

## Chapter 2

### Background and description of the Home Insulation Program

#### Home insulation before the Energy Efficient Homes Package (EEHP)

2.1 Before the commencement of the EEHP, retrofitting insulation to existing homes was a minor proportion of the insulation market. According to the Insulation Council of Australia and New Zealand (ICANZ), before the EEHP the market for building insulation was:

- new homes—50 per cent;
- commercial/industrial—40 per cent;
- retrofitting existing homes—10 per cent.<sup>1</sup>

2.2 Glasswool and rockwool comprised about 70 per cent of the Australian market and involved two local manufacturers: CSR Bradford and Fletchers Insulation. The rest of the market was made up of other materials including cellulose, polyester and foils, involving around 30 manufacturers in Australia.<sup>2</sup>

2.3 According to the Australian Bureau of Statistics, in dwellings with ceiling insulation in 2008, the material was:

- bulk batts (fibreglass/wool/polyester) 65.8 per cent;
- loose fill 15.2 per cent;
- sisalation/reflective foil 5.2 per cent;
- other 2.0 per cent; and
- 'don't know' 11.9 per cent.<sup>3</sup>

2.4 ICANZ estimated that before the EEHP up to 40 per cent of dwellings other than apartments, that is up to 2.7 million homes, had no or inadequate ceiling

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1 About 5 per cent of the total product was imported. ICANZ, *Submission 18*, p. 4.

2 ICANZ, *Submission 18*, p. 4.

3 Australian Bureau of Statistics, cat. 4602.0.55.001, *Environmental issues: energy use and conservation*, March 2008, table 2.16. The sisalation/reflective foil proportion varies considerably across the country from 1 per cent in the ACT to 12.1 per cent in Queensland and 22.1 per cent in the Northern Territory.

insulation.<sup>4</sup> This proportion has been gradually declining as minimum energy efficiency levels in new homes have been required in the Building Code of Australia since 2003.<sup>5</sup> ICANZ also estimated that before the EEHP retrofitting of ceiling insulation in existing homes was approximately 65–70 000 per annum.<sup>6</sup>

2.5 Before the EEHP, retrofitting insulation was largely unregulated, with little to no control over products, and limited registration or training standards for installers (applicable only in South Australia).<sup>7</sup> ICANZ explained this as:

The value of the product being put in was considered a minor renovation... Having insulation put in your home could often be done for under \$1,000, so it flew under the radar completely.<sup>8</sup>

2.6 However, state and territory workplace and occupational health and safety laws have applied throughout.<sup>9</sup>

2.7 The EEHP transformed the dynamics of the retrofitting insulation industry in unprecedented ways, resulting in pressure points and consequences with which the EEHP and its custodians did not cope.

### **Summary of the Energy Efficient Homes Package<sup>10</sup>**

2.8 The EEHP was announced by the Prime Minister on 3 February 2009.<sup>11</sup> At \$3.9 billion it represented approximately 9 per cent of the government's \$42 billion

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4 ICANZ, *Submission 18*, p. 6. The estimate assumes that most 'don't know' responses are from residents with no or inadequate insulation. An ABS 2008 survey had responses 'with insulation' 61.5 per cent; 'without insulation' 19.2 per cent; 'don't know' 19.3 per cent: ABS cat. 4602.0.55.001, *Environmental issues: energy use and conservation*, March 2008, table 2.12. See also DEWHA, *Submission 19*, pp 10–11.

5 Since 1 January 2003 in most states. Victoria has had thermal performance requirements (overall ceiling/roof R-value of 2.2) since 1983. NSW implemented thermal performance requirements over 2004–2007. DEWHA, *Energy Efficient Homes Package - Frequently Asked Questions*, [www.environment.gov.au/energyefficiency/faqs.html](http://www.environment.gov.au/energyefficiency/faqs.html) accessed 9 February 2010.

6 ICANZ, *Submission 18*, p. 11.

7 ICANZ, *Submission 18*, p. 12. DEWHA, *Submission 19*, p. 5. In South Australia installers must be licensed. The requirements of the Building Code of Australia apply only to new construction.

8 Mr D. D'Arcy (ICANZ), *Committee Hansard*, 17 February 2010, p. 70.

9 DEWHA, *Submission 19*, p. 5.

10 This section is mostly sourced from Department of the Environment, Water, Heritage and the Arts (DEWHA), *Submission 19*.

11 Hon. K. Rudd MP, Prime Minister, *Energy Efficient Homes – ceiling insulation in 2.7 million homes*, media release, 3 February 2009.

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Nation Building and Jobs Plan, which was part of the government's response to the global recession triggered by the global financial crisis.<sup>12</sup>

2.9 The government stated that the aims of the EEHP were to:

- generate economic stimulus and support jobs for trades people and workers employed in the manufacturing, distribution and installation of residential ceiling insulation and solar hot water systems;
- improve the energy efficiency, comfort and value of homes;
- help households save on their heating and cooling energy bills; and
- reduce greenhouse gas emissions.

2.10 The program focussed on two ways of improving the energy efficiency of homes: installing ceiling insulation (the Home Insulation Program), and replacing electric storage hot water heaters (the Solar Hot Water Rebate). These were chosen because space heating and cooling and water heating are typically the two greatest energy uses in Australian homes.<sup>13</sup>

2.11 The EEHP was initially administered by the Department of Environment, Water, Heritage and the Arts (DEWHA).

2.12 As announced on 3 February 2009, key components of the EEHP were:

- Home Owner Insulation Program (later Home Insulation Program - HIP):<sup>14</sup> This was a \$2.7 billion program to provide a rebate of up to \$1600 for owner-occupiers to install ceiling insulation in existing homes. It was to run from 3 February 2009 to 31 December 2011 or until the funds were fully allocated. It was expected to affect 2.2 million homes.
- Low Emission Assistance Plan for Renters (LEAPR): This provided \$612.5 million to increase existing assistance to landlords to install insulation from \$500 to up to \$1000 per home. It was to run from 3 February 2009 to 30 June 2011 and was expected to affect an estimate 500 000 rented homes.
- Solar Hot Water Rebate: \$507 million was provided to increase an existing rebate from \$1000 to \$1600. The previous means test was removed. It was to run from 3 February 2009 until 30 June 2012.

2.13 The package was not means tested. Householders could claim either insulation or hot water assistance for one address, but not both.

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12 Hon. K. Rudd MP, Prime Minister, *\$42 billion nation building and jobs plan*, media release 3 February 2009. See also Senate Economics References Committee, *Government's Economic Stimulus Initiatives*, October 2009, pp 3–4, for information on the government's stimulus measures.

13 DEWHA, *Submission 19*, p. 33.

14 The name was changed in September 2009 when the separate LEAPR was discontinued and landlords and tenants became eligible for the HIP.

2.14 The program was demand driven and intended to continue until the completion date or until program funds were fully allocated. The Home Insulation Program was expected to be fully expensed by December 2011.

2.15 This report focuses solely on the Home Insulation Program.

### **Further details of the Home Insulation Program (HIP)**

2.16 During 'phase 1' of the program (3 February to 30 June 2009) householders paid the installer and claimed reimbursement from DEWHA. Phase 1 of the program was intended as an interim measure while the main program ('phase 2') was developed. In this time DEWHA consulted with industry and state/territory governments, arranged the Medicare payment system, and developed training materials with the Construction and Property Services Industry Skills Council.<sup>15</sup>

2.17 The main program (phase 2) commenced five months after phase 1, on 1 July 2009, when arrangements were changed so that installers were paid directly through Medicare's claim processing system. As a result, householders paid nothing for insulation installed under the HIP if the contracted price was less than the \$1600 rebate limit.

2.18 From 1 July 2009, installers had to be registered to obtain work under the program (conditions of registration are described at paragraph 2.25). The work could be done by a registered installer or by an employee or subcontractor of a registered installer.

2.19 Apart from the \$1600 rebate limit, there was no control over the cost of the installation and no requirement to seek a second quote.<sup>16</sup> Installers could advertise their services, for example by local advertising or telemarketing.

2.20 Householders were responsible for choosing a suitable installer and insulation type, and then entered a contract with the installer. Householders were also responsible for ensuring they were satisfied with the service provided. If satisfied, they signed a Work Order Form, to enable the installer to be paid through the online payment system.

2.21 The R-value of the insulation materials (the amount of resistance to transfer of heat) had to comply with standards shown in the program guidelines. The standards were similar though not identical to the standards in the Building Code of Australia (BCA).<sup>17</sup> The required standard varied according to the climate zone:

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15 DEWHA, *Submission 19*, p. 7. A. Hawke, *Review of the Administration of the Home Insulation Program*, 6 April 2010, pp 2–3.

16 A requirement for a second quote was introduced on 1 December 2009.

17 The standards in the Building Code of Australia (BCA) are at paragraph 5.36. The BCA does not apply to retrofitting existing buildings.

**Table 1—Home Insulation Program: R-value requirements by climate zone**

climate zone <sup>1</sup>	1	2 below 300m	2 300m or more	3	4	5	6	7	8
minimum R-value <sup>2</sup>	3.0	3.0	3.0	3.0	3.5	3.5	3.5	4.0	4.0
direction of heat flow	down	down	down & up	down & up	up	up	up	up	up

<sup>1</sup> climate zones: as defined in the Building Code of Australia, from 1 hottest to 8 coldest: see Appendix 5.

<sup>2</sup> R-value: resistance to heat flow. The R-value can be either material R-value, or total R-value approach outlined in the Building Code of Australia. If using the total R-value approach, the minimum R-value must still meet the requirements of the table.

Source: Department of Environment, Water, Heritage and the Arts, *Energy Efficient Homes Package—Home Insulation Program—Program Guidelines version 5*, 1 December 2009.

### ***Changes during the program – overview***

2.22 After the start of the fully developed program on 1 July 2009, the government made a number of significant changes including:

- On 1 September 2009 the Low Emission Assistance Plan for Renters (LEAPR) was discontinued because of slow take-up, and landlords and tenants were 'rolled into' the Home Insulation Program.
- On 2 November 2009 the maximum rebate for insulation was reduced from \$1600 to \$1200. This reduced the program's overall budget by \$250 million, from the initial \$2.7 billion to \$2.45 billion.<sup>18</sup>
- Various changes were made to allegedly reduce opportunities for fraud and abuse:
  - From 1 September 2009 a pricing table was included in the guidelines, and installers charging above the listed prices without reasonable grounds were liable to be removed from the installers register.<sup>19</sup>
  - From 1 December 2009 new guidelines required householders to obtain two quotes and a site inspection (the two quote requirement had applied from 3 February to 30 June 2009 but had been removed with the full

18 Hon. P. Garrett, Minister for the Environment, Heritage and the Arts, *Insulation changes: safety, consumer protections and value for money*, media release, 1 November 2009. Contracts made before 2 November remained eligible for up to \$1600 providing the work was done on or before 16 November.

19 HIP program guidelines version 5, 1 December 2009, p. 10. DEWHA, *Submission 19*, p. 8.

program launch on 1 July 'to allow the market and householders to interact without the involvement of the department').<sup>20</sup>

- From 1 December 2009 installers were required to agree to the publication of their names if deregistered for non-compliance.<sup>21</sup>
- From 24 December 2009 materials had to be on the list of Approved Products maintained by DEWHA. Installers were also required to affix the product label to a visible and accessible part of the roof cavity, and to the householder's copy of the work order form, to facilitate auditing.<sup>22</sup>

2.23 In late 2009 and early 2010 further changes were made, supposedly in response to concerns about electrical safety: see paragraph 2.34.

2.24 The Minister for the Environment, the Hon Peter Garrett MP, ultimately cancelled the program on 19 February 2010, citing safety concerns and compliance issues, as discussed further below.

### ***Registration and training requirements***

2.25 From 1 July 2009, installer businesses were required to be registered with DEWHA. DEWHA claimed that registered installers had to demonstrate minimum trade related competencies and occupational health and safety training, hold appropriate insurance and comply with the relevant Australian Standards for insulation materials and installation.<sup>23</sup>

2.26 DEWHA submitted that the trade related competencies required by the program could be:

- a trade specific competency: licensed builder, electrician, carpenter, bricklayer, plasterer, painter or plumber, or equivalent where no licensing requirements exist; or
- insulation specific competency: a statement of attainment from a Registered Training Organisation against the BCG03 or CPC08 Training Package relating to insulation installation; or
- two years' work experience installing insulation.<sup>24</sup>

2.27 Registered installers' employees and subcontractors did not need to have the trade related competencies, providing installers attested that employees/

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20 This requirement was relaxed for remote locations. DEWHA, *Submission 19*, p. 15. HIP program guidelines version 5, 1 December 2009, p. 5.

21 DEWHA, *Submission 19*, p. 9.

22 DEWHA/DCCEE, answer to question on notice 104 from hearing 26 February 2010 (received 23 March 2010).

23 Installer Advice No. 9, 29 September 2009; and No. 12, 26 October 2009.

24 Installer Advice No. 9, 29 September 2009.

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subcontractors were supervised by a person who had the competencies and signed off the Work Order Form. However all persons involved in installation had to have general occupational health and safety training.<sup>25</sup>

2.28 Later changes included publicising the deregistration of non-compliant installers from December 2009, and minimum training or skill requirements for all persons involved in installation (not only supervisors) from 12 February 2010 which transpired just days before the suspension of the entire program.<sup>26</sup>

2.29 However, the committee is not satisfied that the government implemented any timely and systematic testing of the veracity or integrity of claims made by installers in their registration forms.

2.30 The committee is concerned that the deregistration process was more ad hoc than rigorous.

2.31 DEWHA contracted the Construction and Property Services Industry Skills Council to produce a range of training resources for Register Training Providers, including a 'pocket book' for installers which was available from 1 August 2009. The pocket book contained information about common installation hazards including electrical hazards.<sup>27</sup>

### ***Health and safety requirements***

2.32 The program's health and safety requirements included:

- mandatory minimum occupational health and safety training for all personnel involved in installation;
- installers to comply with state/territory occupational health and safety laws; and
- installation practices to be governed by the relevant Australian Standards and state/territory regulations for laying thermal insulation and working around electrical wiring.<sup>28</sup>

2.33 In late October and early November 2009, following a number of serious incidents including the death by electrocution of an installer on 14 October, DEWHA with the relevant industry skills councils upgraded the training program. The installers' Pocket Book was updated, particularly to give more prominence to the

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25 DEWHA, *Energy Efficient Homes Package – competency requirements for registration on the Installer Provider Register*, September 2009.

26 DEWHA, *Submission 19*, pp 6, 9 and 16.

27 CPSISC, *Submission 5*, p. 2. *Construction industry pocket book – resource for installers of ceiling insulation*.

28 DEWHA, *Submission 19*, p. 26.

instructions about electrical safety, and copies were sent to all registered installer businesses and to registered training organisations to distribute to installers.<sup>29</sup>

### **Safety concerns and closure of the program**

2.34 On 1 November 2009, after the tragic death of an installer, and following concerns about fires started by overheated downlights, Minister Garrett announced additional safety and compliance measures including:

- a ban on metal fasteners for foil insulation, from 2 November;
- mandatory installation of covers over downlights and other ceiling appliances, from 2 November;<sup>30</sup>
- a mandatory risk assessment for each job before work started, from 1 December (this involved filling in a form which prompted the installer to look for the listed hazards, and gave advice on how to respond to them); and
- a targeted electrical safety inspection of Queensland homes with foil insulation installed under the program.<sup>31</sup>

2.35 On 30 November 2009, Minister Garrett announced that training requirements would apply beyond supervisors, to all personnel involved in installation. This took effect from 12 February 2010.<sup>32</sup>

2.36 On 9 February 2010, Minister Garrett suspended the use of foil insulation from the program because of concerns about electrical safety where foil is not properly installed. On 10 February, Minister Garrett announced that all houses with foil installed under the program (about 50 000) would be required to have an electrical safety inspection.<sup>33</sup>

2.37 Finally, on 19 February 2010, Minister Garrett announced the closure of the Home Insulation Program from that day, because of safety and compliance

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29 DEWHA, *Submission 19*, p. 8.

30 This made the program requirement more stringent than the relevant Australian Standard, which is satisfied by providing a clearance around downlights: see paragraph 5.7.

31 Hon. P. Garrett, Minister for the Environment, Heritage and the Arts, *Insulation changes: safety, consumer protections and value for money*, media release, 1 November 2009. *Update on insulation training requirements*, media release, 17 December 2009.

32 Hon. P. Garrett, Minister for the Environment, Heritage and the Arts, *Insulation safety standards to get a further boost*, media release, 30 November 2009. *Update on insulation training requirements*, media release, 17 December 2009.

33 Hon. P. Garrett, Minister for the Environment, Heritage and the Arts, *Foil insulation suspended from Home Insulation Program*, media release, 9 February 2010. *Electrical safety inspections for foil insulation*, media release, 10 February 2010.



concerns.<sup>34</sup> The announcement came after the death of a fourth installer and the first hearing of this committee's inquiry into the program.

2.38 At that time the government announced an intention to replace the HIP with a Renewable Energy Bonus Scheme (REBS) to operate from 1 June 2010. This was supposedly planned to subsidise solar hot water systems and ceiling insulation, with more stringent conditions than the HIP.<sup>35</sup> However, following the advice of Dr Allan Hawke's review of the HIP, the government announced on 22 April 2010 that the insulation component of REBS would not proceed:

Dr Hawke has advised the Government that he has “grave concerns about the wisdom of proceeding with any further government supported home insulation program.” In his report he notes that “the safety and quality risks cannot be fully abated and both the Government’s efforts and those of reputable industry players will be largely deployed on the Government’s rectification program, which must proceed as soon as possible.”...

It is because of these concerns about the development of an appropriate risk management framework in regards to safety and compliance issues that the Government has made the decision that REBS will proceed without the insulation component.<sup>36</sup>

### **Actions arising from closure of the Home Insulation Program**

2.39 On 10 March 2010, Minister Combet announced a range of supposed rectification and remediation actions to deal with the closure of the HIP. Further details were provided on 1 April 2010.<sup>37</sup> They were stated to be:

- The Foil Insulation Safety Program: the removal of foil insulation, or installation of safety switches, in the 50 000 homes which had foil installed. The government expected that this would take about 6 months after commencement to complete. An initial inspection of around 1000 homes fitted with foil insulation found that:
  - about 3 per cent had electrical safety risks;

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34 The solar hot water rebate continued to be available. Hon. P. Garrett, Minister for the Environment, Heritage and the Arts, *Significant changes to Commonwealth environmental programs*, media release, 19 February 2010. The reason for closing the Home Insulation Program is not clearly stated in this media release, but appears from other comments around that time: for example Hon. G. Combet, Minister Assisting the Minister for Climate Change and Energy Efficiency, *House of Representatives Hansard*, 10 March 2010, p. 2149ff.

35 Hon. P. Garrett, Minister for the Environment, Heritage and the Arts, *Significant changes to Commonwealth environmental programs*, media release, 19 February 2010.

36 Hon. G. Combet, Minister Assisting the Minister for Climate Change and Energy Efficiency, *Insulation component of the renewable energy bonus scheme will not proceed*, media release, 22 April 2010. Dr Hawke's review is described further below.

37 Hon. G. Combet, Minister Assisting the Minister for Climate Change and Energy Efficiency, *House of Representatives Hansard*, 10 March 2010, p. 2149ff. *Home insulation safety plan*, media release, 1 April 2010.

- 5 per cent had fire safety risks;
  - 20 per cent had pre-existing electrical safety risks not related to the insulation; and
  - 33 per cent involved use of metal staples after they had been prohibited under the program.<sup>38</sup>
- The Home Insulation Safety Program involves targeted inspections of at least 150 000 homes which had non-foil insulation installed. These inspections are targeted at the homes which are most likely to have safety issues, and will include 'simple remediation work' such as fitting downlight covers. In addition, any household that has safety concerns can request an inspection. 15 000 targeted inspections showed that:
    - 66 per cent of installations were fully compliant;
    - 7.6 per cent had fire safety hazards;
    - 16 per cent had other quality issues including non-compliant insulation product and incomplete installations;
    - 0.5 per cent involved potential fraud;
    - 9.5 per cent of inspections could not be completed for various reasons.<sup>39</sup>

2.40 The government appointed an expert panel of industry, employee and regulatory representatives to advise on the inspections programs, including Dr Ron Silberberg, ex-Managing Director of the Housing Industry Association; Mr Peter Tighe, National Secretary of the Electrical Trades Union; and Mr Tony Arnel, Victoria's Building and Plumbing Commissioner and chair of the Green Building Council of Australia.<sup>40</sup>

2.41 The funding to meet the government's commitments under the Home Insulation Safety Program and the Foil Insulation Safety Program will come from within the existing budget of the Home Insulation Program.<sup>41</sup>

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38 Hon. G. Combet, Minister Assisting the Minister for Climate Change and Energy Efficiency, *House of Representatives Hansard*, 10 March 2010, p. 2153.

39 Hon. G. Combet, Minister Assisting the Minister for Climate Change and Energy Efficiency, *House of Representatives Hansard*, 10 March 2010, p. 2153. The government noted that these survey results may not be representative of all installations, because inspections have to some degree been targeting firms with a poor compliance record.

40 Hon. G. Combet, Minister Assisting the Minister for Climate Change and Energy Efficiency, *House of Representatives Hansard*, 10 March 2010, p. 2154.

41 Hon. G. Combet, Minister Assisting the Minister for Climate Change and Energy Efficiency, *Home insulation safety plan*, media release, 1 April 2010.

2.42 According to Dr Hawke, there may be very little of the approximately \$1 billion unspent from the HIP's total allocation of \$2.45 billion, after the safety inspections are carried out:

Early indications of the compliance work [being undertaken under the Foil Insulation Safety Program and the Home Insulation Safety Program] are that significantly more houses may require inspection and potential rectification. These demands may leave little available funding for the Renewable Energy Bonus Scheme (REBS).<sup>42</sup>

2.43 The 2010–11 Budget allocated \$66 million for the Foil Insulation Safety Program and \$295 million for the Home Insulation Safety Program in 2010–11, but also allocated \$365 million over 2010–11 and 2011–12 for ongoing costs associated with the Home Insulation Program, which the committee was told could be used to meet further rectification costs.<sup>43</sup> According to the Department of Climate Change and Energy Efficiency, to 15 June 2010, 24 624 foil houses and 36 930 non-foil houses have been inspected. About 2000 homes are being inspected per week. It is unclear whether these figures include or are in addition to auditing and compliance inspections done during the currency of the HIP, or the targeted inspections which Minister Combet noted in his 10 March 2010 statement to Parliament (see paragraph 2.39).<sup>44</sup>

2.44 In addition, the government established a number of industry assistance measures explained as:

- a \$41.2 million Insulation Workers Adjustment Package, consisting of support to workers to retain their current job, or assistance to find alternative jobs or training places where suitable employment is not available;<sup>45</sup>
- a \$15 million Insulation Industry Assistance Package for firms with appropriate compliance records to assist in meeting the cost of insulation stock-holdings;<sup>46</sup> and
- other assistance to firms by allowing them, on conditions, to participate in home inspections; and deferral of GST payment obligations.<sup>47</sup>

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42 Dr A. Hawke, *Review of the Administration of the Home Insulation Program*, 6 April 2010, p. xiii.

43 Climate Change and Energy Efficiency Portfolio, *Portfolio Budget Statement 2010–11*, p. 24.

44 Department of Climate Change and Energy Efficiency, *Insulation update—15 June 2010*. See also DCCEE, answers to questions on notice 68 and 69 from hearing 26 February 2010 (received 25 March and 5 May 2010); and *Committee Hansard*, 27 May 2010 (Environment, Communications and the Arts Legislation Committee, DCCEE Estimates hearing), p. 71.

45 This involves various activities by the Department of Education, Employment and Workplace Relations: see *Committee Hansard*, 25 March 2010, p. 65ff.

46 Eligible businesses, to 4 June 2010, could apply for a one-off cash payment of 15 per cent of the value of their insulation stock holding at 30 April 2010, up to a maximum of \$500 000.

2.45 The government has advised that to 10 June 2010, 760 applications have been received under the Insulation Industry Assistance Package; 98 applications worth \$6.1 million have been approved; 44 applications have been rejected; and 618 applications are being considered.<sup>48</sup>

2.46 The government has appointed KPMG as forensic auditors and moved additional staff and resources within DCCEE into audit and compliance work.<sup>49</sup>

2.47 After numerous requests from the opposition, the government has asked the Auditor-General to audit the program as a matter of priority. The Auditor-General's report is expected by September 2010.<sup>50</sup>

## Outcomes of the Home Insulation Program

### *Installation rates*

2.48 Over 1.2 million homes were insulated under the program, at a cost to government of approximately \$1.5 billion in rebates.<sup>51</sup> This may be compared with an estimated 2.7 million homes which, before the program, had no or inadequate ceiling insulation, and with the historical rate of insulation retrofitting of about 65–70 000 per year.<sup>52</sup>

2.49 ICANZ estimated that retrofit ceiling insulation was about 10 per cent of the market before the HIP, and was about 50 per cent of the market during the HIP.<sup>53</sup>

2.50 Activity increased enormously in the months after July 2009, when payments could be made directly to installers through Medicare without the householder being

47 Hon. G. Combet, Minister Assisting the Minister for Climate Change and Energy Efficiency, *House of Representatives Hansard*, 10 March 2010, p. 2152. *Home insulation safety plan*, media release, 1 April 2010. *Applications open for insulation industry assistance*, media release, 6 May 2010.

48 Department of Climate Change and Energy Efficiency, *Insulation update—15 June 2010*.

49 KPMG were appointed in April 2010 and are expected to complete their work in July: Dr M. Parkinson & Mr M. Bowles, *Committee Hansard*, 27 May 2010, pp 97 and 104 (Environment, Communications and the Arts Legislation Committee, Budget Estimates hearing). Hon. G. Combet, Minister Assisting the Minister for Climate Change and Energy Efficiency, *Home insulation safety plan*, media release, 1 April 2010.

50 Hon. G. Combet, Minister Assisting the Minister for Climate Change and Energy Efficiency, *Home insulation safety plan*, media release, 1 April 2010.

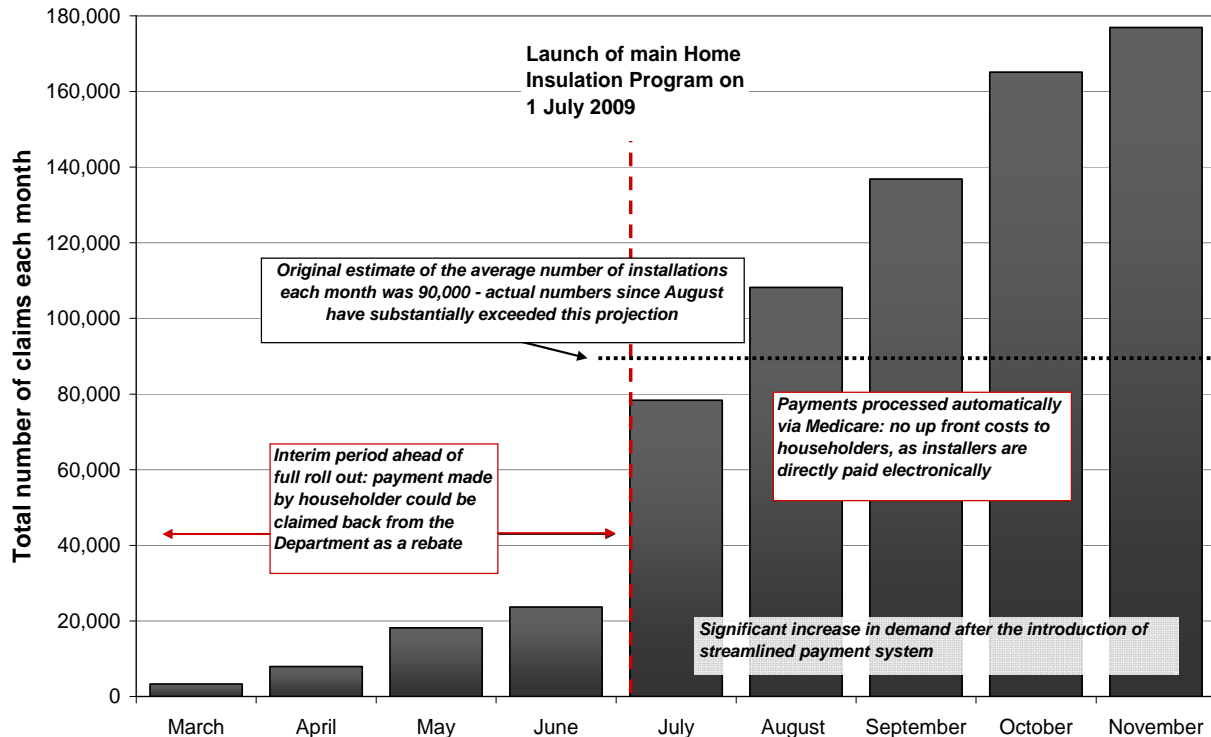
51 DEWHA/DCCEE, answer to question on notice 53 from hearing 26 February 2010 (received 22 April 2010). Based on claims lodged to 28 February 2010. At the time of the answer claims processing was not complete.

52 ICANZ, *Submission 18*, p. 6. Hon. G. Combet, Minister Assisting the Minister for Climate Change and Energy Efficiency, *House of Representatives Hansard*, 10 March 2010, pp 2149–2151.

53 Mr D. D'Arcy (ICANZ), *Committee Hansard*, 17 February 2010, p. 55.

out of pocket (see Figure 1). For example, in November 2009 alone there were nearly 180 000 claims, or nearly three times as much as the pre-HIP *annual* activity.

**Figure 1—Home Insulation Program claims, March to November 2009**



Source: DEWHA, *submission 19*, p. 5. The graphed figures are: March 3321; April 7917; May 18 175; June 23 642; July 78 375; August 108 169; September 136 838; October 165 104; November (to 23 November) 176 972; total 718 513. Later figures are: November (total) 209 267; December 136 402; January 2010 139 850; February 2010 186 095.<sup>54</sup>

2.51 This unprecedented level of activity, compared with the relatively stable state of the industry previously, appears to have contributed to the safety and compliance problems that arose in the second half of 2009.

### *Environmental outcomes*

2.52 At best, the environmental outcomes of the program are uncertain, particularly given the circumstances and consequences of its closure. According to DEWHA, when the program was announced in February 2009 preliminary estimates indicated that the combination of the Home Insulation Program, Low Emissions Assistance Plan for Renters and the Solar Hot Water Rebate would yield cumulative greenhouse gas savings of approximately 49.4 million tonnes of CO<sub>2</sub>e by 2020.

2.53 Subsequent analysis by the Department of Climate Change in December 2009 indicated annual emissions savings in the order of 4.5 million tonnes of CO<sub>2</sub>e in the

54 DCCEE, answer to question on notice 86 from hearing 26 February 2010 (received 13 May 2010). Figures show claims lodged to 17 March 2010.

year 2020.<sup>55</sup> Given the greatly reduced number of homes that were insulated compared to the number originally envisaged (ie 1.2 million rather than 2.7 million)<sup>56</sup> this abatement figure would appear to significantly overestimate the annual savings, perhaps by as much as 50 per cent.

2.54 DEWHA noted that it was too soon to estimate the effect of the program on greenhouse gas emissions, but noted that 'ceiling insulation is considered the most effective form of insulation.'<sup>57</sup> Dr Allan Hawke in his review of the program commented, 'the precise quantification of carbon emissions abatement generated from the HIP has been questioned and there would be value in testing this further.'<sup>58</sup>

2.55 The Department of Climate Change and Energy Efficiency provided an updated estimate of greenhouse gas abatement for the Energy Efficiency Homes Package in March 2010. It estimated that 27 million tonnes CO<sub>2</sub>-e will be saved by 2020.<sup>59</sup>

2.56 In any event, evidence put to or able to be sourced by the committee suggests that any estimate to date of alleged emission savings fails to take into account homes wrongly insulated or 'de-insulated' as a result of the HIP. As well, the environmental costs of discarding insulation materials (including materials that may be dumped in public areas) appear not to have been considered.

### ***Employment outcomes***

2.57 At best, the employment outcomes of the program are hazy. ICANZ estimated that prior to the EEHP there were around 200 companies retrofitting insulation. DEWHA submitted that as at 6 December 2009, there were 6313 active installer companies and estimated that the installer workforce was more than double this. Officials from the Department of Education, Employment and Workplace Relations could not provide a more accurate estimate and also indicated they had no independent means of verifying DEWHA's estimate. ICANZ estimated that the EEHP has created over 6000 new jobs across Australia.<sup>60</sup>

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55 DEWHA, *Submission 19*, p. 34.

56 DEWHA, *Submission 19*, p. 6 and answer to question on notice 53 from hearing of 26 February 2010 (received 22 April 2010).

57 DEWHA, *Submission 19*, p. 34

58 Dr A. Hawke, *Review of the Administration of the Home Insulation Program*, 6 April 2010, p. xiv.

59 DEWHA/DCCEE, answer to question on notice 74 from hearing 26 February 2010 (received 30 April 2010). This estimate is calculated for the Energy Efficiency Homes Package and includes the Home Insulation Program and the Solar Hot Water Rebate Program.

60 DEWHA, *Submission 19*, pp 21–23. ICANZ, *Submission 18*, p. 10. Mr Robert Griew, Associate Secretary, Department of Education, Employment and Workplace Relations, *Committee Hansard*, 26 February 2010, p. 41.

2.58 DEWHA estimated that over two thirds of program expenditure generated employment downstream of the manufacturers in distribution, warehousing, installation and support services. ICANZ estimated that for each manufacturing job created there have been 20–30 downstream jobs created, although no figures were provided on the number of manufacturing positions created. DEWHA submitted that installing insulation is labour intensive, and is an effective stimulus measure in terms of supporting domestic employment, notwithstanding the use of a level of imported materials.<sup>61</sup>

2.59 Dr Allan Hawke in his review of the program commented, 'at its peak (in November 2009), the program had registered over 10,000 installers employing thousands of largely low-skilled workers...' and that 'an HIP objective was to support jobs in the insulation industry and this objective was met.'<sup>62</sup>

2.60 However, the early closure of the program has had a range of negative employment impacts. Minister Combet has acknowledged that:

...the decision to terminate the program prematurely has been influenced by the conduct of a number of unscrupulous operators. Their behaviour has resulted in widespread harm to legitimate businesses and the redundancy of many employees.<sup>63</sup>

### ***Business distress***

2.61 There has been significant distress among affected businesses as a result of the negative consequences of HIP itself, including unjustified tarnishing of industry reputations from its unexpected closure, as well as the government's April 2010 decision to renege on its February 2010 promise to establish a replacement program. In short, the calamities concertinaed. For example:

I am the owner of a now destroyed insulation manufacturing and installing business that has been operating for 16 years. I have done only two jobs since the 19th Feb [2010].... I have spent over \$30,000 keeping my business afloat without income since Feb 19th, while waiting for the announced new rebate program to begin on June 1<sup>st</sup> [2010], which didn't happen... The Insulation Rebate program has left me with a legacy of a non viable business, no income, a business loan established in May 2008 [9 months before the program began] against the equity in my family home and now no means to repay it, expensive but now idle and valueless plant and equipment, industrial shed rents and truck registrations to pay, future advertising and vehicle lease commitments, excessive stock levels with no value now etc, etc, etc... I now have to sell our home of 15 years in order to

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61 DEWHA, *Submission 19*, pp 21–23. ICANZ, *Submission 18*, p. 10.

62 A. Hawke, *Review of the Administration of the Home Insulation Program*, 6 April 2010, p. xiii, 35.

63 Hon. G. Combet, Minister Assisting the Minister for Climate Change and Energy Efficiency, *House of Representatives Hansard*, 10 March 2010, p. 2154.

repay the loan and will be left with nothing after all of the associated losses have been factored in. I am 57 years old. I am married and have 3 school age children. Total immediate losses for me are well in excess of \$350,000 plus the loss of my income... The Workers Adjustment package offered little if nothing in the way of real assistance...<sup>64</sup>

2.62 There have been complaints about delays in payments from the government, by both HIP installers as well as inspectors subsequently doing 'rectification' work under the HISP and FISP programs.<sup>65</sup> According to media reports in late May 2010, Minister Combet advised that about 100 000 claims had been paid out since the closure of the program, and a further \$50–60 million worth of claims were outstanding but subject to investigation because they were incomplete or incorrectly completed.<sup>66</sup> On 27 May 2010, DCCEE advised that there are about 50 000 outstanding invoices of which almost half relate to compliance activities.<sup>67</sup> On 15 June 2010, DCCEE advised that about 31 000 claims under the Home Insulation Program had not been processed. Of these, 6000 were incomplete and require clarification, and about 25 000 were being withheld for investigation for possible fraud or non-compliance.<sup>68</sup>

2.63 In relation to FISP inspections, DCCEE has advised that it aims for a 30 day turn around of payment of valid claims. To 25 June 2010 about 19 000 of the 24 000 claims received had been processed and paid, but some delays had occurred 'due to the volume of claims received, a high proportion of incorrectly completed claims and extra workload generated from duplicate claims'.<sup>69</sup>

### **Review of Home Insulation Program by Dr Allan Hawke**

2.64 As already touched upon, the government asked former senior public servant Dr Allan Hawke to conduct an independent review of the design and administration of the Home Insulation Program.<sup>70</sup>

2.65 On the positive side, Dr Hawke found that:

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64 R. Palfery, *Submission 53*. Similarly M. Delany, *Submission 51*.

65 P. Karvelas, 'Furious insulators to rally in Canberra', *The Australian*, 24 May 2010, p. 4. N Berkovic, 'Sparkies angry at delay on payments', *The Australian*, 10 June 2010, p. 7.

66 *Australian Financial Review*, 25 May 2010, p. 7.

67 Mr M. Bowles, *Committee Hansard* 27 May 2010 (Environment, Communications and the Arts Legislation Committee, DCCEE Estimates hearing), p. 71.

68 Department of Climate Change and Energy Efficiency, *Insulation update—15 June 2010*.

69 Department of Climate Change and Energy Efficiency, *Foil Insulation Safety Program*, [www.climatechange.gov.au/government/programs-and-rebates/hisp/foil-insulation.aspx](http://www.climatechange.gov.au/government/programs-and-rebates/hisp/foil-insulation.aspx) (last updated 25 June 2010).

70 Hon. G. Combet, Minister Assisting the Minister for Climate Change and Energy Efficiency, *House of Representatives Hansard*, 10 March 2010, pp 2155 and 2157.



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- there were 'solid achievements' against the program objectives, including over one million homes insulated, with the prospect of significant future savings in energy bills;
  - for the first time there was a national focus on safety standards in the industry; and
  - the partnership with Medicare was successful.

2.66 On the negative side, Dr Hawke found that:

- despite some safeguards against fraud, no-one foresaw the possible extent of potential malfeasance;
- program management infrastructure and expertise at DEWHA were not sufficient to support the at times unanticipated demands made on them;
- a higher level of senior management oversight should have been assigned;
- given the scale of the program, it demanded more attention from the Office of the Coordinator General than it received;
- many of the risks of the chosen delivery model could never be fully mitigated, and remained high throughout delivery of the program; and
- implementation of the audit and compliance framework lagged behind.<sup>71</sup>

2.67 As mentioned earlier, after considering the advice of Dr Hawke's review, the government decided not to proceed with the home insulation component of the REBS.

### **Committee comment**

2.68 As is demonstrated in the following chapters, the Home Insulation Program markedly failed to deliver the potential benefits that the government promised would flow from the program and, as a result of design and implementation failures, appears to have left the insulation industry worse off than before the development of the HIP.

2.69 Concerns about the Home Insulation Program relate mostly to:

- whether the program was adequately designed and managed to mitigate risks identified during the program development phase; and
- whether the responses to the hazards and improprieties that unfolded were appropriate and effective.

These issues are discussed in the following chapters.

### **Recommendation 1**

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71 Dr A. Hawke, *Review of the Administration of the Home Insulation Program*, 6 April 2010, p. 7ff.

**2.70 That a Royal Commission be held into the Home Insulation Program to investigate the development and implementation of the Program, including:**

- **gross and systematic failures in the development and implementation of the Program;**
- **planning and design of the Program, particularly the extent of consideration given to it by relevant ministers and senior executives;**
- **the safety and fire risks resulting from the installation of insulation under the Program;**
- **the adequacy of ministerial and senior executive oversight and responsiveness to advice given or developments in implementation;**
- **the loss of life and injuries to untrained workers contracted under the Program;**
- **given the haste, scale, unprecedented and other circumstances of the implementation of this Program:**
  - **the adequacy of industry product standards and workplace training;**
  - **the complete failure of workplace training;**
- **the extent to which pressures to deliver the Program as an immediate economic stimulus measure were expressed or implied, by whom and how they impacted appropriate program development and delivery; and**
- **the warnings received within or by the government in the months leading up to and following the implementation of the Program.**