No.12 - Home Insulation Program

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Introduction

1. In 2008, Australia was facing the impacts of the global financial crisis. This crisis resulted in a period of worldwide economic downturn and the prospect of rising unemployment in many countries, including Australia. The International Monetary Fund found that advanced economies

experienced an unprecedented 7.5 per cent decline in real Gross Domestic Product during the fourth quarter of 2008, and economic output continued to fall almost as fast during the first quarter of 2009.[1] In response, the Australian Government, like many other governments around the world, applied fiscal measures to support employment and economic recovery.

2. The Government prepared and announced a series of stimulus measures in late 2008 and early 2009, including the $42 billion Nation Building and Jobs Plan.[2] A key element of this Plan was the $3.9 billion Energy Efficient Homes Package (EEHP), announced by the then Prime Minister on 3 February 2009.

The Energy Efficient Homes Package

3. The EEHP was designed to generate economic stimulus and support lower skilled jobs in the housing and construction industry and small businesses; and improve the energy efficiency of Australian homes. Installing insulation in existing homes was regarded as one of the most cost-effective opportunities to improve residential energy efficiency. At the time, it was estimated that only 60 per cent of Australian homes were insulated.[3]

4. The EEHP was to be administered as an executive scheme[4] and included the:

- Homeowner Insulation Program[5] : incentives for homeowner occupiers to have insulation installed ($2.8 billion over two and a half years);
- Low Emissions Assistance Plan for Renters (LEAPR): incentives for renters in private rental accommodation and their landlords to install insulation ($637.4 million over two and a half years)[6] ; and
- Solar Hot Water Rebate (SHWR) Program: expansion of incentives for householders to install solar hot water heaters ($514.4 million over three and a half years).[7]

1. International Monetary Fund, World Economic Outlook (WEO) Crisis and Recovery [Internet] Canberra, April 2009, available from <http://www.imf.org/external/pubs/ft/weo/2009/01/> [accessed on 20 May 2010].

2. Rudd, K., Prime Minister, 5 February 2009, Joint Press Conference of COAG Meeting, Parliament House, Canberra, pp. 1–3.

3. Hawke, A., *Review of the Administration of the Home Insulation Program*, Canberra, 2010, p.23. See also Commonwealth Parliamentary Debates, House of Representatives, 11 March 2010, 46 (Kevin Rudd, then Prime Minister).

4. Executive schemes rely on executive rather than legislative power, and their key advantage is the speed in which they can be established and their flexibility. A challenge in implementing an executive scheme is ensuring that any terms and conditions are clear and enforceable. As noted by the

Commonwealth Ombudsman, many of the checks and balances in programs are conveyed through legislation. Source: Commonwealth Ombudsman, Executive Schemes [Internet]. Commonwealth Ombudsman, Canberra, 2009, available from <http://www.ombudsman.gov.au/files/investigation_2009_12.pdf> [accessed 24 August 2010].

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

6. LEAPR was first introduced in 2008 with a maximum rebate of up to $500 per property. The program was integrated into HIP in September 2009. *Environment Budget Overview — Sustainable Homes 2008–2009*, p. 4.

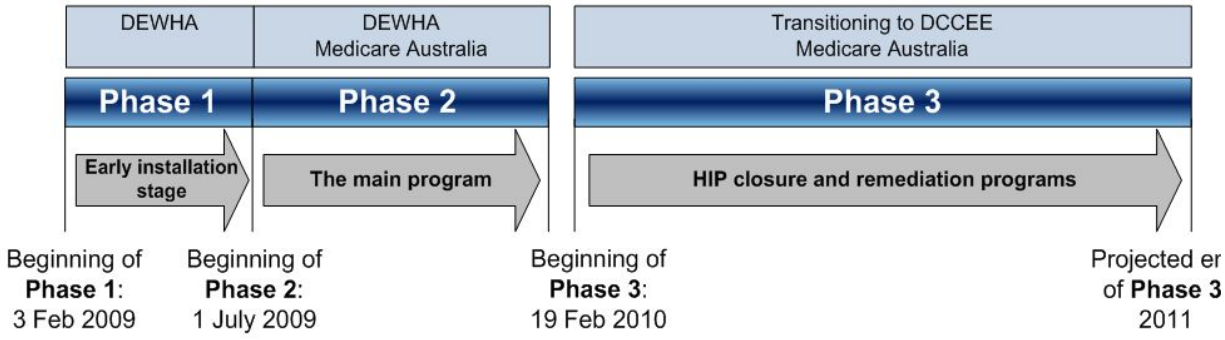
7. Environment Budget Overview 2009–2010, op. cit., p. 8. $514.4 million is in addition to $252.3 million previously allocated to the SHWR Program. Under the guidelines householders could not receive both the SHWR and assistance under the Homeowner Insulation Program.

The three phases of the Home Insulation Program

5. The Home Insulation Program (HIP) was intended to be implemented in two phases: Phase 1 was the early installation phase from 3 February to 30 June 2009; and Phase 2 was the main program from 1 July 2009. HIP was to continue for two and a half years, however, following safety concerns, was terminated prematurely on 19 February 2010. The program then moved into a third phase with the implementation of safety remediation programs: the Foil Insulation Safety Program (FISP) and the Home Insulation Safety Program (HISP) (refer Figure S 1). A summary of the key changes and events throughout the different phases of the program are outlined in Appendix 2.

Figure S 1

Timeline of the three phases of the Home Insulation Program



Phase 1 — the early installation stage

6. The Homeowner Insulation Program and LEAPR allowed homeowners, landlords and tenants to have ceiling insulation installed prior to the commencement of Phase 2 on 1 July 2009. Homeowner occupiers could be reimbursed for up to $1600 and landlords or tenants up to $1000 in assistance. Program guidelines were released on 26 February 2009, setting out the requirements for homeowner-occupiers, landlords, tenants, installers and the material R-value of the insulation.[8] To be eligible, applicants had to be an Australian citizen or permanent resident over 18 years who had not received assistance under the SHWR Program (after 3 February 2009).[9] Phase 1 payments were made directly to the householder following the installation and after eligibility was assessed by the Department of the Environment, Water, Heritage and the Arts (DEWHA). Under Phase 1, 73 005 rebates were paid at a cost of $103.1 million.

Phase 2 — the main program

7. Phase 2 of HIP ran from 1 July 2009 to 19 February 2010 (31 weeks). During this phase, the installer was paid the rebate directly, rather than the householder. This was a significant change to the design of the program and facilitated an increased number, and faster payment, of claims. There were also a number of changes introduced over time in response to safety and quality concerns. These included changes to installer competencies and training requirements, a reduction in the rebate amount, and the implementation of a compliance and audit framework. As at 31 March 2010, 1.16 million payments had been made at a cost of $1.45 billion for Phase 2. An overview of Phase 2 is provided in Appendix 3.

8. To participate in Phase 2, installers had to be registered on the Installer Provider Register and agree to:

- comply with the program guidelines, relevant laws, and meet minimum competency requirements[10];
- install insulation in accordance with Australian Standards and Building Codes, and within a specified R-Value;
- keep full and accurate records in relation to all aspects of the program;
- maintain workers' compensation insurance (where installers were not sole traders), public liability insurance and property damage insurance; and
- employees holding an Occupational Health and Safety (OH&S) 'White Card'.[11]

Phase 3 — HIP closure and remediation programs

9. As previously mentioned, HIP was terminated prematurely on 19 February 2010 because of ongoing safety and compliance concerns. The online processing of claims ceased and all subsequent claims and

payments were processed manually. Two remediation programs were established:

- Foil Insulation Safety Program (FISP)—safety inspections for the estimated 50 000 homes that were insulated with foil under the program. Householders have the option of having the foil insulation removed, or on the advice of a licensed electrical contractor, safety switches installed. This program is estimated to cost $85 million.[12]
- Home Insulation Safety Program (HISP)—ongoing safety inspections and remediation program involving a minimum of 150 000 homes that had non-foil insulation installed. This program is estimated to cost $340 million.

8. Material R-value is the measure of insulation systems' effectiveness which must be determined in accordance with Part 4 of AS/NZS 4859.1. Total R-value takes into account material R-value as well as the thermal value of building elements and reflective air spaces. *Home Insulation Program Guidelines* version 3, p. 7.

9. Homeowners who had claimed the SHWR prior to 3 February 2009, which was the announcement and commencement of the Phase 1, were eligible to receive a rebate under the Homeowner Insulation Program. However, those householders who received a SHWR after 3 February 2009 were not eligible for the Homeowner Insulation Program rebate.

10. At the commencement of the program, only supervisors were required to satisfy one of three minimum competencies: prior industry experience; a qualification in an approved trade; or insulation specific training. In December 2009, the registration requirements were tightened, and consequently, the Government announced that all installers were required to satisfy one of these minimum competencies, with evidence to be provided to Medicare Australia by February 2010.

11. A White Card is a nationally recognised competency based certification to demonstrate that the holder is competent to work safely in the construction industry (CPCCOHS1001A "Work Safely in the Construction Industry" qualification).

12. DEWHA announced interim arrangements on 10 February 2010 under the electrical safety inspection program, which later became FISP.

Administrative arrangements

10. DEWHA's development and implementation of HIP coincided with a significant expansion of the department's responsibilities. Following the change of government in late 2007, DEWHA had responsibility for 107 new policy initiatives, including 10 new renewable and energy efficiency programs. DEWHA administered all aspects of Phase 1 (from February to June 2009), including approving and distributing payments. DEWHA entered into a service level agreement with Medicare Australia to deliver elements of Phase 2 on 1 July 2010. Under this agreement, Medicare

Australia was responsible for registering installers and the processing of payments to installers.[13]

11. Following the Machinery of Government changes announced on 8 March 2010, responsibility for HIP and other energy efficiency programs was transferred to the new Department of Climate Change and Energy Efficiency (DCCEE), with Medicare Australia continuing to process payments.

13. Medicare Australia's role was limited to: providing and maintaining an online registration system; registering installers consistent with DEWHA registration requirements; providing and maintaining an online claim lodgement system; and making payments to installers where payment was approved by DEWHA.

Program reviews

12. Against the background of a range of problems being brought to notice with the design and implementation of HIP, a number of reviews of the program have been commissioned and reported. Set out below is a summary of the reviews and their key conclusions.

Review of the Administration of the Home Insulation Program

13. The *Review of the Administration of the Home Insulation Program* was commissioned by the Department of the Prime Minister and Cabinet (PM&C) to examine and report on the effectiveness of the program's design, administration and delivery arrangements. It was undertaken by Dr Alan Hawke AO[14] and completed on 6 April 2010. The review identified problems in program governance, program design and administration, risk management, audit and compliance mechanisms and capacity issues. The report commented that the quality and safety risks could not be fully abated at that time.

14. The review also recognised the achievements of HIP, which included: the many homes insulated and installers employed; the first national focus on quality and safety standards in the insulation installation industry; a nationally accredited training program; and innovative, cross government approaches adopted in the DEWHA/Medicare Australia partnership.

Insulation Advisory Panel

15. The Government commissioned advice on the proposed remediation programs and the design of the proposed Renewable Energy Bonus Scheme (REBS)[15], which was to replace HIP. This advice was given by

Dr Ron Silberberg, Mr Tony Arnel and Mr Peter Tighe. The advice centred on improvements to program administration, quality assurance processes and systems.

Senate inquiry

16. On 15 July 2010, the Senate Standing Committee on Environment, Communications and the Arts (the Committee) tabled its report on the EEHP. The Committee's majority report found that problems with the program arose from: the Government's insistence upon rapid roll-out; certain program design elements increased risks; ineffective risk management procedures and administration; and ambiguity about and conflicts inherent in the program's purpose.

17. The report also suggested that a more balanced approach between the stimulus and environmental goals should have been achieved. There were 11 recommendations, which focused on: conducting a Royal Commission; checking of all homes insulated under the program for safety and fire risks; and pursuing fraud. Research into and support for the insulation industry, including a review of industry standards, was also recommended as well as suggestions for actions to be taken by Standards Australia and the Australian Building Codes Board, particularly concerning technical issues.

18. Two dissenting minority reports disagreed with the recommendations made in the majority report and suggested alternative ways forward. The dissenting comments agreed that there were many lessons to be learned from HIP, particularly in relation to governance arrangements, under-resourcing, high staff turnover and underestimation of the level of non-compliance with the program. The comments also highlighted some of the achievements of HIP and the stimulus context within which it was delivered, as well as encouraging the Government to promote insulation instead of allowing a negative image to take hold in the public mind, and ensure that high standards are in place and enforced for future insulation programs.

14. Since finalising the report, Dr Hawke has been awarded the Companion of the Order of Australia (June 2010).

15. REBS was intended to replace HIP but did not go ahead, instead the Government committed to establishing FISP and HISP.

Representations from Parliamentarians

19. Since the commencement of HIP in February 2009, the Auditor General has received representations from various stakeholders raising

concerns regarding aspects of the program's delivery. On 3 March 2010, the Minister Assisting the Minister for Climate Change and Energy Efficiency, the Hon Greg Combet AM MP, requested that the Auditor General conduct an audit of HIP. This followed a number of requests from the Shadow Minister for Climate Change and the Environment, the Hon Greg Hunt MP, to conduct an audit of the program following safety concerns and allegations of rorting and non compliance by installers.

Audit Objective

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

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

Overall conclusion

21. The $2.8 billion Home Insulation Program (HIP) was the major component of the Government's $3.9 billion Energy Efficient Homes Package (EEHP) announced on 3 February 2009. Proposals for EEHP were developed with a sense of urgency by the Department of the Prime Minister and Cabinet (PM&C) with limited consultation with the Department of the Environment, Water, Heritage and the Arts (DEWHA) [16]. HIP was designed to generate economic stimulus and jobs for lower skilled workers in the housing and construction industry, which was expected to be adversely affected by an economic downturn flowing from the global financial crisis. A secondary but important objective was to improve the energy efficiency of
2.7 million Australian homes and reduce greenhouse gas emissions.

22. Under HIP, some 1.1 million roofs have been insulated at a cost of $1.45 billion. Due to a range of design and implementation matters associated with the program, as at March 2010, of the 13 808 roof inspections conducted, around

29 per cent[17] had identified installations with some level of deficiency, ranging from minor quality issues to serious safety concerns. In addition, there have been cases of potential fraud identified. These deficiencies in the delivery of the program have meant that the Government decided to implement further measures to check and rectify the standard of installations. These new measures include the Foil Insulation Safety Program (FISP) and the Home Insulation Safety Program (HISP), which are expected to cost $424 million. In addition, the Government has committed to industry assistance programs[18] expected to total approximately $56 million. The remainder of HIP's budget will be used for activities undertaken post-closure of the program, including the remediation and assistance programs, and any surplus funds will be returned to the budget.

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

24. In large measure, the focus by the department on the stimulus objective overrode risk management practices that should have been expected given the inherent program risks. Rather, the department intended to rely heavily on its compliance and audit program to address some of the risks identified, but the significant delay in implementing this element of the program meant that these risks were not adequately addressed. As time passed, the department realised that greater emphasis should have been given to program risk mitigation strategies, particularly those concerning installer registration requirements and compliance with quality and safety standards. By November 2009, the volume of claims and increasing number of installations identified with quality, safety and potential fraud issues, overwhelmed the department and it was unable to recover the situation. There were insufficient measures to deliver quality installations and, when the volume of issues requiring attention by the department increased, the department had neither the systems nor capacity to deal with this effectively. The lack of experience within DEWHA in project management and in implementing a program of this kind were contributing factors.

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

effective service delivery. This experience underlines very starkly just how critical sound program design and implementation practices are to achieving policy outcomes. There are important lessons here for those agencies with policy implementation responsibilities but also those responsible for policy development.

How the program evolved

26. HIP was rolled out in two phases. The first phase, commencing from 3 February 2009, was an interim stimulus measure that included the Homeowner Insulation Program and the Low Emissions Assistance Plan for Renters (LEAPR). The Homeowner Insulation Program changed on 30 June 2009, with Phase 2 commencing from 1 July 2009. The LEAPR briefly continued as a separate program until it merged into HIP (Phase 2) in September 2009, due to lower than expected demand for the program. The program then moved into its third phase with the implementation of safety remediation programs: the Foil Insulation Safety Program (FISP) and the Home Insulation Safety Program (HISP).

27. Phase 1 of the program was administered by DEWHA and payments were made directly to householders. The absence of an integrated claim and payment processing system within DEWHA meant that it took up to eight weeks to process payments. Given the expected scale of Phase 2 of the program, Medicare Australia was engaged to register installers, capture claims data and make payments, because of its existing infrastructure and experience in claims processing.

28. From 3 February 2009, DEWHA consulted with a wide range of stakeholders on the design of Phase 2, including industry representatives, State and Territory agencies, training organisations and non-government organisations. However, developing a clear implementation pathway was made more difficult for DEWHA by the strong and divergent views held by stakeholders. Nevertheless, DEWHA was informed by State and Territory agencies in April 2009 that the scale of the program would change the dynamics of the existing market conditions for the insulation installation industry and that this, in turn, would increase the risk of poor installation by unskilled labour.

29. The design of Phase 2 was strongly influenced by the clear riding instruction from the Commonwealth Coordinator General to reduce red tape and commence work on projects as soon as possible, in keeping with the stimulus objective of the program.[19] In combination with the compressed timeframe for implementation, this meant that many ‘front end’ controls that might be expected in such a program were not put in place by the department. By proceeding in this way, DEWHA accepted the risks implicit in this approach.

30. The risk profile for Phase 2 was considerably different to Phase 1 as the rebate was paid directly to installers. As would be expected in relation to a new and substantial rebate program, the department undertook a risk assessment prior to the roll-out of the main phase of

the program. This assessment identified the significant challenges involved in implementing the program. In particular, risks concerning quality, fire and safety, fraud and internal capacity were all identified prior to the program roll out.

31. At the start of the program, the conditions for registration broadly reflected the relatively low regulatory requirements that existed within the insulation installation industry and in most States and Territories at the time. These conditions for registration also supported the program's objective to provide jobs for lower-skilled workers in the housing and construction industry. Individuals new to the industry could participate in the program without any experience, qualifications or insulation specific training, as the minimum competency requirements did not become mandatory for all installers until February 2010.[20] These factors facilitated job creation and the expansion of the industry from around 200 firms to some 10 834 registered firms throughout the program.

32. At the program's peak, demand had been running at almost two and half times the anticipated level. Under Phase 2, some 1.16 million payments were made through the program at a cost of $1.45 billion. As a consequence, the level of expenditure was considerably higher than that originally planned for over the main phase of the program, and required almost $1 billion to be brought forward from the budgets of later years and other adjustment measures. This situation reflected the difficulties in forecasting and managing expenditure for this program which was demand-driven.

33. As Phase 2 of the program was rolled out, a number of problems began to emerge. By November 2009, there were quality, safety and potential fraud risks requiring urgent attention. While not significant in proportion to the total number of installations under HIP, fraud became an increasing concern as the program progressed. Compliance inspections had identified over 67 cases where payments had been claimed but no insulation had been installed; this number had increased to 150 by March 2010. By this time, DEWHA had also received 2883 complaints from householders advising they had not had insulation installed under the program. These complaints were in response to letters sent as part of the compliance and audit program.[21] Since the closure of the program, DCCEE advised that some 4000 potential cases of fraud have been identified, with 100 cases having been referred to DCCEE's Investigations and Intelligence Branch.

34. In August 2009, the Minister for the Environment, Heritage and the Arts wrote to the then Prime Minister advising that while HIP was proving successful in terms of jobs created and homes insulated, there were implementation issues that needed to be addressed including concerns about new entrants to the market not adequately meeting required standards of work and engaging in price manipulation. The Minister indicated that particular action was being undertaken to address these concerns.[22] By March 2010, of the 13 808 compliance inspections

completed, 18.5 per cent had quality issues including batt splitting and incomplete installations. The program guidelines were progressively tightened in response to these issues and emerging safety concerns; and the use of foil insulation was banned under the program in early February 2010.[23]

35. From September 2009, supervisors employed by registered installers were required to provide proof that they met the minimum competency requirements, and by February 2010, all installers were required to meet minimum competency requirements. By March 2010, nearly 13 808 roof inspections had been carried out as part of the compliance and audit program. These inspections indicated that some 71 per cent of homes insulated under the program were fully compliant with program requirements. The remainder, representing around 29 per cent of dwellings insulated, had concerns ranging from minor quality issues to serious safety concerns.[24]

36. Since closure of the program, Phase 3 has commenced, to address safety concerns, consisting primarily of two remediation programs: FISP and HISP. Under FISP, an estimated 50 000 homes insulated with foil are due to be inspected to address electrical safety concerns.[25] These are in addition to the urgent interim inspections announced prior to the closure of the program. At 1 August 2010, a total of 25 540 foil safety inspections have been carried out under FISP and the interim arrangements.[26] As at 1 August 2010, 36 per cent (544) of dwellings inspected under FISP (1526) had the foil insulation removed due to a range of safety concerns.[27]

37. Under HISP, a minimum of 150 000 dwellings that had non-foil insulation installed will be inspected to address potential fire risks.[28] At 1 August 2010, 44 300[29] inspections and 3215 rectification jobs have been completed under the arrangements put in place for HISP.

38. Although the full cost of FISP and HISP is still to be determined, the combined cost of the remediation programs is estimated at $424 million.[30]

How the program was managed

39. The key difference between the two phases of HIP was that under Phase 1, the rebate was paid to householders, while under Phase 2 it was paid directly to installers. This fundamental difference, designed to increase the stimulus effect of the program and reduce red tape, substantially altered the incentive structure of HIP by making payments directly to installers. Consequently, the risks facing the department increased because there was no limit to the number of claims that an installer could submit; thus increasing the importance of controls to assure the quality and quantity of installations claimed.

40. As indicated above, the first two phases of HIP had different delivery approaches. Under Phase 1, DEWHA had reasonably sound processes for assessing householders' claims for rebates against the program's eligibility criteria and payments to householders provided a degree of assurance that the installations had been completed.

41. There were a number of contributing factors that impacted on the successful implementation of Phase 2 of the program. These included:

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

Tight timeframe for program delivery

42. DEWHA preferred a five–year rollout because of weaknesses in IT systems capability, a shortage of accommodation for staff, recruitment/training and challenges and serious backlogs with existing programs. The division responsible for implementing HIP was already seriously stretched in terms of its capacity to deliver existing programs. However, a five–year rollout was not accepted by the Government as it did not meet the stimulus objective of the program.

43. The delivery model for the program was only settled in early April 2009, leaving little time to develop and implement IT support systems and engage sufficient numbers of skilled staff before the commencement of the program. Priority was given to implementing the system updates required to reflect the significant changes to HIP as the program parameters evolved and, as a result, system enhancements to better support the delivery of the program overall were not implemented. Consequently, some 12.4 per cent of all claims were processed manually which was time consuming, resource intensive and carried the inherent risk of human error.

Underestimation of key program risks

44. DEWHA's approach to the management of program risks was heavily influenced by the tight timeframe associated with developing and implementing HIP due to the program's stimulus focus. Consequently, some of the controls and mitigation strategies which could have been expected to have been implemented as part of HIP were not in place. In its risk assessment in April 2009, DEWHA identified 18 extreme or high level risks that could adversely impact on the delivery of the program. While the department took steps to address some of these risks, treatments were inadequate and the department was required to

implement a number of subsequent program changes in response to realised risks.

45. Fundamentally, DEWHA underestimated the level of risk involved in installing insulation in ceiling spaces by inexperienced and often untrained installers working in a largely unregulated industry. The department broadly consulted with the insulation industry but did not consult with members of the electrical industry or relevant State and Territory agencies when developing supervisors' minimum competency requirements. It is also noteworthy that a similar program in New Zealand excluded foil insulation due to technical performance issues, safety concerns and three fatalities associated with 'do it yourself' under –floor installations in 2007.

46. While a nationally accredited training package was developed for the program, this was not a mandatory requirement for installation company supervisors. Consequently, the installer registration process failed to provide a satisfactory level of assurance as to the competence of installers or to the quality and safety of installations undertaken.

47. DEWHA initially assumed that there would be a reasonably high level of compliance by installers with the program guidelines (particularly training, supervision and installation standards) and that the number of deregistrations would not be significant and easily addressed if they did occur. This proved to be unsound given the financial incentives available to installers through the program, and the number of new and inexperienced entrants to the industry.

48. In addition, the department anticipated that householders would check the quality of the installation work. This expectation was unrealistic as there was generally no financial contribution by householders and there were difficulties associated with inspecting the installations. If disputes occurred between householders and installers, it was expected that these would be resolved through existing State/Territory consumer protection processes. However, the scale of the program significantly impacted on the resourcing of these agencies, which was not addressed prior to the roll-out of the program.

49. The department provided an assurance to the then Minister in April 2009 that the business model was sufficient to manage program risks on an ongoing basis. However, this assessment was much too optimistic. Indeed, following the first fatality in October 2009, there was a noticeable shift in the risk appetite of the Government and the department in managing the risks to safety. This change in focus was appropriate but too late; and the subsequent remediation programs required to address the safety concerns from HIP are clear indications of a program that was not designed and implemented to effectively mitigate the inherent risks of delivery.

Under-resourcing of program administration

50. The significantly higher than expected take–up rate for the program created workload and consequently, resourcing issues for DEWHA. It was not until December 2009 that staffing levels reached planned levels, despite the number of claims being significantly higher than expected from mid August 2009. The demands initially placed on those at the branch and division head levels to deal with a wide range of issues, including implementation of other complex programs, were unreasonable and executive level resources were added too late and only after significant problems became evident.

51. DEWHA (and DCCEE) officers at all levels have described the significant workload and pressure they experienced due to the unexpected high level of activity and rate of change within the program. High staff turnover was coupled with an inability to recruit staff quickly enough to replace those who departed. These were sure signs of a program in trouble, and requiring serious attention to remedy. Steps were taken to address resource shortcomings and strengthen executive oversight with the introduction of the Energy Efficiency Taskforce in November 2009. While this improved governance arrangements, it was too late to effectively mitigate the risks experienced within the program.

52. DEWHA did not formally advise the then Minister of its resourcing and capacity constraints when they became evident. Any matters, such as these, that have a significant bearing on a department's capacity to deliver programs consistent with the Government's policy, should be brought to the relevant Minister(s) attention promptly with advice on the steps taken, or options available, to remedy the program's performance. Since the program's closure, more resources have been allocated to manage the remediation programs and closure activities than at the peak of the program.

Delayed introduction of an effective compliance and audit program

53. DEWHA did not use the information collected from installers as part of the claims process, or from its compliance and audit activities, to develop risk profiles of installers. Risk-profiling could have assisted DEWHA to target its compliance and audit activities to better detect and address instances of serious non compliance and potential fraud.

54. DEWHA's compliance and audit program could have been better supported by Medicare Australia's claims system if it had been enhanced by additional prepayment checks and the automation of some processes. Further, integrity issues with the data in DEWHA's compliance database have impeded the department's capacity to identify and pursue potential installer non compliance and fraud.

55. Deregistration was the primary penalty in HIP's compliance and audit program, however, this was not applied to full effect. The time allowed for natural justice in the deregistration process was not commensurate with the risk imposed by allowing installers to remain registered. Around 29 per cent of the roof inspections conducted found

that installations had a range of quality, safety or potential fraud issues varying from minor issues through to very significant matters. However, only 0.7 per cent of deregistrations were due to installer non-compliance with program terms and conditions which were agreed at the time of registration.[31]

56. Firm, early action to deal with non-compliance by installers would have signalled the Australian Government's position on installers not meeting the terms and conditions of the program, and would have also acted as a deterrent. However, the department's capacity to deal with these matters efficiently and effectively was weakened as most activities in the compliance and audit program were not introduced until mid August 2009. There was some increase in staff resources for the compliance team between October 2009 and April 2010, however, this increase was significantly outweighed by the unexpectedly high number of claims and increasingly complex tasks undertaken by the team. These limitations impacted on the effectiveness of compliance and audit activities because the team did not have the capacity to analyse results and in many instances, carry out the necessary follow-up action. The full extent of fraud is still unknown and the conclusion of cases under investigation is likely to take many more months to complete.

Inadequate governance arrangements and advice to the then Minister

57. The department established a Project Control Group (PCG) to provide senior executive oversight in a policy and operational context with ownership for strategic risks. The PCG was the core governance mechanism for HIP. However, by October 2009, serious performance issues and risks were becoming evident within DEWHA as well as frustration that PCG concerns were not being actioned. The PCG was not effective in mobilising internal capability and addressing resource shortages (human and Information Technology) within DEWHA to treat many of the critical risks that emerged following the roll-out of the program.

58. Implementation of HIP was affected by project management shortcomings as demonstrated by DEWHA's inadequate risk treatments; inability to properly resource the program; and the delayed implementation of the compliance and audit program. This was compounded by DEWHA's failure to finalise its project plan and use it as an ongoing guide to implementation. It is challenging for agencies rolling-out a program of this nature to balance the discipline of sound project management practices with urgent operational demands; nevertheless, tight timeframes and program changes increase the importance of maintaining a strong project management focus to achieve outcomes of an acceptable standard under such conditions.

59. There were also issues with DEWHA's capacity to respond promptly and accurately to the then Minister's requests for information. While there were an extensive number of briefs to the then Minister, on a number of occasions, DEWHA's advice was overly optimistic and

contained factual errors. The inaccuracies of DEWHA's advice to the then Minister led to an administrative review to improve reporting. The review found that deficiencies in the information provided to the then Minister were due in part to the uncertainties created by the demand driven nature of the program, the speed of implementation and the early economic stimulus focus. The review recommended the establishment of an Energy Efficiency Taskforce with a project management and resourcing focus.

60. The role of the Taskforce was also to bring together other demand driven programs being administered by DEWHA to facilitate a more strategic and coherent approach to program administration.[32] Following its introduction in November 2009, there were improvements to the program's governance arrangements and administration, including an increase to staffing resources and an increase in the number of installers deregistered for non compliance with the program terms and conditions.

Achievements against program objectives

61. It was expected that 9800 new jobs would be created in the insulation manufacturing and installation industries as a result of the implementation of HIP. The actual number of jobs created from the program was not monitored or reported against in any disciplined way. However, some 12 000 workers were estimated by DEWHA to be in the industry by the end of 2009 with an estimated 6000 to 10 000 new jobs being created by the program. The number of jobs estimated to have been created through the program was significant, but volatile and shorter-lived than intended because of the early closure of the program. The subsequent remediation work underway to address safety risks will continue to provide some employment opportunities while the funds allocated to the program remain.

62. In terms of the energy efficiency and the greenhouse benefits expected from the program, it was estimated that, on average, for each home that received new ceiling insulation, 1.65 tonnes of carbon dioxide equivalent (CO2 e) will be saved each year.[33] This equates to an estimated 1.9 million tonnes of CO2-e per annum nationally; some 0.4 per cent of Australia's annual national greenhouse gas emissions in 2007.[34] However, it cannot be determined with any accuracy the extent to which the program has achieved the expected greenhouse benefits until the conclusion of the remediation programs. This is due to the problems with installation quality, the removal of insulation where safety risks were a problem, and potentially fraudulently claimed installations.

Lessons learned

63. As is to be expected, there are key lessons for public administration arising from the HIP experience, both in terms of policy development and implementation. The lessons learned, which were developed in collaboration with DEWHA, DCCEE and Medicare Australia, are included

in the final chapter of this report to assist the implementation of future policy measures and programs. Comparisons with other insulation programs internationally and in Australia are also instructive.[35] While appreciating the differences in scale and the speed of roll-out, HIP could have benefited by the department considering and applying some of the critical design features implemented as part of the New Zealand Warm Up program and Victorian Government Insulation Rebate program. These include the early introduction of an approved product list; requiring installers to complete mandatory training and implementation of a sound compliance and audit program.

64. No recommendations have been made in this report because of the closure of the program and the improvement strategies being implemented constructively by DEWHA and DCCEE; in particular, strengthening their governance frameworks and centralising a number of advisory and support functions. DCCEE is also drawing on the lessons learned from HIP in implementing the remediation programs.

Substantial work is also currently being undertaken by DCCEE to rectify safety issues and address concerns raised by the many stakeholders involved in the program. In implementing the remediation programs, DCCEE has incorporated many of the lessons from Phase 2—particularly in regard to governance arrangements and bringing in program management experience to meet identified priorities. While there is significant work underway, there is still much to be done to address quality, safety and fraud issues under the program.

16. Following the election in August 2010, DEWHA became the Department of Sustainability, Environment, Water, Population and Communities (DSEWPaC).

17. These roofs were sampled using a combination of targeted and random selection and consequently, this figure is not necessarily a representative sample of all installations. It is nevertheless indicative of the extent of installation problems.

18. These measures are the Insulation Industry Assistance Package (IIAP) and the Insulation Workers' Adjustment Package.

19. This directive was consistently applied across all stimulus measures in the Government's Nation Building and Jobs Plan.

20. Prior to February 2010, the minimum competency requirements were only mandatory for supervisors.

21. Medicare Australia sent out letters on behalf of DEWHA to each address claimed under HIP to confirm that insulation had been installed.

22. The then Prime Minister advised Parliament that he had received a letter from the then Minister dated 14 August 2009 in relation to the HIP proposing increased compliance requirements for the program. On 17 August, the relevant cabinet committee considered the compliance issues raised by the Minister in his 14 August letter. The committee approved changes to the program guidelines which included requiring the following: physical site inspections prior to giving quotes, increased inspections

and scrutiny of trainer qualifications, increased compliance communications and processes for suspending and deregistering non-compliant installers.

23. The deaths of four young installers between October 2009 and February 2010 were tragedies that also reinforced the high level of risk involved in working in domestic roof spaces.

24. These inspections were focused on non-compliance and potential fraud and as a result, this figure does not include the FISP and HISP inspections. Inspections were undertaken on a targeted and random basis and therefore, this figure is not a representative sample of all installations. It is nevertheless an indicative assessment.

25. Under FISP, householders have the option to have the foil insulation removed or, on the advice of a licensed electrical contractor, have safety switches installed.

26. This figures excludes a further 2444 claims received for inspections conducted under interim arrangements to be paid.

27. The rectification work has been complicated by the level of pre-existing electrical problems in dwellings insulated under HIP. As at 20 August 2010, foil inspections undertaken had identified 17 per cent of homes inspected had pre existing electrical defects.

28. The department has advised that anyone who rings the hotline, who had non-foil insulation installed under HIP, will receive an inspection. At 19 August 2010, there had been 207 fire incidents related to the program.

29. This figure includes inspections undertaken prior to closure that formed part of the HIP audit and compliance program.

30. This estimate does not include the costs associated with the Insulation Industry Assistance Package (IIAP). This is the estimate for administered expenditure from the Portfolio Budget Statements 2010 11 for the Climate Change and Energy Efficiency Portfolio. DCCEE has advised that this figure is expected to be revised as part of Additional Estimates and will include funding for departmental costs.

31. Some of these terms and conditions are outlined in paragraph 8.

32. These programs included the Solar Homes and Communities Plan, Green Loans and the SHWR Program.

33. Hawke, A, Review of the Administration of the Home Insulation Program, Canberra, 2010; p. vi. This estimate was based on information provided by the Department of Climate Change and Energy Efficiency.

34. 1.9 million tones of CO2-e per annum equates to some 15.8 per cent of the ‘Action on Energy Efficiency’ measure, which is the second most significant measure designed to reduce Australia’s greenhouse gas emissions under the Kyoto Protocol.

35. See paragraphs in report 1.23 to 1.28.

Summary of formal agency comments on the proposed report

Department of Sustainability, Environment, Water, Population and Communities

65. The Department accepts the ANAO performance audit report of the Home Insulation Program.

66. The audit report acknowledges the difficulties faced in managing a complex program of this scale, the failings of the Department to manage the Program according to ANAO standards, as well as the measures the Department took to rectify management of the Program when issues were identified, specifically the success of the Energy Efficiency Taskforce that the Department established in November 2009.

67. The audit report, while not making recommendations, has dedicated a chapter to lessons learned which will be a valuable guide for the design and implementation of future demand-driven projects.

Department of Climate Change and Energy Efficiency

68. The Department of Climate Change and Energy Efficiency (the Department) welcomes the ANAO audit report into the Home Insulation Program (HIP), which acknowledges the challenges of rolling out a complex program in a short timeframe.

69. The ANAO's findings validate the Department's incorporation of lessons learnt from the HIP in its handling of the closure of the Program and implementation of the associated remediation programs, the Foil Insulation Safety Program (FISP) and the Home Insulation Safety Program (HISP).

70. Since the Program became the responsibility of the new Department of Climate Change and Energy Efficiency on 8 March 2010, the Department has implemented a range of processes and activities to address the suite of legacy issues associated with the HIP. As noted by the ANAO in the report, this work has included:

- implementing a strong governance framework for the closure of the HIP and delivery of its remediation programs;
- undertaking comprehensive risk assessments and employing appropriate mitigation measures for FISP and HISP; and
- developing a strong fraud and compliance strategy in conjunction with a forensic auditor.

71. The Department will continue to draw on the lessons identified in this and other reviews of the Program.

Medicare Australia

72. Medicare Australia welcomes the Australian National Audit Office performance audit and is pleased it recognised that online claims were paid within a reasonable timeframe when authorised for payment, and that overall effective system controls were established.

73. Medicare Australia supports the lessons learned in the audit report, and will actively include the lessons, in consultation with policy agencies, when developing service delivery capability for new programs.

Department of the Prime Minister and Cabinet

74. The Department of the Prime Minister and Cabinet appreciates the opportunity to comment on what is on the whole a balanced and thoughtful report on the former program.

75. The report notes that the development of the Home Insulation Program took place as Australia faced the global financial crisis late in 2008 and early 2009. While the Department is attributed in the report to playing a role in the development of the policy, it did not do so alone. What was called for at the time was the development of strategies and policies that would deliver economic stimulus to the Australian economy over a short to medium term time horizon. Options for programs over longer periods of time were not considered appropriate for the Government's purpose.

76. The report adds to the information and analysis provided by Dr Hawke in April this year. There have been many lessons learned with the termination of the Home Insulation Program, and the report will assist Government Departments in the development and implementation of programs into the future.