

## **Audit Report No.1 2012–13**

# **Administration of the Renewable Energy Demonstration Program**

## **Introduction**

- 6.1 The Renewable Energy Demonstration Program (REDP) was designed to ‘accelerate the commercialisation and deployment of new renewable energy technologies for power generation in Australia by assisting the demonstration of these technologies on a commercial scale’.<sup>1</sup>
- 6.2 The program was launched on 20 February 2009 as a merit-based competitive grants program. The Government initially committed \$435 million to the program, with the private sector to contribute at least two dollars for every one dollar provided.<sup>2</sup>
- 6.3 The Department of Resources, Energy and Tourism (RET) was the administering agency responsible for the REDP’s design and implementation.<sup>3</sup>

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1 ANAO Audit Report No.1 2012–13, p. 43.

2 ANAO Audit Report No.1 2012–13, p. 43.

3 ANAO Audit Report No.1 2012–13, p. 43.

## Program timeframes

- 6.4 The REDP formed the bulk of the Government's 2007 election commitment to a \$500 million Renewable Energy Fund, which was originally proposed to be funded for the period of 2008-09 to 2014-15.<sup>4</sup>
- 6.5 Initial details of the REDP were announced in May 2008 as part of the budget process, during which a decision was announced that funding would be delayed until the 2009-10 financial year to 'allow time for consultation and decisions on funding guidelines', and to 'allow potential applicants to plan projects in accordance with these guidelines and in the context of other climate change policies'.<sup>5</sup>
- 6.6 In December 2008, however, the Government announced that the Renewable Energy Fund would be brought forward for investment in the subsequent 18 months.<sup>6</sup> Bringing the funding forward was intended to:
- turbo charge investment in solar and renewable energy projects;
  - complement the Carbon Pollution Reduction Scheme;
  - stimulate the economy; and
  - create low pollution jobs for the future.<sup>7</sup>

## Program implementation

- 6.7 The department received 63 applications under the REDP, of which 61 were considered by the Department to be eligible for funding (36 non-solar and 25 solar). An independent advisory committee, the Renewable Energy Committee (REC), was appointed to assess applications against the specified merit criteria and to make recommendations for funding. On 6 November 2009, the Minister for Resources and Energy announced grants for four non-solar projects (two geothermal energy, one wave energy and one combination energy).<sup>8</sup>
- 6.8 As part of the 2009-10 Federal Budget, the Government announced the \$1.5 billion Solar Flagships Program and the establishment of the Australian Centre for Renewable Energy (ACRE). As a result, solar energy

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4 ANAO Audit Report No.1 2012-13, p. 42.

5 The Hon Martin Ferguson MP, Minister for Resources and Energy, 'Budget Boosts Clean Coal and Renewable Energy', *Media Release*, 13 May 2008.

6 ANAO Audit Report No.1 2012-13, p. 42.

7 Prime Minister of Australia, 'Government to Bring Forward Investment in Green Energy', *Media Release*, 14 December 2008.

8 ANAO Audit Report No.1 2012-13, p. 44.

projects were excluded from the REDP and \$135 million of its funding was transferred to the Solar Flagships Program.<sup>9</sup>

6.9 In 2009, the Minister subsequently allocated up to \$100 million to the ACRE board to make recommendations on solar energy REDP applications. An interim ACRE board – comprising the same members as the REC – assessed REDP solar applications using the REDP guidelines and made funding recommendations to the Minister. On 11 May 2010, grants for two solar technology projects were announced.<sup>10</sup>

6.10 Table 6.1 provides an overview of projects selected for funding.

**Table 6.1 Projects funded under REDP (solar and non-solar)**

| <b>Grant Recipient</b>     | <b>Amount of Grant (millions)</b> | <b>Plant Capacity (MW)</b> | <b>Project Description</b>                                                                            |
|----------------------------|-----------------------------------|----------------------------|-------------------------------------------------------------------------------------------------------|
| Geodynamics                | \$90.00                           | 25                         | A hot rock geothermal energy demonstration plant in Innamincka, South Australia.                      |
| Solar Oasis                | \$60.00                           | 40                         | Solar thermal big dish demonstration plant in Whyalla, South Australia.                               |
| Victorian Wave Partners    | \$66.47                           | 19                         | Ocean energy demonstration plant off Portland, Victoria.                                              |
| MNGI                       | \$62.76                           | 30                         | A heat exchanger within insulator geothermal energy demonstration plant in Paralana, South Australia. |
| CS Energy                  | \$34.90                           | 23                         | Solar powered booster for coal-fired power station at Kogan Creek, Queensland.                        |
| Hydro-Electric Corporation | \$15.28                           | 4                          | Combination of solar, wind and biodiesel technologies on King Island, Tasmania.                       |
| <b>Total</b>               | <b>\$329.41</b>                   | <b>141</b>                 |                                                                                                       |

Source ANAO Audit Report No.1 2012–13, p. 45.

## **The Department of Resources, Energy and Tourism and the Australian Renewable Energy Agency**

6.11 RET was formed in December 2007, with functions transferred from the former departments of Industry, Tourism and Resources; Education, Science and Training; and Environment and Water Resources.<sup>11</sup>

9 ANAO Audit Report No.1 2012–13, p. 45.

10 ANAO Audit Report No.1 2012–13, pp. 44–45.

11 The majority of staff, resources and expenses related to functions that were transferred from the Department of Industry, Tourism and Resources. See RET Annual Report 2007–08, pp.37, 148–149.

- 6.12 On 1 July 2012, the Australian Renewable Energy Agency (ARENA) was established by the Government in order to consolidate renewable energy support into one independent statutory authority within the Resources, Energy and Tourism portfolio. ARENA, which replaced ACRE, is now responsible for managing existing renewable energy programs, including the REDP.<sup>12</sup>

## **Grants program administration framework**

- 6.13 At the time of the REDP's launch, the Government was in the process of implementing a suite of reforms to improve grants administration. Although the enhanced legislative policy framework for grants administration – including the Commonwealth Grant Guidelines (CGGs) – did not come into full effect until 1 July 2009, after the commencement of the REDP assessment process, the reforms had been already given immediate effect through revised Finance Minister's Instructions issued in January 2009.<sup>13</sup>
- 6.14 The CGGs establish seven key principles for grants administration: robust planning and design; an outcomes orientation; proportionality; collaboration and partnership; governance and accountability; probity and transparency; and achieving value with public money. The CGGs also highlight the importance of record keeping to public accountability through 'proper maintenance and availability of relevant documentation'.<sup>14</sup>

## **The ANAO audit**

### **Audit objective and scope<sup>15</sup>**

- 6.15 The objective of the audit was to assess the effectiveness of RET's administration of the REDP (both solar and non-solar components), including progress towards achieving the program's objectives. The audit examined whether the department had established effective arrangements to:

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12 ANAO Audit Report No.1 2012-13, p. 19.

13 ANAO Audit Report No.1 2012-13, p. 47.

14 ANAO Audit Report No.1 2012-13, pp. 47-48; Department of Finance and Deregulation, *Commonwealth Grant Guidelines*, Canberra, July 2009, pp. 14, 25.

15 ANAO Audit Report No.1 2012-13, p. 20.

- implement the REDP, including governance arrangements;
- assess applications for REDP funding assistance and recommend projects to the Minister for funding approval;
- negotiate funding agreements for approved projects; and
- monitor progress towards the achievement of the REDP objective.

## Overall audit conclusion

- 6.16 The audit report concluded that RET 'did not manage key aspects of the program's implementation well', and had departed from 'generally accepted practices for sound grants administration, which had only recently been reinforced by the release of the Commonwealth Grant Guidelines'.<sup>16</sup>
- 6.17 The report identified particular weakness in the following three aspects of the program's administration:
- Program planning – the department did not complete an implementation plan and did not perform a risk assessment until some eight months after the REDP's launch.
  - Probity arrangements – the department did not keep records of the consideration of conflict of interest declarations by several members of the REC, nor the involvement of those members in discussing the individual applications for which they had declared a conflict. The department's probity office did not observe the REC's assessment deliberations or perform the required oversight tasks.
  - Assessment of applications – the assessment process 'fell short' of the expected level of transparency and accountability, with insufficient documentation retained to evidence key aspects of the process.<sup>17</sup>
- 6.18 In making these conclusions, the Australian National Audit Office (ANAO) recognised the 'challenging environment' the department was operating in. The REDP was the first major program to be implemented by RET, which as a new department was still establishing its core functions. Additionally, the REDP's accelerated implementation 'meant that grant applications, assessments and decisions had to be completed within a compressed timeframe, adding to the program's implementation risks'.<sup>18</sup>

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16 ANAO Audit Report No.1 2012-13, pp. 22-23.

17 ANAO Audit Report No.1 2012-13, p. 22.

18 ANAO Audit Report No.1 2012-13, p. 21.

- 6.19 The audit report also acknowledged that since the REDP's assessment processes had taken place, the department had progressively strengthened its governance arrangements and guidance, better positioning it to effectively manage grants programs.<sup>19</sup>

## ANAO recommendation

- 6.20 The ANAO made one recommendation aimed at the department enhancing its existing guidance materials for managing grants programs through greater coverage of the requirements relating to the documentation of merit assessment processes.<sup>20</sup>

**Table 6.2 ANAO recommendation, Audit Report No.1 2012-13**

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|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | <p>To improve accountability and transparency in grants administration, the ANAO recommends that the Department of Resources, Energy and Tourism strengthens processes for undertaking assessments of future grant programs by:</p> <p>(a) providing additional guidance in relation to documenting assessment and selection processes in the department's grants administration manual; and</p> <p>(b) reinforcing to departmental officers and advisory committee members the importance of documenting assessments against eligibility and merit criteria.</p> <p><b>RET Response:</b> <i>Agreed.</i></p> |
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## The Committee's review

- 6.21 The Committee initially scheduled a public hearing for Wednesday 19 September 2012 with representatives of the following organisations:
- The Australian National Audit Office
  - The Department of Resources, Energy and Tourism.
- 6.22 The public hearing was unable to take place on the day scheduled due to a series of divisions in both Chambers, and the Committee resolved to undertake the remainder of the inquiry through written correspondence.
- 6.23 The Committee sent the department eight initial questions in writing, and one supplementary question.
- 6.24 The responses from RET provided the Committee with evidence on the following matters:

<sup>19</sup> ANAO Audit Report No.1 2012-13, pp. 22-23.

<sup>20</sup> ANAO Audit Report No.1 2012-13, p. 23.

- Status of REDP projects
- Effectiveness of program acceleration
- Implementation of the ANAO recommendation
- Improvements to grant administration processes
- Development of Key Performance Indicators
- Management of conflicts of interest
- Support from other departments.

## Status of REDP projects

- 6.25 The Committee requested that RET provide a brief progress update on the development of each of the six projects funded under the REDP, including when each project was expected to be fully operational and whether any were currently generating electricity.
- 6.26 The department advised that none of the projects were generating electricity, and provided a brief update on each project, as summarised in Table 6.3.

**Table 6.3 Progress updates for REDP funded projects**

| Project                                                          | RET progress update                                                                                                                                                                                                                                                                                                                                                         | Expected completion |
|------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| Geodynamics<br>Cooper Basin 'Hot Rocks' Geothermal Demonstration | Geodynamics successfully completed drilling of its 4.2 kilometre deep Habanero 4 well in September 2012. Challenges with the reverse cementing of the final section of the well have been overcome and the company is preparing to commence a 'fracking' process to enhance the reservoir.                                                                                  | Mid-2015            |
| Solar Oasis Whyalla<br>'Big Dish' Solar Thermal project          | The funding deed for this project was executed on 8 March 2012. Solar Oasis is undertaking activities required to implement the project.                                                                                                                                                                                                                                    | End of 2016         |
| Victorian Wave Partners Portland<br>Wave Power Demonstration     | The company has recently signed an agreement with Lockheed Martin to provide engineering and project management support as a new project participant following the withdrawal of Leighton Contractors from the project.<br><br>The project is in the process of renegotiating its funding agreement, including project timing, with the Australian Renewable Energy Agency. | Unspecified         |
| MNGI/Petratherm<br>Paralana 'Hot Rocks' Geothermal Demonstration | This project is contingent on the company securing the funding needed to complete its precursor drilling program.                                                                                                                                                                                                                                                           | Unspecified         |

|                                                                 |                                                                                                                                                                                                                                                                                                                                                                                              |           |
|-----------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| CS Energy Kogan Creek Solar Boost                               | This project is performing well. Bulk earth works are now complete and supporting towers for the first three solar steam generators have been erected and over 250 reflectors (mirrors) have been installed. The Dalby factory commenced fully automated construction of reflectors in June 2012. Construction of the first three solar steam generators will be completed by November 2012. | Mid-2013  |
| Hydro Tasmania King Island Renewable Energy Integration Project | This project is progressing well and has recently successfully installed and commissioned the Diesel Uninterruptable Power Supply unit.                                                                                                                                                                                                                                                      | Late 2013 |

Source RET Submission 7

## Effectiveness of program acceleration

- 6.27 Noting the audit report's findings about the challenges caused by bringing forward the REDP's implementation in December 2008, the Committee asked how successful the REDP had been in achieving the aims of this acceleration, which included stimulating the economy and creating low carbon jobs for the future.
- 6.28 The response from RET indicated that although the REDP was accelerated during the global financial crisis, it was 'not formally part of the Government's stimulus package', and 'accordingly these outcomes were not part of the REDP's objectives'.<sup>21</sup>

## Implementation of ANAO recommendation

- 6.29 The ANAO's recommendation called for additional guidance to be provided in the department's grants administration manual, and a reinforcing to staff of the importance of documenting assessments against eligibility and merit criteria. As noted earlier, RET agreed with the recommendation.<sup>22</sup>
- 6.30 The Committee enquired as to what progress had been made on implementing the recommendation to date; what future work was planned; and when that work would be completed.

<sup>21</sup> RET, *Submission 7*, p. 6.

<sup>22</sup> ANAO Audit Report No.1 2012-13, p. 105.

- 6.31 RET responded that it was in the process of revising its grants administration manual and would 'ensure that the additional guidance recommended by the ANAO is incorporated into the new procedures'. The work was due to be complete by January 2013. The department advised that the findings of the audit had meanwhile been promulgated to program managers through its Program Management and Delivery Committee.<sup>23</sup>

### Improvements to grant administration processes

- 6.32 The department also summarised for the Committee the changes it had made to strengthen program management since the REDP's implementation:
- Establishment and promulgation of a Grants Administration Procedural Rule and Grants Administration Manual in February 2011
  - Establishment of a Program management and Delivery Committee in September 2010
  - Establishment of genesis files for all programs, containing key planning and implementation documents
  - Establishment of a program evaluation timeline, including mid-point and final evaluations for all programs
  - Inclusion of a rolling program of Grants Administration Reviews in the department's Internal Audit program, focusing on compliance
  - Establishment of the RET Grants Network of program managers, used to disseminate best practice information and discuss issues
  - RET's joining of the Program Management Community of Practice Forum, a quarterly interdepartmental 'round table' forum to discuss issues and share innovative ideas
  - Establishment of a risk management framework in May 2010
  - Establishment of a RET Program Management framework
  - Establishment of a Legal Services Panel in 2009, which is used to engage probity advisors for implementation of larger programs.<sup>24</sup>

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23 RET, *Submission 7*, p. 2.

24 RET, *Submission 7*, pp. 3–4.

## Development of Key Performance Indicators

- 6.33 During the audit, the department told the ANAO that it had not developed Key Performance Indicators (KPIs) for the REDP, but that it was in the process of doing so while implementing the recommendations of ANAO Report No. 5 (2011-12) *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*.<sup>25</sup>
- 6.34 The Committee asked RET whether this work had now been completed, and if so, for an outline of the KPIs that had been developed and how the department would ensure that the system for data collection, monitoring and reporting was robust.
- 6.35 The department advised that a range of KPIs had now been approved for the REDP. The KPIs were developed in consultation with the RET procurement team and consulting firm BPPM Pty Ltd, and were consistent with ANAO recommendations.<sup>26</sup>
- 6.36 RET listed the program's KPIs, which are divided into two sections: 'operational KPIs', which relate to program design and implementation; and 'objectives focused KPIs', which specify the program objectives and outcomes.<sup>27</sup>
- 6.37 The department advised that its KPI template 'sets out the information or data to be collected in order to measure performance against these KPIs, who is responsible for providing the information and the frequency and method of data collection required'. It noted that ARENA would be monitoring KPI compliance for the REDP projects.<sup>28</sup>

## Management of conflicts of interest

- 6.38 The audit report records that on 11 May 2009, the Special Minister of State wrote to the Resources Minister to highlight the importance of effectively managing conflicts of interest for the REDP, and to advise that committee members were to 'remove themselves from the assessment of any such projects' where there was a conflict of interest.<sup>29</sup>
- 6.39 Five members of the REC had declared associations with entities when asked to identify any potential or actual conflicts of interest. The

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25 ANAO Audit Report No.1 2012-13, pp. 70-71.

26 RET, *Submission 7*, p. 4.

27 RET, *Submission 7*, p. 4.

28 RET, *Submission 7*, p. 4.

29 ANAO Audit Report No.1 2012-13, p. 90.

department advised the ANAO that an assessment had been made of the materiality of these associations, but the ANAO found no recorded evidence of this assessment.<sup>30</sup> Nevertheless, in its response to the draft audit report, the department repeated its view that no REC member had a material conflict of interest.<sup>31</sup>

6.40 The Committee noted the audit report's adverse findings on the management of potential conflicts of interest by RET, particularly in regards to the lack of documentation. It asked the department to explain how the assessment was made of the materiality of REC member's declared associations with entities; why there was no documentation of this assessment; and what evidence it had to support its statement that no REC member had a material conflict of interest.

6.41 In its response, RET maintained that 'due process was followed'.<sup>32</sup> The department explained that all members of the REC had signed confidentiality agreements and submitted conflict of interest returns against all projects, and it was 'decided by the Acting Program Manager and the REC Chair that none of the potential conflicts were material'.<sup>33</sup>

6.42 In addition, RET advised that potential conflicts were regularly discussed at REC meetings:

The first item discussed at every REC meeting was previously-disclosed and new potential conflicts. In all cases, REC members agreed that the conflicts were minor and that they would prefer the potentially conflicted person to stay in the room and partake in the discussion. Members accepted that in their deliberations they could make judgements on the comments of potentially conflicted members given that they had knowledge of the potential conflict.<sup>34</sup>

6.43 RET noted that the REC members' confidentiality agreements and conflict of interest declarations had been maintained on departmental files, and showed that:

... no REC members had an actual or perceived conflict of interest that was material. No REC members had conflicts of interest with applicants that would benefit them, either personally or

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30 ANAO Audit Report No.1 2012-13, p. 91.

31 ANAO Audit Report No.1 2012-13, p. 129.

32 RET, *Submission 7*, p. 6.

33 RET, *Submission 7*, p. 5.

34 RET, *Submission 7*, p. 5.

financially, if the applicant had been successful in obtaining REC funding.<sup>35</sup>

- 6.44 The department attributed the lack of documentation of these matters to the compressed timeframes that resulted from the REDP's acceleration, adding:

RET accepts that some of the documentation and record-keeping should have been better handled. This includes the assessment by the Acting Program Manager and the REC Chair that none of the potential conflicts identified were material. This assessment was not documented but any potential conflicts of interest were transparent and widely understood by participants.<sup>36</sup>

- 6.45 RET was also asked by the Committee whether any of the potential conflict of interest associations declared by members of the REC related to entities involved in projects that ultimately received REDP funding, and if so, what assurance could be offered that the REC member was not involved in the decision-making for this project's application for funding.
- 6.46 The department informed the Committee that one such declared association did relate to an entity that was awarded funding. The association was in the form of a small shareholding in a company listed on the Australian Stock Exchange. It was noted, however, that the project funded by REDP was a 'relatively minor activity in its overall portfolio of activities'. The department reiterated that 'all potential conflicts, including this one, were disclosed to and considered by the REC as part of its deliberations on the applications'.<sup>37</sup>
- 6.47 In response to another question, the department advised that it had not received any complaints about the REDP process or outcomes from any organisations who missed out on funding.<sup>38</sup>

## **Support from other departments**

- 6.48 The audit report noted that the REDP was the first major program to be implemented by RET as a new department, and that at the time the REDP was being implemented RET was still establishing core departmental

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35 RET, *Submission 7*, p. 5.

36 RET, *Submission 7*, pp. 5-6.

37 RET, *Submission 7*, p. 6.

38 RET, *Submission 7*, p. 5.

functions. This finding was reiterated in RET's response to the proposed ANAO report.<sup>39</sup>

- 6.49 The Committee asked about the support RET received, as a relatively new department during the REDP's implementation, from its 'parent' departments – that is, those departments who had transferred functions to RET – in relation to managing grant programs.
- 6.50 The department replied that it had received 'no direct support' from other departments in the implementation of the REDP. It noted that there had, however, been some 'knowledge transfer with staff who moved into RET as a result of the 2007 Machinery of Government changes who had made use of AusIndustry templates and procedures'.<sup>40</sup>
- 6.51 In response to a supplementary question, the department advised that it did not request assistance from any other agency in managing the development and implementation of the REDP, nor did it receive any offers of additional resources to assist in delivering the program.<sup>41</sup>

## Committee comment

- 6.52 The Committee was disappointed by the adverse findings contained in the ANAO's audit on the administration of the REDP.
- 6.53 However, the Committee recognises that the problems occurred within a difficult context. RET was implementing a major grants program under an accelerated timeline whilst also establishing a new department. The Committee also acknowledges the significant improvements that have been made to RET's procedures in the period since the REDP commenced, and commends the department for these efforts.
- 6.54 The Committee's comments on several aspects of the program and the audit report are contained below.

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39 ANAO Audit Report No.1 2012-13, p. 31.

40 RET, *Submission 7*, p. 6.

41 RET, *Submission 9*, p. 1.

## Progress of funded projects

- 6.55 Based on the information provided by RET, of the six projects funded under the REDP, only two appear to be firmly on schedule to be fully operational by 2014-15. Of these, one project – the King Island Renewable Energy Integration Project – is not of the 'large scale' that was intended under the REDP.<sup>42</sup>
- 6.56 A third project – the Innamincka 'Hot Rocks' Geothermal Demonstration – is also expected by the department to be fully operational by around the end of 2014-15. However, the Committee notes the extensive setbacks this project has faced due to technical barriers, which have led to delays and cost overruns, causing Geodynamics' joint venture partner Origin Energy to cease its financial contributions to the project.<sup>43</sup> The Committee welcomes recent progress on the project, but also notes that current activity is focused on a relatively small pilot plant based on the 'Habanero 4' well. The final completion date for the project can be far from certain.
- 6.57 The department's update stated that the funding deed for the Whyalla 'Big Dish' Solar Thermal project (Solar Oasis) had only been executed in March 2012. The Committee notes the ANAO's comments on significant delays to the signing of funding deeds, which were intended to be executed within 30 days of the grants being offered. These delays were 'inconsistent with the department's advice that REDP applications would need to be for projects that were "shovel ready" and able to commence immediately a grant was announced'.<sup>44</sup> Clearly, this project was not 'shovel ready' at the time the grant was awarded in May 2010.
- 6.58 The department was not able to provide estimated completion dates for the other two projects, both of which have faced funding difficulties due to the withdrawal of joint venture partners.<sup>45</sup>
- 6.59 The Committee accepts that the nature of a grants program involving new technologies is that the funded projects will be high-risk. However, it is concerning that many of the funded projects – which were intended to be 'shovel ready' – have made such little progress to date. Some three years

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42 ANAO Audit Report No.1 2012-13, pp. 113-114.

43 Geodynamics, 'Innamincka Deeps Joint Venture: Habanero 4 drilling progress', *ASX Announcement*, 10 August 2012.

44 ANAO Audit Report No.1 2012-13, p. 119.

45 RET, *Submission 7*, p. 2; Petratherm Limited, 'Paralana Geothermal Energy Joint Venture Project Update', *ASX Release*, 16 December 2011.

after the first grants were announced, none of the projects are generating electricity yet and several have had funding difficulties.

## Program acceleration and economic stimulus

- 6.60 The department's response to the Committee's question on whether the REDP had been successful in stimulating the economy and creating jobs was that as the REDP was 'not formally part of the Government's stimulus package', stimulating the economy and creating low carbon jobs for the future were 'not part of the REDP's objectives'.
- 6.61 However, jobs and stimulus were cited as key reasons for the program's acceleration when it was announced in December 2008,<sup>46</sup> and therefore the Committee had expected a more comprehensive response to this question. The department's very limited response on this matter was at best unhelpful, if not disrespectful to Parliament.
- 6.62 The Committee is uncertain what benefit, if any, was obtained by the government's decision to accelerate the REDP's implementation, given the much longer timeframes involved in actually getting projects underway.
- 6.63 As evidenced in the audit report, the acceleration appears to have negatively affected both the quality of applications received and the quality of the department's administration of the program in its initial stages – particularly in relation to planning, the management of probity and the process of selecting projects for funding. Given that the program had originally been delayed to 'allow time for consultation and decisions on funding guidelines', and to 'allow potential applicants to plan projects',<sup>47</sup> the negative impacts of the acceleration should have been foreseen.

## Documentation of REDP decisions

- 6.64 The Committee was concerned by the Auditor-General's findings that the department had insufficient documentation to evidence key aspects of the process used by the REC to assess project applications and manage potential conflicts of interest. These issues are at the core of the ANAO's findings in relation to the REDP's administration.

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46 See Prime Minister of Australia, 'Government to Bring Forward Investment in Green Energy', *Media Release*, 14 December 2008; Prime Minister of Australia, 'Joint Press Conference with the Queensland Premier at Windorah Solar Farm Queensland', *Transcript*, 14 December 2008.

47 The Hon Martin Ferguson MP, Minister for Resources and Energy, 'Budget Boosts Clean Coal and Renewable Energy', *Media Release*, 13 May 2008.

- 6.65 These findings are disappointing. However, the Committee notes that there have been no complaints received from unsuccessful applicants about the REDP process or outcomes, supporting to some extent the department's claim that the project selection decisions themselves were sound.
- 6.66 In regards to conflicts of interest, the Committee accepts the department's claim that the identified potential conflicts were relatively minor and were appropriately handled in practice. However, without adequate documentation of how assessments of their materiality were made and how the matters were handled during REC meetings, the department is exposed to potential claims that the process was compromised.

### **Subsequent improvements to RET practices**

- 6.67 The Committee acknowledges the range of significant improvements that RET has made to the administration and oversight of its programs in the period since the REDP's initial implementation.
- 6.68 Taken together, these improvements show that the department has taken seriously the lessons learned from the REDP and has worked to improve its processes over time. These improvements give the Committee confidence that the administrative problems identified in the audit of the REDP would be unlikely to occur in future grants programs administered by RET.
- 6.69 The Committee strongly supports the Auditor-General's recommendation for ongoing improvements to RET's management of grant programs through additional guidance being provided to staff in its grants administration manual. The Committee notes that RET is in the process of implementing the recommendation.
- 6.70 The Committee also acknowledges the finalisation of Key Performance Indicators for the REDP, which were still being developed at the time of the audit. While the fact that KPIs were not in place earlier reflects negatively on the department, it is encouraging to see that efforts have now been made to select meaningful and measureable KPIs, in line with previous recommendations of the ANAO.

## Support for fast-tracked programs

- 6.71 The problems with the administration of the REDP program identified in the ANAO audit occurred in the context of RET being a new department taking on its first major program; coupled with the compression of the program's implementation timeframe in circumstances outside the department's control.
- 6.72 The problems with administration of the program were presumably either due to capacity problems (i.e. a lack of staff skill or staff numbers) or due to the compressed timeframes being simply too short to allow all aspects of good public administration to be followed.
- 6.73 Regarding capacity, the Committee notes that the Australian Public Service Commission's good practice guide on *Implementing Machinery of Government Changes* emphasises the importance of assistance being provided to new departments from the departments and agencies that are transferring functions to them:
- Support by portfolio Secretaries could take the form of loaning experienced staff with expertise in corporate functions, or arranging/supporting secondments where APS employees from other portfolios are needed.<sup>48</sup>
- 6.74 The Committee heard that RET did not request any assistance from other agencies and did not receive any offers of additional resources.
- 6.75 Given that a factor in the REDP's administrative weaknesses was that RET was still establishing its core functions, as the ANAO and the department both acknowledged, it is surprising that RET did not request additional support as it took on its first major program. Moreover, assuming that the REDP's acceleration represented an increase in its priority to the Government, the Government should have made further efforts to ensure that RET was able to effectively deliver the program whilst also following the Government's grant administration guidelines.
- 6.76 Of course, it is not clear whether additional support would have substantially changed the administrative shortcomings of the program, as the compressed timelines may simply have been too demanding.
- 6.77 Administering a major program within a condensed timeframe is a big challenge for even the most well-established departments. Requiring a new department to do so, when it had not yet developed its basic internal

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48 Australian Public Service Commission, *Implementing Machinery of Government Changes: A Good Practice Guide*, Second edition, August 2010, p. 6.

frameworks for grants administration and program oversight, was an invitation for problems to occur.

- 6.78 The findings of this audit report provide a lesson for the Australian Government when making decisions concerning implementation timeframes for large programs. This lesson is that the government should give more thorough consideration to the capacity of departments to deliver programs whilst still adhering to government administration requirements. This should include consideration of whether additional assistance is needed, especially when a department is still being established.

**Rob Oakeshott MP**  
**Chair**  
**November 2012**