



No.9 - Green Loans Program

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Introduction

1. In the lead-up to the 2007 Federal Election campaign, the Australian Labor Party (Labor) outlined its *Solar, Green Energy and Water Renovation Plan for Australian Households*. The plan was to help make existing homes greener and more energy and water-efficient.¹ Under the plan, eligible householders could apply for a subsidised environmental home assessment to identify cost effective measures to reduce household energy and water use. In addition, low interest loans of up to \$10 000 would be available to eligible householders to fund the purchase of items such as solar panels, rainwater tanks and energy efficient lighting.

2. 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.²

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.

3. 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 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.

4. The implementation of the program by the Department of the Environment, Water, Heritage and the Arts (DEWHA) required the development of new systems, processes and materials, including: an assessor training course; the assessment tool; and an integrated online portal, database and reporting tool. The department also had to develop and enter into agreements with assessors and financial institutions, as well as organisations willing to become Assessor Accrediting

Organisations, on terms that each would find sufficiently attractive to participate in the program.

5. The program's development coincided with a significant expansion of the department's responsibilities. Following the change of government in 2007, DEWHA had responsibility for 107 new policy initiatives, including 10 new renewable and energy efficiency programs. DEWHA advised that a particular challenge was that the amount of additional funding for departmental implementation across-the-board was not proportional with the expansion of responsibilities. DEWHA was assigned further responsibilities in February 2009 with the introduction of the \$4 billion Energy Efficient Homes package—a part of the Australian Government's economic stimulus plan. A key component of the Energy Efficient Homes package was the \$2.45 billion Home Insulation Program, which was initially managed by the same branch that was responsible for the Green Loans program.

6. From late January 2010, the program attracted increased media attention and questions were raised about the effectiveness of the program's administration, the ability of assessors to gain work under the program and the quality of assessments. In response to these concerns and other implementation issues, the then Minister for the Environment, Heritage and the Arts announced, on 19 February 2010, a number of changes intended to boost the effectiveness and sustainability of the program. These changes, which would apply until the end of 2010, included⁴:

- an additional 600 000 household sustainability assessments—bringing the total to 960 000 assessments over the life of the program;
- introducing a cap of 5000 assessors contracted under the program;
- introducing a cap on the number of assessments that could be booked each week; and the number each assessor could conduct in a day, and in a week;⁵ and
- discontinuing the loans component of the program.

7. On 26 February 2010, the former Prime Minister announced that DEWHA's energy efficiency and renewable energy programs, including the Green Loans program, would be transferred to the newly-established Department of Climate Change and Energy Efficiency (DCCEE). This transfer took effect on 8 March 2010.

8. On 10 March 2010, the new Minister for Climate Change, Energy Efficiency and Water advised the Parliament that the Green Loans program had a number of design flaws, and that aspects of the program had not been administered to the standard that the Government and the community expected.⁶ The Minister also noted that:

- around 4000 of the 7500 assessors had been contracted under the program, but with the program capped to 5000 assessors, some assessors would not receive contracts to work under the program;
- over 210 000 of the program's 360 000 assessments (58 per cent) had been completed in the first eight months of the program;
- only 84 000 assessments (40 per cent of completed assessments) had been sent to households and there was a backlog of around 100 000 assessment reports yet to be sent out to households;
- the delay in dispatching assessment reports was a contributing factor to the low uptake of green loans—only 1705 loans had been approved by participating financial institutions at that time;
- Green Rewards cards had not been distributed to households; and
- delays in paying assessors were mostly due to incorrectly rendered invoices (with around 50 per cent of invoices incorrect or incomplete when first submitted).

The Minister indicated that DCCEE would need to allocate significant additional resources to address these issues, and to implement an expanded and fast tracked compliance regime to ensure quality assessments were being undertaken.

9. To develop and implement the Green Loans program, DEWHA and DCCEE entered into contracts with suppliers totalling in excess of \$17 million. In addition, the staff assigned to manage the program increased four-fold (from 11 at its start to 43.5 positions for 2010–11). As at July 2010, the Green Loans program's original complement of 360 000 assessments had been completed—a little over a year into what was originally a four-year program—and householders had taken-up approximately 7300 interest-free green loans before this component of the program was discontinued.

10. On 8 July 2010, the Minister announced that the Green Loans program would be phased out and the assessment component of the program would be carried over to a new Green Start program.⁷ The new program is to be delivered through two grant funding rounds, with assessors registered by the Association of Building Sustainability Assessors able to apply for funding to undertake home energy assessments under round one. Applications for round one of the program closed on 20 August 2010, and the assessment process is expected to be completed in mid- to late October 2010.

Program reviews

11. In response to concerns being raised by newly-assigned program managers, in September 2009 DEWHA commissioned the first of a number of reviews covering aspects of the administration of the Green Loans program. Collectively, the reviews found significant and extensive administrative failings in relation to the program's design and implementation. These included: a widespread lack of compliance with the principles, guidelines and regulations relating to program procurement; insufficient controls over the demand driven aspects of

the program (namely assessors and assessments); weak budgetary control; inadequate program support systems; and poor record keeping. The main reasons cited for these shortcomings included: a lack of governance and supervision; insufficient resources with necessary skills; inadequate communications within and outside the Green Loans team; and a focus on delivering to timeframes in preference to following established processes.

12. DEWHA established the Energy Efficiency Taskforce in November 2009 in response to a review into program management and reporting in the division managing a number of its demand-driven programs, including the Green Loans program. At the time, significant implementation issues materialised concurrently within these programs that required a centralised and coordinated management response, which the Taskforce provided.

13. In July 2010, the reports of three of the reviews were released publicly.⁸ In response, both DEWHA and DCCEE issued statements indicating that departmental wide changes were being made to improve corporate and program governance, enhance internal control mechanisms and systems, and strengthen accountability frameworks.

14. On 10 March 2010, the Senate agreed to the Senate Standing Committee on Environment, Communications and the Arts undertaking a wide ranging inquiry into the Green Loans program. This inquiry was due to report by 6 August 2010 but this has been delayed due to the 2010 Federal election.

1. Rudd, K, Albanese, A and Garrett, P, *Federal Labor's Solar, Green Energy and Water Renovations Plan for Australian Households*, joint media release, 29 April 2007.

2. Department of the Environment, Water, Heritage and the Arts, *Green Loans Program Guidelines 2009*, p. 2.

3. Department of the Environment, Water, Heritage and the Arts, *Annual Report 2007-08*, pp.12.

4. Garrett, P (Minister for the Environment, Water, Heritage and the Arts), media release, *Significant Changes To Commonwealth Environmental Programs*, 19 February 2010.

5. The changes to booking arrangements included: allowing only individual assessors to make bookings; instituting a daily and weekly cap per assessor of three and five bookings respectively; and creating a weekly cap of 15 000 assessment bookings for the program.

6. Senate Hansard, Wednesday, 10 March 2010, pp. 1517-1522.

7. Wong, P (Minister for Climate Change, Energy Efficiency and Water), *Green Loans Transition to Green Start*, media release, 8 July 2010.

8. *Internal Audit of Procurement Practices in the Green Loans Program* (the Protiviti Review); *Review of the Green Loans Program* (Resolution Consulting); and *Independent Inquiry—Green Loans Program: Review of procurement and contractual arrangements* (Faulkner Inquiry).

Audit objective and scope

15. On 3 February 2010, Senator Christine Milne wrote to the Auditor General raising concerns about DEWHA's administration of the Green Loans program and requesting a performance audit of the program. Issues raised included: uncapped assessor numbers; problems with the delivery of the program; the quality of assessor training and assessments provided to households; the lack of an audit facility within the program; and equitable access to work under the program.

16. In light of Senator Milne's request and other concerns in relation to the administration of the program, the Auditor-General agreed on 25 February 2010 to conduct a performance audit of the program. 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.

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.

Overall conclusion

17. Following the 2007 Federal election, DEWHA was responsible for implementing a large number of new initiatives to meet the Government's extensive environmental agenda, one of which was the Green Loans program. This new program was designed to help make existing homes greener and more energy and water-efficient. The funding allocated to the Green Loans program (originally \$300 million but later reduced to \$174.4 million) was significantly less than some of DEWHA's other environmental initiatives, but the program's impact on stakeholders, particularly assessors, was extensive. 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.

18. Within the first month of the program's launch on 1 July 2009, DEWHA had some 430 assessors contracted to undertake assessments under the program, with more assessors receiving training and being progressively registered by the Association of Building Sustainability Assessors (ABSA), the program's sole Assessor Accrediting Organisation. The number of contracted assessors and, consequently, the demand for assessments, quickly grew to levels significantly beyond what DEWHA had anticipated. From late 2009, and particularly in early 2010, most assessors experienced extensive delays in making bookings through the contact centre and householders were required to wait months, instead of the promised 10 working days, to receive their assessment report. By early February 2010, adverse media articles on the administration of the program began to appear regularly in relation to these delays, the quality of assessor training and assessments, and the non-delivery of the promised Green Rewards card.

19. 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.

20. 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. Nevertheless, about half of the 1746 respondents to a survey of householders conducted by the ANAO in April 2010 indicated that their assessor's advice and the assessment report (where received) had helped them to reduce their household's energy and water consumption.

21. The Government also announced in July 2010 that any of the 600 000 additional assessments not used within the soon-to-be-terminated Green Loans program would be reallocated to the new Green Start program. In addition, assessors registered with ABSA would be eligible to apply for funding to conduct home energy assessments under the Green Start program.

Administrative deficiencies and their consequences

22. The primary cause for the administration problems encountered by the program was, to a very large extent, an absence of effective governance by DEWHA during the program's design and early implementation. DEWHA had no previous experience in designing and delivering a program with features similar to the Green Loans program. As a multi-faceted 'greenfields' program with a fixed budget and variable (and untested) demand, the Green Loans program required greater oversight than the department's business-as-usual activities. However, this did not occur.

23. From the start of the program, DEWHA assigned day-to-day program management responsibility to sub-executive level officers who had little program delivery experience. As such, program management was devolved to too low a level within DEWHA without sufficient active engagement by executive management. A steering committee was established in November 2008 to oversee the program in response to departmental concerns about the appropriateness of the procurement practices being applied. However, other departmental energy efficiency programs, and particularly the Home Insulation Program, dominated the attention of the steering committee's executive members from late January 2009 onwards. The committee became inactive at the time the Green Loans program was launched, and was not replaced.

24. The program's visibility to DEWHA's senior executives was poor. This was not aided by quarterly status reports providing a false sense of assurance that the program was being managed within an agreed planning framework. In addition, the former Minister received incomplete, inaccurate and untimely briefings on program design features and implementation progress, challenges and risks. Suffice it to say here, 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.

25. While recognising that there were other environmental initiatives competing for management's attention within the division responsible for the program, DEWHA clearly had responsibility for ensuring that an appropriate implementation strategy, planning framework and reliable reporting arrangements were in place and used to guide program implementation and delivery. Key program management plans, including in relation to risk management, procurement, IT and communications, were never finalised and endorsed by executive management. Subsequently, DEWHA encountered difficulties in all these areas. In addition, in the first 18 months of the program there was no accurate costing of the program or monitoring of its budget. An examination of the program's budget in early 2010 led to the realisation that the program had exceeded its 2009–10 program budget and would require an additional \$100 million to fully fund the Government's policy commitments over the program's life.

26. Although legal risks were adequately considered, DEWHA did not sufficiently identify and manage other key risks to effective program

implementation in a timely manner. These risks included: 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.

27. The program's implementation and delivery were heavily dependent on DEWHA's ability to effectively outsource the many products and services it was going to need to provide the assessments and loan facility to householders. Procurement activity in the Green Loans program over a period of approximately 18 months was poorly managed and involved extensive non compliance with government and departmental procurement requirements (including multiple breaches of the Financial Management Regulations related to the approval of spending proposals and contracts, and the Commonwealth Procurement Guidelines).

28. The generally disorganised approach to procurement resulted in the contractors with responsibility for delivering key program components and support systems being engaged late in the process, and with little likelihood of meeting the July 2009 launch of the program. These included: the Green Rewards card; assessment report distributor; assessment tools (including the assessment report template); self-assessment tool; e-Gateway (the integrated online portal, database and reporting tool); and audit and compliance services. The late, partial or non-delivery of these program components and support systems adversely impacted the implementation of the program, the quality of the products and services delivered, and the departments' visibility of stakeholders' compliance with program requirements.

29. Responses to the ANAO's surveys of contracted assessors and householders identified poor assessment conduct practices (including assessors not using approved tools to record assessment data and insufficient time being given to assessments). Respondents to the assessors' survey also expressed a general lack of confidence in the accuracy of the assessment tool. The ANAO's examination of assessment reports found that some contained anomalous results, and incomplete cost and savings information. Improvements to the assessment tool have been made over time. However, many assessments were conducted before these improvements were implemented.

30. Given the considerable volume of transactions for assessments, loans and payments that would be undertaken under the program, appropriate IT support systems were critical to the effective management of the program. However, e-Gateway was procured too late to allow for its smooth introduction from the launch of the program. Consequently, DEWHA had to hastily establish temporary support systems (many of which are now permanent), which required greater manual processing, introduced greater room for error and came at considerable cost. The unanticipated demand for assessments

overwhelmed the temporary support systems in late 2009 and early 2010 leading to the delays experienced by assessors and householders. Alternative workarounds put in place to reduce pressure on the contact centre, did not have the desired impact and created booking backlogs and significant data integrity issues, some of which are yet to be fully resolved. Further, prepayment checks of assessor invoices have either not been completed or sufficiently documented to demonstrate that only valid invoices have been paid. DCCEE is currently undertaking data cleansing and payment reconciliation projects to identify and correct data errors, and has advised that paid invoices that do not meet program requirements will be referred to its compliance area for possible recovery action.

31. Communicating effectively with the program's many stakeholders, such as ABSA, participating financial institutions, and the many thousands of assessors and householders expected to become involved in the program, was an important part of managing the program. The absence of an endorsed communications strategy often resulted in key messages not being clearly communicated and relationships with many stakeholders not being supported by open dialogue. Stakeholder communication was also not afforded sufficient priority, which contributed to increased stakeholder dissatisfaction with the program and its management by DEWHA. Potential assessors were not given a clear understanding of the amount of work available under the program relative to the possible number of assessors. DCCEE has reasonably observed that assessors had some responsibility for their own due diligence in making a decision to be involved in the program. As well, assessors, financial institutions and householders were not advised of the extent of likely delays to the delivery of support systems and assessment reports.

32. From September 2009 onwards, DEWHA commissioned a number of reviews related to the Green Loans program that collectively found significant and extensive administrative failings within the program (as summarised in paragraph 11). The ANAO observed all interviews and reviewed the documentation for one of these reviews (the Faulkner Inquiry) and generally agrees with its findings. As well, the audit supports the findings of the other reviews commissioned by the department.

Program improvements

33. From November 2009, DEWHA began improving the governance of the Green Loans program. The department established the Energy Efficiency Taskforce, which consolidated program delivery effort and expertise, and improved the visibility of the performance of DEWHA's demand-driven programs, including the Green Loans program, for departmental executive management. The quality and timeliness of Ministerial briefings also improved appreciably after the Taskforce was established. One of the Taskforce's initial priorities was to accurately cost and monitor the program's budget. The subsequent elevation of the

program's budgetary issues within government led to the revision of the program's parameters announced by the then Minister on 19 February 2010, and given effect through the 2010–11 Budget.

34. In addition to the ongoing management of the program, much of the Green Loans management effort since late 2009 has been directed towards managing the numerous administrative issues that adversely impacted the effective implementation of the program. Most of these issues can be sourced to actions and decisions taken in the program's design and implementation in 2008–09. DEWHA and DCCEE have devoted additional resources to improve the administration of the Green Loans program. However, both departments' capacity to address the legacy issues has been inhibited by their entrenched nature, and the loss of corporate memory through staff turnover and the generally poor standard of past recordkeeping.

35. 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 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.

36. The audit is a timely reminder of the challenges in program implementation and the importance of executive management engagement. In 2006, the ANAO and the Department of the Prime Minister and Cabinet jointly produced a Better Practice Guide *Implementation of Programme and Policy Initiatives* that stated in the foreword:

Too often the challenges involved in turning a policy idea into effective outcomes, and the skills and effort required to do so, are not fully appreciated. Too often the results fall short of expectations. Yet we know that defects in implementation rob the community of the full benefits of a new policy and waste community resources.

The Guide sets out a useful framework to assist agencies in managing program implementation, and reflects the collective experience and wisdom of senior managers and executives in the Australian Public Service.

Summary of formal comment on the proposed report

Department of Sustainability, Environment, Water, Population and Communities

37. The Department of Sustainability, Environment, Water, Population and Communities (previously the Department of the Environment, Water, Heritage and the Arts) accepts this report as a comprehensive and fair assessment of the Green Loans Program as it relates to this Department. Areas for improvement in our program management have been clearly articulated and are being implemented.

38. The Department appreciates that the ANAO acknowledged both the difficulties we faced in managing the program, as well as the measures the Department took to rectify management of the Program when these issues were identified, specifically the success of the Energy Efficiency Taskforce that the Department established in November 2009.

Department of Climate Change and Energy Efficiency

39. The Department welcomes the ANAO audit report as a useful contribution to understanding the issues that confronted the design and delivery of the Green Loans Program.

40. The ANAO report contains findings which cover a number of key areas in relation to the implementation and operation of the Green Loans Program. The Department has addressed these findings at the departmental and program delivery level. The Department has actively sought to address findings highlighted in previous reviews of the Green Loans Program and has made significant progress against stated improvements including:

- improved processing of assessor invoices with payments actioned under standard timeframes (30 business days from receipt of a correctly rendered invoice) since May 2010;
- resolution of almost 20 000 enquiries and complaints since February 2010;
- new delivery mechanisms in place for dispatch of assessment reports with delivery within 10 days of receipt by the Department;
- significantly reduced average wait times (under two minutes) for both assessment bookings and enquiries since March 2010;
- delivery of Green Rewards to eligible householders;
- improved handling of complaints, including improved processes for formal audit and investigation of the behaviour, performance and business practices of home sustainability assessors and assessor organisations by an independent auditor;

- improved web-based reporting of changes to the Program, including weekly updates on payment processing times for invoices submitted by assessors;
- establishment of a dedicated Association of Building Sustainability Assessors (ABSA) client relationship manager to provide a consistent point of communication and contact between the Department and ABSA, ensuring that there is greater transparency of information and rapid resolution of any issues that arise.

There remain a number of legacy issues that the department is working actively to address.

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