

**EXAMINATION OF AUDITOR-GENERAL'S
PERFORMANCE AUDIT REPORTS MAY 2013 –
JULY 2013**

Organisation: NSW Ministry of Health
Name: Dr Mary Foley
Position: Director General
Date Received: 20/08/2014

Mr Jonathan O'Dea MP
Chair, Legislative Assembly Public Accounts Committee
Parliament House
Macquarie Street
SYDNEY NSW 2000

Dear Mr O'Dea

Thank you for your letters to The Hon. Jillian Skinner MP, Minister for Health and Minister for Medical Research and myself regarding a submission from the Ministry on the implementation of recommendations of the Auditor-General's Report on *'Building Energy Use in NSW Public Hospitals.'*

Please find enclosed a submission for your consideration outlining responses and actions to date on the recommendations of the Audit that relate to NSW Health.

I am pleased to advise that the twenty three recommendations accepted by NSW Health have been completed or partially completed and two recommendations will commence pending the Government's announcement of the Government Resource Efficiency Policy and the completion of related recommendations.

During the last year, the work completed and work in progress reflects the significant scope and coverage of the work undertaken. Key activity includes:

- The development of the draft Energy Efficiency Strategy, which has considered how NSW Health can most effectively engage with the energy efficiency market to increase the uptake and impact of energy efficiency projects. Due for finalisation by October 2014.
- Collaborative work with Local Health Districts (LHDs) and Specialty Networks to guide investment in energy efficiency including:
 - The establishment of an Energy Efficiency Procurement Work group to develop an accountability framework for the procurement of energy efficient plant and equipment. Due date for completion 30 August 2014.
 - LHDs are progressing bundling of energy efficiency improvement projects in all current Energy Performance Contracts.
- Work progressed to better measure, monitor and report on Energy performance, this work includes:
 - Annual reporting by LHDs on progress against their energy implementation plans.
 - Data Quality Framework procedures drafted, expected release August 2014.
 - Development of a benchmarking tool with expected implementation from September 2014.

Should you require any further information please contact [REDACTED]

Yours sincerely

[REDACTED]
Dr Mary Foley
Secretary NSW Health

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IMPLEMENTATION OF RECOMMENDATIONS

NSW Health response: 2013 Performance Audit: Building Energy Use in NSW Public Hospitals

RECOMMENDATION	ACCEPTED OR REJECTED	ACTIONS TO BE TAKEN	DUE DATE	STATUS (completed, on track, delayed) and COMMENT	RESPONSIBILITY (Section of agency responsible for implementation)
1. To set clear direction for managing building energy use and investing in system-wide improvements, the Ministry of Health should: BY DECEMBER 2013:					Ministry of Health – Business and Asset Services
1.1 • develop in consultation with LHDs and relevant specialty health networks, a strategy to guide investment in energy efficiency that includes:			Dec 2013		
1.1.1 – minimum energy efficiency performance standards for technologies, plant and equipment used in public hospitals	Accepted	MOH will work with HealthShare and Health Infrastructure, in consultation with the LHDs and specialty health networks, to develop a strategy to guide investment in energy efficiency that includes minimum energy performance standards for major and minor plant and equipment that is used in public hospitals	Dec 2013	The Ministry established the Energy Efficiency Procurement Workgroup who has developed an accountability framework for the procurement of energy efficient plant and equipment, this will be the centrepiece of the strategy. The strategy will be completed by 30 th August 2014. <u>Status:</u> Partially completed	Ministry of Health – Business and Asset Services
1.1.2 -provision of seed funding for energy audits	Partially Accepted	MOH accepts that energy audits are important in the identification of energy efficiency opportunities but insists they must be integrated into an implementation program. Evidence to date shows that energy audits without implementation support do not result in investment in energy efficiency. Through the Energy Performance Management Strategy, MOH is working with NSW Treasury and the Office of Environment and Heritage to develop integrated financing options, including accessing the Treasury Loan Fund, which include facilitated support and seed funding for project	Dec 2013	The Office of Environment and Heritage (OEH) has finalised its Energy Efficient Government Program which includes facilitated support and seed funding for project identification and business case development to assist all government agencies in implementing projects on a cost-recovery basis and limited to the Treasury Loan Fund. <u>Status:</u> Completed	Ministry of Health – Business and Asset Services



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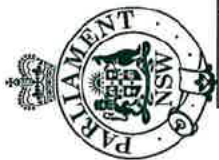
RECOMMENDATION	ACCEPTED OR REJECTED	ACTIONS TO BE TAKEN	DUE DATE	STATUS (completed, on track, delayed) and COMMENT	RESPONSIBILITY (Section of agency responsible for implementation)
		identification and business case development.			
1.1.3 – bundling energy efficiency improvements at an appropriate level to maximise value)	Accepted	MOH has completed a business case that considered bundling energy efficiency projects as part its Energy Performance Management Strategy. The business case showed that due to the governance structure of NSW Health, the transactional costs associated with bundling across LHDs will need to be weighed against the cost savings through economies of scale	Dec 2013	The bundling of projects is already underway in all current Energy Performance Contracts. Further enhancement of this approach is considered in the implementation plan for the Energy Performance Management Strategy (EPMS). Two pilot LHD's are already engaged in this strategy, the next two additional LHD's are due for commencement prior to the end of August 2014. The remainder of LHD's are programmed to roll on in 2015. Status: Completed	Ministry of Health – Business and Asset Services
1.1.4 – an investment program with financing options ranging from the use of recurrent budgets to large scale capital investment outside the Treasury Loan Fund	Accepted	MOH notes that the NSW Health capital investment program is both constrained and fully committed. MOH is working with NSW Treasury and the Office of Environment and Heritage to develop integrated financing options, including accessing the Treasury Loan Fund.	Dec 2013	The development of investment strategies will be progressed through District implementation of the Energy Performance Management Strategy (EPMS), consistent with NSW Health governance arrangements. Discussions with NSW Treasury on the development of alternative financing options have commenced, and a first draft of an options paper was provided to Treasury. NSW Health is now incorporating comments from Treasury prior to reissuing the paper in the context of the Government Resource Efficiency Policy which is currently being finalised. Completion is due to occur October 2014 Status: Partially completed	Ministry of Health – Business and Asset Services
1.1.5 – phasing in investment in renewable energy where cost-effective	Accepted	MOH has completed a business case that reviewed the impact and applicability of renewable energy as part of the Energy Performance Management Strategy. LHDs are already pursuing alternative and renewable energy sources independent of this audit, for example at Lockhart and Gulgong Hospitals.	Dec 2013	Renewables have been installed at a number of health facilities as a trial or as a cost effective investment. The EPMS business case recommends renewable energy be investigated as part of a broader strategy where cost effective. Murrumbidgee LHD is already progressing two sites which are awaiting Crown Finance through Treasury. Districts will continue to do this as they	Ministry of Health – Business and Asset Services

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1.2	Partially Accepted	<p>MOH has developed its Environment Information Management System to capture and report on electricity cost and use and is currently working with the Office of Environment & Heritage to develop a benchmarking tool for water and energy use in hospitals which will be utilised to set KPIs and targets for improving energy efficiency and reducing energy use.</p> <p>With respect to the cost of energy, this is out of the control of MOH and as such the recommendation to develop KPIs and targets to reduce energy cost cannot be accepted. MOH will continue its role as NSW Energy Category Chair for the State energy contracts and work with the Department of Finance and Services to achieve the best energy price for all government agencies. MOH notes that due to the current alternative procurement model being used to purchase electricity for government's largest sites, a relatively competitive price for electricity has been secured.</p> <p>MOH will also work to avoid energy costs through the improved management of energy through the Energy Performance Management Strategy.</p>	Dec 2013	<p>develop their own implementation business cases.</p> <p>It is possible that the announcement of the Government Resource Efficiency Policy will contain some renewable targets/investment considerations for smaller facilities.</p> <p><u>Status:</u> Completed – ongoing where considered cost effective.</p> <p>The announcement of the Government Resource Efficiency Policy (GREP) is imminent. When the policy is announced by the Government, Health will revise the NSW Health Sustainability Strategy 2013-15 to take into consideration any new targets.</p> <p><u>Status:</u> Commencement pending</p>	Ministry of Health – Business and Asset Services
1.3	Accepted	MOH is currently developing a strategy to	Dec	Options for the strengthening of central capability and	Ministry of Health

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a strategy to strengthen the role of the sustainability unit as a Centre of Expertise by ensuring it:		strengthen the role and capacity of its Sustainability Unit as part of the Energy Performance Management Strategy. This includes a Business Plan and resourcing strategy to facilitate and/or deliver appropriate energy management training, develop materials and resources and staff engagement strategies to manage demand and influence behaviour and to implement a systematic process to identify and share better practices across the health system. MOH notes the success of the Sustainable Health Roundtable to date	2013	resources are considered in the funding discussion paper and will need to take account of the Government's fiscal strategy and agency budgets. The future capability to be provided centrally will be finalised by October 2014 Status: Partially completed	Ministry of Health – Business and Asset Services
1.3.1 – has a business plan and is well resourced	Accepted		Dec 2013	A business plan has been drafted and is under review, but will be dependent on the resources that are available. It is anticipated the review will be completed by October 2014, in parallel with funding decisions Status: Partially completed	Ministry of Health – Business and Asset Services
1.3.2 – delivers appropriate energy management training, guidance materials and resources including strategies to manage demand and influence behaviour	Accepted		Dec 2013	Support is provided for a range of energy saving projects. A suite of templates have been developed for energy saving projects. Further enhancement will be dependent on funding availability. All Office of Environment and Heritage (OEH) provided courses are circulated to Energy Managers. Status: Partially completed	Ministry of Health – Business and Asset Services
1.3.3. – uses a systematic process for identifying and sharing better practices across the health system	Accepted		Dec 2013	NSW Health continues to identify and share better practices by : 1. Improving information flow of current projects through NSW Health Sustainable Roundtable. 2. Sharing lessons learnt and 3. Providing information sessions on new products and systems. 4. The NSW Health intranet page has been	Ministry of Health – Business and Asset Services



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PUBLIC ACCOUNTS COMMITTEE

RECOMMENDATION	ACCEPTED OR REJECTED	ACTIONS TO BE TAKEN	DUE DATE	STATUS (completed, on track, delayed) and COMMENT	RESPONSIBILITY (Section of agency responsible for implementation)
				updated and will continue to provide a source of information to the energy managers. The monthly report to the NSW Health Senior Executive now includes a high-level list of initiatives running across each LHD. <u>Status:</u> Completed	
BY JUNE 2014:			June 2014		
1.4 • review the NSW Health Engineering Services and Sustainable Development Guidelines TS11 and include a requirement for all new and refurbished facilities to:			June 2014	The NSW Health Engineering Services and Sustainable Development Guidelines TS11 is in the final review stage. The expected completion date is end July-2014. <u>Status:</u> Partially completed	Ministry of Health – Business and Asset Services
1.4.1 – have their energy and emissions baselines determined	Accepted	Health Infrastructure and MOH note that this is achievable for all new facilities which have sub-metering and contemporary building management and communication systems (BMCS)	June 2014	New buildings already incorporate sub-metering and measurement of base lines. Existing buildings are now considering additional meters when looking at a retrofit program, for example Fairfield Hospital have engaged an external provider to optimise, monitor and manage Fairfield hospital prior to carrying out an Energy Performance Contract (EPC) as it ensures the correct baselines. The installation of sub meters in retrofit projects will be introduced as part of the Energy Efficiency Procurement Working Group recommendations for changes to policy. <u>Status:</u> Partially completed	Ministry of Health – Business and Asset Services
1.4.2 – use the benchmarks once finalised for monitoring performance	Accepted		June 2014	NSW Health has developed a benchmarking tool. The data set relating to the use of the tool is being reviewed by Local Health Districts. The updated tool with any revisions is anticipated to be complete by 30 th August 2014. This tool will be rolled out across the districts by September 2014.	Ministry of Health – Business and Asset Services

LEGISLATIVE ASSEMBLY
PUBLIC ACCOUNTS COMMITTEE

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				<u>Status:</u> Partially completed	
1.4.3 – be independently certified to a minimum four star Green Star rating	Not accepted	All major projects are designed to meet four star Green Star ratings, which is deemed 'best practice'. As acknowledged in the report, clinical needs have to be prioritised above investment in environmental performance. Funding for independent certification of Green Star ratings is not currently available and is unlikely to be available by June 2014	June 2014	No further action	Ministry of Health – Business and Asset Services
1.4.4 – have a budget for energy efficiency in initial project costing	Accepted	Major project budgets have an allowance for Environmentally Sustainable Development for initiatives that go beyond four star Green Star design, which can include energy efficiency.	June 2014	NSW Health Infrastructure currently incorporates Environmentally Sustainable Development (ESD) at 2.5% as part of project budget. The issue is ensuring this is not eroded as budgetary pressures build during the facility planning process. The funding discussion paper will consider any requirements for additional funding. <u>Status:</u> Partially completed	Ministry of Health – Business and Asset Services
1.4.5 – implement evaluations of thermal performance at 18 months post-occupancy	Not accepted	On the basis that there is an existing mechanism to evaluate thermal performance. All major projects have a 12 month defect liability period. Part of this period is to ensure that the building performs to design specification, including thermal performance. Providing energy managers with a budget for minor energy saving initiatives is at the discretion of the Local Health Districts through their internal budgeting arrangements. MOH acknowledges that the budget is constrained and inflexible and is working with NSW Treasury to develop flexible financing options, including recurrent to capital swap to address whole-of-lifecycle costs.	June 2014	No further action	Ministry of Health – Business and Asset Services
1.5 • work with LHDs to provide energy managers with a budget for minor energy saving initiatives, as well as support and training	Partially Accepted		June 2014	<u>Status:</u> Partially completed	Ministry of Health – Business and Asset Services



LEGISLATIVE ASSEMBLY PUBLIC ACCOUNTS COMMITTEE

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1.6	<ul style="list-style-type: none"> link any budget supplementations provided to LHDs and relevant specialty health networks for increases in energy costs to their performance in managing building energy use 	Not accepted	NSW Health will continue to partly supplement LHD's for price increases in electricity beyond their control. Budgets are managed in aggregate on performance and will be retained in this manner in preference to an itemised arrangement.	June 2014	No further action	Ministry of Health – Finance Branch
1.7	<ul style="list-style-type: none"> have all small sites, including franchise accounts, on State Contracts or similar contracts to secure competitive energy prices and electronic access to data from providers 	Accepted	In mid-2012 MOH initiated a program to transition all NSW Health accounts, large and small sites, on to State Contracts or large-scale Health contracts where possible. MOH notes that access to electronic data from providers is generally available for electricity, but not as readily available for other energy sources.	June 2014	<p>All electricity accounts are now on State Contracts for large and small market electricity. Online data portals are available for all LHDs to access electricity data from providers.</p> <p>All NSW Health Energy Managers have confirmed their sites are taking advantage of the State small market gas contract and LPG contract. Where there are gaps, requests to transfer have been raised with the retailer.</p> <p>As part of the procurement strategy for the NSW Health Open Market Gas Contract, all eligible sites will be included when it comes up for renewal in August 2014 for implementation in January 2015.</p> <p><u>Status:</u> Completed</p>	Ministry of Health – Business and Asset Services
2	To better measure, monitor and report on performance, the Ministry of Health should:			June 2014		
2.1	<ul style="list-style-type: none"> require LHDs and relevant specialty health networks to report annually to the Ministry of Health on progress against their implementation plans 	Accepted	The Environmental Sustainability Strategy 2012-15 for NSW Health requires annual reporting on progress against Annual Implementation Plans, which will commence in 2012-13. The NSW Health Annual Report will expand sustainability reporting by LHD from 2012-13.	June 2014	<p>The Ministry of Health requires Local Health Districts (LHDs) to provide their progress against their implementation plans.</p> <p>The 2013/14 NSW Health Annual report will summarise the LHD reports on energy cost and consumption on a rolling three year basis and provide an energy efficiency list of projects currently under the State Government Investment Program.</p> <p><u>Status:</u> Partially completed</p>	Ministry of Health – Business and Asset Services



LEGISLATIVE ASSEMBLY
PUBLIC ACCOUNTS COMMITTEE

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2.2	<ul style="list-style-type: none"> review performance in managing building energy use at each interim target 	Accepted	MOH will review performance in managing building energy use. It is important to note that NSW Health will be required to review its targets in light of the revised NSW Government Sustainability Policy and the NSW Energy Efficiency Action Plan	June 2014	<p>The imminent release of the Government Resource Efficiency Policy (GREP) will allow the Ministry of Health to update its NSW Health Sustainability Strategy 2012-15 to contain the new targets. Noting that the Energy Performance Management strategy is well progressed with 2 Local Health Districts, one Rural and one Metropolitan who are working on implementing district wide energy efficiency projects. A review will be completed within two months of the release of the GREP.</p> <p>Status: Partially completed</p>	Ministry of Health – Business and Asset Services
	By December 2013:			Dec 2013		
2.3	<ul style="list-style-type: none"> develop quality assurance procedures for data on building energy use 	Accepted	MOH will continue to develop quality assurance procedures and notes the work to date on the purpose-built Environment Information Management System and also the roll-out of the new data management system, IBM TRIRIGA	Dec 2013	<p>The Data Quality framework procedures in final draft form awaiting management approval. These apply to both Environment Information Management System (EIMS) and to the TRIRIGA system. This will be completed by the end August 2014.</p> <p>Status: Partially completed</p>	Ministry of Health – Business and Asset Services
	By June 2014:			June 2014		
2.4	<ul style="list-style-type: none"> work with the Office of Environment and Heritage to develop a benchmarking tool for NSW hospitals and adopt it for monitoring performance 	Accepted	<p>MOH has worked with the Office of Environment and Heritage since 2008-09 to develop the NABERS for Hospitals tool, which was not adopted for reasons outlined in the report.</p> <p>MOH is currently working with the Office of Environment and Heritage to develop a benchmarking tool that will address the shortcomings of the NABERS for Hospitals tool and intends adopting it to monitor performance.</p>	June 2014	<p>The benchmarking tool is completed. It is anticipated the data set will be confirmed by Local Health Districts by the end of August 2014 and rolled out in September 2014</p> <p>Status: Completed</p>	Ministry of Health – Business and Asset Services
2.5	<ul style="list-style-type: none"> give LHDs, relevant specialty health networks and hospitals 	Accepted	MOH has developed the Environment Information Management System which will be	June 2014	<p>The Ministry of Health has completed and the:</p> <ul style="list-style-type: none"> Environment Information Management System 	Ministry of Health – Business and

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	RECOMMENDATION	ACCEPTED OR REJECTED	ACTIONS TO BE TAKEN	DUE DATE	STATUS (completed, on track, delayed) and COMMENT	RESPONSIBILITY (Section of agency responsible for implementation)
	access to performance information so they can compare their performance to others and set improvement targets in their implementation plans		made available to the LHDs, relevant specialty health networks and hospitals. This system will enable LHDs and site managers to compare their electricity use to other sites. In addition all Energy Managers are provided with monthly electricity use data for all sites on the large sites electricity contract and have access to 30 minute interval data via a web-based system. MOH will work with the Office of Environment & Heritage to develop a benchmarking tool to enable measurement of performance and target setting.		<p>(EIMS) has been made available.</p> <ul style="list-style-type: none"> TRIRIGA system will replace EIMS in August 2014 this system has already been loaded with electricity, gas, water and waste data. <p>The Ministry of Health will update its sustainability intranet pages to create access to league tables for electricity use by September 2014 utilising data produced from the TRIRIGA system.</p> <p>The Benchmarking Tool will also assist in target setting.</p> <p>Status: Partially completed</p>	Asset Services
2.6	<ul style="list-style-type: none"> start progressively to monitor and report: 			June 2014		
2.6.1	<ul style="list-style-type: none"> on the performance of existing, new and refurbished facilities against respective KPIs, targets and benchmarks 	Accepted	MOH is committed to progressively monitor and report on the performance of existing, new and refurbished facilities.	June 2014	<p>Once targets are set and benchmarks established, monitoring can commence.</p> <p>Status: Commencement pending</p>	Ministry of Health – Business and Asset Services
2.6.2	<ul style="list-style-type: none"> trends in energy use, cost and efficiency on a rolling three years basis, including in annual reports 	Accepted	MOH is committed to continue to progressively monitor and report energy use and cost and will incorporate efficiency on a rolling three year basis. MOH will report on relevant trends in its Annual Report.	June 2014	<p>The Environment Information Management System (EIMS) provides electricity trend, cost and consumption analysis to the LHD's.</p> <p>The NSW Health Energy Performance Management Strategy commits to reporting on a rolling three year basis and to provide the analysis in the Annual Report which will occur from 2013/14 Annual report.</p> <p>Status: Partially completed</p>	Ministry of Health – Business and Asset Services
2.7	<ul style="list-style-type: none"> review the extent to which sub-meters are being used for monitoring energy use in hospitals to identify gaps and develop funding options 	Accepted	MOH acknowledges the importance of sub-metering to managing and monitoring energy use and will review the extent of sub-metering in hospitals. MOH is considering financing options for sub-metering as part of the Energy Performance Management Strategy.	June 2014	<p>The Ministry of Health is looking at state contract 778 to support this.</p> <p>Investigation has commenced into optimisation systems as part of LHD strategies for the implementation of the Energy Performance Management Strategy (EPMS)</p>	Ministry of Health – Business and Asset Services



LEGISLATIVE ASSEMBLY
PUBLIC ACCOUNTS COMMITTEE

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			MOH notes that sub-metering is a requirement of all new facilities under Section J of the Building Code of Australia.		Sub-meters for retrofit projects will be addressed by the Energy Efficiency Procurement Strategy. <u>Status:</u> Partially completed	
2.8	• include energy management in Chief Executives performance agreements with the Ministry of Health	Accepted	MOH will include energy management in Chief Executive performance agreements.	June 2014	The Ministry can advise that as part of the Chief Executive Service Agreement 2014/15 Schedule F specifies: "Ensure recommendations made by the Auditor-General arising from Financial Audits and Performance Audits are actioned in a timely manner and no repeat issues arise in the next audit". <u>Status:</u> Completed	Ministry of Health – Business and Asset Services