms HERON** — Yes it does, and that's why I'm saying that I think that there should be - look, the larger organisations - it's costing the CFA and the Museum a lot of money, and one might argue that we have a social imperative that perhaps, you know, we should be focusing more on that. Are we actually going to put the state in some type of perilous situation on a compliance basis? No. But we have to do it and we're lucky that we have the resources. But those that don't have them, I don't - as I'm saying, I honestly don't think the answer is a template, I actually think it is the understanding of the principle that's required. And I think that's where - I mean I look at it and I look at the way it's going and I think - sorry?

**Mr FORWOOD** — I think it's down to training. Training people.

**Ms HERON** — Yes, I think it is and I actually think it comes down to what outcomes are you after.

**Ms CAMPBELL** — Except if your FASA, Funding and Service Agreement, says you must have all these different guidelines and policies.

**Ms HERON** — Absolutely. But if that's what that says, then what's the best way to comply with it? You can certainly take templates but there will actually be modification required. Then you're going to have to audit your templates to ensure that your template modification is actually satisfactory to an outcome which goes back to the principle of - you see what I mean?

**The CHAIR** — So is what you're saying that you need also to have the skill and the leadership - - -

**Ms HERON** — I think you do.

**The CHAIR** — - - - on the Board to work out - - -

**Mr FORWOOD** — She's going to send you (indistinct) programs.

**Ms HERON** — I've got pamphlets.

**The CHAIR** — - - - where to put your energy and effort, in a sense.

**Ms HERON** — I think you do. And I think you actually then have to, within the companies, then everyone has to understand what their role for compliance is. I see compliance as something that should be ingrained but it should be understood and the complexity of compliance should actually be broken down so that people can digest it. they can understand and they can work towards it so that it actually doesn't become, 'Oh, gosh, and now we have to do some compliance', it becomes part of that work process.

**The CHAIR** — Part of the culture rather than an extra burden.

**Ms HERON** — Yes. But in doing that, then we do have to be very careful about the compliance that is going to be forced on us, and that's that compliance that - you know, that whole view, that trend that's coming in from overseas. And I think that's going to be difficult for us because even in the public sector we have a rule of principle, not a rule of law, and we actually have very good people interpreting the compliance and doing some very good things, as is the nature of our society. Once we go into more the rule application, that's when our costs start going up.

**The CHAIR** — Okay. Ms Green?

**Ms GREEN** — Thanks, Chair. I'm interested in how extensive the role of the Australian Institute of Management is in training public sector agency leaders, and then within that or from that has the Institute observed any skill areas in which public sector agency managers are different to their private sector counter-parts?

**Ms HERON** — I have to say that we haven't done a lot in this area. It's something that we are looking at, but at the moment what we're looking at is we're focusing more on the SME's because we actually do see that these are people who are going to be really very under-resourced and they're going to be dramatically impacted.

Most of the public sector organisations that I'm aware of, this is my experience, have usually been using their internal auditors to actually provide training and they have been covering it through their audit charters, and that's actually - there's an expectation that management is actually driving that down there. My experience on that is that it's being accepted and being implemented. But I do think there's room because I don't think there's understanding. On an entire basis.

**The CHAIR** — Public sector Boards in Victoria, do they have a good record of induction and training programs for new Board members?

**Ms HERON** — Improving. I would say that's something that - I think when I first joined, you know, you just got plonked in and you had to force the induction through your due diligence. But now there is a real awareness and we have just, with the CFA, completely reviewed the whole induction process to ensure that we are actually affording the CFA, the Government and the new Board members, as well as fellow Board members, a degree of certainty, and let's say protection as well, that these people understand what it is that's required. Because with the compliance, and that's one of the things that is really important with the induction, is that more and more Board members are actually being asked to - the line between Board and management is narrowing and they're being asked to get a little bit closer, so they do need to be aware of when is appropriate and when is not.

**Mr FORWOOD** — I'm sorry I haven't got time to explore that further. Do you think it's appropriate or possible that we should have different levels of governance for different funded agencies? So if you get, for example, a grant of 20 grand, you would have one level of compliance requirements. If you had a three year agreement for 2 million, you would have a different level of compliance. If you were 50,000 or quarter of a million. So that, to pick up what Christine was saying, that you don't spend significant amounts and the money you get, meeting onerous or too onerous governance requirements?

**Ms HERON** — If you're talking about tiered compliance, yes, I think there's room for tiered compliance but I think it goes on the basis of risk assessment. And I think that's the way you would have to do it. And that is - - -

**Mr FORWOOD** — Risk assessment as opposed to amount of dollar funding?

**Ms HERON** — Yes, I think you really do. I think that that would be more appropriate. I know from my point of view I would rather see - and that in itself actually implies that there has been a certain level of governance already done, so it says to me that in doing that due diligence, I've done it with a mind-set that is in compliance, not that it's just 'Oh, here's a box, tick it'. And that's that application of rule rather than principle. And I think that that's important. And you can tier according to risk. Financial institutions do it all the time with clients and you can do it.

**Mr FORWOOD** — Yes.

**The CHAIR** — Thank you very much. There may be some follow-up questions when we've reviewed the transcript. You'll get a copy of the transcript and if there are any further questions you'll have the opportunity to respond.

**Ms HERON** — Thank you very much.

**Mr FORWOOD** — What does Interim Executive Director mean?

**Ms HERON** — It means someone who had to step down from the Board to fill in a gap for six months.

**Mr FORWOOD** — While you find a new CEO, and then you'll go back on the Board again?

**Ms HERON** — Probably.

**Mr FORWOOD** — I see.

**The CHAIR** — I welcome Ms Catherine Dale, Chief Executive Officer, Nillumbik Council, to this public hearing on the Sub-Committee's Inquiry into Corporate Governance in the Victorian Public Sector. All evidence taken by this Sub-Committee is taken under the provisions of the Parliamentary Committee's Act and is protected from judicial review, however any comments made outside the precincts of this hearing are not protected by parliamentary privilege.

All evidence given today is being recorded. Witnesses will be provided with proof versions of the transcript shortly.

Ms Dale, we're pleased that you could attend the hearing.

**Ms DALE** — Thank you.

**The CHAIR** — We look forward to hearing from you, and I ask you whether you'd like to make an opening statement or would you like us to go straight to questions?

**Ms DALE** — Well perhaps because mine - I think I've been invited to speak to you, and I haven't made a formal submission. Would it be useful just maybe to go through some of the key issues?

**The CHAIR** — That would be terrific. Thank you.

**Ms DALE** — I see in your letter that you've put three key questions that you're looking at in local Government perspective, so I might just go through them and then questions as we go, if that's okay.

**The CHAIR** — Very good.

**Ms DALE** — So just broadly speaking, the way that I think local Government and myself in particular view corporate governance is that there's two parts of it. One is corporate governance which predominantly relates to the internal workings of council and democratic governance which refers to the external parts of what we do. So I see governance in two sort of formats here. And I could talk all day on democratic governance but I won't, but just to outline what I think that that means.

I think it exists when a Government governs for and on behalf of its community and good democratic governance exists when those citizens are informed and engaged in terms of what the local Government is undertaking. So I distinguish between decision-forming processes and decision-making processes. And of course, as all Governments make decisions, it's how that decision-forming process has been undertaken to come to the end result of the decision-making which in my view undertakes consultation, participation and engagement in particular.

With major local issues, of course, the local council, hopefully, if they're doing their democratic governance, will consult and engage on issues such as community planning, on issues such as annual plans and on local planning issues. So obviously that's a key part of what I think democratic governance is.

To give you a snapshot of Nillumbik, and many councils do have this, we have a committee system whereby council hears submissions from affected residents, and that might be in the area of planning and building or it might be in the area of policy. So that's certainly in place. We have consultation, which I think is accountable, we have a number of community think tanks which have been really successful in a place like Nillumbik where people have a great passion about why they live there and what they want to maintain and enhance into the future. We've had township (indistinct) where people come for - and this works more in a context such as a Hurstbridge type of locality, where people can come for the weekend and talk about their local community. We record council meetings live, and some councils are now going to webcast so you can see them, but we haven't gone that far yet, but many councils do. And we believe that our information is transparent.

In terms of corporate governance, and there's probably again two issues to break that down into. Clearly local Government is a level of government and I won't go through all of that because you're aware of the issues of what a government does, but we're bound by a number of legislations, obviously. We make meeting procedures and local laws, we have a range of financial

and reporting requirements that are undertaken. This is just a list of all the documents that the public can have a look at if they wish, or they're on the website. We have issues of confidentiality.

**Mr FORWOOD** — By requirement or have you volunteered that?

**Ms DALE** — That relates to the regulations but we also have a number of things that aren't - - -

**Mr FORWOOD** — So the regs actually specify a huge amount of documents that must be made available.

**Ms DALE** — The regs do, plus local Government in the main has their own information available as well. We certainly have issues of financial reporting, pecuniary interest, which would be similar to all Government. Local Government has only qualified privilege, which is different from State and Federal. We have audit committees and other legislation. In particular one that comes into (indistinct) often is a Planning and Environment Act, which of course is often an issue for debate at the council.

But I think corporate governance perhaps - and that's more the statutory framework which a government, no matter what level, has its framework to operate within, but internally there's a whole range of other governance issues that perhaps hit the papers perhaps more often than not, and that is in relation to relationships sometimes between councillors, and of course there's no party systems that State and Federal have, so between councillors issues can arise, between councillors and the administration issues can arise, between the mayor and the CEO issues can arise. And that can be the case in many local councils.

How you assist them is, I think, to provide a common understanding between all the parties. It might be in relation to certain protocols. So, for example, at Nillumbik we have a correspondence protocol, we have a town planning enforcement protocol, we have a protocol for consultation meetings. And this has helped councillors and staff and the public community know what's expected, what process will be gone through.

At Nillumbik the councillors have - - -

**Mr FORWOOD** — Does it work?

**Ms DALE** — I'll get onto that when we get to issues, Bill. Council has its own code of conduct which again is generally accepted. We have procedures for council expenses entitlement, so again it's very clear to the councillors. The role of the mayor can be sometimes an issue because they're not like the Premier or the Prime Minister, they don't have that different status. They're first among equals. And often there's confusion between the role of the CEO or the organisation and councillors. This is an ongoing issue, I believe. And again, you have protocols to help for the smooth running of that sort of process.

It's sometimes more difficult, I think, for councillors to distinguish between their roles, and to give you perhaps a clear example or simple example, and you'd know all this. Many councillors often get residents ringing about parking fines and processes need to be in place to make sure that it's not seen that that councillor's interfering with the enforcement of the law in that sense. It probably would never be considered appropriate for a parliamentarian to talk to the police about a particular infringement but it's more seen as, you know, common or okay for councillors to talk to local laws or myself about fines, and that's some of the issues I think in local Government that comes up quite frequently. Where there's not a very clearly defined distinguish between the organisation and the role of the councillor. It's a tricky one.

We also have a pre-election protocol which we're coming up to elections in November. And there's a caretaker period which is also set in train, but our protocol takes in a whole range of other issues, again, to provide clarity for all candidates.

Moving on to your second question, which is what are the emerging issues? I think there's ongoing issues with local Government in terms of governance. One is, local government can be seen to be handing difficult decisions to other bodies such as like a VCAT, for example. So delay decisions until it goes to VCAT and then it's out of our way, which I think has significant governance issues.

All Governments, I think, have to - responding to pressure groups can be also impacting on some decision-making processes where you might forsake the general good for a particular lobby group that might put forward a particular view. Relationships I've spoken about. Inappropriate use of information can be sometimes an issue for local Government in a governance context. That means that we need to make very clear what's confidential and what's not, and there's been some fairly stark examples of that that have hit the media about leaking confidential information. And finally, dealing with a rogue councillor can be also challenging, or rogue councillors. And again, there's not the system of a party type system which will provide a framework for councils in which to work, which I'm not saying is a bad thing, I'm just saying that if you have someone then who's hell-bent on another agenda, it can create some difficulties.

Some of the improvements, I'll just draw your attention - you've probably seen this, but this is a good governance guide which came out recently. I think that's a pretty good overview for local Government. This is another one which is more on democratic governance which the VLGA and State Government put out, which is another issue. I think a good one.

**The CHAIR** — You can leave those with us.

**Mr FORWOOD** — Well Candy left us the good governance one when she was here last week.

**The CHAIR** — That's fine.

**Mr FORWOOD** — I haven't seen the VGLA one.

**Ms DALE** — I'll get this one to you, because I think it's my only copy. But I'll get one to you. Improvements. There are some changes which have probably been discussed with you about changes to the code of conduct for local government, and I think that that's a very good step forward. To have a whole governance framework I think is really important. The problem with codes of conducts, which is your question about do they stick to them, well, most do but some don't. And when they don't there's no way to really enforce it. So I think with the new legislation, once that's sorted through, that will be a good issue.

Maybe some consideration could be given to - at the moment if a councillor breaks a local law the only way to then enforce that is through the Magistrate's Court, which is very public and a very hard-hitting sort of way, but maybe there could be a good governance tribunal that can actually hear cases and suspend a councillor, perhaps, if they really clearly break some avenues of either the local law or their own code of conduct, once they're now put more in place.

It's not an easy issue but if you evict a councillor from a council meeting, for example, and they refuse to leave, again, it sets up a very adverse sort of environment, so as a CEO do I try and physically get them out? They're the sort of issues that really are not resolved at the moment in the current framework.

So strengthening code of conduct, strengthening protocols. I think a lot of smaller councils who don't have resources do get flustered and overwhelmed by good governance issues if they're having difficulties, and the MAV do take a role in that but it's difficult for small councils, and when they're trying to grapple with a whole different set of relationship issues that they can't get outcomes.



Electoral reforms in Nillumbik last election, we had 107 candidates. A State record. I think Darebin had in the 90's. There's got to be some way, and I don't know what the answer is, of trying to not encourage - there will probably be more in November, of encouraging running partners for particular outcomes.

**The CHAIR** — It should be called attendance voting, I think, Catherine.

**Ms DALE** — I'm not sure what the answer is. But I think that that is worthy of at least looking at. I'm not suggesting that we raise the costs, I think that's negative, but there's got to be some way of just sorting it out. Whether it's first past the post, I don't know, but there's got to be some way of addressing it. Maybe it's just an issue of Darebin, Nillumbik and the City of Melbourne, I don't know, but I'm sure we'll have more than 107 this year.

**The CHAIR** — It sounds like a healthy democracy.

**Mr FORWOOD** — Well it's not really.

**The CHAIR** — Depending on a number of factors.

**Ms DALE** — Indeed. You could look at it that way.

**Mr FORWOOD** — It's just tickets. Just tickets.

**Ms DALE** — (Indistinct). This sort of material is really good. Good governance. But it would be very useful to have some of the issues that I've flagged more clearly perhaps set out. Like, the role of the CEO and the administration and the role of the council very clearly articulated. The role of the mayor versus the role of the councillor. I think that that would be - and this is a good start but just some very clear definitions, I think, would be really useful to assist in that process.

So that's a snapshot, a very quick one, of three questions.

**The CHAIR** — Thank you for that.

**Ms DALE** — I've flown through all of that.

**The CHAIR** — Snapshots. We're minded how complex - - -

**Mr FORWOOD** — It is complex.

**The CHAIR** — - - - and tricky it is sorting out where guidance for good governance should come from and where leadership for good governance should come from within the local government sector. Where do councils who get into governance issues and problems currently go to? Do they go to the Department, or given the leadership that the MAV and the VLGA have provided on governance, do they go there? Or do they go to a neighbouring council where they see things operating well?

**Ms DALE** — I think the last one the least often. I think the MAV and the VLGA are often referred to in terms of issues and will come out and try and work through the issues with the council. Some councils will employ a facilitator, and there are a number of those sort of people around that are competent to do that. Or they muddle through depending - I think the ones in the country have more difficulty because you don't have easy access to either the MAV or the VLGA because of distance, to have a consultant come through and work through is more expense and they probably don't have that. So they tend to be - VLGA, MAV or employ a facilitator to come in. Or muddle through.

**The CHAIR** — Your idea of clearer statements of roles and expectations, protocols and so forth, would you see that happening through State Government or through the peak bodies?

**Ms DALE** — Well there could be a combination of both and I think it's been - I think like the VLGA one, which I was on that working party, is a good example of working through, and I think this one also was - this is also a joint between MAV, VLGA, State Government and (indistinct), and I think that's a useful joint exercise that can get some really good results.

**Mr FORWOOD** — It seems to me there's a conflict, Catherine, between the desire of local government to be completely autonomous and have a say over its own affairs and the requirement for it to abide by Act, the Act and other Acts, particularly the Local Government Act of course. And the measures that come, like the Best Value Review and the other things that come from State Government. And I wondered whether you'd care to comment on how you see the relationship, in a practical sense, between what local governments should do in reporting back to the State Government about its obligations and what it's doing and its capacity to internally operate?

**Ms DALE** — I think that varies. I see the best value reporting as perfectly fine. I think that that's a good system to report back through. Some of the indicators set by the State Government I question, some of the broader ones, because I don't think they mean very much to try and compare a Nillumbik with a Frankston to a Moreland to a Port Phillip.

**Mr FORWOOD** — Sure. Yes.

**Ms DALE** — But where councils can demonstrate their own best value improvements and you work through those issues, I think is valid. I don't have any problem. I mean I think Nillumbik has a very good rapport with the State Government, just speaking personally. They're very helpful in terms of working through issues.

**Mr FORWOOD** — They don't ask you for too much, they don't make it too hard for you to report, frankly they just let you, apart from - - -

**Ms DALE** — Well there's a fair bit of reporting, and as I said, I think some of that's valid and some of it's probably questionable, but I mean I think the broad framework is fine. We all operate within a broad framework with annual reports and reporting. I think there's some scope for review but I think, and we've just undertaken - we've gone through a Local Government Act Review, and I can probably find a few CEO's who could talk all day about that one.

**Mr FORWOOD** — Yes.

**Ms DALE** — But, look, generally I think the reporting is fine. It's part of the accountabilities back to our communities and to other levels of government. Some of it still, though, could be refined and I think it's more the comparative data that is then misused potentially in the media and so forth.

**Mr FORWOOD** — (Indistinct).

**Ms DALE** — Yes.

**Mr FORWOOD** — But some of the smaller groups will say to us that, you know, they spend too much time being required to undertake governance. You don't think this applies in the local government sector?

**Ms DALE** — I think you could have a bit of a review and look at that broadly, yes. I think there is, Bill.

**Mr FORWOOD** — Yes. Okay.

**The CHAIR** — Ms Green.

**Ms GREEN** — Thanks, Chair. Catherine, I think - I mean you probably covered some, you know, in talking about the protocols that Nillumbik have and the things that they're doing, and it probably shows that Nillumbik's, you know, a little bit ahead of a lot of councils in terms of implementing a lot of the changes that are proposed in the Local Government Act, but I wonder whether you'd like to comment on what you think the main challenges for local government in implementing those changes would be with the amendments?

**Ms DALE** — I think the issue is perhaps a lack of clarity at this point in time. For example, we're about to enter a caretaker period in August for three months. There's been - and it's just the scope of the work I think. I don't think it's because the officers in the State Government are sort of twiddling their thumbs, but the new Local Government Act brought a whole range of changes, and that's one that's going to impact on us very quickly. So what does it mean precisely for that three month period and is that valid? I mean we had that debate about whether it should be three months and it's just a quirk of the legislation that we're caught up in the three months and after that it'll be 57 days. But for three months the council can't make any contract decisions over 100,000 or thereabouts. So that's going to cause all sorts of problems in terms of having capital works undertaken this year. So there's a whole range of questions about what does a caretaker period - some things are very set and some things are very grey.

The code of conduct that's now required or will be required under the Local Government Act, which is a great step forward, but again there's a complete lack of clarity about what that will all mean for local government. And there's no point (indistinct) councillors trying to nut it out. There's got to be some sharing of the minds to get that through. So I think it's really more been just perhaps slowness of information to clarify the new Act, and what that means for us all.

**The CHAIR** — Catherine, this conversation's taking me back to the days when I was on Brunswick Council, in my mind, and I recall we had quite a robust discussion with the State Government at that point in time when we insisted on having two councillors, it might have even been three, on a reasonable sized audit committee, internal audit committee. And we felt we needed to be there as much as external representatives because it was another opportunity for we, as councillors who made decisions in that municipality, to find out how the organisation worked at a detailed level and looking at risk factors and a whole range of other issues that we, through normal council documents would never have had access to. Can you tell me what the current situation is in terms of councillors on audit committees?

**Ms DALE** — Yes, it's a good point. There are some guidelines - well the most recent guidelines do suggest more community reps than councillors. Nillumbik Council has taken the view that that is not appropriate, and so it's balanced two and two, which we believe, I think, collectively is appropriate for the very reasons you've outlined. Also, the fact that in a sense councillors are representing the community. So to say you should have three community reps and two councillors to me doesn't make a lot of sense. Or a majority of community people. Because it is council's audit committee. And so I think that that's still around and there's still often a push to have - our Chair is a non-councillor, our Chair is a community rep, but I think - - -

**Mr FORWOOD** — Trained community rep. He's an accountant or something.

**Ms DALE** — Yes. In fact yes. That's the case in our situation. Yes. A former partner of a large accounting firm.

**The CHAIR** — Has that always been the case?

**Mr FORWOOD** — Well it ought be.

**Ms DALE** — The last Chair was not a trained accountant but had experience, significant experience in the business sector.

**Mr FORWOOD** — You need someone who knows their way around.

**Ms DALE** — Yes. So that does rear its head and I agree, I think it's got to be a balance.

**The CHAIR** — Thank you.

**Ms GREEN** — I might just say, Catherine, that in response to the Chair's question about where do councils get advice and you said that neighbouring councils is probably the least likely, I might just say from the quality of evidence you've presented today that I think there are a lot of surrounding councils to Nillumbik that could learn a lot.

**Mr FORWOOD** — They should come to you, Catherine.

**Ms GREEN** — And I think the size of your rate base doesn't necessarily equate with your level of knowledge about governance and also community related - - -

**Mr FORWOOD** — She gets hands-on practice.

**The CHAIR** — Yes, well we have appreciated you coming in to talk with us today, thank you very much.

**Ms DALE** — It's been my pleasure. Thank you for the invitation.

**The CHAIR** — And you will receive a copy of the transcript and if we have any further questions we'll be in touch with you.

**Ms DALE** — Okay. And I'll get (indistinct) to send you a copy (indistinct).

**The CHAIR** — I welcome Ms Shirley Caulfield, Vice President, Ms Tricia Greenway, Senior Manager Policy and Planning, and Ms Natalie Savin, Acting Chief Executive Officer, from Arthritis Victoria to this public Hearing on the Sub-Committee's Inquiry into Corporate Governance in the Victorian Public Sector. All evidence taken by this Sub-Committee is taken under the provisions of the Parliamentary Committee's Act and is protected from judicial review. However, any comments made outside the precincts of this hearing are not protected by parliamentary privilege. All evidence given today is being recorded and witnesses will be provided with proof versions of the transcript shortly.

I'm pleased you could attend this hearing today and I invite you to make an opening statement and we can take it from there with some follow-up questions. So who will make the opening statement?

**Ms SAVIN** — I'll make an opening comment. We accepted an invitation today to speak particularly around community participation. We're a not-for-profit organisation and we've had a large involvement with consumers over a long history in Arthritis Victoria. We have our own experiences of governance as a not-for-profit.

**Mr FORWOOD** — You certainly do.

**Ms SAVIN** — And we would welcome any opportunity today to assure this Committee that as a not-for-profit in Victoria, this organisation in 2004 is resting on newly laid foundations which I believe, and I hope my colleagues will attest to, that we've got a way forward, that we all encompass our community of consumers very well, as well as satisfying our membership that we're an organisation to be supported and supported strongly.

Tricia Greenway is probably best placed to speak about our community participation, but I'll add to that, and Shirley, as Vice President and a previous CEO prior to the year 2000 but now a Board Member, will be also able to wax eloquent.

**The CHAIR** — Okay. Tricia?

**Ms GREENWAY** — Perhaps it was the involvement of the members and the numbers of volunteers across the State that probably really attracted me to the organisation in the first place. Having worked in health in lots of ways in lots of other places, to come to an organisation that indeed had established from the grass roots a quite extraordinary system of engaging the consumers into the organisation fitted very well in with perhaps it's been a long term academic interest of mine, but to come across an organisation that had grown from a very grass roots base and concentrated on engaging, as I said, the consumers and that in its planning and its whole service delivery was, I thought, a pretty rare thing. And given the fact that also that's coupled with the fact that the methodology upon which the organisation works, that is of training members of the community to go out and therefore to provide these community-based services to help people manage their arthritis right across Victoria was a really really effective way of using the community dollar to actually get what really helps embed it into the community.

I've always had a particular interest, and I think the organisation has always actually been quite a model, of community strengthening in the way they actually work. The outcome is not only to the benefit of people with arthritis and their families and their carers et cetera, but the way that the organisation delivers those services has a positive impact as well. Because there are a whole lot of self-help groups across our organisation across the State, and with all of the challenges that that brings, right from north to south and east to west, and so the model of engaging the members and the consumers has always been very effective in that it's long-lasting, we can invest activity in an area, train community leaders, and they're there. And what we do following that is resource and support them with updates and all sorts of other avenues. So it's that model of community participation.

**The CHAIR** — And is that fed into influencing Government policy at a higher level?

**Ms GREENWAY** — I think it did in that I think it was Arthritis Victoria, through Professor Kate Lorig from Stamford, who also pioneered a model in Victoria largely, originally, of the notion of supported self-management strategies and techniques. And we indeed did introduce that very much onto the agenda of the Commonwealth and there is a chronic illness, you know, self-management type strategy nationwide now and that was very very largely involving the Arthritis Foundation and the work that it had done and learnt, and the mistakes made along the way.

**Ms SAVIN** — Yes, we've probably been less influential in past years, but we've recently begun - well, more formally next week we'll begin a partnership with DHS around prevention and early identification and self-management of musculoskeletal conditions so that we can fit into the Government's strategy. We'll be delivering programs in partnership with DHS.

**The CHAIR** — You were here earlier, I think, when witnesses from VCOSS were talking about the partnership agreements?

**Ms SAVIN** — We didn't hear that too well. They were very softly spoken.

**The CHAIR** — They were making the point that those partnership agreements were very helpful in terms of providing mechanisms to address any difficulties in the relationship or issues that needed to be dealt with between the agency and DHS. Do you find that to be the case or is this the first major partnership agreement that you'll be operating under?

**Ms SAVIN** — Yes it will be, yes.

**The CHAIR** — Right, so in the past you've operated, what, with funding from the State?

**Ms SAVIN** — Well we've had funding and service agreements but this will be a new partnership.

**The CHAIR** — So what's the difference?

**Ms SAVIN** — We've yet to see the elements of that. Presumably not much but I mean we'll be trying to fit in with the Government strategy and be the agency they need us to be in order to get funding and to do that program work for them.

**Ms CAULFIELD** — Through you, Chair, a comment. Certainly the funding agreements that we had were an excellent way of negotiating with the Department about their needs, precisely what it is that they were - the outcomes that they were looking for, and how we could fit into that. Things like reporting mechanisms, the suitability or otherwise of the templates for the reporting mechanisms, and all of those things were discussed, so just having an agreement and having a contact person in the Department to discuss agreement matters enabled quite a wide ranging discussion of all sorts of issues and they were extremely helpful. I mean having that agreement mechanism there for discussion was - - -

**Mr FORWOOD** — So how have you moved from the old Funding and Service Agreement process, or what model, to the new partnership that you are going into now? What was the process that you went through with DHS to move from the old to the new?

**Ms SAVIN** — That's a process of discussion to begin with. We believe that we've got a number of capabilities and an infrastructure across the State that should be made available to the Department, and we're keen for them to take up the offer of our infrastructure in the musculoskeletal area of health need.

**Mr FORWOOD** — So the outcome probably will be more funding for you, better outcomes for them. But how are they deciding, first, the outcomes that they want, and secondly, how are they deciding about the funds that they want?

**Ms SAVIN** — They're doing a major strategy in the population health area across diabetes, asthma, musculoskeletal, and we will be asked to participate with other peaks in those other areas.

**Mr FORWOOD** — Right. So will it be a competitive tender arrangement or will they just auspice you?

**Ms SAVIN** — Those arrangements aren't clear to us except that we're not aware of the competitors to us, or any competitors to us, in the arena.

**Mr FORWOOD** — There are none that really exist, are there?

**Ms SAVIN** — Yes. We have capabilities, we believe, that nobody else has.

**Ms GREENWAY** — We certainly have a constituency that nobody else is responsible for. When you talk about arthritis per se, the condition, it's always been a difficulty for the organisation because for quite some time arthritis is the single greatest cause of disability. There are interventions that can slide that disability slowly backwards, and we were for a long time funded under disability. And then there was a change in the Department which meant that we were funded under public health, and I don't think that that has probably produced the opportunities that areas like positive ageing and some of those other areas will be able to be attached to, I would think, in the future. And I think the idea that because it's been in the chronic illness movement, the idea of the work that we do, as I say, is community-strengthening, what we do is absolutely provide for a more positive ageing experience for our very large number of people affected, and I do think that in future that we will indeed be seeking to make partnership arrangements around some of those other issues. Particularly around some of those other health areas that are naturally involved in delivering outcomes for people with musculoskeletal conditions. And I think the accident of birth, that it went from disability and it was almost prescribed that it go to public health some while ago, and so I think we do need to get out the silo of just one aspect and go across the portfolios.

**Mr FORWOOD** — I just want to clarify something. I don't know much about the medical stuff, but are there other musculoskeletal illnesses that you will wrap up into the Arthritis Foundation?

**Ms SAVIN** — Yes.

**Mr FORWOOD** — So you'll end up changing your name and not being Arthritis?

**Ms SAVIN** — Well they're already there. There's some - up to 160 particular - - -

**Mr FORWOOD** — Other types of conditions.

**Ms SAVIN** — Yes.

**Mr FORWOOD** — That get dealt with by you as the funded agency?

**Ms SAVIN** — Yes. I mean the big group, osteoporosis is there, fibromyalgia,

**Mr FORWOOD** — Okay. But in the end there will be a silo of one sort or other that deals with all those diseases.

**Ms CAULFIELD** — Through you, Chair, there's been a great debate for a number of years about the name and the ideal name is, you know, musculoskeletal. Now, the name has become arthritis for musculoskeletal health.

**The CHAIR** — You don't give up a well identified name.

**Mr FORWOOD** — Well, the spastics are. You know, they try out - they tell people they call themselves Scope these days.

**Ms GREENWAY** — And it costs an awful lot of money to do it too.

**Ms CAULFIELD** — But the understanding of what musculoskeletal health is has got to be somewhere before the name will ring a bell to people in the community.

**Mr FORWOOD** — Sure.

**Ms CAULFIELD** — So it's a slow - - -

**Mr FORWOOD** — A difficult one.

**Ms CAULFIELD** — Yes. Transition.

**Ms GREENWAY** — And getting your tongue around 'musculoskeletal' is (indistinct).

**The CHAIR** — Not easy. Ms Green?

**Ms GREEN** — I'm interested in your consumer participation mechanisms and what are some of the ways of measuring the performance?

**Ms GREENWAY** — The plan that we have is something that's happened incrementally, incidentally and part of the culture of the organisation over a long period of time. Because we've had, you know, our 115 self-help groups that are visited and provide feedback and questions, and that's been a sort of automatic intrinsic part of the culture of the organisation. But we've now gone a step further and in addition to that, in our regional self-help group meetings, whereby all the groups meet together, and of course there's great staff involvement and there's great feedback loops established out of those things that happen on an ongoing basis across the state, but then we reach the stage of, to try and formalise that. And so the formalisation is taking place around an

established committee of the board which is a consumer or a community participation advisory committee.

Now, there are terms of reference that have been established for that.

**Mr FORWOOD** — Perhaps you can make them available.

**Ms GREENWAY** — Yes, we certainly will make those available. And they're based, I suppose, also on the experience accumulated over 40 years from this organisation, but the fact is, as I said, I've been involved, as was noted earlier, in the community advisory committee on the Women's Hospital, Natalie's also involved with the dental hospital, so we bring to the organisation a bit of experience and a lot of mistakes made on trying to set up community advisory committees.

**Mr FORWOOD** — Right.

**Ms GREENWAY** — And so we have done the terms of reference, we have put them in. We've already submitted them.

**Ms SAVIN** — Yes, the Board's already produced a recruitment process and that's our next task, to draw seven people from our nearly 6000 membership, our two and a half thousand self-help group members and our volunteer group, to be the articulate spokespersons to oversee how we do it better in terms of having the cycle of advice from our consumers to make us a better organisation.

**The CHAIR** — So is that what's driving the organisation currently? I'm thinking back to the comments about the partnership agreement that you've now entered into with DHS. Are there requirements for certain types of governance arrangements between DHS and agencies that it funds or is this part of a culture that's grown up as we're hearing? Where are all the different pressures for good governance coming from?

**Ms SAVIN** — Well DHS isn't our major funder. The contributors from the community are our major funders and therefore our accountability to our members, our donors - - -

**Mr FORWOOD** — You're an incorporated organisation.

**Ms SAVIN** — We're incorporated.

**Mr FORWOOD** — And association.

**Ms SAVIN** — Yes, we are. And to the extent that DHS is a minor funder, we wouldn't want to be overlaid with compliance to DHS which perhaps interferes with our ability to meet the major part of our constituency. However, we will obviously comply with the requirements of Government if we are to do work with them.

**Ms GREENWAY** — Actually I think that probably we've got something to offer. More to offer than we've received. In that I think we've learnt a lot of lessons, and you were talking a lot before about templates. And I think always, and in our work in the community advisory committees on hospitals, everyone agrees that if you can engage the community you get better health care. But everybody keeps on the same question, 'But how do you do it?' Because it depends on a variety of factors.

I think what we've learnt is that there are some generic things that can be applied, and I think we've actually got that to offer in that we have learnt that, you know, the expectations of consumer participation need to be contained in a shared understanding and that understanding is articulated throughout the organisation. And given that the - I'm very interested in the idea of continuous improvement, and continuous improvement that can engage meaningfully consumer participation I think is obviously something that's going to make a contribution to the quality of health.



So given that the quality council also, and I know that there's the Commonwealth and State Ministers looking to try to find ways that the consumers could input into and evaluate what is quality, I think that we as an organisation have indeed, as I said, learnt a lot of things. We would be, I think, giving some advice to Government if we were to say that really in the trend towards quality and consumer participation, that service agreements really should require some sort of demonstration as to the level and the degree of community participation. And I think, as I said, we've really got something to offer in that vein, and I think the idea that, you know, we've included some efforts in our first terms of reference where we've talked about the fact that the committee that's formed will be reporting in the annual report. Right? The committee that's formed needs to have an allocated budget. The committee needs to expect that it's going to be working with a staff of the organisation who also have a shared understanding of what community participation means and that that in fact is part of the culture of the organisation.

I think the idea that - and we certainly suggested at the Women's, in our review, that indeed key performance indicators need to be right throughout the organisation that transparently demonstrate the role of the consumer and the engagement, and the outcome, again, and if you're talking about outcome based, and I would actually like to suggest that perhaps service agreements would be considerably interesting if they were to reward agencies who really made efforts - - -

**Mr FORWOOD** — Incentive payments.

**Ms GREENWAY** — Incentive payments.

**The CHAIR** — There's a radical idea. Now, Shirley, you wanted to add something earlier.

**Ms CAULFIELD** — The idea of consumer participation has been with the organisation ever since it began, because that's actually what it was all about. And it's been demonstrated in different ways over the years. Now, for example, in relationship to governance, it was thought that a good starting point for consumer participation in the decision-making about service delivery and so on, was having consumers on the Board. And that's not to say that that's not still considered. But that was the process.

There was always considerable consultation with the self-help groups, with groups of people who were participating in one particular service, it might be the telephone advisory service or whatever. And then there would be focus groups and so on. So there's always been a lot of it. But it's just in more recent years that the organisation's understood that that has to be formalised and that whatever aspects of that we don't continue with or add to, and so on, but it must be formalised and reported, as Tricia has said, to give a very clear understanding as part of our accountability.

**The CHAIR** — That's terrific. Yes. Bill?

**Mr FORWOOD** — Yes. I'd like to address this to you, Shirley, but I should say that I'm pleased to see that the organisation's in such good hands. When you had your own governance issues recently, did you get assistance from the Government? From Consumer Affairs or from DHS? Or were you left to try and sort your own way through your issues?

**Ms CAULFIELD** — Basically we were left to sort them through ourselves. That might have depended, or might have been, you know, as a result of the types of issues that there were.

**Mr FORWOOD** — Right.

**Ms CAULFIELD** — Without getting into the nitty-gritty of those times, the organisation basically or the Board did not have a consistent view amongst its members as to what good governance was.

**Mr FORWOOD** — Right.

**Ms CAULFIELD** — And there's actually heaps of documentation out there, heaps of it, and a lot of it was a matter of interpretation, and a lot of that hung around the issue of the responsibility of the CEO versus the responsibility of the Board. And I think that there was some confusion about, for example, the issue of occupational health and safety. And whilst very clearly Boards have an overall responsibility for that, and to see that the policies of the organisation are appropriate, meet legislative requirements and so on, and that the development of those policies, the drafting of those policies, the management of those policies and so on, is very clearly CEO business, not everyone seemed to understand that the CEO needed to be fully accountable to the Board for those issues.

I think that what the organisation has learned out of it, and of course we are talking about a largely new group of Board members, but the organisation has learned that the CEO's accountability, or the accountability of the CEO to the Board, is of absolutely prime importance. And that Board members ought not to be fearful of saying, 'Yes, you are in charge of the management of that but we have to be satisfied that what you are undertaking and what you are doing is appropriate', and that is not interference with management.

So I would say that the problems were really over that issue. And I think that the - well I've got no doubt that the current Board, and I might say a number of members of the Board of 2003, in fact the majority of members of the Board of 2003, understood that very clearly, and I think that that's been articulated pretty well now in our policies. There are things that cannot be written about the division of responsibility. There are many grey areas. And trust is incredibly important. And, you know, it's a shame if a CEO feels concern about the Board checking up on the CEO or whatever. Those things can happen. But when it's clearly documented and clearly understood, as it is in any organisation now certainly - - -

**The CHAIR** — Is this something where some external help or intervention at a particular time might have been of assistance or is it something the Board had to go through to work its way through those issues?

**Ms CAULFIELD** — I believe it is something that the Board had to go through but we didn't get any formal assistance. But we did have a couple of external reviews that assisted those of the Board who I would say had a good grasp of governance and so on. So there was no formal assistance. I would think that it possibly could be useful for organisations like ours to have some - the capability somewhere for - - -

**The CHAIR** — A repository of skills somewhere.

**Ms SAVIN** — I (indistinct) to the local governance person beforehand, thinking about the VLGA and the MAV as being a repository of advice, comfort, somewhere to go to talk.

**Mr FORWOOD** — Just have a chat. Yes.

**Ms SAVIN** — Yes, just have a chat. And certainly my studies of not-for-profits, you know, present - show pretty shallow territory there. There's nowhere where people really understand. One does governance subjects in an MBA, as I've done, or just the other MBA subjects that you do. You don't often get support for the not-for-profit sector. Most of the stuff is written for another sector. Lecturers are quite happy for you to explore not-for-profit agendas within the private for profit literature, but as - what's his name? Miles - - -

**Mr FORWOOD** — Lewis?

**Ms SAVIN** — No. There's a writer on not-for-profits. McGregor-Lownes, Miles McGregor-Lownes. You know, he sort of says, 'Nobody in Government's going to make - no bureaucrat's going to make their name trying to be a good regulator of not-for-profits'. You know,

there's just no mileage in it. And sadly, when the Federal Government knocked back the suggestion of a charities commission, that was a lost opportunity two years ago, under the Howard Government, when the Tax Act changed. The definition of 'charities work', you know, did suggest a charities commission and that would have produced a (indistinct) of excellence I think that would build support for the not-for-profit sector. But I think a lot of this you've got to do on your own.

**Ms GREEN** — Yes. I think, you know, from my understanding of an industrial past that I had, is that the community sector had the highest rate of unfair dismissal claims and things like that and that maybe that does - that misunderstanding that Shirley referred to about the roles of Boards versus CEO's would obviously feed into that. But my question was really, you know, now with the new Board and where you've come from with those issues, did that inform the sort of induction that you did for the new Board members?

**Ms GREENWAY** — Can I make another point too?

**Ms SAVIN** — Sure.

**Ms GREENWAY** — When you're talking about governance, because when I first worked for a not-for-profit, the DHS agreement always had an amount of money that was added for ongoing infrastructure work. Our disability agreement always had an amount of money that wasn't tagged, just specifically service agreement delivery. It had an understanding in it that there was some infrastructure costs in running an organisation like this. And it's my view, because I've observed it on a couple of occasions now, that the difficulty that not-for-profits often have is that providing things to the Board like the human resources function, it doesn't produce necessary results. And there's often been a great difficulty in having that human resources function that allows for that good governance amongst that level of activity to actually happen. And I was pleased to see that somewhere in the literature I read that there's an interest in restoring that. And I think for not-for-profits really doing it hard at the moment, and I think you'll find that - you mentioned the numbers of unfair dismissals and all sorts of things that are happening in the not-for-profits. I think it's a point of interest - - -

**Ms GREEN** — It's been over a long period of time.

**Ms GREENWAY** — Yes, but also the fact that recently that money that was there that wasn't earmarked specifically for a service formed a very very valuable thing to lots of not-for-profits, and I think attached to a service agreement it might make a difference.

**The CHAIR** — Okay. That's a good point. Well thank you very much, the three of you, for coming in.

**Ms CAULFIELD** — We are extremely hopeful that (indistinct).

**The CHAIR** — You'll receive the transcript shortly. Run your eye over it. If any problems, get back to us.

**Ms SAVIN** — And in case it looked like we had nothing to do and we just wanted to spend the afternoon observing the committee, we did get an erroneous time of 2.50 for our appointment.

**The CHAIR** — We thought you were just so keen to (indistinct).

**Ms SAVIN** — We wouldn't like you to think we had nothing to do but be a tourist in Parliament House.

**The CHAIR** — I'm so sorry about that. I hope you found something of interest.

**Ms SAVIN** — Well we did. We were sorry VCOSS speakers were so gentle.

**Witnesses withdrew.**

**Committee adjourned.**