The Auditor-General Audit Report No.26 2009–10 Performance Audit

Administration of Climate Change Programs

Department of the Environment, Water, Heritage and the Arts

Department of Climate Change and Energy Efficiency

Department of Resources, Energy and Tourism

Australian National Audit Office

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ANAO Audit Report No.26 2009–10 Administration of Climate Change Programs



Canberra ACT 20 April 2010

Dear Mr President Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of the Environment, Water, Heritage and the Arts the Department of Climate Change and Energy Efficiency and the Department of Resources, Energy and Tourism in accordance with the authority contained in the *Auditor-General Act 1997*.

Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled Administration of Climate Change Programs.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—http://www.anao.gov.au.

Yours sincerely

K

Ian McPhee Auditor-General

The Honourable the President of the Senate The Honourable the Speaker of the House of Representatives Parliament House Canberra ACT

AUDITING FOR AUSTRALIA

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ANAO Audit Report No.26 2009–10 Administration of Climate Change Programs

Contents

Ab	breviations	7
Glo	ossary	8
Su	mmary and Recommendation	9
Su	mmary	.11
	Introduction	. 11
	Previous audit	. 15
	Audit objectives and scope	. 15
	Overall conclusion	. 16
	Key findings by chapter	. 18
	Summary of agency responses	. 26
Re	commendation	. 28
Au	dit Findings and Conclusions	. 29
1.	Background and Context	. 31
	Introduction	. 31
	Climate change mitigation and industry development programs	. 32
	Previous audit and review	. 37
	Audit objective, scope and methodology	. 38
	Report structure	. 40
2.	Setting Program Objectives and Assessing Program Risks	. 41
	Introduction	. 41
	Developing program objectives	. 42
	Assessment of program risks	. 46
	Assessment of program risks for new policy measures in the 2009-10 Budget	. 50
3.	Assessment and Approval of Competitive Grants	. 53
	Introduction	. 53
	Assessment of competitive grant applications	. 54
4.	Assessment and Approval of Rebates	. 64
	Introduction	. 64
	Assessment and approval of rebate applications	. 68
5.	Measuring and Reporting of Progress towards Outcomes	. 80
	Introduction	. 80
	Key performance indicators	. 80
	Measuring program achievements	. 84
	Reviews and evaluations	. 91
	Reporting to Parliament	. 93
6.	Lessons for Future Climate Change Programs	. 97
	Introduction	. 97
	Lessons learned	. 97

Appendices		101
Appendix 1:	Agency Responses	103
Appendix 2:	Competitive Grant Programs	105
Series Titles		108
Current Better I	Practice Guides	111
Tables		
Table S 1	Climate change mitigation and industry support programs examined as part of the audit	12
Table 1.1	Climate change mitigation and industry support programs in the audit	33
Table 2.1	Program objectives	42
Table 2.2	Risk assessments undertaken by climate change programs examined	47
Table 3.1	Competitive grant program applications, approved projects and expenditure to 30 June 2009	53
Table 4.1	Non-competitive rebate programs for period 2007-08 to 30 June 2009	65
Table 4.2	Applications, approvals and expenditure under the RRPGP State administered REWP and RM sub-programs	76
Table 4.3	Major Projects approved for funding under RRPGP	77
Table 5.1	Applications, approval and expenditure under the SHCP to October 2009	88
Table 5.2	Climate change program reviews and evaluations	91
Table A 1	Australian Government funding contributions for projects approved in round three of the Greenhouse Gas Abatement Program	105
Table A 2	Australian Government funding contributions for projects approved under the Low Emission Technology Demonstration Fund.	106
Table A 3	Australian Government funding contributions for projects approved under the Solar Cities program	107
Figures		
Figure S 1	Timeline of rebate and grant programs	13
Figure 1.1	Timeline of rebate and grant programs	35
Figure 1.2	Structure of the report	40
Figure 3.1	Common assessment and selection framework for all programs reviewed	56
Figure 4.1	SHCP and RRPGP program structures	66
Figure 4.2	Two-stage non-competitive assessment and approval process	68
Figure 4.3	Number of PV units installed for the SHCP from 2000 to July 2009	70
Figure 4.4	Comparisons of payments with installation reports received for SHCP (December 2009-January 2010)	73
Figure 5.1	Cost/Watt and systems installed for on-grid systems for the life of the program to July 2009	87

Abbreviations

AGO	Australian Greenhouse Office				
ANAO	Australian National Audit Office				
CEC	C Clean Energy Council				
COAG	Council of Australian Governments				
CPRS	Carbon Pollution Reduction Scheme				
CSIRO	Commonwealth Scientific and Industrial Research Organisation				
DAFF	Department of Agriculture, Fisheries and Forestry				
DBC	3C Detailed Business Case				
DCCEE	CEE Department of Climate Change and Energy Efficiency				
DEWHA	Department of the Environment, Water, Heritage and the Arts				
DIISR	IISR Department of Innovation, Industry, Science and Research				
DRET	Department of Resources, Energy and Tourism				
GGAP	Greenhouse Gas Abatement Program				
LETDF	Low Emissions Technology Demonstration Fund				
Mt CO2e	Million tonnes of carbon dioxide equivalent				
PVRP	Photovoltaic Rebate Program				
RRPGP	P Renewable Remote Power Generation Program				
SHCP	HCP Solar Homes and Communities Plan				

Glossary

- Abatement Actions aimed at reducing the degree, intensity or production of greenhouse gas emissions.
- Adaptation The adjustment in natural or human systems in response to actual or expected climatic changes or their effects; which moderates harm or exploits beneficial opportunities.
- Carbon dioxide Major greenhouse gas emitted when fossil fuels are burnt.
- Carbon dioxide The standard unit for presenting greenhouse gas emission equivalent levels. This concept enables the aggregation of individual greenhouse gases through the use of conversion factors known as global warming potentials.
- Complementarity The principles developed by the Council of Australian principles Governments to focus climate change programs on addressing market failures, meeting best practice regulatory principles and aligning with the proposed emissions trading scheme.
- Greenhouse The atmospheric gases responsible for causing global gases warming and climate change. The major gases are carbon dioxide, methane and nitrous oxide.
- Kilowatt Is the unit for measuring power and is equivalent to one thousand watts.
- Mitigation In the context of climate change, mitigation is a human invention to reduce the sources of greenhouse gas emissions.
- Mega tonne Is a measurement of mass equal to one million tonnes.

Mega watt Is a unit for measuring power that is equivalent to one million watts.

Summary and Recommendation

ANAO Audit Report No.26 2009–10 Administration of Climate Change Programs

Summary

Introduction

1. The Australian Government has indicated that climate change, caused by the emission of anthropogenic greenhouse gases, is an important issue that has the potential to cause significant damage to our environment, industries, people and infrastructure. The Department of Climate Change and Energy Efficiency (DCCEE) has stated that some degree of change to our climate will be unavoidable because of the level of gases already accumulated in the atmosphere. As a consequence, there will be a greater likelihood of more frequent and more extreme weather events including heat waves, storms, cyclones and bushfires; a continued decline in rainfall in southern Australia; and higher temperatures leading to decreases in water supplies.¹

Australian Government response to climate change

2. In response to the challenge posed by climate change, successive governments have used grant and rebate programs as a vehicle for reducing national emissions and to stimulate more renewable energy sources such as solar, wind, geo-thermal and hydro technologies. Investment in research and development and the commercialisation of other new technologies, such as carbon capture and storage, has also been a feature of the policies of the present and previous governments.

3. The current Australian Government has prioritised actions on climate change and has committed more than \$15 billion towards climate change initiatives. The Government's actions on climate change fall under three main categories, referred to as the *Three Pillars* strategy. These are:

- reducing emissions;
- adapting to unavoidable climate change; and
- helping to shape a global solution.

4. The ANAO examined a sample of three grant programs and two rebate schemes, valued at \$1.7 billion, which were designed to reduce greenhouse gas

¹ Department of Climate Change and Energy Efficiency, Adapting to Climate Change [Internet] Canberra, January 2010, available from <<u>http://www.climatechange.gov.au/en/government/adapt</u>.> [accessed 19 March 2010].

(GHG) emissions, and to promote or demonstrate renewable energy technologies. These programs were chosen as they were significant, high profile measures from the suite of 62 Australian Government climate change programs in place at the time. Table S 1 outlines the five climate change mitigation and industry development programs examined as part of this audit, the funds appropriated and the agencies that were responsible for administering the programs.²

Table S 1

Climate change mitigation and industry support programs examined as part of the audit

Department	Relevant programs	Total budgeted funds (\$m)	Type of program
	Greenhouse Gas Abatement Program (GGAP)	400.0	Grant
The Environment,	Solar Cities	93.8	Grant
Water, Heritage and the Arts (DEWHA) ³	Solar Homes and Communities Plan (SHCP)	286.5	Rebate
	Renewable Remote Power Generation Program (RRPGP)	399.1	Rebate
Resources, Energy and Tourism (DRET)	Low Emissions Technology Demonstration Fund (LETDF)	500.0	Grant
TOTAL		1679.4	

Source: Budget funds based on Annual Reports from DEWHA and DRET.

5. Applications for these programs have closed and future funding rounds are not anticipated. Apart from SHCP and RRPGP, no funding has been allocated in the forward estimates to cover additional funding commitments. Ongoing funding commitments will be progressively met under existing contractual arrangements specified in the deeds of agreement for each

² The management of LETDF was transferred from the Department of Innovation, Industry, Science and Research to the Department of Resources, Energy and Tourism from 1 July 2008. Prior to November 2007, the program was administered by the then Department of Industry, Tourism and Resources.

³ The programs administered by DEWHA were transferred to DCCEE in March 2010.

program. This is likely to extend the Commonwealth's financial commitment to up to 2020.

6. SHCP, Solar Cities and RRPGP are now being administered by DCCEE and LETDF by DRET.⁴ SHCP and RRPGP have been replaced by the Solar Credits initiative, which is also being administered by DCCEE. In addition, a \$3.9 billion *Energy Efficient Homes Package* announced in the 2009-10 Budget provides incentives for households to improve their energy efficiency through installing insulation and solar hot water systems. These programs have some similarities with the SHCP in that demand forecasting is critical to the effective management of appropriations. Assistance for renewable energy and clean coal technology will now be provided through the Clean Energy Initiative, which was announced in the May 2009 Budget. Figure S 1 sets out the timeline of rebate and grant programs examined and their transition to new program initiatives.

Figure S 1

Timeline of rebate and grant programs



Source: ANAO based on data from DEWHA and DRET.

7. The findings from this audit have been designed to assist in the implementation of these and future programs as well as convey lessons that may have application to other grant programs in the departments concerned.

Projects funded under grant programs

8. Funding under the competitive grant programs has been for projects such as large scale demonstration projects supporting new technologies to

⁴ Funding for GGAP has been fully expensed.

reduce GHG emissions. Grants have ranged from \$1 million to \$100 million and recipients have tended to be large private, industrial or resource companies, or consortia of governments, industry and community organisations. The following are examples of projects and the programs under which they are funded:

- reductions in emissions of synthetic GHG gases from refrigeration systems in supermarkets (GGAP);
- retro-fitting a set of new technologies to an existing coal-fired power station in Queensland to trial carbon capture and storage (LETDF); and
- Adelaide Solar City (Solar Cities program) to establish and trial innovative technologies and practices, including the concentrated uptake of solar power, energy efficiency and smart metering technologies.

Rebate schemes

9. The SHCP provided rebates of up to \$8000 dollars (\$8 per watt up to one kilowatt)⁵ to homeowners for the installation of solar photovoltaic systems on their principal place of residence, and rebates to community organisations that installed photovoltaic power systems for educational purposes.

10. Funding for RRPGP provided financial support to increase the use of renewable generation in remote parts of Australia that relied on fossil fuel for electricity supply. The program has three main components: Renewable Energy Water Pumping Rebates, Residential and Medium-scale projects and Major projects. Since the start of the program in 2000, over 6500 small rebates have been paid with the installation of more than 9400 kilowatts of photovoltaic, wind and micro-hydro generation under the Renewable Energy Water Pumping and Residential Medium-scale projects. For major projects, over \$52 million has been approved for 31 projects, of which 20 have been completed.⁶

⁵ The original rebate was revised from \$2.50 per peak watt in September 2000 to \$5.50 per watt. This was then revised down to \$4 per watt in May 2003. In May 2007, the rebate was doubled to \$8 per watt.

⁶ Department of the Environment, Water, Heritage and the Arts, Annual Report 2008-09.

Previous audit

ANAO Audit Report No.34 2003–04, *The Administration of Major Programs*

11. Audit Report No.34 2003-04, examined a sample of Australian Government programs, valued at almost \$900 million, administered by the Australian Greenhouse Office (AGO). The report identified then administrative weaknesses in the seven programs examined. The absence of quantifiable objectives and targets made it difficult to measure results against program objectives. In addition, the lack of a comprehensive risk assessment exposed some programs to risks that could have been better identified and treated in the early stages. The audit commented that substantial risks remained—particularly in terms of the timely achievement of program objectives. The need for a more consistent and transparent approach to assessing and selecting projects was also highlighted.

Audit objectives and scope

Objective

12. The objective of this audit was to assess the effectiveness of the administration of specific climate change programs by the departments of the Environment, Water, Heritage and the Arts and Resources, Energy and Tourism. In undertaking this audit, particular emphasis was given to the implementation of good administrative practice and the extent to which the program objectives were being met. The audit followed four lines of inquiry:

- development of program objectives and assessment of program risks;
- assessment and approval of competitive grant applications;
- assessment and approval of rebate applications; and
- measurement and reporting of program outcomes.

13. The coordination of Australian, State and Territory climate change programs and the measuring and integrity of reporting of Australia's GHG emissions are examined in Audit Report No 27. *Coordination and Reporting of Australia's Climate Change Measures*, tabled in conjunction with this report.

Audit scope

14. The audit scope included four programs managed by DEWHA. In March 2010, responsibility for these programs was transferred to DCCEE. These programs included two competitive grant programs and two rebate schemes. One competitive grant program was managed through DRET. The audit focused on the administration of the programs for the following periods:

- round three projects for GGAP (the first two rounds were considered in the 2003–04 audit);
- LETDF and Solar Cities from 2004–05 to 2009; and
- SHCP and RRPGP from 2007–08 (following the review and restructuring of the programs in 2007) to 2009.

Overall conclusion

15. The grant and rebate programs reviewed were designed to reduce GHG emissions and/or support the renewable energy industry. At a total value of \$1.7 billion over the life of the programs, successive Australian Governments have invested significant resources in climate change initiatives. Funding under competitive grant programs has been for innovative and high risk projects such as large scale demonstration projects supporting new technologies to reduce greenhouse gas emissions. Grants ranged from \$1 million to \$100 million. In contrast, rebate schemes provided lower value, but a higher volume of assistance to support renewable technologies.

16. Each program had different administrative issues and challenges and the effectiveness of some of these programs was constrained by weaknesses in program implementation and design. The overriding message for the effective management and success of future climate change programs is that greater consideration needs to be given to:

- setting clear and measurable objectives;
- assessing and implementing appropriate risk mitigation strategies;
- applying a rigorous merit based assessment of applications for competitive grants; and
- effective measuring and reporting on performance.

17. The objectives of the five climate change programs were generally broad, with three of the five programs, (Solar Cities, SHCP and RRPGP), having multiple objectives. These three programs had very little specificity in

terms of how much was intended to be achieved over the life of the program, making it difficult to target resources and set administrative priorities.

18. The control and management of risks could have been substantially improved. The nature of the programs examined, involving large grants and new or unproven technology, meant that they were inherently high risk. However, where programs had undertaken risk assessments, the treatment options or controls did not always mitigate the risks identified, and many of these risks materialised throughout the course of programs.

19. The assessment and selection of climate change projects under the LETDF and Solar Cities programs was transparent, with criteria used to assess all proposals. Generally, there was a high degree of rigour and technical expertise applied to the assessment process. However, the assessment and selection process for projects under GGAP was inadequate. Recommended (and subsequently approved) projects for the third funding round failed to meet the Government's guidelines and eligibility criteria, as no recommended project met the specified greenhouse gas abatement threshold. The rigour of the cost-benefit and technical analysis could have also been substantially improved and particularly the advice provided to the then Minister for the Environment.

20. Program achievements against objectives varied for the grant programs and rebate schemes. The high risk, large value grant programs have achieved minimal results to date. Actual achievements for GGAP, the longest running program, were substantially less than originally planned with only 30 per cent of planned emissions abatement being achieved. This underperformance was because of delays in finalising funding agreements and the termination of nine out of the twenty-three approved projects. LETDF and Solar Cities are not sufficiently advanced for any meaningful comments on overall program results to be made to date.

21. For the two rebate schemes, SHCP and RRPGP, demand outstripped available funds-particularly for SHCP. As a consequence, the SHCP has substantially contributed to growth in the up-take of renewable energy in Australia. However, in terms of abatement, this has come at a high unit cost (\$447/tonne/CO2e) and at a significant cost to the budget estimated to be \$1.053 billion. The abatement achieved by the RRPGP program is also very expensive especially when compared to a possible emissions trading scheme market carbon price closer to \$20-\$30/tonne/CO2e.

22. Across the five programs examined, performance reporting could have been substantially better in terms of accuracy and consistency. If Parliament is to make informed judgements about what these, (and any future climate change programs) have achieved, reporting by agencies will need to more closely adhere to the annual reporting guidelines. In particular, reporting actual performance in relation to performance targets; and providing narrative discussion and analysis of performance.

23. To be effective, future programs will need to implement the key components of grant administration as outlined in the 2009 *Commonwealth Grant Guidelines*, particularly in terms of program planning and design and achieving value for public money. This audit has made one recommendation aimed at improving grant administration in DEWHA and could also be taken into account by DCCEE in terms of the ongoing administration of relevant programs. It has also identified a number of lessons that may have application to other grant programs in the departments concerned.

Key findings by chapter

Setting program objectives and assessing program risks (Chapter 2)

Assessing program objectives and program design

24. The objectives of the five climate change programs were directly or indirectly designed to reduce GHG emissions, and/or promote or demonstrate renewable energy technologies. They were generally broad, with three of the five programs, Solar Cities, SHCP and RRPGP having multiple objectives with very little specificity in terms of what was intended to be achieved over the life of the programs. The lack of concise, outcome-orientated objectives made it more difficult to target resources and set administrative priorities because of the uncertainty in relation to the ultimate outcome being sought by government.

25. There were marked differences in the origins of the five programs. Three of the five programs examined (GGAP, SHCP and RRPGP), were introduced in 1999–2000 as part of the then Government's *Measures for a Better Environment Package*. There was no formal new policy consideration or scrutiny by relevant departments and there was minimal consultation with stakeholders. This increased the risks to the effective delivery of the program and made it difficult for the department to determine whether or not the objectives could be realistically achieved within the envisaged timeframes. In

contrast, the origins of the LETDF and Solar Cities programs were in the 2004 *Energy White Paper*. There was a comprehensive process of policy papers, extensive stakeholder consultation and informal submissions from industry and other groups. It provided a sound foundation for implementing new policy programs.

Assessment and management of program risks

26. Identifying and assessing risks is particularly important for programs involving inherently high risk innovative technologies and high levels of project expenditure. Risk assessments can assist in managing adverse impacts and should be undertaken at the design stage or early in the life of the program, which can assist departments in their capacity to meet program outcomes. Of the five programs examined, only one program, Solar Cities, undertook a risk assessment in the early stages of the program's design and continued to monitor and revise the risk assessment as the program was implemented. Solar Cities risk assessment was included in the 2005 program implementation plan and was imbedded in the program's implementation. LETDF did not have a risk management plan at the inception of the program in 2004–05. However, a risk assessment was completed in June 2006 and updated annually.

27. As noted in Audit Report No.34 2003-04, *Administration of Major Programs*, there was no evidence that a comprehensive risk assessment was conducted by the then Australian Greenhouse Office, at the design stage of the GGAP, SHCP (previously PVRP) and RRPGP programs. In subsequent revisions to these programs, DEWHA had undertaken a timely assessment of risk early in the life of the revised programs. However, the treatment of risks during the life of the programs could have been improved. For GGAP, SHCP and RRPGP, the risks identified in the assessment phase materialised during the implementation of the program and constrained program effectiveness. For example with GGAP and RRPGP (major projects), a rigorous assessment process was not followed and for SHCP the unanticipated surge in demand materialised during the implementation of the program from 2007–08.

28. Risk management could also have been strengthened for the measures relating to renewable energy and carbon capture and storage in the 2009–10 Budget. The Clean Energy Initiative supersedes the LETDF and provides funding to support the construction and demonstration of large-scale integrated carbon capture and storage projects (\$2.4 billion over nine years)

and large-scale solar power stations (\$1.5 billion over six years). There was no documentation to support how the Clean Energy Initiative was considered, particularly in terms of agencies' advice on the costs and benefits of the proposal, and the management of risks associated with implementing the program.

29. Consideration of the COAG complementarity principles was a requirement from Ministers for all relevant programs following the Wilkins Review. The principles were designed to guide the direction of government policy (Australian and State Government) and to better integrate Commonwealth, State and Territory climate change program delivery. While the COAG complementarity principles were not explicitly considered in the Clean Energy Initiative's design, documentation from DRET indicates that the principles were subsequently incorporated into the department's risk management planning.⁷ The department has recently completed risk management plans for the major constituent programs for the initiative.

Assessment and approval of competitive grants (Chapter 3)

30. The assessment and approval of project proposals is critical to the effective delivery of the Government's climate change initiatives. An effective assessment and selection process is one that is fair, equitable and transparent, and is likely to assist in selecting those projects that best represent value for money in the context of the objectives and outcomes of the programs.

31. The three competitive grant programs (GGAP, LETDF and Solar Cities) reviewed as part of this audit, included a total of 281 applications and 36 approved projects. Total funding for approved projects across the three programs was \$550 million. All programs had a sound framework for assessing applications that included published eligibility and merit criteria and assessment and advice by independent technical experts. The quality of applications for LETDF and Solar Cities was higher overall than GGAP. This reflected the preparatory work by departments with stakeholders prior to the rollout of these programs.

⁷ In summary, the principles were to focus programs on market failure, meet best practice regulatory principles and be targeted to manage the impacts of the CPRS on particular sectors of the economy. Where measures met these criteria, it was anticipated that they would be implemented by the level of government that was best able to deliver the measure.

32. This audit reviewed the assessment process for the third funding round for GGAP which involved 50 applications. Audit Report No.34 2003–04, noted shortcomings in the assessment of projects for the first two rounds of the GGAP. The third round also had significant shortcomings in the assessment process. In particular, the rigour of the cost benefit and technical analysis could have been substantially improved. None of the shortlisted project proposals recommended by the department could provide the large scale abatement at low cost, and with a high degree of certainty required by the program's guidelines. The three highest ranked (and recommended) projects were technically ineligible as they did not meet the Australian Government's primary criteria for the program. For these three projects, which were subsequently approved by the then Minister, only one project has produced any abatement to date.⁸ However, this was less than one third of the threshold specified for the program. The departmental advice to the then Minister for the Environment substantially underestimated the risks and shortcomings of these recommended projects, which should, on the basis of the documentation available at the time, have been apparent at the assessment stage and included in the advice to the Minister.

33. The ANAO reviewed the assessment process for 26 of the 30 applications for LETDF and five expressions of interest and detailed business cases for the Solar Cities program. The assessment processes for both programs, were transparent, with clear criteria used to assess all proposals received. There was also a relatively high degree of rigour and technical expertise applied to the assessment process. However, for LETDF, greater consideration could have been given to the financial viability of proponents, especially in regard to the approved project that was eventually terminated.

34. All three programs (GGAP, LETDF and Solar Cities) had well designed Deeds of Agreement. However, there were substantial delays in negotiating the agreements, subsequent to funding approval. Delays of two years were not uncommon. While there were legitimate reasons for some delays (such as finalising third party funding or development approval for very large projects), it highlights the importance of including careful consideration of implementation timeframes for proposals in advice to Ministers prior to

⁸ Of the three projects, one was not designed to produce abatement, and a second project was terminated.

approval. Otherwise, expected program outcomes may be significantly delayed; as has occurred.

Assessment and approval of rebates (Chapter 4)

35. As with the competitive programs, rebate programs need to demonstrate fairness and consistency in the assessment of applications. Rebate programs with fixed appropriations and variable demand can be difficult to manage, particularly where an applicant has an entitlement to a rebate if their application is deemed as eligible. A significant risk for these types of programs is that an unexpected acceleration in demand could exceed the funding limits specified in Budget appropriations.

Solar Homes and Communities Plan

The SHCP provided rebates to support the installation of solar 36. photovoltaic systems. The SHCP involved more than 30 000 approved rebates from 2007–08 to 30 June 2009. SHCP had a two stage assessment and approval process. An assessment was made against eligibility and the application was pre-approved, followed by a subsequent rebate payment based on the submission of a valid installation report from an approved installer. In May 2008, an income means test of \$100 000 in annual household income was introduced to manage demand. Despite this measure, the number of applications increased from 11 000 in 2007–08 to 121 376 applications in 2008–09. The department established a review process to test compliance with the means test. This was particularly important as no documentation was required to substantiate compliance with the means test. The level of compliance with the means test was found to be 97.6 per cent, giving the department a reasonable level of assurance that the means test was being administered appropriately and that it was largely being met by applicants.

37. More generally, management of the application process for SHCP was challenging for the department, particularly in the period from May 2009. The Government decided to close the program at midnight on 9 June 2009, giving consumers and industry 24 hours notice. Some 4000 applications arrived in the department on 9 June 2009. At the end of July 2009, approximately 75 000 applications were awaiting pre-approval assessment with some 48 000 applications being received after the cut-off date. The total cost is estimated to be \$1.053 billion compared to the original funding for the

program of \$150 million over five years from 2007–08.⁹ An independent analysis commissioned by the department, of a five per cent sample of applications received between 10-30 June 2009, concluded that there was a high degree of eligibility for the applications received on 10 June 2009, with no more than six per cent of applications classed as ineligible.

38. The department managed the substantial difficulties resulting from the surge in the program in a manner that was fair and transparent, and the Minister was briefed on the range of options available at critical points of the process. There is sufficient evidence to indicate that approved applications met the program eligibility criteria. However, the high level of unforseen expenditure put additional pressure on the budget, requiring a substantial increase in administered and departmental resources. This increase eroded the relevance of the department's original Budget forecast and the cap on the number of rebates. It also highlights the critical importance of having an adequate range of controls and strategies in place to manage such large increases in demand. The demand pressures on the department also created delays in payments to approved applicants. In February 2010, the department was still processing rebate installation reports received in November 2009. The department has indicated that additional resources have been allocated to improve the payment schedule.

Renewable Remote Power Generation Program

39. The RRPGP involved rebates to support renewable energy applications in rural and remote areas. From 2007, the rebate scheme involved 1 208 approved rebates valued at \$23.1 million and six major projects valued at \$11.1 million. RRPGP underwent administrative changes in 2007, with the administration of the industry support and major project sub–programs being managed centrally by DEWHA. The water pumping and residential rebates were to remain with the States and Territories under formal funding agreements with the department, on behalf of the Commonwealth.

40. State and Territory agencies reported against milestones set out in the agreements. An annual report (including an audited financial statement) was required and provided a level of assurance that funds had been spent for their

⁹ Funding for the program was revised through additional estimates in 2008-09 to \$172.3 million. Additional funding has also been allocated outside of the Budget context and through reallocations from underspends within the Portfolio. There are still outstanding claims and appeals against decisions pending, which could impact on the total estimated cost.

intended purposes. However, there was no formal assurance by the States or Territories that program eligibility guidelines had been met and no information on the number of applications rejected. Given that there were 49 requirements for the residential sub–program alone, there would have been merit in gaining a reasonable level of assurance that the Australian Government's eligibility requirements were being met through the State/Territory approval processes, such as through a certification process. The department has indicated that it is now working with the State/Territory jurisdictions to require them to formally certify that they are acting in compliance with program guidelines.

41. For the RRPGP major projects component, there were no approved guidelines. The proposed guidelines setting out the eligibility criteria to be used to approve funding had been formally rejected by the then Minister for the Environment. Advice from the Minister's Chief-of-Staff subsequently suggested that the guidelines were satisfactory. While Ministerial approval could reasonably be implied as the guidelines were referenced in briefings, it would have been appropriate for the department to have sought confirmation from, or approval by, the then Minister as the authorised decision maker. The eligibility criteria in the guidelines were also not consistently applied by the department when assessing projects, weakening the integrity of the assessment process. However, payments were made against milestones which gave the Government some control over emerging risks.

Measuring and reporting of progress towards program outcomes (Chapter 5)

42. To determine whether the programs are achieving their intended objectives, agencies need to develop appropriate key performance indicators and monitor the progress of projects. The ANAO examined the extent to which the programs had achieved what was originally intended by the Government.

Measuring against key performance indicators

43. All five programs examined had either key performance indicators or milestones in place that were relevant to the objectives of the program. However, for some programs there was no means of measuring all aspects of the objectives. Two of the five programs, GGAP and LETDF had clear performance targets in place from the start of the programs, whereas the other three programs, Solar Cities, SHCP and RRPGP did not have targets for the life of the programs. Those agencies that had a small number of focused indicators, tended to be better placed to measure and report against these. Measuring

performance for Solar Cities (12 indicators) and RRPGP (six indicators), became more complex and problematic with substantial measurement gaps noted, particularly with RRPGP. The lack of a national program database meant that there was no way that RRPGP and to a lesser extent, Solar Cities, could capture and measure program achievements at a national level. With RRPGP, the database took seven years to complete, and was only operational four weeks before the program was terminated by the Government.

44. Overall, the actual achievement of the five programs has been variable. For the programs designed to achieve substantial abatement, such as GGAP, the current revised estimate of achievements fell well short, with 15.5 Mt CO2e estimated over the Kyoto period, compared to the 51.5 Mt CO2e expected. Nine of the 23 approved projects (valued at \$44 million) were terminated for reasons such as failure to meet contractual obligations and operational difficulties with project implementation. In some cases, projects were supporting technologies that were not yet commercial or proponents were reliant on approval or agreement by third parties that did not materialise. By linking payments with project milestones, funds actually expended by the Australian Government for terminated projects totalled \$1.8 million or 4.1 per cent of the committed funds for these projects.

45. LETDF and Solar Cities are not sufficiently advanced to provide any meaningful data on whether the programs, as a whole, have been delivering against anticipated outcomes. While both programs were intended to have substantial results available in the longer term, delays in finalising funding agreements (and one terminated project for LETDF), will impact on the timing of anticipated outcomes. All three competitive grant programs have been characterised by significant program under spends. GGAP spent only 40 per cent of its original budget allocation over a ten year period. LETDF spent less than five per cent of its original budget over a five year period while Solar Cities spent nearly 26 per cent of its original budget allocation over the same period.

46. The rebate schemes, SHCP and RRPGP, have been successful in supporting the photovoltaic (PV) industry. SHCP alone, has supported the installation of over 49 000 PV systems to July 2009. The retail side of the industry has been growing strongly with 1 200 accredited installers in 2009 compared to just 210 in 2006. However, the achievement of these outcomes has come at a relatively high unit cost of abatement (\$447/tCO2e) and at a significant cost to the Budget estimated to be \$1.053 billion. Total installed

capacity of PV in Australia in 2008 was still relatively small; accounting for just 0.2 per cent of total installed electricity capacity.

47. The quality inspections introduced by the department in 2005 were an important quality control mechanism to manage risks as well as providing a level of assurance for the quality of work undertaken by the accredited installers. However, in 2009 the surge in rebates for SHCP and the increased number of installers reduced the number of inspections from the 5 per cent of installed systems to 0.25 per cent. This substantially reduced the level of assurance available to the department and introduced the risk of sub-standard installation at a critical period of record numbers of installations.

48. Performance reporting has been inconsistent and sometimes vague or inaccurate. There is scope for improvements to be made to assist the Government and Parliament in making informed judgments as to the actual achievements resulting from program expenditure.

Summary of agency responses

49. The following comments constitute each agency's summary response to the audit. The full responses are at Appendix 1.

Department of the Environment, Water, Heritage and the Arts and the Department of Climate Change and Energy Efficiency

50. Energy efficiency programs previously delivered by the Department of the Environment, Water, Heritage and the Arts (DEWHA) were transferred by Administrative Arrangements Order to the Department of Climate Change and Energy Efficiency (DCCEE) on Monday 8 March 2010. As such, work areas responsible for administering the audited programs have also transferred to DCCEE.

51. DCCEE and DEWHA jointly thank the ANAO for this audit report. Issues raised by the audit are relevant to best practice program administration across agencies and the audit report's conclusions and recommendations have been noted by both agencies.

52. We agree in principle with Recommendation 1, noting that the audited programs have transferred from DEWHA to DCCEE. Across the full suite of programs we administer, both departments are committed to achieving consistent and improved practice in the areas of: identifying and managing risk; assessing and selecting projects; and monitoring of program performance and reporting. Following the changes in responsibilities which accompanied

the Machinery of Government changes, both departments are actively examining the best organisational mechanism to achieve this outcome, including a Grants Policy Unit or similar entity.

53. In this light, we welcome the ANAO's audit report as an opportunity to further advance our capacity to deliver timely, effective and efficient programs which help achieve the Government's outcomes.

Department of Resources, Energy and Tourism

54. The Department of Resources, Energy and Tourism (RET) welcomes the ANAO's audit, in particular the recognition of the sound program processes and robust stakeholder consultation undertaken in relation to the administration of the Low Emissions Technology Demonstration Fund.

55. The Department would also like to thank the ANAO for the professional manner in which it carried out the audit and for its open, communicative approach to our staff and management.

Recommendation

Recommendation No 1
 Paragraph 6.11
 In order to strengthen the consistency and core competencies in grant administration, the ANAO recommends that the Department of the Environment, Water, Heritage and the Arts and the Department of Climate Change and Energy Efficiency give priority to establishing a Grants Policy Unit to facilitate consistent practice across the department in terms of:

- (a) identifying and managing risk throughout the lifecycle of a program;
- (b) assessing and selecting projects that represent value-for-money and meet program objectives and criteria; and
- (c) monitoring project performance and reporting on whether program objectives are being achieved.

DEWHA and DCCEE response:

Agreed in principle, noting that the audited programs have transferred from DEWHA to DCCEE.

Audit Findings and Conclusions

ANAO Audit Report No.26 2009–10 Administration of Climate Change Programs

1. Background and Context

This chapter provides a context for the climate change measures undertaken by the Australian Government. The audit objective, scope and methodology are also outlined.

Introduction

1.1 The Australian Government has indicated that climate change, caused by the emission of anthropogenic greenhouse gases, is an important issue as it has the potential to cause significant damage to our environment, industries, people and infrastructure. The Department of Climate Change and Energy Efficiency (DCCEE) has stated that some degree of change to our climate will be unavoidable because of the level of gases already accumulated in the atmosphere. As a consequence, there will be a greater likelihood of more frequent and more extreme weather events including heat waves, storms, cyclones and bushfires; a continued decline in rainfall in southern Australia; and higher temperatures leading to decreases in water supplies.¹⁰

Australian Government response to climate change

1.2 In response to the challenge posed by climate change, successive governments have given a strong focus to grant and rebate programs to reduce national emissions and to stimulate more renewable energy sources such as solar, wind, geo-thermal and hydro technologies. Investment in research and development and the commercialisation of other new technologies, such as carbon capture and storage has also been a feature of the policies of the present and previous governments.

1.3 The current Australian Government has prioritised actions on climate change and has committed more than \$15 billion towards climate change initiatives.¹¹ The Government's actions on climate change fall under three main categories, referred to as the *Three Pillars* strategy. These are:

- reducing emissions;
- adapting to unavoidable climate change; and

¹⁰ Department of Climate Change and Energy Efficiency, Adapting to Climate Change [Internet] Canberra, January 2010, available from <<u>http://www.climatechange.gov.au/en/government/adapt</u>.> [accessed on 19 March 2010].

¹¹ Climate Change Budget Overview 2009–2010, p. 3.

• helping to shape a global solution.¹²

1.4 The Australian Government has also committed to reducing Australia's greenhouse gas (GHG) emissions to between five and 25 per cent below 2000 levels by 2020, with a longer term emissions reduction target of 60 per cent below 2000 levels by 2050.

Climate change mitigation and industry development programs

1.5 The Government's suite of measures to stimulate domestic action on climate change, achieve national emissions targets and meet international commitments includes a number of grant programs and rebate schemes. The ANAO examined a sample of three grant programs and two rebate schemes, valued at \$1.7 billion. The programs were designed to reduce GHG emissions, and to promote or demonstrate renewable energy technologies. These programs were chosen as they were significant, high profile measures from the suite of 62 Australian Government climate change programs in place at the time. Table 1.1 outlines the five climate change mitigation and industry development programs examined as part of this audit, the funds appropriated and the agencies that were responsible for administering the programs.¹³

¹² Department of Climate Change, Australia's Fifth National Communications Report, February 2010.

¹³ The management of LETDF was transferred from the Department of Innovation, Industry, Science and Research to the Department of Resources, Energy and Tourism from 1 July 2008. Prior to November 2007, the program was administered by the then Department of Industry, Tourism and Resources.

Table 1.1

Department	Relevant programs	Total budgeted funds(\$m)	Type of program
The	Greenhouse Gas Abatement Program (GGAP)	400.0	Grant
Environment,	Solar Cities	93.8	Grant
Heritage and the Arts	Solar Homes and Communities Plan (SHCP)	286.5	Rebate
(DEWHA)	Renewable Remote Power Generation Program (RRPGP)	399.1	Rebate
Resources, Energy and Tourism (DRET)	Low Emissions Technology Demonstration Fund (LETDF)	500.0	Grant
TOTAL		1 679.4	

Climate change mitigation and industry support programs in the audit

Note: This audit has focused on the latter years of the programs, in particular, the third round of funding for GGAP in 2004–05 and from 2007–08 for SHCP and RRPGP.

Source: Information provided by DEWHA and DRET.

Program adjustments and restructuring

1.6 All five programs considered in the audit had significant adjustments and restructuring over their life-cycle. For GGAP, 23 projects were approved for \$121.1 million from three funding rounds. No further funding rounds were held after 2004–05 and funds were subsequently reallocated from GGAP to other programs, which were terminated in the 2009–10 budget. Solar Cities was originally allocated \$75 million in 2004 for five Solar Cities. Following election commitments in 2007, two additional Solar Cities were approved and the original appropriation was revised and increased to \$93.8 million.

1.7 The SHCP (previously the Photovoltaic Rebate Program from 1999–2000 to 2006–07) underwent numerous extensions and adjustments, with the most significant being the increase in appropriations when the rebate was doubled to \$8000 in 2007 and the introduction of the \$100 000 means test in 2008. Substantial revisions were made to appropriations from 2007–08. RRPGP also required some additional reallocations of funding over the same period. For example, in 2008–09 an additional \$267 000 was reallocated to RRPGP from underspends in other programs, such as GGAP.

1.8 For LETDF, the original budget allocation was revised down from \$500 million to \$410 million. However, expenditure was restricted to \$335 million, and committed to six projects.

Transition to new programs

1.9 Applications for these programs have closed and future funding rounds are not anticipated.¹⁴ Apart from the SHCP and the RRPGP, no funding has been allocated in the forward estimates to cover any additional funding commitments. However, ongoing funding commitments will be progressively met under existing contractual arrangements specified in funding deeds for each program. SHCP, Solar Cities and RRPGP are now being administered by DCCEE and LETDF by DRET.¹⁵ SHCP and RRPGP have been replaced by the Solar Credits initiative, which is also being administered by DCCEE. In addition, a \$3.9 billion Energy Efficient Homes Package announced in the 2009–10 Budget provides incentives for households to improve their energy efficiency through installing insulation and solar hot water systems. These programs have some similarities with the SHCP in that demand forecasting is critical to the effective management of appropriations.

1.10 Assistance for renewable energy and clean coal technology will now be provided through the Clean Energy Initiative (CEI), which was announced in the May 2009 Budget. The CEI includes components such as the Carbon Capture and Storage Flagship Program. This program provides funding to support the construction and demonstration of large-scale integrated carbon capture and storage projects (\$2.4 billion over nine years) and large-scale solar power stations (\$1.5 billion over six years). Figure 1.1 sets out the timeline of rebate and grant programs examined and their transition to new program initiatives.

¹⁴ GGAP, SHCP and RRPGP commenced in 1999-2000, the remainder commenced in 2004-05.

¹⁵ Funding for GGAP has been fully expensed.

Figure 1.1



Timeline of rebate and grant programs

Source: ANAO analysis based on data from DEWHA and DRET

1.11 The findings from this audit have been designed to assist in the implementation of these and future programs as well as convey lessons that may have application to other grant programs in the departments concerned.

Projects funded under grant programs

1.12 Funding under the competitive grant programs has been for projects such as large scale demonstration projects supporting new technologies to reduce GHG emissions. Grants have ranged from \$1 million to \$100 million and recipients have tended to be large private, industrial or resource companies, or consortia of governments, industry and community organisations. The following are examples of projects and the programs under which they are funded:

- reductions in emissions of synthetic GHG gases from refrigeration systems-the project aimed to reduce the use of hydroflurocarbons in supermarkets, which received funding under GGAP of \$2 million;
- retro-fitting a set of new technologies to an existing coal-fired power station in Queensland to trial carbon capture and storage for an existing power station, which received funding under LETDF of \$50 million; and
- Adelaide Solar City received \$15.9 million under the Solar Cities program to establish and trial innovative technologies and practices, including the concentrated uptake of solar power, energy efficiency and smart metering technologies.

Rebate schemes

1.13 The SHCP is a rebate scheme that provided rebates up to \$8000 dollars (\$8 per watt up to one kilowatt)¹⁶ to homeowners for the installation of solar photovoltaic systems on their principal place of residence, and rebates to community organisations that install photovoltaic power systems for educational purposes. SHCP started in 2000 and since then, 67 472 systems have been installed over the life of the program to December 2009.

1.14 Funding for RRPGP provided financial support to increase the use of renewable generation in remote parts of Australia that relied on fossil fuel for electricity supply. Since the start of the program in 2000, over 6 500 small rebates have been paid with the installation of more than 9400 kilowatts of photovoltaic, wind and micro-hydro generation. For major projects, over \$52 million has been approved for 31 projects, of which 20 have been completed.¹⁷ RRPGP had three main components covering:

- Renewable Energy Water Pumping Rebates: provided rebates of up to \$30 000 for renewable energy components of water pumps that displace diesel engine power pumps in off grid applications;
- Residential and medium-scale projects: provided rebates of up to \$200 000 for households, communities, not-for-profit, business, government and other organisations to support the installation of renewable generation systems; and
- Major projects: provided rebates for larger-scale projects that addressed specific renewable technologies such as wind or solar power. Funding ranged between \$500 000 and \$5 million for the installation of projects, such as a five dish 170 kw concentrating solar power station in South Western Queensland.

Roles and responsibilities under the programs

1.15 For the three competitive grant programs examined, Ministers were responsible for authorising the programs in the first instance and determining and awarding funding assistance to applicants. It was the responsibility of the departments to design and implement the programs. In particular,

¹⁶ The original rebate was revised from \$2.50 per peak watt in September 2000 to \$5.50 per watt. This was then revised down to \$4 per watt in May 2003. In May 2007, the rebate was doubled to \$8 per watt.

¹⁷ Department of the Environment, Water, Heritage and the Arts, Annual Report 2008-09.
departments had the role of providing advice and making recommendations to their respective Minister/s on expenditure. External advisers were used to enhance the quality of project assessments, particularly in relation to the financial and technical viability of projects and the probity of the process. Departments also had an important role in monitoring projects and reporting to Parliament on expenditure and whether the objectives of the program were being achieved.

1.16 For the SHCP rebate scheme, decisions on eligibility and final approval were made by the responsible department (DEWHA). In the case of RRPGP, there were different roles and responsibilities for each sub-program. DEWHA had responsibility for program oversight, industry support and the administration of major projects. It was responsible for assessing projects and providing advice and recommendations to the Minister on proposed project expenditure. The Minister approved the funding of major projects.

1.17 Decisions on rebate eligibility for the two sub-programs (water pumping and residential medium scale renewable energy projects in remote regions) were made by State and Territory agencies under Commonwealth-State delivery agreements. For both rebate schemes DEWHA had the overall responsibility for monitoring and reporting to Parliament on expenditure and measuring progress against program objectives. In March 2010, the responsibility for the SHCP, Solar Cities and RRPGP programs was transferred to DCCEE.

Previous audit and review

ANAO Audit Report No.34 2003–04, *The Administration of Major Programs*

ANAO Audit Report No.34 2003–04, examined a sample of Australian 1.18 Government programs, valued at almost \$900 million, administered by the Australian Greenhouse Office (AGO). The then report identified administrative weaknesses in the seven programs examined. The absence of quantifiable objectives and targets made it difficult to measure results against program objectives. In addition, the lack of a comprehensive risk assessment exposed some programs to risks that could have been better identified and treated in the early stages. The audit commented that substantial risks remained—particularly in terms of the timely achievement of program objectives. The need for a more consistent and transparent approach to assessing and selecting projects was also highlighted. The audit made five

recommendations all of which were agreed by the then AGO. Four of the five recommendations have been addressed to varying degrees, and are discussed further throughout the report. This current audit has incorporated aspects of the 2003–04 audit in the consideration of program design and implementation.

1.19 In July 2008, the Government completed the Strategic Review of Australian Government Climate Change Programs (Wilkins Review). The purpose of the review was to assess whether climate change programs were efficient, effective and appropriate to addressing the challenges of climate change and potential future action such as the proposed emissions trading scheme. Sixty-two Australian Government climate change programs were assessed and the review also highlighted that there were in excess of 200 State and Territory programs running concurrently. Following the review, a number of programs were terminated or redesigned. The review highlighted the need for cooperative action between governments to ensure that responses to climate change are cost effective and coherent.

Audit objective, scope and methodology

Objective

1.20 The objective of this audit was to assess the administrative effectiveness of climate change programs. In undertaking this audit, particular emphasis was given to the implementation of sound administrative practice and the extent to which the program objectives were being met. The audit followed four lines of inquiry:

- Development of program objectives and assessment of program risks: Are program objectives/targets specific, measurable, attainable, relevant and timebound? Has there been an adequate assessment of risk?
- Assessment and approval of competitive grant applications: Is the assessment process transparent and does it assist in selecting projects that represent value for money?
- Assessment and approval of rebate applications: Is the assessment process transparent and does it assist in the approval of eligible rebate applications? and
- Measurement and reporting of program outcomes: Is there a core set of performance indicators and has there been sufficient monitoring and

evaluation of progress towards meeting the outcomes sought by the Government?

1.21 The coordination of Australian, State and Territory climate change programs and the measuring and integrity of reporting of Australia's GHG emissions are examined in Audit Report No 27. *Coordination and Reporting of Australia's Climate Change Measures*, tabled in conjunction with this report.

Scope

1.22 The audit scope included four programs managed by DEWHA (two competitive grant programs and two rebate schemes) and one competitive grant program managed by DRET. The audit focused on the administration of the programs for the following periods:

- round three projects for GGAP (the first two rounds were considered in the 2003–04 audit);
- LETDF and Solar Cities from 2004–05 to 2009; and
- SHCP and RRPGP from 2007–08 (following the review and restructuring of the programs in 2007) to 2009.

Audit methodology

1.23 The audit was conducted in accordance with ANAO Auditing Standards at a cost of \$272 500. The methodology included:

- an examination of policy documents, guidelines, reports, project files, project management systems and operational documents including a sample of project assessments from each competitive grant program;
- interviews with senior division managers, project managers and administrative staff; and
- consultation with State government agencies (Queensland, Western Australia and Victoria), as well as specific stakeholders such as the Clean Energy Council.

1.24 The audit was conducted in collaboration with 13 other international audit offices. While the confidentiality of information was strictly adhered to, liaison with international collaborative partners helped in framing the audit criteria. Partners were able to share knowledge and experiences from audits already tabled and exchange comparative information on the methodologies used. A report, documenting key messages, findings and lessons learned is

planned for completion by the end of June 2010 and will be made available through the International Organisation of Supreme Audit Institutions.

Report structure

1.25 The structure of the report is outlined in Figure 1.2.

Figure 1.2

Structure of the report



2. Setting Program Objectives and Assessing Program Risks

This chapter examines the challenges of designing and implementing climate change programs, particularly the setting of program objectives and assessing and managing the risks associated with these programs.

Introduction

2.1 Setting clear objectives and assessing risks early in the life-cycle of a program are critical elements in the design and implementation phases of any grant program or rebate scheme. Grant programs have been used to stimulate innovation in new, high cost technology with lower emissions. Such programs are inherently high risk and appropriate controls are essential to manage risks and protect Australian Government investments.¹⁸

2.2 ANAO Audit Report No.34 2003–04, *The Administration of Major Programs* included three of the five programs being examined in the current audit. This audit identified administrative weaknesses such as the absence of quantifiable objectives and targets which made it difficult to measure results. The lack of comprehensive and timely risk assessments also meant that, for some programs, there was no identification and treatment of risks in the early stages of implementation. The report noted that substantial risks remained, particularly in terms of the timely achievement of program objectives. The ANAO reviewed for the programs included in the audit, whether the:

- objectives were concise, realistic, outcome-orientated statements of what the program was intended to achieve¹⁹; and
- risks associated with the programs were assessed and appropriate mitigation strategies developed.

¹⁸ These design elements were highlighted in the ANAO Better Practice Guide – Administration of Grants (2002) and the joint Better Practice Guide on the *Implementation of Programme and Policy Initiatives-Making Implementation Matter*, (ANAO and the Department of the Prime Minister and Cabinet; 2006).

¹⁹ ANAO and the Department of Finance *Better Practice Guide-Performance Information Principles*, 1996, p. 6.

Developing program objectives

2.3 Objectives should be stated in a way, which clearly communicates what is to be achieved, measured and/or assessed. The SMART concept (that is; specific, measurable, attainable, relevant and time bound) was used to assess the objectives of the five climate change programs being reviewed.²⁰ Table 2.1 outlines the objectives for these programs.

Table 2.1

Program objectives

Program	Objectives			
GGAP	The primary objective of the program was to reduce Australia's net greenhouse gas emissions by supporting activities that were likely to result in substantial emission reductions or substantial sink enhancement.			
LETDF	The primary objective of LETDF is to demonstrate the commercial potential of new technologies or processes or the application of overseas technologies or processes to Australian circumstances to deliver long-term large scale greenhouse gas emission reductions.			
Solar Cities	 to demonstrate the economic and environmental impacts of integrating cost reflective pricing with the concentrated uptake of solar, energy efficiency and smart metering technologies; and 			
	 to identify and implement options for addressing barriers to distributed solar generation, energy efficiency and electricity demand management for grid connected urban areas. 			
SHCP	 encourage the long-term use of photovoltaic technology to generate electricity from sunlight; increase the use of renewable energy in Australia; reduce greenhouse emissions; assist in the development of the Australian photovoltaic industry; and increase public awareness of renewable energy. 			
RRPGP	 help provide an effective electricity supply to remote users; assist in the development of the Australian renewable energy industry; help meet the energy infrastructure needs of Indigenous communities; and lead to long-term greenhouse gas reductions. 			

Source: Departments of Environment, Water, Heritage and the Arts and Resources, Energy and Tourism.

Assessing program objectives against SMART criteria

2.4 The objectives of the five climate change programs are designed to reduce greenhouse gas (GHG) emissions, and/or promote or demonstrate renewable energy or lower emissions technologies. They are generally broad

²⁰ SMART objectives are intrinsic to the approach adopted by the Cabinet Implementation Unit's *Guide to Preparing Implementation Plans, 2006,* p. 2. The Guide also notes that objectives should also be agreed.

and were intended to address market failure by assisting emerging technologies with lower GHG emissions.

2.5 Programs with multiple objectives can make it more difficult to target resources and set administrative priorities because of the uncertainty in relation to the ultimate outcome being sought by government. For example, it is not clear the extent to which the SHCP was designed to increase the use of renewable energy in Australia as opposed to assisting in the development of the photovoltaic industry or reducing emissions. Similarly, for RRPGP it is not clear as to the extent to which the program was designed to assist in the development of the Australian renewable energy industry versus helping to meet the energy infrastructure needs of indigenous communities. Greater clarity over what the program had been designed to achieve would have assisted in prioritising and targeting resources and given stakeholders a better understanding of the limits on what could be achieved through a grant program.

Specific and measurable

2.6 GGAP and LETDF were underpinned by specific and measurable targets, which were reflected in the departments' Portfolio Budget Statements (PBS). When introduced, GGAP was expected to deliver 51.5 Mt CO2e over the 2008–12 Kyoto Period. LETDF was specified in terms of the technology being commercially available by 2020–30 with the potential to lower Australia's energy sector greenhouse gas signature by at least two per cent per annum.²¹ Solar Cities had two very broad objectives with four stated outcomes which were more illustrative of the practical application of the program. This made it difficult to be precise as to what was to be measured and achieved at a national level, over the life of the program.

2.7 SHCP and RRPGP have multiple objectives that have not been consistently specified in terms of quantifiable results, as was noted more generally of programs in the Wilkins Review.²² These programs had very little specificity or measurability in terms of what was intended to be achieved over the life of the program.²³ Considerable challenges arise in setting realistic

²¹ This is equivalent to 9.5 Mt CO2e in 2020.

²² Department of Finance and Deregulation, Strategic Review of Australian Government Climate Change Programs, 2008.

²³ In 2008-09, the departmental Portfolio Budget Statements specified a target of 6000 household rebates and 400 community building grants. This target was changed to a more general statement in 2009-10.

targets or goals for non-competitive rebate programs that essentially provide an entitlement to those who meet the eligibility criteria. Such an approach puts considerable pressure on departments to accurately forecast demand and subsequently manage budget appropriations. If the forecasts are not accurate and/or controls on demand are inadequate, there is a risk that program expenditure will not align with the funds available via appropriations.

Attainable and relevant

2.8 An attainable objective is one that is realistic in terms of what can be achieved. Consulting with stakeholders such as industry and consumer groups prior to the introduction of a program provides some measure of assurance that the program is likely to be successful. Relevant objectives are ones that have a relevance to the purposes of the program and the policy intentions of government.

2.9 There were marked differences in the origins of the five programs. The GGAP, SHCP (formerly the PVRP) and the RRPGP were established in 1999, following negotiations in the Senate over the introduction of the Goods and Services Tax. There was no formal new policy consideration or scrutiny by relevant departments such as the then Department of Finance and Administration, the Treasury or Cabinet Committees. Equally, there was minimal consultation with stakeholders over the attainability of the program objectives. This made it very difficult for the programs to build a credible rapport with stakeholders and to determine whether or not the objectives could be realistically achieved within the envisaged timeframes and budgets.

2.10 In contrast, the LETDF and Solar Cities were included in the 2004 *Energy White Paper*, which was prepared by an Interdepartmental Energy Taskforce reporting to the Energy Committee of Cabinet. The Paper was developed through a comprehensive process of policy papers, stakeholder consultation and informal submissions.²⁴ Careful targeted promotional efforts early in the life of the program can pay dividends by encouraging a higher quality pool of applications and contribute to better program outcomes. However, agencies need to be mindful of the costs involved, the additional

²⁴ According to the Department of Prime Minister and Cabinet Annual Report 2003-04, p. 42, the secretariat prepared more than 23 substantive policy papers for the Energy Committee of Cabinet, covering a range of energy topics. The Taskforce held 164 meetings with stakeholders. Thirty-three informal submissions were received from industry and other groups.

time needed to promote the program, and any impact on the overall efficiency of program delivery.

Time bound

2.11 Time-bound programs provide a framework for focusing resources, establishing when results can be expected and when/if a program is expected to terminate. GGAP, LETDF and Solar Cities all had timeframes explicitly stated from the outset of the program.²⁵ The rebate schemes, SHCP and RRPGP, were time limited only by appropriations. Extensions to the programs did not provide any clarity as to when the programs were expected to achieve their maximum impact.

2.12 Relying on appropriations only to limit the timeframe for programs means that the life cycle of the program is somewhat indeterminate. This makes it difficult to ascertain when program results can be expected, and more particularly, when an exit strategy should be developed and implemented. While the department had planned an exit strategy for SHCP in terms of its transition to the *Solar Credits* program, the implementation was constrained by factors outside of the control of the department.²⁶

Conclusion

2.13 The design and implementation of the climate change programs examined was variable and useful lessons learned can be drawn from the experiences of these programs. Programs with multiple objectives can make it more difficult to target resources and set administrative priorities because of the uncertainty in relation to the ultimate outcome being sought by government. Clear, specific objectives are desirable. Further, where programs have limited appropriations but applicants have an entitlement to a benefit (such as a rebate where eligible) it is essential that forecasting of demand is well developed and controls are adequate for the business environment. This can be difficult in circumstances where the industry is rapidly growing and

²⁵ The Solar Cities program has been specifically designed to run until 2013. LETDF aimed to achieve program objectives in the period 2020-30. GGAP aimed to achieve abatement within the Kyoto Protocol period, 2008-12.

²⁶ The original announcement of funding for Solar Credits was made on 17 December 2008 for introduction in 2009-10. The timing of the program was subsequently adjusted to operate from 9 June 2009. However, the legislation to support the program was not introduced into the Parliament until 17 June 2009 and passed in August 2009. See *Renewable Energy (Electricity) Amendment Act 2009* and the *Renewable Energy (Electricity) (Charge) Amendment Act 2009*.

evolving as was the case with SHCP. Nevertheless, designing and implementing a program in consultation with stakeholders such as occurred with Solar Cities and LETDF can improve understanding of the business environment and the likely level of demand for program funds. Although this consultation process may increase the implementation period, it may also improve the quality of program outcomes and budget forecasting; especially for rebate schemes.

Assessment of program risks

2.14 Identifying and assessing the risks associated with a program will minimise adverse impacts and maximise value for money. An assessment of risks should be undertaken at the design stage or early in the life of the program and managing these risks is an integral part of the successful management of the program. Risk management was particularly important for the climate change programs examined as they involved innovation in the high cost renewable energy sector and large scale carbon capture and storage projects. Programs of this nature are inherently high risk and appropriate risk mitigation strategies are essential if investments are to be well managed.

2.15 Audit Report No.34 2003–04, was critical of the implementation of similar high risk programs announced as part of the *Measures for a Better Environment Package 1999.* These programs included GGAP, SHCP and the RRPGP. There was no evidence that a formal risk assessment was conducted by responsible agencies at the design stage of the programs. The package was developed with little involvement of the then Australian Greenhouse Office, which had responsibility for implementing the package. Table 2.2 outlines when risk assessments were undertaken and risk management strategies were developed for the five programs.

Table 2.2

Risk assessments undertaken by climate change programs examined

Program	Program Commencement	Date of Risk Assessment	
GGAP	1999	May 2003	
LETDF	2004	June 2006	
Solar Cities ⁽¹⁾	2004	November 2004	
SHCP	2007	September 2007	
RRPGP	2007	October 2006	

Note 1: This was the first risk management strategy developed by Solar Cities. Progressive risk management strategies and reviews have been subsequently reviewed on an annual basis.

Source: Information provided by the Department of the Environment, Water, Heritage and the Arts and the Department of Resources, Energy and Tourism.

Greenhouse Gas Abatement Program

2.16 GGAP did not complete its risk assessment until May 2003, four years after the implementation of the program.²⁷ GGAP's original appropriation was \$400 million, with the average grant awarded under the program being approximately \$5.3 million. A sound risk management strategy at the design stage of the program or very soon after would have been particularly useful.

2.17 The risk assessment undertaken by GGAP in 2003 was comprehensive, well structured and focused on important risks to the program along with suggested treatment options. However, the controls in some key areas were not sufficient to mitigate these risks and many of the identified risks materialised throughout the course of the program. These issues are discussed in more detail in Chapter 3-*Assessment and Approval of Competitive Grants.* More targeted consultation with industry early in the life of the program would have helped as the program did not attract a sufficient pool of competitive proposals that met the program criteria. This seriously weakened the capacity of the department to deliver the anticipated abatement.

Low Emissions Technology Demonstration Fund

2.18 Although LETDF had an original appropriation of \$500 million, there was no formal assessment of the risks associated with the program prior to

²⁷ ANAO Audit Report No 34 2003-04, *The Administration of Major Programs*, p. 37.

implementation.²⁸ Nevertheless, the implementation of the program did include a comprehensive management strategy and consideration of how it would be rolled out and some ongoing risks. Industry and potential proponents were also consulted and engaged in the process of developing the program. A risk management plan was completed in June 2006 and updated annually.

2.19 The range and quality of project proposals along with their financial commitment suggests that the program was sufficiently promoted to attract the interest of key stakeholders. The attention to due diligence assessments, the recruitment of expert panel members to assess proposals and the management of potential conflicts of interest for panel members are indicative of sound risk management practice. However, the fact that carbon capture and storage (a key component of many LETDF projects) has never been developed on a commercial scale in the electricity sector²⁹ anywhere in the world suggests that a risk assessment could have been very useful earlier in the life of the program.

Solar Cities

2.20 The Solar Cities program undertook a comprehensive and well structured risk assessment, and incorporated risk management within the multiple stages of the program. The original risk assessment has been reviewed and refined within later program plans and developed into specific risk management strategies. The department sought legal advice from the Australian Government Solicitor to mitigate the risk and exposure of the Commonwealth in light of program involvement with large State and private sector consortia. However, the management of residual risks could have been strengthened. In particular, the delay in completing the national database to manage critical information flowing from the funded projects to the Commonwealth has limited the ability to gain a national picture of program level results.³⁰ The department has noted this issue and is continuing to update its risk assessment plan to manage other residual risks.

²⁸ This program predated the requirement for an implementation plan to be submitted to the Cabinet Implementation Unit in the Department of Prime Minister and Cabinet.

²⁹ Carbon Capture and Storage has been deployed on a commercial scale in the oil industry.

³⁰ This issue is discussed further in Chapter 5 *Managing and Reporting on Progress towards Program Outcomes.*

Solar Homes and Communities Plan

2.21 In 2007, DEWHA undertook a risk assessment after administrative changes to the original program (PVRP). The department clearly identified that the greatest risks to the program were the uncapped rebates exceeding the program's budget within a financial year and potential administrative inefficiencies and delays due to high demand for rebates. These two high priority risks materialised, highlighting the critical importance of embedding realistic controls into the implementation framework.³¹

Renewable Remote Power Generation Program

A risk assessment was undertaken for RRPGP in 2006–07 prior to the 2.22 start of the extension of the program. The risk management strategy covered risks in relation to management and administration, eligibility, assessment and monitoring, financial management and the potential impact to industry. Options and strategies were developed to mitigate these potential risks. However, the controls could have been more effectively implemented. For example, to mitigate risks in relation to eligibility and assessment, the risk mitigation strategy states that large projects will have a 'rigorous and stringent assessment process' and 'awarded an appropriate rebate level to match the project risk'. In practice, there was very limited documentary evidence of a rigorous assessment process for major projects (particularly in terms of how the primary criteria were considered), and little information as to whether the project funding was necessary or whether the project was value for money. This issue is discussed in more detail in Chapter 4-Assessment and Approval of Rebates.

Conclusion

2.23 The nature of these programs means they are inherently high risk, and the identification of risks should be undertaken at the earliest opportunity. Mitigation strategies need to be incorporated into the control framework that is put in place to administer the program. Nevertheless, even with good risk management practices, unforeseen events can still happen. It is important that programs actively manage risks and take into account changing circumstances, which can occur throughout the program. Emerging risks and mitigation

³¹ This issue is discussed further in Chapter 5 *Managing and Reporting on Progress towards Program Outcomes.*

strategies should be reported to departmental management and, where relevant, to the Minister.

Assessment of program risks for new policy measures in the 2009–10 Budget

2.24 As previously noted, climate change programs received extensive scrutiny and review through the *Strategic Review of Australian Government Climate Change Programs* (Wilkins Review). The Review was completed in July 2008 and assessed 62 Australian Government climate change programs, and highlighted that there were in excess of 200 State and Territory programs running concurrently. The review developed principles of complementarity and assessed whether climate change programs were efficient, effective, appropriate and complementary to the proposed Carbon Pollution Reduction Scheme. The Review emphasised the need for a coordinated approach to tackling climate change across all levels of government. The report was released by the Department of Finance and Deregulation in May 2009.

2.25 COAG identified in 2007, the risk of duplication of Australian, State and Territory Government climate change programs. Agencies were expected to apply agreed COAG complementarity principles to new as well as existing climate change measures from November 2008. A number of significant new climate change measures were announced in the 2009–10 Budget.³² Two particularly relevant measures were the Energy Efficiency package and the Clean Energy Initiative. These two programs provided continuity in terms of the objectives and delivery of the programs terminated in the 2009–10 Budget.

Energy Efficiency Package

2.26 The Energy Efficiency package of \$64.6 million was for a range of measures designed to assist households, businesses and the community in lowering their energy use, saving money and preparing for a low carbon future. The measures were intended to contribute to the delivery of the National Strategy on Energy Efficiency being considered by COAG.³³ These measures were explicitly considered by agencies within the context of the

³² In October 2008, the COAG agreed to develop the National Strategy for Energy Efficiency (NSEE), to accelerate energy efficiency efforts across all governments and to help households and businesses prepare for the introduction of the CPRS. The National Strategy was agreed to and released by COAG in July 2009.

³³ Australian Government Environment Budget Overview 2009-10, p. 15.

COAG Complementarity principles and relevant Ministers were advised accordingly. State and Territory agencies were also consulted in February 2009, and agreed to re-direct funding from their insulation programs to home energy advice programs rather than duplicate Australian Government activity.

Clean Energy Initiative

2.27 The second new measure, the Clean Energy Initiative, involved \$4.5 billion in climate change measures that included:

- \$2.4 billion for a Carbon Capture and Storage Flagships Program to support large, industrial scale demonstration projects;
- \$1.5 billion for a Solar Flagships Program to create an additional 1 000 megawatts of solar power generation in Australia; and
- \$465 million to create a new independent body, the Australian Centre for Renewable Energy (ACRE) to support leading-edge renewable technology research, development and demonstration in Australia.

2.28 This initiative is being implemented by the Department of Resources, Energy and Tourism (DRET). The Clean Energy Initiative and its constituent programs, target commonly recognised research and development, and information failures that are not expected to be adequately addressed by the proposed CPRS. The two flagship programs target the commercial-scale demonstration of technologies that would not otherwise be deployed without Australian Government assistance. ACRE and the programs are aimed at technology renewable energy development, demonstration and commercialisation. These are areas where the private sector has not been a significant investor and there have been significant costs for 'early movers'.

2.29 The department advised that it had undertaken work on the scoping of Carbon Capture and Storage projects prior to the Clean Energy Initiative being announced. However, there was no documentation held by the department, relating to how the initiative was considered during the 2009–10 Budget process, particularly in terms of advice on the costs and benefits of the proposal and the management of risks associated with implementing the program.

2.30 Power generation in Australia has generally been the responsibility of State and Territory agencies or private providers.³⁴ Through the delivery of the Clean Energy Initiative, there is the potential for the Commonwealth's activities to overlap with the efforts of some State and Territory jurisdictions (particularly in power generation and State programs such as the \$100 million New South Wales Clean Coal Fund). DRET has indicated that complementary efforts across jurisdictions will be essential to delivering the large-scale projects envisaged under the two Flagship programs. DRET has recently developed risk management plans for the major constituent programs of the Clean Energy Initiative. While the COAG complementarity principles were not explicitly considered in the Clean Energy Initiative's design, documentation from DRET indicates that the principles were subsequently incorporated in the department's risk management planning.³⁵

2.31 The department commented that the size and complexity of the projects envisaged under the two flagship programs and the interest shown by State agencies mean that some State governments are likely to be co-investors and collaborators. DRET stated that, with regard to the Carbon Capture and Storage Flagships program, the Government has asked State governments to nominate projects and to match Commonwealth funding. DRET has advised that it is working closely with State governments to ensure complementarity in the implementation of the Clean Energy Initiative Flagships programs.

³⁴ The Council of Australian Governments has a role through the Ministerial Council on Energy which established the Australian Energy Market Commission in July 2005, to be the rule maker for national energy markets.

³⁵ In summary, the principles were to focus programs on market failure, meet best practice regulatory principles and be targeted to manage the impacts of the CPRS on particular sectors of the economy. Where measures met these criteria, it was anticipated that they would be implemented by the level of government that was best able to deliver the measure.

3. Assessment and Approval of Competitive Grants

This chapter examines the availability of program guidelines and the process for competitively assessing and approving projects funded under climate change programs.

Introduction

3.1 The objective assessment and approval of proposals is critical to the effective delivery of the Government's climate change initiatives. A good assessment and selection process is one that is fair, equitable and transparent and is likely to assist in selecting those projects that best represent value for money in the context of the objectives and outcomes of the programs.³⁶ Table 3.1 outlines the competitive grant programs examined as part of the audit, the applications received, projects approved and expenditure to 30 June 2009.

Table 3.1

Competitive grant program applications, approved projects and expenditure to 30 June 2009

Programs	Applications	Projects approved	Approved expenditure (\$m)
GGAP	228	23	121.1
LETDF	30	6	335.0
Solar Cities	23	7	94.0
Total	281	36	550.1

Source: ANAO analysis of information provided by the Department of the Environment, Water, Heritage and the Arts.

Projects funded

3.2 Grants awarded under GGAP were typically large and ranged from \$200 000 to \$15 million. Grant recipients tended to be large private, industrial or resource companies. Grants were provided for projects such as mining,

³⁶ The ANAO *Better Practice Guide on the Administration of Grants* notes that grants should add value by achieving something worthwhile that would not occur without grant assistance.

synthetic greenhouse gases (used in refrigeration and air-conditioning), electricity generation from coal, afforestation and the development of an economic modelling tool.³⁷

3.3 For LETDF, funding was offered for strictly defined demonstration projects and for 'first of kind' commercial projects such as carbon capture and storage, and a solar concentrator power station. Grants ranged from \$50 million and \$100 million.

3.4 Solar Cities funding was provided on a 50/50 basis to eligible applicants to trial the integration of distributed solar technologies. In particular, energy efficiency measures, the rollout of smart meters and time of day (cost-reflective) pricing of electricity in large scale grid connected urban sites. Grants ranged between \$5 million and \$15 million, with some additional funding being reallocated from other energy efficiency programs, such as RRPGP.

Program guidelines

3.5 For the three programs examined, program guidelines were publicly available and covered essential requirements in terms of stating the purpose of the program; the expected obligations of successful proponents; eligibility criteria; the assessment and selection process and the timeframe for decisions.

3.6 The Solar Cities and LETDF programs issued draft guidelines and a S*tatement of Challenges and Opportunities* for stakeholders, which were widely disseminated.³⁸ The programs were effectively promoted to potential proponents in advance of the formal guidelines through workshops in different cities around Australia. This process enabled the departments to engage with industry and prospective stakeholders and to address any shortcomings in the guidelines prior to being publicly released. While this consultation process initially delayed the role-out of the programs, it led to more targeted and higher quality applications.

Assessment of competitive grant applications

3.7 To demonstrate fairness and select those projects that represent value for money, it is essential that all applications are assessed consistently against

³⁷ The tool was to assess the viability of plantation agriculture on marginal lands.

³⁸ The intentions of the Government along with background information on the rationale for the programs were explicitly outlined in the Statement of Challenges and Opportunities.

the published eligibility criteria for the program. It is also important that the assessment and selection process be transparent and free from the risk of claims of political or other bias. As a general principle, grant appraisers should be satisfied that projects would not proceed without assistance. Otherwise, any grant paid simply releases the applicants' funds for other purposes that may not contribute to the objectives of the grant program.³⁹ The audit considered these principles in relation to the assessment processes for the GGAP, LETDF and Solar Cities programs.

3.8 In conducting the audit, the ANAO examined the assessment processes for the:

- 50 proposals submitted under the third round of GGAP with a more indepth analysis of the seven proposals shortlisted (including the three that were eventually approved);
- 30 proposals submitted under the first (and only) round of LETDF, including the six approved projects; and
- five expressions of interest and detailed business cases for the Solar Cities program (including the two election commitments funded following a change of government in 2007).

3.9 Figure 3.1 outlines the key elements of the assessment and selection framework for GGAP, LETDF and the Solar Cities program.

³⁹ ANAO Better Practice Guide-The Administration of Grants; 2002 p.45.

Figure 3.1

Common assessment and selection framework for all programs reviewed



Source: ANAO analysis of information provided by the Department of the Environment, Water, Heritage and the Arts and the Department of Resources, Energy and Tourism.

3.10 For round three of GGAP, 50 applications were considered by an Interdepartmental Committee (IDC) that included officers from the then Australian Greenhouse Office and the then Departments of the Environment, Industry, Agriculture and Transport prior to initial consideration by the then Minister for the Environment. The IDC then shortlisted proposals, which were assessed for the level of estimated abatement, cost benefit analysis and

ANAO Audit Report No.26 2009–10 Administration of Climate Change Programs evaluation of technical and environmental aspects by independent experts as well as a more detailed financial assessment. The Minister was then advised of those projects recommended for approval.

3.11 For LETDF, potential applicants had the opportunity to register their interest and to meet and discuss their eligibility with delivery agents prior to submitting an application. The department reported in their review of the first and only funding round, that thirty meetings were held with registrants between October 2005 and March 2006.⁴⁰ In total, 300 queries were made to the hotline during round one and 62 registrations were received. Seventeen registrations were assessed as being ineligible; 15 decided not to proceed and 30 submitted full applications.

3.12 The application process for Solar Cities was a two step process involving an expression of interest followed by a more detailed assessment of the business case for short-listed proposals. Seeking expressions of interest provided the departments with the opportunity to discuss the program with proponents to clarify any points of uncertainty and discourage or redirect any ineligible proposals.

3.13 The quality of the Solar Cities and LETDF applications was higher overall than for GGAP. The number of projects to be assessed and the final number of rejections for Solar Cities and LETDF was also significantly less than for GGAP as illustrated previously in Table 3.1. This highlights the advantage of undertaking preparatory work with stakeholders prior to the full roll-out of a program. More detailed consideration of the assessment process for each program is set out as follows.

Greenhouse Gap Abatement Program-Round Three assessments

3.14 ANAO Audit report No.34 2003–04, noted shortcomings in the assessment of projects for the first two rounds of GGAP funding. To improve the rigour and transparency of the assessment and selection process, the ANAO recommended that the then Australian Greenhouse Office (AGO), seek Ministerial approval to apply, where appropriate, an order of merit rating scheme and to include recommendations on selection that highlighted projects that were most likely to achieve program objectives.

⁴⁰ Department of Innovation, Industry, Science and Research, AusIndustry, *Round One Review: Low Emissions Technology Demonstration Fund*, April 2008, p. 18.

3.15 There was a marked difference in the assessment process and documentation for the third and final round of funding. The third round assessment process addressed the intent of the recommendation from the 2003–04 audit report. At the conclusion of the assessment process, Ministers were formally advised that short-listed projects were recommended because they represented 'good value for money' and had a relatively low risk of technical failure as they relied on technologies and practices that were assessed as robust and ready for commercial application.

3.16 For the seven projects shortlisted for GGAP⁴¹, (and reviewed by the ANAO) the rigour of the cost benefit and technical analysis could have been substantially improved. Shortlisted project proposals could not provide large scale abatement between 2008–2012 at the low cost and with the high degree of certainty required by the program guidelines. To some extent, the absence of a pool of quality applications reflected the limited planning and the absence of early and concerted stakeholder engagement for GGAP. As noted in the Wilkins Review:

The result of this problem was that Ministers and departments pushed for the inclusion of projects that met other policy objectives. Such projects did not necessarily meet the program eligibility and merit criteria, in particular, the focus on large scale abatement, with a high degree of certainty that would not occur on the absence of the program. This led to compromise between Ministers and departments, to enable projects to be presented for Ministerial approval.⁴²

3.17 A particular concern in the assessment process was that abatement from the three highest ranked (and recommended) projects for round three was below the GGAP threshold for abatement.⁴³ These projects were technically ineligible as they did not meet the Australian Government's primary criteria for the program. In addition, the first ranked project had been rejected by a former Minister for the Environment, in an earlier round in 2001. These matters should have been identified by the Inter-Departmental Committee and the then responsible Minister advised accordingly.

3.18 Two of the three projects funded under round three were completed. The third project was terminated because of failure to meet contractual

⁴¹ One project was subsequently withdrawn.

⁴² Department of Finance and Deregulation, Strategic Review of Australian Government Climate Change Programs, 2008, p. 267.

⁴³ That is, greater than 250 000 tonnes CO2e per annum.

obligations and produced no abatement. Only one project was assessed as producing any abatement but at 371 000 tonnes CO2e in total, this was less than one-third of the threshold specified for the program, that is, 250 000 tonnes of CO2e per annum over the five years of the Kyoto period. The departmental advice to the Minister substantially underestimated the risks and shortcomings of these recommended projects, which should, on the basis of documentation available, have been apparent at the assessment stage.

3.19 The Wilkins Review suggested that having an independent committee or board to assess GGAP applications and decide on the grants funded by the program, would have been an effective approach. There is little doubt that such an approach would have improved the integrity of the assessment process. The original intention for a probity auditor to oversee the assessment process was not implemented. While such independent committees or boards and probity advisors will involve higher administrative costs, they can enhance the integrity of the assessment process and be cost effective where proposals are particularly, large and complex, and individual grants involve significant outlays of Australian Government funding.

Negotiating funding agreements

3.20 Consistent with the findings from Audit Report No.34, 2003–04, DEWHA implemented well drafted funding agreements for the projects funded under round three of GGAP, that provided a reasonable level of assurance that the Australian Government's financial interests would be protected. However, lengthy negotiations with proponents over agreements involved delays of up to two years for some GGAP projects. Delays in finalising agreements were attributed to many projects relying on approval or agreement by third parties, which had not been secured prior to the applicant applying for funding.

3.21 Milestones (and milestone payments) were built into the deeds of agreement and were directly linked to the completion of project stages (for example, building or testing infrastructure). Linking payments to milestones within the deeds was particularly important given the high risks identified in the risk assessment undertaken by the department in 2003. This has meant that the funds actually expended by the Australian Government for terminated projects totalled only \$1.8 million or 4.1 per cent of the committed funds for these terminated projects (1.5 per cent of overall approved projects). Put simply, the payments against milestones embedded in deeds of agreement

have contained the losses that would otherwise have accrued to the Australian Government.

Low Emissions Technology Demonstration Fund

3.22 LETDF was originally meant to have three funding rounds, however only one eventuated as the program was closed after the first round. There was sufficient evidence to indicate a reasonable and consistent level of rigour was applied to the 30 LETDF applications received by the department. The guidelines outlined the eligibility and merit criteria against which the applications would be assessed. The then Ministers for Environment and Industry agreed with all recommendations put forward by their respective departments in November 2006. Six projects were approved for funding. When a project was terminated, the next ranked project was approved.⁴⁴ Twenty–six of the 30 proposals received, were considered eligible for consideration against the merit criteria. The assessment process was comprehensive and involved technical, due diligence and financial assessments undertaken by external experts. Project proposals were assessed and ranked using numeric scoring, and probity advisers reviewed the process on completion.

3.23 Nevertheless, there were some shortcomings in the assessment process. Five applications were originally deemed ineligible. Two applicants appealed in line with the principles of the AusIndustry Customer Service Charter.⁴⁵ A review process overturned one of the decisions and upheld the other. A departmental review of the first round assessments noted that 'if the eligibility criteria had been more precise, it is possible that more applications would have been deemed ineligible'. The review also noted that greater clarity and documentation in a number of areas would have assisted in improving the decision making process. In particular, there was an absence of evidence as to the capacity of the project to start within three months of signing a funding deed.

⁴⁴ One LETDF project was terminated in July 2008 as the proponent had financial difficulties. In September 2009, the proponent of a second project entered voluntary administration and there is now concern as to whether the project is viable. This issue is discussed further in the Chapter 4.

⁴⁵ AusIndustry, a division of DIISR, delivered the program until July 2008.

Negotiating funding agreements

3.24 The lengthy negotiation with the six successful proponents to finalise funding agreements was a particular problem for LETDF. Obtaining finance from third parties proved difficult and, in most cases, contributed to delays in the finalisation of agreements or, in some cases, to the termination of a project. Negotiations involved up to two years for one LETDF project. Some unforseen, external factors, such as the global financial crisis are outside the control of agencies and proponents. However, many factors such as the technical complexity of projects, financial viability of applicants and the need for approval in environmentally sensitive areas (such as for the Gorgon Gas Project in Western Australia) should have been more carefully considered at the assessment stage.

Solar Cities Program

3.25 The Solar Cities program was originally allocated \$75 million in 2004, for five Solar Cities. Following expressions of interest, 21 of the 23 EOIs were assessed by the panel as having sufficient merit to advance to the next stage-the development of detailed business cases.⁴⁶ The panel's overall merit assessment took into account the adequacy of the project in meeting the program objectives and selection criteria. The expert panel recommended that nine proposals be invited to submit detailed business cases in the second assessment stage.

3.26 Detailed Business Cases (DBCs) were assessed against the same eligibility, core and desirable criteria used in Stage 1. External assessors were engaged to undertake assessments according to their area of expertise. A comprehensive report was provided to the Minister detailing the merit-based rationale for the panel's ratings and assessment. The ANAO reviewed a sample of five DBCs and concluded that the expert panel's assessment was thorough and well documented. Many of the steps used in LETDF such as expert technical and financial advice were also applied in this program. Recommended proposals were all approved by the Minister. The department conducted a sensitivity analysis of the EOI assessments, which gave some assurance as to the rigour of the original assessment. This was also conducted after Stage 2. Overall, there was evidence of a high degree of rigour in the assessment process for the Solar Cities Program.

⁴⁶ Two EOIs did not meet eligibility criteria and were excluded from further consideration.

Election commitments

3.27 In 2007, the incoming Government made an election commitment to fund two additional Solar Cities in Western Australia and Victoria. The 2008–09 Budget allocated \$18.8 million for Solar Cities in Perth (\$14 million) and Moreland (\$4.8 million). The total allocation over the life of the program was \$94 million. The department did not seek new expressions but 'sought to maximise benefits by leveraging tenders received in the initial selection processes'. The department's approach to dealing with election commitments was to work with members of the original consortia to redesign their proposals to better meet the objectives of the program, reduce risks and excise ineligible components. Although other shortlisted proposals could equally have been reworked, the establishment of Perth and Moreland Solar Cities was an election commitment endorsed by the Government and therefore this funding decision was implemented by the department.

Negotiating funding agreements

3.28 Consistent with other programs, there were delays of up to nine months in implementing deeds of agreement for the Solar Cities Program. These delays again highlight the challenges in assessing projects with large consortia where project viability is contingent on contributions from third party financial providers. Similar to the other two competitive grant programs, Solar Cities made progressive payments against milestones. The milestones were directly linked to the completion of project stages and specifications which is good practice.

Conclusion

3.29 The gaps in the rigour of the assessment process for GGAP and the shortcomings in meeting the Government's guidelines and eligibility criteria have highlighted weaknesses in the program's implementation. These problems stemmed from not having a sufficient pool of quality applications to select from. Effectively engaging with industry and prospective stakeholders in the first instance would have addressed this problem to a large extent. Engaging a probity auditor (as originally planned) to oversee the assessment process would most likely have highlighted the shortcomings in the assessment process and enabled corrective action.

3.30 With the LETDF and Solar Cities programs, there was considerable effort made to improve the rigour of assessments for these programs, which was generally successful. The assessment processes were both transparent,

with clear criteria used to assess all proposals received. There was a high degree of rigour and technical expertise applied to the assessment process. However, greater consideration could have been given to the financial viability of proponents in LETDF, especially in regard to the approved project that was eventually terminated.

3.31 All three programs experienced delays in negotiating deeds of agreement. This is not in the interests of any party. However, Australian Government agencies have an obligation to ensure that agreements are designed to protect the Australian Government's interests to the extent possible, and that agreements across a program are reasonably consistent. This situation underscores the critical importance of agencies having a structured assessment of risks in the assessment of project proposals. The significance of the risks has been highlighted by the level of subsequent project failure or termination. DEWHA and DRET linked payments to milestones, which meant that the extent of the exposure of the Australian Government was contained, when projects were terminated.

4. Assessment and Approval of Rebates

This chapter examines the administrative framework for the non-competitive rebate programs used to deliver climate change measures.

Introduction

4.1 It is important that rebate programs demonstrate transparency and fairness in decision making. Applications that are eligible for rebates have a legitimate expectation that funding will be provided. This means that decisions may be subject to administrative or judicial review.

4.2 The Solar Homes and Communities Plan (SHCP, and formerly PVRP) and the Renewable Remote Power Generation Program (RRPGP) were two rebate programs designed to provide a financial incentive and encourage greater uptake of photovoltaic technology. The programs were originally announced in 1999 as part of the *Measures for a Better Environment Package*.⁴⁷ Both programs were demand-driven and provided rebates to homeowners and other eligible parties to install photovoltaic power systems.

4.3 Funding under the SHCP provided rebates up to \$8 000 for the installation of solar photovoltaic systems in households and community buildings. Funding for RRPGP provided financial support to increase the use of renewable generation in remote parts of Australia that relied on fossil fuel for electricity supply. RRPGP had three main components covering:

- Renewable Energy Water Pumping Rebates (REWP): provided rebates of up to \$30 000 for renewable energy components of water pumps that displace diesel engine power pumps in off grid applications;
- Residential and medium-scale (RM) projects: provided rebates of up to \$200 000 for households, communities, not-for-profit, business, government and other organisations to support installation of renewable generation systems; and
- Major projects: provided rebates for larger-scale projects with specific renewable technologies such as wind or solar power. Funding ranged

⁴⁷ The Appropriations (Supplementary Measures) Act (No. 2) 1999 supported funding for the programs.

between \$500 000 and \$5 million for the installation of major projects, such as a five dish 170 kw concentrating solar power station in South West Queensland.⁴⁸

4.4 The programs commenced in January 2000 and were terminated in 2009. This audit focussed on the two rebate schemes from 2007–08 onwards. Both programs were included in the 2003–04 audit and underwent substantial administrative changes in 2007, following program evaluations. However, some continuity will be provided through the Solar Credits Program, which has been introduced as part of the implementation of the Renewable Energy Target.⁴⁹ Table 4.1 outlines the total funding for the two rebate programs and the applications received and approved as part of this audit.

Table 4.1

Programs with rebates or major projects from 2007-08	Pre-approved rebates	Approved rebates	Total approved funding (\$m)
SHCP	51 675	30 218	257.70
RRPGP – rebates ⁽¹⁾	3 693	1 208	23.11
RRPGP – major projects (2)	6	6	11.05
Total	291.86		

Non-competitive rebate programs for period 2007–08 to 30 June 2009

Note 1: These rebates are for the Renewable Energy Water Pumping (REWP) and the Residential Medium-scale (RM) rebates administered by States and Territories.

Note 2: RRPGP had seven Industry Support projects valued at approximately \$7.5 million.

Source: Department of the Environment, Water, Heritage and the Arts

4.5 The RRPGP and SHCP were both originally administered through State and Territory government agencies on behalf of the Australian Government. The arrangements changed for SHCP in July 2007, when Ministers agreed to centralise the administration of the program with the Commonwealth.

4.6 Similarly, the RRPGP administrative arrangements changed in 2007. While the program maintained multiple components, the administration of the industry support and major project sub-programs were to be managed

⁴⁸ There was also an Industry Support component to the program worth approximately \$7.5 million.

⁴⁹ The Renewable Energy Target aims to achieve 20 per cent renewable energy in Australia's electricity supply by 2020. Credits will be provided in the form of Renewable Energy Certificates, or 'RECs', for people who have installed a new solar PV system from 9 June 2009. Solar Credits will apply to the first 1.5 kilowatts (kW) of capacity of the system installed. The level of support provided by Solar Credits is dependent on the price of RECs (which may vary over time) and the location and size of the system.

centrally by DEWHA. The water pumping and residential rebates remained with the States and Territories. As a consequence, the ANAO focused the audit on the program elements that were the direct responsibility of DEWHA as well as on the level of assurance that could be expected by the department from State or Territory agencies. The structure of the programs is set out in Figure 4.1.

Figure 4.1



SHCP and RRPGP program structures

Note: CEC refers to the Clean Energy Council, the peak body for the renewable energy industry.

Source: ANAO analysis from information provided by the Department of the Environment, Water, Heritage and the Arts.

Guidelines, eligibility criteria and application process

4.7 Clarity and certainty in guidelines, eligibility criteria and application processes are particularly important as the programs are not competitive and effectively provide an entitlement to applicants that meet the eligibility criteria. The guidelines for the SHCP were made available on the department's website. They outlined the purpose of the program and the eligibility criteria for applications. In May 2008, an income means test of \$100 000 was introduced with the intention of managing demand for program funds.

ANAO Audit Report No.26 2009–10 Administration of Climate Change Programs 4.8 The RRPGP had four sub-programs, with separate guidelines for each sub-program. Guidelines for the water pumping and residential sub-programs were published on the website. These guidelines clearly specified the requirements for applying for the rebates; information on program eligibility; and selection criteria. Potential applicants were referred to the pre-purchase application forms and the rebate application that had to be completed once the applicant received approval from the State Administrator.

Major projects and industry support sub-programs

4.9 The major projects and industry support sub-programs had draft guidelines only, which were not published on the department's website. The website made reference to these guidelines being updated and 'soon to be published.' However, the guidelines were not published at any time over the life of the program from 1999–2000 to the termination of the program in June 2009.

4.10 The department has stated that the draft guidelines were made available to potential applicants on request. However, the design principles of the guidelines proposed by the department in 2007 were not agreed by the then Minister for the Environment. The authority for issuing the draft guidelines was based on an email from the then Minister's principal adviser. The email requested the department to proceed with developing the guidelines based on the program design principles outlined in a brief to the Minister that had previously been rejected. The rationale for this decision was to avoid any delays in implementation, once additional funds became available in July 2007.

4.11 Ministerial approval could reasonably be implied as the guidelines were referenced in subsequent briefings that involved funding commitments. However, this was not good practice–particularly as the guidelines set the basis for eligibility (and funding) under the program. In these circumstances, it would have been appropriate for the department to have sought confirmation from, or approval, by the then Minister as the authorised decision maker.

Assessment and approval of rebate applications

4.12 Both the SHCP and the RRPGP programs adopted a two stage assessment and approval process, which is outlined in Figure 4.2:

- 1. assessment against eligibility and pre-approval of an application⁵⁰; and
- 2. subsequent rebate payment based on submission of a valid installation report from an approved installer.⁵¹

Figure 4.2

Two-stage non-competitive assessment and approval process



Source: ANAO analysis of Department of the Environment, Water, Heritage and the Arts processes.

⁵⁰ Once pre-approval was given for an application under SHCP, the system had to be installed within six months after which the approval lapsed. The six month limit was extended by a further three months in light of the growth in the industry and the potential that some installers might not be able to complete installations within a six month period.

⁵¹ This arrangement was carried out by the States and Territories for the RRPGP under a formal agreement between each jurisdiction and the Australian Government.

Solar Homes and Communities Plan assessment and approval process

4.13 For the SHCP, application forms were available from the DEWHA website but were required to be lodged by post for the pre-approval process. Applications had to include:

- an itemised quote from the supplier, which was checked to ensure that the system proposed to be installed met relevant performance and safety standards; and
- a declaration that the system would be installed by an accredited installer and licensed electrician.

4.14 Following installation, the applicant submitted an installation report to DEWHA. This report was completed in conjunction with the accredited installer and included photographic evidence of the installation, electrical diagrams, an electrical compliance certificate and invoice. The reports were checked to confirm that the system details aligned with the original application.⁵²

4.15 As previously noted, in May 2008, an income means test of \$100 000 in annual household income was introduced to manage demand. The renewable energy and photovoltaic industry considered that the introduction of the income test would have a negative impact upon demand and damage the industry. As can be seen from Figure 4.3, the volume of approvals (and consequently, the volume of installed capacity) expanded significantly, despite the introduction of the means test. Installed capacity for the seven months up to the end of July 2009, exceeded the total for any other full year of the program.

⁵² DEHWA guidelines nominated a maximum assessment period of six weeks between receipt of installation report and payment of the rebate. This period increased to nine weeks following the high numbers of applications received in 2009.

Figure 4.3



Number of PV units installed for the SHCP from 2000 to July 2009

Source: ANAO from data provided by the Department of the Environment, Water, Heritage and the Arts.

4.16 As no documentation was required to substantiate compliance with the means test, a review process was established by the department to test compliance with the means test. This process was trialled for an initial one month period, and then established on a weekly basis, where a random sample was selected. The level of compliance with the means test was found to be 97.6 per cent, giving the department a reasonable level of assurance that the means test was being administered appropriately and that it was largely being complied with by applicants.

Managing the late surge in applications

4.17 The surge in applications created considerable difficulties for the department in terms of processing the volume of applications. The Government decided to close the program at midnight on 9 June 2009, giving consumers and industry 24 hours notice. Some 4 000 applications arrived in the department on 9 June 2009. At the end of July 2009, approximately 75 000 applications were awaiting pre-approval assessment with some 48 000 applications being received after the cut-off date. This volume of

applications was estimated to take between 6–10 months to assess, exceeding the target date of September 2009 for assessments to be completed and, possibly, requiring a further appropriation for 2010–11.⁵³

4.18 The total cost is estimated to be \$1.053 billion. This is considerably higher than the \$257 million advised to Ministers in the 2009 Budget context and higher than the \$152.5 million in the earlier 2008–09 appropriation.⁵⁴ In July 2009, the department engaged a consultancy firm to urgently conduct an independent analysis and evaluation of the adequacy of the current controls and procedures for assessing the eligibility of applications.

4.19 The independent analysis was conducted on a five per cent sample of 43 772 applications received during the period 10 June to 30 June 2009.⁵⁵ The report concluded that there was a high degree of eligibility for applications received on 10 June with no more than six per cent of applications received being ineligible.⁵⁶ The percentage of ineligible applications after this date varied from day to day and, generally, later applications were more likely to be ineligible. The two predominant reasons for this were:

- the majority of the ineligible applications received after 9 June were not signed by either the applicant or the designer/installer indicating that there was insufficient time to complete the application with both signatures; and
- some of the ineligible applications received after 9 June 2009 were also dated after 9 June 2009.

4.20 The independent analysis did not identify any instances of potential fraud. However, the department identified a set of applications that could have been fraudulent and referred these to the police for investigation.

4.21 During this period, the main difficulties facing DEWHA were:

⁵³ The department could not approve eligible applications that exceeded the level of appropriation without authorisation from the Minister for Finance and Deregulation (Regulation 10; *Financial Management and Accountability Act 1997*).

⁵⁴ This figure was revised at Additional Estimates to \$172.55 million.

⁵⁵ The sample size was based on 4 329 applications. This allowed conclusions to be drawn from the sample at a confidence level greater than 95 per cent.

⁵⁶ PricewaterhouseCoopers, Audit of the compliance procedures of the eligibility of applications under the Solar Homes and Communities Plan (SHCP), 17 July 2009.

- the timely processing of the high number of applications seeking pre-approval⁵⁷;
- achieving a sufficient level of rigour in the assessment process to ensure that only eligible applications were pre-approved and received payment on installation; and
- ensuring that there were sufficient appropriations to meet commitments.

4.22 In terms of addressing these matters, DEWHA progressively introduced administrative improvements over the period of 2008–09. Staff increased from nine at the start of 2008 to 38 in February 2009 and up to 62 in July 2009. A streamlined assessment approach was introduced in October 2008 with additional training to assist staff in implementing the new procedures. Additional 'top-up' appropriations of \$245.4 million for 2009–10 provided the basis for meeting a significant proportion of the level of demand implicit in the backlog of applications.⁵⁸

4.23 The department processed all applications by 7 October 2009 and applicants were informed as to whether their applications had been successful or not. Unsuccessful applicants were given the opportunity to appeal. At the end of November 2009, there were 1 194 applicants who were appealing their unsuccessful application status. The department has indicated that some of the appeals have resulted in a revised assessment, based on a full independent review of their application and after taking into account other information they may have provided in support of their claim.

4.24 Ensuring the payment of rebates following receipt of installation reports has also been a challenge for the department. The department has published the receipt and processing of installation reports as is set out in Figure 4.4.

⁵⁷ A challenge for the two step process is that industry may not be able to complete all installations within the nine month period because of the volume of installation work involved. If this occurs, applicants will not be entitled to a rebate even if they have pre-approval and the work is completed to required standards. The department advised applicants of this risk in their pre-approval notification.

⁵⁸ Total appropriations for 2009-10 are \$288.1 million. The department worked with the Department of Finance and Deregulation to re-profile expenditures and bring forward funding from the out years, as well as moving funds from other under spending programs.
Figure 4.4





Source: ANAO chart based on DEWHA data.

4.25 As Figure 4.4 indicates, there is a widening gap between the number of installation reports received in comparison to the number of payments made. As of February 2010, the department was processing rebate installation reports received from 25 November 2009. The department has advised that it has increased its resources to address the delays of payments and the situation is expected to be substantially improved over the coming months.

Lessons to be learned

4.26 There are a number of lessons that can be learned from the SHCP. The reasons for the surge in applications in June/July 2009 were intrinsic to both the design of the program as well as external factors. The two stage approval process enabled relatively easy, low cost applications, followed by confirmation and payment after installation. This process was helpful in encouraging industry to promote their services but facilitated the flood of applications once it became known that the program was closing early and that applications would be accepted if <u>sent</u> prior to midnight 9 June 2009. At the time, industry had been actively promoting photovoltaic systems and, with the growth in the number of installers, there had been an increasing trend of signing up customers (sometimes in bulk) before the end of the program. Some

businesses were offering substantial discounts, including 'free solar systems' installed after the rebate. When State and Territory feed-in tariffs and incentives were also taken into account, customers stood to gain financially from installing a photovoltaic system with an \$8000 Australian Government rebate.⁵⁹ Consequently, it was hardly surprising that the surge in applications occurred prior to the closure of the program.

4.27 While it would have been impracticable to adjust the two stage approval process late in the program, the rebate could have been reduced to take account of industry discounts and State/Territory subsidies. The Government considered reducing the rebate, along with a range of other options put forward in briefings from both DEWHA and from the Department of the Prime Minister and Cabinet. Rather than reducing the rebate, the Government chose to close the program early to manage the increase in demand. Reducing the deadline to earlier than midnight of 9 June may have reduced eligible applications but introduced questions as to the fairness of the process.

4.28 A program with a fixed appropriation and variable demand will inevitably be difficult to manage. Accurate forecasting and monitoring are critical to implementation–particularly if services/rebates are meant to be strictly capped as was the case for SHCP for 2008–09.⁶⁰ For SHCP, this was particularly challenging over the longer term, because of factors such as the rapid change in consumer demand⁶¹ and prices for PV units as well as the rate of innovation in business marketing.⁶² These factors substantially eroded the relevance of the department's original budget forecast and ultimately the cap on rebates.

⁵⁹ In the ACT, for example, customers who purchase a PV system were paid 50.05 cents per kWh generated for systems up to 10kW until 30 June 2010. Net feed-in tariffs were in place in other States. In NSW, the State Government announced in November 2009 the introduction of a gross feed-in tariff of 60 cents per kWh for solar systems of up to 10 kW. This latter announcement will have no impact on SHCP but will have implications for the level of demand for the successor program-Solar Credits.

⁶⁰ The program was meant to be capped at 6000 household rebates for 2008-09; Department of the Environment, Water, Heritage and the Arts; 2008-09; Portfolio Budget Statements p. 39.

⁶¹ The department has indicated that the number of applications received under the program went from a six week average of 120 per week (at 07/09/07) to 324 per week when the means test was introduced (six week average of 09/05/08) and up to 1 020 applications per week (six week average by 17/10/08). Prior to the end of the program the six week average was 2421 per week (at 08/05/09).

⁶² Industry was aware of the closure of the program (and the transition to Solar Credits after June 2009) and focused on signing up new customers rather than completing the installation of systems.

4.29 The department's monitoring of demand patterns on a weekly basis and the use of its website to communicate progress under the program were good practice. The Minister was also kept informed of the critical issues regarding the level of demand and available funding for the program-particularly from June 2008. In May 2009, the Minister was further advised of the unprecedented spike in applications and that the 2009–10 Budget was likely to be fully committed for applications received in May 2009.

4.30 The Government was also briefed on options for managing the very high levels of demand facing the program. It was decided that the program would close early, but that the cap would be relaxed and existing controls maintained. A smooth transition to the Solar Credits scheme may have alleviated the surge in applications to some extent; however, the legislation to give effect to Solar Credits was not passed by the Parliament until August 2009.

Renewable Remote Power Generation Program assessment process

4.31 Under bilateral agreements, State and Territory agencies assessed and approved the rebates paid under RRPGP for residential and water pumping services. The agreements were designed to achieve a consistent assessment process across jurisdictions and specified that to be eligible for RRPGP funding, projects must:

- be consistent with program objectives;
- lead to a reduction in fossil fuel powered off-grid electricity generation through renewable energy generation or a replacement of fossil fuel powered off-grid water pumping with renewable energy technology;
- have a source of matching funds;
- meet all relevant laws, regulations and standards; and
- have appropriate skills and infrastructure available for their effective implementation.⁶³

The number of rebates approved since 2007–08 across State and Territory jurisdictions is outlined in Table 4.2

⁶³ Renewable Remote Power Generation Programme Agreement p. 14, clause 11.

Table 4.2

Applications, approvals and expenditure under the RRPGP State administered REWP and RM sub-programs

Financial Year	No. of pre-purchase approvals	No. of rebates	Expenditure \$(m)
2007–08	1 314	614	10.9
2008–09	2 379	594	12.2

Source: Data provided by the Department of the Environment, Water Heritage and the Arts.

4.32 State and Territory agencies reported against the milestones set out in each agreement. The reports outlined pre-approvals, rebates paid and financial data for the period. Financial information was reconciled against Australian Government data and payments were approved for each State and Territory. An annual report (including an audited financial statement) was provided by each State and Territory, giving the department assurance that the funds had been spent for their intended purposes.

4.33 However, there was no formal assurance by the States or Territories that program eligibility guidelines had been met or details of the number of applications rejected. Given that there are 49 requirements as well as non-eligible equipment and services for the residential sub-program alone, there would have been merit in gaining a reasonable level of assurance that the Australian Government's eligibility requirements were being met through the State/Territory approval processes, such as through a certification process.⁶⁴ The department indicated that, in light of preliminary findings, it has been working with the State/Territory jurisdictions to require them to formally certify that they are acting in compliance with program guidelines.

Major projects sub-program administered by DEWHA

4.34 The major projects sub-program was not advertised or promoted by the department.⁶⁵ As the guidelines were not published, potential applicants were required to contact the department and ask for both the guidelines and an application form. Potential applicants were also advised to send in a draft

⁶⁴ The 49 requirements were divided between-18 applicant requirements, ten system requirements, eight supplier requirements, six designer requirements and seven installer requirements.

⁶⁵ The department indicated that people knew about the program as they were involved within the industry, or had previously been involved with the program.

proposal to ensure that they would meet all the eligibility criteria in advance of their final application. The sub-program was suspended on 27 September 2008. The department advised that both industry and State government participants held the program in high regard, and this view was supported by industry stakeholders and State agencies during the course of the audit.

4.35 Since 2007–08, six projects have been approved and these are set out in Table 4.3 with the level of funding approved by the Australian Government.

Table 4.3

Major Projects	\$ (m)	
Coober Pedy Solar Systems	3.55	
Windorah Solar Systems	1.00	
Umuwa Power Station Upgrade	0.56	
Alice Crown Plaza Solar PV	1.54	
Ilparpa Solar Systems	3.31	
Alice Springs Airport solar project	1.13	
Total	11.09	

Major Projects approved for funding under RRPGP

Source: Information provided by the Department of the Environment, Water, Heritage and the Arts.

4.36 Although all six projects were approved for funding, not all projects have progressed. The original proponent for the Coober Pedy project withdrew, a second application has been received by the department for reassessment. The Department was notified in May 2009 that the Ilparpa and Alice Springs Airport solar projects have not progressed for commercial reasons. Under funding provided by RRPGP to the Solar Cities Program, a potential replacement provider for these projects has been re-advertised.⁶⁶ At the time of the audit, this issue had still to be finalised.

4.37 The ANAO reviewed the three remaining projects, (Umuwa Power Station Upgrade, Alice Crown Plaza Solar PV and Windorah Solar Systems) as these had advanced to the stage of receiving RRPGP funds. The assessment process addressed important issues including general compliance with the

⁶⁶ RRPGP provided funding to Solar Cities program, in particular the Alice Solar City, for capital construction, under the major projects sub-program. The Solar Cities team was responsible for the assessment of applications and continues to be responsible for finding a replacement provider so that the projects can go ahead.

guidelines and whether or not appropriations were sufficient to fund the project. Where required, approval from the then Minister for Finance to cover multi-year funding (as required under Regulation 10 of the *Financial Management and Accountability Act 1997*) was sought. However, the assessment and approval process was not handled consistently, and a number of shortcomings have been identified.

4.38 In the case of the Alice Crown Plaza Solar PV, the level of documentation demonstrated a sound consideration of the eligibility and merit criteria at both the application and assessment stages. The basis for assessment was clear and related to the objectives of the program. However, the application and assessment process for the Windorah project (in South West Queensland) and the Umuwa Power Station Upgrade (Northern Territory) had significant gaps in the documentation. In particular, there was no documentation to indicate an internal rate of return for the projects even though this was a primary criterion and the 'draft' guidelines stated that 'proposals that do not demonstrate all of these requirements will not be considered'.⁶⁷ Consequently, it was particularly difficult to substantiate whether or not a grant was needed.

4.39 In relation to the Windorah project, the department assessed the project as eligible despite reservations about costs and technical risks. The original proposal in 2005 was not able to be funded as there were insufficient funds available to cover the estimated cost of the project at that time. In 2007, the proponent re-applied for funding, with the total project budget increased from \$2.6 million to \$4.1 million.

4.40 While the then Minister was advised that \$1 million in funding was considered sufficient as the project was well advanced, the Minister was not advised that the cost of the project had increased by over 60 per cent since the original application and assessment in 2005. Funding of \$1 million was approved for the project on 17 September 2007. The funding agreement was not finalised until 19 September 2008, over 12 months after approval and following a tense and difficult negotiation process.⁶⁸ In June 2008, the department noted that the construction work was 70 per cent complete and final completion was anticipated as early as September 2008. This raises

⁶⁷ Refer to paragraph 4.9; the major project guidelines were not published at any time over the life of the program from 1999-2000 to the termination of the program in June 2009.

⁶⁸ For other RRPGP major projects the maximum period for delays in negotiating funding agreements was two years.

questions as to the extent to which the project was reliant on Government funding. The draft guidelines stated that, 'project costs incurred prior to the execution of the funding agreement are not eligible costs.'⁶⁹ In addition, legal advice from the Office of Parliamentary Counsel indicated that there would be difficulties in enforcing terms and conditions on proponents who receive funding in arrears. To be enforceable, an agreement needs to be in place before the work is undertaken.

4.41 This example illustrates some of the challenges that can be faced by agencies in implementing grant or rebate programs of this nature. Although a project may be eligible for funding, agencies have an obligation to ensure that funding is necessary and advise the decision maker whether it would be an efficient and effective use of public money. Achieving greater consistency and documentation of how value for money was considered are key lessons learned from this program.

Conclusion

4.42 Rebate schemes with fixed appropriations and variable demand can be difficult to manage, particularly if an applicant has an entitlement to a rebate if their application is deemed as eligible. A risk for schemes of this kind is that a significant acceleration in demand could require funds in excess of appropriations. For SHCP, the original appropriation of \$150 million over five years from 2007–08 has turned into potential claims estimated to be \$1.053 billion. The high level of demand put additional pressure on the budget and highlights the critical importance of having an adequate range of controls in place from the outset of the program.

4.43 For RRPGP, requiring certification that program eligibility criteria and guidelines have been met under funding agreements (where State agencies are making decisions on expenditure on behalf of the Commonwealth), would have improved accountability arrangements for the delivery of the program. The absence of finalised guidelines for major projects was not good practice. The guidelines set the eligibility criteria used to approve funding and the department should have sought confirmation from, or approval by, the then Minister for the Environment, as the authorised decision maker. The eligibility criteria in the guidelines were also not consistently applied for the major projects sub-program, weakening the integrity of the assessment process.

⁶⁹ Nevertheless, in the end, the project received approval for funding of \$1 million and the facility was commissioned in March 2009.

5. Measuring and Reporting of Progress towards Outcomes

This chapter examines whether agencies are able to effectively measure and report the outcomes of individual projects and the program overall.

Introduction

5.1 To determine whether programs are achieving their intended objectives, agencies need to develop appropriate key performance indicators and monitor the progress of individual projects, and the program overall.⁷⁰

5.2 While it is important to have indicators that measure all aspects of the program objective/s, this has to be balanced against the practicality and cost of collecting and analysing performance data. The ANAO examined, for the five climate change programs reviewed, the extent to which key performance indicators were monitored, the outcomes that were achieved and the accuracy of reporting of program performance to Parliament.

Key performance indicators

5.3 Four of the five programs examined had developed key performance indicators to measure their impacts. However, the relevance of the indicators to each program's overall objective/s was variable. LETDF had set targets and monitored these through program milestones.

Greenhouse Gas Abatement Program

5.4 The two key indicators used to measure project performance for GGAP were central to the program objective of reducing greenhouse gas emissions and were documented and updated for every approved project. These were:

- GGAP funds (dollars) per metric tonne of reasonably assured and additional CO2e estimated to be abated in 2008–2012; and
- total cost (dollars) per metric tonne of reasonably assured and additional CO2e estimated to be abated in 2008–2012.

⁷⁰ ANAO *Better Practice Guide-Administration of Grants*, 2002, p.57 and Department of Finance and Administration, *Performance Management Principles*, 2003.

5.5 Emissions reduction targets were specifically defined for those projects with emissions abatement greater than 250 000 CO2e per annum. This threshold target was selected through consultation with industry and stakeholders. Both the indicators and the target were crucial to measuring the primary purpose of the program. However, there were no performance measures or targets for sub-criteria (secondary to the primary objective of the program) such as employment growth, opportunities for rural and regional Australia, ecologically sustainable development, the use of new technologies and innovative processes and non-government investment.

Low Emissions Technology Demonstration Fund

5.6 LETDF had a set target for the technologies being commercially available by 2020–30 with the potential to lower Australia's energy sector greenhouse gas emissions signature by at least two per cent per annum from 2030.⁷¹ Because this target was contingent on major construction works being completed, the department used milestones for intermediate stages for each approved project. The intended outcomes for LETDF were to:

- support the development and demonstration of low emission technologies which have the potential to deliver longer term large scale emission reductions;
- support low emissions technologies that will underpin the value of Australia's resource base and/or promote Australia's leading edge technical capabilities; and
- support the application of overseas technologies to Australian circumstances.

5.7 The nature of LETDF involves significant capital construction that does not facilitate the use of performance indicators to measure outcomes prior to the completion of the facility. At the time of the audit, LETDF was not sufficiently advanced to provide meaningful integrated performance data on whether the program as a whole has been delivering against its anticipated outcomes. This type of information on LETDF will not be available until at least 2012.

⁷¹ This is equivalent to 9.5 Mt CO2e in 2020.

Solar Cities

5.8 The Solar Cities program originally had 12 quantitative program wide performance indicators as set out in Project Plan 2006–07 to 2012–13. However, over the life of the program, the performance indicators changed and have been modified in line with departmental changes to its accountability framework. In 2009–10, there were four key performance indicators, relating to energy efficiency and climate change programs. Having numerous performance indicators and adjusting them over time makes measurement a more challenging exercise.

5.9 The indicators have focussed primarily on the quantity of project units that have been implemented at the project level, such as the number of participating households, kilowatt hours of solar energy generated and smart meters installed. These indicators are relevant to the overall program objective of demonstrating the economic and environmental impacts of integrating the concentrated up-take of solar, energy efficiency and smart metering technologies. There were no specific targets set for the program overall, but each consortia, for each individual Solar City set their own project level targets based on their local priorities and circumstances. Nevertheless, the performance indicators do not specifically address objective two, which relates to identifying and implementing options for addressing barriers to distributed solar generation, energy efficiency and electricity demand management for grid connected urban areas. However, it should be possible to measure this objective from the experiences in each individual Solar City.

Solar Homes and Communities Plan

5.10 SHCP did not have specified performance indicators for all five of its objectives. However, the two indicators used for SHCP to measure program performance were directly related to the program goals of 'increasing the use of renewable energy in Australia', and 'assisting the development of the Australian photovoltaic industry'. These two indicators were:

- overall installed capacity of PV for the program; and
- cost per watt of overall installed capacity.

5.11 As indicated in the DEWHA 2008–09 Portfolio Budget Statements, SHCP had set targets to reach 6000 household rebates and 400 community building grants. There were no quantitative indicators to measure any causal link between the program and the uptake of renewable energy in Australia. While the rebates were likely to have provided a stimulus for the industry it is difficult to gauge the extent to which the SHCP has actually assisted in this compared to other programs such as feed-in tariffs or other assistance at a State or Territory level.

Renewable Remote Power Generation Program

5.12 RRPGP had six key performance indicators for the State administered water pumping and residential sub-programs that focused on measuring the:

- amount of fossil fuel displaced;
- peak capacity of systems in kilowatts;
- number of applications received;
- number of applications pre-purchase approved;
- dollar value of pre-purchased applications received; and
- dollar value of rebates paid.

5.13 The key indicators were relevant to the overall program aim of increasing the uptake of renewable energy technology in remote areas of Australia that rely on fossil fuel for electricity generation. However, there were no indicators to measure the extent to which the program could provide 'an effective supply to remote users or the extent to which it met the energy infrastructure needs of indigenous communities'.

5.14 For the major project sub-program there were agreed milestone schedules and reports showing that milestones were achieved, providing the means by which the effectiveness of the project was assessed. There was little evidence of reporting against the overall program performance indicators such as the energy output of solar systems or the amount of fossil fuel displaced.

Conclusion

5.15 Overall, of the four programs that had developed key performance indicators, none of the four could measure all aspects of their objectives. Nevertheless, where there were performance indicators, these were relevant to particular parts of their stated objectives. For GGAP and SHCP in particular, the indicators enabled the department to measure crucial aspects of program performance, such as the amount and cost of abatement achieved (GGAP) and the installed capacity of photovoltaic systems and its cost per watt (SHCP).

Measuring program achievements

5.16 Measuring actual performance against targets is particularly important to understand what has been achieved within the context of what was originally intended. In practice, what the agencies attempted to measure against, and the overall program achievements (targets and outcomes) varied greatly across all five programs examined.

Greenhouse Gas Abatement Program

5.17 In implementing the program, the department established an effective system to measure and record progress against the primary objectives of the program. GGAP was originally designed to save up to 51.5 Mt CO2e over the five years from 2008–12. This target represented 9.4 per cent of Australia's base year emissions of 547.7 Mt CO2e.⁷² Numerous factors have constrained the achievements of the program such as project terminations and the approval of projects that did not meet eligibility criteria. The level of greenhouse gas abatement achieved was significantly less than that anticipated even though abatement was the key criterion for selecting projects.

5.18 Nine of the twenty-three approved projects (valued at \$44 million) were terminated because of failure to meet contractual obligations and operational difficulties with implementing the projects. In some cases, projects were supporting technologies that were not yet commercial or proponents were reliant on approval or agreement by third parties that did not materialise.

5.19 For round three, only two of the three projects funded progressed to completion. The third was terminated because of failure to meet contractual obligations and produced no abatement. The second ranked project became a modelling exercise and also produced no abatement. Only the first ranked project was assessed as producing abatement (371 000 tonnes CO2e over six years). However, the level was well short of the threshold specified for the program, that is, 250 000 tonnes CO2e per annum.

5.20 The current estimate of gross actual abatement likely to be achieved through the program over the three funding rounds is approximately

⁷² This is based on a revised figure from the Department of Climate Change, 2009 using Kyoto Accounting rules in *Tracking to Kyoto and 2020; Australia's Greenhouse Emissions Trends, 1990 to 2008-12* and 2020, p. 10.

15.5 Mt CO2e (2.3 per cent of 1990 emissions and some 30 per cent of what was originally intended to be achieved).⁷³

5.21 The \$400 million allocated to the program was consistently underspent throughout the life of the program. As at 30 June 2009, the actual expenditure was \$132 million. The underspend reflected three key factors:

- difficulties in attracting sufficient numbers of quality project proposals that met the program criteria;
- termination of nine of the twenty-three approved projects (valued at \$44 million) for reasons such as failure to meet contractual obligations and operational difficulties with project implementation; and
- the consequential reallocation of funds from GGAP to other programs-Low Emissions Technology and Abatement Program; \$26.9 million from 2004–05 and the Coal Mine Methane Reduction Program; \$18.5 million from 2007–08. GGAP and these two new related programs were all terminated in the 2009–10 budget.

Low Emissions Technology Demonstration Fund

5.22 LETDF was not sufficiently advanced to provide meaningful information on whether the program was achieving its objectives. This type of information is not anticipated to be available until 2012. There have been substantial challenges in progressing approved projects for LETDF. One approved project was terminated after initial approval, due to the financial difficulties facing the proponent. In September 2009, a further project, originally approved for \$75 million was also facing difficulties, as the main proponent had gone into voluntary administration. No funding payments had been made from LETDF.

5.23 LETDF was originally allocated \$500 million in June 2004. Currently, a total of \$335 million has been approved for six projects, with total project costs estimated at approximately \$2.6 billion. Actual expenditure in comparison to the original budget estimate has been minimal, with only \$23.8 million actually paid out under the program due to major delays with negotiating funding agreements; termination of projects and delays in projects meeting milestones.

⁷³ The 15.5 Mt of CO2e is the current DCC estimate (that is, February 2010) for what the program will achieve over the Kyoto Period 2008-12. It is a gross estimate and does not take into account overlaps with other programs.

Solar Cities

5.24 As was the case with LETDF, it is not possible to form an opinion on the overall program results to date. Data and information are available for each individual Solar City and the department advised that it intends publishing the first national program level data later in 2010. This will be at least six months after the original implementation date foreshadowed to Parliament in the 2008–09 Portfolio Budget Statements.

5.25 DEWHA has indicated that data has been collected from each individual Solar City, since the commencement of the program. There are currently five separate State databases collecting both core performance information as well as additional information relevant to particular projects. Information currently available is still preliminary and focused on anticipated results rather than actual performance. For example, Blacktown Solar City reported that 'the consortium anticipates that the community will benefit from annual electricity savings of over \$3 million and a reduction of up to 25 000 tonnes in annual greenhouse gas emissions'.

5.26 Actual expenditure from the original budget allocation of (\$93.8 million) in 2007–08 was \$19.8 million as at 30 June 2009. Delays in negotiating and finalising funding agreements and problems with contractors for some cities going into voluntary administration have reduced the actual budget expenditure.

Solar Homes and Communities Plan

5.27 DEWHA established a transparent and effective system to measure and report publicly against the two performance indicators for this program. Weekly reporting of the number of applications received and the number of systems installed was published on the department's website. The number of systems installed and the cost per watt are presented in Figure 5.1 for the program up until July 2009. The figure illustrates the exponential growth in installed capacity from 2007–08 as well as the gradual decline in the cost per watt.

Figure 5.1





Cost/Watt and systems installed for on-grid systems for the life of the program. Source:

87

Administration of Climate Change Programs

Department of the Environment, Water, Heritage and the Arts.

5.28 DEWHA's information system has indicated that SHCP has been successful in supporting the installation of over 36 800 PV systems to July 2009 (over 37 per cent of total PV installed capacity), with another 74 353 applications pre-approved, awaiting installation. The details of the last three years of the program are outlined in Table 5.1.

Table 5.1

Applications,	approval and	expenditure	under the	SHCP to	October 20)09
·				•••••	••••••	

Year	Applications received	Pre-approval	No. of Rebates	Administered expenditure (\$m)
2007–08	11 000	6 817	4 416	50.7
2008–09	121 376	44 858	25 802	207.0
2009–10	-	74 353	18 985	129.4 ¹

Note 1: This is the current estimate of actual expenditure.

Source: Department of the Environment, Water, Heritage and the Arts

5.29 The department indicated that it had processed 18 985 applications for 2009–10. The actual expenditure from 2007–08 to 30 June 2009 was \$257.7 million compared to the original budget estimate of \$46.75 million over the same period (from the Portfolio Budget Statements) and the revised budget estimate of \$223.1 million (from the DEWHA Annual Reports). As noted from the previous chapter, the controls were not sufficient to curb the level of demand and the departmental forecasts underestimated community interest in the program. In addition to administered expenditure, the department spent \$900 000 in departmental expenses in 2007–08 and \$2.5 million in 2008–09. This increase reflected the higher staff numbers required to deal with the demand for program funds.

5.30 A research report from the Clean Energy Council also highlights that the retail side of the industry as a whole has been growing strongly with 22 MW of PV power installed in 2008, an 80 per cent increase in 12 months. In addition, there were 1200 accredited installers in 2009 compared to just 210 in 2006. However, as discussed earlier in this report, it is difficult to ascertain to what extent this result can be contributed to this program compared to other State and Territory programs because of the absence of performance measures.

5.31 A further issue is that, although there has been a significant increase in rebates for PV, as illustrated in Table 5.1, the total overall installed capacity of PV in Australia in 2008 was still relatively small; accounting for less than

0.2 per cent of total installed electricity capacity.⁷⁴ In addition, the provision of government support for solar power through SHCP has come at a relatively high total cost of \$447/t CO2e.⁷⁵

Renewable Remote Power Generation Program

5.32 It is difficult for the ANAO to comment on the overall program level achievements for RRPGP, as there was no national database aggregating State and Territory project data. Following a tender process in June 2002, technical shortcomings in the design and operation of the initial database meant that it was not finalised until late May 2009, four weeks before the program was terminated. Seven years to complete a program database is not effective program management as it undermines both the performance management and accountability capacity of the department.

5.33 Even on completion of the database, there has been no comprehensive national reporting against the six specified indicators although the number of rebates approved compared to the target⁷⁶ was broadly indicated in the 2008-09 Annual report along with the number of major projects. Project milestones built into deeds of agreement have allowed DEWHA to monitor progress by individual project proponents.

5.34 Nevertheless, a good practice initiative undertaken by the department, in conjunction with the Clean Energy Council (CEC) has been quality inspection audits.⁷⁷ The audits monitor the State/Territory administered subprograms under RRPGP, as well as a percentage of systems installed under the SHCP. Quality inspections have measured compliance against Australian Standards and have provided the Commonwealth and State/Territory administrators with an appreciation of how effective systems have been at meeting program objectives.

5.35 Discussions with the CEC during the course of the audit showed an improvement for 2009 on 2008 figures of between 80–84 per cent compliance,

⁷⁴ Calculated using the National Survey Report of PV Power Applications in Australia 2008.

⁷⁵ In a calculation of *An Australian Cost Curve for Greenhouse Gas Reduction*, McKinsey and Company indicated that the long term marginal cost of abatement is likely to be close to \$60-70/tonne of CO2e. McKinsey and Company; 15 February 2008, p.15.

⁷⁶ Portfolio Budget Statements for 2008-09 aimed to achieve 1000 small rebate applications and five major projects. Performance data indicates that over the period of 2007-08 to 2008-09, 1 208 rebates were paid on installation, while 3 693 had been pre-approved over the same period.

⁷⁷ These audits are funded under the industry support sub-program of RRPGP.

with overall compliance for all systems in 2009, now over 90 per cent.⁷⁸ A major challenge for the delivery of the audit inspections has been the significant increase in accredited installers and the overall number of installed systems across both RRPGP and SHCP. This increase has reduced the number of audits from the agreed five per cent of installed systems to 0.25 per cent for 2009, even though the contract specifies at least five per cent of all systems installed. The department indicated that achieving five percent was no longer feasible due to the large increase in rebates and installers, particularly with SHCP and that the contract to reflect the actual percentage of inspections being carried out was being modified.

5.36 The reduction in the percentage of actual inspections undertaken substantially reduced the level of assurance available to the department on the quality of work being performed by installers. It also increased the risk of sub-standard installations at a critical period of record numbers of installations.

Conclusion

5.37 All five programs were designed to enable the measurement of program outcomes. Performance indicators or milestones were developed, however there were a number of factors that mitigated the effectiveness of performance measurement. None of the programs measured all aspects of their objectives. Understandably, there are cost implications for agencies in having multiple objectives and indicators and agencies need to manage resources for optimal, cost effective outcomes. Nevertheless, if the Government specifies multiple objectives, agencies have an obligation to reasonably measure and report against all aspects of the objective/s.

5.38 Database management was a particular problem for RRPGP and Solar Cities and was a critical risk that DEWHA needed to consider in program implementation. Again, with multiple objectives and indicators, databases can be more complex and more expensive to implement, especially when there are multiple parties involved in the delivery of the program. However, from the data available from the programs, actual achievement in terms of abatement for some programs was substantially less than anticipated (in particular,

⁷⁸ For 2008, 222 installations were audited, which included inspection of Bushlight systems in remote areas of the Northern Territory. The overall assessment indicated that between 80-84 per cent of systems were compliant with the standards.

GGAP) and for SHCP and RRPGP, abatement was achieved at a relatively high cost in fiscal terms and in terms of abatement per tonne of carbon dioxide. While both SHCP and RRPGP have been terminated, ensuring an adequate number of quality inspections is a matter that should be considered if similar rebate schemes are introduced by the department in the future.

Reviews and evaluations

5.39 The periodic monitoring and evaluation of programs can contribute to improved program management, lead to more informed decision-making, facilitate the better use of resources and enhance accountability. Four of the five programs examined undertook reviews or evaluations. Solar Cities had not undertaken a review or evaluation to date, although the department indicated that a mid-term review was scheduled for early 2010. A summary of the evaluation reviews is set out below in Table 5.2.

Table 5.2

Program	Program commenced	Year review/evaluation completed
Greenhouse Gas Abatement Program	1999	2008
Photovoltaic Rebate Program	1999	2003
		2004
		2006
Solar Homes and Communities Plan	2007	-
Renewable Remote Power Generation	1999	2003
Program		2007
Solar Cities	2004	-
Low Emissions Technology Demonstration Fund	2004	2005

Climate change program reviews and evaluations

Source: Based on information supplied by the Department of the Environment, Water, Heritage and the Arts and the Department of Energy, Resources and Tourism.

5.40 Of the three programs that were derived from the *Measures for a Better Environment Package 1999* (GGAP, SHCP and RRPGP), all three programs have undertaken program reviews and/or evaluations. GGAP undertook an internal review in 2008, which provided invaluable documentation of some of the strengths and weaknesses of the program and lessons learned for the future. The review noted the major difficulty for the program was in securing and maintaining suitable projects, and as a consequence, the program was left with a large amount of funding and only a few projects to fund. This situation had resulted in some projects, which did not strictly meet program guidelines but

met other government policy considerations being put forward for Ministerial approval. The absence of a price on carbon or legislated penalties on carbon emissions was considered a constraint by the department that impeded industry involvement in the program, even with Australian Government financial support.

5.41 Despite these constraints it was noted that the program had largely met its objectives in supporting projects to reduce greenhouse gas emissions at a cost to the Australian Government (at that stage) of \$4 per tonne of CO2e. Spin-off benefits were also reported including general pollution reduction, increased energy production with lower carbon dioxide emissions and the development of new technologies for larger scale projects.

5.42 The department's review identified that the delivery of the program through competitive grants was problematic. An alternative approach suggested was to buy rights to abatement at a fixed price with payment made on completion of the activity and verification of abatement, rather than a decision or grant provided up-front. The review noted that, while this approach could have improved the certainty of abatement, establishing additional activity would still have been a challenge.

5.43 SHCP and RRPGP have undertaken between two and three evaluations. These evaluations have resulted in changes in the administrative delivery of these programs over the past ten years. In particular with RRPGP, analysis of the evaluations highlights that recommendations were not addressed in the re-development of the program from 2007 onwards. The 2007 evaluation did little to evaluate overall program performance, due to the lack of data available. The department indicated that it may undertake an end of program evaluation after the 2009–10 financial year, subject to resource capacity.

5.44 LETDF undertook a review of the first round of project funding as required under the business partnership agreement (2005–2007). The review highlighted administrative improvements, particularly in regard to improving the client focus of the program. Overall the review found that the delivery of round one was successful, with 80 per cent of clients satisfied with the delivery of the program. The review was undertaken after twelve months after implementation, and it enabled the department to consider program strengths and weaknesses, identify lessons learned and improve subsequent program delivery.

Reporting to Parliament

5.45 Annual reports are the principal accountability mechanism between agencies and the Parliament. They are designed to provide factual and informative commentary on performance against the targets and the anticipated outcomes specified in the Portfolio Budget Statements (PBS). The *Requirements for Annual Reports*⁷⁹, state that all agencies must cover:

- reporting of actual results against the performance standards for the outcomes and the outputs set out in the PBS; and
- progress towards outcomes and the extent to which the agency is wholly or partly responsible for the outcome.

5.46 ANAO Audit Report No.34, 2003–04, was critical of the standard of performance information provided in the earlier annual reports for three of the five programs examined. Inconsistencies and a lack of reporting against program targets and sufficient illustration of trends and changes over successive years were noted.

5.47 For the five programs examined, they were sufficiently large to be included in the Portfolio Budget Statements, and progress reported in the department's annual reports. The quality and consistency of reporting is discussed for each of the five programs.

Greenhouse Gas abatement Program

5.48 The 2007–08 DEWHA Annual Report commented in relation to GGAP that; 'overall, abatement expected was 19.3 Mt CO2e over the period 2008–12' and that 'the estimates across all GGAP projects indicate that the program is on track to achieve greenhouse gas abatement of 3.5 Mt CO2e in 2008'. While the report noted that the program was lapsing in 2008–09, the results in the Annual Report were not discussed against the original target of 51.5 Mt CO2e anticipated from the program. This comparison would have provided the Government and Parliament with a clearer context for the program and its achievements. In the 2008–09 report, DEWHA commented that the program had achieved a '100 per cent abatement reporting.' This is not particularly helpful or informative in terms of what has been achieved by the program. In

⁷⁹ The Department of Prime Minister and Cabinet, Requirements for annual reports for Departments, Executive Agencies and FMA ACT Bodies, Approved by the Joint Committee of Public Accounts and Audit under subsections 63(2) and 70(2) of the Public Service Act 1999, 17 June 2009, p. 2.

reality, the program achieved little compared to the original greenhouse gas abatement target.

Low Emissions Technology Demonstration Fund

5.49 The DRET 2007–08 Annual Report provided descriptive information of the aim of the LETDF, and indicated the total funding (\$410 million) provided through the six approved projects. In the 2008–09 annual report, descriptive detail was again provided, as well as information on the specified date for closure of the program in 2015, and that funding was fully committed; and all contractual obligations would be honoured. It does not state that one project has since been withdrawn. Nevertheless, as discussed earlier in this Chapter, it is too early to comment on overall program performance as there is no meaningful program data available on program outcomes.

Solar Cities

5.50 Solar Cities had a performance indicator for 2007–08 of 'reported abatement activity including emissions reductions and energy savings.'⁸⁰ However, because the national database had not been completed, the department was unable to report on emissions reductions or energy savings across the whole program. As previously noted with the Blacktown Solar City case study, reporting on annual greenhouse gas emissions reflected anticipated, rather than actual results, emerging from the program.⁸¹ In 2007–08, there was no reference to progress for any of the other Solar Cities.

5.51 Reporting improved in 2008–09, with information provided on the progress of Perth (the final solar city) and the launching of the Townsville Solar City, as well as the progress of the Central Victoria Solar City and Moreland (previously Coburg) Solar City. In addition, two major solar photovoltaic installations were commissioned: a 305 kilowatt system at the Crowne Plaza Hotel (Alice Solar City) and a 110 kilowatt system at Blacktown Solar City. The 2008–09 Annual Report provided the first figure for total anticipated abatement for all cities over the life of the program as more than 150 000 tonnes of carbon dioxide, but could not provide overall actual abatement to date. The indicators in the PBS were addressed in the annual report, with Solar Cities specifying that three funding agreements had been

⁸⁰ Portfolio Budget Statements 2007-08, Environment and Water Resources Portfolio, p. 54.

⁸¹ Department of the Environment, Water, Heritage and the Arts Annual Report 2007-08, p. 29.

signed; four annual reviews were completed; as well as an explanation of why progress with Perth was slow.⁸²

Solar Homes and Communities Plan

5.52 For SHCP, the 2007–08 DEWHA Annual Report clearly addressed some of the performance indicators specified in the PBS. As noted previously in this Chapter, the department was unable to measure all objectives, and was therefore unable to report comprehensively. The Annual Report included information on major changes to the program during the period such as the doubling of the maximum level of rebate offered for households and the introduction of a means test of \$100 000. The annual report also provided information in regard to the increased demand, (following the increase to the rebate), which, as discussed earlier in this report caused significant problems for the department. The 2007–08 Annual Report provided definitive numbers for the amount of rebates provided (5000) in the 2007–08 financial year, as well as information on the installed capacity (7.8 MW). There were no targets in 2007–08, however, there were in 2008–09. These targets were subsequently omitted in the 2009–10 PBS.

5.53 Reporting in the 2008–09 Annual Report improved with more information provided on the two targets specified in the PBS. The Annual Report commented that the program exceeded its two specified targets, including 22 900 installations for this financial year in comparison to the targets specified in the PBS, a total of 6 400 for both households and community grant buildings.

Renewable Remote Power Generation Program

5.54 For RRPGP, the 2007–08 DEWHA Annual Report had inconsistencies and inaccuracies. The number of small scale rebates is somewhat imprecisely referred to as 'more than 1000' in contrast with other programs such as the SHCP where there is precise numbers on applications, numbers of approvals and funds expensed. The 1000 rebates were particularly important for RRPGP as it was the annual target set for the program. However, only 614 were fully approved for that year. The 'more than a 1000,' referred to in the Annual Report only reflects the first stage of the approval process. This information

⁸² This was due to changes to its consortium and the Western Australia Government election.

could give a misleading picture of actual program performance.⁸³ In the 2008–09, the Annual Report commented that there had been 'more than 2200 applications approved' under the program. However the ANAO notes that only 594 were approved for that year. The number of pre-purchase approvals was 2379. Again this gave a misleading impression as to what had actually been achieved by the program.⁸⁴

5.55 Inconsistencies in reporting the number of major projects were also apparent in the 2007–08 Annual Report. These were addressed in the 2008–09 Annual Report; however, clarity over the number actually approved for that year could have been improved. The ANAO notes that one of the projects was approved in September 2007.

Conclusion

5.56 Overall, performance reporting is inconsistent and inaccurate, and improvements need to be made to assist the Government and Parliament to make informed judgments as to the actual achievements resulting from program expenditure. The ANAO's findings relating to program reporting are consistent with the findings of previous internal reviews of grants management in DEWHA. Project monitoring and reporting were regarded as department-wide issues in need of attention.⁸⁵

⁸³ This misleading representation was also compounded by the incorrect reference in the annual report to RRPGP as the 'Rural' and Remote Power Generation Program. This anomaly was corrected in the 2008-09 Annual Report.

⁸⁴ Pages 19 and 25 of the DEWHA annual report refer to seven major projects, while page 32 refers to ten.

⁸⁵ Department of the Environment, Water, Heritage and the Arts, Internal Review of Third Party Administration of Grants, 2009, p. 2.

6. Lessons for Future Climate Change Programs

This chapter outlines the lessons to be learned from the administration of the five climate change programs that may be incorporated into future programs.

Introduction

6.1 The grant and rebate programs reviewed in this audit were designed to reduce GHG emissions and/or support the renewable energy industry. At a total value of \$1.7 billion over the life of the programs, this was a significant investment by the Australian Government. There are important lessons to be learned in terms of setting program objectives, assessing risks, managing demand, developing quality assurance processes and measuring and reporting outcomes to Parliament.

Lessons learned

6.2 This audit has found significant variations in administrative performance across the five programs examined. Setting specific and measurable objectives is particularly useful in clearly articulating what a program has been designed to achieve and facilitates measurement and reporting of key results. Targeted promotional efforts early in the life of a program can also pay dividends by encouraging a higher quality pool of applications that may ultimately contribute to better program outcomes.

6.3 Assessing risks early in the life cycle of the program and then ensuring that these risks are properly monitored and treated is critical to achieving successful results. Ensuring that there are properly authorised guidelines and that the program criteria are rigorously and consistently applied in the assessment of competitive proposals is fundamental to good practice, achieving value for money and applying the probity standards expected in public administration. Where funding decisions have been delegated to other parties, it is also critical that the Australian Government has a reasonable level of assurance that decisions made have been consistent with the guidelines.

6.4 Deeds of agreement for competitive grant programs have generally been well designed. Payments made against milestones have contained the funds directed to projects when recipients failed to make sufficient progress or became insolvent. However, it took agencies a long time to finalise these agreements (up to two years in one case) which has had consequential impacts on the timing of eventual outcomes. This experience suggests that agencies need to be mindful of the potential for delays when introducing grant programs and assessing project proposals; particularly if the outcomes are time critical.

6.5 Rebate programs with fixed appropriations and variable demand can be difficult to manage, particularly if an applicant has an entitlement to a rebate for an eligible application. A major risk is that a significant acceleration in demand could breach appropriations. It is important to have a range of controls in place from the outset, particularly if there is an absence of adequate data constraining the capacity of the department to forecast demand.

6.6 If quality assurance is to be an integral part of a program, it is important that the sample size is sufficient to provide a reasonable level of assurance. There are clearly resource implications if there is an unexpected surge in demand for program funds, such as with SHCP. The reduction in the number of quality inspections undertaken, reduced the level of assurance available to the department and increased the risk of an unacceptably high number of sub-standard installations. Maintaining an adequate number of quality inspections is a matter that should be considered if similar rebate schemes are introduced by the department in the future.

6.7 Measuring program level results can be particularly difficult if there are multiple partners and delivery agents providing performance data. For Solar Cities and RRPGP, where this was the case, difficulties and delays in completing program databases, constrained the department's ability to measure and report on performance at a national level. This contrasted with the generally good standard of data management and measurement for other programs where departments largely managed their programs centrally.

6.8 Reporting across all programs to Parliament has tended to be on activity rather than progress towards results. Where results have been reported, such as the case with GGAP, the results were not reported against the original target or expectations of the program. This omission could give a misleading appreciation of the achievements of the program.

6.9 The ANAO recognises that there is no 'one size fits all' requirement or a single solution to achieve best practice in grant administration. Programs need a degree of 'tailoring' to suit the business environment of each program. However, the overriding consideration is to ensure that there is a sound basis for program delivery that incorporates the core business and accountability requirements of the Australian Government. The level of variation found across the five grant programs suggests that greater attention needs to be given

to implementing and promoting a core set of competencies and operating procedures in grant administration.

6.10 In July 2009, the Department of Finance and Deregulation introduced the new *Commonwealth Grant Guidelines* that strengthen accountability requirements. A revised Better Practice Guide on the Administration of Grants will also be released shortly by the ANAO. Together, these documents will assist agencies to improve their administrative practices. DEWHA is currently in the process of implementing a Grants Policy Unit in the Financial Management Branch. While the unit has yet to be fully resourced, work has commenced on a guidance document for program managers responsible for grant programs. The aim of the new framework is to create more consistency across the department in how grants are managed, delivered and reported. The work in progress through the Grants Policy Unit is important and should provide a basis for administrative improvements in core business operations when fully implemented.

Recommendation No.1

6.11 In order to strengthen the consistency and core competencies in grant administration, the ANAO recommends that the Department of the Environment, Water, Heritage and the Arts and the Department of Climate Change and Energy Efficiency give priority to establishing a Grants Policy Unit to facilitate consistent practices across the department in terms of:

- (a) identifying and managing risk throughout the program lifecycle;
- (b) assessing and selecting projects that represent value-for-money and meet program objectives and criteria; and
- (c) monitoring project performance and reporting on whether program objectives are being achieved.

DEWHA and DCCEE response:

Agreed in principle, noting that the audited programs have transferred from DEWHA to DCCEE.

2

Ian McPhee Auditor-General

Canberra ACT 20 April 2010

Appendices

ANAO Audit Report No.26 2009–10 Administration of Climate Change Programs

Appendix 1: Agency Responses



Australian Government Department of Climate Change and Energy Efficiency

1 April 2010

Mr Matt Cahill Group Executive Director Performance Audit Services Group Australian National Audit Office GPO Box 707 CANBERRA ACT 2601

Dear Mr Cahill

DRAFT CLIMATE CHANGE PROGRAM AUDIT REPORTS

Thank you for letters of 1 and 5 March 2010 to Ms Robyn Kruk, Secretary, Department of Environment, Water Heritage and the Arts (DEWHA) with accompanying audit reports on the Administration of Climate Change Programs and the Coordination and Reporting of Australia's Climate change Measures - Chapter 4.

As you are aware, energy efficiency programs previously delivered by DEWHA were transferred by Administrative Arrangement Order to the Department of Climate Change and Energy Efficiency (DCCEE) on Monday 8 March 2010. As such, I am now responsible for teams which have administered the audited programs and am therefore responding to your letters to Secretary Kruk.

With respect to Chapter 4 of report Coordination and Reporting of Australia's Climate change Measures, a response to the report as a whole has been prepared separately by my department. I make no further comment on Chapter 4.

With respect to Administration of Climate Change Programs, please note comments prepared by my department and provided in the Attachment to this letter.

Yours sincerely

Martin Parkinson Secretary Department of Climate Change and Energy Efficiency



ANAO Audit Report No.26 2009-10 Administration of Climate Change Programs



Australian Government Department of Resources Energy and Tourism

GPO Box 1564 Canberra ACT 2601 Australia

> Web: www.ret.gov.au ABN: 46 252 861 927

Mr Matt Cahill Group Executive Director Performance Audit Services Group Australian National Audit Office GPO Box 707 Canberra ACT 2601

Dear Mr Cahill

Administration of Climate Change Audit

As requested, please find our Department's comments relating to the proposed audit report on the *Administration of Climate Change Programs*.

The Department welcomes the ANAO's observations, in particular, those recognising the sound program processes and robust stakeholder consultation undertaken in relation to the administration of the Low Emissions Technology Demonstration Fund.

I note that there are two statements in the body of the report which could be misinterpreted.

- Paragraph 2.19 while it is true to say that fully integrated Carbon Capture and Storage (CCS) has not been developed at commercial scale in the electricity sector, it has been deployed at commercial scale in other sectors, such as the oil industry. The text implies that CCS is still a laboratory technology, which is not the case.
- Paragraph 2.29; the Department had undertaken considerable work on the scoping of CCS projects before the Clean Energy Initiative was announced during the 2009-10 Budget process, with substantial documentation. I acknowledge however that there was no defined cost benefit analysis for the CCS program at that time.

The Department would also like to thank the ANAO for the professional manner in which it carried out the audit and for its open, communicative approach to our staff and management.

Summary text for the audit brochure is also provided separately at Attachment A.

Yours sincerely

Drew Clarke A/g Secretary March 2010

Appendix 2: Competitive Grant Programs

Table A 1

Australian Government funding contributions for projects approved in round three of the Greenhouse Gas Abatement Program

Projects approved for Round 3	Total estimated project costs (\$m)	Total approved funding (\$m)
Western Australian Travelsmart Household Programme – project aims to change travel behaviour in Western Australia.	10.6	3.0
Facilitation of Natural Working Fluids to Reduce Emissions of Synthetic Greenhouse Gases from Refrigeration Systems – the project aims to reduce the use of hydroflurocarbons in supermarkets.	4.7	2.0
Carbon Sequestration in Multi-purpose Timber Plantations (National Association of Forest Industries) – the project aims to establish the first GGAP forest plantation project to absorb carbon dioxide from the atmosphere.	58.7	10.0
TOTAL	\$74.0	\$15.0

Source: Department of the Environment, Water, Heritage and the Arts.

Table A 2

Australian Government funding contributions for projects approved under the Low Emission Technology Demonstration Fund

Project	Total estimated project costs (\$m)	Total approved funding (\$m)
The Gorgon CO_2 Injection Project in Western Australia is a petroleum project involving the development of the Greater Gorgon gas fields, subsea gas-gathering infrastructure, and a liquefied natural gas (LNG) plant on Barrow Island.	841.3	60
CS Energy Pty. Ltd will retro-fit a set of new technologies into an existing coal-fired power station in Queensland.	188.0	50
HRL have developed a new technology for integrated drying and gasification of moist reactive coals to produce power in Victoria at a higher efficiency than conventional power plants.	750.0	100
International Power aims to demonstrate technology to dry brown coal that is used as the feedstock for one of the boilers at the Hazelwood power station in Victoria.	369.0	50
Solar Systems Australia aims to build a zero-emissions 154MW solar concentrator power station in North- Western Victoria.	420.0	75
TOTAL	\$2 568.3	\$335

Source: Department of Resources, Energy and Tourism.

Table A 3

Australian Government funding contributions for projects approved under the Solar Cities program

Solar City	Solar Cities (\$m)	Total cost of the projects (\$m)	Total approved funding (\$m)
Adelaide ¹	15.9	45.5	15.9
Alice Springs ²	4	37.1	21.0
Townsville	15	30.0	15.0
Blacktown	15.9	28.4	15.9
Central VIC	14.9	39.7	14.9
Moreland VIC	4.9	9.9	4.9
Perth	13.9	59.4	13.9
TOTAL	\$84.5	\$250.0 ³	\$101.5

 Note:
 1) Adelaide and Blacktown were eligible for PVRP/SHCP rebates.

 2) Alice Springs Solar City received funding from the RRPGP program totalling \$8.3 million.

 3) A total of \$148.5 million was provided by private Consortia members across approved projects.

Source: Department of the Environment, Water, Heritage and the Arts.

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Building resilience in public sector entities	June 2009
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Making implementation matter	Oct 2006
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ANAO Audit Report No.26 2009–10 Administration of Climate Change Programs

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