

The Auditor-General  
Audit Report No.12 2010–11  
Performance Audit

## **Home Insulation Program**

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

**Department of Climate Change and Energy Efficiency**

**Medicare Australia**

Australian National Audit Office

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Canberra ACT  
15 October 2010

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of the Environment, Water, Heritage and the Arts, the Department of Climate Change and Energy Efficiency and Medicare Australia 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 *Home Insulation Program*.

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



Ian McPhee  
Auditor-General

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

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# Abbreviations

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ABN	Australian Business Number
ATO	Australian Taxation Office
CAF&P	Compliance and Audit Framework and Plan
CFMEU	Construction, Forestry, Mining and Energy Union
CPSISC	Construction and Property Services Industry Skills Council
CSIRO	Commonwealth Scientific and Research Organisation
CSR	CSR Bradford Insulation
COAG	Council of Australian Governments
DCCEE	Department of Climate Change and Energy Efficiency
DEWHA	Department of the Environment, Water, Heritage and the Arts
DEEWR	Department of Education, Employment and Workplace Relations
DHS	Department of Human Services
DSEWPaC	Department of Sustainability, Environment, Water, Population and Communities
ECR	External Costing Request
EEHP	Energy Efficient Homes Package
EE-Oz	ElectroComms and Energy Utilities Industry Skills Council Ltd
EET	Energy Efficiency Taskforce
EPBC Act	Environment Protection and Biodiversity Conservation Act

ESO	Electrical Safety Office, Queensland
FISP	Foil Insulation Safety Program
FTO	Fair Trading Organisations
FTE	Full-time equivalent
HIP	Home Insulation Program
HIPRO	Home Insulation Program Review Office
HISP	Home Insulation Safety Program
IIAP	Insulation Industry Assistance Package
LEAPR	Low Emissions Assistance Plan for Renters
LEC	Licensed Electrical Contractor
MEA	Master Electricians Australia
MOU	Memorandum of Understanding
NAO	National Audit Office
NECA	National Electrical and Communications Association
OCG	Office of Coordinator-General (in PM&C)
OH&S	Occupational Health and Safety
PCG	Project Control Group
PDA	Personal Digital Assistant
PM&C	Department of the Prime Minister and Cabinet
PRN	Program Reference Number
PwC	PricewaterhouseCoopers

REBS	Renewable Energy Bonus Scheme
REED	Renewables and Energy Efficiency Division
QA	Quality Assurance
RTO	Registered Training Organisations
SHWR	Solar Hot Water Rebate
SLA	Service Level Agreement
The Committee	Senate Standing Committee on Environment, Communications and the Arts
UGL	United Group Limited

# Glossary

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Carbon dioxide	Major greenhouse gas emitted when fossil fuels are burnt.
Carbon dioxide equivalent	The standard unit for presenting greenhouse gas emission levels. This concept enables the aggregation of individual greenhouse gases through the use of conversion factors known as global warming potentials.
Certificate of currency	Certificate of currency is requested to be provided from registered installers to provide proof of the level of public liability and property damage insurance that they hold, as outlined in the terms and conditions for registration.
Construction Industry Pocket Book	A supplementary training resource for insulation installers which contains health and safety information specific to the Home Insulation Program.
Desktop audits	Desktops audits were conducted to confirm installers' competency requirements; compliance with occupational health and safety requirements; and insurance details. Desktop audits were also used to confirm installers had correct and complete Work Order Forms to support claims for payment.
Energy efficiency rating	Minimum energy performance standards for appliances and equipment. The energy efficiency rating (EER) of a home can range from zero to six stars. The higher the number of stars, the more energy efficient the home.
Energy Efficient Homes Package (EEHP)	The EEHP was a number of measures designed to generate economic stimulus through the creation of approximately 9800 jobs in the insulation industry and to improve the overall energy efficiency of Australian homes through a reduction in carbon emissions and a minimum 2-star energy rating for all Australian homes by 2012.
Executive schemes	Executive schemes rely on executive, rather than legislative, power.

External costing requests	External costing requests were used to vary the Service Level Agreement, which governed the Medicare Australia/DEWHA relationship, when additional responsibilities were introduced.
Field audits	Field audits involved conducting desktop audit testing at installers' business premises to provide assurance around the installers' supervisory and quality assurance processes.
Fire incidents	Fire incidents are defined to include any flames, burning, charring, smouldering or smoking insulation.
Foil Insulation Safety Program (FISP)	Safety inspection program, which commenced following the closure of HIP, for an estimated 50 000 homes that were insulated with foil under HIP.
Greenhouse gas	The atmospheric gases responsible for causing global warming and climate change. The major gases are carbon dioxide, methane and nitrous oxide.
Home Insulation Safety Program (HISP)	Ongoing safety inspections and remediation program, which commenced following the closure of HIP, involving a minimum of 150 000 homes that had non-foil insulation installed under HIP.
Householder	Includes homeowner-occupiers, landlords and tenants.
Installer Advice Emails	Email notifications sent to registered installers containing important program updates and reminders.
Insulation Industry Assistance Package (IIAP)	The IIAP provides financial assistance for ceiling insulation businesses including manufacturers, distributors, importers and installers adversely affected by the termination of HIP.
Installer Provider Register	The public list of insulation installers registered with Medicare Australia, to install insulation under the Home Insulation Program.

Insulation Workers' Adjustment Package	The Australian Government's \$41.2 million Insulation Workers' Adjustment Package provides assistance to support the retention of insulation workers in the insulation industry or related industries.
Low Emissions Assistance Plan for Renters (LEAPR)	The Low Emissions Assistance Plan for Renters (LEAPR) was originally a 2007 Election Commitment that provided a rebate to landlords of up to 30 per cent of the cost of installing insulation, up to \$500 per building. LEAPR was expanded as part of the stimulus measures of the EEHP to provide a rebate of up to \$1000 to landlords and tenants.
Material R-Value	Material R-value is the measure of insulation systems' effectiveness which must be determined in accordance with Part 4 of AS/NZS 4859.1.
Minimum competencies	Installation company supervisors had to meet one of three minimum competencies, which included: prior industry experience; a qualification in an approved trade; or insulation specific training to be eligible to be registered with the program. Installers were to provide a statement of attainment from a Registered Training Organisation against the required units of competency under the insulation installation training package. In December 2009 the Government announced that all installers participating in the program were required to meet minimum competencies by February 2010.
Occupation Health and Safety (OH&S)	OH&S construction industry induction training is a mandatory requirement under State/Territory legislation for all people carrying out construction work.
Pended claims	Pended claims were claims that DEWHA had not authorised Medicare Australia to pay due to further investigation being undertaken by the compliance team in DEWHA.

Priority one complaints	Priority one complaints were split into two key categories: fraud/tip-off and whistleblowing. These categories captured complaints relating to fire/safety issues, foil, claims for insulation that had not been installed and installers' qualifications and wages.
Program reference number (PRN)	The PRN is the same number as the work order number given to the installers under Phase 2 of HIP.
Roof inspections	The purpose of roof inspections was to confirm that insulation had been installed at the address claimed and met the appropriate safety and quality standards.
Total R-Value	Total R-value takes into account material R-value as well as the thermal value of building elements and reflective air spaces.
White card	A White card is a nationally recognised competency based certification to demonstrate that the holder is competent to work safely in the construction industry (CPCCOHS1001A "Work Safely in the Construction Industry" qualification).
Work order number	Is the number that installers used to claim payments under Phase 2 of HIP.





# Summary



# Summary

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## Introduction

1. In 2008, Australia was facing the impacts of the global financial crisis. This crisis resulted in a period of worldwide economic downturn and the prospect of rising unemployment in many countries, including Australia. The International Monetary Fund found that advanced economies experienced an unprecedented 7.5 per cent decline in real Gross Domestic Product during the fourth quarter of 2008, and economic output continued to fall almost as fast during the first quarter of 2009.<sup>1</sup> In response, the Australian Government, like many other governments around the world, applied fiscal measures to support employment and economic recovery.

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

## The Energy Efficient Homes Package

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

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

<sup>2</sup> Rudd, K., Prime Minister, 5 February 2009, *Joint Press Conference of COAG Meeting*, Parliament House, Canberra, pp. 1-3.

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

4. The EEHP was to be administered as an executive scheme<sup>4</sup> and included the:

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

## The three phases of the Home Insulation Program

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

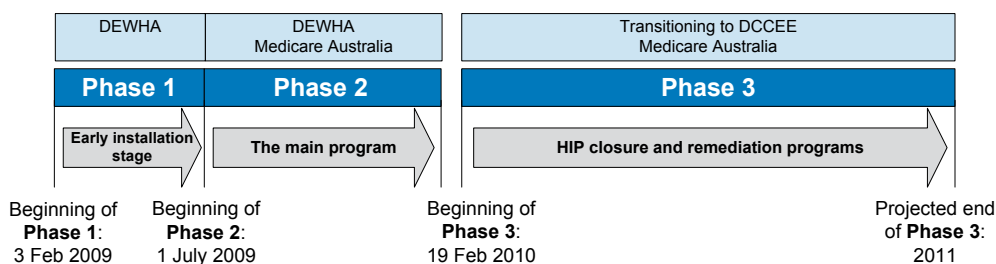
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<sup>4</sup> Executive schemes rely on executive rather than legislative power, and their key advantage is the speed in which they can be established and their flexibility. A challenge in implementing an executive scheme is ensuring that any terms and conditions are clear and enforceable. As noted by the Commonwealth Ombudsman, many of the checks and balances in programs are conveyed through legislation. Source: Commonwealth Ombudsman, *Executive Schemes* [Internet]. Commonwealth Ombudsman, Canberra, 2009, available from <[http://www.ombudsman.gov.au/files/investigation\\_2009\\_12.pdf](http://www.ombudsman.gov.au/files/investigation_2009_12.pdf)> [accessed 24 August 2010].

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

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

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

**Figure S 1****Timeline of the three phases of the Home Insulation Program****Phase 1 — the early installation stage**

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

**Phase 2 — the main program**

7. Phase 2 of HIP ran from 1 July 2009 to 19 February 2010 (31 weeks). During this phase, the installer was paid the rebate directly, rather than the householder. This was a significant change to the design of the program and facilitated an increased number, and faster payment, of claims. There were also

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

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

a number of changes introduced over time in response to safety and quality concerns. These included changes to installer competencies and training requirements, a reduction in the rebate amount, and the implementation of a compliance and audit framework. As at 31 March 2010, 1.16 million payments had been made at a cost of \$1.45 billion for Phase 2. An overview of Phase 2 is provided in Appendix 3.

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

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

### **Phase 3 — HIP closure and remediation programs**

9. As previously mentioned, HIP was terminated prematurely on 19 February 2010 because of ongoing safety and compliance concerns. The online processing of claims ceased and all subsequent claims and payments were processed manually. Two remediation programs were established:

- Foil Insulation Safety Program (FISP)—safety inspections for the estimated 50 000 homes that were insulated with foil under the program. Householders have the option of having the foil insulation

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

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

removed, or on the advice of a licensed electrical contractor, safety switches installed. This program is estimated to cost \$85 million.<sup>12</sup>

- Home Insulation Safety Program (HISP)—ongoing safety inspections and remediation program involving a minimum of 150 000 homes that had non-foil insulation installed. This program is estimated to cost \$340 million.

## Administrative arrangements

10. DEWHA's development and implementation of HIP coincided with a significant expansion of the department's responsibilities. Following the change of government in late 2007, DEWHA had responsibility for 107 new policy initiatives, including 10 new renewable and energy efficiency programs. DEWHA administered all aspects of Phase 1 (from February to June 2009), including approving and distributing payments. DEWHA entered into a service level agreement with Medicare Australia to deliver elements of Phase 2 on 1 July 2010. Under this agreement, Medicare Australia was responsible for registering installers and the processing of payments to installers.<sup>13</sup>

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

## Program reviews

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

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

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

## **Review of the Administration of the Home Insulation Program**

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

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

## **Insulation Advisory Panel**

15. The Government commissioned advice on the proposed remediation programs and the design of the proposed Renewable Energy Bonus Scheme (REBS)<sup>15</sup>, which was to replace HIP. This advice was given by Dr Ron Silberberg, Mr Tony Arnel and Mr Peter Tighe. The advice centred on improvements to program administration, quality assurance processes and systems.

## **Senate inquiry**

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

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

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



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

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

## Representations from Parliamentarians

19. Since the commencement of HIP in February 2009, the Auditor-General has received representations from various stakeholders raising concerns regarding aspects of the program's delivery. On 3 March 2010, the Minister Assisting the Minister for Climate Change and Energy Efficiency, the Hon Greg Combet AM MP, requested that the Auditor-General conduct an audit of HIP. This followed a number of requests from the Shadow Minister for Climate Change and the Environment, the Hon Greg Hunt MP, to conduct an audit of the program following safety concerns and allegations of rorting and non-compliance by installers.

## Audit objective

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

- program design and implementation;
- registration and training of installers;

- payment of rebates; and
- the compliance strategy underpinning the program.

## Overall conclusion

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

**22.** Under HIP, some 1.1 million roofs have been insulated at a cost of \$1.45 billion. Due to a range of design and implementation matters associated with the program, as at March 2010, of the 13 808 roof inspections conducted, around 29 per cent<sup>17</sup> had identified installations with some level of deficiency, ranging from minor quality issues to serious safety concerns. In addition, there have been cases of potential fraud identified. These deficiencies in the delivery of the program have meant that the Government decided to implement further measures to check and rectify the standard of installations. These new measures include the Foil Insulation Safety Program (FISP) and the Home Insulation Safety Program (HISP), which are expected to cost \$424 million. In addition, the Government has committed to industry assistance programs<sup>18</sup> expected to total approximately \$56 million. The remainder of HIP's budget will be used for activities undertaken post-closure of the program, including the remediation and assistance programs, and any surplus funds will be returned to the budget.

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

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

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

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

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

25. Overall HIP has been a costly program for the outcomes achieved, including substantial remediation costs. There still remains a range of safety concerns and coronial inquiries are yet to be completed in relation to the four fatalities associated with installations under the program. The fallout from the program has caused serious inconvenience to many householders, reputational damage to the insulation industry, and financial difficulties for many Australian manufacturers and installers. It has also harmed the reputation of the Australian Public Service for effective service delivery. This experience underlines very starkly just how critical sound program design and implementation practices are to achieving policy outcomes. There are important lessons here for those agencies with policy implementation responsibilities but also those responsible for policy development.

## How the program evolved

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

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

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

29. The design of Phase 2 was strongly influenced by the clear riding instruction from the Commonwealth Coordinator-General to reduce red tape and commence work on projects as soon as possible, in keeping with the stimulus objective of the program.<sup>19</sup> In combination with the compressed timeframe for implementation, this meant that many 'front-end' controls that

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

might be expected in such a program were not put in place by the department. By proceeding in this way, DEWHA accepted the risks implicit in this approach.

**30.** The risk profile for Phase 2 was considerably different to Phase 1 as the rebate was paid directly to installers. As would be expected in relation to a new and substantial rebate program, the department undertook a risk assessment prior to the roll-out of the main phase of the program. This assessment identified the significant challenges involved in implementing the program. In particular, risks concerning quality, fire and safety, fraud and internal capacity were all identified prior to the program roll-out.

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

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

**33.** As Phase 2 of the program was rolled out, a number of problems began to emerge. By November 2009, there were quality, safety and potential fraud risks requiring urgent attention. While not significant in proportion to the total number of installations under HIP, fraud became an increasing concern as the program progressed. Compliance inspections had identified over 67 cases

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

where payments had been claimed but no insulation had been installed; this number had increased to 150 by March 2010. By this time, DEWHA had also received 2883 complaints from householders advising they had not had insulation installed under the program. These complaints were in response to letters sent as part of the compliance and audit program.<sup>21</sup> Since the closure of the program, DCCEE advised that some 4000 potential cases of fraud have been identified, with 100 cases having been referred to DCCEE's Investigations and Intelligence Branch.

34. In August 2009, the Minister for the Environment, Heritage and the Arts wrote to the then Prime Minister advising that while HIP was proving successful in terms of jobs created and homes insulated, there were implementation issues that needed to be addressed including concerns about new entrants to the market not adequately meeting required standards of work and engaging in price manipulation. The Minister indicated that particular action was being undertaken to address these concerns.<sup>22</sup> By March 2010, of the 13 808 compliance inspections completed, 18.5 per cent had quality issues including batt splitting and incomplete installations. The program guidelines were progressively tightened in response to these issues and emerging safety concerns; and the use of foil insulation was banned under the program in early February 2010.<sup>23</sup>

35. From September 2009, supervisors employed by registered installers were required to provide proof that they met the minimum competency requirements, and by February 2010, all installers were required to meet minimum competency requirements. By March 2010, nearly 13 808 roof inspections had been carried out as part of the compliance and audit program. These inspections indicated that some 71 per cent of homes insulated under the program were fully compliant with program requirements. The remainder,

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

<sup>22</sup> The then Prime Minister advised Parliament that he had received a letter from the then Minister dated 14 August 2009 in relation to the Home Insulation Program proposing increased compliance requirements for the program. On 17 August, the relevant cabinet committee considered the compliance issues raised by the Minister in his 14 August letter. The committee approved changes to the program guidelines which included requiring the following: physical site inspections prior to giving quotes, increased inspections and scrutiny of trainer qualifications, increased compliance communications and processes for suspending and deregistering non-compliant installers.

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

representing around 29 per cent of dwellings insulated, had concerns ranging from minor quality issues to serious safety concerns.<sup>24</sup>

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

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

38. Although the full cost of FISP and HISP is still to be determined, the combined cost of the remediation programs is estimated at \$424 million.<sup>30</sup>

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

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

<sup>26</sup> This figure excludes a further 2444 claims received for inspections conducted under interim arrangements, to be paid.

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

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

<sup>29</sup> This figure includes inspections undertaken prior to closure that formed part of the HIP audit and compliance program. As at 1 August 2010, a total of 9712 urgent inspection requests had been received post-closure and PwC/UGL had booked 7513 urgent inspections.

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

## How the program was managed

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

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

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

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

### *Tight timeframe for program delivery*

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

43. The delivery model for the program was only settled in early April 2009, leaving little time to develop and implement IT support systems and engage sufficient numbers of skilled staff before the



commencement of the program. Priority was given to implementing the system updates required to reflect the significant changes to HIP as the program parameters evolved and, as a result, system enhancements to better support the delivery of the program overall were not implemented. Consequently, some 12.4 per cent of all claims were processed manually which was time consuming, resource intensive and carried the inherent risk of human error.

### *Underestimation of key program risks*

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

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

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

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

be unsound given the financial incentives available to installers through the program, and the number of new and inexperienced entrants to the industry.

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

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

#### *Under-resourcing of program administration*

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

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

improved governance arrangements, it was too late to effectively mitigate the risks experienced within the program.

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

*Delayed introduction of an effective compliance and audit program*

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

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

55. Deregistration was the primary penalty in HIP's compliance and audit program, however, this was not applied to full effect. The time allowed for natural justice in the deregistration process was not commensurate with the risk imposed by allowing installers to remain registered. Around 29 per cent of the roof inspections conducted found that installations had a range of quality, safety or potential fraud issues varying from minor issues through to very significant matters. However, only 0.7 per cent of deregistrations were due to installer non-compliance with program terms and conditions which were agreed at the time of registration.<sup>31</sup>

56. Firm, early action to deal with non-compliance by installers would have signalled the Australian Government's position on installers not meeting

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<sup>31</sup> Some of these terms and conditions are outlined in paragraph 8.

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

*Inadequate governance arrangements and advice to the then Minister*

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

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

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

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

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

### **Achievements against program objectives**

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

62. In terms of the energy efficiency and the greenhouse benefits expected from the program, it was estimated that, on average, for each home that received new ceiling insulation, 1.65 tonnes of carbon dioxide equivalent (CO<sub>2</sub>-e) will be saved each year.<sup>33</sup> This equates to an estimated 1.9 million tonnes of CO<sub>2</sub>-e per annum nationally; some 0.4 per cent of Australia's annual

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

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

national greenhouse gas emissions in 2007.<sup>34</sup> However, it cannot be determined with any accuracy the extent to which the program has achieved the expected greenhouse benefits until the conclusion of the remediation programs. This is due to the problems with installation quality, the removal of insulation where safety risks were a problem, and potentially fraudulently claimed installations.

## **Lessons learned**

**63.** As is to be expected, there are key lessons for public administration arising from the HIP experience, both in terms of policy development and implementation. The lessons learned, which were developed in collaboration with DEWHA, DCCEE and Medicare Australia, are included in the final chapter of this report to assist the implementation of future policy measures and programs. Comparisons with other insulation programs internationally and in Australia are also instructive.<sup>35</sup> While appreciating the differences in scale and the speed of roll-out, HIP could have benefited by the department considering and applying some of the critical design features implemented as part of the New Zealand Warm Up program and Victorian Government Insulation Rebate program. These include the early introduction of an approved product list; requiring installers to complete mandatory training and implementation of a sound compliance and audit program.

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

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

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<sup>34</sup> 1.9 million tonnes of CO<sub>2</sub>-e per annum equates to some 15.8 per cent of the 'Action on Energy Efficiency' measure, which is the second most significant measure designed to reduce Australia's greenhouse gas emissions under the Kyoto Protocol.

<sup>35</sup> See paragraphs 1.23 to 1.28.

still much to be done to address quality, safety and fraud issues under the program.

## Summary of formal agency comments on the proposed report

### Department of Sustainability, Environment, Water, Population and Communities

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

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

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

### Department of Climate Change and Energy Efficiency

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

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

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

- implementing a strong governance framework for the closure of the HIP and delivery of its remediation programs;

- undertaking comprehensive risk assessments and employing appropriate mitigation measures for FISP and HISP; and
- developing a strong fraud and compliance strategy in conjunction with a forensic auditor.

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

## **Medicare Australia**

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

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

## **Department of the Prime Minister and Cabinet**

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

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

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



## **Audit Findings and Conclusions**



# 1. Background and Context

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*This chapter provides the context for the Home Insulation Program including its objectives, delivery and administrative arrangements. The audit's objective, scope and methodology are also outlined.*

## Introduction

**1.1** In 2008, Australia was facing the impacts of the global financial crisis. This crisis resulted in a period of worldwide economic downturn and the prospect of rising unemployment in many countries, including Australia. The International Monetary Fund found that advanced economies experienced an unprecedented 7.5 per cent decline in real Gross Domestic Product during the fourth quarter of 2008, and economic output continued to fall almost as fast during the first quarter of 2009.<sup>36</sup> In response, the Australian Government, like many other governments around the world, applied fiscal measures to support employment and economic recovery.

**1.2** The Government prepared and announced a series of stimulus measures in late 2008 and early 2009, including the \$42 billion Nation Building and Jobs Plan.<sup>37</sup> A key element of this Plan was the \$3.9 billion Energy Efficient Homes Package (EEHP), announced by the then Prime Minister on 3 February 2009.

## The Energy Efficient Homes Package

**1.3** The EEHP was designed to generate economic stimulus and support lower skilled jobs in the housing and construction industry and small businesses; and improve the energy efficiency of Australian homes. Installing insulation in existing homes was regarded as one of the most cost-effective opportunities to improve residential energy efficiency. At the time, it was estimated that only 60 per cent of Australian homes were insulated.<sup>38</sup>

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<sup>36</sup> International Monetary Fund; *World Economic Outlook (WEO) Crisis and Recovery* [Internet]; International Monetary Fund; Washington DC; 2009; available from <<http://www.imf.org/external/pubs/ft/weo/2009/01/>> [accessed 20 May 2010].

<sup>37</sup> Rudd, K (former Prime Minister) 2009, *Joint Press Conference of COAG Meeting*, Parliament House, Canberra, 5 February, pp. 1–3.

<sup>38</sup> Hawke, A, *Review of the Administration of the Home Insulation Program*, Canberra, 2010, p.23. See also Commonwealth Parliamentary Debates, House of Representatives, 11 March 2010, 46 (Kevin Rudd, then Prime Minister).

1.4 The EEHP was to be administered as an executive scheme<sup>39</sup> and included the:

- Homeowner Insulation Program<sup>40</sup>: incentives for homeowner-occupiers to have insulation installed (\$2.8 billion over two and a half years);
- Low Emissions Assistance Plan for Renters (LEAPR): incentives for renters in private rental accommodation and their landlords to install insulation (\$637.4 million over two and a half years)<sup>41</sup>; and
- Solar Hot Water Rebate (SHWR) Program: expansion of incentives for householders to install solar hot water heaters (\$514.4 million over three and a half years).<sup>42</sup>

## The three phases of the Home Insulation Program

1.5 The Home Insulation Program (HIP) was to be implemented in two phases: Phase 1 was the early installation phase from 3 February to 30 June 2009; and Phase 2 was the main program from 1 July 2009. HIP was to continue for two and a half years, however, following safety concerns, was terminated prematurely on 19 February 2010. The program then moved into a third phase with the implementation of safety inspection and remediation programs: the Foil Insulation Safety Program (FISP) and the Home Insulation Safety Program (HISP). Figure 1.1 illustrates this timeline and a summary of the main changes and key events throughout the different phases of the program are outlined in Appendix 2.

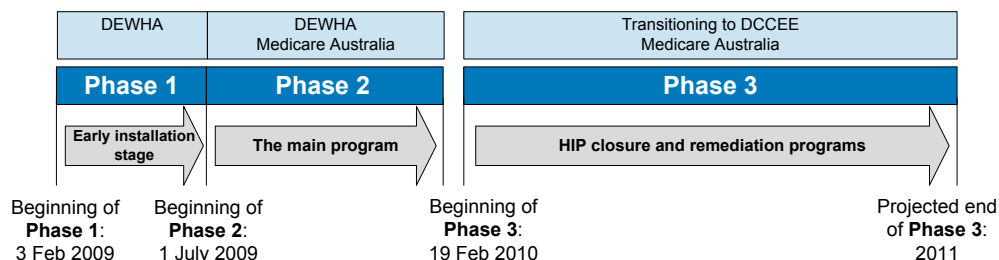
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<sup>39</sup> Executive schemes rely on executive rather than legislative power, and their key advantage is the speed in which they can be established and their flexibility. A challenge in implementing an executive scheme is ensuring that any terms and conditions are clear and enforceable. As noted by the Commonwealth Ombudsman, many of the checks and balances in programs are conveyed through legislation. Source: Commonwealth Ombudsman, *Executive Schemes* [Internet]. Commonwealth Ombudsman, Canberra, 2009, available from <[http://www.ombudsman.gov.au/files/investigation\\_2009\\_12.pdf](http://www.ombudsman.gov.au/files/investigation_2009_12.pdf)> [accessed 24 August 2010].

<sup>40</sup> The Homeowner Insulation Program operated from 3 February 2009 and was replaced by the Home Insulation Program on 1 July 2009. After this date, the original budget of \$2.8 billion was subsequently revised to \$2.45 billion.

<sup>41</sup> LEAPR was first introduced in 2008 with a maximum rebate of up to \$500 per property. The program was integrated into the HIP in September 2009. Department of the Environment, Water, Heritage and the Arts; *Environment Budget Overview — Sustainable Homes 2008–2009*; Canberra; 2009; p. 9.

<sup>42</sup> Environment Budget Overview 2009–2010, op. cit., p. 8. \$514.4 million is in addition to \$252.3 million previously allocated to the SHWR Program. Under the guidelines householders could not receive both the SHWR and assistance under the Homeowner Insulation Program.

**Figure 1.1****Timeline of the three phases of the Home Insulation Program****Phase 1 — the early installation stage**

**1.6** The Homeowner Insulation Program and LEAPR allowed homeowners, landlords and tenants to have ceiling insulation installed prior to the commencement of Phase 2 on 1 July 2009.<sup>43</sup> Homeowner-occupiers could be reimbursed for up to \$1600, and landlords or tenants up to \$1000. Program guidelines were released on 26 February 2009<sup>44</sup>, setting out the requirements for homeowners, landlords, tenants, installers and the material R-value of the insulation.<sup>45</sup> To be eligible, applicants had to be an Australian citizen or permanent resident over 18 years who had not received assistance under the SHWR Program (after 3 February 2009).<sup>46</sup> Phase 1 payments were made directly to the householder following the installation and after eligibility were assessed by the Department of the Environment, Water, Heritage and the Arts (DEWHA). Under Phase 1, 73 005 rebates were paid at a cost of \$103.1 million.

<sup>43</sup> Dwellings had to be built before 2003 and not have existing insulation above negligible effectiveness.

<sup>44</sup> Minor clarifications to these guidelines were released on 17 March 2009.

<sup>45</sup> Material R-value is the measure of insulation systems' effectiveness which must be determined in accordance with Part 4 of AS/NZS 4859.1. Total R-value takes into account material R-value as well as the thermal value of building elements and reflective air spaces. Australian Government; *Home Insulation Program: Program Guidelines*; version 3; Department of the Environment, Heritage, Water and the Arts; Canberra; 2009; p. 7.

<sup>46</sup> Homeowners who had claimed the SHWR prior to 3 February 2009, which was the announcement and commencement of the Phase 1, were eligible to receive a rebate under the Homeowner Insulation Program. However, those householders who received a SHWR after 3 February 2009 were not eligible for the Homeowner Insulation Program rebate.

## **Phase 2 — the main program**

1.7 Phase 2 of HIP ran from 1 July 2009 to 19 February 2010 (31 weeks). During this phase, the installer was paid the rebate directly, rather than the householder. There were also a number of changes introduced over time in response to safety and quality concerns. These included changes to installer competencies and training requirements, a reduction in the rebate amount, and the implementation of a compliance and audit framework. Table 1.1 sets out the key changes to the guidelines for Phase 2; an overview of this Phase is provided in Appendix 3. As at 31 March 2010, 1.16 million payments had been made to installers at a cost of \$1.45 billion for Phase 2.

**Table 1.1****Key changes throughout Phase 2 of the Home Insulation Program**

Date	Changes to Phase 2
1 September 2009 <sup>1</sup>	LEAPR merged into the Home Insulation Program, installers required to provide proof of insurance and minimum competencies and introduction of a pricing table. <sup>2</sup>
2 November 2009	Rebate reduced to \$1200, introduction of top-up payments <sup>3</sup> , down-light covers mandated and use of metal staples prohibited for all products.
1 December 2009	New terms and conditions for installers, non-insulated metal and conductive implements prohibited, householders required to obtain two quotes, establishment of the Deregistered Installer List for non-compliant installers and risk assessment templates mandated.
17 December 2009	Announcement of need for and proof of new minimum competency requirements.
23 December 2009	Approved insulation products list introduced.
9 February 2010	Use of foil insulation suspended from HIP.
10 February 2010	Electrical safety inspection program started (FISP).
12 February 2010	Mandatory competency requirements for all installers.
19 February 2010	Termination of HIP and announcement of further remediation programs.

Source: ANAO analysis of information provided by DEWHA. Refer Appendix 2 for more detail of key changes.

Note 1: While the dates above are the dates that the changes came into effect, DEWHA has advised that work to introduce these changes began weeks and sometimes months, beforehand.

Note 2: The pricing table was based on materials used per square metre of the roof area installed, taking into account whether or not installation was complex, average or straightforward.

Note 3: See Chapter 6 for more detailed explanation of top-up payments.

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

- comply with the program guidelines, relevant laws and meet minimum competency requirements<sup>47</sup>;

<sup>47</sup> At the commencement of the program, only supervisors were required to satisfy one of three minimum competencies: prior industry experience; a qualification in an approved trade; or insulation specific training. In December 2009, the registration requirements were tightened, and consequently, the Government announced that all installers were required to satisfy one of these minimum competencies, with evidence to be provided to Medicare Australia by February 2010.

- install insulation in accordance with Australian Standards and Building Codes, and within a specified R-Value;
- keep full and accurate records in relation to all aspects of the program;
- maintain workers' compensation insurance (where installers were not sole traders), public liability insurance and property damage insurance; and
- employees holding an Occupational Health and Safety (OH&S) 'White Card'.<sup>48</sup>

### **Phase 3 — HIP closure and remediation programs**

**1.9** As previously mentioned, HIP was terminated prematurely on 19 February 2010, because of ongoing safety and compliance concerns. The online processing of claims ceased and all subsequent claims and payments were processed manually. Two remediation programs were established:

- Foil Insulation Safety Program (FISP)—safety inspections for an estimated 50 000 homes that were insulated with foil under the program. Householders have the option of having the foil insulation removed, or on the advice of a licensed electrical contractor, safety switches installed. This program is estimated to cost \$85 million.<sup>49</sup>
- Home Insulation Safety Program (HISP)—ongoing safety inspections and remediation program involving a minimum of 150 000 homes that had non-foil insulation installed. This program is estimated to cost \$340 million.

### **Administrative arrangements**

**1.10** DEWHA's development and implementation of HIP coincided with a significant expansion of the department's responsibilities. Following the change of government in late 2007, DEWHA had responsibility for 107 new policy initiatives, including 10 new renewable and energy efficiency programs. DEWHA administered all aspects of Phase 1 (from February to June 2009),

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<sup>48</sup> A White Card is a nationally recognised competency based certification to demonstrate that the holder is competent to work safely in the construction industry (CPCCOHS1001A "Work Safely in the Construction Industry" qualification).

<sup>49</sup> DEWHA announced interim arrangements on 10 February 2010 under the electrical safety inspection program, which later became FISP.



including approving and distributing payments. DEWHA entered into a service level agreement with Medicare Australia to deliver elements of Phase 2 on 1 July 2009. Under this agreement, Medicare Australia was responsible for registering installers and the processing of payments to installers.<sup>50</sup>

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

## **Parliamentary, public and media interest in HIP**

**1.12** HIP has attracted significant parliamentary, public and media attention and concern. Coverage of HIP started to appear in the media in August 2009 and initially covered the use of poor quality imported insulation material and allegations of installer rorting. Since these initial reports, there have been a range of other issues that have received wide coverage, including: four fatalities associated with installing insulation under HIP<sup>51</sup>; safety concerns for installers and householders; inadequate training for installers; and payments for installations that did not occur or were incomplete. Since the closure of the program, the ongoing electrical safety concerns for installers and householders continue to be raised as well as the cost of the remediation and the industry assistance programs.

### *Ministerial statement to Parliament*

**1.13** On 10 March 2010, the Minister Assisting the Minister for Climate Change and Energy Efficiency, the Hon Greg Combet AM MP, informed the Parliament that HIP was to be terminated as a result of safety and compliance concerns. The Minister Assisting stated that the level of demand created significant difficulties for the administration of the program and the management of the compliance and audit program. Five principal objectives were outlined to:

- put in place a household inspection program to identify and address the extent of safety and fire hazard concerns, to mitigate risk, and

<sup>50</sup> Medicare Australia's role was limited to: providing and maintaining an online registration system; registering installers consistent with DEWHA registration requirements; providing and maintaining an online claim lodgement system; and making payments to installers where payment was approved by DEWHA.

<sup>51</sup> Consideration as to the cause of these deaths is subject to coronial inquiries.

thereby reassure householders who have had their homes insulated under the program;

- assist industry and employees adjust to the termination of the program and transition to the new Renewable Energy Bonus Scheme (REBS)<sup>52</sup>;
- identify and put in place processes to deal with issues of non-compliance and fraud;
- identify any failures of administrative processes within government associated with the design and implementation of HIP; and
- introduce the new home insulation component of REBS on a sound footing.<sup>53</sup>

**1.14** Consistent with the above objectives, the then Minister Assisting declared his commitment to have as many homes inspected as deemed necessary by risk assessments and to have alleged fraudulent behaviour appropriately pursued.

## Program reviews

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

### Review of the Administration of the Home Insulation Program

**1.16** The *Review of the Administration of the Home Insulation Program* was commissioned by the Department of the Prime Minister and Cabinet (PM&C) to examine and report on the effectiveness of the program's design, administration and delivery arrangements. It was undertaken by Dr Alan Hawke AO<sup>54</sup> and finalised on 6 April 2010. The review identified problems in program governance; program design and administration; risk management;

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<sup>52</sup> REBS was intended to replace HIP but did not go ahead, instead the Government committed to establishing FISP and HISP.

<sup>53</sup> Combet, G (Minister Assisting the Minister for Climate Change and Energy Efficiency) 2010, *Statement by the Minister Assisting the Minister for Climate Change and Energy Efficiency The Hon Greg Combet AM MP: The Home Insulation Program*, Canberra, 10 March.

<sup>54</sup> Since finalising the report, Dr Hawke has been awarded the Companion of the Order of Australia (June 2010).

audit and compliance mechanisms; and capacity issues. The report commented that the quality and safety risks could not be fully abated at that time.

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

## **Insulation Advisory Panel**

**1.18** The Government commissioned advice on the proposed remediation programs and the design of the proposed REBS, which was to replace HIP. This advice was given by Dr Ron Silberberg, Mr Tony Arnel and Mr Peter Tighe. The advice centred on improvements to program administration, quality assurance processes and systems.

## **Senate inquiry**

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

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

**1.21** Two dissenting minority reports disagreed with the recommendations made in the majority report and suggested alternative ways forward. The dissenting comments agreed that there were many lessons to be learned from HIP, particularly in relation to governance arrangements, under-resourcing, high staff turnover and the underestimation of the level of non-compliance with the program. The comments also highlighted some of the achievements of

HIP and the stimulus context within which it was delivered, as well as encouraging the Government to promote insulation instead of allowing a negative image to take hold in the public mind, and ensure that high standards are in place and enforced for future insulation programs.

## Comparisons with other insulation programs

**1.22** There have been various home energy efficiency rebate schemes undertaken internationally and at State level in Australia involving ceiling insulation. In particular, the Warm Front scheme in the United Kingdom (UK), the Warm Up program in New Zealand (NZ) and the Victorian Government Insulation Rebate program.

### UK Warm Front scheme and NZ Warm Up program

**1.23** The Warm Front (UK) scheme ran from 2000 and provided assistance for a range of energy efficiency measures, including ceiling insulation. Warm Front was designed to ensure, as far as reasonably practicable, that people were not spending more than 10 per cent of their annual income on energy costs. As such, the program targeted low socio-economic households and people labelled as vulnerable.<sup>55</sup> It was a demand-driven scheme but was not a stimulus measure. The scheme has assisted over two million people in the last 10 years.

**1.24** The National Audit Office (NAO) in the UK conducted two audits of the Warm Front scheme in 2003 and 2009. Both reports identified that the scheme was not benefiting the people it was targeting, and therefore not efficiently meeting its objective. The NAO recommended that the program change its determination of eligibility to better assist the target group. The NAO also identified deficiencies in reporting on targets, risks of duplicating efforts in targeting energy efficiency and inadequate contract management.

**1.25** The NZ Warm Up program commenced on 1 July 2009 in parallel with Phase 2 of the Australian program. Similar to HIP, it was a job creation measure, and also had health and energy efficiency objectives. It planned to insulate the ceilings and under-floors of over 188 500 homes over four years. It exceeded expectations with the first year target of insulating 27 000 homes being surpassed in the first six months. Rebates for insulation covered

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<sup>55</sup> The UK identifies a person as in a low socio-economic position if they spend more than 10 per cent of their income on heating and vulnerable if they are elderly, children or pregnant women.

33 per cent of the cost (up to \$1300) for eligible homes and 60 per cent of the cost of insulating existing dwellings for community services card holders.<sup>56</sup> The program had a List of Accepted Products, which excluded foil and blow-in insulation. Foil in particular was not included because of concerns by the Energy Efficiency and Conservation Authority over technical performance issues, longevity, safety and the three deaths that occurred in New Zealand in 2007 from the 'do-it-yourself' under-floor installation of foil insulation.

**1.26** Major differences in Warm Front (UK) and Warm Up (NZ) compared with HIP were that both of these schemes had:

- extensive checks on installers prior to registration, including safety practices, reliability, quality of work, experience, price, service and financial position;
- outsourced delivery models that used companies with experience in the insulation or energy efficiency industries;
- five to 10 per cent of insulation installations audited for quality; and
- longer delivery timeframes and were of a smaller scale.

### **Victorian Government Insulation Rebate program**

**1.27** Prior to the introduction of HIP, there were a number of small State Government programs offering rebates for home insulation. The Victorian program began on 13 August 2007 and concluded on 31 March 2009, with the introduction of HIP. The program budget was \$1.2 million for 3000 rebates. Victoria provided a rebate for 30 per cent of the cost of insulation up to \$300 for non-concession card holders and 50 per cent of the cost and up to \$500 for concession card holders. The major differences to HIP were:

- all installers were required to sign a contract with Sustainability Victoria specifying their obligations as well as complete a six hour training session conducted by a technical college;
- participating companies had prior experience in insulation installation; and
- five to 10 per cent of each installer's work was audited for safety and quality by an experienced building inspection company, with a total of

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<sup>56</sup> Community services card holders in New Zealand included low to middle income earning adult citizens.

seven per cent of audits being undertaken and used to target further audits.

## **Audit objective, scope and methodology**

**1.28** Since the commencement of HIP in February 2009, the Auditor-General has received representations from various stakeholders raising concerns regarding aspects of the program's delivery. On 3 March 2010, the Minister Assisting the Minister for Climate Change and Energy Efficiency, the Hon Greg Combet AM MP, requested that the Auditor-General conduct an audit of HIP. This followed a number of requests from the Shadow Minister for Climate Change and the Environment, the Hon Greg Hunt MP, to conduct an audit of the program following safety concerns and allegations of rorting and non-compliance by installers.

### **Objective**

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

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

### **Scope**

**1.30** The audit involved the following three agencies:

- DEWHA: responsible for implementing and administering the program until 8 March 2010;
- DCCEE: responsible for administering the closure of the program from 8 March 2010 and the remediation programs: FISP and HISP; and
- Medicare Australia: responsible for registering and paying installers from 1 July 2009 to 19 February 2010 and the processing of claims following the closure of the program.

**1.31** The ANAO did not examine the SHWR Program, the third component of the EEHP, or the Insulation Industry Assistance Package.

## Audit methodology

**1.32** The audit was conducted in accordance with the ANAO Auditing Standards at a cost of \$653 091. The methodology included an examination of policy and operational documents, guidelines, reports, project files and project management systems. Interviews were conducted with departmental and Medicare Australia staff, State Government agencies (such as Fair Trading and Regulatory agencies) and industry representatives. Overseas experience with similar programs was also reviewed. In addition, the ANAO held discussions with the Office of the Coordinator-General (OCG) within PM&C and the Department of Finance and Deregulation. DEWHA and Medicare Australia's claims and payment data was also analysed.

**1.33** The proposed audit report was issued to DEWHA (now the Department of Sustainability, Environment, Water, Population and Communities) and the Department of Climate Change and Energy Efficiency in early September 2010. Extracts of the proposed report were also issued to Medicare Australia, the Department of the Prime Minister and Cabinet, PricewaterhouseCoopers, United Group Limited, Protiviti, the Construction and Property Services Industry Skills Council and EE-Oz Training Standards. Consistent with the requirements of the *Auditor-General Act 1997*, all parties were given a period of 28 days to provide comments on the proposed report or the extracts thereof. Formal comments were received from both departments and from most parties that received extracts of the proposed report. These formal comments are published in Appendix 1 of the report.

## Acknowledgements

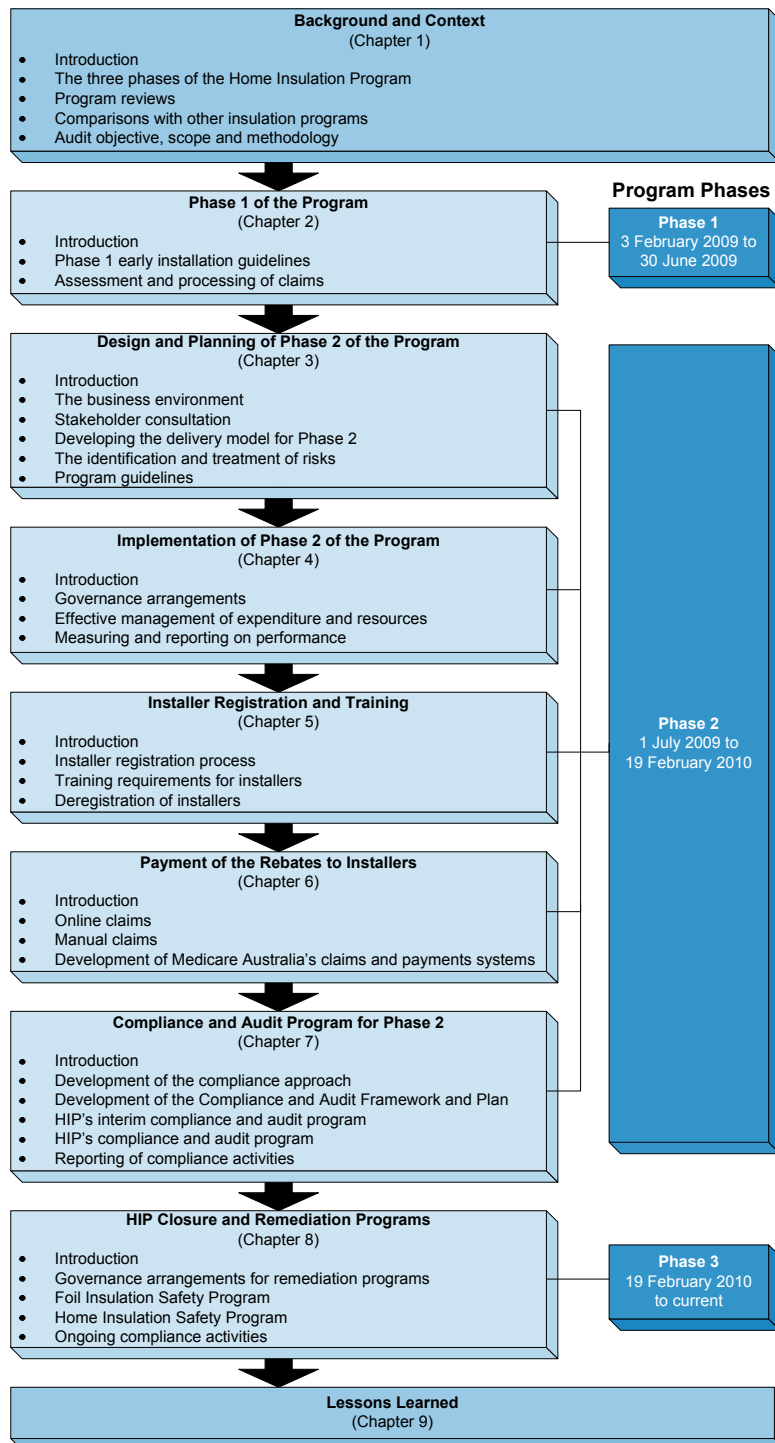
**1.34** The ANAO would like to express its appreciation to the management and staff of DEWHA, DCCEE and Medicare Australia for their assistance in the conduct of this audit. We would also like to recognise the contribution and assistance of industry and State and Territory Government stakeholders.

## Report structure

**1.35** The structure of the report is outlined in Figure 1.2.

**Figure 1.2**

## Report structure





## 2. Phase 1 of the Program

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*This chapter examines the administration of the Homeowner Insulation Program and the Low Emissions Assistance Plan for Renters.*

### Introduction

**2.1** The Homeowner Insulation Program and the LEAPR<sup>57</sup> operated largely in parallel. The programs were designed as interim measures that would allow the early implementation of stimulus payments while planning began for the introduction of the main phase of the HIP, on 1 July 2009. Under these programs, eligible householders, landlords and tenants could seek reimbursement for the cost of installing ceiling insulation.

**2.2** Eligible householders could claim a rebate of up to \$1600 as long as the property was their main residence and LEAPR provided a rebate of \$1000 to eligible landlords and tenants. There was lower than expected take-up for LEAPR. A submission to the Senate Inquiry into the EEHP by the Tenants Union of Victoria on 18 December 2009, noted the reasons for the lack of demand reflected poor targeting towards rental properties; that landlords had to consent to the insulation being installed and the benefits of the insulation flow to the tenant, rather than to the landlord. As such, LEAPR became part of HIP on 1 September 2009, which allowed landlords and tenants who installed insulation in private sector rental homes, eligible to receive rebates under HIP (Phase 2). Processing of payments under Phase 1 continued until February 2010.<sup>58</sup>

**2.3** The ANAO examined the processes undertaken by DEWHA to assess the claims for, and payments of, rebates to householders for these programs.

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<sup>57</sup> LEAPR (\$150 million over four years) was a 2007 Election Commitment that provided a rebate to landlords of up to 30 per cent of the cost of installing insulation, up to \$500 per building. The rebate amount changed on 28 January 2009 to \$1000, and the cap was removed. It was estimated that LEAPR would provide assistance to 700 000 rental households across Australia.

<sup>58</sup> Portfolio Additional Estimates Statements 2009–10 noted that LEAPR departmental funding of \$2.215 million was reallocated to HIP (Phase 2) and LEAPR administered funding of \$610 million for 2009–10 was redirected to the Government's Building the Education Revolution Program.

## Phase 1 early installation guidelines

**2.4** Soon after the Government announced the programs on 3 February 2009, DEWHA consulted with representatives from the insulation and construction industries. These discussions guided the development of the early installation guidelines<sup>59</sup>, which were released on 26 February 2009. Householders could apply for reimbursement from 1 March 2009. The guidelines stipulated eligibility, product and installation requirements as well as the requirements for claiming reimbursement. Applicants were allowed a six-month (184 days) timeframe within which rebates could be claimed, once installation had been completed.<sup>60</sup> Homeowners, landlords and tenants were required to:

- retain and provide copies of the two quotes and the tax invoice provided by the installer;
- give proof of eligibility if requested, up to 24 months after applying for the rebate; and
- advise that they were not 'double dipping' between the SHWR and Homeowner Insulation Program.<sup>61</sup>

**2.5** The installer had to be either the owner or an employee of a business with an ABN operating in the installation of thermal insulation. The installation had to meet Australian Insulation Standards and comply (as a minimum) with the specified R-values of insulation quality for the climate zone where the dwelling was located, and direction of heat flow.<sup>62</sup>

**2.6** The department received 74 308 claims for reimbursement. Of these, 73 005 rebates for the Homeowner Insulation Program and LEAPR were paid, at a total cost of \$103.1 million, over the period March 2009 to February 2010, as illustrated in Table 2.1.<sup>63</sup>

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<sup>59</sup> Insulation and construction industry feedback was also used to update the guidelines with minor technical clarifications throughout the program.

<sup>60</sup> Claims could be submitted up to 31 December 2009, but continued to be paid until February 2010.

<sup>61</sup> Double dipping refers to the practice of simultaneously applying for and receiving a rebate under different programs when it is clear that applicants can only claim under one program.

<sup>62</sup> AS 3999-1992—*Thermal insulation of dwellings and adherence to the insulation product standard* and AS/NZ 4859.1:2002—*Materials for the thermal insulation of buildings*.

<sup>63</sup> In total, LEAPR paid a total of 5625 claims, which represented less than one per cent of the original target of 700 000 rental properties to be assisted with insulation.

**Table 2.1****Total number and value of claims paid under Phase 1**

Program	Number of applications received	Total number of applications paid	Total cost of applications paid (\$m)
Homeowner Insulation Program	68 496	67 380	97.8
Low Emissions Assistance Plan for Renters	5 812	5 625	5.3
<b>Total</b>	<b>74 308</b>	<b>73 005</b>	<b>103.1</b>

Source: Information provided by DEWHA.

## Assessment and processing of claims

**2.7** Phase 1 of the program was to commence immediately on 3 February 2009, as the early installation component of the Government's stimulus package. This immediate start left no real opportunity for the department to develop systems specifically for the program that integrated with other departmental systems. As such, spreadsheets were used for assessing eligibility checks and recording claims data that fed into departmental payment systems.

**2.8** Applications were assessed against program eligibility and compliance with the guidelines, prior to approving payment. There was an eight week timeframe specified in the guidelines to assess eligibility and process and pay eligible applicants from the date of receiving the application.<sup>64</sup> Appendix 4 outlines the workflow processes and prepayment eligibility checks undertaken. Key checks were to include: ensuring that two quotes were obtained; there was no 'double dipping' between the SHWR Program and Homeowner Insulation Program; and that no previous payment had been made to the same householder.<sup>65</sup> These processes were to be carried out for each application received until 22 May 2009, when the processes were refined with the approval of the Minister. The revised changes were to take affect from 1 June 2009.

<sup>64</sup> All applications were individually date stamped, recorded on spreadsheets and 97 per cent of claims were processed and, if accepted, paid within 50 days.

<sup>65</sup> Information provided by the applicant was recorded in a spreadsheet and consolidated on a daily basis into the program's main database.

## **Backlog of applications**

**2.9** As the assessment and processing of the Homeowner Insulation Program and LEAPR applications did not commence until late March 2009, the department was dealing with a backlog of approximately 2000 claims when processing commenced. By May 2009, there was a backlog of 16 000 claims to process. There was also a risk that many payments would not be processed within the stipulated timeframe of eight weeks. Throughout May and June 2009, departmental staff numbers increased from 22 to 45 to process the increased volume of claims.

**2.10** As the backlog had the potential to be a major problem, given the volume of the applications anticipated when Phase 2 commenced, the department developed an action plan to accelerate the processing of Homeowner Insulation Program and LEAPR payments. The Project Control Group (PCG) also wanted the payments accelerated so that the processing systems could be used as a possible contingency measure for Phase 2.<sup>66</sup>

## **Revised workflow processes**

**2.11** To speed up processing times, streamlined processes were implemented from 1 June 2009. Resources were directed towards data entry and the first stage of data checking, with prepayment audit and quality assurance checks undertaken on a sample basis.<sup>67</sup> At the program's peak in August 2009, there was a total of 55 staff, with 91 per cent engaged in the processing of Phase 1 claims.

**2.12** The guidelines for Phase 1 stated that assistance was conditional on meeting all requirements outlined, including:

- the maximum rebate that could be sought was \$1600; and
- to be eligible to receive the rebate, the insulation must be installed by an authorised installer, who must correctly complete and sign the Installer Technical Compliance section of the reimbursement application form, which includes the size of the area insulated.

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<sup>66</sup> PCG was the primary governance mechanism for Phase 2 of HIP and provided senior executive oversight and decision-making in a policy and operational context with ownership for strategic risks.

<sup>67</sup> For example, rather than a final audit check being done for all applications prior to approval by the financial delegate, only a sample of applications would be checked. The then Minister had approved similar alternative administrative arrangements in December 2007 for the SHWR Program.

## ANAO analysis of payment data for Phase 1

**2.13** Overall, the prepayment checks in place for the Homeowner Insulation Program/LEAPR rebate were reasonably sound and designed to limit the potential for error. Nevertheless, a review of the available claims data by the ANAO indicated that, of the 67 380 claims paid under the Homeowner Insulation Program:

- 23 551 claims (35 per cent and up to \$33.6 million) had not recorded the area of insulation installed on the assessment spreadsheet;
- 20 122 claims (29.9 per cent and up to \$32 million in payments) were paid where the assessment against the eligibility criteria preventing householders from claiming the SHWR if they had already claimed under the Homeowner Insulation Program, was not documented on the assessment spreadsheet;
- 56 claims (0.08 per cent and up to \$89 600 in payments) were paid under the Homeowner Insulation Program, even where it was recorded on the assessment spreadsheet that the claimant had already accessed the SHWR;
- 259 claims (0.4 per cent and up to \$414 400 in payments) were made to applicants for homes recorded on the assessment spreadsheet as being other than their principal residence, which was not allowed under the program guidelines;
- 402 claims (0.6 per cent and up to \$380 000 in payments) where the two quotes and receipts required by the guidelines were not recorded as being received by DEWHA, but the rebate was paid; and
- 15 claims (0.02 per cent at a cost of \$26 878<sup>68</sup>) had been paid above the maximum \$1600 rebate amount.

For LEAPR, 1957 claims (34.8 per cent and up to \$2 million) out of a total of 5625 paid, did not have the area of insulation installed recorded on the assessment spreadsheet.

**2.14** To confirm whether any of the above payments were in fact ineligible, the department needed to compare rebate claims with the payment data for the SHWR as well as examine other supporting documentation and undertake

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<sup>68</sup> These payments above the maximum rebate of \$1600 ranged from \$1617 to \$2201.

follow-up investigations. The recovery of ineligible payments will be a matter for consideration by DCCEE.

## **Internal reporting requirements**

**2.15** Program information was reported to the DEWHA Executive weekly, including the total rebates paid as well as the number of claims received, paid and pending. Ineligible and incomplete claims and those assessed within the specified eight week timeframe were also reported. Once Phase 2 began, reporting for Phase 1 covered the total applications and rebates paid, and the breakdown of applications received and paid. Ad hoc reports were also generated in response to requests from the then Minister or to answer specific queries. Consequently, the department and the then Minister were well briefed on the program.

## **Complaints under Phase 1**

**2.16** The complaints process for Phase 1 formed part of the department's broader customer service and complaints resolution process; approximately 20–30 complaints were received.<sup>69</sup> As the program was a householder rebate scheme, the department did not undertake to resolve all complaints, as they were considered to be a contractual matter between the householder and the installer.

**2.17** There were 323 formally recorded complaints and/or queries in relation to the lodgment of claims outside of the eligible timeframe and status of payments. These complaints and queries were received through a range of sources, including:

- DATACOM call-centre (outsourced provider for DEWHA);
- Energy Efficiency Household email inbox (specific email address for the complaints/compliance area);
- direct phone calls to the Insulation Rebate Processing Team; and
- Parliamentary Offices/Ministerial correspondence.

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<sup>69</sup> DEWHA provides a departmental-wide enquiries and complaints line and householders/installers could make a complaint or enquiry. The department's Customer Service Charter provides that complaints will be responded to within 20 business days. There was no one single coordinated database of complaints and enquiries for Phase 1, and in a number of cases, particularly telephone conversations, there may not have been a recording made of the enquiry or complaint.

**2.18** Overall, the number of complaints and queries for Phase 1 was 0.4 per cent of the total claims/payments and the resolution processes for these were appropriate. The department recommended a small number of householders (three) take their concern to the relevant State or Territory Fair Trading Organisation.

## **Conclusion**

**2.19** Phase 1 was to commence immediately as an interim phase which left no real opportunity for DEWHA to develop even a rudimentary information technology system to support the delivery of the program. Nevertheless, DEWHA had reasonably sound processes for assessing householders' claims for rebates against the program's eligibility criteria. These processes were not consistently followed, and the assessment of householders' eligibility could have been improved against some criteria. For 20 839 claims (30 per cent) at a cost up to \$32.8 million, the department did not consistently record information required from householders as part of the claims process, such as the area of ceiling insulation installed.

**2.20** There were 73 005 rebates paid at a total cost of \$103.1 million. Processing was manually intensive and by May 2009 there was a backlog of 16 000 claims to be processed. In response, the department introduced a plan to improve the speed of processing, however, claims were still being processed in February 2010.

## 3. Design and Planning of Phase 2 of the Program

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*This chapter examines the key design elements of Phase 2 of the Home Insulation Program.*

### Introduction

**3.1** Effective design and planning should lead to a well designed business model for the program that accords with government policy. It should also take account of the business environment within which the program is to operate, the views of the program's stakeholders, and effectively mitigate the risks to the delivery of the program.

**3.2** In examining the design and planning processes for Phase 2 of HIP, the ANAO reviewed the:

- business environment in which the program was designed and operated;
- consultation that DEWHA undertook with stakeholders during the planning process;
- delivery model options for Phase 2;
- identification and treatment of risks during the program's design and planning phases; and
- development of the guidelines for the program.

### The business environment

**3.3** The EEHP was a key part of the Australian Government's Nation Building and Jobs Plan, designed to stimulate the economy and support jobs in manufacturing, distribution and installation. The stimulus measures were developed with a sense of urgency by PM&C within a compressed timeframe and with minimal consultation with DEWHA.<sup>70</sup>

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<sup>70</sup> There was no formal advice to Ministers from DEWHA relating to its capacity constraints in the development of the program. The department's role was limited largely to the calculation of program costs and advice on key program risks.



**3.4** The key difference for the second phase of HIP was that rebates were paid directly to installers rather than householders with an emphasis on minimising red tape for those seeking to participate in the program. This fundamental difference was designed to increase the stimulus effect of the program. The program particularly targeted lower skilled workers in the housing and construction industry on the assumption of a significant downturn within this sector from the global financial crisis. The program was also designed to improve energy efficiency by providing insulation to 2.7 million homes. This targeted the 40 per cent of households estimated to be without insulation.<sup>71</sup> In 2003, the Building Code of Australia was amended, requiring new dwellings to have a minimum energy efficiency rating of 4-stars.<sup>72</sup> This is why the program eligibility requirements stipulated that assistance was only available for dwellings built prior to 2003.

**3.5** The Australian insulation industry was largely unregulated. Although national standards were available for the installation of insulation, these were not mandated and many were out of date in 2009.<sup>73</sup> Only South Australia had a licensing system for insulation installers. The Australian Government was relying on State and Territory regulatory authorities to effectively carry out their existing responsibilities in relation to occupational health and safety and complaints handling. Safety and fire risks were also identified problems prior to the introduction of HIP, with some 80 fire incidents per year being associated with insulation in existing dwellings.

**3.6** At the time of developing the program, there was an estimated 200 established businesses in the industry installing insulation in 65 000 to 70 000 existing dwellings per annum. The manufacturing industry capacity was largely geared to this level of demand, although DEWHA was informed

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<sup>71</sup> Insulation in Australian homes increased to 61 per cent in 2008, up from 52 per cent in 1994. Most Australian households insulated their homes to achieve comfort (83 per cent) while savings on energy bills and reductions in energy use were relatively minor considerations for the installation of insulation. Australian Bureau of Statistics; 1301.0 - *Year Book Australia, 2009–10*; pp.91–92.

<sup>72</sup> Ceiling insulation is considered the most cost effective measure to meet these requirements and therefore most houses that met this criteria should already have insulation installed. Dr Ron Silberberg, AO, Tony Arnel and Peter Tighe, *Insulation Advisory Panel Report*, April 2010, p.7.

<sup>73</sup> AS 3999 *Thermal insulation of dwellings* (1992) covers bulk thermal Insulation in dwellings but does not cover reflective foil or polyurethane foam insulation. AS/NZS 3000: *Electrical wiring rules* (2007) specifies minimum clearances from recessed lighting, AS/NZ 4859.1:2002 *Materials for the thermal insulation of buildings* outlines product standards. In contrast, New Zealand has a single comprehensive standard that pays particular attention to hazard identification in existing dwellings. New standards are currently under consideration for Australia.

that the industry could expand by some 40 per cent if required. Nevertheless, this left a significant shortfall given the expected increase of 90 000 installations per month in existing dwellings (over 15 times the pre-program level).<sup>74</sup> In early 2009, senior Ministers were advised that imports of insulation products would be used to address the expected shortfall.

## Stakeholder consultation

**3.7** Effective stakeholder consultation and a process for incorporating stakeholder input were important in the development of HIP. The consultation process helps to identify risks, and the expertise of stakeholders can be used to inform decisions on the best way to mitigate those risks. This was particularly important for an Australian Government agency that had not had a long history with the industry.

### Industry consultations

**3.8** From 3 February to 30 June 2009, DEWHA consulted with a wide range of stakeholders on the design of the main phase of the program. This was done through industry roundtables and consultations involving peak bodies, manufacturers, construction/housing industry bodies, regulatory authorities (including fair trading and building regulators), State/Territory agencies with responsibility for energy efficiency, training organisations and non-government welfare organisations. These consultations proved helpful for DEWHA in shaping the details of the program's design.

**3.9** Some issues raised by industry and regulatory bodies during these meetings and through correspondence included:

- the need for increased imports of insulation products to support the scale of the program over two and a half years, and concerns over imports not meeting the Australian Standard;
- safety risks (including the risk of death or serious injury) and the extent to which competency standards were necessary for installers, trades people and new entrants<sup>75</sup>; and

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<sup>74</sup> The actual level of payments for installations under the program averaged 143 000 installations per month from July and peaked at 74 000 claims for installations undertaken in the week commencing 9 November 2009.

<sup>75</sup> The electrocution of people in New Zealand from installing 'do-it-yourself' underfloor insulation was specifically mentioned to the department at the industry round table on 18 February 2009.

- the importance of a strong audit program and responsive action for minimising risks from suspect installers.

**3.10** The task for DEWHA was made more difficult because of the range of strong and divergent views held amongst participants in the insulation industry. Tensions existed in relation to matters such as the stringency of requirements around training for installers (mandatory or not) and the requirement for one or two quotes prior to work commencing. Both these points had implications for the financial interests of installer businesses and the speed of the program roll-out. DEWHA used expert technical advisers to address particular areas of stakeholder divergence, such as on product specifications.<sup>76</sup> However, a judgment was required as to how stringent to make the terms and conditions to balance the costs to individual installers with the benefits of safety requirements for all installers and householders involved in the program.

**3.11** There is evidence that advice provided by stakeholders was incorporated into a range of program requirements — particularly on technical matters relevant to insulation product standards and training for installers. The importance of addressing fire and other safety issues was raised by industry as well as by State/Territory Governments from February 2009. However, due to an oversight and the compressed timeframe for implementation, DEWHA did not consult with members of the electrical industry or relevant State and Territory bodies during the design stage of HIP. This consultation would most likely have enhanced the department's awareness of safety issues. This matter is discussed further in Chapter 5.

## **Consultation with State/Territory Fair Trading Organisations**

**3.12** DEWHA held discussions with State/Territory representatives from FTOs and Consumer Affairs in April 2009 to seek their cooperation in developing a compliance/complaints handling framework for the program. The department envisaged that existing fair trading legislation would be the primary means for consumers to seek redress if they had disagreements with insulation installers. On the basis of legal advice, DEWHA considered that

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<sup>76</sup> Technical advisers comprised independent consulting engineers, a building research and testing organisation, the Australian Building Codes Board and the South Australian Office of Consumer and Business Affairs to advise on issues such as safety, R-values and product types.

there was no legal liability for the Australian Government from the activities of installers who were selected by householders to carry out insulation work.

**3.13** MOUs were signed with the respective State/Territory agencies from June to August 2009. The MOUs were designed to provide the Australian Government with information on complaints and were considered by DEWHA to be an important detection control for the program as well as a way to highlight weaknesses in the program's delivery. In particular, the complaint information was intended to assist in the management of the Installer Provider Register and the detection of non-compliant installers. However, neither DEWHA nor the FTOs envisaged the scale and seriousness of the complaints that eventuated. All State/Territory FTOs consulted by the ANAO noted concerns about the increase in their workload, the level of resources required to deal with complaints and, in some instances, the inadequate nature of the consultations that occurred prior to the roll-out of the program.

## Developing the delivery model for Phase 2

**3.14** The delivery model for Phase 2 of the program was developed in a short timeframe following the announcement of the EEHP on 3 February 2009. The relatively slow uptake of rebates under LEAPR and the relatively low processing rate of claims under Phase 1 (as discussed in the previous chapter) highlighted an alternative approach to DEWHA's claims processing was needed if the economic stimulus objective was to be achieved within the timeframes envisaged.

**3.15** The department had four months from the February announcement to the roll-out of Phase 2 on 1 July 2009. During this time, it was also administering Phase 1 of the program, which involved a substantial delivery effort in its own right as well as a number of other major energy efficiency programs.<sup>77</sup> The initial consideration of the proposal within DEWHA indicated that a six-month lead time was required to bring the program fully online. Key constraints identified were:

- recruiting, training and accommodating the staff needed to run the program; and

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<sup>77</sup> With the change of Government in November 2007, the department was asked to implement 107 new policy initiatives, many of which involved major changes in program design or legislation.

- putting in place an Information Technology (IT) system to manage a program of this scale.

**3.16** It was recognised within DEWHA that a rudimentary program could be operational within three months but there would be potentially serious delivery capacity issues in the absence of adequate departmental staffing and IT systems. The department recognised in January 2009 that this was going to be a major challenge even before the program was announced. DEWHA's executive was informed of major challenges already existing within the division that would become responsible for the roll-out of HIP. On 20 January 2009, a senior executive advised deputy secretaries on key issues related to IT system capability, accommodation, recruitment/training and challenges and serious backlogs with existing programs. He concluded that:

...the picture was one of a division already seriously stretched in terms of its capacity to deliver.

**3.17** DEWHA had earlier favoured a five-year roll-out because of difficulties in scaling up to meet the capabilities required to deliver a program of this nature and size. While a five-year roll-out was considered by the Government, the stimulus focus was a priority and was the reason why a two and a half year roll-out was chosen.

**3.18** The original concept for delivering the program was based on an outsourced model with a lead entity and up to fifteen regional delivery organisations. This approach had the potential advantage of bringing technical expertise and local knowledge into delivering the program as well as sharing risks. The disadvantage was in delaying the program roll-out until delivery organisations were in place. In designing Phase 2, there was a clear instruction from the Commonwealth Coordinator-General (OCG) to commence work as soon as possible, in keeping with the stimulus objective of the program.

**3.19** DEWHA in consultation with OCG, recognised that the outsourced delivery model was going to be very difficult to implement within the required timeframe, particularly as the department did not have an automated claims and payment processing capability. For this reason, the department was moving towards a hybrid model involving Medicare Australia's delivery capacity. The delivery model, involving Medicare Australia for the registration and payment of installers, was facilitated by the OCG in early April 2009. This model involved householders arranging directly with registered installers for insulation to be installed, and installers submitting claims for payment through Medicare Australia after work was complete.

**3.20** Following intensive consultations from April to June 2009, a service level agreement (SLA) between DEWHA and Medicare Australia was signed on 1 July 2009, at an estimated cost of \$25 million over 2.5 years, including GST. Changes to roles and responsibilities for either party, business processes and resources for Medicare Australia were to be agreed and detailed in an external costing request (ECR) as a variation to the SLA. The rapid changes implemented under HIP meant that, in some instances, ECRs were not finalised by DEWHA and Medicare Australia, and communication of new requirements following program changes was not as effective as it might have been.

### **Implementation planning**

**3.21** In April 2009, DEWHA developed its first project plan for the implementation of HIP Phase 2. At this stage, the draft plan recognised the key outputs required for Phase 2 but still focused on a regional/brokered service delivery model to manage the delivery of insulation in specific localities or for specific groups such as indigenous and low-income groups. The plan was adjusted over time and the fifth version of the draft project plan (completed in July 2009), explicitly recognised the involvement of Medicare Australia in the delivery of the program. Although never finalised, the project plan identified high-level budgets and resourcing, major deliverables and milestones, assigned responsibilities and outlined stakeholder management strategies and governance arrangements.

**3.22** However, the department recognised that there was still much to do after 1 July 2009. The key milestone review on 6 July 2009 noted that 'the project plan had been left behind in the rapid change that is a constant for these programs'. Nevertheless, the department commented that the underlying project management was:

...building and improving daily and that project management elements could be improved as the operational phase settles and the department moved forward on delivery.

**3.23** This was an important assumption as the level of change to the program guidelines from September 2009 to February 2010 in particular meant that there was little opportunity for the operational phase to settle and for the department to address those administrative gaps that had not been put in place by 1 July 2009. Ideally, a completed project or implementation plan should be an important benchmark and control to guide program implementation. The speed of implementation of HIP and the level of change

introduced after 1 July 2009 effectively precluded the project plan being of any substantial value in the program roll-out.

## The identification and treatment of risks

**3.24** Delivering a program of the scale and reach of HIP within a tight timeframe posed significant challenges and risks. The oversight of the management of risks rested with the PCG.<sup>78</sup>

**3.25** The risk profile of Phase 2 was significantly different to that of Phase 1. To increase the stimulus effect of the program, payments were made directly to installers, which substantially altered the incentive structure of HIP. Consequently, the risks facing the department increased because there was no limit to the number of claims that an installer could submit, and the scale of funds being distributed increased dramatically.

**3.26** The stimulus focus of the program also led to an emphasis on reducing red tape for installers to maximise the employment benefits offered by the program. In combination with the short timeframe for implementation, it also meant that many 'front-end' controls that might be expected in such a program were not put in place. For example, it was not until September 2009 that proof of insurance and minimum competency standards were required from installers prior to registration.<sup>79</sup>

**3.27** In April 2009, DEWHA developed a risk assessment that identified the very tight timeframe to 'develop and deliver the program in a properly controlled way' as an extreme risk. Eighteen other extreme and high level risks were identified and, that, without any mitigation, would adversely impact on the delivery of the program. Although many of these risks were relevant to the delivery model agreed for the program, this risk assessment was based on the earlier proposed regional outsourced model.

**3.28** Based on the numerous risks identified by the department, the ANAO has summarised four key risks for the program and examined how these were monitored and managed from April 2009:

<sup>78</sup> The PCG was chaired by a Deputy Secretary from DEWHA with membership from DEWHA, the OCG, the DEEWR and Medicare Australia. The role of PCG is discussed further in Chapter 4.

<sup>79</sup> DEWHA verified the insurance circumstances of some installers post-registration prior to September 2009.

- **Fraud risk**—the risk of fraudulent claims for payment by installers against the Australian Government;
- **Fire and safety risk**—the risk of poor installation practices resulting in risk to installers and/or householders;
- **Quality risk**—the risk of poor installation product or practices resulting in reduced effectiveness of the thermal value of insulation installed; and
- **Internal Capacity**—the risk that DEWHA did not have sufficient resources (skills, experience or funds) to deliver the program in a way that would achieve its stimulus and environmental objectives and in a properly controlled manner.<sup>80</sup>

**3.29** DEWHA and the PCG adequately identified each of these risks, among others, in their initial and ongoing assessments during the program's design and planning. Corresponding treatment strategies to mitigate those risks were identified by DEWHA and responsibility was assigned to senior officers with progress monitored at weekly PCG meetings. The strategies were broad-ranging and included the development of a fraud control plan, a compliance and audit strategy, specification of installer registration requirements (that is installer training and insurance), complaints handling by FTOs, targeted recruitment of skilled staff and industry consultation. The extent to which these strategies could be effectively implemented was tempered by the short timeframe for delivery and the imperative for low barriers to registration and roll-out of the program—often resulting in risks remaining and, sometimes, increasing over time.

**3.30** The ANAO's summary of PCG's identification and subsequent residual rating of these four key risks after risk mitigation strategies were identified, is based on the PCG's weekly risk reports, and illustrated in Table 3.1 below.

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<sup>80</sup> These risks represent the ANAO's collation of a number of key PCG-monitored risks for the program and are based on the initial consultant-facilitated program risk identification in April 2009 and ongoing reviews for weekly PCG risk registers and reports.



**Table 3.1****Assessment of key risks and the residual risk ratings after treatment**

Assessed Risk	April 2009	May 2009	June 2009
Fraud Risk			
Fire & Safety			
Quality risk			
Internal Capacity			

Residual Risk	April 2009	May 2009	June 2009
Fraud Risk			
Fire & Safety			
Quality risk			
Internal Capacity			

<b>KEY:</b>	<b>Extreme risk</b>	<b>High risk</b>	<b>Moderate risk</b>	<b>Low risk</b>
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Source: ANAO analysis and summary of HIP PCG weekly risk reports.

**Underestimating the treatments needed to manage risks**

**3.31** DEWHA recognised that, even after treatment, there were significant challenges and risks to the successful delivery of the program. A full risk assessment, explaining the breadth and scale of the risks and the reliance on successful implementation of a range of mitigation strategies was never provided to Ministers, either from DEWHA to its then Minister or through the OCG to the then Prime Minister. In the normal course of events this is not unusual, as it is properly the role of the department to administer the program and manage the risks. However, any significant factors which bear on the department's ability to deliver a program in accordance with Government policy should be brought to the attention of the responsible Minister(s) in a timely manner. DEWHA did not formally advise the Minister of its resourcing and capacity constraints. On 9 April 2009, DEWHA advised the Minister for the Environment, Heritage and the Arts (the then Minister) that:

...Development and selection of the business model is being informed by a comprehensive risk assessment, to identify and manage the full range of risks. The emerging preferred model will adequately address these; however residual risk around: fraud, complaints and installer and household safety will remain. Our strategies for managing these will be built into the business model wherever possible, or dealt with on an ongoing basis after the business model is put in place.

**3.32** This advice to the then Minister was overly optimistic, given the assessment of the residual risks (including fraud, safety and fire in particular), after treatments were still rated as high. The department's advice was influenced by the business model that was intended to keep the Australian

Government at arm's length from commercial relations between installers and householders. The department expected this approach to substantially mitigate any Australian Government liability and ensure that disputes were properly handled through normal commercial arrangements between the installer and the householder. Irrespective of the merits of this view, it did not give sufficient weight to the responsibility of the Government to ensure the effective delivery of services under government programs.

**3.33** At the start of the program in July 2009, the program design had a strong focus on the stimulus objective, which favoured keeping compliance costs low for installers to encourage employment growth and the expansion of the industry, which grew from 200 firms to 10 834 throughout the program. However, by the end of the program in February 2010, the balance had shifted towards a stronger focus on the management of risks. This was particularly evident through the introduction of evidence-based registration of installers, mandatory competency for all workers as well as an eligible product list. These requirements increased the margins for quality and safety in installations but introduced higher barriers to entry for installers under the program.

## **Flawed assumptions**

**3.34** There were key flaws in the department's early assumptions that weakened the design of the program and exposed the Australian Government to significant risks.

**3.35** Underpinning DEWHA's risk management approach were assumptions that, as time passed, were shown to be flawed. These included:

- the role of householders in monitoring quality and value of installations, which did not occur due to the difficulties in householders checking ceiling installations and the absence of a co-payment;
- the level of risk involved in installing insulation in ceiling spaces by inexperienced and often untrained installers in a largely unregulated industry; and
- voluntary compliance by installers with program guidelines, in particular in relation to training, supervision and installation standards.

**3.36** While a nationally accredited training package was developed for the program, this was not a mandatory requirement for supervisors or installers. Consequently, the installer registration process failed to provide a satisfactory

level of assurance as to the competence of installers or to the quality of installations undertaken.

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

**3.38** In addition, the department anticipated that householders would check the quality of the installation work. This expectation was unrealistic as there was generally no financial contribution by householders and there were difficulties associated with inspecting the installations. If disputes occurred between householders and installers, it was expected that these would be resolved through existing State/Territory consumer protection processes. Along similar lines, the advice to the then Minister in August 2009 stated that the department expected that deregistration, which was the principal sanction available, would:

only occur in rare circumstances and that in most cases the department will identify an issue, request the installer to remedy the problem or be deregistered and subsequently find the issues resolved.

**3.39** Only eight weeks later, the then Minister was advised of the proposed deregistration of 158 installers due to their failing to provide insurance information when requested by the department. Further, after requirements for providing evidence of compliance were tightened in December 2009, 2827 installers were deregistered for not accepting the new terms and conditions.<sup>81</sup>

**3.40** The reasons behind these flawed assumptions related to the short time prior to implementation, the lack of experience on the part of the department with the industry and the strong, conflicting views from industry put to the department in the consultation process prior to the implementation of Phase 2. As a consequence of the above assumptions not being met, and management of

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<sup>81</sup> While these numbers included a large voluntary component of installers who no longer wished to continue participating in the program there was also evidence of non-compliance with the terms and conditions of the program.

the program being more complex than anticipated, it became evident over time that the risk treatment options were inadequate to manage the emerging risks.

## Program guidelines

**3.41** The guidelines for Phase 2 were approved by the then Minister on 13 May 2009. They were designed to communicate the requirements of the program to installers and householders, as well as to give an overview of the program to the public and relevant stakeholders. Five versions of the program guidelines were released throughout Phases 1 and 2. Each version imposed more stringent terms and conditions.<sup>82</sup> A summary of the key changes is outlined in Appendix 2 to this report.

**3.42** The guidelines were updated in response to emerging issues and safety concerns. DEWHA used a variety of methods to communicate changes about the program to stakeholders, including the website, 30 Installer Advice emails and mobile phone SMS messaging. This helped to effectively target installers and keep them up to date on the changing terms and conditions.

**3.43** Regular changes to program guidelines in a short period made it more difficult for householders and installers to keep up to date with the program's terms and conditions. For example, two quotes were required from 26 February 2009, one quote from 1 July 2009, and two quotes from 1 December 2009. Also, the rebate amount changed in November 2009 with very short notice, and the use of foil insulation was banned under the program in early February 2010. Keeping up to date with the guidelines and current eligibility criteria was also a challenge for staff in Medicare Australia and the call centres.

**3.44** While installers were informed of program changes through a number of channels, at times other stakeholders, including Medicare Australia, had to seek clarification on current program requirements from DEWHA rather than being specifically advised of these changes. After the fifth version of the program guidelines was released on 1 December 2009, there were additional

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<sup>82</sup> On 11 May 2009, the PCG requested the then Minister to relax the original draft criteria that were designed to reduce the scope and potential cost of the program on the basis that the criteria created barriers that could have constrained 'program uptake and the speed of the roll-out and payment to installers'. The then Minister agreed to the PCG request.

program changes that were communicated through Installer Advice emails and Ministerial media releases but not included in the program guidelines.<sup>83</sup>

**3.45** While there is no evidence that these lapses in communication resulted in any significant consequences, it is sound practice to ensure that important program information is conveyed to all key stakeholders equally and in a timely manner, to avoid any confusion and uncertainty as to the requirements of the program. This is particularly important if there are numerous, substantial changes to guidelines over the life of a program. There is little doubt that substantial changes (however necessary) to a large program will create some measure of uncertainty or confusion among some stakeholders.

## Conclusion

**3.46** The development of HIP occurred in less than ideal circumstances. DEWHA had limited time to plan the roll-out of the program which was to operate within a largely unregulated industry set to expand by some 15 times the pre-program level. Safety and fire risks were identified as problems prior to the introduction of HIP.

**3.47** The department broadly consulted with the insulation industry but did not consult with members of the electrical industry or relevant State and Territory agencies when developing supervisors' minimum competency requirements. Given that a similar program in New Zealand excluded foil insulation due to technical performance issues, safety concerns and three fatalities associated with 'do-it-yourself' under-floor installations in 2007, this was an oversight that could have increased their awareness of electrical safety issues. Stakeholders raised a number of important issues prior to the roll-out of Phase 2 including the risk of death or serious injury and the need for a strong compliance and audit program. However, strong and divergent views among stakeholders made it difficult for DEWHA to make a judgement on how stringent to make the terms and conditions.

**3.48** The delivery model for the program was only settled in early April 2009, leaving little time to develop and implement IT support systems and engage sufficient numbers of skilled staff before the commencement of the program. The department preferred a five-year option

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<sup>83</sup> Changes included introducing mandatory minimum competencies, an approved product list and the suspension of foil insulation.

with an outsourced delivery model but this did not meet the timing requirement of the Government's stimulus package.

**3.49** The design of Phase 2 was strongly influenced by the clear riding instruction from the Commonwealth Coordinator-General to reduce red tape and commence work on projects as soon as possible, in keeping with the stimulus objective of the program. Consequently, some of the controls and mitigation strategies which could have been expected to have been implemented as part of HIP were not in place. While the department took steps to address some of these risks, treatments were inadequate.

**3.50** Flawed assumptions were made by DEWHA regarding the level of risk involved in installing ceiling insulation, the likely level of compliance by installers and the capacity of householders to provide a quality check. Furthermore, DEWHA's advice to the then Minister was overly optimistic, particularly in terms of the adequacy of treatment options. Regular changes to the program guidelines were introduced to address emerging risks. While these changes were communicated well to installers, other stakeholders were not adequately kept up to date, such as Medicare Australia.

## 4. Implementation of Phase 2 of the Program

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*The chapter examines the implementation of Phase 2 of the Home Insulation Program.*

### Introduction

**4.1** Program implementation should build on the planning process undertaken in the design phase and provide sufficient detail and focus to support successful implementation. Some of the key elements for successful implementation include:

- putting in place effective governance arrangements;
- effective management of expenditure and resources; and
- performance measurement and reporting.<sup>84</sup>

**4.2** The ANAO reviewed the implementation of the above elements including, where appropriate, the advice provided to the then Minister responsible for HIP.

### Governance arrangements

**4.3** Governance arrangements refer to the processes by which an organisation or program area is directed, controlled and held to account. The audit examined the key governance arrangements for HIP in terms of the following elements:

- oversight role of DEWHA (including the PCG and the responsible divisional unit managing the program as well as the department executive);
- the role of the OCG (within PM&C), who had a special oversight role for stimulus initiatives;
- the advice put to the then Minister following the roll-out of the program; and

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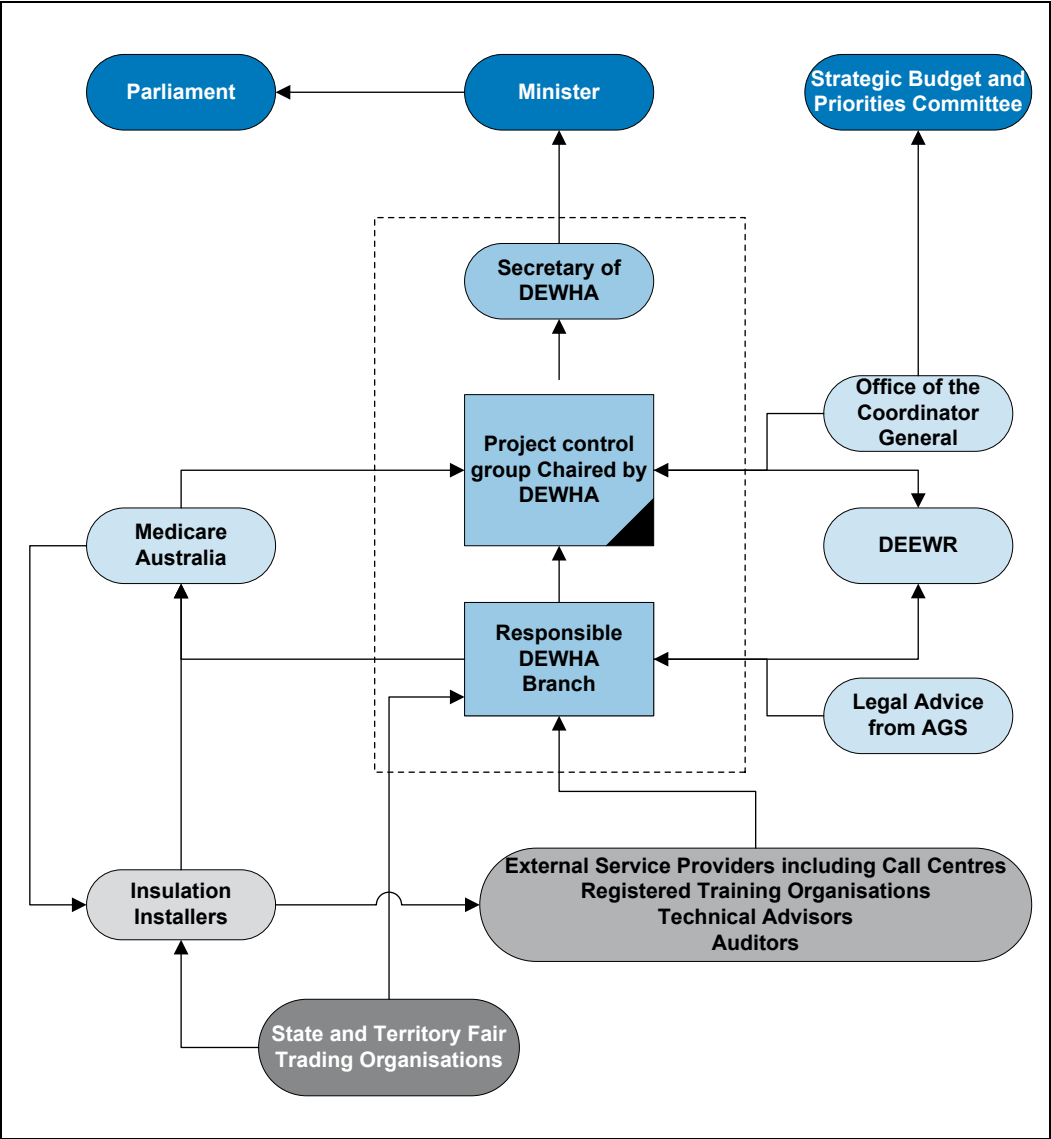
<sup>84</sup> Department of the Prime Minister and Cabinet and the Australian National Audit Office, (October 2006) *Implementation of Programme and Policy Initiatives, Making implementation matter*, p.25.

- the relationship between DEWHA and the State/Territory FTOs who had a role in complaint handling.

4.4 The project governance structure for HIP as at 1 July 2009 is set out in Figure 4.1.

Figure 4.1

Project governance model for Phase 2 of HIP (1 July 2009)



Source: ANAO analysis based on information provided by DEWHA, DCCEE and Medicare Australia.



## Oversight role of DEWHA and the Project Control Group

**4.5** The PCG was the primary governance mechanism for HIP. In advice to the then Minister, the PCG was described as providing senior executive oversight in a policy and operational context with ownership for strategic risks. The PCG was chaired by a Deputy Secretary from DEWHA. In addition to departmental staff, the PCG included representatives from Medicare Australia, DEEWR, the OCG and other agencies as appropriate from time to time, such as the Australian Tax Office. The PCG met weekly from April to November 2009 and, following the establishment of the Energy Efficiency Taskforce (EET)<sup>85</sup>, on a needs only basis as new governance arrangements were being put in place.

**4.6** Reporting from DEWHA focused on the number and value of claims received and rebates paid, enabling the PCG to monitor program expenditure against budget appropriations and report to the department's executive and the OCG on progress being made with the roll-out.

**4.7** The PCG also received reports on complaints and the management of risks, which provided an indication of current and future challenges for the program. The PCG was aware that some risks were being managed well but that others were being upgraded to extreme. For example, a compliance and audit program status report on 3 September 2009 informed the PCG of the weaknesses in the compliance framework, including poor market intelligence, no compliance case management systems, and no registry arrangements in place to handle the work volumes. In response, action was taken to seek an external service consulting firm to provide specialist advice and skills in compliance and auditing.<sup>86</sup>

**4.8** However, by October 2009, serious performance issues and risks were becoming evident within DEWHA as well as frustration that PCG decisions were not being implemented. The fragmentation of data management across multiple systems<sup>87</sup> also made analysis difficult and risk-prone. The resourcing problems across the Renewables and Energy Efficiency Division (REED)

<sup>85</sup> The EET was established by DEWHA to better oversight and manage strategic risks for the demand-driven programs being administered by the department.

<sup>86</sup> While Protiviti provided an interim compliance and audit service at this time, PwC was appointed in later September 2009 to undertake this service. See Chapter 7.

<sup>87</sup> This IT system fragmentation existed despite a significant investment by DEWHA into the *Clarity* grant system.

reflected some of the key problems identified at the commencement of the program and again at a divisional strategic planning retreat in May 2009. The scope of the workload and the growth in the division’s role and responsibilities in delivering demand-driven programs were becoming acutely evident.

**4.9** While the PCG was very focused on addressing risks to the program’s stimulus objective, formal quarterly divisional reporting to DEWHA’s executive tended to understate many of the other extreme level risks reflected in the PCG papers and minutes. For example, the report to the Executive Management Group in October 2009 for the quarter ended 30 September 2009 gave the overall status of HIP as ‘Amber’<sup>88</sup>, even though four risks were recognised as high or extreme even after treatment.

**4.10** The PCG monitored program risks, including the four key risk areas summarised by the ANAO in Table 4.1 below. These areas were recognised as posing extreme risks to program delivery. After identifying risk treatments, many of which have subsequently been found to be inadequate, high to extreme risks still remained for most of these key risk areas in November 2009.

**Table 4.1**  
**Residual risk ratings after treatment strategies identified for key risks from July to December 2009**

Residual Risk	July 2009	August 2009	September 2009	October 2009	November 2009	December 2009
Fraud Risk						
Fire & Safety						
Quality risk						
Internal Capacity						

Source: ANAO analysis and summary of HIP PCG weekly risk reports (and Taskforce reports for December 2009).

KEY:	Extreme risk	High risk	Moderate risk	Low risk
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**4.11** The PCG was a useful forum for facilitating communication among key stakeholders and in identifying the key risks to the program. However, while recognising the ultimate responsibility by the department, the PCG as the core governance mechanism was not effective in mobilising internal capability and

<sup>88</sup> ‘Amber’ was defined as ‘risks emerging’ in contrast to red which was ‘requiring intervention’.

resources (human and IT) within DEWHA to treat many of the critical risks that emerged following the roll-out of the program. In November 2009, the EET was established by DEWHA to better oversight and manage strategic risks. The role of the EET is discussed later in this chapter.

## **Advice to the then Minister from DEWHA**

**4.12** Agencies have the responsibility to ensure that their Minister is well informed when making decisions, and is well positioned for influencing collective decision making by the Government. Importantly, agencies need to provide an assurance to their Minister that programs are being effectively implemented in the way intended.<sup>89</sup> From 3 February 2009 to the closure of the program on 19 February 2010, DEWHA provided 66 briefs to the then Minister. Thirteen briefs covered the developmental period following the announcement on 3 February 2009 and the roll-out of Phase 2 on 1 July 2009. Fifty-three covered the period of the program from 1 July 2009 to 19 February 2010. The high number and nature of the briefings are summarised in Table 4.2 and reflected the very high level of activity and adjustment that occurred throughout Phase 2.

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<sup>89</sup> Andrew Podger, 2009; Australian National University; *The Role of Departmental Secretaries, personal reflections on the breadth of responsibilities today*; p.17.

**Table 4.2****The number and nature of briefs to the Minister for the Environment, Heritage and the Arts to February 2010**

Date/Phase of the program	Topics covered in briefs to the Minister for the Environment, Heritage and the Arts
Phase 2 - Developing the business approach 3 February 2009 to 30 June 2009 (13 separate briefings)	Consultation with industry and other stakeholders
	Development of the business model and guidelines
	Terms and conditions – minimum competencies
	Training requirements
	Proposed compliance and audit
Commencement of Phase 2 and adjustments to the program 1 July 2009 to 19 February 2010 (53 separate briefings)	Expanding the reach of the program to hard to reach households and communities
	Compliance, audit and fraud control
	Insulation manufacturers on supply problems
	Administrative issues Phase 1 and Phase 2
	Responding to safety and training issues
	Policy changes to the program to address emerging challenges
	Budgetary problems arising from higher than anticipated demand
	Emerging product quality problems

Source: ANAO analysis of briefs to the Minister for the Environment, Heritage and the Arts.

**4.13** The briefs reflected the changing ‘appetite’ for risk in response to emerging safety issues and the consequent shift in program focus from economic stimulus and job creation with minimal red tape, to more stringent controls and a lower risk profile. The briefs highlighted the real challenges in the underlying assumptions originally built into the program, particularly in relation to the registration process to influence installer behaviour, safety standards and the capacity of the program to meet quality standards with imported insulation products. The reliance on the relationship between installers and householders to provide some quality control was also clearly overestimated at the start of the program. This highlights the importance of a sufficiently rigorous registration process and a well developed compliance framework for programs in the future, along with some measure of contingency planning if assumptions prove to be incorrect.

**4.14** A key challenge to the relationship between the department and the then Minister occurred in October 2009 following the reports of an installer

fatality. Increasingly, the then Minister became dissatisfied and frustrated with the inability of the department to respond quickly and accurately to requests for information. In late October 2009, an administrative review was undertaken to improve reporting from the relevant division within the department with responsibility for renewable and energy efficiency matters. The report noted the significant achievements in delivering policy and regulatory outcomes. However, it also commented on some shortcomings and errors that were regarded as being due to six underlying factors. These were:

- patchy project management — lack of robust and updated risk management plans, stakeholder analysis, use of program management tools;
- accountability, governance and process issues around reporting — insufficient formal reporting that reflected a lack of understanding of the Minister's office needs, lack of strategic insight in reports, unclear accountabilities for financial reporting, systems and decision-making;
- ad hoc application of response protocols to urgent Minister's office requests;
- poor information systems that were fragmented, manually intensive and risky, which did not meet program needs;
- lack of large-scale and rapid build-up of program management capability; and
- some cultural and performance management issues.

**4.15** The report found that contributing factors to the recent errors were the scale of the programs being administered by the division with high volume transactions driven by demand, the speed of implementation and the early focus on stimulus. High staff turnover and low staff morale were also recognised as impeding the ability of the department to fix the problems identified. Recommendations made to address the identified shortcomings included establishing an Energy Efficiency Taskforce (EET) to facilitate a more strategic and coherent approach to the administration of the demand-driven programs being administered by the department. This Taskforce was established and remained in place until the machinery of government changes in March 2010, which transferred renewable and energy efficiency functions to the new DCCEE.

### *Improved governance arrangements*

**4.16** DEWHA has advised the ANAO that significant changes have been made to the way the department operates in response to both the Hawke Review and the Faulkner Review of the Green Loans Program.<sup>90</sup> Changes to the way in which the department is governed, additional structures to provide central advice to program areas, new training and procurement arrangements, coupled with a commitment to improved strategic planning and performance measurement will provide increased checks and balances. Since the machinery of government changes, DCCEE has outlined similar arrangements to strengthen its governance arrangements, business systems and processes and program management practices. These improvements are already being seen across the remediation programs.<sup>91</sup>

### **The relationship between DEWHA and the Office of the Coordinator-General**

**4.17** Traditionally, line departments, through their Ministers, are responsible for program delivery. PM&C is primarily concerned with providing high-quality policy advice to the Prime Minister and the Cabinet on matters that are at the forefront of public and government administration — especially matters concerning Commonwealth-State relations. However, recently, PM&C has also been assuming a stronger role in driving policy development and ensuring delivery of high-priority government initiatives. The Office of the Coordinator-General (OCG) within PM&C has had a key role in this context.

**4.18** Structural changes introduced by the Government within the context of the National Partnership Agreements through the Council of Australian Governments on the Nation Building and Jobs Plan, resulted in a significant oversight and facilitation role for the OCG. There was a significant riding instruction from the Commonwealth Coordinator-General and State and Territory counterparts to reduce red tape and to commence work on projects as soon as possible. The ANAO's discussions with DEWHA identified that the role of the OCG was crucial in facilitating arrangements with Medicare Australia to partner DEWHA in the delivery of claims processing and payments. This was particularly important to enable the delivery of the

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<sup>90</sup> The Green Loans Program was subject to a separate performance audit report by the ANAO.

<sup>91</sup> This is discussed further in Chapter 8 of this report.

program within the tight timeframe expected. The OCG was also a member of the PCG and received summarised weekly updates from DEWHA on the stimulus impact of the program, which provided input into the Coordinator-General's six monthly reports.<sup>92</sup>

**4.19** The OCG also handled formal correspondence from the then Minister to the then Prime Minister. The Minister wrote to the Prime Minister to brief him at significant stages of the program.

**4.20** On 14 August 2009, the Minister advised of the success of the HIP in meeting its objectives of supporting and creating employment, the correspondingly low demand for LEAPR as well as broader budgetary and expenditure matters relevant to recent government decisions.<sup>93</sup> The Minister wrote again on 27 August 2009 advising that, while HIP was proving successful in terms of jobs created and homes insulated (80 000 in July), there were implementation issues that needed to be addressed including:

- the continuing low uptake of LEAPR;
- concerns about new entrants to the market not adequately meeting required standards of work and engaging in price manipulation; and
- the need to transfer funds across the stimulus package and outside the portfolio.

**4.21** On 28 October 2009, the Minister sought the agreement of the Prime Minister to the more significant changes and adjustments to the program guidelines, including a reduction in the rebate to \$1200 and strengthening compliance action. The Minister also sought the Prime Minister's agreement to bring forward funds from 2011–12 to the current financial year to meet the high level of demand for program funds. The Prime Minister agreed to these changes on 29 October 2009. The Minister wrote again to the Prime Minister on 30 October 2009 advising of the transitional arrangements in place to cover any equity issues arising from changes to the rebate, the further changes proposed

<sup>92</sup> The reports included risks to the roll-out of the program and details on the number of: payments made; claims received; square metres insulated; and installers registered.

<sup>93</sup> The then Prime Minister advised Parliament that he had received a letter from the then Minister dated 14 August 2009 in relation to the Home Insulation Program proposing increased compliance requirements for the program. On 17 August, the relevant cabinet committee considered the compliance issues raised by the Minister in his 14 August letter. The committee approved changes to the program guidelines which included requiring the following: physical site inspections prior to giving quotes, increased inspections and scrutiny of trainer qualifications, increased compliance communications and processes for suspending and deregistering non-compliant installers.

to the guidelines and discussions between the department and the Australian Government Solicitor on compliance actions to deregister installers. Briefings to the Prime Minister from the OCG and subsequent correspondence from the Prime Minister indicated strong support for the Minister's proposals at all stages of the program.

## **The relationship between DEWHA and State and Territory Fair Trading Organisations**

**4.22** The relationship between DEWHA and State and Territory FTOs was important as it provided a means of coordinating consumer complaints and obtaining feedback on issues emerging from the industry. It was anticipated that if disputes occurred between householders and insulation installers, they could be resolved largely through existing consumer protection processes regulated by State and Territory FTOs.

**4.23** DEWHA was informed by State and Territory agencies during consultation processes in April 2009 that the scale of the program would change the dynamics of the existing market conditions for the insulation installation industry and that this, in turn, would increase the risk of poor installation by unskilled labour. The training and competency requirements were meant to address the risk of poor installation work, and MOUs with FTOs were meant to provide a framework for information on complaints sharing in this regard.<sup>94</sup>

**4.24** However, neither the FTOs nor DEWHA anticipated the full scale and seriousness of complaints that eventuated. As a result, they were not able to deal easily or quickly with the volume and type of complaints arising under HIP. Although there is evidence of frequent and ongoing communication, the FTOs consulted by the ANAO noted concerns about inadequate consultations with DEWHA prior to Phase 2 of HIP and insufficient resources to deal with the level of complaints that ensued. This suggests that where an Australian Government program will have an impact on the role of State/Territory Government organisations, further consultation and consideration of the impact and identification of ways to resolve those cannot be underestimated.

**4.25** Given the challenge of State/Territory FTOs being able to deal with the volume and type of complaints, the Australian Government was seen by

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<sup>94</sup> MOUs were not in place with all States and Territories until the end of August 2009.



consumers as the main party able to redress safety and fraud problems for many householders, particularly after the program closed in February 2010. Remediation programs are now progressively addressing the safety problems associated with HIP installations and the Australian Government has been left with significant costs for this remediation work.<sup>95</sup>

#### *Handling of program complaints and feedback from consumers*

**4.26** As noted earlier, it was expected that disputes between householders and installers would be largely managed by State/Territory FTOs. However, advice provided by DCCEE is that the majority of feedback on complaints provided to the Australian Government came directly from individual householders or a call centre on their behalf. There are no specific statistics on the proportion of complaints that came from FTOs, as many of the referrals to the FTOs regarding HIP were directed by DEWHA or DCCEE. Nevertheless, the department has estimated that only a small proportion (up to 10 per cent) of complaints came from FTOs.

**4.27** Householders were required under the program guidelines to select an installer from the Installer Provider Register and consequently, may have had a perception that installers were endorsed by the Australian Government. In the eyes of the consumer, responsibility for resolving complaints resided with the Australian Government rather than the FTOs, which increased the importance for DEWHA to have effective complaints management mechanisms in place.

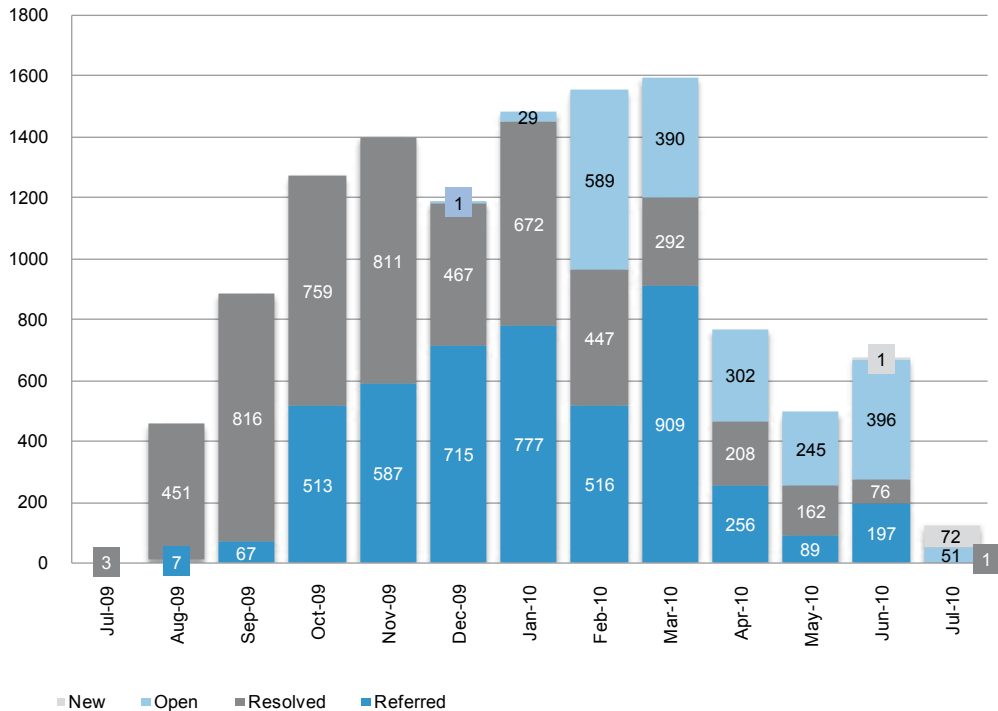
**4.28** In its planning, DEWHA recognised that the number of complaints was likely to increase under Phase 2 but was slow to introduce a complaints handling mechanism, with no formal systems and processes operating until late July 2009. While total complaints were not large in proportion to the size of the program (less than one per cent of total installations), the number (11 874) was still significant (as illustrated in Figure 4.2).

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<sup>95</sup> The remediation programs are discussed in further detail in Chapter 8.

Figure 4.2

Total complaints under Phase 2 of HIP



Source: Information provided by DEWHA.

**4.29** Figure 4.2 highlights the high proportion of complaints received (39 per cent) that were considered serious enough (priority 1) to be referred for compliance investigation by the department.<sup>96</sup> Priority 1 complaints referred for investigation included:

- no insulation being installed (2883 instances);
- fire or safety risks (1348 complaints);
- work order forms signed but no installation was done (193 complaints); and

<sup>96</sup> The complaints team recorded serious (priority one) complaints as resolved once they were referred to the compliance team for investigation. Other, more minor complaints were addressed and resolved by the complaints team and FTOs depending on the nature of the complaint.

- whistle-blowers reporting staff not being paid (13 complaints) or installers not holding relevant qualifications (38 complaints).

**4.30** Other complaints which were not considered serious enough to be referred for investigation related to matters such as incomplete work (1051), questionable installer practices (1317), property damage (375), overcharging (222), installing without consent (292) and non-compliant material used (150). Many of these matters are still to be addressed by DCCEE.

## Effective management of expenditure and resources

### Budget and expenditure

**4.31** The original Phase 2 budget allocation of \$2.8 billion for HIP planned for the relatively even distribution of funds over the two and a half year roll-out of Phase 2.<sup>97</sup> Forecasting of expected demand was not well developed and was particularly challenging given the scale of the program and the difficulty with estimating the impact the program would have on the industry. The early concern of DEWHA and OCG was that a significant program underspend was likely because of low program demand. This view was based on the experience of the LEAPR component of Phase 1 but was certainly not the situation that unfolded and at the program's peak, demand had been running at almost two and half times the anticipated level.

**4.32** The original budget allocation was significantly less than the level of early demand for the program and, within four months, it was apparent that additional funds would be required in the 2009–10 year to meet this demand. Almost \$1 billion was brought forward from the budgets of future years to 2009–10. The first bring-forward of funds of \$695.8 million occurred in November 2009 through an additional appropriation bill.<sup>98</sup> DEWHA and OCG were so concerned about program funds running out that the option to temporarily suspend claims under the program was considered. A further

<sup>97</sup> Administered fund allocations for the payment of insulation rebates in Phase 2 were: \$1 080 million in 2009–10; \$1 080 million in 2010–11; and \$540 million in 2011–12. Further funds of \$126 million were allocated for running costs over the life of the program and \$39 million for the payment of rebates under Phase 1 in 2008–09. The original HIP budget totalled \$2.865 billion, with an additional \$750 million for LEAPR.

<sup>98</sup> Portfolio Supplementary Estimates Statements 2009–10 Appropriation (Water Entitlements and Home Insulation) Bill (No. 1) 2009–10.

\$295 million was brought forward from 2011–12 in early February 2010 to accommodate the high demand.<sup>99</sup>

**4.33** Other budget revisions as a result of program modifications in September 2009 reduced the overall HIP budget to \$2.6 billion. This amount was then further reduced to \$2.45 billion.<sup>100</sup> Nevertheless, over 1.16 million payments were made for installations undertaken over the seven and half months from July 2009 up until the program's closure on 19 February 2010, at a cost of \$1.45 billion.

**4.34** As shown in Table 4.3, approximately \$1.7 billion was spent on payment of services and departmental resources to deliver the program. Another \$42.5 million has been spent on the programs implemented since the program's closure, including the remediation and industry assistance programs. The remainder of HIP's budget following the remediation programs will be used for activities undertaken post-closure of the program, including the remediation and assistance programs, and any surplus funds are to be returned to the budget. It is expected that cost of the two remediation programs will be \$424 million.

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<sup>99</sup> *Additional Estimates Statements 2009–10*, Environment, Water, Heritage and the Arts Portfolio. Changes to the level of rebate from \$1600 to \$1200 in November 2009 were also introduced to dampen demand.

<sup>100</sup> The \$2.45 billion included LEAPR, another component of the Government's Energy Efficiency Homes Package, which was merged into HIP (Phase 2) in September 2009 due to low demand. In particular, \$2.215 million of LEAPR departmental funding was reallocated to HIP. \$610 million of LEAPR administered funding was redirected to the Government's Building the Education Revolution Program (PAES 2009–10).

**Table 4.3****Home Insulation Program funding 2008–09 to 2011–12**

Program	2008–09 (\$m)	2009–10 (\$m)	2010–11 (\$m)	2011–12 (\$m)	Total (\$m)
	<b>Phase 1</b>	<b>Phase 2</b>			
Original Budget	58.54	1 127.47	1 119.63	559.68	<b>2 865.32</b>
Revised Budget	40.83	2 112.76	423.60	19.59	<b>2 596.78</b>
Actual expenditure	67.90	1 629.49	-	-	<b>1 697.41</b>
Actual cost of remediation and other assistance programs		42.54			<b>42.54</b>
Expected cost of remediation and other assistance programs			723.89	17.59	<b>741.48</b>

Source: DEWHA

Note 1: The figures above include both rebates and running costs (administered and departmental), which were budgeted at approximately 4.5 per cent over the life of the program.

Note 2: The total revised budget figure was subsequently adjusted to \$2.45 billion.

## Demand-driven programs

**4.35** Demand-driven programs are challenging to manage and require time, market knowledge and substantial investment to forecast demand with any accuracy. The design options available to DEWHA did not give the department sufficient capacity to adjust the program to meet significantly higher than expected demand. This put considerable pressure on staff and on the budget, and contributed to the requirement for the bring-forward of funds that occurred in 2009–10.

**4.36** Discussions with DEWHA, the Department of Finance and Deregulation, and PM&C highlighted the concerns and the challenges posed by demand-driven programs. In particular, there are features in the design of these programs that contribute to increased program risks, including:

- a generous level of subsidy or absence of householder co-payment, means that industry can actively promote demand and the recipient, such as the householder in HIP, may not be as engaged in making decisions about price and quality;

- a cap on funding for a program open to a wide eligibility group can create an imbalance between potential demand and funding availability;
- a complex program design and rapid implementation with tight timeframes can lead to shortcomings in administration; and
- an absence of a clear exit strategy upon closure of programs can result in changes in industry behaviour, such as pre-empting program closure, and creating unintended consumer demand and associated budget consequences. Program closure can also be lengthy and costly and this should be factored into program design.

**4.37** In this light, in relation to the design of future demand-driven programs, there is need for: greater consideration of risk management planning; appropriate compliance to be built into the design of programs, as well as flexibility to manage demand. Demand control mechanisms might include putting in place appropriate incentive structures for participants, such as holding back a proportion of payments to ensure quality standards are achieved or requiring some co-payments from those benefiting from the program. There will generally also be merit in ensuring that policy and programs with demand-driven features are developed in consultation with industry and other stakeholders so practical implementation risks are identified and appropriately mitigated in the policy development phase. For HIP specifically, difficulties in forecasting demand levels had wide-ranging consequences for program resourcing, including both budget implications and staffing resources.<sup>101</sup>

## **Departmental resourcing**

**4.38** Recruiting the number of people with the appropriate skill sets necessary to deliver a program is a critical success factor that has to be a priority for an agency taking on a major new program. The delay in finalising the delivery model for HIP left little time to engage sufficient numbers of skilled staff before commencement of the program.

**4.39** The human resources needed to administer HIP included staff and contractors engaged by DEWHA, Medicare Australia and now DCCEE.

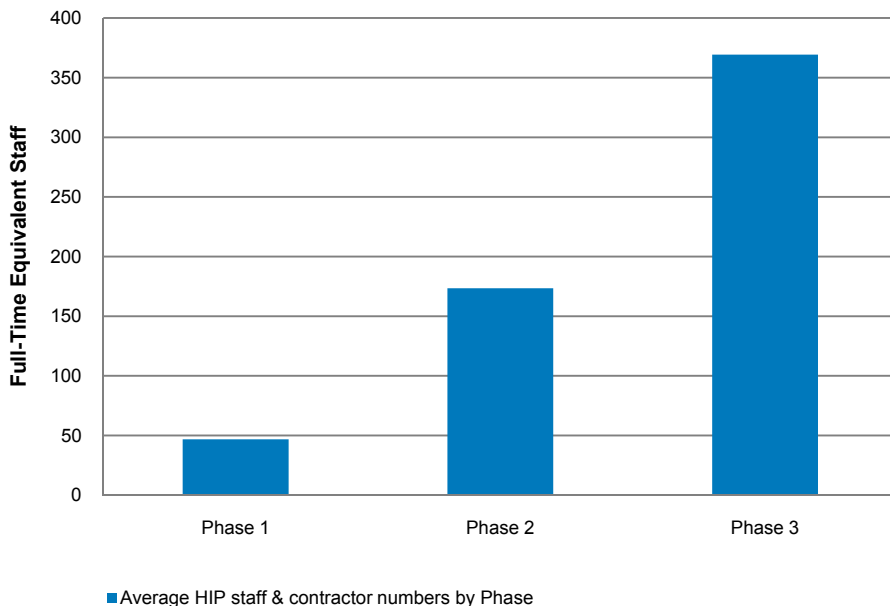
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<sup>101</sup> The impact on staffing is discussed further in the next section of this chapter, with the impact on compliance functions considered in Chapter 7 of this report.

Additional staff were also seconded from other agencies including Australian Taxation Office, Centrelink and the Department of Defence. Externally-contracted resources included call centre staff engaged by Medicare Australia and Centrelink, Datacom (the call centre operator), and compliance staff initially engaged by Protiviti, then engaged by PricewaterhouseCoopers (PwC) and the United Group Limited (UGL). Figures 4.3 and 4.4 illustrate the resourcing levels by phase and by agency by month. In addition, consultancies were commissioned for advice on a range of areas including risk, fraud, audit, compliance and legal matters. Resources for these consultancies are not included in these numbers.

**Figure 4.3**

**Average HIP staff and contractor numbers by Phase**



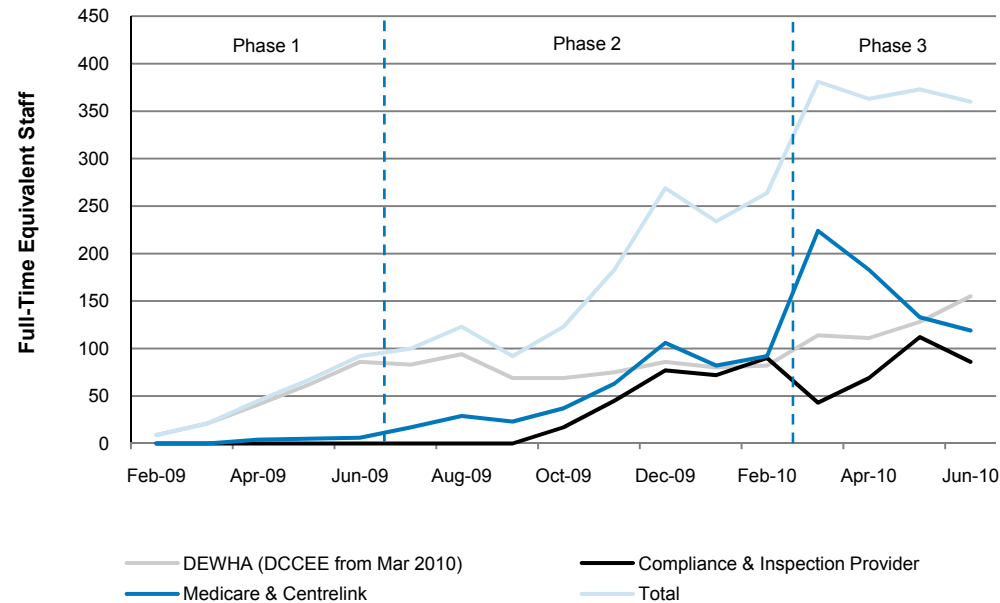
Source: ANAO analysis of staffing figures provided by DEWHA, DCCEE and Medicare Australia.

Note 1: Phase 3 staff numbers include both APS staff and contractors engaged in the remediation programs.

**4.40** Figure 4.3 shows that since the program's closure (Phase 3), more resources have been allocated than at the program's peak period of demand. These resources have been directed to safety and remediation activities as well as the manual processing of claims and payments.

**Figure 4.4**

**HIP resourcing by month**



Source: ANAO analysis of information provided by the relevant agencies.<sup>102</sup>

**4.41** DEWHA’s original project plan estimated average staffing levels for the program at 145.5 full-time equivalents (FTE) for 2009–10 (Phase 2). As Figure 4.4 shows, DEWHA’s resourcing (including Medicare Australia and Centrelink staff) only reached the anticipated staffing estimates of the early project plan in December 2009, after the program reached its peak, despite program activity up to this point far exceeding all estimates.

**4.42** The level of executive staff involved in the program also increased after the closure of the program. The scale up from a single branch to a division strongly suggests that DEWHA originally underestimated the level and complexity of the work involved. Executive oversight of a program as large and complex as HIP was critically important, especially given that it was delivered with such a fast roll-out.

<sup>102</sup> Based on figures provided by the responsible agencies. Assessment of the accuracy of these figures was limited to checking a sample of HR system and accommodation requirement reports and corroborated on the basis of the ANAO’s understanding of the level of activity within the program at the time.



**4.43** Until a taskforce was established in November 2009, HIP was managed within the Renewables and Energy Efficiency Division (REED) which was also responsible for a number of other complex programs, including the Green Loans program, and undertaking three major strategic policy reviews related to the carbon pollution reduction scheme.<sup>103</sup> Between February and June 2009, the planning for Phase 2 of HIP and the roll-out of Phase 1 were managed by the same branch head, who also had responsibility for the Green Loans program as well as other energy efficiency programs. The demands placed on those at the branch and division head levels to deal with a wide range of issues under tight timeframes were unreasonable; and executive-level resources were added too late and only after significant problems became evident.

**4.44** DEWHA (and DCCEE) officers at all levels have described the significant workload and pressure they experienced due to the unexpected high level of activity and rate of change within the program. High staff turnover was coupled with an inability to recruit staff quickly enough to replace those who departed. Furthermore, rather than having specialist recruitment assistance for the program, HIP line managers were also responsible for recruitment activities in addition to their operational roles.

**4.45** Similarly, Medicare Australia staffing exceeded initial estimates, increasing significantly, particularly for the closure of the main program phase, which involved a higher level of manual processing. Medicare Australia resourcing was originally estimated at 41 FTE in 2009–10. It was subsequently revised to 61 FTE in January 2010. At its peak in March 2010, Medicare Australia's staffing reached 224 FTE.<sup>104</sup> The sharp increase in Medicare Australia's resourcing, well beyond all estimates, occurred in response to program changes in December 2009 and, in particular, the requirement for the manual processing of claims following program closure in February 2010.

**4.46** A further issue was the level and blend of skills and experience of the staff involved in managing the program and performing program support functions. A departmental evaluation of the roll-out of Phase 1 in early

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<sup>103</sup> The division, with its broad-ranging policy and program delivery workload, was at one time accommodated across five Canberra locations. Such an arrangement would have made effective oversight and control even more difficult.

<sup>104</sup> Centrelink staff also assisted with the manual processing of claims.

July 2009 identified areas related to skills, experience and corporate-level support, among others, as areas that could be improved. For example, the:

- earlier insertion of critical expertise to the team in a Taskforce approach;
- level of expertise and resources available for the compliance and audit program; and
- recruitment processes and timeframes and IT support for developing systems and loading software.

**4.47** These lessons were not transferred into Phase 2. Adequate expertise for a program of this scale and nature is essential for ensuring quality service delivery, particularly in specialist areas such as compliance. Understanding the specialist requirements and the commensurate skills and experience required in undertaking timely and effective compliance actions is an important lesson learned. It should have been given higher priority but, as DEWHA commented to the ANAO, getting people with these skills quickly proved to be very difficult. An early, strategic focus on staff recruitment, secondment and/or outsourcing specialist services should be a critical consideration for agencies implementing similar programs. The program's compliance and audit program is discussed in detail in Chapter 7.

## **Measuring and reporting on performance**

**4.48** Measuring and reporting on performance is a key accountability component that enables program managers to objectively report on what has (or has not) been achieved and to respond in a timely manner to unexpected events. The EEHP was designed to generate economic stimulus and support jobs and small business; and improve the energy efficiency of homes. The dual objectives of the program, with the stimulus and job creation imperative taking precedence, created tensions in the planning and delivery of this program, which had flow-on impacts for the ability to monitor and report on performance.

**4.49** As previously noted, the EEHP was expected to result in:

- the creation of approximately 9800 new jobs in insulation manufacturing and installation;
- a minimum two-star energy rating for almost all Australian homes by 2012; and

- a reduction in carbon dioxide emissions by 4.7 million tonnes by 2012 (increasing to a total reduction of 49.4 tonnes by 2020), combined with the SHWR Program.

**4.50** A draft monitoring and evaluation plan for the EEHP was developed by the department to cover the period 1 July 2009 to 30 June 2012, but this was never implemented. DEWHA, and later DCCEE, relied on monitoring of installations based on claims and payments made. This data enabled the department to report to OCG on progress with the stimulus objective of the program. However, there is no actual data on the jobs created or greenhouse benefits from the program. The Hawke Review noted that:

...measurement of results, such as employment numbers and greenhouse gas abatement, [are] inherently difficult to quantify in the short term. While we can measure the numbers of homes insulated and installers registered, other quantification is difficult, especially in light of the improving economy.<sup>105</sup>

**4.51** The ANAO has reviewed the extent to which the departments have been able to determine whether the program has achieved its objectives.

## Measuring jobs

**4.52** Based on DEWHA's data over 12 000 workers were estimated to be involved in the industry in February 2010—shortly before the program was closed. Ministers were advised in early 2010 that in the order of 6000 to 10 000 additional jobs in manufacturing, distribution and installation were created by the program. Since closure, jobs in both insulation installation and manufacturing have been affected. The number of jobs created at the peak of the program were shorter-lived than intended due to the early closure of the program.<sup>106</sup> Further, industry representatives interviewed by the ANAO indicated that the closure of the program has resulted in significant volumes of surplus insulation products in Australia and there is likely to be some decline in manufacturing jobs as a consequence. The subsequent remediation program s have assisted employment in the industry to some extent. The Government

<sup>105</sup> Hawke Review; 2010; op cit pp. 24–25.

<sup>106</sup> The program saw the number of insulation installation businesses increase from approximately 200 pre-HIP to over 10 800 registered installers at the program's peak. It is not known how many extra staff were employed or new businesses created during the program's existence. The OCG advised the ANAO that it is difficult to ascertain job creation figures specifically for the program without detailed surveys, as businesses varied in size and may have engaged additional workers for varying periods and workers may have worked for a number of businesses under the program at different times, and some full-time and some part-time.

also introduced a \$41.2 million Insulation Worker Adjustment Package to support re-training for industry workers affected by the program's closure.<sup>107</sup>

**4.53** Consequently, while there are no firm figures available, it is likely that the program was initially successful in its stimulus objective. However, as the focus shifted towards addressing safety concerns and addressing deficiencies in the quality of installations, the number of jobs is likely to have reduced. This reduction in jobs would have become more substantial following the closure of the program in February 2010. However, the remediation and industry assistance programs will maintain at least some measure of stimulus in this industry. However, there are no definitive statistics or data available from Australian Government agencies to illustrate this impact.

## **Greenhouse gas reductions**

**4.54** In terms of the energy efficiency and greenhouse benefits of the program, it has been estimated that, on average, for each home that received new ceiling insulation, 1.65 tonnes of carbon dioxide equivalent (CO<sub>2</sub>-e) will be saved each year.<sup>108</sup> This equates to 1.9 million tonnes of CO<sub>2</sub>-e per annum based on 1.16 million installations, or almost 0.4 per cent of Australia's national greenhouse gas emissions.

**4.55** Inspections under the compliance and audit program as at March 2010, indicate that 71 per cent of installations inspected out of 13 808 were fully compliant.<sup>109</sup> Some 29 per cent of installations had some level of deficiency, ranging from minor quality issues, to serious safety concerns. In addition, some 2883 complaints have been made that homes did not have insulation installed, and as of 25 July 2010, 489 homes had foil insulation removed following inspections. This number is expected to increase. The level of deficiencies in installations and the removal of installation installed under the program would suggest that the departmental estimate of 1.65 tonnes of carbon dioxide equivalent (CO<sub>2</sub>-e) saved each year is overly optimistic and

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<sup>107</sup> This part of a package of industry assistance programs totalling \$56 million. These were not examined as part of this audit.

<sup>108</sup> DCCEE estimated this figure which was quoted in the Hawke Review of the Home Insulation Program; 2010.

<sup>109</sup> These inspections were focused on non-compliance and potential fraud and as a result, this figure does not include the FISP and HISP inspections. Note that the introduction of targeted inspections after March 2010 means that these figures are not a representative sample of all installations and therefore cannot be extrapolated across the entire program. DCCEE will have a better understanding of the extent of non-compliance across the program once inspections under FISP and HISP have been completed in mid-2011. This is discussed further in Chapter 8 of this report.

will need to be revised downward. The extent of the downward revision is, however, not clear at this time.

**4.56** The department will be better placed to estimate the greenhouse and energy efficiency benefits of the program once the full extent of the problems are known and the remediation programs have been completed and complaints have been addressed.<sup>110</sup>

## Conclusion

**4.57** The Project Control Group (PCG) was intended to provide the core component of a robust governance framework for the implementation of HIP within DEWHA. The PCG was a useful forum for identifying program risks but proved ineffective in mobilising resources to treat strategic risks. Quality, safety, potential fraud and internal capacity risks were all identified as extreme risks in November 2009—five months after the roll-out of Phase 2.

**4.58** Briefings to the Minister during the implementation phase highlighted the real challenges in the underlying assumptions originally built into the program. While there were an extensive number of briefs to the then Minister, on a number of occasions, DEWHA's advice was overly optimistic and contained factual errors. In October 2009, the Minister became dissatisfied with briefings and DEWHA's capacity to respond quickly and accurately to requests for information. In late October 2009, an administrative review was undertaken. This led to the creation of the Energy Efficiency Taskforce in DEWHA which facilitated improved governance arrangements. Briefings and subsequent correspondence between the Minister and the Prime Minister indicated strong support for tightening the program guidelines as the program unfolded.

**4.59** The department was made aware of the risk of poor installations by inexperienced installers through its consultations with state agencies. However, the scale and seriousness of complaints that eventuated under HIP were not fully anticipated. As a result, DEWHA and State/Territory Fair Trading Organisations were not able to deal easily or quickly with the volume and type of complaints arising under HIP. The consultation processes that occurred prior to Phase 2 of HIP did not fully consider the resources

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<sup>110</sup> DCCEE could also include the adjusted figure in its calculation of greenhouse gas reduction measures in the national communication to the *United Nations Framework Convention on Climate Change*.

State/Territory agencies would require to deal with the complaints that ensued. While DEWHA intended to rely on existing mechanisms to manage consumer complaints, it was left with managing the majority of complaints itself.

**4.60** Forecasting for demand-driven programs can be complex and challenging due to uncertainties with the underlying assumptions. It is prudent for departments in developing policy proposals for government to build options into the program design to limit, or stimulate demand as circumstances may require. Higher than forecasted demand resulted in expenditure exceeding the initial budget estimates by approximately \$400 million in 2009–10. Staff within DEWHA were not able to keep pace with the higher than expected demand. It was apparent that the lack of a strategic, agency level approach to managing human resources within DEWHA constrained the effectiveness of HIP's implementation.

**4.61** The design of HIP had implicit tensions between the stimulus and energy efficiency objectives. The intended monitoring and evaluation plan was never implemented. The absence of reliable performance data makes it difficult to measure the impact of the program with any precision. While jobs were likely to have been created by the program, these jobs were shorter-lived than intended because of the early closure of the program. The results against the greenhouse gas objective are uncertain and will not be clear until the results of inspections under the remediation programs are available and the extent of compliant installations is known.

## 5. Installer Registration and Training

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*This chapter examines the processes and controls in place to assess the eligibility of installers to receive assistance under Phase 2 of the Home Insulation Program.*

### Introduction

**5.1** At the program's commencement, the conditions for installer registration represented the relatively low regulatory requirements that existed at the time. Installers working in the insulation installation industry are not required to hold a license or to undertake insulation specific training.<sup>111</sup> Registration under HIP required installers<sup>112</sup> to have a valid Australian Business Number (ABN) and to agree to a set of terms and conditions. These terms and conditions specified a set of minimum competency requirements that installers were required to satisfy. These included: prior industry experience; a qualification in an approved trade; or insulation specific training.<sup>113</sup> The minimum competency requirements were designed to provide a level of assurance in relation to the safety and quality of the ceiling insulations installed under the program.

**5.2** Registered installers were listed on the Installer Provider Register, and could submit claims for the payment of ceiling insulation installed in accordance with the program guidelines.

**5.3** The ANAO examined the:

- installer registration process;
- training requirements for installers; and
- deregistration of installers.

### Terms and conditions of registration

**5.4** There were 20 *Terms and Conditions of Registration* developed by DEWHA in consultation with a range of stakeholders, including the:

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<sup>111</sup> Except in South Australia, where installers of ceiling insulation are required to hold a license under the *Building Work Contractors Act 1995*.

<sup>112</sup> Installers include any organisation or individual registered under the program and listed on the Installer Provider Register.

<sup>113</sup> Installers were to provide a statement of attainment from a Registered Training Organisation against the required units of competency under the insulation installation training package.

- Department of Education, Employment and Workplace Relations (DEEWR);
- Department of the Prime Minister and Cabinet (PM&C);
- the Project Control Group (consisting of representatives from DEWHA, Medicare Australia, DEEWR, PM&C and DHS);
- Construction, Forestry, Mining and Energy Union (CFMEU);
- peak insulation industry bodies;
- two peak building and construction industry bodies (Housing Industry Association and Master Builders' Association); and
- major insulation companies.

**5.5** The *Terms and Conditions of Registration*, which were approved by the Minister for the Environment, Heritage and the Arts on 6 June 2009, were available on the online registration system and required that installers satisfy the following key requirements:

- comply with minimum skills, experience and training competencies (minimum competency requirements);
- install insulation in accordance with various Australian Standards and sections of the Building Code, and within a specified R-Value;
- keep full and accurate records in relation to all aspects of the program; and
- maintain workers' compensation insurance (where installers were not sole traders), public liability insurance and property damage insurance.

## Installer registration process

**5.6** Installers could register with the program from 9 June 2009 until the program closed on 19 February 2010 via an online registration system administered by Medicare Australia. From 9 June until 1 September 2009, installers were required to provide a valid ABN and agree to the terms and conditions of registration. Installers whose ABN was successfully validated<sup>114</sup>

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<sup>114</sup> Medicare Australia was responsible for validating the ABN of each installer, which included ensuring that the ABN provided by installers: had not been previously registered under the program; was listed as active on the Australian Business Register; and matched the company name listed on the Australian Business Register.



were provided with a *Welcome Kit* and a user identification and password to gain access to the online claims system. Where an ABN could not be validated, Medicare Australia either contacted the installer for further details, where information was missing, or referred the registration to DEWHA if it appeared suspect. Installers who had successfully registered under the program were listed on an Installer Provider Register, maintained by Medicare Australia and available on DEWHA's website.

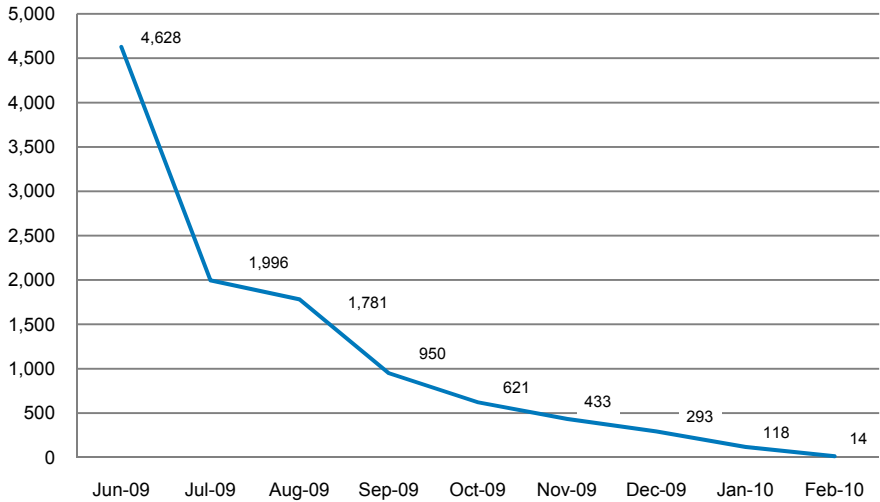
**5.7** As householders were required to select an installer from the Installer Provider Register to be eligible for assistance under the program, there may have been a perception by householders that installers who were listed on the register had gone through a more stringent registration process than agreeing to the terms of conditions of registration and an ABN validation check, which was all that was required until 1 September 2009. Before this time, documentary evidence that installers satisfied the terms and conditions of registration, such as certificates of insurance, were to be made available only upon request, if for example, the installer was selected as part of DEWHA's compliance and audit program.

**5.8** The registration process was tightened from 1 September 2009, when all new installers were required to provide copies of OH&S certificates for all installers associated with their business, verification of public liability and property damage insurance, verification of workers' compensation insurance (where applicable) and evidence of competency for those installers in a supervisory role. By this stage, over 70 per cent of registrations had already occurred.

**5.9** Over the duration of the program, there were 10 834 installers listed on the Installer Provider Register, however, only 7541 installers submitted one or more claims for payment under the program. The number of registrations per month is illustrated in Figure 5.1.

**Figure 5.1**

**Number of registrations per month**



Source: Medicare Australia.

**Minimum competency requirements**

**5.10** The *Minimum Competency Requirements* were part of the *Terms and Conditions of Registration*. They were designed to provide a level of assurance in relation to the safety and quality of the ceiling insulations installed under the program. The minimum competency requirements initially stated that all persons installing insulation under the program must have completed Occupational Health and Safety (OH&S) construction industry induction training in addition to satisfying, or being supervised by an installer who satisfied, at least one of the following three minimum competency criteria:

- at least two years prior industry experience; or
- qualification in an approved trade; or
- completion of insulation specific training.

**5.11** OH&S construction industry induction training is a mandatory requirement under State/Territory legislation for all people carrying out construction work. Training must be undertaken through a Registered Training Organisation (RTO) or a State/Territory regulatory body, and can be completed in approximately one day. It is to provide the individual with an awareness and understanding of:

- their rights and responsibilities under OH&S law;
- common hazards and risks in the construction industry;
- basic risk management principles; and
- the standard of behaviour expected of workers on construction sites.

**5.12** The three minimum competency criteria were not initially mandatory for all installers. Installers who could not satisfy any of the three criteria were still permitted to install insulation under the program, provided they were supervised by another installer who met at least one of the criteria and authorised all work undertaken. This decision was made by the department following consultation with stakeholders<sup>115</sup>, who agreed that while setting mandatory competencies for all installers would be beneficial, it would not be possible to implement, given the short period of time available and the need for low barriers to entry to the program. Further, the insulation industry in Australia was largely unregulated prior to HIP and, as such, there was no existing requirement for insulation installers to be licensed or formally trained.<sup>116</sup>

**5.13** Learning on the job and allowing qualified and experienced individuals to supervise the work of inexperienced trainees is an acceptable practice within the general construction industry. However, installing insulation, which requires working in a roof space (particularly near electrical wiring), is hazardous and presented a high level of risk for inexperienced and untrained workers. Individuals transitioning to the insulation industry from another trade would be expected to have a better understanding of construction industry risks. However, it could not be assumed that these installers had the skills and knowledge of the risks involved in installing ceiling insulation safely and effectively, without some level of training.

**5.14** Although the department consulted a wide range of stakeholders in developing the *Minimum Competency Requirements*, it did not consult members of the electrical industry at this time, such as the National Electrical and Communications Association (NECA), the *ElectroComms and Energy Utilities*

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<sup>115</sup> Stakeholders included representatives from the insulation industry, the housing and construction industry, the Construction, Forestry, Mining and Energy Union and DEEWR.

<sup>116</sup> Except in South Australia where all installers of ceiling insulation are required to hold a license under the *Building Work Contractors Act 1995*.

*Industry Skills Council*<sup>117</sup> (EE-Oz) or State and Territory electrical bodies.<sup>118</sup> DEWHA was informed by NECA and EE-OZ of the electrical risks associated with installing ceiling insulation prior to the commencement of the program. However, neither NECA nor EE-Oz were contacted by the department to participate in early stakeholder consultations. DEWHA advised that this was an oversight, as early consultations reflected its focus on the core insulation industry and the housing and construction industry. If stakeholders from the electrical industry had been involved in earlier consultations, a greater appreciation of the high level of electrical risks associated with installing insulation may have resulted in more stringent competency requirements for installers at the start of the program.

**5.15** On 17 December 2009, and following the third insulation-related death, the department announced that supervision by a qualified or experienced installer was no longer considered sufficient for registration under the program. To remain registered under the program, installers were required to provide evidence (by 12 February 2010) that all employees and subcontractors installing insulation under the program satisfied one of the three minimum competency criteria. Only 2738 (37 per cent) registered installers provided evidence to satisfy the revised minimum competency requirements. There may be a number of reasons for the large reduction in installers who remained registered after mandatory training and competencies were introduced, including the increased costs of complying with the new requirements.

## Training requirements for installers

**5.16** Prior to the introduction of HIP, individuals working in the insulation industry were not required to undertake any insulation specific training. As previously noted, insulation specific training was one of the three minimum competency criteria listed under the terms and conditions of registration. As installers were only required to satisfy one of the three minimum competency criteria, insulation specific training was not a mandatory requirement for installers under the terms and conditions of registration at any time during the program. Instead, training was specifically targeted at new entrants to the industry, (that is, those installers who did not have at least two years of

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<sup>117</sup> The *ElectroComms and Energy Utilities Industry Skills Council Ltd* is a not-for-profit industry training and skills standards and advisory organisation.

<sup>118</sup> For example, the Electrical Safety Office (ESO) in Queensland.

insulation industry experience or qualification in an approved trade). A survey of RTOs undertaken by DEWHA in October 2009 indicated that over 3700 installers completed the insulation specific training in the first four months of the program.

## Insulation specific training

**5.17** Insulation specific training required the completion of the following nationally endorsed units of competency:

- *Apply OH&S requirements, policies and procedures in the construction industry (CPCCOHS2001A);*
- *Work safely at heights (CPCCCM1006A); and*
- either:
  - *Install batt insulation products (CPCCPB3014A); or*
  - *Install acoustic and thermal environmental protection systems (CPCCPB3015A).*

**5.18** These four units of competency were offered under the *Construction, Plumbing and Services Integrated Framework (CPC08)* training package. The package covered the skills necessary to enable students to identify a range of complex hazards and install various types of insulation materials in accordance with relevant safety standards and building requirements. Training packages are developed by Industry Skills Councils<sup>119</sup> to meet the identified training needs of specific industries and can only be delivered by RTOs that have the specific units of competency outlined in their scope of registration.

**5.19** Installers were permitted to choose between the two insulation specific units offered. It is therefore likely that some installers did not undertake the *Install acoustic and thermal environmental protection systems* unit of competency and may have been unaware of the specific hazards and installation methods relating to foil insulation, which was specific to this unit of competency.<sup>120</sup> For example, installers who did not complete this unit may not have been aware of

<sup>119</sup> The *Construction, Plumbing and Services Integrated Framework* training package was developed by the Construction and Property Services Industry Skills Council (CPSISC).

<sup>120</sup> The number of installers who did not undertake the *Install acoustic and thermal environmental protection systems* unit of competency was not recorded.

the risks of electrocution if they failed to turn off the power or used metal staples when installing foil insulation.<sup>121</sup>

**5.20** The results of a survey of RTOs undertaken by DEWHA in October 2009 indicated that insulation specific training could be completed in one day. The time taken to complete a unit of competency is entirely dependent on the ability of the individual installer to demonstrate their competency. However, discussions with industry representatives would suggest that one day is unlikely to be a sufficient length of time to ensure that all training material is adequately covered, especially in the case of new entrants to the industry with no prior insulation or construction experience.<sup>122</sup> Further, the *Minimum Competency Requirements* allowed installers who had completed the insulation specific training to work unsupervised and to supervise other inexperienced and unqualified installers without any requirement to gain a level of practical experience first. If more stringent registration and training requirements had been in place from the start of the program, for example, mandatory training for all installers, many of the subsequent problems that arose concerning the safety and quality of the installations may also have been averted.

### **Development of an insulation specific unit of competency**

**5.21** In April 2009, DEWHA contracted the CPSISC to develop a unit of competency, *Install Ceiling Insulation that* would incorporate the existing four nationally accredited units of competency into a single insulation specific unit of competency. Completion of this single unit of competency would enable installers with no prior experience in the insulation industry or qualification in an approved trade, to satisfy the minimum competency requirements of the program. CPSISC was also required to develop a set of supporting training materials to encourage consistency in the training delivered by RTOs and in the installations completed by installers under the program. The training materials were finalised prior to the commencement of the program on 1 July 2009 and consisted of the following:

- Construction Industry Pocket Book for installers;

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<sup>121</sup> Only five per cent of installations under HIP used foil insulation.

<sup>122</sup> Insulation specific training involved: learning how to install insulation correctly and efficiently; an understanding of the State and Territory legislation in relation to electrical wiring rules; a knowledge of the Australian Standards in relation to insulation as required by the program guidelines; and OH&S requirements.

- self assessment tool for installers;
- learning summary for installers;
- Powerpoint presentation for RTOs;
- delivery guide for RTOs; and
- an assessment guide and instrument for RTOs.

**5.22** CPSISC facilitated a reference group with industry representatives and other stakeholders selected by DEWHA, including DEEWR, trade unions and insulation stakeholders to provide input into the development of the training package and accompanying materials. Representation from the electrical industry was not sought. EE-Oz was asked by DEEWR in February 2009 to provide recommendations on any electrical units of competency that should be incorporated into the insulation specific training program. Despite the lack of participation of electrical bodies in the reference group, EE-Oz was given the opportunity to provide feedback on the draft Construction Industry Pocket Book in July 2009 prior to its release. However, the short timeframe available for developing the training materials prior to the rollout of the program meant that EE-Oz's response was limited to verbal feedback and was not as comprehensive as it might have otherwise been if more time had been available for consultation.

**5.23** After the second installer fatality on 19 October 2009, the department convened two urgent meetings of key stakeholders to discuss potential policy changes related to electrical and insulation safety issues.<sup>123</sup> In addition to the stakeholders that had been consulted earlier, representation was also sought from the Electrical Safety Office (ESO) Queensland, Master Electricians Australia (MEA) and EE-Oz. Stakeholders agreed that, given the number of new entrants with no industry experience, the electrical and insulation safety information contained in the training and support materials could be improved and enhanced to potentially reduce the risk of further fatalities. Further, it became a mandatory requirement on 1 December 2009 for a risk assessment to be undertaken for all installations prior to the commencement of any work.

**5.24** Following this meeting, CPSISC updated the training materials with the assistance of EE-Oz and other stakeholders to include the agreed

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<sup>123</sup> These meetings were held on 27 October 2009 and 12 November 2009.

enhancements relating to electrical safety and the requirement for mandatory risk assessments. The updated materials were distributed to installers and RTOs and published on the CPSISC website on 30 November 2009. The *Install Ceiling Insulation* unit of competency was endorsed by the National Quality Council in February 2010 and included all revisions and enhancements.

**5.25** It is estimated that, from the commencement of the program until October 2009, over 3700 installers completed the insulation specific training, suggesting that the program was successful in encouraging unskilled workers to improve their skills through training. However, earlier consultation with representatives from the electrical industry may have:

- increased the department's awareness of the electrical safety risks involved in installing ceiling insulation, particularly foil; and
- resulted in mandatory training for all installers, not just supervisors.

## Deregistration of installers

**5.26** Installers could either be voluntarily or involuntarily deregistered by Medicare Australia, on advice from DEWHA. The deregistration process involved removal of the deregistered installer's name from the Installer Provider Register and deactivation of their access to the online claims system to prevent lodgement of further claims.

**5.27** DEWHA monitored deregistrations through its compliance database, which contained a record of all installers that were to be deregistered, the date they were deregistered and the reason. Voluntary deregistration occurred where installers had advised DEWHA that they no longer wanted to be part of the program. Involuntary deregistration occurred as a result of compliance and audit activity undertaken by DEWHA. These installers were given up to 60 days to provide evidence as to why they should not be deregistered. During this time, access to the online claims system was still available.<sup>124</sup> However, depending on the severity of the suspected non-compliance, payments to individual installers could be suspended until sufficient evidence had been provided to the department. If evidence could not be provided within the given timeframe, Medicare Australia was advised to deregister installers

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<sup>124</sup> On 1 February 2010, DEWHA introduced a suspension process, which involved the cancellation of the installer's log in details to prevent further claims from being made while the Installer was under investigation by the department.



immediately. The deregistration process was subsequently tightened after the EET was established on 30 November 2009.<sup>125</sup>

### *Deregistered installer list*

**5.28** On 1 November 2009, installers were advised that the terms and conditions of registration had been updated. From 1 December 2009 onwards, DEWHA published a 'Deregistered Installer List' that was publicly available on its website, and included the:

- identity of those businesses that were deregistered for not complying with the Terms and Conditions of Registration; and
- the reason for their deregistration.

**5.29** Installers were required to log on to the online claims system between 5–15 December 2009 and accept the revised terms and conditions of registration. If these had not been accepted by 15 December 2009, the installer was deregistered and removed from the Installer Provider Register. Of the 10 213 installers who were registered under the program 7386 installers accepted the new terms and conditions. The remaining 2827 (28 per cent) either declined or did not respond and were therefore deregistered.

## **Conclusion**

**5.30** There were minimal registration requirements for installers at the commencement of the program. This approach reflected the high priority being given to creating jobs for lower skilled workers from the housing and construction industry and the tight timeframe in which to implement the program. Individuals new to the industry could participate in the program without any experience, qualifications or insulation specific training, as the minimum competency requirements did not become mandatory for all installers until 12 February 2010, immediately prior to program closure. Further, installers were not required to submit evidence in support of their application until September 2009, after more than 70 per cent of installers had been registered. Consequently, the installer registration process failed to provide a satisfactory level of assurance as to the competence of installers or to the quality and safety of installations undertaken.

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<sup>125</sup> Chapter 7 discusses these changes to the deregistration process.

**5.31** DEWHA consulted widely with stakeholders in the development of the minimum competency requirements and insulation specific training. Nevertheless, the department would have benefited from earlier consultation with stakeholders from the electrical industry prior to the commencement of the program. Earlier involvement by these industry representatives would have raised the department's awareness of the electrical safety risks involved and facilitated strategies to help address these risks in the original training materials. If more stringent registration and training requirements had been in place from the start of the program, many of the subsequent quality and safety problems may also have been averted.

**5.32** Prior to the commencement of the program, there was no nationally accredited training program that provided the necessary skills required to install ceiling insulation. The insulation specific training program developed by CPSISC (and nationally accredited) provided the skills necessary to install various types of insulation materials in accordance with relevant safety standards and building requirements. It is estimated that in the first four months of the program, over 3700 installers completed the insulation specific training. However, in some cases, installers completed this training in only one day, and were permitted to choose between two product specific units of competency. As a result, some installers may not have been alert to the specific hazards and installation methods for the type of insulation they were installing.

## 6. Payment of the Rebates to Installers

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*This chapter examines the systems and processes used by Medicare Australia and DEWHA to pay installers under the program.*

### Introduction

**6.1** Medicare Australia was engaged by DEWHA to process the claims received from installers and to make payments to installers under Phase 2 of HIP, as it had existing infrastructure and considerable experience in high volume claims processing. This relationship was governed by a service level agreement (SLA), which specified Medicare Australia's responsibilities in relation to registration, claims and payments.<sup>126</sup>

**6.2** The claims and payment processes for Phase 2 were different to those under Phase 1. Under Phase 2, payments were made to installers (rather than householders), who mostly lodged their claims online.<sup>127</sup> Medicare Australia made \$1.45 billion in payments to installers in respect of 1.16 million installations, once approval for each payment had been given by DEWHA. In contrast to Phase 1, documentation was not required to support installers' claims, however, documentation was to be retained and provided upon request if required as part of DEWHA's compliance and audit activities.<sup>128</sup>

**6.3** The ANAO reviewed the processes for assessing and paying claims lodged by installers online and manually under HIP Phase 2 and the development of Medicare Australia's claims and payments systems. An analysis of the claims and payments information was also undertaken, including a reconciliation of the total number of claims received against the total number of payments made.

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<sup>126</sup> The SLA outlined the responsibilities at a high level of both DEWHA and Medicare Australia in relation to the registration, claims and payment process. For example, the SLA required Medicare Australia to establish an online registration process and implement a claims and payments process for registered installers.

<sup>127</sup> A small proportion of total claims were lodged manually, via fax or mail (20 725 claims), prior to program closure. Following program closure, all claims had to be lodged by fax or mail (76 700 claims).

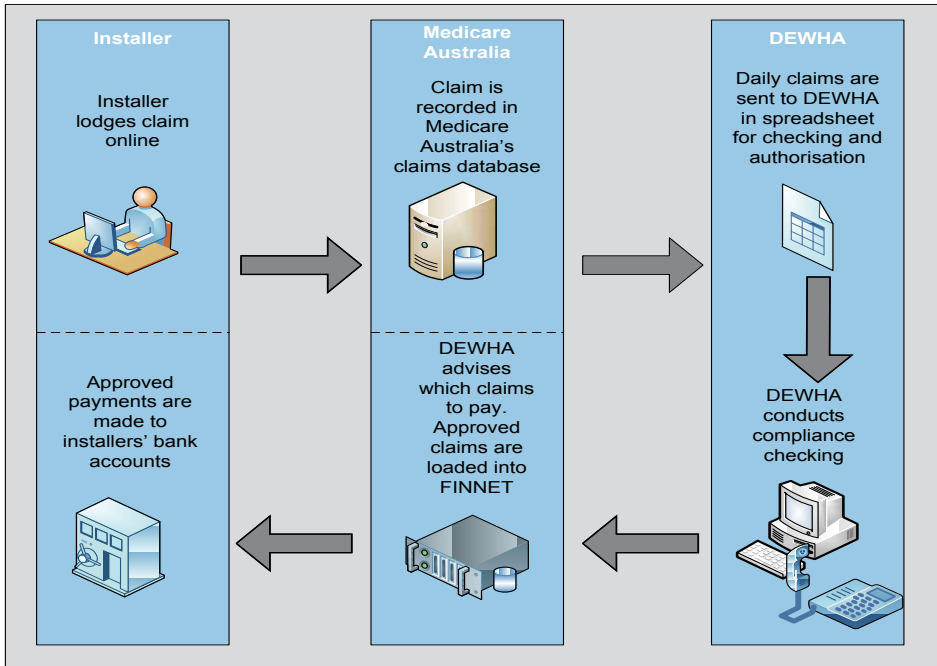
<sup>128</sup> Refer to Chapter 7 for information about DEWHA's compliance and audit program.

# Online claims

**6.4** Under the SLA, Medicare Australia was responsible for developing and maintaining an online claims system to enable registered installers to lodge claims for payment online. The majority of claims (87.8 per cent) were lodged online. However, in certain circumstances, claims were also lodged manually.<sup>129</sup> An overview of the online claims and payment process used by DEWHA and Medicare Australia is shown in Figure 6.1

**Figure 6.1**

## Online claims process



Source: ANAO analysis of Medicare Australia and DEWHA data.

## Lodgement of online claims

**6.5** To lodge an online claim, installers were required to log into the online claims system and enter 20 mandatory fields of information, including details of the installer, householder and installation. The online claims system used three preventative system controls that checked the validity of the information

<sup>129</sup> Circumstances where claims could be lodged manually included claims where the installation address could not be validated online, claims for the additional top-up payment when the rebate reduced and claims lodged after program closure.

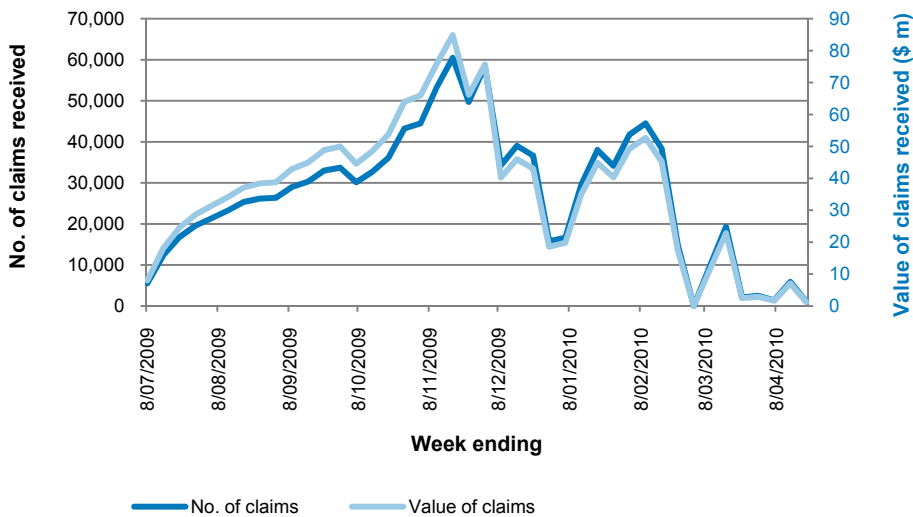
entered by installers prior to lodgement to ensure that, in respect of each claim lodged, the:

- installation address was valid;
- installation address had not been previously claimed; and
- work order number relating to the claim had not been previously claimed.

6.6 Medicare Australia processed a total of 1.07 million online claims between 1 July 2009 and 18 April 2010, which is illustrated in Figure 6.2.

**Figure 6.2**

**Number of claims processed per week for the period 1 July 2009 to 18 April 2010**



Source: ANAO analysis of Medicare Australia data.

Note: Installers were required to lodge all claims by 26 February 2010 following closure of the program. This graph captures the dates that the post-closure claims were processed by Medicare Australia officers, not the dates that the claims were lodged.

6.7 The ANAO's analysis found that the system controls in place for online claims processing were effective in preventing installers from claiming payment for a work order number or installation address that had already been claimed, or claiming payment for an invalid installation address. Once an

online claim for payment had been submitted by installers, the information was stored in a claims database, ready to be sent to DEWHA for approval.

## **Approval of online claims**

**6.8** Medicare Australia was not authorised to make payments to installers until approval had been given by DEWHA, as specified in the SLA. Online claims successfully submitted and stored in the claims database were sent daily to DEWHA for approval. DEWHA's approval process was undertaken by the compliance team and involved an assessment of whether the number of claims made per day by an individual installer or insulation company appeared reasonable.<sup>130</sup> DEWHA would advise Medicare Australia to pay the claims contained in the payment file and, where necessary, identified pended claims in a separate proforma.<sup>131</sup> Previously pended claims that DEWHA subsequently approved were also contained in the proforma.

## **Payment of online claims**

**6.9** Medicare Australia's systems did not have the capacity to generate an updated payment file for only those claims approved by DEWHA, and later, DCCEE. Medicare Australia operators were required to manually update the original payment files, which was time consuming given the format and the number of claims contained in each file, and involved:

- locating and deleting each individual pended claim from the current payment file; and
- locating each individual pended claim that was now approved in its original payment file, and copying the details into the current payment file.

**6.10** Following payment, Medicare Australia sent a letter to all householders requesting that the householder notify DEWHA if insulation had not been installed. As at 14 April 2010, 19 068 letters, from a circulation of in excess of one million householders (less than two per cent), had been returned to

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<sup>130</sup> Refer to Chapter 7 for further information about the compliance and audit program.

<sup>131</sup> Pended claims were claims that DEWHA had not authorised Medicare Australia to pay as they were being further investigated.

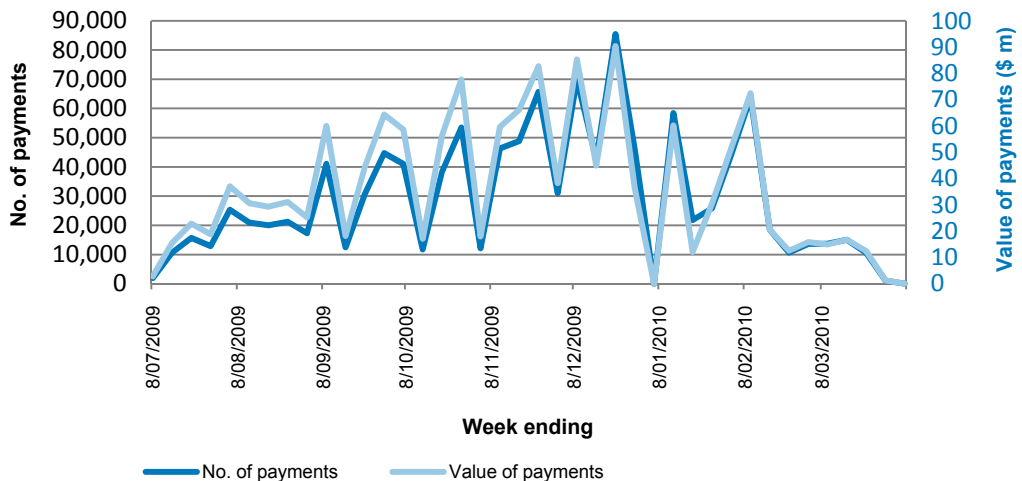
Medicare Australia, and were forwarded to DEWHA for further investigation.<sup>132</sup>

## Timeframe for payment to installers

**6.11** Medicare Australia was required to pay installers within seven days of lodgement of a claim. The ANAO's analysis of payments made under the program show that 95 per cent of payments were made within 15 days from the date of lodgment. The majority of this time was taken by DEWHA conducting compliance checks of the payment data as part of the payment approval process. Medicare Australia took three days or less to pay over 96 per cent of claims, once the approval to pay was given by DEWHA. Payment within seven days of the lodgement of a claim was unlikely to be achieved given the average number of payments processed per week exceeded the estimated number by in excess of 8000. The total number of payments processed per week between the commencement of the program and 31 March 2010 is shown in Figure 6.3.

**Figure 6.3**

**Number of payments to installers per week for the period 3 July 2009 to 31 March 2010**



Source: ANAO analysis of Medicare Australia data.

<sup>132</sup> DCCEE has subsequently indicated to the ANAO that the returned letters are a poor indication of installer non-compliance.

## Manual claims

**6.12** Processing manual claims was time and resource intensive for both DEWHA and Medicare Australia. As at 31 March 2010, manual claims represented only 12.4 per cent of the 1.23 million claims received and were faxed or posted to Medicare Australia by installers where:

- an attempt to lodge an online claim had been made, but the installation address could not be validated by the online preventative system control (manual address claims)<sup>133</sup>;
- the installer qualified for a 'top-up' payment, after the amount of the rebate paid to installers was reduced from \$1600 to \$1200 on 1 November 2009, and had to manually lodge a form to receive payment for any amount greater than \$1200 and less than \$1600 (top-up claims); or
- the online claims system was closed after the program's closure, so installers were required to post or fax their claims information for installations undertaken prior to 19 February 2010 for Medicare Australia officers to process electronically (manual claims lodged post-closure).

## Manual address claims

**6.13** For manual address claims where the installation address could not be validated online, approval by DEWHA was required before the claim could be entered into the online claims system. This process required a manual validation of the installation address by the DEWHA compliance team, and involved:

- using Google Earth software to check that the address existed; and/or
- contacting the householder to confirm the validity of the claim.

**6.14** Once DEWHA had validated the installation address, approval was given to Medicare Australia to enter the manual claim into the online claims system. The program requirements specified that these claims were only to be subject to one of the remaining two preventative system control checks that

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<sup>133</sup> This could occur either where a claim had already been paid in relation to the installation address entered, or where the installation address was not contained in the Australia Post Postal Address File, which was used to validate installation addresses.



were applied to online claims—ensuring that the work order number had not previously been claimed. The check that the installation address had not been claimed twice was not applied. However, the consequences were not material as there were only 55 manual address claims paid (0.005 per cent of all payments made) for an installation address that had already been paid.<sup>134</sup> The manual address claims were then downloaded daily into a payment file with all other online claims submitted that day and sent to DEWHA for approval for payment.

## Top-up claims

**6.15** As previously indicated, the Government announced that, from 2 November 2009, the HIP rebate paid to installers would be reduced from \$1600 to \$1200. However, installers could continue to claim an amount up to \$1600 until 30 November 2009 if four criteria were met.<sup>135</sup>

**6.16** From 2 November 2009, the maximum rebate that could be claimed through Medicare Australia's online claims system was \$1200 per installation. For those claims greater than \$1200, installers were required to:

- submit an online claim consistent with the existing claims process, which would entitle them to receive the new rebate amount of \$1200; and
- post or fax a separate form to Medicare Australia, containing the work order number, quote date and quote number, which would entitle them to receive up to an additional \$400.<sup>136</sup>

**6.17** Medicare Australia received 114 000 top-up claims, of which 21 061 were received after 30 November 2009. All claims received after 30 November 2009 were to be assessed and paid if they meet one of three criteria:

- the installer could demonstrate they were not aware of the change to the rebate or top-up claim process;

<sup>134</sup> Medicare Australia had processed 20 274 manual address claims as at 18 April 2010.

<sup>135</sup> The four criteria were that: the quote for installation had been accepted by the householder prior to 2 November 2009; installation was completed between 2 November and 16 November 2009; online component of the claim was lodged by the installer prior to the manual component; and online and manual components of the claim were lodged prior to 30 November 2009.

<sup>136</sup> This form could contain the details for up to ten claims.

- the installer could demonstrate that they submitted their claims on time but these claims were not received due to issues with Medicare Australia's systems; and
- the rejection of the top-up claim would result in unreasonable hardship to an installer or business.

**6.18** Initially, DEWHA determined only the claims received between 1 December 2009 and 4 January 2010 would be assessed. However, DEWHA's (and DCCEE's) position on the treatment of the late claims changed four times (refer Appendix 6) and was only finalised on 1 June 2010. DEWHA did not know the number of late claims received as Medicare Australia could only advise the number of emails received from installers, which could include one or more top-up forms containing a maximum of ten claims. Medicare Australia provided the claims lodged by installers between 1 December 2009 and 4 January 2010 to DEWHA in March 2010, almost two months after the department's first request. The delay in assessing these claims led to DEWHA deciding to examine all late top-up claims. Some of these claims are still being assessed by DCCEE.

**6.19** DEWHA's approval process for top-up claims was more thorough than for online claims and other manual claims, as DEWHA assessed the risk of fraud associated with top-up claims as high. This has resulted in top-up payments taking a significantly longer time to process. Ninety-six per cent of top-up claims have been paid within 90 days of lodgement, while for online claims, 94.7 per cent were paid within 15 days of lodgement.

**6.20** DEWHA engaged PwC (the HIP compliance and audit program service provider) to undertake both random and targeted compliance checks of the top-up claims lodged by 30 November 2009 and sent by Medicare Australia for approval. While compliance checks were not undertaken on all top-up claims, over 12 300 claims from November 2009 to January 2010 were checked for eligibility, inappropriate backdating and completeness of documentation. Top-up claims are now being addressed through the compliance and fraud activities being undertaken by the DCCEE compliance team and are discussed in more detail in Chapter 7.

## **Manual claims received post-closure**

**6.21** Medicare Australia's online claims system was closed immediately following the announcement of the program's termination on 19 February 2010. This decision was made by DEWHA to reduce the risk of

installers lodging fraudulent claims. Installers were given seven days to fax or email claims to Medicare Australia for work completed prior to the closure of the program. Claims were entered manually by Medicare Australia officers into the online claims system, and were subject to the same three preventative system controls and approval process that applied to online claims.

**6.22** Initially, Medicare Australia undertook thorough quality assurance checks of a sample of five per cent of manual claims to ensure they had been entered into the online claims system correctly, prior to forwarding them to DCCEE for approval. However, it became evident that this quality assurance process was time consuming and causing delays in the payment of claims. As a result, Medicare Australia developed and agreed with DCCEE a risk-based quality assurance process that was to be applied to all manual claims. The revised process focused only on those specific information fields that DCCEE had identified as high risk and of critical interest to its ongoing compliance activities.<sup>137</sup>

**6.23** Of the 76 700 claims received after closure, Medicare Australia advised that:

- 48 600 claims have been processed (including those with work order numbers already claimed);
- 26 100 were duplicate claims; and
- 2000 claims are ineligible for payment.

**6.24** The processing of these manual payments is still continuing with approval given by DCCEE, as further information is provided by installers. Ninety-six per cent of manual claims received after program closure have been paid within 100 days, which is a significantly longer period of time than that taken to process online claims.

**6.25** Medicare Australia staffing has increased significantly since the closure of the program, to enable processing of these manual claims. Initially, staffing for HIP was estimated at 41 FTE in 2009–10, however, at its peak in March 2010 after closure of the program, staffing levels reached 224 FTE.

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<sup>137</sup> DEWHA agreed to provide Medicare Australia with a list of installers with a less than satisfactory record of compliance with program terms and conditions.

## Development of Medicare Australia's claims and payments systems

**6.26** The development and enhancement of IT systems requires time to plan, implement, test and release changes. The compressed timeframe between when Medicare Australia was engaged and the commencement of the program meant that its systems were not fully developed on 1 July 2009. Three key areas where Medicare Australia's systems could have been further developed to improve the integrity of claims and payment processing were:

- automation of processes and controls;
- prepayment checks; and
- data entry input controls.

### Automation of processes and controls

**6.27** Medicare Australia planned its system development in two key stages. Stage 1 involved developing and implementing an online capacity to capture the registration and claims information of installers and to process payments. This stage was completed prior to the commencement of the program. Stage 2, which was expected to be implemented between September and November 2009, was intended to automate many of the processes that supported these functions, including:

- checking installers' ABN against the Australian Business Register upon registration;
- referring registration details to external providers so that log-on details and welcome kits could be issued to newly registered installers;
- introducing a bulk claim upload capability for installers; and
- uploading the HIP Phase 1 payment information into the claims database to enable identification of duplicate claims for the same installation address being claimed under both Phase 1 and 2.

**6.28** Stage 2 was never progressed, as priority was given by DEWHA to implementing the system updates required to reflect the ongoing changes to HIP requirements. For example, the amalgamation of HIP and LEAPR in September 2009 and the various amendments to the program guidelines.

**6.29** Some of these changes proposed under Stage 2 would have improved the efficiency of processes, such as the automatic check of installers' ABNs and

referral of registration details, while others would have prevented ineligible payments. For example, if the Phase 1 payment information had been provided to Medicare Australia by DEWHA and uploaded into the claims database it could have prevented the 226 duplicate Phase 1 and 2 payments (totalling \$304 967) for the same address identified by the ANAO's analysis (0.02 per cent of total payments made).<sup>138</sup>

## Prepayment checks

**6.30** While additional prepayment checks were not included in the initial program specifications, Medicare Australia's systems could have been enhanced to include additional prepayment checks on the claims information submitted electronically by installers. Installers were required to complete mandatory information fields as part of the online claims process, including the work order number, area insulated and the total cost of installation. Incorporating these checks into Medicare Australia's claims system would have improved the effectiveness of DEWHA's compliance and audit program and provided greater assurance around the integrity of claims by verifying the reasonableness of the cost of installation and the validity of the work order number.

### *Cost of installation*

**6.31** There were three alternative cost models specified in the program guidelines, which set out the recommended prices per square metre for insulating a dwelling using each of the insulation product types allowed under the program.<sup>139</sup> Installers were required to have reasonable grounds to claim an amount greater than the amount calculated using the complex cost model and were required to provide justification in their quote where the cost of the installation was higher than the complex cost model. Further, the program guidelines stated that installers who charged an amount above the complex

<sup>138</sup> The number of duplicates may be higher because the ANAO's analysis excluded units and apartments as the Phase 1 and Phase 2 payment data was not comparable due to inconsistent recording of addresses.

<sup>139</sup> In the program guidelines, the three different costs models were: straightforward cost — installations in an urban area with a minimum R-Value of 3.0; average cost — installations where at least one factor increases the cost of installation; and complex cost — installations where more than one factor increases the cost of installation or the dwelling is in a remote location. The cost of installation increased during the program due to the increase in demand for insulation. However, these cost models were not updated accordingly by DEWHA in the program guidelines.

cost model would be subject to review, and may be removed from the Installer Provider Register if adequate justification could not be provided.

**6.32** The ANAO calculated the cost of each installation under each alternative cost model, based on the following information provided by the installer in their online claim, to identify whether the amount claimed by installers was consistent with the information provided for the installation:

- type of insulation installed;
- area insulated as specified in installers' claims; and
- cost per square metre of installing the insulation as specified in the program guidelines for each cost model.

**6.33** The ANAO found that the payments made to installers under HIP were significantly higher than the cost of installation calculated using each of the cost models provided in the program guidelines.<sup>140</sup> Specifically 347 789 payments (totalling \$82 million) made to 5484 installers were higher than the cost of installation calculated using the complex cost model. There may have been a legitimate reason for the cost of installation exceeding the complex cost model for each of these payments. However, prepayment checks comparing the cost of the installation claimed by installers against the cost models specified in the program guidelines were not undertaken to identify potentially unreasonable claims during the payment approval process and to target compliance and audit activities towards installers who were consistently claiming higher than expected amounts.

#### *Work order numbers*

**6.34** For each completed installation, householders and tenants were required to sign a work order form issued to installers under the program. Each work order form had a unique work order number, which installers provided to Medicare Australia as part of their claim for payment. No check was undertaken on whether the work order number claimed by an installer had been issued to that installer, or if it had been issued under the program. The ANAO's analysis found a minimum of 1032 payments for work order

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<sup>140</sup> The ANAO found that the payments made to installers under HIP were higher than the ANAO's calculated cost using the cost models, specifically: \$82 million higher based on the complex cost model; \$163 million higher based on the average cost model; and \$570 million higher based on the straightforward cost model. These costs are indicative as they are based on information provided by installers, and as such, the integrity of the data has not been verified. For example, installers could enter that zero square metres of insulation had been installed, and still be paid.

numbers that were never issued under HIP (0.08 per cent of all payments).<sup>141</sup> Similarly, this check would also have assisted the payment approval process, further improved the integrity of information collected and could have been used by DEWHA as an indicator of potential fraud and compliance activity.

## Data entry input controls

**6.35** Data entry input controls are system controls that improve the integrity of information entered by users electronically, by ensuring that the information entered meets specified criteria, for example, that a date entered is within a pre-defined time period. Medicare Australia used data entry input controls to some extent in their online claim system, for example, by ensuring that work order numbers entered were eight digits long. However, the following two information fields contained on the online claim form did not use data entry input controls:

- householders' contact telephone number: this field did not require a minimum number of digits. The ANAO's analysis identified 5472 claims that were lodged where the contact telephone number contained less than eight digits. Without this information, it was difficult for DEWHA's compliance team to confirm the validity of claims with householders. The poor quality of householders' telephone number information is also impacting on the progress of the remediation programs as it makes it difficult to contact householders to arrange inspections; and
- area insulated: this field did not require a minimum number of square metres, allowing installers to lodge claims with, for example, zero square metres recorded as the size of the area insulated.<sup>142</sup>

**6.36** Using appropriate data entry input controls for these mandatory fields in the online claim form would have increased the efficiency of DEWHA's audit and compliance, and remediation programs, and improved the integrity of the data provided by installers.

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<sup>141</sup> A complete work order register was not maintained as part of HIP and records relating to some of the earliest issued work order numbers were not maintained. This result reflects work order numbers that were paid, were not recorded in the incomplete work order register, and were inconsistent with the pattern of work order numbers issues in the early stages of HIP.

<sup>142</sup> The ANAO's analysis identified 14 such claims, valued at \$20 481 (0.001 per cent) of all payments made.

## Conclusion

**6.37** Online claims were paid within a reasonable timeframe. Three preventative system controls prevented claims from being lodged for a duplicate installation address and work order number, or for an invalid installation address. However, rapid program changes resulted in 12.8 per cent of claims being processed manually under Phase 2. These claims were particularly time consuming and resource intensive to process and could have been avoided if more time had been available for Medicare Australia to enhance its systems to enable these claims to be processed online. Ninety-six per cent of manual claims received after program closure were paid within 100 days, while 96 per cent of top-up claims were paid within 90 days, which was a significantly longer period of time than that taken to process online claims.

**6.38** The short timeframe between when Medicare Australia was engaged and the commencement of the program as well as ongoing program changes meant that the system was not fully developed at 1 July 2009, and planned and other system enhancements were not implemented, such as incorporating additional system checks and data entry input controls. These system enhancements could have been undertaken in phases following program commencement and would have improved the integrity of claims information, assisted the payment approval process, and provided valuable information for DEWHA's compliance and audit program.



## 7. Compliance and Audit Program for Phase 2

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*This chapter examines the development of the compliance and audit framework for HIP Phase 2. It also discusses the implementation of the interim and ongoing compliance and audit programs.*

### Introduction

**7.1** The compliance and audit program for HIP Phase 2 was to counterbalance the relatively easy installer registration process and to manage the risks associated with installer non-compliance and fraud.<sup>143</sup> An effective compliance and audit program would generally involve the following four key elements:

- a compliance strategy that outlines the types of activities to be undertaken; who will undertake them; their frequency; and how they will be reported;
- developing and implementing a schedule of compliance activities;
- targeting compliance activities and collecting the evidence required to determine an entity's compliance status; and
- the timely determination of compliance status.<sup>144</sup>

**7.2** The ANAO examined:

- the development of HIP's compliance strategy and its compliance and audit framework and plan;
- the implementation of HIP's interim and ongoing compliance and audit programs; and
- monitoring and reporting of compliance risks.

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<sup>143</sup> The *Commonwealth Fraud Control Guidelines* defines fraud as: 'dishonestly obtaining a benefit by deception or other means.' Source: Attorney General's Department, *Commonwealth Fraud Control Guidelines* [Internet]. Attorney General's Department, Canberra, 2002, available from <[http://www.ag.gov.au/www/agd/agd.nsf/Page/Fraudcontrol\\_CommonwealthFraudControlGuidelines-May2002#two](http://www.ag.gov.au/www/agd/agd.nsf/Page/Fraudcontrol_CommonwealthFraudControlGuidelines-May2002#two)> [accessed 17 August 2010].

<sup>144</sup> Australian National Audit Office, *Administering Regulation Better Practice Guide*, ANAO, Canberra, 2007, p. 52–60.

## Development of the compliance approach

**7.3** DEWHA was slow to develop its compliance and audit program, which ultimately consisted of its *Compliance and Audit Framework and Plan* (CAF&P). DEWHA developed its CAF&P concurrently with implementing the interim HIP compliance and audit program from July 2009. As such, a comprehensive compliance and audit program was not in place for the commencement of Phase 2 on 1 July 2009.

**7.4** This delay meant that information about compliance and audit activities and the penalties for non-compliance were not provided to installers or householders either through the program guidelines or on the installer registration webpage, as these had already been released prior to the finalisation of the audit methodology. The program guidelines were not updated to include information about the compliance and audit program until September 2009.

**7.5** DEWHA had limited experience in implementing a program of the scale of HIP. The department engaged Ernst and Young in May 2009 to develop a fraud control plan and an audit methodology.<sup>145</sup> DEWHA used these documents to develop its CAF&P, which outlined the program's approach, activities and roles and responsibilities.

**7.6** The fraud control plan assessed the fraud risks and outlined the actions DEWHA could take to mitigate the risks associated with these areas.<sup>146</sup> The plan included a fraud control framework for the department to implement and maintain, which identified specific activities in the four key areas of preparedness, prevention, response and recovery.

**7.7** The audit methodology proposed a targeted approach to compliance, supported by risk assessments and data analytics. It also proposed three key program phases with specific activities and timeframes (as outlined in Table 7.1).

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<sup>145</sup> The fraud control plan was provided to DEWHA on 29 May 2009 and the audit methodology was provided on 19 June 2009.

<sup>146</sup> The fraud risks mainly covered internal fraud and external fraud associated with householders, landlords and tenants; and installers.

**Table 7.1****Phases, activities and timeframes proposed in the audit methodology**

Phase	Activities	Purpose	Time
Early implementation phase audit activities	Data analytics (payment check)	<ul style="list-style-type: none"> <li>• Provide assurance over payments</li> <li>• Inform risk profile and future audit strategy</li> <li>• Develop data set to be used for data analysis during program</li> </ul>	June/July
Interim audit activities	Data analytics (payment check and other data analysis)	<ul style="list-style-type: none"> <li>• Provide assurance of installers' compliance with registration requirements</li> </ul>	June/July
Ongoing compliance	Data analytics Inspect dwellings (roof inspection) Obtain information from installer (desktop audit)	<ul style="list-style-type: none"> <li>• Identify, detect and gain assurance over profiled or targeted transactions</li> <li>• Implement a cost-effective program that provides confidence over data populations</li> <li>• Continue to inform risk profiles</li> </ul>	Monthly from commencement of the program

Source: Department of the Environment, Water, Heritage and the Arts, *Audit Methodology – Homeowner Insulation Program (HIP) and Low Emissions Assistance Plan for Renters (LEAPR)*, 2009.

## Development of the Compliance and Audit Framework and Plan

**7.8** The CAF&P was approved by the PCG in September 2009 and identified three key functions: Compliance Management, Fraud Management and the Compliance Committee, and defined the responsibilities for these areas. It outlined the approach to be adopted by specifying categories<sup>147</sup> of installer compliance and identifying the compliance and audit activities to be applied to those categories (and outlined in Appendix 7). The compliance activities (outlined in Appendix 8) are split between pre- and post-payment. The prepayment activity was the daily checking of claims received from Medicare Australia and post-payment activities included field audits, desktop audits, complaints handling, roof inspections, and fraud investigations.

<sup>147</sup> These categories were: voluntary compliance (installers who comply with program requirements); assisted compliance (installers who need additional assistance to be compliant); directed compliance (installers who may consider breaching program requirements); and, enforced compliance (installers who wilfully breach the program requirements or are fraudulent).

**7.9** The expectation was that most installers would voluntarily comply and DEWHA would assist installers by raising awareness of the program's terms and conditions through installer advisories and letters to householders following installations. Deregistration would apply to those installers who were fraudulent or intentionally breached the program's terms and conditions.

## **Effectiveness of the framework**

**7.10** The CAF&P was partly based on the audit methodology and identified similar compliance and audit activities, such as payment checking and field audits. The key difference between the CAF&P and the audit methodology proposed was the approach for dealing with installers when potential non-compliance and/or fraud were detected. While the audit methodology recognised the need for an immediate response when non-compliance was identified, the CAF&P put more emphasis on considering explanations for the potential non-compliance or fraud before assuming inappropriate behaviour by installers.

**7.11** The expectation that most installers would voluntarily comply with the program's terms and conditions was an inaccurate assessment of the risks posed by installers operating in a largely unregulated industry stimulated by a significant government program. While this expectation may have been developed having regard for existing installers with a long-term focus and reputation to maintain, it was inconsistent with the characteristics of some of the new industry entrants looking to take advantage of the low entry barriers and high financial returns available through HIP.

**7.12** The most severe penalty DEWHA could apply under the program was to deregister installers who breached the program's terms and conditions. It needed to balance the compliance requirements of the program with the impact this action could have on insulation companies and installers. In September 2009, the department received legal advice noting that installers should be given an opportunity to respond to a decision to deregister them. It was therefore important for DEWHA to implement a deregistration process that incorporated the principles of natural justice and allowed installers the opportunity to provide reasons for their non-compliant activity. However, this had to be a timely process and based on the level of risk presented by the non-compliance, which in most cases, would be serious. Balancing these two requirements was difficult for DEWHA and, often, the deregistration process took too long (refer paragraphs 7.44 to 7.47).

**7.13** DEWHA would have benefited from implementing an approach more consistent with the audit methodology proposed, and one that provided for swift responses to identified serious non-compliance and potential fraud. Such an approach would have assisted DEWHA to better target its compliance and audit activities towards installers who demonstrated non-compliant or potentially fraudulent behaviour.

## **HIP's interim compliance and audit program**

**7.14** The interim compliance and audit program ran from the commencement of Phase 2 until mid-August 2009. The audit methodology, as shown in Table 7.1, proposed ongoing compliance and audit activities, such as desktop audits and field audits, as well as data analytics of payments to inform risk profiles of installers, provide a dataset for ongoing trend analysis and confirm installers' eligibility for registration. DEWHA's program did not reflect this methodology, apart from two prepayment data checks, as there was insufficient time to develop the compliance and audit activities before Phase 2 commenced.

**7.15** The fraud control plan noted the need for DEWHA to have a compliance and audit program with high coverage during HIP's interim period to identify trends and create the public perception that installers must comply with program requirements. A robust interim audit program was important as installers that registered between June and September 2009 self-assessed their eligibility for registration and were not required to provide documentation, such as certificates of currency for insurance, unless requested by DEWHA.

## **Interim compliance and audit resources**

**7.16** To assist with implementing the HIP compliance and audit program, the department:

- engaged its internal audit service provider, Protiviti, to act as a partner in refining, developing and conducting the compliance and audit program and establishing a DEWHA compliance team (late June 2009);
- seconded two compliance officers from DEWHA's Compliance Support Unit to map business processes and develop the CAF&P (late June 2009); and

- seconded two senior compliance officers from the Australian Taxation Office to assist in implementing the program (mid- to late July 2009).<sup>148</sup>

**7.17** These resources were initially supported by a team of three compliance staff in July, increasing to nine in August 2009. DEWHA also established a compliance committee, which included program directors (some five in total). The compliance committee met daily and was the oversight and decision-making body on compliance matters for Phase 2. It first met in July 2009 and was discontinued on 30 November 2009.

## **Prepayment checks**

**7.18** Prior to approving payments, DEWHA ran two payment checks daily: insulation companies that lodged more than 20 claims in one day and individual installers who lodged more than five claims in one day.<sup>149</sup> The compliance team followed up suspect claims by calling householders and/or installers to confirm installations or to seek an explanation about the high level of claims submitted.<sup>150</sup> The compliance team would then make recommendations to the compliance committee in relation to individual installers and insulation companies, such as a referral for further activity and/or authorisation of payments. In turn, the compliance committee would recommend to the Assistant Secretary, Home Energy Branch, the claims that should be paid. From 22 July 2009, the compliance committee also reviewed compliance-related complaints on a daily basis, particularly those considered urgent (priority one) or where more than three complaints had been made against an installer.<sup>151</sup>

**7.19** From July to mid-August 2009, the other compliance activities (field audits, desktop audits and roof inspections) were still being developed. Therefore, DEWHA was restricted in the action it could take against installers. For example, the committee minutes indicated that identified breaches of the

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<sup>148</sup> These officers took on the roles of Director, Compliance Management and Director, Fraud Management.

<sup>149</sup> The committee also discussed the results from other types of payment checks on an ad hoc basis, such as the most common types of insulation being installed and the cost of insulation per square metre, based on claims received.

<sup>150</sup> The number of calls made to householders and installers by the compliance team during implementation of the program cannot be accurately quantified as they were not consistently recorded in the compliance database against each individual installer.

<sup>151</sup> Priority one complaints were split into two key categories: fraud/tip-off and whistleblowing. These categories captured complaints relating to fire/safety issues, foil, claims for insulation that had not been installed and installers' qualifications and wages.

program's terms and conditions, such as claiming for installations that had not occurred, excessive claiming, consistently claiming the maximum rebate and potential fraud, resulted in listing the installer for audit activity (once operational), adding the installer to a watch list or sending a letter asking the installer to discontinue their non-compliant activity.

**7.20** As previously noted, deregistering an installer was the most severe penalty under the program. The first installer deregistered for non-compliance was on 6 October 2009. Another penalty available was to not pay an installer's claims. Despite identifying instances of installer non-compliance and potential fraud, DEWHA did not employ this penalty until almost two months after the program commenced. The first payment to be withheld was in late August 2009.

**7.21** Issues, decisions and actions in relation to individual installers were recorded in a compliance database, introduced on 15 July 2009. This information could have been used by DEWHA to target compliance and audit activities, consistent with the expectation outlined in the audit methodology. However, a formal risk profiling model was not developed or implemented as part of both the interim or ongoing compliance and audit program.<sup>152</sup> Also, DEWHA did not produce regular, summarised reports about the types of breaches identified or the action taken against installers. Consequently, for this period, the number of installers who had action taken against them and the type of action taken is not readily available. Reporting of this nature would have assisted the compliance committee to analyse trends and allowed DEWHA to respond appropriately to identify risks.

## **HIP's compliance and audit program**

**7.22** HIP's compliance and audit program was to support the systems and processes in place for registering and paying installers. As illustrated in Figure 7.1 and discussed in Chapter 6, the controls in place for registration were an ABN check and restricted access with a user identification and password to Medicare Australia's online claiming system. Medicare Australia's online claiming system checked claims by verifying addresses and confirming that addresses and work order numbers had not been previously

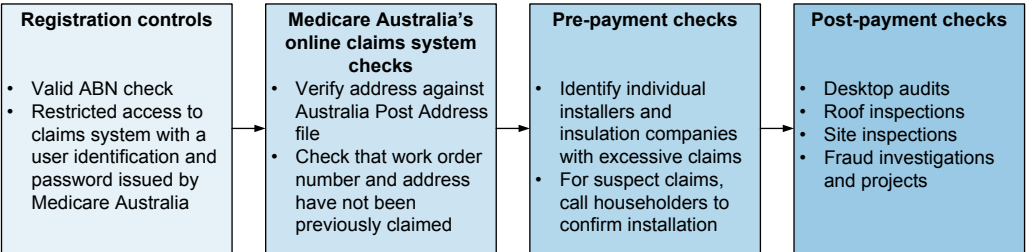
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<sup>152</sup> A formal risk profiling approach is being adopted for the HISP (refer to Chapter 8).

claimed. The compliance and audit program focused on prepayment checks and post-payment compliance activities (refer Figure 7.1).

**Figure 7.1**

**HIP registration, claims and payments checks**



Source: ANAO analysis of DEWHA and Medicare Australia information.

**7.23** The role of the compliance committee continued until 30 November 2009, when decision-making responsibility for the program was transferred to the Energy Efficiency Taskforce. Compliance activities were primarily undertaken by two contracted service providers. As previously noted, from late June 2009, DEWHA engaged Protiviti to assist in implementing its compliance and audit program. In late September 2009, PwC commenced as the HIP compliance and audit service provider. The DEWHA compliance team continued to be responsible for analysing the results of compliance activities and any necessary follow-up action.

**Resourcing compliance activities**

**7.24** There were considerable costs associated with the compliance and audit program. DEWHA paid Protiviti \$311 722 for its role as the interim provider and PwC and its subcontractors received \$8.6 million for its services, up to the closure of the program.<sup>153</sup> Table 7.2 shows the unit costs of some contracted compliance activities. The cost of individual roof inspections approached the cost of the rebate paid for individual installations when it was \$1600 and was considerably higher when the rebate was reduced to \$1200 in November 2009.

<sup>153</sup> PWC billed on a monthly basis. This figure includes an estimate of pro-rata expenses for February 2010.



**Table 7.2****Cost of contracted compliance and audit activities**

Activity	Cost (\$) <sup>1</sup>
Desktop audit	495
Roof inspection <sup>2</sup>	1422
Field audit	1585

Source: ANAO analysis of DEWHA information.

Note 1: These costs are based on the total estimated cost for a type of activity by month divided by the number of activities to be conducted that month.

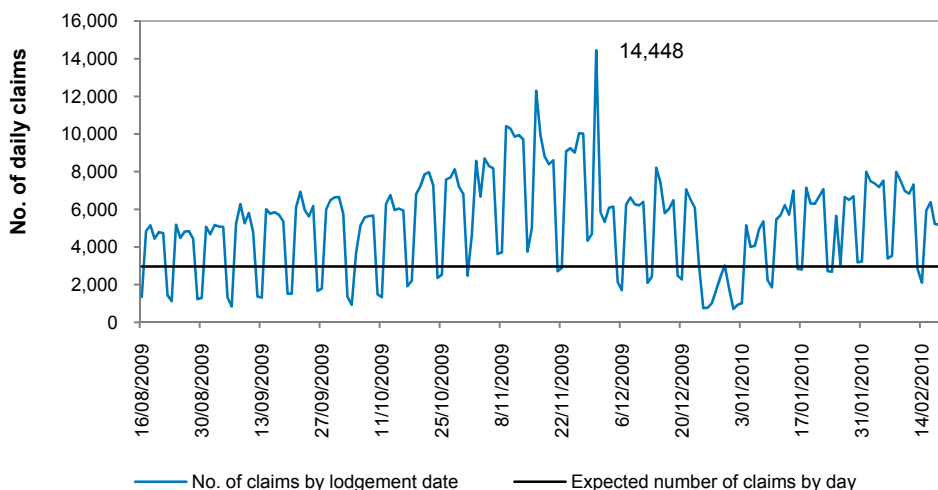
Note 2: These include costs associated with the call centre, inspector's time, report data entry, data transfers, quality assurance, reporting, contract management and project management.

**7.25** The significant growth in the number of claims increased the workload associated with the prepayment activities for the compliance team. It was expected that there would be approximately 90 000 installations per month (2959 per day<sup>154</sup>), however, as Figure 7.2 shows, by mid-August the number of daily claims lodged by installers well exceeded this expectation.

<sup>154</sup> This is based on 1.08 million installations per year (90 000 multiplied by 12 months) divided by 365 days.

**Figure 7.2**

**Number of claims by lodgement date during implementation of the ongoing compliance and audit program**



Source: ANAO analysis of Medicare Australia's claims data.

**7.26** In addition to the unexpectedly high number of claims being lodged, the number of complex tasks the compliance team was expected to undertake also increased. For example, processing manual payments and responding to fire incidents related to the program.<sup>155</sup> From late October 2009 to mid-April 2010, the compliance section requested an additional 54.2 staff and received an additional 26 staff.

**7.27** Throughout the program, resourcing was an issue for the compliance team and impacted on their capacity to manage the ever-increasing workload. On 12 February 2010, PwC wrote to the department expressing concern about DEWHA's inaction and the adequacy of resourcing for the compliance team. In particular, PwC noted that a number of companies had been identified as having associated safety and/or quality issues through desktop audits and roof inspections and compliance action was required. Most notably, at the closure of the program, there were 328 recommendations to deregister an installer,

<sup>155</sup> For manual payments, the compliance team were required to compare the manually processed claims to previously paid claims and claims that had been lodged online to confirm that they were not duplicates. The compliance team's management of fire incidents is discussed in Chapter 8.

based on desktop audit findings for the period 22 October 2009 to 25 January 2010 that had not been actioned.

## **Risk profiling through compliance activities**

**7.28** Risk profiling is used to target compliance activities. Despite there being a range of information available in the compliance database<sup>156</sup>, DEWHA did not have a risk profiling approach to address the risk of potential fraud or non-compliance associated with installers. The primary reason for this risk analysis not being undertaken was the inadequate resourcing of the compliance team. Further, the increasing workload of the compliance committee, because of the large number of claims and emerging compliance issues, also reduced its capacity to identify trends or oversight the development of such a model.

**7.29** The ANAO's analysis of claims and payment information identified indicators that could have been used by DEWHA as part of its risk profiling activities, including:

- 657 insulation companies (6.1 per cent of the total number of registered companies) submitted 24 550 claims outside of the state(s) they indicated they would service under HIP<sup>157</sup>; and
- 22 302 payments (totalling \$28.9 million and 2.0 per cent of the total number of payments made) were made to householders with different names but the same telephone numbers. In total, 9098 telephone numbers were identified with more than one householder's name recorded against it, accounting for 24 458 claims.<sup>158</sup>

## ***Coordination of pre- and post-payment activities***

**7.30** Figure 7.3 illustrates where the compliance and audit activities sit within DEWHA's compliance and audit model and the time, cost and effort required to escalate compliance and audit actions.

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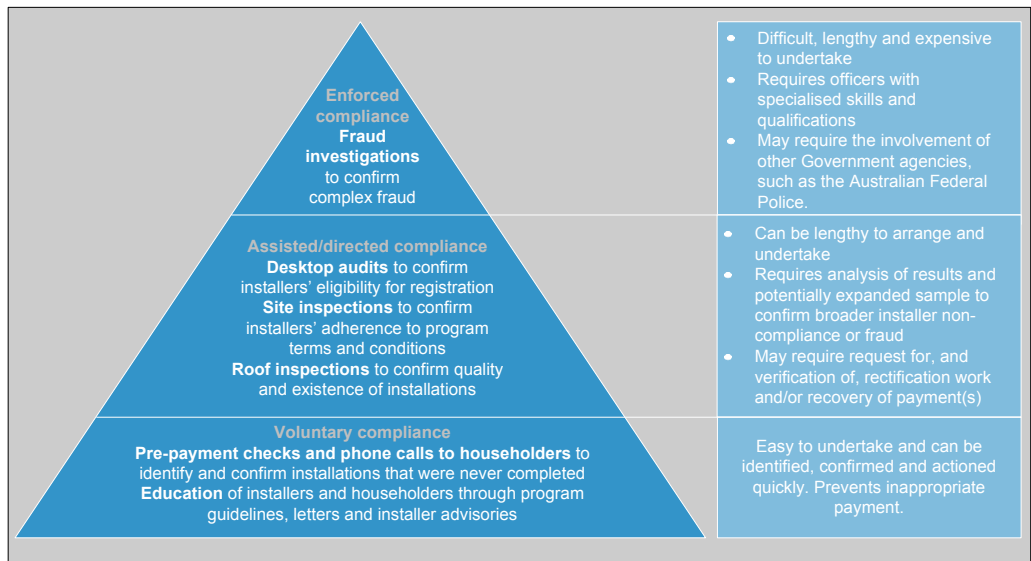
<sup>156</sup> Information in the database includes the results from compliance activities such as desktop audits, roof inspections and field audits and the priority one complaints referred to the compliance team.

<sup>157</sup> Installers were not prohibited from lodging claims outside of the state(s) they said they would service. However, where an installer has lodged claims in state(s) that are a significant distance from their business address and the service states(s) specified, this information could be used to develop and refine the risk profile of that installer.

<sup>158</sup> There are concerns regarding the quality and integrity of this information as some of these numbers appear to be 'dummy' telephone numbers or they could be the numbers of installers.

Figure 7.3

DEWHA’s compliance activities



Source: ANAO analysis of DEWHA information.

7.31 The activities to support voluntary compliance were intended to prevent inappropriate payments from being made and could be conducted quickly and cost effectively. The effectiveness of these prepayment checks was limited because they were not used to target those installers that posed the highest risks.

7.32 Without a risk profile model (and given the volume of claims), it was difficult for the compliance committee (and the EET Executive), to identify and determine those installers that posed the highest risk to the program. This was evident in the lack of coordination between the pre- and post-payment activities. Installers, who the compliance team confirmed had breached the program’s terms and conditions through its prepayment checks and subsequent phone calls, were referred for further compliance and audit activity such as roof inspections, desktop or field audits and fraud investigations. This process was unnecessary given that the department had confirmed the installer had breached the program terms and conditions and demonstrated potentially fraudulent behaviour by claiming for installations that had not been completed. This process was also not timely as it could take between five to six weeks to receive the results of a roof inspection after an installer had been referred to the PwC contract manager. As illustrated in Figure 7.3, these activities are more time consuming and resource intensive to undertake and

therefore, should have been used to detect the more complex types of serious non-compliance.

## Post-payment compliance activities

**7.33** Post-payment compliance activities included desktop audits, field audits and roof inspections. As at 24 March 2010, of the 7541 registered installers or insulation companies that made claims under HIP, 3074 (40.8 per cent) had been subject to some level of compliance and audit activities. Table 7.3 shows the number of compliance and audit activities completed.

**Table 7.3**

### Level of compliance and audit activity as at 24 March 2010

Protiviti			PwC	
Activity	Period	No.	Period	No.
Field audit	16 Sep 2009 –17 Sep 2009	4	21 Sep 2009–24 Mar 2010	17
Roof inspection	10 Aug 2009 –17 Sep 2009	187 <sup>1</sup>	21 Sep 2009–24 Mar 2010	13 808 <sup>2</sup>
Desktop audit	10 Aug 2009 –17 Sep 2009	0	10 Aug 2009–22 Jan 2010	1 023
Fraud investigation	27 Aug 2009 –17 Sep 2009	0	7 Oct 2009 –Dec 2009	4

Source: ANAO analysis of DEWHA information.

Note 1: Protiviti assisted the department to develop the roof inspection process and documentation, however, inspections were undertaken by qualified building surveyors engaged by DEWHA.

Note 2: A total of 15 009 inspection reports were provided to DEWHA, however eight per cent of these were partial reports or were for inspections that were not undertaken due to householder absence, no manhole, language difficulties and/or hazards.

**7.34** Protiviti (the interim HIP compliance and audit provider) developed process documentation to guide these activities. PwC completed most compliance activities, with roof inspections being the largest part of the program. The target number of roof inspections increased from 400 per month at the commencement of PwC's engagement in September 2009 to 1000 per week during November and December 2009; the number of inspections was again reduced to 400 per week in January 2010 to enable the compliance team to analyse the results of the completed roof inspections.

**7.35** The addresses selected for compliance and audit activities were based on a random, targeted and fire/safety risk basis. Fire/safety risks were the first

priority followed by targeted and then random sampled addresses.<sup>159</sup> Targeted samples were undertaken for those addresses claimed by an individual installer or insulation company that DEWHA identified, usually through other compliance activities, as requiring further investigation. Similarly, for installers who had been identified as having fire and/or safety risks associated with their work, addresses previously claimed by that installer were identified for further compliance activity.<sup>160</sup>

**7.36** The results of the 13 808 roof inspections completed as at 21 March 2010 are shown in Table 7.4. Those results show that most installations inspected were compliant (70.7 per cent), however, around 29 per cent had an identified quality, safety or fraud issue.

**Table 7.4**

**Results of completed roof inspections as at 21 March 2010**

Result	Number	Proportion (%)
Fully compliant	9 756	70.7
Safety hazards	1 351	9.8
Other quality issues, including batt splitting and incomplete installs (examples shown in Figures 7.4 + 7.5)	2 551	18.5
Potential fraud	150	1.1

Source: ANAO analysis of DEWHA information.

<sup>159</sup> The process of generating a random sample of addresses depended on the type of activity the addresses were being subject to. For roof inspections, a random sample of approximately 300 addresses was generated from claims lodged in a particular week and, for desktop audits, a random sample of approximately 300 addresses was generated from claims lodged in a two-week period.

<sup>160</sup> For targeted and risk/safety based sampling, a sample of five addresses or five per cent of an installer's total claims, whichever was higher, was generated.

**Figure 7.4**

**Example of batt splitting**



Source: DCCEE.

Note: Insulation batts should be 75mm thick unless there is a height irregularity with the surface on which the insulation is being installed.

**Figure 7.5**

**Example of an incomplete installation**



Source: DCCEE.

**7.37** In addition to its normal compliance inspections, PwC was engaged to undertake electrical safety inspections and fraud projects. The then Minister announced, on 1 November 2009, the Queensland electrical safety inspections project, which was expected to target 10 per cent (2200) of Queensland homes insulated with foil under HIP.<sup>161</sup> The project completed 835 inspections and was subsumed by the urgent arrangements put in place to conduct foil safety inspections just prior to the closure of the program (Chapter 8 discusses FISP in more detail).

## **Addressing fraud risks**

**7.38** The fraud control plan identified the risk of fraud associated with installers as high and was the highest of all four areas assessed. The plan identified 14 actions<sup>162</sup> to be taken to address this risk. However, the ANAO's assessment of the program shows that five of these actions were not implemented, such as checking for duplicate installer registrations or checking for deregistered installers who may have re-registered. Six actions were partially implemented, for example, implementing an education campaign about compliance and audit activities and conducting fraud identification activities at the registration, claims, payment and post-payment phases. Appendix 10 contains the ANAO's analysis for all 14 actions. To improve its capacity to detect and address fraudulent installers, DEWHA could have implemented the activities identified in the fraud control plan and improved its targeting of installers—risk profiling installers would have assisted this process.

**7.39** The fraud control plan also identified the need for a payment recovery process. Despite Medicare Australia advising that it could deliver this function, and an external costing request being developed and revised a number of times, it was never finalised.<sup>163</sup> As a result, no involuntary payment recovery process was in place under HIP. Also, DEWHA did not have a process to

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<sup>161</sup> The cost of each inspection was approximately \$1593.

<sup>162</sup> A number of these actions covered: comparing HIP claims with SHWR claims, identifying duplicate ABNs and confirming an installer's bank account name aligns with the ABN registration.

<sup>163</sup> External costing requests were used to supplement the service level agreement, which governed the Medicare Australia/DEWHA relationship, when additional responsibilities were introduced.



involuntarily recover any inappropriate or incorrect payments identified through its compliance and fraud activities.<sup>164</sup>

### *Fraud Projects*

**7.40** While not significant in proportion to the total number of installations under HIP, potential fraud became a growing concern as the program progressed. Compliance inspections had identified 67 cases where payments had been claimed but no insulation had been installed in November 2009; this number increased to 150 by March 2010. To address the risk of fraud, DEWHA engaged PwC to commence three fraud projects in November 2009, which were aimed at identifying installers involved in three key risk areas: claiming the maximum rebate irrespective of dwelling size; claiming rebates prior to installing insulation; and claiming for dwellings that do not meet the program criteria. After PwC provided reports detailing the findings of its investigations and recommending further action for particular installers, these projects were discontinued on 21 January 2010 by DEWHA. The projects resulted in one deregistration and cost \$117 000 in total. Appendix 9 gives full details and results of these projects.

### **Show-cause and deregistration process**

**7.41** DEWHA had in place a 'show-cause' process to address instances of non-compliance with the program's terms and conditions and/or identified safety and quality issues with an installer's work. As safety issues became an increasing concern under HIP, the show-cause process changed accordingly. Table 7.5 outlines how the process changed for some circumstances when the EET commenced in November 2009.

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<sup>164</sup> DEWHA did have a process to manage installers who contacted the department and advised that they had over-claimed or claimed for an installation which had not been completed.

**Table 7.5****Show-cause process**

Type of issue	Prior to 1 December	Post 1 December
Complaints about safety issues	Installer had seven days to provide an explanation and response to the complaint	Installer had 24 hours to explain why they should not be deregistered
Fire risk identified through roof inspection	Installer asked to rectify the situation and advise DEWHA once this work was completed (no timeframe specified)	Installer had 24 hours to advise why they should not be deregistered
Non-compliance with program terms and conditions identified through roof inspection	Installer asked to rectify the situation and advise DEWHA once this work was completed (no timeframe specified)	Installer had seven days to explain why they should not be deregistered
Failure to provide information for a desktop audit	Installer sent a letter of deregistration	Installer sent a letter of deregistration
Failure to provide a certificate of currency for insurance when requested by DEWHA <sup>1</sup>	Installers had 20 days to explain why they should not be deregistered	N/A
Unsafe work practices and/or non-compliance with program terms and conditions (findings from field audits)	Installer had seven days to explain why they should not be deregistered	Installer had seven days to explain why they should not be deregistered

Source: ANAO analysis of DEWHA information.

Note 1: DEWHA collected installers' certificate of currency for insurance up until 1 September 2009, when this became Medicare Australia's responsibility.

**7.42** In November 2009, the results of roof inspections identified installers who had claimed for installations that had not occurred and the recommended action to the compliance committee included:

- additional targeted roof inspections;
- calling a sample of householders to determine if it was a systematic issue;
- including the installers in one of the fraud projects; and
- commencing a fraud investigation.

**7.43** DEWHA's weak penalties for such non-compliant behaviour was unlikely to act as a deterrent to installers. It also allowed installers to repeat this behaviour and to continue to receive payments.

### *Deregistration process*

**7.44** DEWHA intended adopting a 'one strike and you're out' policy for installers who wilfully breached the terms and conditions of the program and/or registration eligibility requirements; however, this did not occur. As at 1 December 2009, only three installers had been deregistered for non-compliance with the program terms and conditions. Following the establishment of the EET, this number increased to 25 at the closure of the program. Of these 25 deregistered installers, 18 (72 per cent) had demonstrated serious non-compliant or potentially fraudulent behaviour and had either a related fire, fatality or fraud investigation.

**7.45** This suggests that DEWHA did not deregister installers who demonstrated other serious non-compliant behaviour, for example claiming for installations which were not completed. This approach could be due to the CAF&P which emphasised considering explanations for installers' potential non-compliance or fraud before assuming inappropriate behaviour by installers. Table 7.6 shows the total number of installers deregistered under the program illustrating that the number of installers deregistered for non-compliance with the program terms and conditions represents only 0.7 per cent of all installers deregistered.

**Table 7.6****Numbers of installers deregistered by type**

Type of deregistration	No. of installers as at 9 June 2010
Self	418
Non-compliant with terms and conditions	25
Failure to provide insurance information	127
Declined terms and conditions	39
Failure to provide desktop audit information	8
Installer has no insurance	1
Non-response to the terms and conditions	2 827
Suspended	11
<b>Total</b>	<b>3 456</b>

Source: DEWHA.

**7.46** In instances where DEWHA deregistered an installer, there was often a significant delay between when the department initially identified the installer's non-compliance and when the installer was deregistered. This was partly due to the department not having adequate procedures and timeframes to deal with natural justice requirements in its deregistration process. The time allowed for natural justice was not commensurate with the risk imposed by allowing installers to remain registered. For example, one installer, who was deregistered for non-compliance, was first referred to the compliance committee on 7 October 2009 but was not deregistered until almost 2.5 months later on 21 December 2009. A second installer, who was subject to a fraud investigation, was first discussed by the compliance committee on 12 November 2009 but was not deregistered until almost two months later on 15 January 2010.

**7.47** During implementation of the program, there were six installers with duplicate registrations<sup>165</sup>, who were deregistered for non-compliance on one registration but were able to maintain a second registration.<sup>166</sup> The program's terms and conditions did not prevent an installer who was deregistered from

<sup>165</sup> Duplicates were identified based on two registrations sharing the same bank account, address or mobile telephone number.

<sup>166</sup> There was also one installer with a triplicate registration that was suspended on one registration but was able to maintain the other two registrations.

reregistering. In mid-February 2010, just prior to the closure of the program, DEWHA was drafting revised guidelines to prevent installers from reregistering if they had been deregistered. Also in February 2010, DEWHA introduced a suspension process, which was first applied on 5 February 2010. The suspension process involved cancelling an installer's log-on details so that they could not lodge claims online and removed the installer from the Installer Provider Register.

## Energy Efficiency Taskforce

**7.48** The EET, which was established in November 2009, sought to address some of the compliance issues identified in this chapter, including examining ways to reduce the cost of the compliance program and changing the deregistration process. The Taskforce also commissioned a revision of the CAF&P to focus more on risks and to clearly define the roles and responsibilities of staff administering the program. A first draft of this revision was provided to the department in January 2010 but was not finalised before the program was terminated. The establishment of the Taskforce saw a small increase in compliance team resources from 17 staff in November 2009 to 24 staff in February 2010.

## Reporting of compliance activities

**7.49** Reporting about HIP's compliance and audit program was limited to a weekly compliance program report to the PCG covering major program developments or issues, such as the development of the CAF&P and the commencement of new staff. When PwC commenced, a summary of its activities was also provided to the PCG.

**7.50** DEWHA provided two key briefs to the Minister for the Environment, Heritage and the Arts about the compliance and audit program during the early stages of implementation; the first dated 26 June 2009 and the second dated 31 August 2009. Information included in the first brief indicated that there would be more controls included in the compliance and audit program than were actually implemented. For example, the briefs stated that:

- installation addresses would be checked for compliance with the program guidelines, however, DEWHA did not maintain the relevant information to perform these checks; and
- work order numbers would be tracked against individual installers, however, DEWHA did not check whether the work order numbers

claimed by installers had been issued to them. On 22 October 2009, Medicare Australia asked DEWHA whether it could discontinue maintaining a register of work order numbers issued to installers because it was resource intensive and it was known that installers were claiming against work order numbers issued to other installers. DEWHA approved this request and, as a result, this check could not be performed.

**7.51** In its second brief, DEWHA advised the then Minister that installers who had obviously breached the program guidelines or registration requirements would be deregistered. However, DEWHA allowed installers who breached program terms and conditions to remain registered if rectification work was undertaken.

**7.52** From 22 November 2009, DEWHA provided weekly reports to the then Minister, in addition to weekly *Program Metrics Reports* to the Minister's advisors, Secretary, EET and DEWHA's Corporate and Communications area. These reports covered a number of programs, including HIP.<sup>167</sup> For HIP, the reports included overall program statistics such as the number of claims received and payments made; and compliance program statistics on registrations, deregistrations and registered training organisations.

## Conclusion

**7.53** Development of HIP's compliance and audit program commenced too late for it to be implemented from the beginning of the program or to adequately align with other processes, such as the registration of installers. DEWHA recognised its limited experience in developing and implementing a compliance and audit program and sought expertise to assist, including engaging Protiviti and PwC to deliver the program. However, it did not adopt some of the critical elements recommended in the audit methodology and fraud control plan. For example, implementing identified fraud control activities and providing for swift responses to identified installer serious non-compliance and potential fraud.

**7.54** The HIP compliance team was under significant pressure soon after program commencement because of the higher than expected number of

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<sup>167</sup> These programs were: National Solar Schools Program, Solar Hot Water Rebate, Green Loans and Solar Homes and Communities Plan.

claims being lodged and inadequate resourcing levels. The results of activities were not analysed to develop risk profiles and, in some cases, not followed up. The effectiveness of activities was also limited because:

- prepayment checks were not used to target those installers who posed the greatest risks; and
- the referral of installers between pre- and post-payment activities was not strategically coordinated.

**7.55** Early briefings to the then Minister indicated that the audit and compliance program was to be more comprehensive than was actually implemented. The program would have benefited from DEWHA communicating and implementing its 'one strike and you're out' policy early in the program for those installers who demonstrated serious non-compliant behaviour, for example, by claiming for installations that had not been completed. Deregistering installers swiftly, where there were clear breaches of the program terms and conditions, would have acted as a deterrent mechanism and would have signalled the Australian Government's position on installers not meeting the program's terms and conditions.

## 8. HIP Closure and Remediation Programs

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*This chapter examines the closure of the Home Insulation Program including how ongoing compliance issues were dealt with and the manual processing of claims received after the program closed. The implementation of the remediation programs to address safety and quality concerns is also discussed.*

### Introduction

**8.1** Following the closure of the program in February 2010 there was a transfer of responsibilities for the administration of the program to DCCEE in March 2010. The Home Insulation Program Review Office (HIPRO) was established within DCCEE to manage the finalisation of the program and to implement the two safety programs: Foil Insulation Safety Program (FISP) and the Home Insulation Safety Program (HISP).<sup>168</sup> FISP is inspecting and rectifying safety issues in the estimated 50 000 homes insulated with foil. Under this program, householders have been given the option of removing the foil or, on the advice of a licensed electrical contractor, having safety switches installed. HISP is undertaking both targeted and random inspections and minor rectification work for a minimum of 150 000 non-foil insulated homes under the program. Compliance activities have also continued since the program closed. These include fraud and ongoing fire and safety investigations as well as the processing of the 76 700 claims received after 26 February 2010 and the 21 000 payments pending under HIP.<sup>169</sup>

**8.2** The ANAO examined DCCEE's implementation of the two new safety inspection programs and the ongoing compliance activities undertaken post-closure.

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<sup>168</sup> Although responsibility for HIP closure and the remediation programs was transferred to DCCEE in March 2010, DEWHA processed all invoices for the FISP interim arrangements up to 30 June 2010, with DCCEE taking over on 1 July 2010.

<sup>169</sup> Pending payments relate to those payments that were held for one payment, one day's payments or all payments going forward due to non-compliance. Following closure, businesses were advised by DEWHA that their payments would be withheld pending further investigation and/or rectification of the non-compliant installation(s) as specified in the program guidelines.

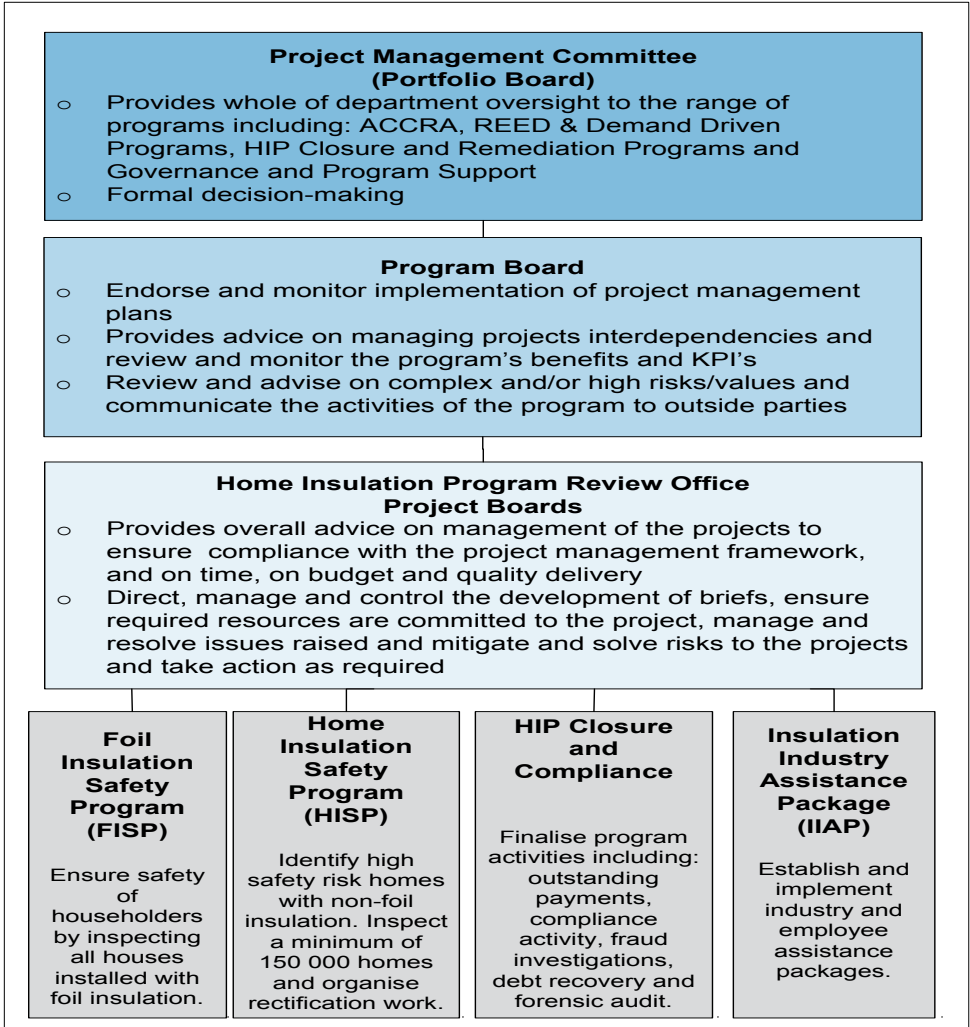


## Governance arrangements for remediation programs

**8.3** DCCEE has implemented a sound governance framework for the program's closure and remediation programs, drawing on the lessons learned from HIP. The department has implemented a three-tiered governance structure with a portfolio-wide committee as the formal decision-making authority, to bring together program design, implementation and management with strong executive oversight. The Program Management Office also assists the program areas to develop and maintain a more consistent approach to quality assurance plans, program schedules and other program management controls. In addition, the Home Insulation Central Agency Consultative Committee (HICACC) has been established as an information sharing group to discuss emerging issues around the implementation and delivery of the programs under HIPRO. The new governance structure in place for the HIPRO is outlined in Figure 8.1.

Figure 8.1

Home Insulation Program Review Office Governance Structure



Source: DCCEE.

Note 1: The ANAO did not examine the Insulation Industry Assistance Package as part of the audit.

**8.4** HIPRO has developed an overarching implementation plan, and each program area is required to complete detailed project management plans, which outline the objectives of the program, key performance indicators, project roles and responsibilities, key milestones, costings, project controls and communication strategy. These are working documents and are intended to be updated every three months.

8.5 As well as the program areas assessing the risks associated with FISP and HISP, DCCEE sought specialist external advice to provide assurance that the:

- risk assessments were underpinned by a comprehensive process;
- risks have been appropriately identified, assessed, evaluated and mitigated; and
- risk assessments provide a sound basis to support the Government moving forward with the program.

8.6 In the opinion of this specialist review team, the risk assessments for FISP and HISP sufficiently identified project-related risks and mitigation strategies and provided an acceptable mechanism for the ongoing monitoring, management and reporting of risks throughout the program's lifecycles.

### **Data management and information technology support for HIPRO programs**

8.7 The transfer of major program delivery functions to DCCEE, and particularly the HIPRO programs, exacerbated existing data management problems within the department, necessitating a significant review of data management requirements for the programs.<sup>170</sup> At the time of the audit, HIPRO's data management capability consisted of a number of disparate data sources—limiting the capacity of the department to readily analyse and report HIP data. A contractor was engaged to analyse user needs across the HIPRO programs and recommended that the department develop an information management strategy to centralise the collection and storage of data. A pilot project is being undertaken in FISP to refine user and data system requirements.

### **Foil Insulation Safety Program**

8.8 As previously noted, an estimated 50 000 homes, predominately in Queensland and New South Wales, had foil insulation installed under HIP. In February 2010, DEWHA conducted industry stakeholder meetings to discuss the ongoing safety issues associated with foil insulation and how best to reduce the electrical risks in these homes. Industry representatives considered

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<sup>170</sup> DCCEE is undertaking a departmental wide review of its data management systems.

inspections were a 'point-in-time' and, to address the residual risks, mandatory safety switches needed to be installed in every home, or alternatively, the foil insulation removed.<sup>171</sup> DEWHA established a working group of key industry representatives to assist in drafting guidance for the initial risk assessment, removal of foil and installation of safety switches under FISP.<sup>172</sup>

**8.9** The objectives of FISP are to:

- mitigate safety risks to householders where foil insulation was installed under HIP by fitting safety switches or by removal of the foil insulation;
- mitigate the safety risks to electricians performing FISP work;
- identify faults or safety risks that are not related to the installation of foil insulation under HIP and advise householders of action required;
- identify where there are safety or quality issues with the insulation installation and refer these for compliance action or cost of recovery as appropriate; and
- complete the program in 2011.

**8.10** FISP is being implemented in three stages: urgent interim arrangements; Phase 1; and Phase 2. The differences between these stages are mainly the administrative and contractual arrangements put in place to manage the inspection program, rectification work and the processing of payments. Figure 8.2 outlines the three stages of FISP, the activities to be undertaken in each stage and their expected periods of operation.

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<sup>171</sup> Safety switches detect electrical faults and shut off the electricity. They are designed to prevent electrocution and faults that may cause house fires.

<sup>172</sup> DEWHA met with industry representatives on numerous occasions throughout February 2010 to gain information on electrical safety issues. The working group continued following the transfer of responsibility for the programs to DCCEE in March 2010.

**Figure 8.2****Three phases for the Foil Insulation Safety Program**

Urgent Interim Arrangements 10 February 2010 to 6 May 2010	Phase 1 FISP 6 May 2010 to 23 July 2010	Phase 2 FISP 23 July 2010 to 2011
<p>Householders arrange a licensed electrician to conduct an electrical safety test and rectify problems associated with the use of foil insulation</p> <p>Cost of the inspection and rectification work reimbursed directly to the electrical contractor by the Government</p> <p>24 000 homes assisted</p>	<p>PWC/UGL – extension of original contract</p> <p>Engagement of 5 companies - 170 LECs - 85 teams of two</p> <p>Logistics plan Quality assurance framework Data and reporting framework</p> <p>Booking service through UGL</p> <p>Target of 2000 homes</p>	<p>Implementation of logistics plan to inspect all remaining homes with foil installed.</p> <p>Baseline logistics plan 23 July 2010: 11 LECs under contract and 257 two person teams at full capacity 1420 inspections/rectifications per week 2-8 hours per inspection/rectification 1-2 inspections per day based on location</p> <p>All householders to be contacted by letter and telephone</p> <p>70-80 per cent of inspections/rectifications to be completed by December 2010.</p>

Source: ANAO analysis of information provided by DCCEE.

**Urgent interim arrangements for FISP**

**8.11** As an immediate response to safety and fire risks, the then Minister announced on 10 February 2010 that interim arrangements would be put in place for an electrical safety inspection program, later changed to FISP. These urgent interim arrangements allowed householders to arrange for any licensed electrician to conduct an electrical safety inspection and, where necessary, rectify any safety problems associated with foil insulation. The cost of this inspection and rectification work was to be reimbursed directly to the electrical contractor by DEWHA (and from 8 March 2010, DCCEE).

**8.12** Although there were no formal program guidelines, DCCEE developed work practice instructions and an electrical safety inspection form for electrical inspectors. The interim arrangements essentially involved:

- householders calling the Centrelink managed Insulation Safety Hotline for information and, if confirmed as eligible, being given a Program Reference Number (PRN)<sup>173</sup>;
- on receipt of the PRN, householders being able to engage any licenced electrical contractor to undertake the electrical safety inspection;

<sup>173</sup> The PRN is the same number as the Work order number given to the installers under HIP.

- the electrician completing an electrical safety inspection report and, using the PRN provided to the householder, invoicing DEWHA for the cost of the inspection and minor rectification work; and
- DEWHA (and DCCEE) processing the claim and payment to the electrician within 30 days.

**8.13** Table 8.1 outlines the number of claims received and paid under the interim arrangements as at week ending 1 August 2010. The urgent interim arrangements ceased on 6 May 2010; however, the department allowed pre-booked inspections to continue until 14 May 2010. Payments for the remaining claims under the interim arrangements are now being made.

**Table 8.1**

**Numbers of claims received and paid under the interim arrangements for FISP up to week ending 1 August 2010**

Claims	Number of claims	Value of claims (\$ m)
Claims received	24 598	10.0
Claims paid	22 154	9.1

Source: DCCEE.

**8.14** From early March 2010, the primary focus of the FISP team was processing the invoices received from the licensed electricians undertaking the safety inspections.<sup>174</sup> The department identified two key areas of concern for these interim arrangements:

- discrepancies between the number of PRNs issued by the call centre and the number claimed by electricians; and
- reasonable costs for the work completed.

**8.15** The department advised that the call centre issued 11 000 PRNs but claims have been received against approximately 23 000 PRNs. Possible explanations for this discrepancy could be that:

- the electrical contractor was the installer;

<sup>174</sup> The Foil Insulation Safety Team was responsible for the interim arrangements and was made up of 11 people: nine claims processors, an APS 6, and a Director.

- the householder had access to the PRN (from the copy of the work order form provided at the time of installation) and did not require a PRN to be issued by the call centre prior to an inspection and any rectification work being undertaken; or
- installers provided electricians with a list of the work order numbers from installations they had completed under Phase 2 of HIP.

**8.16** DCCEE stated that it would pay reasonable costs, plus the usual hourly rate for any electrical repairs associated with the foil insulation. Reasonable costs were considered to be up to \$400 (GST inclusive); however, there was no further clarification of what constituted the hourly rate. As such there have been some claims for up to \$2500; however, DCCEE advised that the average cost of claims has been \$407.

### **Claims processing system for the interim arrangements**

**8.17** It was initially estimated that 5000 manual invoices would be received and the team would enter the information into a single spreadsheet. It soon became apparent that claims under the interim arrangements would exceed initial estimates and processing would not be able to keep pace with this demand. In April 2010, a database solution was sought and an interim database was designed to facilitate the processing of invoices.<sup>175</sup> The database became operational on 27 May 2010 and the number of claims processed per day increased from 125 invoices to 829 invoices.

### **Foil Insulation Safety Program — Phase 1**

**8.18** Phase 1 covered the period from 23 April 2010 to 6 July 2010, and aimed to complete 2000 urgent inspections. PwC and UGL were engaged to undertake additional services to support the delivery of FISP at a cost of approximately \$7.5 million. This Phase moved away from the householder-initiated process to one where PwC/UGL booked licensed electrical contractors (LECs) to inspect and rectify any electrical safety issues resulting from the installation of foil insulation.<sup>176</sup>

<sup>175</sup> DEWHA processed all payments up until 30 June 2010. DCCEE formally took over on 1 July 2010.

<sup>176</sup> Rectification work includes the removal of the foil or, based on the advice of the electrician, the installation of safety switches.

**8.19** Prior to extending its existing contract with PwC, DCCEE reviewed the proposal to ensure appropriate levels of resources were available and costs were competitive. The department negotiated savings by revising the terms and a condition of the contract, and payment for Phase 1 was based on a fixed payment schedule. The department has monitored these costs and established that the staffing levels required are less than the scheduled payment value for the contract. PwC has indicated that actual hours incurred were approximately six per cent lower than originally estimated. This information has informed the resourcing requirements and pricing for Phase 2.

**8.20** PwC, through its sub-contracted service provider UGL, conducted a competitive procurement process to select additional LECs to be engaged as sub-contractors to UGL.<sup>177</sup> All LEC teams had to either be licensed electricians or one member could be an electrical apprentice with at least two years experience. PwC and UGL were responsible for establishing the priority booking service and the roll-out of inspections and rectification work in line with a logistics plan developed by UGL and agreed with DCCEE on 29 June 2010. PwC was also responsible for weekly reporting to DCCEE.

**8.21** During Phase 1, PwC and UGL also developed a baseline logistics plan, an internal Quality Assurance (QA) plan and a technical QA plan for Phase 2. These documents have now been finalised and accepted by the department on 23 July 2010 in the context of signing off on Phase 1 under the FISP contract.

*Mail-out to all homes insulated with foil*

**8.22** The department sent out letters to householders (with foil installed) informing them of the program and that they would be contacted regarding an inspection. This mail-out was completed by 10 August 2010.<sup>178</sup> As of 1 August 2010, 5997 homes had declined an inspection. Having data on the number of declined inspections will assist in determining the number of LECs

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<sup>177</sup> The sub-contracted LECs were selected on the basis of criteria agreed to by PwC/UGL and DCCEE. The new contract also specified that the second electrician or apprentice must have received appropriate training in rescue and resuscitation within six months prior to conducting safety inspection or rectification services.

<sup>178</sup> It is assumed that not all households that had foil insulation installed under HIP will receive a letter because of the quality of the data in the HIP database. As of 20 July 2010, 1336 householders could not be contacted as there were incorrect details in the database. This number may increase depending on the number of return to sender letters that the department receives.



required to complete future inspections and rectification work under Phase 2.<sup>179</sup>

### *Inspection program*

**8.23** The booking information is automatically allocated to a Personal Digital Assistant (PDA) device held by the inspection team.<sup>180</sup> Once the team has completed the inspection and rectification work for that booking, the data captured on the PDA is automatically uploaded into the database. This process is designed to assist the accurate and up-to-date reporting of inspections. Table 8.2 outlines the number of homes booked and inspections completed as at 1 August 2010. It also outlines the breakdown of homes that have had: foil removed; safety switches installed; abandoned inspections; and the number of homes that do not require an inspection or rectification assistance.

**Table 8.2**

### **Number of bookings, inspections and remediation work as at 1 August 2010**

<b>Foil Insulation Safety Program (FISP)</b>	
<b>Bookings</b>	
Total number of bookings made	5162
<b>Inspections</b>	
Number of inspections completed <sup>1</sup>	3386
Number of dwellings that had foil removed	544
Number of dwellings that had safety switches installed	577
Number of inspections declined/abandoned <sup>2</sup>	183
Number of dwellings already inspected independently, not requiring further assistance	5997

Source: DCCEE.

Note 1: This number includes inspections undertaken as part of Phases 1 and 2.

Note 2: Abandoned inspections relate to homes: with asbestos; where the householder was absent; without a manhole; language difficulties; and hazards.

<sup>179</sup> It is assumed that this number may continue to increase.

<sup>180</sup> A PDA is a small handheld communications device that can capture all the information on-site from the authorised user. It registers where teams' next jobs are, reports data regarding inspections back into the system electronically. Prior to 22 July 2010, this information was recorded manually on forms.

## The Foil Insulation Safety Program (FISP) Phase 2

**8.24** Phase 2 was being developed in parallel with Phase 1 and covers the period from the end of July 2010 until the completion of all inspections and rectifications in 2011. Under Phase 2, UGL will engage additional LECs and complete the inspection and rectification work for the remaining homes insulated with foil. The logistics plan accepted by DCCEE on 23 July 2010 identified the timeframes for the completion of inspections, and additional LECs required.<sup>181</sup> Following a review of the work undertaken in Phase 1, it is now estimated that an additional 40 teams will be required. The department is endeavouring to have 70–80 per cent of the inspections completed for most States/Territories by 17 December 2010, with the remainder completed in 2011.

## Home Insulation Safety Program

**8.25** On 22 February 2010, the Government announced HISP, a targeted, risk-based audit and inspection program of at least 15 per cent (150 000) of homes with non-foil insulation installed under HIP. The objectives of HISP are to:

- provide the householders who had insulation installed under HIP confidence that:
  - the likelihood of there being a safety issue with their insulation is minimal; or
  - if there is a risk of there being a safety issue with their home, that a certified inspector will check it and rectify if necessary;
- provide Government with confidence that those homes with the highest likelihood of safety issues have been checked and if necessary, rectified;
- enhance the professionalism of the insulation installation industry by working with peak industry bodies to identify quality installers willing to warranty their work; and
- work towards restoring public confidence in home insulation.

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<sup>181</sup> Requirements included: two person teams; a qualified electrician and at least a third year apprentice; inspection and rectification work to be completed on the same day; within two to eight hours each; and each team is expected to complete one to two inspections per day.

**8.26** HISP will be undertaken in three phases: urgent interim; Phase 1; and Phase 2. Interim arrangements were put in place to address immediate safety risks and any necessary rectification work, while Phases 1 and 2 were being developed for the majority of targeted inspections. Figure 8.3 gives an overview of the three phases of the safety program.

**Figure 8.3**

**Three phases for the Home Insulation Safety Program**

<b>Urgent Interim HISP</b> 1 April ongoing	<b>Phase 1 HISP</b> Underway	<b>Phase 2 HISP</b> Under Development
<p>Householders call the hotline requesting an urgent inspection. Inspections categorised as priority and non-priority.</p> <p>PwC/UGL undertake inspection and provide householder with safety inspection report.</p> <p>Master Electricians Australia (MEA) inspection and rectification services for up to 4000 homes.</p> <p>Retrospective rectification process for 1946 homes identified as part of compliance inspections undertaken prior to closure of the program.</p>	<p>PWC manage UGL and CSR Bradford to undertake inspections and rectification work.</p> <p>Target of 20 000 homes each with further package of 20 000 if work is satisfactory.</p> <p>Engagement of GHD to assist DCCEE with project and contract management services.</p> <p>Engagement of CSIRO specialist statistical services for risk profiling to identify homes for inspections.</p> <p>Development of IT solution.</p>	<p>Phase 2 is still under development and at this stage:</p> <ul style="list-style-type: none"><li>○ Review of Phase 1</li><li>○ Lessons learned taken forward for Phase 2</li><li>○ Competitive tender process to procure organisations to undertake inspections and rectify safety issues of the remaining 90 000+ homes</li></ul>

Source: DCCEE.

**Urgent interim arrangements**

**8.27** Under the urgent interim arrangements concerned householders contacted the call centre to request an immediate inspection. The call centre operators assessed the seriousness of the safety concerns and inspections were prioritised according to the level of risk determined through an over-the-phone assessment.<sup>182</sup> These inspections were undertaken by extending the existing arrangements with PwC and UGL for the compliance and audit program.

**8.28** Where householders were classified as needing an urgent safety inspection, the department would organise for the inspection to be undertaken and the householder would be provided with a safety inspection report. As at 1 August 2010, a total of 9712 urgent inspection requests had been received

<sup>182</sup> Call centre operators were given a script and were provided with an outline of safety issues that warranted an immediate referral, such as any loss of power, safety switches tripping, excessive heat around downlights, shocks or tingles from any metal part of the house or any other electrical issues that started after insulation was installed.

from householders and PwC/UGL had booked approximately 7513 urgent inspections. UGL currently has 92 inspectors.

### *Rectification work for urgent inspections*

**8.29** There was no scope in the existing contract for UGL to undertake the rectification work. As the department did not want householders to receive a report that recognised safety concerns with their homes without the problem being addressed, it sought to engage a company to undertake immediate and urgent rectification work. On 13 April 2010, the department sought approval to directly source a company from the Defence Infrastructure Standing Offer Panel to undertake this work. Twelve companies were identified and contacted, however, all companies declined to undertake the work. Consequently, the department sought assistance from Master Electricians Australia (MEA)<sup>183</sup> to undertake the urgent rectification work initially through informal arrangements that were formalised in May 2010.

### *Engagement of Master Electricians Australia*

**8.30** Under the informal arrangements, MEA received the details of the homes that required urgent rectification work and would make contact with the householder to arrange a time to complete the work. MEA directly invoiced DCCEE specifying the identified work order number, plus a short summary of the work completed and any guarantee of work provided to the householder.

**8.31** MEA was contracted until 3 September 2010 to undertake inspection and rectification services for up to 4000 homes identified by the department.<sup>184</sup> Under the contract, MEA is also responsible for job dispatch, case management, data management, invoice processing and will provide an audit program.<sup>185</sup>

**8.32** Householders are given a 12 month warranty for all work undertaken and a Certificate of Test stating that the work complies with relevant

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<sup>183</sup> Master Electricians Australia (MEA) is a leading peak body for the electrotechnology industry across Australia and provides an accreditation program to electrical contractors.

<sup>184</sup> This number includes up to 2000 retrospective rectifications where the original installers did not revisit the premises or where a post-installation electrical inspection was required.

<sup>185</sup> A one per cent random sample of total work audits, contractor process audits, provision of onsite complaints and resolution audits will be completed through ECA SafetyConnect. The program involves ECA SafetyConnect reviewing work processes and risk assessments, and confirming that safety equipment is being used and the outcome of the work completed.

Australian, State and Territory Standards. MEA provides a weekly report outlining jobs accepted, processed, completed and in progress. Prior to payment, DCCEE has processes in place to check that the invoices provided match the work undertaken. As at 1 August 2010, the 2717 requests for urgent rectification work had been completed.

### *Retrospective rectification process*

**8.33** Prior to the establishment of HISP, 1946 homes were identified as having safety concerns through compliance inspections undertaken prior to the closure of the program. Since 22 June 2010, DCCEE has been contacting these householders to determine whether safety issues have been rectified and to advise them how to request a re-inspection to confirm that the property is electrically safe.<sup>186</sup> For those householders who did not contact the original installer, or request the department to undertake the rectification work, an electrical safety inspection will be arranged through MEA.

## **Home Insulation Safety Program — Phase 1**

**8.34** HISP Phase 1 is being developed in parallel with the interim arrangements, and is expected to provide valuable lessons to be incorporated into the design and implementation of Phase 2. PwC will continue as the managing contractor and has engaged two companies to undertake the inspection and rectification work: CSR Bradford Insulation (CSR) and UGL. Each organisation will undertake 20 000 inspections and rectification work. If DCCEE is satisfied with the work undertaken by the two companies, each company will be contracted for an additional package of 20 000 inspections.<sup>187</sup> Under the arrangements, installers who had completed installations under HIP can be employed.<sup>188</sup> The installer's record of compliance under HIP, controls to avoid inspection of their own work and their ability to meet the training, quality assurance and insurance requirements are factors that will be taken into consideration when employing these installers.

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<sup>186</sup> For those households that rectified the safety issues prior to HISP, the Government will not reimburse costs.

<sup>187</sup> PwC is to provide DCCEE with a high level implementation plan and all parties are to agree to a set of competency standards for inspectors.

<sup>188</sup> CSR Bradford Insulation uses its current membership and UGL sub-contracts to small and medium sized businesses within the industry.

**8.35** The current timeframe proposed for Phase 1 is to complete a total of 80 000 inspections within approximately nine months (to 30 June 2011). CSR conducted a three week pilot program and commenced inspections on 2 August 2010. Work is also being undertaken, using the results of inspections carried out under HIP, to determine where the inspections will be likely to occur and therefore where recruitment of staff will need to be targeted. UGL is yet to commence inspections and is continuing to recruit suitably qualified installers/inspectors.

**8.36** DCCEE has an independent quality assurance process in place to monitor performance by the contractors, and to obtain assurance that there are no probity issues or conflicts of interest between the role of companies in the original HIP and their role in HISP.

*Project, contract management and specialist services*

**8.37** DCCEE has engaged specialist project and contract managers as well as specialist statistical services to assist with HISP. GHD were engaged on 21 June 2010 to provide experienced project and contract managers to initially manage HISP Phase 1 and to assist in the establishment and ongoing management of HISP Phase 2. In particular, GHD will support DCCEE in such matters as the administration of the PwC contract, risk management, data analysis and reporting. The CSIRO will provide a statistical risk profile methodology to target the HISP inspections towards homes with the highest risk to householder safety.

## **HISP — Phase 2**

**8.38** Under HISP Phase 2, the remaining homes, required to meet the Government's target number of inspections for HISP (at least 150 000), will be inspected.<sup>189</sup> Planning for HISP Phase 2 is still underway and the department advised that it will reflect the negotiation outcomes from Phase 1 as well as the outcome from the risk profiling being completed by the CSIRO. The department is developing an acquisition strategy to undertake a request for tender process for new companies and inspectors. In addition, after a review of Phase 1, DCCEE will evaluate the work already completed, and re-engage the companies responsible for inspections and rectifications in Phase 1 if appropriate.

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<sup>189</sup> The department has advised that anyone who rings the hotline, who had non-foil insulation installed under HIP, will receive an inspection.

## Ongoing compliance activities

**8.39** The HIP Closure and Compliance Branch was established in March 2010 to finalise the program, and it is expected that this work will be completed by 30 June 2011. To date, the primary focus for the compliance team has been the manual processing of the 76 700 claims received after the program closed on 19 February 2010. There has also been ongoing fire and safety compliance activities, continuing fraud investigations and the assessment of payments that had been pending under HIP.

### Processing on manual claims

**8.40** Medicare Australia has been processing the 76 700 manual claims received after HIP closed.<sup>190</sup> As part of this process, these claims are sent to DCCEE for prepayment checking and approval. The checks being undertaken are the same as those completed for HIP and involve the compliance team checking that there were no more than:

- five installations per installer per day; and
- 20 installations per company per day.

Some of the claims received post-closure are manual address claims.<sup>191</sup> As a result, DCCEE conducts additional compliance checking by verifying the address and contacting the householder.

**8.41** Duplicate addresses and previous claims made under the program are also checked. To date, the department has processed 62 352 claims (\$74.1 million) post closure.<sup>192</sup> It is expected that approximately \$91.2 million in payments will be made between 2009–10 to 2011–12.

### Pended payments

**8.42** Following the closure of HIP, the then Minister agreed to pend all outstanding payments to businesses that were associated with non-compliant

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<sup>190</sup> See Chapter Seven for a more detailed explanation of the compliance activities undertaken pre-closure.

<sup>191</sup> See Chapter Six, paragraph 6.13 for a more detailed explanation.

<sup>192</sup> This number includes some claims received pre-closure. The total number of claims released for payment to date pre- and post-closure is 1 137 064 at a total value of \$1.5 billion.

installations.<sup>193</sup> The department assessed the number of non-compliant installations for each registered company and released the payments associated with all installations assessed as being compliant. As of the 1 August 2010, the department had a total of 21 000 pended payments and has developed a three stage process for dealing with these payments, which involves:

- writing to all companies where payments have been pended, explaining that they have not met the terms and conditions of HIP;
- asking for further evidence to the contrary; and
- determining the installations which were non-compliant, and therefore seeking the recovery of the value of the relevant installations.<sup>194</sup>

## **Fire and safety investigations**

**8.43** As at 19 August 2010, there have been 207 fire incidents<sup>195</sup> associated with insulation installed under HIP. Following the closure of HIP, fire and safety compliance actions were suspended until legal advice was received on the pending of payments and safety issues around rectification issues.<sup>196</sup> The department developed new procedures for dealing with fire incidents from the 4 May 2010. The new processes differentiate between those incidents where a fire brigade has confirmed that the fire incident was caused by insulation installed under HIP and those where the fire brigade had not attended (non-confirmed incident).

**8.44** Installers that were involved in fire incidents had all payments pended. Since 17 May 2010, letters informing installers that payment(s) are being withheld for fire incidents and non-compliant installations have been sent out. The letters advised installers they were not to go back to rectify the problems,

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<sup>193</sup> Pended payments relate to payments that were pended for one payment, one day's payments or all payments going forward due to non-compliance. Businesses were advised by DEWHA that their payments would be withheld pending further investigation and/or rectification of the non-compliant installation(s) as specified in the program guidelines.

<sup>194</sup> The department will adopt a similar process to seek reimbursement from 4000 payments to installers/companies deemed as having completed non-compliant installations.

<sup>195</sup> For the purposes of HIP, fire incidents were defined to include any flames, burning, charring, smouldering or smoking insulation. It is therefore worth noting that only a small number of fires result in substantial property damage. Of these fire incidents, 144 were actual fires requiring fire brigade attendance (0.02 per cent of installations).

<sup>196</sup> All payments were held for businesses/installers where non-compliant installations were identified.



they would not receive payment and any monies would be held until finalisation of compliance activities.<sup>197</sup> The value of the non-compliant claims would be offset against the amount held by the department.

**8.45** DCCEE is also seeking recovery from installers who have already received payment for non-compliant or fire related installations. The department has developed a separate letter, which outlines the process for installers to repay monies owing. Any further incidents of non-compliance identified will also require repayment of the value of non-compliant claims.

**8.46** For both confirmed and non-confirmed fire incidents, the fire team updates the HIP compliance database and forwards the details of the confirmed incident, actions taken to date and any follow-up required to HISP. The HISP team are responsible for contacting the householder to offer a roof inspection, organising rectification of safety issues where required and notifying the installer of the outcome.

### **Forensic audit of HIP compliance data**

**8.47** DCCEE engaged KPMG on 31 March 2010 to undertake a forensic audit to identify fraud and outstanding debt activity under HIP. The audit's two key objectives were to:

- assess the fraud and non-compliance risks and controls for HIP with a view to address any identified shortcomings for the proposed REBS<sup>198</sup>; and
- identify installers and insulation companies who have potentially demonstrated serious non-compliant behaviour.

**8.48** In April 2010, KPMG advised the department that because of quality concerns with the data in the HIP database and delays in obtaining data, it was unable to complete the work within the planned timeframe. The interim report identified 180 risks and actions that DCCEE could implement to address the risks of fraud and non-compliance in future programs.<sup>199</sup> KPMG's interim findings relating to the quality of HIP program data identified a number of issues, including that:

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<sup>197</sup> Prior to the closure of HIP, a show cause letter would be sent out to the installer, asking them to show cause as to why they should not be deregistered and to go back and rectify the issue.

<sup>198</sup> The REBS did not proceed.

<sup>199</sup> The 180 risks identified could increase when data analysis is completed.

- information required to identify some types of potential fraud was not consistently collected and recorded;
- some of the results of compliance activities had been incorrectly and/or inconsistently recorded in the database; and
- some of the information submitted by installers in claiming the rebate was different to the information recorded on the work order forms.

**8.49** KPMG has taken steps to improve the quality of data available through a wide range of tests, inspection of original records and comparisons of data sources. It has advised the department to take these limitations into account when assessing data analysis results and undertaking case assessments. The work undertaken by KPMG is informing the fraud and non-compliance strategy being developed by the department.

## **Fraud and non-compliance strategy**

**8.50** DCCEE's proposed post-closure fraud and non-compliance strategy will focus on four main areas:

- suspected fraud: deliberate acts that compromise the integrity of the program to gain financial benefit, such as claiming for installations not undertaken;
- other non-compliance matters: installers who have not rectified one of two key breaches of the program terms and conditions, quality and low level fraud;
- safety-related non-compliance: installers who have knowingly or recklessly put people or property in danger; and
- actions to support other Australian Government agencies: sharing HIP information with other relevant government departments, such as the Australian Taxation Office and the DHS.

**8.51** Activities will be informed by a number of sources including KPMG's risk assessment of all installers<sup>200</sup>; results from HISP and FISP; public tip-offs; and existing program controls. The anticipated outcome of DCCEE's work includes legal action, civil debt recovery and referral to State and Territory agencies, where appropriate. KPMG's initial findings have identified some

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<sup>200</sup> KPMG's assessment categorises installers according to the risks of fraud, non-compliance and safety.

4000 potential cases of fraud, and DCCEE advised that some 100 cases have been formally referred to its Investigations and Intelligence Branch for further consideration. A dedicated officer from the AFP is working with the Branch on these investigations. DCCEE expects that substantial effort will be required to obtain sufficient information to prosecute any identified installers where fraud is suspected and in many cases, the cost of prosecution will not be recovered. Consequently, it is working with KPMG to further refine its fraud and non-compliance tests to ensure resources are adequately targeted.

## Conclusion

**8.52** DCCEE have made a concerted effort to strengthen governance arrangements following the program's closure and the subsequent development of remediation programs. HIPRO within DCCEE has developed an implementation plan and project management plans, and has sought specialist advice to provide assurance that risk assessments are comprehensive and risks are being appropriately mitigated.

**8.53** The urgent interim arrangements for FISP were developed in response to householder safety concerns, with any non-compliance identified during inspections to be addressed in later phases. Although there were no formal program guidelines for the interim arrangements, DCCEE developed in consultation with key industry stakeholders work practice instructions and guidance on electrical safety inspections. Sound program and contract management arrangements have been put in place for Phase 1 of FISP. The department also has processes in place designed to monitor the contract with PwC and UGL for Phase 2, so deliverables are achieved, value for money can be obtained and the program is completed in 2011.

**8.54** HISP has been well designed and has also incorporated the lessons learned from HIP. The interim phase is completed, and Phase 1 began on 2 August 2010. Selecting and managing the safety inspection program is a complex process, particularly in terms of establishing priorities based on recognised risks. DCCEE has engaged risk profiling specialists as well as experienced project and contract managers to assist in the ongoing implementation of HISP.

**8.55** Since the closure of HIP, DCCEE has developed a proposed fraud and non-compliance strategy. The full extent of potential fraud has not yet been determined; however, the proposed fraud and non-compliance strategy indicates that the department will need to work closely with its forensic

auditor to refine its fraud and non-compliance testing so that resources are deployed effectively. The new processes for managing fire incidents and a closer liaison with Fire Brigade Services have facilitated a more integrated approach to addressing fire and safety risks.

## 9. Lessons Learned

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*This chapter summarises the key lessons learned from HIP, to assist agencies when implementing similar programs.*

### Introduction

**9.1** In undertaking the audit of HIP, the ANAO has identified key lessons learned, which are likely to have wider applicability to the Australian Public Service. These were developed in collaboration with DEWHA, DCCEE and Medicare Australia.

### Identifying the challenges to implementation during policy development

#### Compatibility of program objectives

**9.2** The design and implementation of a program should reflect its intended objectives. Where particular objectives are prioritised over others, it can lead to an inability to achieve fully all of the intended program outcomes. For example, in the case where an economic stimulus objective is prioritised, rapid roll-out will be desirable to provide jobs and achieve maximum expenditure within a short time period. However, this may create tensions with other objectives and inhibit their success.

**9.3** Where there are tensions between program objectives and there is a risk that one or more may not be achieved within the expected timeframe, the Government, through its relevant Ministers, should be advised as soon as possible of any significant constraints and provided with alternative options to advance the program's objectives.

#### Developing appropriate assumptions

**9.4** A considered assessment of the program's operating environment is important to enable the identification and development of an appropriate risk management and program delivery strategy. This requires the cultivation of sound assumptions to underpin policy and program development. In cases where the responsible department does not have an in-depth knowledge of the industry or business environment, consulting with program stakeholders and industry specialists assists in gaining an understanding of the full range of risks and opportunities to be taken into account in the design and

implementation of the program. Careful consideration of different views helps to develop realistic assumptions and determine contingency measures.

**9.5** Departments should also consider the impact that program implementation may have on the existing industry, and industry participants' and consumers' behaviour. This information is important to program design as it can affect the development of the program's regulatory, compliance and pricing frameworks, which if developed effectively can help to avoid safety, quality and compliance issues.

### **The early identification of critical program components**

**9.6** In the program planning phase, early consideration needs to be given to identifying and developing the program's critical components. These can be identified through a range of methods, including stakeholder consultation, lessons learned from similar programs and drawing on guidance, such as the ANAO Better Practice Guides and performance audit reports. Early consideration of critical program components also enables identification of cross agency or organisational change dependencies. Processes can then be developed concurrently, if the implementation of the program is under time pressure, so that they are complementary and in place at the commencement of the program.

### **Planning demand-driven programs**

**9.7** In designing demand-driven programs, control mechanisms to stimulate or limit demand should be considered, including, for example, putting in place the right incentive structures for participants, holding back a proportion of payments to ensure quality standards are achieved, or requiring some co-payment from those benefiting from the program.

**9.8** Difficulties in forecasting demand levels can result in consequences for program resourcing, including both budget implications and staffing capacity. Where practicable, and as part of the planning process for demand-driven programs, modelling and sensitivity analysis should be undertaken to forecast anticipated levels of demand and identify program management approaches that are able to influence, or respond to, the actual levels of demand.

## Establishing governance arrangements

### Proactive and effective oversight and response to emerging problems

**9.9** Program implementation is more likely to succeed if it receives strong executive-level support, and there is a sound governance framework in place to oversight progress and respond, as appropriate, to any unexpected variations in performance. Governance arrangements need to be tailored to the requirements of the program with clearly defined roles and responsibilities, including decision-making responsibilities. This is important for allowing appropriate mobilisation of resources and addressing emerging problems in a timely and effective manner.

**9.10** Effective governance arrangements will incorporate a clear reporting framework that provides for accurate, reliable and relevant information to key stakeholders to assist decision-making on strategic priorities. Reporting requirements need to reflect the importance of the program and its risks while balancing the administrative burden imposed by data collection and analysis. Effective reporting assists in successful treatment of risks and better targeting of compliance and audit activities.

## Risk management

### Effective and timely risk treatments

**9.11** Risk treatments must be effective and timely. The potential consequences of residual risks, where significant, should be clearly communicated to, and understood by, key stakeholders, such as Ministers and central agencies, so that treatments reflect the Government's risk appetite. It is accepted practice that departments need to advise Minister(s) of key program delivery risks during policy development to enable informed decisions around program design. In an uncertain environment, the assessment of a program's risk profile often changes during further development of a policy proposal and its implementation. This reinforces the importance of departments continuing to keep Minister(s) abreast of significant changes in risks of this kind, and any revised mitigation strategies.

**9.12** A clear understanding and acceptance of the level of inherent risk and potential consequences of realised risks in the program by all key stakeholders, including government, can avoid reactive program changes following implementation. This approach requires realistic and accurate reporting of circumstances by departments and agencies to key stakeholders.

## Implementation

### Identification of resources and systems to support implementation

**9.13** IT capability is likely to be a critical success factor in the implementation of many programs. Consequently, consideration of implementation during the program development phase should include the identification of necessary IT system enhancements and/or development required to support program delivery. This allows sufficient time for development, testing and release of changes prior to program implementation, and ensures that IT systems meet program requirements and expected benefits are achievable. This is especially important where the program relies heavily on IT systems to fulfill its objectives.

**9.14** IT systems that can be quickly enhanced in response to program changes will assist ongoing effective program delivery. If information systems are not adaptable when program requirements change, there is a risk that manual processes will be needed. These can be time consuming and resource intensive.

**9.15** Equally important is ensuring that departments and agencies have a sufficient number of appropriately skilled staff to implement the program. A strategic, agency level approach to managing human resources is required for effective implementation of significant programs. This can be a challenge, particularly for demand-driven programs where resources may need to be moderated according to demand levels.

### Appropriate compliance and audit program

**9.16** Compliance and audit programs should be operational at the commencement of the program and need to reflect the program's requirements, including specific program risks associated with the operating environment and program participants. The application of penalties should be supported by transparent and accountable processes; incorporate the principles of natural justice; and mitigate risks in a timely manner. These elements can be difficult to balance at times. However, agencies need to ensure that the time allowed for natural justice in the penalty process is commensurate to the risk imposed by the delay in applying the penalty.

## Other guidance material

**9.17** The ANAO has developed a range of Better Practice Guides to assist public sector agencies in delivering government programs. They include:



- Implementing Better Practice Grants Administration;
- Planning and Approving Projects – an Executive Perspective; and
- Implementation of Programme and Policy Initiatives.

In addition, agencies implementing new programs should consider whether there is any international or interstate experience which would beneficially inform their consideration of program design and implementation.

---



Ian McPhee  
Auditor-General

Canberra ACT  
15 October 2010



# Appendices



## Appendix 1: Agency Responses



Australian Government

Department of Sustainability, Environment, Water, Population and Communities

Mr Ian McPhee PSM  
Auditor-General for Australia  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

Dear Mr McPhee

Thank you for your letter of 9 September 2010 seeking this Department's response to the ANAO's proposed audit report on the Home Insulation Program.

The audit report presents a comprehensive assessment of the Home Insulation Program as it relates to the (then) Department of the Environment, Water, Heritage and the Arts.

A formal response for inclusion in your final report is attached. A summary of our response is provided below.

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

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

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

I thank you and your officers for the professional way this review has been conducted. Your officers have at all times been courteous and considerate in their demands, while retaining the independence in their audit role.

Yours sincerely

Paul Grimes  
A/Secretary



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[www.environment.gov.au](http://www.environment.gov.au)



RESPONSE FROM DEPARTMENT OF SUSTAINABILITY, ENVIRONMENT,  
WATER, POPULATION AND COMMUNITIES

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

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

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

Also, while not detracting from the observations of the ANAO report, it is worthwhile to reflect on the achievements of the Home Insulation Program identified in the *Review of the Administration of the Home Insulation Program* which are recorded in the ANAO report to include: the many homes insulated and installers employed, the first national focus on quality and safety standards in the insulation installation industry, a nationally accredited training program and innovative, cross-government approaches adopted in the DEWHA/Medicare Australia partnership.

The report also acknowledges that the Department is making changes to improve its business and project management. The Department is implementing a number of business improvement initiatives which will reflect the advice provided in the ANAO Better Practice Guides including an improved executive governance framework; organisational reform; improved procurement arrangements; training; and internal audit arrangements.

The Department is committed to continuous business improvement to ensure that as far as practical, future program management will be to best practice standard.

The ANAO report acknowledges the deaths of four young men who were employed in home insulation businesses during the time of this program.

Any workplace accident is a tragedy. Secretary Robyn Kruk, on behalf of the Department of the Environment, Water, Heritage and the Arts, has expressed sympathy and regret to the families tragically affected.

Relevant State authorities are investigating these fatalities. With regard to one investigation, a Queensland company was found guilty of breaching the Queensland Electrical Safety Act causing the death of a worker and breaching workplace health and safety requirements.

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The ANAO report makes a number of observations regarding the Department's management of the program and its lack of experience in managing a program of this type. These observations are not disputed.

The demand for this program exceeded all expectations. Industry, State Governments and the Department were unable to cope with the unprecedented demand for services. The design of the program, as approved by Government, expected State governments to regulate workplaces and industry practices in their jurisdictions, and self-regulation by industry. These components were to be supported by an overarching compliance and audit program. The extent to which this did not occur allowed unscrupulous operators to successfully rort the program to the detriment of program as a whole, the insulation industry and vulnerable homeowners.

The ANAO report identifies issues with DEWHA's compliance activities. The department does not dispute the principles of effective compliance outlined in the report, the effective use of public funds, and that the compliance program implemented through Phase 2 was not adequate.

The Energy Efficiency Taskforce, which commenced management of the Program in November 2009, initiated improved compliance measures as suggested in the ANAO report, such as desk top analysis, risk profiling and deregistration following allegations of serious non-compliance. However, the effectiveness of this enhanced approach could not be fully demonstrated given the shift of program management to the newly created Department of Climate Change and Energy Efficiency in March 2010.



**Australian Government**  
**Department of Climate Change**  
**and Energy Efficiency**

**Martin Parkinson PSM**  
**Secretary**

Mr Ian McPhee PSM  
Auditor-General for Australia  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

Dear ~~Mr~~ <sup>Ian</sup> McPhee

**HOME INSULATION PROGRAM**

Thank you for your letter of 9 September 2010 seeking the Department's response to the Australian National Audit Office's (ANAO) audit of the Home Insulation Program (HIP).

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

As noted in your report, since assuming responsibility for the closure of the HIP and its associated remediation programs, the Department has been working continuously to address the suite of legacy issues associated with the Program.

In response to your request for comments, please find attached our formal agency comments. Please note that any additional commentary (including of an editorial nature) has already been provided to officers within the ANAO.

Yours sincerely

Martin Parkinson  
7 October 2010



**thinkchange**

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**Australian Government**  
**Department of Climate Change**  
**and Energy Efficiency**

**Response to the Home Insulation Program Audit by the Australian National Audit Office: Formal agency comments on the proposed report (appendix to the final report)**

**October 2010**

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

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

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

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

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



**Australian Government**  
**Department of the Prime Minister and Cabinet**

ONE NATIONAL CIRCUIT  
BARTON

Mr Matt Cahill  
Group Executive Director  
Performance Audit Services Group  
Australian National Audit Office  
19 National Circuit  
BARTON ACT 2600

Dear Mr Cahill

Thank you for providing me with a draft copy of your Performance Audit Report on the Home Insulation Program (HIP) pursuant to Section 19 of the *Auditor-General Act 1997*.

I appreciate the opportunity to comment on what is on the whole a balanced and thoughtful report on the former program.

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

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

Yours sincerely

Terry Moran  
Secretary

7 October 2010

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Date: 8 October 2010

Mr Ian McPhee PSM  
Auditor-General  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

Dear Mr McPhee

### Home Insulation Program Performance Audit

Thank you for the opportunity to respond to the Home Insulation Program performance audit conducted recently by the Australian National Audit Office. I note that I have been provided with an extract of the audit report, which excludes chapters 2, 7 and 8.

I am pleased the audit found that service delivery support provided to the Home Insulation Program by Medicare Australia meant that the significant majority of payments were made within three days of approval being received. I also note that following the closure of the online claims system, manual payments made by Medicare Australia were accurately made, despite certain system control checks within the online system no longer being available.

Overall, Medicare Australia agrees with the report, and appreciated the opportunity to provide input into the development of the lessons learned from the Home Insulation Program. My formal comments are provided in Attachment A.

Editorial comments have been provided to, and discussed with, your audit team. I appreciate that you have been able to address most of these in the final report.

I would like to thank the officers of the Australian National Audit Office involved in the audit.

If you have any questions, please contact Sheila Bird, General Manager, Business Division on [REDACTED]

Yours sincerely

Lynelle Briggs

Mr Matt Cahill  
Group Executive Director  
Performance Audit Services Group  
Australian National Audit Office  
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8 October 2010

Your ref: 2010/468

Dear Matt,

**Re: Home Insulation Program**

Further to your letter of 9 September 2010, I write to provide formal comment on the extract of the audit report for the Home Insulation Program.

The extract of the report we were provided with consisted of selected paragraphs from chapter seven (Compliance and Audit Program for Phase 2), chapter eight (HIP Closure and Remediation Programs), and Appendix 9 (fraud projects undertaken by PwC and their outcomes). The extracts from the draft audit report are factual in nature and do not contain ANAO recommendations.

We have separately provided detailed comments of an editorial nature which may be taken up in the body of the report. Our comments mainly focused on clarification of certain factual content, and also included some further information and suggestions in some areas which may be helpful to the readers of your report.

Thank you for the opportunity to provide feedback on the report.

Yours sincerely



Patrick Kevin  
Executive Director

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30 September 2010

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



Dear Matt,

**Your reference 2010/468 – Home Insulation Program**

Thank you for forwarding an extract of the proposed report on the *Home Insulation Program* audit that the ANAO has conducted over the past six months. We have reviewed the extract provided, being Section 7 – Compliance and Audit Program for Phase 2, paragraphs 7.24 and 7.25 and Table 7.1.

With regard to paragraph 7.24 we have no concerns or comments and confirm that the statement is correct.

With regard to Table 7.1 and the level of compliance and audit activity as at 24 March 2010, we note that during the period 10 Aug – 17 September 2009 a number of roof inspections did take place. These were not conducted by Protiviti, or contractors of Protiviti, but by contractors engaged directly by the Department of the Environment, Water, Heritage and the Arts (the Department). Our recollection of these activities is that several hundred roof inspections had occurred during the later part of that timeframe.

With regard to paragraph 7.25, we note that whilst we developed the process documentation to guide the HIP compliance and audit procedures, under instruction from the Department these were developed based on the *Audit Methodology - Homeowner Insulation Program, (HIP) and Low Emission Assistance Plan for Renters (LEAPR)*, provided to the Department by Ernst and Young in June 2009. Our instruction was to refine and improve the processes detailed in that document.

We would be happy to discuss the above comments with you directly if required, and to provide documentation to substantiate our comments regarding paragraph 7.25 as necessary.

Yours sincerely,

  
Mark Harrison  
Managing Director  
Protiviti

Protiviti Pty Ltd ABN 27 108 473 909

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Note: Table 7.1 as cited above refers to Table 7.3 in the report.



8 October 2010

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

Dear Mr Cahill

Thank you for your letter of 9 September 2010 concerning the draft audit report on the Ceiling Insulation program and the follow-up emails (4 October 2010 and 8 October 2010) from your office that provided updated versions of the relevant sections of the draft audit report. We are pleased that some of the points we raised have been addressed but I still have some concern that some matters have not been clarified in the draft report.

The CPSISC produced a number of training resources including the *Construction Industry Pocket Book*. Page 35 of the *Construction Industry Pocket Book* dedicates a whole page of text and images to electrical risks. It shows clearly, both verbally and pictorially, the affect of stapling foil batts to electrical cables and contains the relevant warnings. The *Construction Industry Pocket Book* also identifies the need for appropriate clearances around down-lights and again dedicates a full page (p 91) to this electrical issue. The *Delivery Guide* also refers to this resource.

The *Construction Industry Pocket Book* was available on our website from 1 August 2009. DEWHA was responsible for the distribution of this product to industry and Registered Training Organisations (RTOs). Every installer and Registered Training Organisation (RTO) had access to the *Construction Industry Pocket Book*. CPSISC and DEWHA also conducted workshops around Australia for RTOs in August 2009 to showcase the resources and demonstrate how they could be used effectively to support training under the Ceiling Insulation program. The RTOs involved were the DEWHA approved providers participating in the Ceiling Insulation program. A PowerPoint presentation was used in these workshops. The first version of this presentation (dated 4 August 2009) deals with electrical hazards in Slide 31. The need for conducting risk assessments was also addressed in this presentation.

Our Ref:  
L10.0153.dm

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ABN: 99 108 823 758



CPSISC has provided your office with electronic versions of the resources produced by CPSISC for the Ceiling Insulation program. The resources are dated 4 August 2010.

The first death due to an installer stapling a foil batt to an electrical cable did not occur until **15 October 2009**. Electrical risks were clearly and comprehensively addressed in the training materials. The draft report suggests that some installers did not undertake a particular unit of competency and therefore 'may have been unaware of the specific hazards and installation methods relating to foil insulation'. Irrespective as to which of the two available units of competency an installer completed, the resource available to each installer (the *Construction Industry Pocket Book*) clearly addressed the issues associated with electrical risks as do the resources provided to RTOs. 5.19 of the draft audit report does not acknowledge the full extent of the coverage of electrical risks in the training process and materials.

5.20 of the draft audit report refers to the issue of the length of the training provided under the program and also flags issues about 'more stringent registration and training requirements'. RTOs are responsible for ensuring the delivery of appropriate quality training and assessment services under the Australian Quality Training Framework (AQTF). RTOs are granted scope to deliver specific qualifications or units of competency by their home State Training Authority and must comply with the requirements of the AQTF. DEWHA maintained a register of RTOs approved to deliver training and assessment services under the Ceiling Insulation program. Each RTO is required to develop a training profile for each learner. In that process they should take into account the skills, knowledge and previous experience of the learner and develop an appropriate training plan to ensure that the learner is competent when assessed. As a result, an experienced installer may be able to be deemed competent within a day as they would possess most of the knowledge and skills required to be assessed as competent against the unit and be able perform the job competently. The RTO could determine two days or even significantly more time is required for inexperienced participants to ensure their competency at the point of assessment. CPSISC has no responsibility for determining the duration of training and assessment processes.

Likewise with regard to registration requirements, CPSISC has no responsibility for registration requirements in regards to who is eligible to work under a specific program. That is the call of industry regulators or funding agencies. The suggestion of 'more stringent registration and training requirements' is clearly outside the remit of CPSISC. 5.20 of the draft audit report does not provide the reader with any clarity on these

issues and this paragraph suggests that these issues are CPSISC responsibilities and that is not the case.

CPSISC supports the point in 5.20 the draft report whereby it is suggested that all installers (not just supervisors) being comprehensively trained prior commencing work under the program. That was always the position of CPSISC and union members but the Training Advisory Committee over-ruled our position on this matter. The materials we produced reflected the decisions made by that group.

Thank-you for the opportunity to provide comments on the draft report and the subsequent changes made to the report. I still consider that some issues would benefit from further clarification and I have provided that view accordingly. Alan Ross can be contacted on mobile [REDACTED]

Yours sincerely

A handwritten signature in dark ink, appearing to read 'David Magee', with a stylized flourish at the end.

David Magee  
for Alan Ross  
CEO



**EE-Oz Training Standards Response to the Home Insulation Program Performance Audit**

EE-Oz Training Standards would like to thank you for the chance to comment on the extract from the Audit report on the Home Insulation Program, particularly in regard to the section 5.22 *Installer Registration and Training*.

EE-Oz was asked to give recommendations to DEEWR regarding the electrical competency units suitable for inclusion in a training program for insulation installers. The information was provided by DEEWR.

At the end of July 2009, EE-Oz provided feedback on the Construction Industry Pocket Book to CPSISC prior to its release. However, EE-Oz's response was limited to verbal feedback only due to the time constraints of the development of the Pocket Book.

Robert Taylor  
Chief Executive Officer  
EE-Oz Training Standards

## Appendix 2: Key Changes Throughout Implementation of the Home Insulation Program

**Table A 1**

### Key changes throughout implementation of the Home Insulation Program

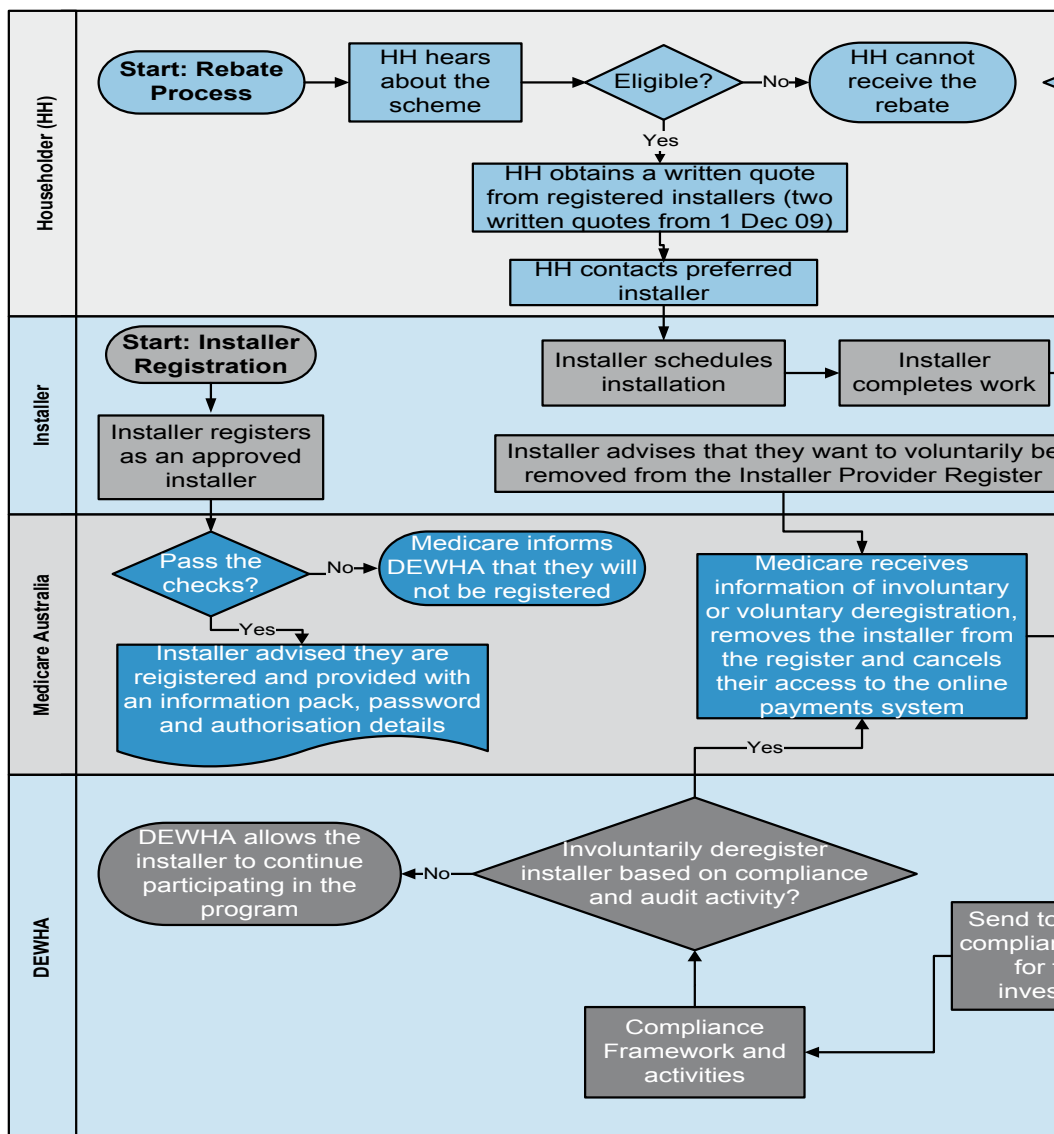
Date	Key phase or event
<b>Phase 1</b>	
3 February 2009	<b>Phase 1</b> commenced with the announcement of the Homeowner Insulation Program (\$2.8 billion) and enhanced funding for LEAPR (\$637.4 million) over 2.5 years. Rebate of up to \$1600 for homeowner-occupiers and up to \$1000 for renters and landlords.
26 February 2009	Early installation program guidelines released (version 1).
<b>Phase 2</b>	
1 July 2009	<b>Phase 2</b> of the EEHP commenced, the second version of the program guidelines was released, an installer specific training program was available and the MOU with Medicare Australia signed for online submission and processing of claims.
1 September 2009	Third version of program guidelines released. Funding reduced to \$2.7 billion and savings provided to the budget. LEAPR rolled into the Home Insulation Program and the rebate was raised to \$1600 for renters and landlords.
7 September 2009	DEWHA advised of the first fire risk under the program.
14 October 2009	First fatality of an installer occurred.
1 November 2009	Targeted electrical safety inspections of foil installations in Queensland announced.
2 November 2009	Fourth version of program guidelines released. Reduction in rebate to \$1200 and total funding reduced to \$2.45 billion. Mandatory use of down-light covers, metal staples banned. Top-up payments for installations under transitional arrangements could be submitted through a manual claims process.
18 November 2009	Second fatality of an installer occurred.
21 November 2009	Third fatality of an installer occurred.
30 November 2009	Enhanced training materials released.
1 December 2009	Fifth version of program guidelines released. Risk assessment mandated for every installation, two quote requirement reintroduced, name and shame register launched and ban on the use of conductive tools in installation.
17 December 2009	Installers required to provide evidence of minimum training by 12 February 2010.
23 December 2009	Approved list of insulation products introduced.
4 February 2010	Fourth fatality of an installer occurred.

Date	Key phase or event
9 February 2010	Foil suspended from HIP.
10 February 2010	Electrical safety inspections of all installed foil insulation announced (FISP).
<b>Phase 3</b>	
19 February 2010	<b>Phase 3</b> - HIP discontinued. Medicare Australia's payment system closed. Interim arrangement whereby householders could engage any licensed electrical contractor to undertake a safety inspection if their home was insulated with foil (FISP estimated at \$85 million).
22 February 2010	Safety inspections for at least 150 000 non-foil installations announced (HISP estimated at \$340 million).

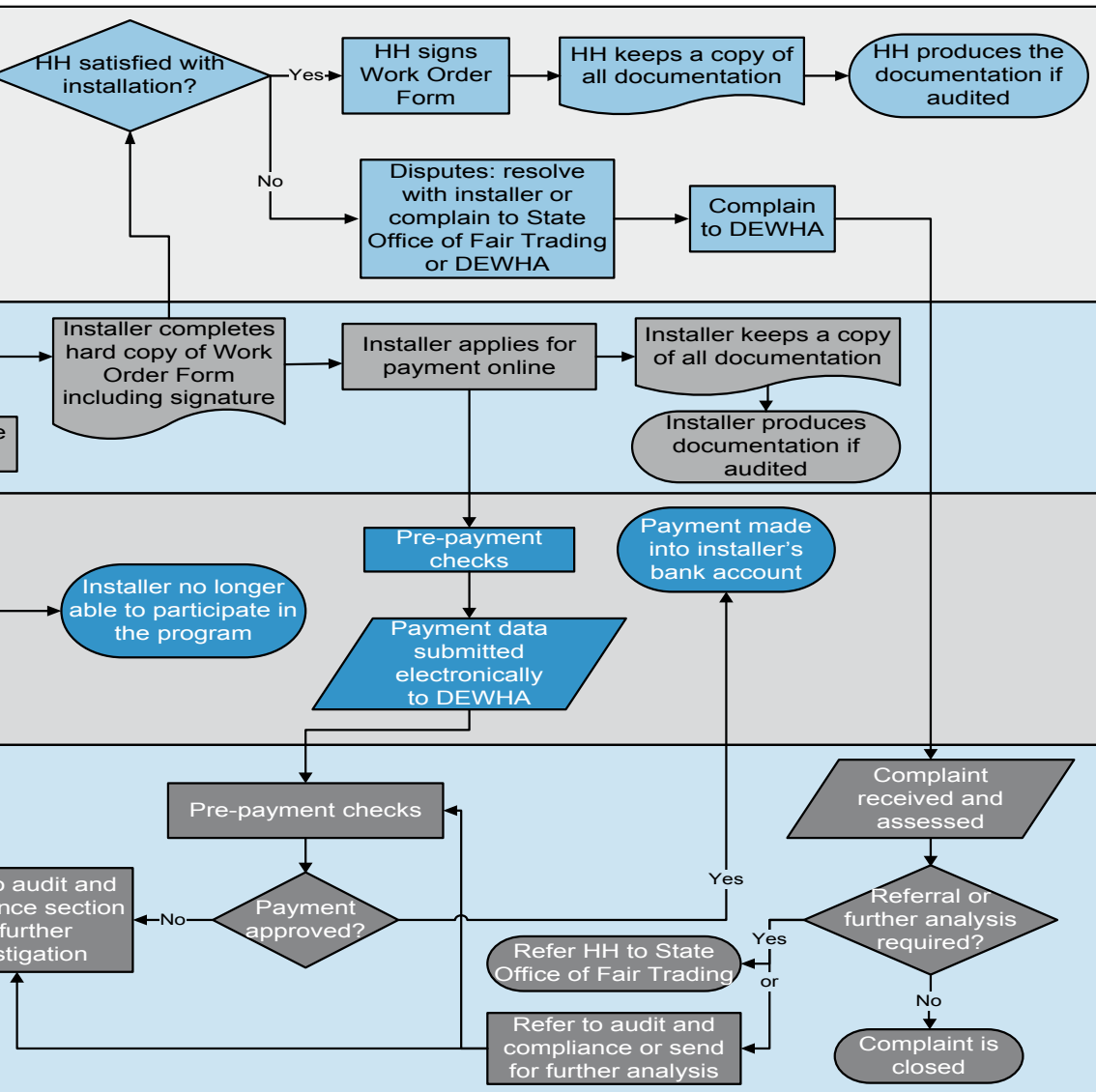
Source: ANAO analysis of documentation provided by DEWHA and DCCEE.



Appendix 3: Phase 2 of the Home Insulation Program



Source: ANAO analysis of information provided by DEWHA.



## Appendix 4: Assessment Processes and Prepayment Checks on Eligibility of Applications under HIP/LEAPR (Phase 1)

Check 1	<p><b>APPLICATIONS RECEIVED</b></p> <ul style="list-style-type: none"> <li>○ Initial checks on eligibility</li> <li>○ Check for two quotes and invoice receipt</li> <li>○ Check name, address, installation date, product and cost of installation.</li> </ul> <p><b>DATA ENTRY</b></p> <ul style="list-style-type: none"> <li>○ Enter applicant information into spreadsheet</li> <li>○ Check applications against Solar Hot Water Rebate data</li> </ul>	<p><b>1 June 2009 onwards</b></p> <p>Processing resources directed to first stage of checking.</p>
Check 2	<p><b>CONSOLIDATION</b></p> <ul style="list-style-type: none"> <li>○ Data entry spreadsheets consolidated into main database</li> </ul> <p><b>DATA CHECK</b></p> <ul style="list-style-type: none"> <li>○ Check hard copy application against electronic information for accuracy of input</li> </ul> <p><b>BATCHING</b></p> <ul style="list-style-type: none"> <li>○ Batch applications into bunches of 20</li> </ul> <p><b>PARKING – SAP</b></p> <ul style="list-style-type: none"> <li>○ Eligible batches are uploaded and 'parked' in SAP awaiting checks and delegate sign-off</li> </ul>	<p><b>1 June 2009 onwards</b></p> <p>Checks were not changed.</p>
Check 3	<p><b>AUDIT CHECK</b></p> <ul style="list-style-type: none"> <li>○ 100 per cent check of all applications</li> <li>○ Sign off SAP sheet and pass to financial delegate for sign-off</li> </ul> <p><b>DELEGATE SIGN-OFF</b></p> <ul style="list-style-type: none"> <li>○ Random check of the batches</li> <li>○ If batch is correct, return to batching officer to dispatch to finance area for payment</li> </ul> <p><b>APPLICATION SENT TO FINANCE FOR PAYMENT</b></p> <ul style="list-style-type: none"> <li>○ Finance area in DEWHA receives eligible, checked applications and makes payment into householder's bank account</li> </ul>	<p><b>1 June 2009 Onwards</b></p> <p>Checks reduced to a random sample of applications</p> <p>Checks focused on the name, address and bank account details of applicants.</p>

Source: DEWHA.

## Appendix 5: Program Guidelines Release Dates and Major Changes for Phases 1 and 2

**Table A 2**

### Major changes to program requirements for Phases 1 and 2

Program guidelines	Date released (2009)	Major changes to requirements
Version 1 (Early Installation Guidelines)	26 February	<p>Requirements from the beginning of Phase 1 — the:</p> <ul style="list-style-type: none"> <li>• existence of Homeowner Insulation Program and LEAPR</li> <li>• rebate of \$1600 for homeowner-occupiers and \$1000 for renters and landlords;</li> <li>• householder required to obtain two written quotes;</li> <li>• householder applied for reimbursement for payment by submitting a form to DEWHA;</li> <li>• installers must be the owner or employee of a business with an ABN operating in the installation of thermal insulation; and</li> <li>• insulation materials must comply with AS/NZ 4859.1:2002 and installations must comply with AS 3999-1992.<sup>201</sup></li> </ul>
Version 2	1 July	<p>Requirements for Phase 2 — the:</p> <ul style="list-style-type: none"> <li>• householder only requires one written quote;</li> <li>• installers claimed payments up to the rebate amount through online Medicare Australia system;</li> <li>• installers must be registered on the Installer Provider Register; and</li> <li>• installers must complete a work order form signed by the householder.</li> </ul>
Version 3	1 September	<ul style="list-style-type: none"> <li>• LEAPR rolled into HIP;</li> <li>• rebate of \$1600 for all householders;</li> <li>• proof of insurance and minimum competency standards required prior to the registration of new installers;</li> <li>• written quote must be based on physical inspection; and</li> <li>• prices quoted must not exceed introduced Pricing Table without explanation.</li> </ul>
Version 4	2 November	<ul style="list-style-type: none"> <li>• reduced rebate of \$1200 for all householders;</li> <li>• appropriate cover over down-lights and other relevant ceiling appliances required; and</li> <li>• metal staples prohibited.</li> </ul>

<sup>201</sup> Version 1 guidelines were also updated to version 1.1 to replace clause 4.2 (e) and figure 4.5 of AS 3999-1992 to clause 4.5.2.3 and figure 4.7 of AS/NZS 3000:2007.



Program guidelines	Date released (2009)	Major changes to requirements
Version 5	1 December	<ul style="list-style-type: none"> <li>• householders must obtain two independent quotes;</li> <li>• installers must agree to new terms and conditions including the public deregistered installers list;</li> <li>• installers must complete a risk assessment prior to installation;</li> <li>• installers must have read the Construction Industry Pocket Book;</li> <li>• installers reminded of Workplace Health and Safety obligations including duty of care and mitigating the risk of electric shock by turning off the electricity supply; and</li> <li>• use of non-insulated metal or conductive implements during installation prohibited.</li> </ul>

Source: ANAO analysis of program guidelines issued by DEWHA.

## Appendix 6: Changes to the Policy on Treatment of Late Top-up Claims

**Table A 3**

### Advice to Medicare Australia from DEWHA regarding late top-up claims

Date	Decision
1 December 2009	DEWHA advised Medicare Australia that no late claims would be paid and it would advise installers.
23 February 2010	DEWHA asked Medicare Australia to provide it with the top-up claims received between 1 December and 4 January 2010 so it could assess those claims to be paid and determined not to pay any claims lodged after this time.
19 April 2010	DEWHA advised Medicare Australia, in relation to claims lodged after 4 January 2010 to: <ul style="list-style-type: none"> <li>advise installers who did not provide a reason for their late claims that their claims would not be paid; and</li> <li>forward those claims where the installer provided a reason for their lateness which is consistent with the criteria determined on 7 January to DEWHA for assessment.</li> </ul>
1 June 2010	DEWHA advised Medicare Australia to treat all claims received after 4 January 2010 the same as those claims received before 4 January 2010.

Source: ANAO analysis of Medicare Australia information.

## Appendix 7: DEWHA's Compliance Framework

**Table A 4**

### Four components of DEWHA's compliance framework

Voluntary compliance	Assisted compliance	Directed compliance	Enforced compliance
Raise awareness of the terms and conditions and obligations for the installer and homeowner	Apply data analytics to Medicare Australia payment data	Gather information about an installer through an investigation process and advise the installer that if non-compliance is not remedied, they may be referred for enforced compliance action	Refer the investigation to the relevant authority, government department or agency
Verification of ABNs during registration	Implement a two-tier audit approach of desktop and field audits		Seek to deregister those installers who remain non-compliant
Induction and training for DEWHA staff on compliance activities	Educate installers to correct non-compliance activities through letters and newsletters	Take action to refer the issue to other related governing bodies	Refer the matter to the AFP to consider investigation or criminal sanctions
Confirm installers' insurance certificates are valid			
Provide voluntary de-registration of installers	Inform potentially non-compliant installers of action they are required to take to avoid escalation to directed compliance action		
Escalate identified non-compliance for further compliance action			

Source: Department of the Environment, Water, Heritage and the Arts, *Compliance and Audit Framework and Plan*, 2009.

## Appendix 8: Compliance and Audit Program Activities

**Table A 5**

### Compliance and audit activities

Activity	Description
<b>Prepayment activities</b>	
Payment checks	Identifying installers that submit an unreasonable level of claims.
<b>Post-payment activities</b>	
Field audits	Field audits involved conducting desktop audit testing at installers' business premises to provide assurance around the installers' supervisory and quality assurance processes.
Desktop audits	<p>Desktops audits were conducted to confirm installers':</p> <ul style="list-style-type: none"> <li>• competency requirements;</li> <li>• compliance with occupational health and safety requirements; and</li> <li>• insurance details.</li> </ul> <p>Desktop audits were also used to confirm installers had correct and complete Work Order Forms to support claims for payment.</p>
Complaints	Priority one complaints (safety, fires, death or other critical risks) were referred directly from the Compliments and Complaints Unit to the compliance team for resolution.
Roof inspections	The purpose of roof inspections was to confirm that insulation had been installed at the address claimed and met the appropriate safety and quality standards.
Fraud investigation	<p>Fraud investigations of individual installers are performed to gather sufficient evidence to verify fraudulent activity that could potentially be provided to the Australian Federal Police for further action. DEWHA also undertook three projects aimed at confirming installers suspected of identified fraudulent activity, involving:</p> <ul style="list-style-type: none"> <li>• always claiming the maximum rebate;</li> <li>• claiming for installations that were not performed; and</li> <li>• claiming for newly built residences.</li> </ul>

Source: ANAO analysis of DEWHA information.

## Appendix 9: Fraud Projects Undertaken by PwC and Outcomes

**Table A 6**

### Fraud projects undertaken by PwC and outcomes

Name of project	Description of project	Result
Claiming the max	Claiming the maximum rebate irrespective of the dwelling size.	115 installers for 20 identified installers (approximately five per installer <sup>1</sup> ) were reviewed. Of the 20 identified and investigated installers, PwC recommended either further investigation or contact with householders for 17 installers. DEWHA's investigations confirmed three installers had consistently claimed the maximum rebate, however, no action was taken against these installers.
Early claims	Claiming rebates prior to installing insulation.	10 recent installations for 20 identified installers were reviewed. PwC recommended field visits for nine of the identified installers. One installer was subsequently deregistered.
Lifestyle villages	Claiming for dwellings that do not meet the program requirements, for example, dwellings built after 2003. Lifestyle villages were identified as high risk in this category.	PwC identified four installers based on potential lifestyle village claims and conducted preliminary investigations. Following closure of the project, DEWHA conducted further investigation, however, this did not result in any action against the installers.

Source: ANAO analysis of DEWHA information.

Note 1: Four installers had between six and ten installations reviewed.

## Appendix 10: DEWHA's Implementation of Identified Actions to Address Installer Fraud

**Table A 7**

### DEWHA's implementation of identified actions to address installer fraud

Action	Fully implemented	Partially implemented	Not implemented
Compare Phase 2 claims data with data from Phase 1, Solar Hot Water Rebate claims and State and Territory rebate programs			✓
Implement communication strategy for installers, householders and tenants aimed at adequate informing decision making		✓	
Compare installation addresses against areas of concern, for example, new suburbs			✓
Encourage the householder to obtain more than one quote		✓	
Identify installers linked to more than one bank account			✓
Identify duplicate installer ABNs	✓		
Use desktop audits to verify installer competencies	✓		
Verify installers' ABNs are still valid intermittently following registration			✓
Undertake a range of fraud detection activities during registration, claim, payments processing and post-payment		✓	
Use risk-based sampling to test claims and ensure high coverage of interim period		✓	
Confirm installers bank account name aligns with ABN registration			✓
Implement communication strategy about compliance and audit program		✓	
At registration, match ABNs with the ABR	✓		
Installers to provide Certificates of Currency for Insurance		✓	

Source: ANAO analysis.

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