

PROOF VERSION ONLY

STANDING COMMITTEE ON ECONOMY AND INFRASTRUCTURE

LEGISLATION COMMITTEE

Inquiry into the impact of the carbon tax on health services

Melbourne — 19 February 2014

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Secretary: Mr K. Delaney

Witnesses

Mr D. Martine, secretary,
Ms M. Skilbeck, deputy secretary, budget and finance, and
Mr M. Johnstone, director, economic policy group, Department of Treasury and Finance.

**Necessary corrections to be notified to
secretary of committee**

The CHAIR — Ms Skilbeck, Mr Martine and Mr Johnstone, welcome this evening, and thank you for coming to meet with our committee during what must be after hours for you. I have some housekeeping to take care of; I have to read an official document to start this evening.

I declare open the Legislative Council Economy and Infrastructure Legislation Committee public hearing. This hearing is in relation to the inquiry into the impact of the carbon tax on health services. All evidence taken at this hearing is protected by parliamentary privilege as provided by the Constitution Act 1975 and further subject to the provisions of the Legislative Council standing orders, therefore you are protected against any action for what you say here today, but if you go outside and repeat the same things, those comments may not be protected by this privilege. All evidence is being recorded, and you will be provided with proof versions of the transcript within the next couple of days. We have allowed 30 minutes for this session, and to ensure that there is sufficient time for questions, the committee asks that any opening comments be kept to about 5 to 10 minutes. I ask you to begin by introducing yourselves.

Mr MARTINE — I might commence. My name is David Martine, secretary of the Department of Treasury and Finance. I should point out that I have been in the job for two and a half weeks now.

The CHAIR — So you have all the answers.

Mr MARTINE — Absolutely. I have with me Melissa Skilbeck, who is the deputy secretary, budget and finance, and Mark Johnstone, who is the director of our economic policy group.

The CHAIR — Welcome.

Mr MARTINE — Thank you. Thanks for the opportunity to come along today, particularly as the committee is commencing its inquiry. We do not have a presentation to give or an opening statement. We are very happy to answer as many questions as you wish to ask today, and certainly if we cannot answer them tonight, we will endeavour to get the relevant information back to you as quickly as possible.

The CHAIR — Thank you. I assume you are all very familiar with our terms of reference, and I trust that you found the submission of the Department of Health interesting.

Mr MARTINE — Yes, I will have to get a copy of the slides.

The CHAIR — I will start by asking our Deputy Chair if she has some questions.

Ms PULFORD — Thanks for joining us this evening. I would like to further explore the health partnership funding agreement between the commonwealth and Victoria and ask whether or not the impact of the carbon price was a consideration in the negotiations.

Mr MARTINE — I might need to check with — —

Ms SKILBECK — I am afraid none of us here were involved in the negotiations, so we might need to take that on notice and ask those who were.

Mr MARTINE — I should not guess, so let me endeavour to find out from our commonwealth-state area within the department and get back to you quickly.

The CHAIR — Thank you.

Mr MARTINE — I will get you the proper answer on that.

Ms PULFORD — Further to that, it would be great if you could provide us with some advice on whether or not the national health partnership agreement was designed to guarantee the anticipated growth in costs and increased costs for a variety of factors. One would assume that in negotiating agreements like this, people take into account things like population growth — —

Mr MARTINE — I know there are certainly growth factors et cetera.

Ms PULFORD — and other costs, including the carbon tax.

Mr MARTINE — We will certainly endeavour to get that for you. The agreements are there. We can extract that information straight out of the agreements.

Mr FINN — What percentage of the overall cost to the state of the carbon tax is dedicated to health?

Mr MARTINE — I am not quite sure whether centrally we have ever done that analysis. We are certainly aware of the figures that were identified in the PowerPoint slides of around \$13 million or \$13.5 million. I understand that last year the health minister released numbers in that order of magnitude. I can take this on notice, but I am not sure whether broader analysis has gone through and identified something similar for all of the other areas of government. One can easily do the maths of \$13.5 million divided by that number, but I would need to take on notice whether — —

Mr FINN — So at this point you have no overall figure?

Mr MARTINE — I am not aware of any overall number that has gone through a similar analysis of looking at, for example, electricity bills across different areas of government and trying to add it up. I am not saying that it does not exist; I will just have to check. Once again, even if it is there, I am not quite sure whether or not we would hold that centrally in the department, but I can certainly check on that.

Mr BARBER — I have a few quick questions with very quick preambles.

The CHAIR — You are learning fast. It must be the hour.

Mr BARBER — We have just heard testimony from the Department of Health that they are assuming there will be no carbon tax in the next financial year, and they are assuming that the \$13 million they originally projected will in fact be wiped off. Is that assumption or are assumptions like it being used by Treasury as it goes about framing this financial year's budget?

The CHAIR — We certainly take into account announced government policies, so certainly at the time of the introduction of the carbon tax — I understand the economic forecasts were obviously adjusted at the time. They were outlined in one of the earlier budget papers from a couple of years ago. We would be making that assumption. The issue for the Department of Health, for example, is that there are set indexation arrangements that are not actually affected by CPI or the carbon tax, so they would just be maintained and continued. They would not actually be affected by the government's — —

Mr BARBER — There are two assumptions here — one is the assumption that there will be no carbon tax, possibly from the beginning of the financial year and possibly not, and the other assumption is that the power companies will be willing to give back those estimated amounts. So you are working on those assumptions?

Mr MARTINE — In terms of the funding to the department — and I will let Ms Skilbeck correct me if I am wrong here — the funding to health is actually determined by a different formula, which is a set percentage increase. So whether electricity companies, for example, fully pass on the reduction does not in itself affect the amount of money that is passed to health. It certainly affects their ability to manage and how much money they have got to spend as they are trying to manage their costs, and that is certainly a very important issue. But in terms of what the budget provides, it is not directly affected by that.

Mr BARBER — A second question: specifically, what grants, funds — perhaps stuff of a capital nature — have been made available or will be made available to health services that would like to put up a business case to invest in their own energy efficiency?

Mr MARTINE — Okay. I think I might defer to my colleague in a minute, but there is certainly — and I think it was mentioned in the health presentation — the Greener Government Buildings program, and I think there were a couple of examples of projects identified there.

Mr BARBER — I guess what I am saying is: what dollar amount has been invested in the last year or so in helping the health system become more energy efficient, bearing in mind some of them are owned by the state government, some of them are funded out there and the rest of it?

Mr MARTINE — I am not quite sure whether we would have — —

Mr JOHNSTONE — I do not think we have. We do not have specific numbers in terms of amounts invested. I guess part of the issue is the kinds of arrangements we have in place for the purchase of electricity — they were referred to by one of the previous speakers — where DTF, on behalf of government agencies, has a state purchasing contract for energy. From time to time that gets renegotiated. So as part of that process we would clearly be seeking to improve the deal, if you like, that we get from the preferred energy provider, which might involve a mix of different types of energy sources, including from green-powered renewables et cetera, which might have an impact on the overall cost.

Mr BARBER — We saw that despite your best efforts the power companies squeezed an extra 25 per cent out of us, despite there not being any carbon tax at that point. I just wanted to know: if health services came to Treasury and said, ‘We’ve got this great business case. We can reduce our energy use. The feds don’t want to hear about it’, is there a pool of money, or have there been actual instances of that money, being handed over from Treasury to health services to let them fund such a business case — which would probably be of a grant or capital nature, I would imagine?

Ms SKILBECK — I cannot think of a specific capital program in the short time I have been in this role, but we should go back and check that and take that on notice. There are a couple of means by which it might occur. As you have noted, funding for a business case for a project involves a significant amount of capital. It might come up to the central fund, but it would need to be a significant project to do so, or it might be a project within the Greener Government Buildings program, which another part of our department oversees, in which case it gets the collective wisdom of the accumulated experience of that program. But if it is, as the Department of Health covered, part of the ongoing business of running the health services, overwhelmingly that is within the Department of Health’s portfolio and their oversight of those businesses. So we would not necessarily see that degree of specificity.

Mr BARBER — If you can find any examples, that would be awesome.

Ms SKILBECK — Okay.

Mr MARTINE — We will endeavour to get back to you as soon as we can.

Mr RAMSAY — I am wondering if you could make comment on whether the indexation of the federal health funding would help offset some of the costs of the carbon tax to health services, and also what part the Greener Government Buildings program would have in relation to reducing emissions, or reducing the energy requirements and emissions, presumably, even though I understand the Auditor-General says there is more scope for that program to be more efficient.

Mr MARTINE — My apologies; I missed the very start, the first bit, of your question.

Mr RAMSAY — Indexation and the federal government funding, I guess trying to offset the cost of the carbon tax.

Mr MARTINE — I think the first bit of the question probably comes back to that first question about which we will endeavour to get back to the committee as soon as we can, just on the indexation arrangements of the whole health agreement.

Mr RAMSAY — I did not quite hear Ms Pulford.

Mr MARTINE — I suspect the answer to your question is kind of embedded in our answer to that.

Ms SKILBECK — I would reiterate Ms Diver’s answer in the previous testimony, that at the moment the national health reform agreement arrangements are new, and so as at this point we actually do not know the outcome of the commonwealth contribution to growth, quantity or price. We know that we have an agreement in place, but the mechanisms, including the administrator that Ms Diver referred to, have yet to actually really undertake their job. So it is quite an uncertain period.

Mr MARTINE — I might get Mr Johnstone to talk a little bit about the greener buildings program.

Mr JOHNSTONE — So the greener buildings program, clearly the Department of Health has already accessed that program in order to drive forward a range of potential benefits in terms of energy efficiency at

particular locations. Two of those projects seem to be up and running. There are another 10 or so, I understand, based on the evidence provided earlier, that are in train, in progress. So there is an existing arrangement within government whereby good ideas around improving the energy efficiency of government-run buildings can be accessed to facilitate those improvements. And clearly the evidence from the Department of Health indicated that over time their energy usage is starting to be impacted by that.

Mr BARBER — No, that is not quite what it showed. It showed that they were using patients or bed days as their denominator, and because people are going through hospitals and coming out the other end quicker and sicker these days, and despite no real change in their energy use, is it the right measure of efficiency?

The CHAIR — Do you wish to comment on that?

Mr MARTINE — I am happy not to comment, Madam Chair.

Mr FINN — If you do not, I will.

The CHAIR — I think we can save that for a discussion within the committee.

Mr MELHEM — The current funding, on my understanding, between federal and state for hospital funding is about 50–50?

Mr MARTINE — It is changing, I think, in 2017.

Mr MELHEM — What is the current one?

Ms SKILBECK — The proposal under the new agreement is that the commonwealth would fund a proportion of the growth each year. So it is not the total amount, it is a proportion of the growth year on year, and it is at 45 per cent of the growth and then it extends to 50, I think from about 2017.

Mr MELHEM — Currently what is it — 40 or 45 per cent?

Mr MARTINE — It is about 45 of growth, commonwealth, going to I think about 50 per cent from about 2017.

Ms SKILBECK — But it is the growth, not the total.

Mr MELHEM — So the tax bill of \$13 million, you think the commonwealth will get back about 45 per cent of that?

Mr FINN — It is 13.5 at least.

Mr MELHEM — In carbon tax?

Mr MARTINE — In total, if you add all those numbers up, based on the presentation, the total carbon tax going back to the commonwealth is roughly 13 and a half, yes.

Mr MELHEM — Yes, so it will get some money back.

Mr SCHEFFER — The *Victorian Climate Change Adaptation Plan* states that DTF has already spent over the past 10 years \$4 billion on climate change-related events, on the recovery, and then there is a list here of the issues: bushfires, heatwaves, floods and so forth. We are seeing at the moment the bushfire that caused the fire in the Hazelwood mine, which is causing huge health impacts in Morwell, with a lack of equipment, lack of servicing and lack of process. How is DTF working with the Department of Health in making sure that there are sufficient resources available to fulfil the obligation of DTF to provide those kinds of resources?

Mr MARTINE — Are you talking about immediate?

Ms SKILBECK — This particular fire?

Mr SCHEFFER — Yes. On the one hand there is a set of risks that the government has agreed exists. There is expenditure — —

The CHAIR — I am not sure that this fits within our parameters.

Mr SCHEFFER — What I am asking is: how are you working together on that? What is your process?

Mr JOHNSTONE — Sorry, I do not know which document you are quoting from.

Mr SCHEFFER — I am referring to the *Victorian Climate Change Adaptation Plan*, which was given to us previously.

Mr MELHEM — By another department.

Mr SCHEFFER — It is the government's document. If you look at the — —

The CHAIR — This is about service provision rather than actual carbon tax. I think this is stretching it. How does your question correlate with our terms of reference?

Mr MARTINE — I am not quite sure of the date of this document.

Mr SCHEFFER — It is current.

Mr MARTINE — The way I read the quote here is:

The department ... has estimated that the Victorian government has spent over \$4 billion over the past 10 years on response and recovery to climate-related events such as bushfire, flood and drought.

I would need to take it on notice and get a little bit more information. It is, in a sense, a summation. Certainly after an event such as a bushfire et cetera, as part of reviews et cetera, there is certainly a consideration of, 'How much did that event particularly cost us?'. Because there are obviously discussions, particularly with some of the emergency services, about their budget funding for the year and whether they can — —

Mr SCHEFFER — I am guided by the Chair. It needs to relate to — —

The CHAIR — It needs to relate to our terms of reference, if you are coming back to us with some information. I would be grateful for that with specific reference to item 3, particularly, of our terms of reference.

Mr FINN — I am resisting the temptation to ask what caused fire, drought and flood before climate change. Apparently it did not happen before that.

The CHAIR — We will stick with questions to the witnesses, thank you.

Mr FINN — What I would really love to know before we can get any sort of handle on the full impact of the Greener Government Buildings program is the cost differential. What is the cost differential between the Greener Government Buildings program and what would be a normal government buildings program? In other words, how much do you add because it has the word 'greener' in front of it?

Mr SCHEFFER — Does that relate to the terms of reference?

The CHAIR — Do you have some comparative data that you would be able to research, do you believe?

Mr MARTINE — I do not have it with me or in the top of my head at the moment.

The CHAIR — No, I am certain you do not have it on the top of your head. Is it something that you could search for us?

Mr MARTINE — I am happy to try to have a look at that.

Mr FINN — That would be fascinating.

The CHAIR — If you could, we would be most appreciative. We have one final question from the Deputy Chair.

Ms PULFORD — I have one more question on the numbers. When comparing the 2011–12 financial year with 2012–13 and then that year again with 2013–14, has the commonwealth contribution to Victorian health services, from one year to the next, increased by more than \$13.5 million in each of those year-on-year statistics?

Mr MARTINE — I would need to take that on notice and just double-check. Certainly any changes that were agreed as part of the initial agreement would be factored into our numbers. I am just not aware or sure of whether it is more or less than the numbers you have quoted, but we will endeavour to get that back to you as soon as we can.

Ms PULFORD — Just in overall dollar figures.

Mr MARTINE — We will break it down for those three years.

Ms PULFORD — Thank you very much.

The CHAIR — I would like to thank all of you for being here with us this evening and for taking on the ability to give us some more information. We will be very pleased to receive it. Thank you very much indeed for your presentation.

Committee adjourned.