

# PROOF VERSION ONLY

## STANDING COMMITTEE ON ECONOMY AND INFRASTRUCTURE

### LEGISLATION COMMITTEE

#### **Inquiry into the impact of the carbon tax on health services**

Melbourne — 26 March 2014

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#### Staff

Secretary: Mr K. Delaney

#### Witnesses

Mr R. Murray-Leach, chief executive officer, and

Mr L. Menzel, manager, sector development, Energy Efficiency Council.

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

**The CHAIR** — I declare open the Legislative Council Economy and Infrastructure Legislation Committee public hearing in the inquiry into the impact of the carbon tax on health services. I welcome Mr Luke Menzel, manager, sector development, and Mr Rob Murray-Leach, chief executive officer, at the Energy Efficiency Council. Thank you both so much for coming.

All evidence taken at this hearing is protected by parliamentary privilege. 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 parliamentary privilege. All evidence is being recorded and you will be provided with a proof version of the transcript in the next couple of days.

We have allowed 30 minutes for this session. To allow time for questions, could you keep your opening statements to around 10 minutes and then we shall ask questions, if that will be okay. It is over to you.

**Mr MURRAY-LEACH** — Thank you so much for the opportunity to come and talk to you today. To explain the organisation very quickly, the Energy Efficiency Council is a combination of an industry body and an expert body on energy management. Our members are large global multinationals like Philips, Siemens, Honeywell and Dalkia. We have Australian companies as well — AGL and Origin — and a range of companies that go from very large to very small local employers situated around the country. Our members also include the City of Sydney, the City of Melbourne, the City of Brisbane and a range of academics and experts in energy efficiency.

The purpose of the organisation more than anything else is to build the capability of the country in the energy management space. The reason is that in the last five years energy prices in Australia have risen quite dramatically, in case you have not noticed, and gas prices are about to do the same thing as electricity prices. As a result, energy efficiency, which was a benefit for the economy before but was not taken very seriously, I suppose, in the 80s and 90s, now has become a much more serious issue for a lot of people. It is really a global competitiveness issue more than anything else. If you look around the world, energy prices are going up in pretty much every single country, and what we are seeing is the energy markets in Australia have fairly similar sorts of features to what is happening throughout Europe, the US and most countries, so it is a growing global industry as well, with recent work by the IEA and various banks putting it at trillions of dollars.

Rather than going on with a general discussion, energy efficiency is really about saving money. It is about the efficient use of resources. It is a pretty simple concept in lots of ways. There is a substantial opportunity to save energy in the health sector. The target across the whole sector was estimated to be about a 25 per cent saving in energy. That is what we would call economically viable, at sort of around a 12 per cent internal rate of return, which is the rate of return that government generally is looking for in these sorts of investments. When you take in the fact that you are basically upgrading infrastructure, it is around a sort of 20 to 24 per cent return on investment. Those are the sorts of figures we have been getting from DTF from the projects that they have looked into.

Our members have done all the work in the hospitals, actually looking at what those energy saving opportunities are. Those opportunities are replacing lights with much more efficient ones and upgrading the heating, ventilation and cooling systems. Some of the systems in hospitals are very, very old. Some of the boiler systems were built in the 50s and they are as efficient as you would expect a piece of equipment from the 50s that has not been upgraded since that time to be, so in some cases we have seen hospitals with well over 50 per cent energy saving opportunities.

The reason these opportunities were not accessed by the health sector until recently was fundamentally that it lacked expertise. I did notice the presentation from the Department of Health saying that they had done lots of nice small projects, but to a certain extent nice small projects are a bit of a waste of everyone's time. The way you generally do these things properly — and this is what started happening in 2009 — is that you take a whole-of-hospital approach and you upgrade everything at once. It is the difference between having builders come in and do tiny little tweaks to your house 20 times as opposed to you just doing the whole thing. You look at what is economically viable as a whole upgrade.

There really was a lack of expertise in the health sector, not actually in energy efficiency because you do not need to do it yourself — you need to find experts — but in terms of how you manage those contracts, because they are a little bit unusual. If you do them correctly, you are actually not contracting for work; you are

contracting for a guaranteed energy saving. Generally around the world the way they upgrade hospitals or other health facilities is using what is called an 'energy performance contract'.

An expert will come in, look at the hospital — you will not know how much saving there is going to be beforehand — and the expert will say, 'For this one to hit that financial hurdle rate of, say, 12 per cent internal rate of return, we can change these lights, we can change these systems, we can potentially put in a cogeneration system'. There is a range of different opportunities. They are going to vary from hospital to hospital; a new one is going to have much less opportunity, while a really old one is going to have a lot of opportunities. The way you do it is that you basically contract with an expert who comes in and looks at the opportunities and then signs a contract with you to say, 'In this case I will deliver 34 per cent energy savings'. And there is normally a financial figure attached to it.

Things that hospitals lack: one is the lack of expertise on how to go about this; two is they are exceptionally busy; and three is their lack of access to capital. It is a really key point that to do energy efficiency upgrades — unsurprisingly — you actually need access to capital; you actually need to invest in it. Also, what is quite different and why grants are not a very good way for government departments is that if you do a grant, it is money going out and then the department has that money. Instead of giving that money out to a department that is then going to save money and that money is then staying there, a much better way to do it — and the way they are doing it around the world — is to set up a loan system. So you give the money to the hospital, it invests it in the upgrade, the energy savings pay back the loan over time, and then you also add an efficiency dividend over the top. What we are seeing around the world as the best way to manage these things is actually to have it managed out of the Department of Treasury and Finance.

In 2008–09 the Department of Treasury and Finance put up a proposal to set up a program called — I hate the name of it — the Greener Government Buildings program. The name has a nice bit of spin on it, but it is fundamentally an energy saving program. The reason I like it is that it is so brutally financial, and that is actually really what we are about with energy efficiency. It stands on its own two feet financially. The way that it works as a program, as we outlined in our submission, is the government said it wanted to achieve a minimum of 12 per cent Internal Rate of Return, or IRR, on all its projects. As I said, when you take into account savings and maintenance and the fact that you are going to really need to upgrade some of these facilities before they completely conk out, it is more like about 20 to 24 per cent.

Then the Department of Treasury and Finance actually facilitated these quite complex contracts. The point is they had an expertise in there, rather than each health unit having to get its head around how you do this kind of contract where you guarantee energy savings. The contracts themselves are quite complex; once you have done them it is very simple, because you are transferring the risk onto the energy efficiency provider. DTF facilitated those, and then they provided loans. What was set up is actually very simple under section 57 of the Financial Management Act. There is an existing provision, which is the reason it is not done under the budget. Under section 57 of the Financial Management Act the Treasury can provide loans to any agency for works that are actually going to pay back. Because energy efficiency clearly fits into this category, that is how it is done.

We looked around the world in 2008–09 at how energy efficiency programs work well. To be honest, we actually developed our recommendations and we came out with a paper on what were the best practice ones with all the energy efficiency experts in Australia. Confidentially, Victoria had been working in turn on this — a couple of people within DTF. They came up with a proposal, and it looked pretty much identical. Instead of saying targets that say 'You must save 25 per cent' or 'You must do this', it laid out really clear financial goals. There was a really good facilitation unit based at Treasury and a loans facility.

The outcome for health, if it fully implemented this program, was going to be a minimum of \$21 million a year savings, and that is based on less than 25 per cent, so we are being conservative on the \$70 million that we had in 2011–12, but of course the bill is substantially higher now. That is (a) because of the carbon tax and (b) because of a whole range of other factors. Really the absolute minimum, excluding the carbon tax, is a \$21 million a year saving. In reality we expect by 2020 it will be much more in the region of \$30 million-plus, particularly because what we have seen is such massive transformations happening in the energy sector around the world. One of the corollaries of that is increased energy prices.

We are very lucky we are not operating in a US state. They have insane rules in the US that the states are not allowed to borrow money based on that sort of 'household budget' idea, so they actually had to set up separate

legislation in the US in each state to allow them to borrow money to do these things, because they made such good financial sense. What we found in Victoria when the original DTF case went up, which they made public, I think it was a \$20 million or \$24 million — I will get back to you on the exact figure — opportunity cost for every year of delay in this program, because you are missing out on all these energy savings.

What they do it for in the US is it is a really useful way for cash-strapped state governments to upgrade their local facilities. You have hospitals which often have massively outdated equipment upgraded, which means much more comfort for patients, it means much lower energy bills, and it means you have replaced some assets that needed to be replaced in the very near future anyway, and you have paid for those assets using the energy savings. It is pretty much a no-brainer in many ways.

Across the whole government the estimates from the department were originally that it was going to save \$1 billion over a 25-year period. It is a 25-year period because you make those investments and they pay them back over time, and then they generate revenue. It has now been upgraded to \$2 billion. The reason is that every single one of these projects they have done so far has exceeded its targets quite substantially. We know it is working, and it is working well.

I am going to pass over to my colleague to talk about some of the side impacts. The fundamental reason for governments doing this is that it saves government money and upgrades their facilities.

**The CHAIR** — Thank you very much indeed; that was extremely interesting.

**Mr MURRAY-LEACH** — I will come back to a couple more points after Luke.

**Mr MENZEL** — I think that the overarching thrust of our submission is that GGB is a financially prudent program. It is also important to note that there is a range of co-benefits that accrue to the Victorian economy at no extra cost. The GGB program encourages multinational companies to establish operations in Victoria and expand the operations they already have, which means the creation of local jobs. It also helps Australian companies move into the energy efficiency space, upskilling current employees and bringing new employees into the sector. This increase in capacity is made possible because of the bipartisan commitment to invest in energy efficiency over a period of time.

It is important to note that the benefits associated with this increase in capacity and jobs in the sector mean that services that were previously unavailable or underprovided to the private sector start to be provided. So the private sector has access to energy efficiency services that they did not have access to before. They can improve the productivity and efficiency of their operations, and over the longer term that improves the resilience of the overall Victorian economy in the face of rising energy prices.

I think it is reasonable to say that the jobs investment by both local and multinational companies specifically in Victoria on the basis of the GGB program has been very large and that hundreds of Victorian jobs have been created. Significant expertise in the delivery of complex energy efficiency projects has been developed. We are talking about highly skilled positions. Engineers and construction experts have moved into this space on the basis that there was a forward pipeline of work coming into the system. The loss of these jobs would result in a massive downgrade of expertise and capacity in the energy efficiency industry in Victoria.

**Mr MURRAY-LEACH** — Which brings me to the unfortunate news that I got yesterday from the Assistant Treasurer's office that the Victorian government has decided to move from a loans system for this program to putting it into the normal budget bid process. That sounds like a very minor change, but to anyone who understands the energy efficiency sector this is unfortunately going to bring this program to a screeching halt.

The inquiry's term of reference (3)(a) asks about what the impact on public health services of the carbon tax introduced by the former commonwealth government is. That is going to vary with energy use. The GGB program would have reduced the department's carbon bill by 30 per cent by 2020, as a minimum. We know that the submissions from the Australian Medical Association, Northern Health, Western Health and a number of others noted that the priority should be on reducing energy spend in order to reduce exposure to any current or future Australian or global carbon prices.

If energy use remained steady, we would anticipate the impact of the carbon tax would decline from \$13 million per annum in 2014–15 to well under \$8 million in 2015, when the system would have moved to a floating price.

With the GGB in operation along with the carbon price, the impact of the carbon tax bill on the Department of Health by 2020 would probably be around \$5 million or maybe slightly more per annum.

Term of reference (3)(b) asks about the benefits to the Victorian public and private health services and their patients to the current commonwealth government's promised abolition of the carbon tax. That would depend on what is going on, but around \$13 million in 2014–15 is the fairly well accepted figure. That would drop down to around \$8 million when it moves to a floating price. The GGB would further reduce that by about 30 per cent.

There are other factors going on in energy prices at the moment, so it is very difficult to see what is going to happen in terms of pass-through, and it is very hard to understand what is going to happen with a range of other factors. The increase in gas prices is going to have a very substantial impact because we see them moving from around \$3.50 to a long-term average of around \$9, but there are some short-term spikes in the market. We are seeing \$11 at the moment. So gas price is a very serious issue for Australian manufacturing in general and one we would like to talk about to the people around this table at another time.

If the removal of the carbon tax was the rationale for downgrading the GGB program, it means that the impact of the Victorian government's decision to change the loans facility and move it to a grant facility will actually have four times the impact on the health budget than the carbon tax would have by 2020, which is an unfortunate outcome. It will keep health exposed to rising gas price risks and other factors.

We also have a list of hospitals, because even though this decision was apparently made some time ago, tenders were still put out for \$80 million to \$100 million worth of work. My members spent millions of dollars tendering for engineering work. The hospitals that will now miss out include hospitals in the Northern Health area, which include the Northern Hospital at Epping, Broadmeadows Health Service, Bundoora Extended Care Centre, Craigieburn, Panch Northcote, the Monash Health area, Monash Medical Centre Clayton, Casey Hospital, Dandenong Hospital, Kingston Centre, Monash Moorabbin, Latrobe Regional Hospital, Peninsula Health region, Western Health region and Alfred Health. St Vincent's Health and Barwon Health were put out to tender, and there is a huge amount of uncertainty about whether or not they will proceed. There were also six other tranches of work expected to be put out in the future.

The challenge we have is that this decision, as we know from the DTF's own work, is going to cause \$20 million of absolute cost to the government for every year of delay before that loans facilities is brought back in. It will damage both the health sector and the budget. It will cause immense damage to the energy efficiency sector in Australia, particularly in Victoria. Unfortunately our members have already had to lay off staff, and they will have to lay off further staff in the future. We have some members saying they will be laying off around 70 per cent of their Victorian staff, which is a deeply unfortunate situation given that we have just spent the last four years investing in building our capacity because of the bipartisan support for this program.

Our final point would be to urge the Minister for Health to put in a budget bid under the new process to upgrade those hospitals which will now no longer be upgraded across the state. This is a deeply unfortunate situation, one which we were very disappointed to hear about yesterday. I can assure you that our members are very disappointed about the outcome for jobs in this state.

**Ms PULFORD** — I had a number of questions, but I think you have answered many of them on the way through your presentation, so thank you for such a detailed overview. In announcing the change to the efficient government buildings program in Parliament yesterday the minister said that:

EGB will provide government departments and agencies with greater autonomy to identify and choose those upgrades to their buildings that will produce the best efficiency savings, with the capital requirement funded either internally or through a budget capital bid.

What you have told us would suggest that that is really quite a bad development. I invite you to comment on that.

**Mr MURRAY-LEACH** — Yes. It is very good question about why you would want to have it through a loan facility rather than a budget. It is fundamentally because it is an investment that delivers returns that pay off that initial loan. So if you are going into the budget bidding process, you are competing with things like roads, infrastructure and building hospitals. They do not deliver direct returns to the government. They are very good things to do for the state. But you do not really want to be competing with them with something that actually

pays back. That is why in the US they actually have specific legislation that allows states to borrow for these projects, because otherwise it is an absolute lost opportunity cost.

The first thing is: that is the rationale. The second thing is: the way it works is that around the world these things work best, because we are often talking quite small projects. You are talking \$1 million here, half a million dollars of investment there. Instead of each one going in on its budget bid, it actually makes sense for it to be a whole-of-government process. In other words what was done before is that DTF basically put in a whole-of-government bid and said, 'Okay, over the next few years we're going to invest up to \$30 million a year. We're only going to invest in projects that deliver more than 12 per cent internal rate of return and we are going to basically structure it to make it as streamlined and simple for agencies to identify projects and put them in'.

I think telling people that they have more flexibility when they have to find it in an extremely cramped health budget where they have to pay for beds is maybe not the way I would phrase it, but I would certainly say we are expecting a substantial downgrade in the number of projects that will go ahead. As I said, we had health projects which we estimate to be around \$80 million to \$100 million tendered and put out. We have no certainty about those going ahead right now.

The other thing — and it is the important reason why you need to have a loans facility — is that the way these projects work is that you engage an expert to come and look at your site. They do not know how much is actually going to be cost-effective on that site. So you do not want to go and say 'It's going to be \$3 million invested' when in fact the sensible cost-effective level is, say, \$900 000. It is much better to go in there, do your assessment and your detailed work, which can cost a lot of money, and then from that you actually work out how much needs to be borrowed.

If you put need to then put it back into budget proposals — and I can say this having been inside government and having seen it happen — it basically gets stalled. Somebody does all the engineering. It is expensive enough for our members to do this anyway, because you do the engineering work up-front and you do not get paid normally for something like 18 months. What has happened now is that you have put a budget bid process in the middle of that.

**Ms PULFORD** — So in your experience do Victorian government departments have the required expertise to put together the kinds of projects that would succeed?

**Mr MURRAY-LEACH** — Under a budget bid process the problem is that people are busy. The whole point of the process before was that it was a very simple, streamlined, facilitated process where DTF set up the structure. The Department of Health, in response to a very scathing Auditor-General's report a couple of years ago, really upgraded and put an enormous amount of effort, time and money into getting their systems in place to be able to run through this pipeline. The point is that once you have set up your process once, you can then just pile these things through. The transaction costs are actually quite low. If you have to put each one through a separate budget bid process, the transaction costs are going to be absolutely through the roof for these projects. My experience is that this will result in something like more than a 70 per cent reduction in projects going ahead and forfeiture of 70 per cent of energy savings.

**Ms PULFORD** — You talked about \$80 to \$100 million worth of projects tendered. Do you have an estimation of how many jobs are linked to those projects?

**Mr MURRAY-LEACH** — We do not have a precise number of those jobs. The reason for that is that if you think about a large company, they will have a few energy efficiency experts in house and then they will draw from a much broader pool of expertise in engineering. We know that those in-house energy efficiency specialists will be let go. It is hard to know how many of those other ones will be affected, because those companies also work in other fields. We anticipate it to be in the hundreds of jobs. Those are DTF's own figures.

**The CHAIR** — Normally I would ask Mr Finn, but along the same lines, if I may ask the indulgence of the committee, I wish to follow through with what the Assistant Treasurer went on to say in Parliament yesterday, leading on from what Ms Pulford said. With the establishment of the Efficient Government Buildings program as a successor to the GGB he said:

This will remove the existing funding constraints on energy efficiency projects and allow those projects to compete on an equal footing with other capital bids

Would you like to comment on that?

**Mr MURRAY-LEACH** — As mentioned, if you are putting in a project that delivers a return to government almost immediately versus projects which are, long term, very sound, sensible pieces of infrastructure investment, you are looking at two different things. You do not need to provide a grant to a department to do energy efficiency; you just need to provide a loan to pay for that up-front investment, and then it pays itself back to Treasury. It actually frees up more money in Treasury because instead of giving out a grant and then not having that money come back, you give out that money and the money is paid back. Beforehand all this money was committed to electricity bills. By lowering those electricity bills you have actually got more money going back into central revenue that can be allocated to more and various projects. We see it as like saving money by not maintaining your car; sure you might have some short-term financial returns, but it is not a very sensible strategy.

**The CHAIR** — He said:

Importantly the savings that are generated through efficient government buildings will be recouped by the agencies that make the savings.

He then went on to say what I quoted him as saying before regarding removing the existing constraints. They are believing that they are going to recoup that.

**Mr MURRAY-LEACH** — The agencies will, but the DTF will not. Therefore you will not have that funding coming back into the central agencies to be allocated to whatever the high priority is in that period, whether it is roads, schools or hospitals. With all due respect to the Assistant Treasurer, I have to say that I would respectfully disagree quite extensively with his analysis of the situation and about it increasing the flexibility. The way we see it happening is that it effectively grinds projects to a halt, massively increasing the transaction and the effort required to get even simple projects over the line.

Hospitals or a health regions do not normally have the spare cash lying around to do a multimillion-dollar upgrade to their facilities which would then be paid back over time. That is why a loan is the ideal sort of vehicle for delivering this rather than a grant or rather than them trying to find this in their existing resources. From my experience of being within government I can say that I have seen it try the budget bid process. I have seen what a nightmare it is and how it causes these types of projects to grind to a halt.

There are a lot of things that we in government do sensibly as whole-of-government processes. It is a lot more efficient than every single unit doing it itself in its own way. In the same way it makes a lot more sense for this to be done as a whole-of-government process. While I can respectfully disagree with the Assistant Treasurer's estimates, our understanding is that this is fundamentally around dealing with balance sheet issues. Our own analysis suggests it is not going to assist with those issues, because you have got guaranteed rates of return, it delivers a reduction in outgoings and it increases the surplus and the operating statement. In net debt you have some short-term issues, but because of the way that it increases short-term net debt it decreases long-term debt. It is normally regarded as a positive by rating agencies because you are reducing your long-term exposure.

As I said, with all due respect to the Assistant Treasurer, I have to say we have looked globally. I have talked to the top experts in energy efficiency in governments in the US, Europe and throughout Asia. We developed a best practice guide several years ago. This government came to the same conclusions at the same time, and there was bipartisan support for this program. This came out of the DTF; it was not a political issue. I rest my difference of opinion there.

**Mr SCHEFFER** — Could you just go back? Earlier on I think I got lost in part of your explanation. What we have been asked to look at is whether the carbon tax has harmed hospitals and whether its removal benefits them. Could you talk to us about that particular part of it?

**Mr MURRAY-LEACH** — Sure. Very quickly, the impact of the carbon tax is going to vary with energy use; it is not fixed. The GGB program would reduce departments' carbon bills by, we estimate, a minimum of about 30 per cent by 2020.

**Mr SCHEFFER** — But on that 30 per cent there is still an amount to be paid, is there not?

**Mr MURRAY-LEACH** — There is.

**Mr SCHEFFER** — If you think that the tax at any level is a problem, it would still be a problem even at 70 per cent of the original tax.

**Mr MURRAY-LEACH** — Yes, and what we anticipate is that the impact of the carbon tax next year will be \$13 million. The removal of the carbon tax will save \$13 million in that financial year. When the carbon tax moves to a floating ETS, which is in the legislation, it will drop down substantially to under \$8 million, because the expectation is the carbon price will drop to around \$10 a tonne or slightly over that. If you combine the impact of the GGB with the carbon tax dropping to a floating price, you are talking about an impact of around \$5 million to \$6 million a year. So that is the impact — —

**Mr SCHEFFER** — So with a government that thinks that even a dollar is a dollar too much, then it is still a detriment?

**Mr MURRAY-LEACH** — I cannot comment on the government's view on whether a dollar is too much. I can only talk about costs and benefits, rather than talking about whether it is a positive or negative.

**Mr SCHEFFER** — Okay, thanks.

**Mr MURRAY-LEACH** — In relation to the benefits of removing it, as I said, I cannot talk financially about it, but if the concern is around energy bills, the removal of the GGB program, or the changing of the GGB program, has roughly four times the impact of the existence of the carbon price in 2020. If your concern is energy bills, the impact of rising gas prices is going to be far more substantial than the carbon price.

**Mr SCHEFFER** — What I do not understand — and I am sure it is me rather than you — is the connection between the preliminary fixed price, which is generally called a tax, and the energy saving and energy efficiency measures you have been explaining to us. Are you saying that when you put them together, it ends up being a benefit for the health system, or are you saying that — —

**Mr MURRAY-LEACH** — What I am saying is that if you are trying to quantify the impact of the carbon tax, next year the carbon tax would have a \$13 million impact, the year after most likely it would be under \$8 million per annum and then once you add in the energy saving efforts, you are really bringing it down to around \$5 million or \$6 million a year. So the removal of the carbon tax would deliver that level of benefit.

**Mr SCHEFFER** — The dollar benefit.

**Mr MURRAY-LEACH** — The dollar outcomes and a dollar reduction on the budget.

**Mr SCHEFFER** — You are saying it is about combining that discussion with the energy efficiency measures you have talked about. Is the meaning of that that it is of benefit to the system or a disbenefit?

**Mr MURRAY-LEACH** — The carbon tax?

**Mr SCHEFFER** — Yes.

**Mr MURRAY-LEACH** — We do not have a view of the appropriateness of the carbon tax in relation to the health department. Our views are really around energy management. From a policy perspective, the council does have the view that either an emissions trading scheme, a carbon tax or some kind of purchasing scheme like the Emissions Reduction Fund providing what we call a shadow price on carbon as the carbon price is the most effective way to deal with the economic externality of carbon emissions on the economy.

**Mr FINN** — I just wanted to clarify, and I know you probably said this about 20 times already, so my apologies for that, but are you saying that under this current carbon tax, the bottom line for the health system will be \$30 million this financial year — that is, the hit to the bottom line? Is that what you are saying?

**Mr MURRAY-LEACH** — What I am saying is that according to the figures released by this government, it is \$13 million per annum in 2014–15. In 2015–16 that would decline to roughly \$8 million per annum, and after



that it would decline with improved energy efficiency down to, we assume, around \$5 million or \$6 million per annum.

**Mr FINN** — So we are looking at a \$30 million hit this year?

**Ms PULFORD** — Thirteen.

**Mr MURRAY-LEACH** — Thirteen.

**Mr FINN** — Thirty?

**Mr MURRAY-LEACH** — No.

**The CHAIR** — Three zero or one three?

**Mr MURRAY-LEACH** — The figure given by the Victorian government and the data we have seen released by various sources in this is \$13 million in the coming financial year.

**Mr FINN** — I am sorry; I thought it was \$30 million.

**Mr BARBER** — So it is a tax you can avoid if you get your act together?

**Mr FINN** — Yes, you do not use electricity.

**Mr MURRAY-LEACH** — Correct. Our view on the carbon price is that it is an effective way to internalise the external impacts of — —

**Mr BARBER** — It is a tax you can avoid if you get your act together?

**Mr MURRAY-LEACH** — It is a tax you can avoid.

**Mr BARBER** — In terms of getting your act together — I did not follow the blizzard of numbers — you said that there are \$80 million to \$100 million worth of projects that are kind of lined up under the GGB more or less now that could be deployed pretty quickly.

**Mr MURRAY-LEACH** — Yes. Tenders went out in November. We are not sure if those tenders went out after the decision had been made to change the nature of the program, but having a look, we have Northern Health, Monash Health, Latrobe Regional Hospital, Peninsula Health, Western Health, Alfred Health, St Vincent's Hospital, Barwon Health and all the multiple hospitals within that. We have something in the region of around 25 major hospitals and associated minor medical centres where the tenders were put out and members in good faith spent millions of dollars doing engineering work. Staff were actually flown in from overseas to assist in this, so Australians were returning here to work, and the projects were just put on ice.

**Mr BARBER** — You said that DTF's initial cost-benefit study of the GGB estimated it would deliver \$1 billion in energy and maintenance savings. A minute ago you told me about the amount of money that would be invested — \$80 million to \$100 million — and I am presuming the savings on that are, as you say, around about your IRR, somewhere around, but maybe even higher? Twenty-four? Just to convert backwards for me, you said they could deliver \$1 billion of savings. That was assuming what sort of size of loan portfolio?

**Mr MURRAY-LEACH** — That is covering the whole portfolio of government. In the health sector alone it is obviously a fraction, but, as you know, the health sector is a very substantial consumer within the Victorian government. That \$1 billion figure has been upgraded to \$2 billion for the very simple reason that energy prices escalated so fast and the energy savings they have found in the early investigations were so much larger than was previously thought. You can actually go a lot deeper and the energy savings are bigger. The proportion of that I can attribute to the health department, I would have to come back to you with that, because I am not sure which part of government is referred to in that, because as you know there is government, there is government and there is government.

**Mr BARBER** — In relation to the \$2 billion worth of savings over 25 years, can you give me a rough estimate of how much in terms of the size of the loan portfolio would need to be out there and then be rolled over in those 25 years?

**Mr MURRAY-LEACH** — That is basically a pipeline of projects. Perhaps Luke will be able to help me with this. Generally with the modelling it is actually very conservative. It is assumed there is a 15-year life span for the equipment that you were talking about, and generally with the loading on the age of the equipment it is very conservative. You are talking about a rollout of projects between 2010 and 2020, so the idea is you get your projects done in that period of time. After that it is all pure return to government.

**Mr BARBER** — So it is just a short-term burst of expenditure?

**Mr MURRAY-LEACH** — The idea is we have a lot of ageing infrastructure. After that you will be putting in investments over that time, but you will not have that massive backlog of work you need to do.

**Mr BARBER** — You say it would be better to have a specific purpose loan fund within Treasury that is just the energy efficiency loan?

**Mr MURRAY-LEACH** — It is actually not even a loan fund. The way it works is that there is a general loans package that is allowed to go out to any investment that delivers, and then basically they allow within that up to \$30 million from a general loan fund for energy efficiency. So they make a provision with the general loan fund for energy efficiency rather than there being some nice little pot of money.

**Mr MELHEM** — It will you get you a 12 per cent return?

**Mr MURRAY-LEACH** — Minimum.

**Mr BARBER** — So a facility within Treasury, or maybe something like the Clean Energy Finance Corporation, which I think at the federal level is now looking at energy efficiency loans, would be the vehicle you would want to see?

**Mr MURRAY-LEACH** — From our perspective, there are a number of options you can choose. You just need to access finance to invest in this and to deliver the returns. There is actually some very interesting research in the US that even though private finance delivers a much worse rate of return, it actually makes sense to even start tomorrow rather than waiting to go to governments, where you can access it a lot more cheaply. It actually makes sense to start tomorrow with private finance rather than waiting two years down the line to get public finance, because the opportunity cost is so big a delay.

**Mr BARBER** — You make the point that they cannot borrow externally.

**Mr MURRAY-LEACH** — Departments are not allowed to borrow externally. They have to borrow through Treasury loans.

**Mr BARBER** — Treasury has stuff coming out of everywhere, some of which is energy efficiency, but its job is to compare apples with oranges with chairs with shovels. Energy efficiency is its own thing, so what if you had a special facility and called it a clean energy finance corporation or just called it a Treasury loan that is for energy efficiency? Is that the kind of vehicle you are seeking?

**Mr MURRAY-LEACH** — That was the existing vehicle, which has only just been changed. It did not have a fancy name. It was not called clean energy. It was just, 'Here is some money to go and do some good stuff that saves us money', but you can label it.

**The CHAIR** — Thank you. Any further questions?

**Mr SCHEFFER** — No, that was great.

**The CHAIR** — Thank you very much indeed for both your written submission and for making such a comprehensive submission tonight. I want to thank you enormously for coming along and being with us tonight. It was extremely interesting.

**Mr MURRAY-LEACH** — Thank you.

**Committee adjourned.**