

Audit Report No. 09 2010-11 **Green Loans Program**

Audit Report No. 12 2010-11 **Home Insulation Program**

Introduction

- 5.1 The Joint Committee of Public Accounts and Audit (JCPAA) elected to examine Audit Report No. 09 2010-11, *Green Loans Program* and Audit Report No. 12 2010-11, *Home Insulation Program* in a single inquiry. The Committee considered that the two audit reports covered similar issues regarding the development and implementation of programs designed to address energy efficiency.
- 5.2 The Committee recognised that both programs have been the subject of a number of reviews and, consequently, saw its primary role as identifying the lessons that can be drawn from the difficulties experienced with the implementation and delivery of both programs. To this end, this report emphasises the changes that have been initiated within the departments concerned and across the broader Australian Public Service (APS).
- 5.3 It should be noted that the programs concerned had originally fallen under the responsibility of the Department of the Environment, Water, Heritage and the Arts (DEWHA), later the Department of Sustainability, Environment, Water, Population and Communities (DSEWPaC). In March 2010 the programs were transferred to the Department of Climate Change which became the Department of Climate Change and Energy Efficiency (DCCEE).

Program objectives

Green Loans Program¹

5.4 Following Labor's election to Government in late 2007, the 2008-09 Budget allocated \$300 million to fund the Green Loans program. This funding was for an unspecified number of subsidised home assessments, free Green Renovations packs valued at \$50 to each assessed household and interest rate subsidies for up to 200 000 loans to householders. The program, which was to commence in early 2009, had the following objectives:

- encouraging wide-scale improvement of energy and water efficiency in existing homes;
- providing sound advice to households on the most appropriate actions to reduce the environmental impact of operating their home;
- providing financial assistance to households to gain access to the resources they need to invest in energy and water-efficient technologies; and
- reducing annual greenhouse gas emissions.

5.5 In the subsequent 2009-10 Budget, the Government realised \$125.7 million in budgetary savings by reshaping the Green Loans program to reduce the number of loan interest subsidies funded. The revised program was expected to fund up to 360 000 free home assessments; a \$50 Green Rewards card for each assessed household; and interest rate subsidies for up to 75 000 green loans to implement home assessment recommendations. The program was launched from 1 July 2009 and was scheduled to run until 2012-13 or until available funding was exhausted, whichever came first.

5.6 The Green Loans program consisted of the following main elements:

- *training, registration and contracting of assessors* – assessors had to complete approved training, be registered by an Assessor Accrediting Organisation (AAO) and enter into a contract with the Australian Government before being able to provide assessor services under the program;
- *homes sustainability assessments* – after an assessment had been booked, assessors physically inspected and collected information on households' major energy and water systems relating to thermal comfort, water heating, lighting, refrigeration, cooking, and entertainment. An assessment report

1 The following information is taken from Audit Report No. 09 2010-11, *Green Loans Program*, pp. 11-12.

was later provided to householders recommending measures to improve their home's environmental sustainability; and

- *provision of green loans* – eligible householders could apply to a participating financial institution for an interest-free green loan of up to \$10 000 to fund the purchase and installation of eligible items recommended in their assessment report.

Home Insulation Program (HIP)²

- 5.7 In response to the global financial crisis, the Government prepared and announced a series of stimulus measures in late 2008 and early 2009, including the \$42 billion Nation Building and Jobs Plan. A key element of this Plan was the \$3.9 billion Energy Efficient Homes Package (EEHP), announced by the then Prime Minister on 3 February 2009.
- 5.8 The EEHP was designed to generate economic stimulus and support lower skilled jobs in the housing and construction industry and small businesses; and improve the energy efficiency of Australian homes. Installing insulation in existing homes was regarded as one of the most cost-effective opportunities to improve residential energy efficiency. At the time, it was estimated that only 60 per cent of Australian homes were insulated.
- 5.9 The EEHP was to be administered as an executive scheme³ and included the:
- Homeowner Insulation Program⁴: incentives for homeowner-occupiers to have insulation installed (\$2.8 billion over two and a half years);
 - Low Emissions Assistance Plan for Renters (LEAPR): incentives for renters in private rental accommodation and their landlords to install insulation (\$637.4 million over two and a half years); and
 - Solar Hot Water Rebate (SHWR) Program: expansion of incentives for householders to install solar hot water heaters (\$514.4 million over three and a half years).

2 The following information has been taken from Audit Report No. 12 2010-11, *Home Insulation Program*, pp. 19-20.

3 Executive schemes rely on executive rather than legislative power, and their key advantage is the speed in which they can be established and their flexibility. A challenge in implementing an executive scheme is ensuring that any terms and conditions are clear and enforceable. As noted by the Commonwealth Ombudsman, many of the checks and balances in programs are conveyed through legislation. (Commonwealth Ombudsman, *Executive Schemes*, <http://www.ombudsman.gov.au/files/investigation_2009_12.pdf> viewed 9 May 2011.)

4 The Homeowner Insulation Program operated from 3 February 2009 and was replaced by the Home Insulation Program on 1 July 2009. After this date, the original budget of \$2.8 billion was subsequently revised to \$2.45 billion.

The ANAO Audit

Audit objective

Green Loans Program⁵

5.10 The objective of the audit was to examine key aspects of the establishment and administration of the Green Loans program by DEWHA and the program's transition to DCCEE. Particular emphasis was given to the program's three main elements:

- training, registration and contracting of assessors;
- scheduling, conduct, and reporting of home sustainability assessments, and the associated payments to assessors; and
- provision of green loans to householders, and the associated payments to participating financial institutions.

5.11 The audit also examined the extent to which steps had been taken by DEWHA and DCCEE to assess whether the Green Loans program was achieving its objectives.

Home Insulation Program⁶

5.12 The objective of this audit was to assess key aspects of the establishment and administration of the Home Insulation Program (HIP) by DEWHA as well as the transition of the program to DCCEE. All phases of the program were examined with particular emphasis for Phase 2 being given to:

- program design and implementation;
- registration and training of installers;
- payment of rebates; and
- the compliance strategy underpinning the program.

Overall audit conclusion

5.13 The overall audit conclusion for both Audit Report No. 09 2010-11, *Green Loans Program* and Audit Report No. 12 2010-11, *Home Insulation Program* identified a number of common themes, in particularly inadequate governance arrangements and Ministerial advice.⁷ In both reports the ANAO noted project management shortcomings and a lack of executive

5 The following information has been taken from Audit Report No. 09 2010-11, p. 16.

6 The following information has been taken from Audit Report No. 12 2010-11, pp. 25-26.

7 Audit Report No. 09 2010-11, pp. 18-19; Audit Report No. 12 2010-11, p. 32.

oversight.⁸ The ANAO was particularly critical of the quality of advice to the respective Ministers and commented in both cases that, not only was advice inaccurate, but overly optimistic.⁹

Green Loans Program

- 5.14 The ANAO noted that although the Green Loans program was not as significant in terms of funding allocation compared to other programs administered by DEWHA, it did have a significant impact on stakeholders:

The program stimulated a small sustainability assessment industry and created work for thousands of assessors. Hundreds of thousands of households had their energy and water consumption assessed to identify opportunities for making savings. The assessment reports informed householders how to change their behaviour (for example, by lowering hot water system thermostat settings), and householders could apply for an interest-free loan to fund the purchase of capital items to improve their home's environmental sustainability.¹⁰

- 5.15 In particular, the ANAO found that the number of contracted assessors and the demand for assessments rapidly increased beyond what DEWHA had anticipated, resulting in significant delays for householders.¹¹ In response to adverse media coverage, program changes were implemented in early 2010:

Program changes announced on 19 February 2010 effectively capped the number of assessors and the demand for assessments, but also left thousands of assessors, who had each invested their time and around \$3000 on training, insurance and registration, with unfulfilled work expectations. The backlog of assessment reports to be distributed continued to grow to over 100 000, which denied many householders the opportunity to apply for an interest-free green loan.¹²

- 5.16 The ANAO found that since taking over the program DCCEE had made considerable inroads in clearing the backlog but that there was still some work to do:

8 Audit Report No. 09 2010-11, p. 18; Audit Report No. 12 2010-11, p. 36.

9 Audit Report No. 09 2010-11, p. 18; Audit Report No. 12 2010-11, p. 36.

10 Audit Report No. 09 2010-11, p. 17.

11 Audit Report No. 09 2010-11, p. 17.

12 Audit Report No. 09 2010-11, p. 17.

Since taking over responsibility for the administration of the program, DCCEE has procured audit and compliance services for the program (April 2010), cleared the backlog of assessment reports (May 2010), and arranged for householders to claim their \$50 Green Rewards (from July 2010 onwards). DCCEE has yet to determine a methodology for measuring the performance of the Green Loans program against its objectives.¹³

- 5.17 The ANAO found that the major cause of the problems encountered by the program was the lack of effective governance. The ANAO was critical that the day-to-day management responsibility had been devolved to 'sub-executive level officers who had little program delivery experience' and that the 'program's visibility to DEWHA's senior executives was poor'.¹⁴ The ANAO was particularly concerned that advice to the Minister was 'incomplete, inaccurate and untimely' and concluded:

... the former Minister was not well served by his department in this respect during the period from July 2008 to late 2009 due to the poor quality briefings he received.¹⁵

- 5.18 The ANAO also found that, although the Department had considered legal risks, overall it had failed to identify and manage other key risks including:

... the quality of assessor training posed by the absence of an accredited training course; the lack of policy or administrative measures to control assessment demand; and staff in the Green Loans team collectively not possessing sufficient skills and experience in key areas of program management.¹⁶

- 5.19 Overall, the ANAO found that after DEWHA established the Energy Efficiency Taskforce in November 2009, the problems identified in the audit were largely addressed. Governance improved, as did the quality of Ministerial briefings and administrative issues were managed.¹⁷ In light of the changes the ANAO was satisfied with progress and did not make any recommendations:

The audit has not made any recommendations to the departments as DEWHA and DCCEE announced changes to improve corporate and program governance, enhance internal control mechanisms

13 Audit Report No. 09 2010-11, pp. 17-18.

14 Audit Report No. 09 2010-11, p. 18.

15 Audit Report No. 09 2010-11, pp. 18-19.

16 Audit Report No. 09 2010-11, p. 19.

17 Audit Report No. 09 2010-11, p. 21.

and systems, and strengthen accountability frameworks. Better engagement of centrally-maintained subject matter expertise, such as risk management, procurement, ICT, compliance and communications, by program areas is also being encouraged to provide greater support for program managers.¹⁸

Home Insulation Program

5.20 With regard to the Home Insulation Program, the ANAO concluded that:

The program was developed in a very short period of time between 3 February 2009 and 30 June 2009 as a stimulus measure to respond to the global financial crisis. In terms of outcomes, it has been estimated that between 6000 and 10 000 jobs have been created. While, clearly, the creation of these jobs was an important outcome in the face of the downturn in the economy, these jobs were shorter-lived than intended due to the early closure of the program. There have also been energy efficiency benefits but these are likely to be less than anticipated due to the deficiencies in a significant number of installations.¹⁹

5.21 The ANAO identified poor risk management practices coupled with a lack of project management and implementation skills as contributing factors to the program's failure.²⁰ The ANAO noted that the consequences have been wide ranging and ongoing:

Overall HIP has been a costly program for the outcomes achieved, including substantial remediation costs. There still remains a range of safety concerns and coronial inquiries are yet to be completed in relation to the four fatalities associated with installations under the program. The fallout from the program has caused serious inconvenience to many householders, reputational damage to the insulation industry, and financial difficulties for many Australian manufacturers and installers. It has also harmed the reputation of the Australian Public Service for effective service delivery.²¹

5.22 The ANAO noted that HIP was rolled out in two phases and that the key difference between the two phases was that 'under Phase 1, the rebate was paid to householders, while under Phase 2 it was paid directly to

18 Audit Report No. 09 2010-11, p. 22.

19 Audit Report No. 12 2010-11, p. 27.

20 Audit Report No. 12 2010-11, p. 27.

21 Audit Report No. 12 2010-11, p. 27.

installers'.²² The change in process considerably increased the risk to the Department as there was 'no limit to the number of claims that an installer could submit'.²³

5.23 For Phase 1, the ANAO found that sound processes ensured that householders' claims for rebates were adequately assessed and installations completed.²⁴ However, for Phase 2, the ANAO found that the processes proved inadequate due to a number of factors, including:

- the very tight timeframe in which the program was required to be delivered;
- underestimation of key program risks;
- under-resourcing of program administration;
- the delayed introduction of an effective compliance and audit program; and
- inadequate governance arrangements and advice to the then Minister.²⁵

5.24 Despite the problems identified in the audit the ANAO did not make any recommendations as the program has been closed and the ANAO is satisfied that DEWHA and DCCEE have reviewed and revised their procedures to incorporate the lessons learned from the program implementation. The ANAO acknowledged the improvements but cautions that:

[W]hile there is significant work underway, there is still much to be done to address quality, safety and fraud issues under the program.²⁶

The Committee's review

5.25 The Committee held a public hearing on Wednesday 23 March 2011, with the following witnesses:

- Australian National Audit Office (ANAO);
- Department of Climate Change and Energy Efficiency (DCCEE);

22 Audit Report No. 12 2010-11, p. 32.

23 Audit Report No. 12 2010-11, p. 32.

24 Audit Report No. 12 2010-11, p. 32.

25 Audit Report No. 12 2010-11, p. 32.

26 Audit Report No. 12 2010-11, p. 38-39.

- Department of Sustainability, Environment, Water, Population and Communities (DSEWPaC); and
- Medicare Australia.

5.26 The Committee took evidence on the following issues:

- impact on industry and community;
- future of demand driven, energy efficiency programs;
- insulation industry;
- departmental capacity;
- Ministerial advice;
- lessons learnt:
 - ⇒ application across the APS;
 - ⇒ cultural change;
 - ⇒ response time; and
 - ⇒ external advice and expertise.

Impact on industry and community

5.27 The Committee expressed particular concern regarding the ongoing consequences for small business and individuals following the failure of both the HIP and Green Loans programs. The Committee is acutely aware of the time, effort and money that many people have invested in these programs and that the mismanagement of the programs has left these people exposed. The Committee asked DCCEE and DSEWPaC what steps have been taken to alleviate the impact of the program failings on industry, small business and individuals.

5.28 With regard to HIP, DCCEE told the Committee that a range of industry assistance programs had been implemented:

The Department put forward an industry workers assistance package in the early part of last year to the tune of approximately \$41 million and later developed a broader insulation industry assistance package of around \$15 million to support business in inventory warehousing and the like.²⁷

27 Mr Martin Bowles, Deputy Secretary, Department of Climate Change and Energy Efficiency (DCCEE), *Committee Hansard*, Canberra, 23 March 2011, p. 3.

- 5.29 The Department informed the Committee that assistance packages had also been put in place for assessors under the Green Loans Program, including a financial assistance package and a training assistance package.²⁸ DCCEE explained that the financial assistance package was aimed at uncontracted assessors, those who had been accredited but had not obtained work under the program.²⁹ The training package provides assistance to contracted assessors who wish to upgrade their skills.³⁰
- 5.30 The Committee asked for clarification on the training assistance package. As the Green Loans Program has been wound up, the Committee was unsure why assessors would require further training. DCCEE explained that the industry 'believe this is a sustainable private sector business in the long term' and that 'there is a future for some private-sector assessors'.³¹
- 5.31 The Committee asked DCCEE if the financial assistance packages would pick up everyone who had been disadvantaged by the programs or if there would remain a level of financial exposure at the community level. The Department told the Committee that, with the assistance packages for both programs, anyone who applied for help and who met the eligibility criteria would be assisted.³² However, DCCEE conceded that some companies may not yet have been assisted.³³ The Department also explained to the Committee that for some companies participation in the programs was minimal and they had not required assistance. These companies:
- ... had no interest prior to these programs in either insulation or green loans in some cases and ... developed a particular stream for their company. They have just moved on to do the rest of their business.³⁴
- 5.32 The Committee asked the departments if there is acknowledgment of the residual uncertainty and frustration at the community level over the problems with the two programs. DCCEE told the Committee that the Department recognises, not only the extent of the hardship experienced, but the ongoing nature of it.³⁵ DCCEE indicated its cooperation with the Australian Federal Police in identifying fraudulent behaviour as an
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28 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 3.

29 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 3.

30 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 3.

31 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, pp. 3 and 8.

32 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 5.

33 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 5.

34 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 5.

35 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 4.

example of the Department's commitment to alleviating that uncertainty and frustration.³⁶ DSEWPaC corroborated that the issues arising from the implementation of these programs has resulted in a loss of goodwill in the community.³⁷

Insulation industry

5.33 The Committee suggested that the insulation industry was not very coherent and that this had exacerbated the problems experienced when these two programs were implemented. The Committee asked if the industry had changed.

5.34 DCCEE explained that the industry was effectively unregulated and largely divided according to the four types of insulation product: cellulose, polyester, glass fibre and foil.³⁸ The Department told the Committee that DCCEE has been working with both the industry and regulatory bodies to improve coherence and regulation across the industry.³⁹ DCCEE admitted that this was not the usual role of the Department but felt that, in this case, DCCEE could provide relevant assistance:

... given we were working in this space, particularly around the rectification issues, we have quite often and in some detail provided advice and information to assist these bodies in developing standards. There is a lot of work being done around downlight covers, for instance; there is a lot of work being done around a standard for home insulation more broadly. That will continue well past and outside any Commonwealth influence, but we have participated strongly in that.⁴⁰

5.35 The Committee asked DCCEE if the changes made indicated that the industry had improved. Although acknowledging that it would depend on the industry, the Department was confident that there would be long term improvement:

... that will be up to the industry ultimately, but what we have been able to do with the rectification program is introduce a whole

36 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 4.

37 Mr Malcolm Thompson, Deputy Secretary, Department of Sustainability, Environment, Water, Population and Communities (DSEWPaC), *Committee Hansard*, Canberra, 23 March 2011, p. 4.

38 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 6.

39 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 6.

40 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 6.

lot of standards around training and around what you need to do to get into the industry. I would like to think that will be enduring.⁴¹

Future of demand driven, energy efficiency programs

- 5.36 The Committee asked the departments if the experience with the HIP and Green Loans programs had caused any reluctance on the side of the departments to develop and implement such programs in the future. While DCCEE reminded the Committee that ultimately such decisions reside with the government of the day, the Department still saw benefit in such programs.⁴² However, DCCEE acknowledged that the programs must be better managed:

There is definitely a view that we need to manage them appropriately, and we need to look at proper mechanisms for the delivery of these programs. But my group is absolutely focused on a range of energy efficiency programs, and we will continue to be so.⁴³

Departmental capacity

- 5.37 For both the HIP and Green Loans programs, the ANAO was critical of the governance and administrative arrangements. The ANAO found a lack of executive level oversight, lack of adequate human resources and significant administrative shortcomings.⁴⁴ The Committee asked what steps had been taken to address these issues and ensure the effective implementation of similar programs in the future.
- 5.38 DSEWPaC told the Committee that the Department has implemented changes to governance arrangements that ensure executive level visibility of all programs.⁴⁵ DSEWPaC identified appropriate training as the key to improving the availability of suitably qualified and skilled staff.⁴⁶ To that end the Department has instigated a range of training initiatives:

... making sure that people understood, importantly, the financial framework and the obligations under the Financial Management and Accountability Act, procurement guidelines ... and all those

41 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 6.

42 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, pp. 5-6.

43 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 5.

44 Audit Report No. 09 2010-11, pp. 18-19; Audit Report No. 12 2010-11, pp. 34-37.

45 Mr Thompson, DSEWPaC, *Committee Hansard*, Canberra, 23 March 2011, p. 7.

46 Mr Thompson, DSEWPaC, *Committee Hansard*, Canberra, 23 March 2011, p. 7.

sorts of things. We ramped up the requirements for mandatory training across the board on a number of those things.⁴⁷

- 5.39 Further, DSEWPaC emphasised the importance of an effective internal audit process and told the Committee the Department has made a number of changes to make sure its audit committee and internal audit program are working more efficiently:

... we moved much more to an independent membership of our audit committee. So we now have an independent chair, two independent members and one departmental member. ... We also appointed new internal auditors who have a very active program in the department.⁴⁸

- 5.40 DCCEE indicated that the Department had implemented similar measures to address the governance, staffing and administrative issues that emerged during the two programs. DCCEE pointed out to the Committee that, as the Department's focus was specifically on the remediation work for HIP, the expectation was that it would perform more effectively.⁴⁹

- 5.41 In particular, DCCEE identified the steps the Department had taken to improve the procurement process through engaging and employing procurement expertise.⁵⁰ In addition to a comprehensive training program, DCCEE told the Committee the Department has significantly strengthened its project management framework:

... we have developed a project management office to start to monitor these things. We have a program management committee which reports directly to our senior management board ... within the department. We have a whole range of project and program committees that report KPIs on where each of our projects and programs are up to. That gets fed up and when there are any problems we can have a look at those pretty quickly.⁵¹

- 5.42 In relation to these issues, DCCEE drew the Committee's attention to the ANAO's endorsement of the improvements in governance and administration with regard to the remediation programs for HIP.⁵² The

47 Mr Thompson, DSEWPaC, *Committee Hansard*, Canberra, 23 March 2011, p. 7.

48 Mr Thompson, DSEWPaC, *Committee Hansard*, Canberra, 23 March 2011, p. 7.

49 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 7.

50 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 7.

51 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 8.

52 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 8; See Audit Report No. 12 2010-11, p. 153.

Department informed the Committee that since the ANAO audit, DCCEE has further improved in all the areas identified in the audit.⁵³

Ministerial advice

- 5.43 The ANAO found that for both the HIP and the Green Loans programs, the quality of advice provided to the respective Ministers was inaccurate and overly optimistic.⁵⁴ The Committee expressed grave concern over the quality of Ministerial advice provided by the departments for both programs, particularly the failure to identify the difficulties the departments were facing with regard to resourcing and meeting deadlines. The Committee asked the departments what steps have been taken to improve the quality of Ministerial advice and to ensure that advice is realistic.
- 5.44 While conceding that the Department could have ‘done a better job’ in this regard, DSEWPaC maintained that the briefs provided *had* identified risks and issues of concern to the respective Ministers.⁵⁵ DSEWPaC told the Committee that the Department has improved program management and program reporting for all major projects and that these improved processes have specifically addressed risk management:
- ... embedded within that are risk management, risk registers and risk identification systems that we think now are more robust.⁵⁶
- 5.45 The Committee suggested that risk identification was only the first part of the problem and that risk mitigation strategies had to be put in place to manage the risk. DSEWPaC agreed and said that the new processes, ‘taken as a whole’, would ensure that suitable, effective risk mitigation strategies would be developed and implemented for future programs.⁵⁷
- 5.46 The Committee asked DSEWPaC if, at any time, the Department had advised the Minister that managing both the HIP and Green Loans programs simultaneously would cause significant resource issues for the Department. DSEWPaC could not confirm that such advice had been provided to the Minister.⁵⁸

53 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 8.

54 Audit Report No. 09 2010-11, p. 18; Audit Report No. 12 2010-11, p. 36.

55 Mr Thompson, DSEWPaC, *Committee Hansard*, Canberra, 23 March 2011, p. 9.

56 Mr Thompson, DSEWPaC, *Committee Hansard*, Canberra, 23 March 2011, p. 9.

57 Mr Thompson, DSEWPaC, *Committee Hansard*, Canberra, 23 March 2011, p. 9.

58 Mr Thompson, DSEWPaC, *Committee Hansard*, Canberra, 23 March 2011, p. 11.

Lessons learnt

5.47 The Committee asked the departments what lessons had been learnt from the issues identified in implementing the HIP and Green Loans programs and what changes had been made to ensure future programs would be implemented more effectively and efficiently.

5.48 The departments drew attention to the number of reviews that had been undertaken which had helped highlight the issues and suggested improvements.⁵⁹ In particular, the establishment of the separate Department of Climate Change and Energy Efficiency had initiated a round of reform to address all of the areas of concern:

As we have moved forward we have been able to incorporate all of those lessons learned, if you like, from the programs into the development of our governance and management structures to ensure that these sorts of issues do not happen again.⁶⁰

5.49 DSEWPaC told the Committee that the most important change within the Department was the development of a 'more active risk culture'. DSEWPaC explained that this was evidenced in a greater awareness of risk and an increased desire to be proactive and manage identified risks collectively.⁶¹

Application across the APS

5.50 The Committee sought assurance that the lessons learnt were being shared across departments and not confined to the two departments involved in the implementation of the HIP and Green Loans programs. DCCEE assured the Committee that there had been a good deal of collaboration across departments in identifying the lessons that could be drawn from the implementation of these two programs and that the lessons extended to a broad range of issues:

... about this whole-of-government interaction. ... there has been a lot of work happening in the background about service delivery and how a policy position actually transitions from a policy all the way through to program design and delivery. There has been a significant amount of work on all of that, which I think has been led by the Department of Finance and Deregulation.⁶²

59 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 3.

60 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 3.

61 Mr Thompson, DSEWPaC, *Committee Hansard*, Canberra, 23 March 2011, p. 9.

62 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 10.

- 5.51 The Committee asked for evidence that the lessons learnt have been implemented across the Public Service. Medicare Australia confirmed that there have been improvements across the board and that delivery issues are becoming an integral part of policy discussions:

Across the whole of the Public Service there has been a renewed emphasis on involving service delivery issues right at the beginning of policy thinking, and various options with their associated risks, benefits and strategies are becoming more the norm, as cross-departmental-agency discussion are becoming more the norm. ... Certainly, within the Department of Human Services and its various agencies, all of the sorts of things that have been canvassed so far about governance arrangements – project management, capability, recognition and then skilling – have been re-examined and are being improved for the whole portfolio.⁶³

Cultural change

- 5.52 While the Committee accepted the assurance that changes had been made to governance and administration, it questioned whether there was evidence of a cultural shift within departmental attitude.
- 5.53 DCCEE explained to the Committee that corporate culture is made up of a range of factors including governance, service and program delivery skills.⁶⁴ The Department cautioned that although better processes could be put in place, people can always find ways to break ‘rules and regulations’.⁶⁵ However, DCCEE advised the Committee that there had been a distinct cultural shift in the Department and that staff had developed an inclusive culture that encouraged individuals to identify and speak out about problems.⁶⁶
- 5.54 DSEWPaC admitted that cultural change is difficult to measure but assured the Committee that the Department had implemented both ‘a change management process and a communication process’ to encourage a cultural shift.⁶⁷ DSEWPaC told the Committee that it had articulated a series of goals in the Department’s most recent strategic plan designed to facilitate such a change:
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63 Ms Malisa Golightly, Deputy Chief Executive Officer, Medicare Australia, Department of Human Services, *Committee Hansard*, Canberra, 23 March 2011, p. 14.

64 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 12.

65 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 12.

66 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 13.

67 Mr Thompson, DSEWPaC, *Committee Hansard*, Canberra, 23 March 2011, p. 13.

... a proactive attitude in all we do; delivering to high standards; rigorous and balanced policy advice – keeping each other honest in terms of the advice that we give to ministers ... and accepting personal responsibility for things that we are responsible for.⁶⁸

- 5.55 The Committee pursued the issue of cultural change, asking the departments if individual staff had been held accountable and suffered direct consequences as a result of the failure of these two programs. DCCEE maintained that the problems and issues had not been brought about by the deliberate mal-intent of staff members but rather by a mismatch between appropriate skills and the expectations of a particular role. The Deputy Secretary of DCCEE told the Committee that it is taking steps to improve this situation:

That is definitely something that I have been dealing [with] over a period of time – making sure that we can get the right people in the right jobs, people who understand all of the different things that they need to understand. That is one of the lessons that we have learnt as a public service more broadly.⁶⁹

Response time

- 5.56 The Committee asked the departments if the structural and cultural changes that had been put in place have improved the departments' ability to respond quickly to a similar crisis to the global financial crisis. Specifically, the Committee asked if the new processes had been tested and if the departments could provide assurance that departmental capacity had improved and that relevant Ministers would be properly advised.
- 5.57 DSEWPaC told the Committee that testing newly implemented processes is ongoing and that the recent machinery of government changes had provided an opportunity to 'stress-test' many of the structural and cultural changes.⁷⁰ However, DSEWPaC emphasised the importance of the public service as a whole responding to the lessons learnt from the problems encountered in the implementation of these programs and emphasised the important contribution that these two ANAO audit reports have made to public administration across the board.⁷¹

68 Mr Thompson, DSEWPaC, *Committee Hansard*, Canberra, 23 March 2011, p. 13.

69 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 15.

70 Mr Thompson, DSEWPaC, *Committee Hansard*, Canberra, 23 March 2011, p. 14.

71 Mr Thompson, DSEWPaC, *Committee Hansard*, Canberra, 23 March 2011, p. 14.

- 5.58 DCCEE told the Committee that the Department was in a different position, having taken responsibility for the programs ‘after the event’ when the emphasis had shifted to remediation.⁷² DCCEE was able to establish ‘a new way of doing business’ from the start, incorporating the better practice principles advised by the ANAO.⁷³ In particular, developing and implementing the remediation programs, the Home Insulation Safety Program (HISP) and the Foil Insulation Safety Program (FISP), provided an opportunity for new processes to be thoroughly tested.⁷⁴ DCCEE assured the Committee that the Department was confident that it could respond effectively to future challenges:

The development of FISP and HISP ... has positioned us to understand more deeply how we would need to respond to similar types of programs going forward. There are always risks in these issues. As long as we understand what those risks are, I think we can at least try and put the mitigation strategies in place that might pick them up a little bit more quickly.⁷⁵

- 5.59 Medicare Australia pointed to the Department’s quick response to the Queensland floods and Cyclone Yasi as evidence of the improvement in its response time to emergency situations.⁷⁶

External expertise and procurement processes

- 5.60 The Committee asked the Departments if full advantage had been taken of access to external advice and expertise. In particular, the Committee was concerned that the knowledge gained is integrated into the ongoing corporate knowledge of departments and that the Australian taxpayer is receiving value for money across the APS from consultants and advisors.
- 5.61 DSEWPaC told the Committee that the Department does draw on external advice to supplement its capacity as required.⁷⁷ However, DSEWPaC admitted that questions had been raised about how the external expertise was commissioned and utilised.⁷⁸ DSEWPaC informed the Committee that the Department is reviewing its processes and will implement changes:

72 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 14.

73 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 14.

74 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 14.

75 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 14.

76 Ms Golightly, Medicare Australia, *Committee Hansard*, Canberra, 23 March 2011, p. 15.

77 Mr Thompson, DSEWPaC, *Committee Hansard*, Canberra, 23 March 2011, p. 11.

78 Mr Thompson, DSEWPaC, *Committee Hansard*, Canberra, 23 March 2011, p. 11.

For the Department in the post energy efficiency programs period, we did commission an internal review ... of the way in which we manage our information, including information that comes to use from external sources through consultants et cetera. The implementation of those review findings is now trying to address the very question that you raise. ... it is a live question for us and one that we are trying to work through.⁷⁹

- 5.62 DCCEE told the Committee that the Department is taking steps to determine areas where it is lacking in expertise and decide whether the best course of action is to upskill existing staff or buy in the knowledge.⁸⁰ DCCEE explained that time is an important consideration:

If we are procuring something that we only need for a month, we do not want to actually employ staff. We should probably always go out and procure that particular piece of advice.⁸¹

- 5.63 DCCEE identified improved procurement processes as the most important consideration in securing external advice and expertise. DCCEE told the Committee that it has implemented procurement training across the Department to ensure that relevant staff make informed choices about the quality of outside contracts being sought:

We have been doing procurement training across all of our staff that are actively engaged in any of these program areas to try to upskill them a little bit, be a little bit more informed about what these people are providing and see if we can do it in different ways going forward.⁸²

Committee comment

- 5.64 The Committee was deeply concerned by the ANAO findings for both these programs, especially the inadequacy of governance arrangements and the quality of advice provided to the ministers. The Committee understands the difficulties caused by the tight implementation timeframes but this does not excuse the lack of executive oversight or the underestimation of key program risks.

79 Mr Thompson, DSEWPaC, *Committee Hansard*, Canberra, 23 March 2011, p. 11.

80 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 12.

81 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 12.

82 Mr Bowles, DCCEE, *Committee Hansard*, Canberra, 23 March 2011, p. 12.

- 5.65 It also does not excuse the poor quality of advice provided to the respective Ministers by the departments. The failure to advise Ministers of resourcing and capacity constraints is particularly serious. The Committee reiterates the need for accurate, timely advice that realistically reflects circumstances, including a department's resource needs and capacity to meet deadlines.
- 5.66 Of greatest concern to the Committee is the ongoing impact of the failure of the HIP and Green Loans programs on industry, individuals and the community. The Committee recognises the residual emotional and financial impact and the ongoing uncertainty and frustration existing in the community and welcomes the steps that have been taken by the departments to rectify some of these issues.
- 5.67 The Committee notes that the ANAO made no recommendations due to the proactive recognition of issues and remedial action already taken by departments.
- 5.68 The Committee also notes the work done by the ANAO and the departments in identifying and articulating the lessons learnt from the implementation and delivery of the HIP and Green Loans programs. The Committee emphasises the importance of applying this knowledge across the APS and, in future, encourages these learnings to be disseminated more broadly and systematically.
- 5.69 To this end the Committee encourages all departments and agencies to ensure that a structured approach is taken to implement change and facilitate ongoing effective service delivery across the APS.

Robert Oakeshott MP
Chair

15 June 2011