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Audit Report No. 26 2009-10

Administration of Climate Change Programs

Introduction[1]

7.1 The Australian Government has indicated that climate change, caused by the emission of anthropogenic greenhouse gases, is an important issue that has the potential to cause significant damage to our environment, industries, people and infrastructure. The Department of Climate Change and Energy Efficiency (DCCEE) has stated that some degree of change to our climate will be unavoidable because of the level of gases already accumulated in the atmosphere. DCCEE claims that as a consequence, there will be a greater likelihood of more frequent and more extreme weather events including heat waves, storms, cyclones and bushfires; a continued decline in rainfall in southern Australia; and higher temperatures leading to decreases in water supplies.[2]

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1 The following information is taken from Audit Report No. 26 2009-10, *Administration of Climate Change Programs*, pp. 11-15.

2 Department of Climate Change and Energy Efficiency, Adapting to Climate Change [Internet] Canberra, January 2010, available from <http://www.climatechange.gov.au/en/government/adapt> (accessed 19 March 2010).

Australian Government response to climate change

7.2 In response to the challenge posed by climate change, successive governments have used grant and rebate programs as a vehicle for reducing national emissions and to stimulate more renewable energy sources such as solar, wind, geo-thermal and hydro technologies. Investment in research and development and the commercialisation of other new technologies, such as carbon capture and storage, has also been a feature of the policies of the present and previous governments.

7.3 The current Australian Government has committed more than $15 billion towards climate change initiatives. The Government's actions on climate change fall under three main categories, referred to as the *Three Pillars Strategy*. These are:

- reducing emissions;
- adapting to unavoidable climate change; and
- helping to shape a global solution.

7.4 The ANAO examined a sample of three grant programs and two rebate schemes, valued at $1.7 billion, which were designed to reduce greenhouse gas (GHG) emissions, and to promote or demonstrate renewable energy technologies. These programs were chosen as they were significant, high profile measures from the suite of 62 Australian Government climate change programs in place at the time. Table S1 outlines the five climate change mitigation and industry development programs examined as part of this audit, the funds appropriated and the agencies that were responsible for administering the programs.[3]

3 The management of LETDF was transferred from the Department of Innovation, Industry, Science and Research to the Department of Resources, Energy and Tourism from 1 July 2008. Prior to November 2007, the program was administered by the then Department of Industry, Tourism and Resources.

Table 7.1 Climate change mitigation and industry support programs examined as part of the audit

Department	Relevant programs	Total budgeted funds ($m)	Type of program
The Environment, Water, Heritage and the Arts (DEWHA)[4]	Greenhouse Gas Abatement Program (GGAP)	400.0	Grant
	Solar Cities	93.8	Grant
	Solar Homes and Communities Plan (SHCP)	286.5	Rebate
	Renewable Remote Power Generation Program (RRPGP)	399.1	Rebate
Resources, Energy and Tourism (DRET)	Low Emissions Technology Demonstration Fund (LETDF)	500.0	Grant
Total		**1679.4**	

Source: Budget funds based on Annual Reports from DEWHA and DRET

7.5 Applications for these programs have closed and future funding rounds are not anticipated. Apart from SHCP and RRPGP, no funding has been allocated in the forward estimates to cover additional funding commitments. Ongoing funding commitments will be progressively met under the existing contractual arrangements specified in the deeds of agreement for each program. This is likely to extend the Commonwealth's financial commitment up to 2020.

7.6 SHCP, Solar Cities and RRPGP are now being administered by DCCEE and LETDF by DRET.[5] SHCP and RRPGP have been replaced by the Solar Credits initiative, which is also being administered by DCCEE. In addition, a $3.9 billion *Energy Efficient Homes Package* announced in the 2009-10 Budget provides incentives for households to improve their energy efficiency through installing insulation and solar hot water systems. These programs have some similarities with the SHCP in that demand forecasting is critical to the effective management of appropriations. Assistance for renewable energy and clean coal technology will now be provided through the Clean Energy Initiative, which was announced in the May 2009 Budget.

7.7 The findings from this audit have been designed to assist in the implementation of these and future programs as well as convey lessons

4 The programs administered by DEWHA were transferred to DCCEE in March 2010.

5 Funding for GGAP has been fully expensed.

that may have application to other grant programs in the departments concerned.

Projects funded under grant programs

7.8 Funding under the competitive grant programs has been for projects such as large scale demonstration projects supporting new technologies to reduce GHG emissions. Grants have ranged from $1 million to $100 million and recipients have tended to be large private, industrial or resource companies, or consortia of governments, industry and community organisations. The following are examples of projects and the programs under which they are funded:

- reductions in emissions of synthetic GHG gases from refrigeration systems in supermarkets (GGAP);
- retro-fitting a set of new technologies to an existing coal-fired power station in Queensland to trial carbon capture and storage (LETDF); and
- Adelaide Solar City (Solar Cities program) to establish and trial innovative technologies and practices, including the concentrated uptake of solar power, energy efficiency and smart metering technologies.

Rebate schemes

7.9 The SHCP provided rebates of up to $8000 dollars ($8 per watt up to one kilowatt)[6] to homeowners for the installation of solar photovoltaic systems on their principal place of residence, and rebates to community organisations that installed photovoltaic power systems for educational purposes.

7.10 Funding for RRPGP provided financial support to increase the use of renewable generation in remote parts of Australia that relied on fossil fuel for electricity supply. The program has three main components: Renewable Energy Water Pumping Rebates, Residential and Medium-scale projects and Major projects. Since the start of the program in 2000, over 6500 small rebates have been paid with the installation of more than 9400 kilowatts of photovoltaic, wind and micro-hydro generation under the Renewable Energy Water Pumping and Residential Medium-scale

6 The original rebate was revised from $2.50 per peak watt in September 2000 to $5.50 per watt. This was then revised down to $4 per watt in May 2003. In May 2007, the rebate was doubled to $8 per watt.

projects. For major projects, over $52 million has been approved for 31 projects, of which 20 have been completed.[7]

Previous Audit

ANAO Audit Report No. 34 2003-04, *The Administration of Major Programs*

7.11 Audit Report No. 34 2003-04 examined a sample of Australian Government programs, valued at almost $900 million, administered by the then Australian Greenhouse Office (AGO). The report identified administrative weaknesses in the seven programs examined. The absence of quantifiable objectives and targets made it difficult to measure results against program objectives. In addition, the lack of a comprehensive risk assessment exposed some programs to risks that could have been better identified and treated in the early stages. The audit commented that substantial risks remained – particularly in terms of the timely achievement of program objectives. The need for a more consistent and transparent approach to assessing and selecting projects was also highlighted.

Audit objectives and scope[8]

Objective

7.12 The objective of this audit was to assess the effectiveness of the administration of specific climate change programs by the departments of the Environment, Water, Heritage and the Arts and Resources, Energy and Tourism. In undertaking this audit, particular emphasis was given to the implementation of good administrative practice and the extent to which the program objectives were being met. The audit followed four lines of inquiry:

- development of program objectives and assessment of program risks;
- assessment and approval of competitive grant applications;

7 Department of the Environment, Water, Heritage and the Arts, Annual Report 2008-09.

8 The following information is taken from Audit Report No. 26 2009-10, pp. 15-16.

- assessment and approval of rebate applications; and
- measurement and reporting of program outcomes.

Audit scope

7.13 The audit scope included four programs managed by DEWHA. In March 2010, responsibility for these programs was transferred to DCCEE. These programs included two competitive grant programs and two rebate schemes. One competitive grant program was managed through DRET. The audit focused on the administration of the programs for the following periods:

- round three projects for GGAP (the first two rounds were considered in the 2003-04 audit);
- LETDF and Solar Cities from 2004-05 to 2009; and
- SHCP and RRPGP from 2007-08 (following the review and restructuring of the programs in 2007) to 2009.

Overall audit conclusions[9]

7.14 The ANAO made the following overall audit conclusion:

> The grant and rebate programs reviewed were designed to reduce GHG emissions and/or support the renewable energy industry. At a total value of $1.7 billion over the life of the programs, successive Australian Governments have invested significant resources in climate change initiatives. Funding under competitive grant programs has been for innovative and high risk projects such as large scale demonstration projects supporting new technologies to reduce greenhouse gas emissions. Grants ranged from $1 million to $100 million. In contrast, rebate schemes provided lower value, but a higher volume of assistance to support renewable technologies.
>
> Each program had different administrative issues and challenges and the effectiveness of some of these programs was constrained by weaknesses in program implementation and design. The overriding message for the effective management and success of future climate change programs is that greater consideration needs to be given to:

9 The following information is taken from Audit Report No. 26 2009-10, pp. 16-18.

- setting clear and measureable objectives;
- assessing and implementing appropriate risk mitigation strategies;
- applying a rigorous merit based assessment of applications for competitive grants; and
- effective measuring and reporting on performance.

The objectives of the five climate change programs were generally broad, with three of the five programs, (Solar Cities, SHCP and RRPGP), having multiple objectives. These three programs had very little specificity in terms of how much was intended to be achieved over the life of the program, making it difficult to target resources and set administrative priorities.

The control and management of risks could have been substantially improved. The nature of the programs examined, involving large grants and new or unproven technology, meant that they were inherently high risk. However, where programs had undertaken risk assessments, the treatment options or controls did not always mitigate the risks identified, and many of these risks materialised throughout the course of the programs.

The assessment and selection of climate change projects under the LETDF and Solar Cities programs was transparent, with criteria used to assess all proposals. Generally, there was a high degree of rigour and technical expertise applied to the assessment process. However, the assessment and selection process for projects under GGAP was inadequate. Recommended (and subsequently approved) projects for the third funding round failed to meet the Government's guidelines and eligibility criteria, as no recommended project met the specified greenhouse gas abatement threshold. The rigour of the cost-benefit and technical analysis could have also been substantially improved and particularly the advice provided to the then Minister for the Environment.

Program achievements against objectives varied for the grant programs and rebate schemes. The high risk, large value grant programs have achieved minimal results to date. Actual achievements for GGAP, the longest running program, were substantially less than originally planned with only 30 per cent of planned emissions abatement being achieved. This underperformance was because of delays in finalising funding agreements and the termination of nine out of the twenty-three approved projects. LETDF and Solar Cities are not sufficiently advanced for any meaningful comments on overall program results to be made to date.

For the two rebate schemes, SHCP and RRPGP, demand outstripped available funds – particularly for SHCP. As a consequence, the SHCP has substantially contributed to growth in

the up-take of renewable energy in Australia. However, in terms of abatement, this has come at a high unit cost ($447/tonne/CO2e) and at a significant cost to the budget estimated to be $1.053 billion. The abatement achieved by the RRPGP program is also very expensive especially when compared to a possible emissions trading scheme market carbon price closer to $20-$30/tonne/CO2e.

Across the five programs examined, performance reporting could have been substantially better in terms of accuracy and consistency. If Parliament is to make informed judgements about what these, (and any future climate change programs) have achieved, reporting by agencies will need to more closely adhere to the annual reporting guidelines. In particular, reporting actual performance in relation to performance targets; and providing narrative discussion and analysis of performance.

To be effective, future programs will need to implement the key components of grant administration as outlined in the 2009 *Commonwealth Grant Guidelines*, particularly in terms of program planning and design and achieving value for public money. This audit has made one recommendation aimed at improving grant administration in DEWHA and could also be taken into account by DCCEE in terms of the ongoing administration of relevant programs. It has also identified a number of lessons that may have application to other grant programs in the departments concerned.

ANAO recommendation

Table 7.2 ANAO recommendation, Audit Report No. 26 2009-10

1.	In order to strengthen the consistency and core competencies in grant administration, the ANAO recommends that the Department of the Environment, Water, Heritage and the Arts and the Department of Climate Change and Energy Efficiency give priority to establishing a Grants Policy Unit to facilitate consistent practice across the department in terms of: (a) identifying and managing risk throughout the lifecycle of a program; (b) assessing and selecting projects that represent value-for-money and meet program objectives and criteria; and (c) monitoring project performance and reporting on whether program objectives are being achieved. **DEWHA and DCCEE response:** Agreed in principle, noting that the audited programs have transferred from DEWHA to DCCEE.

The Committee's review

7.15 The Committee held a public hearing on Wednesday 16 June 2010, with the following witnesses:

- Australian National Audit Office (ANAO);
- Department of Environment, Water, Heritage and the Arts (DEWHA); and
- Department of Climate Change and Energy Efficiency (DCCEE).

7.16 The Committee took evidence on the following issues:

- risk identification and management;
- assessment process;
- demand driven programs;
- performance reporting; and
- Grants Policy Unit.

Risk identification and management

7.17 The ANAO stressed that climate change programs are inherently high risk but noted that risk identification and management was often undertaken late in the implementation stage of the programs examined, preventing mitigation strategies being put in place early.[10] The Committee asked DCCEE what steps have been taken to tighten up risk identification and management of climate change programs.

7.18 DCCEE told the Committee that the Department has established a dedicated risk management team whose role it is to develop and implement a comprehensive risk management plan for each program:

> A key element of their work involves engaging with programs in the early stages of development to drive out a comprehensive risk assessment and risk management plan that will continue to evolve in line with the development, implementation and operation of the program. ... Key risks are reported on a regular basis to the Departmental Audit Committee and risk management information is held in an accessible format that allows managers and risk

10 Audit Report No. 26 2009-10, pp. 46-50.

> management specialists to monitor the implementation and on-going effectiveness of agreed risk mitigation treatments.[11]

Assessment process

7.19 With regard to the Greenhouse Gap Abatement Program (GGAP), the ANAO found that there were a number of cases where successful applications did not meet the program's eligibility criteria. In one instance a project had been previously rejected by a former Minister and three of the recommended projects were technically ineligible.[12] The Committee asked DCCEE if steps had been taken to tighten the assessment process to ensure successful applications meet the eligibility criteria for each program.

7.20 DCCEE indicated that the GGAP had closed and therefore no more applications were being considered for funding under that program.[13] With regard to future programs, the Department assured the Committee that a process of independent assessment of applications had been put in place:

> Subsequent competitive grant programs administered by the Department involving large complex grants, such as *Solar Cities* and the *Smart Grid, Smart City* initiative have utilised independent expert panels to oversee the assessment process and make funding recommendations.[14]

Demand driven programs

7.21 The ANAO noted that open-ended, demand driven programs run the risk of demand exceeding the budget. The ANAO suggested that 'an adequate range of controls' needs to be in place to deal with high levels of demand putting pressure on the budget.[15] The Committee asked DCCEE what type of controls could be put in place to better manage such a situation and mitigate the risk.

7.22 DCCEE assured the Committee that the Department has introduced a range of controls to address this issue. DCCEE emphasised the importance of tailoring controls to a particular program and to monitor effectiveness:

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11 DCCEE, submission no. 6, npn.
12 Audit Report No. 26 2009-10, p. 58.
13 DCCEE, submission no. 6, npn.
14 DCCEE, submission no. 6, npn.
15 Audit Report No. 26, 2009-10, p. 79.

> It is important that demand management strategies are considered early in the design of programs and that they are tailored to the particular target audience, objectives and parameters of each program. Regular tracking of demand is also critical to test the effectiveness of demand management controls and provide sufficient opportunity to adjust the controls if required.[16]

7.23 In its written submission to the inquiry, DCCEE provided examples of the controls put in place to manage the National Solar Schools Program (NSSP) including:

- Annual funding caps to be applied in each state and territory's government (state) and non-government sectors – the amount of each allocation will be consistent with each jurisdiction's share of the total national number of schools eligible for a NSSP grant that have not already received a grant.
- Schools now need to apply for funding during a five-week annual application round. This also assists to better manage the risk of uncontrolled demand placing pressure on the program's annual budget.
- Eligible schools' applications will be assessed against three criteria: value for money; environmental benefits; and educational benefits. A merit-based, competitive, assessment process will be used to determine which schools' applications best meet these criteria and should receive funding in each year. Any school not successful in one round is eligible to apply in subsequent years' application rounds. Over the life of the program, every eligible school has the potential to receive a NSSP grant; but schools with the most competitive applications will receive their funding earlier.
- The Solar Hot Water Rebate (SHWR) has been reduced twice in the last financial year (September 2009 and February 2010) as a strategy to successfully reduce demand and assist with managing the program within budget. In February 2010, the time to submit an application post installation was also reduced from six months to two months – giving a more timely view of Commonwealth liabilities. Demand is tracked on a weekly basis and forecasts adjusted to provide early warning of a potential overspend or significant underspend in a given financial year.[17]

Performance reporting

7.24 The ANAO was critical of performance reporting across the range of programs examined for this audit. The Committee is concerned that this

16 DCCEE, submission no. 6, npn.

17 DCCEE, submission no. 6, npn.

issue has not been addressed despite being identified by the ANAO in previous audits of these types of programs.[18] The Committee asked DCCEE what steps have been taken to improve performance reporting for climate change programs.

7.25 DCCEE assured the Committee that significant steps have been taken to improve performance reporting for all of the programs examined in this report. Specifically the issues identified by the ANAO have been addressed by the following measures:

- The quality and timeliness of reporting for the Renewable Remote Power Generation Program has improved, with the database now functioning effectively. An end of program report is also currently being prepared which will provide a consolidated assessment of achievements.
- The SHWR, NSSP and SHCP programs provide weekly reports on volumes of applications received and paid which are consolidated into a report for the Department of the Prime Minister and Cabinet. This information is also provided to the responsible Minister's Offices.
- The SHCP program is scheduled to undertake a program evaluation during the current financial year, prior to all remaining rebates being paid. Monitoring and evaluation plans are also being established for the SHWR, NSSP, Green Loans Program and Green Start Program to provide information to assess achievements resulting from program expenditure.[19]

Grants Policy Unit

7.26 The ANAO recommended that DEWHA and DCCEE set up a Grants Policy Unit to facilitate improvement in the grants management process across both departments.[20] The Committee asked DEWHA and DCCEE if this Unit had been established and, if so, had it contributed to improvements in the grants management cycle to date.

7.27 DEWHA informed the Committee that the Unit has been established and incorporated into the Government Branch, Business Improvement Division.[21] The Department reported that improvements in the grants management cycle to date include:

18 Audit Report No. 26 2009-10, pp. 93-96.

19 DCCEE, submission no. 6, npn.

20 Audit Report No. 26 2009-10, p. 28.

21 DEWHA, submission no. 8, npn.

> ... the establishment of the Grants Reference Group with representatives from Grant Programs across the Department. Progress has also been made on a grants Management Manual, standard templates and toolkits to provide guidance to line areas on grants management. A grants helpdesk has also been established to provide guidance across the Department on compliance with the Commonwealth Grant Guidelines requirements.[22]

7.28 DCCEE advised the Committee that the Grants Policy Unit was not transferred as part of the machinery of government changes and remains with DEWHA.[23] However, DCCEE has established a number of initiatives to improve grant administration.

> The Department's Legal Services Branch issues the Department's Grants Policy and is responsible for assisting with the drafting of funding agreements. The Department's Finance Branch co-ordinate the provision of new and amended grant guidelines. Assistance with broader frameworks for applying risk management and project management to grant schemes is provided by the newly established Governance and Program Support Division. This Division is actively working with program areas to improve planning, administration, resolution of legal issues, and implementation of compliance activities (from assurance through to fraud investigation).[24]

Conclusion

7.29 The Committee notes the likelihood that there will be an ongoing need for climate change programs to combat the potential effects of climate change on the Australian people and economy. The Committee is concerned that the programs implemented by successive governments have experienced a range of risk management and reporting problems and that relevant departments have not been able to successfully address these issues.

7.30 The Committee notes that DEWHA has implemented the ANAO recommendation to establish a Grants Policy Unit and that DCCEE has established concrete measures to address the issues identified by the

22 DEWHA, submission no. 8, npn.

23 DCCEE, submission no. 6, npn.

24 DCCEE, submission no. 6, npn.

ANAO report. The Committee urges departments involved in administering these programs to continue to monitor and evaluate risk management and reporting procedures to ensure better value for money in future.