Department of the Environment, Water, Heritage and the Arts

Review of the Green Loans Program

Final Report

March 2010

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1. Executive Summary

1.1 Introduction

The Green Loans program is a Government initiative to improve sustainability and reduce energy use within households. The program was established in 2008/09 financial year with an original budget of $300 million. The aim was to undertake 360,000 household assessments and provide 200,000 loan subsidies to households. The budget was later reduced to approximately $175 million to undertake 360,000 assessments and provide up to 75,000 loans.

This review was undertaken prior to the changes in the Green Loans program made by Government on 19 February 2010.

The Green Loans is a demand driven program that provides assessments of the energy and water efficiency of households. The essence of the program is relatively simple:

- Assess homes;
- Provide access to interest free loans to upgrade homes for improved energy and water efficiency; and
- Provide a Green Rewards Card to householders who have completed the assessment process.

The program uses an accredited assessor to provide a report to the household recommending an appropriate series of actions to lower energy and water use and increase environmentally sustainable outcomes. The householder can then seek a Green Loan of up to $10,000 interest free to implement the recommendations. This loan is provided by a credit provider who has partnered with government for this initiative. The Green Loans program pays for the assessment by the accredited assessor, pays the interest on the loan, and pays a fee to the credit provider for providing the loan, and provides a $50 green rewards card.

The key objectives of the programme are to:

- Encourage wide-scale improvement of energy and water efficiency in existing homes;
- Provide sound advice to households on the most appropriate actions to reduce the environmental impact of operating their home;
- Provide financial assistance to households to gain access to the resources they need to invest in energy and water efficient technologies; and
- Reduce annual greenhouse gas emissions.

The Green Loans program has significantly exceeded growth expectations. Rather than the program being delivered over four years, it would appear that the budget will be fully expended in 9 to 12 months from the national rollout of the project on 1 July 2009. The program will be unable to deliver the number of Household Sustainability Assessments and Green Loans promised when the program was announced.

1.2 Purpose

The purpose of this report is to provide an independent review of the Green Loans program, to identify the problems associated with the implementation and design of the program and to recommend possible solutions.

DEWHA sought a review of the program to understand the key drivers for why it has exceeded its budget and what it can do to correct the key processes in the program and ensure that significant budget overruns do not recur. The Green Loans Program is one of several demand driven programs that have been implemented by the Department, all of which are experiencing problems in maintaining adequate financial control over expenditure.

The key objective of this review is to provide insights on how the Department can better manage programs of this type in the future. The Department has formed a Taskforce to review the demand driven programs.

The ANAO has indicated that it will undertake a performance audit on the program in 2010.

The Terms of Reference for this review include:

1. Identify the key reasons for the current problems and where program management and financial controls may be inadequate.
2. Review the authorities for payments to ensure they are in accordance with program documentation.
3. Identify and recommend actions to ensure the existing controls and processes can be improved.
4. Provide advice on funding guidelines and principles for the program design and management of future demand driven programs.
5. Provide a preliminary report by the 31st January 2010.

In undertaking this review, Resolution Consulting Services (RCS) has interviewed a number of persons involved with the design, implementation and control of the program and has undertaken a documentation review of key items in the program.

A list of persons interviewed is at Annex A and a list of documents reviewed is at Annex B.

1.3 Key Findings

The review identified a number of key failures. These can be summarised as lack of control over the number of assessors, poor financial controls for the program which allowed regulatory breaches, poor management controls, faulty program design and inadequate procurement controls.

The program did not clearly identify the number of assessors required to undertake the assessments planned and control over assessor numbers was transferred by default to the Association of Building Sustainability Assessors (ABSA). This organisation required assessors to become members as part of the accreditation process, a clear conflict of interest.

The assessment tool used by assessors was not working correctly at the introduction of the program. The tender process for the development of this tool was flawed insofar as departmental procurement processes were not followed. There was no open tender; instead there were a series of small tenders for different parts of the assessment tool. It would appear this was a deliberate decision to circumvent departmental procurement processes.

Assessors are being paid 33% more than originally budgeted ($200 instead of the $150 approved by the Minister) for each home sustainability assessment. This occurred because the self assessment tool for householders was not developed. This overspend has had a significant impact on the number of assessments that can be undertaken.

The eGateway designed for this program is still not fully implemented. The eGateway provides an interface between assessors and the Department for assessment reports and for the financial partners to report on the Green Loans and the associated fees and interest rate subsidy. It is quite likely that the eGateway will not be completely effective until after the program is complete.

The financial partners are being paid a fee of $200 for each Green Loan they provide. This amount has not been approved by the Minister and it is not clear why this amount is being paid by DEWHA as RCS was unable to find evidence for this change. Amounts approved by the Minister include $50 for each loan redraw and $150 for each unsecured personal loan. It also does not appear that the budget factored in possible interest rate rises for the Green Loans subsidy. Original costings were also based on approximately $4,000 per loan and not the maximum possible $10,000 per loan.

Audit processes are not yet in place and there is a real risk that the budget issues will mean that audits are unable to be made. Therefore there is no way that DEWHA can assess the quality of assessments and financial controls around payments to assessors. This applies also to the payments to financial partners for loan establishment fees and interest payments.

The Risk Management Plan (RMP) was not properly developed at the commencement of the project and, in RCS's view, is still not adequate for the risks of the program. The current RMP does not fully encompass all of the risks facing the program. In particular, it does not deal with the very large growth that the program has seen over the last two months.

Demand driven programs are inevitably difficult to measure. However, where the program is free to the householder, it is reasonable to assume, based on behavioural economics, that the uptake is likely to be considerable.

The Green Rewards Card was planned for each household undergoing a Household Sustainability Assessment. However, no cards have yet been delivered and contracting arrangements for the cards are still being finalised. It is likely that Green Rewards Cards cannot be funded for all participants and this may lead to some adverse publicity.

The financial controls did not flag the growth in program costs on a timely basis. It is only since the establishment of the Energy Efficiency Task Force that an appropriate level of understanding of the financial position of the Green Loans program was obtained. The full extent of the financial commitment still lags behind the activities of the assessors and financial partners, although the time lags have reduced considerably.

The Green Loans Section was surprised by an unprecedented growth in a demand driven program. However, their focus was on meeting Government expectations for the timeliness of program delivery rather than running the program effectively and in accordance with Departmental requirements.

Overall, management controls were insufficient for a program that was unnecessarily complex and over engineered. Assessors and financial partners have effectively become the drivers of the program outcome and there are significant reputational risks in closing off assessments and access to the Green Loans.

There is no clear exit strategy for the Green Loans program.

There appears to be a culture within this project of working around financial controls. This attitude is evident throughout the implementation of this program.

In summary, the design of the program did not support effective implementation and ongoing management. The implementation plan and the management and financial controls were clearly inadequate to ensure the delivery of the policy outcomes.

1.4 Key Recommendations

RCS has provided the following recommendations. In developing the recommendations, the review has focused on what can be done to ensure that programs do not fail in the future, rather than to correct individual failures of the Green Loans program.

Any individual recommendation should not be considered in isolation, but reference should be made to the appropriate section in the report for the background discussion. The priority time scale for implementation of these priorities is in the following table.

Urgency	Timeframe for Implementation
Highest	Within three months of acceptance of this report
High	Within six months of acceptance of this report
Medium	Within twelve months of acceptance of this report
Low	Prior to July 2011

The following table details all of the recommendations included in this Final Report, the sections which discuss the details associated with the recommendation, and the priority that has been assessed for each recommendation.

Number	Recommendation	Section #	Timeframe
1	The Department makes an appropriate investment to develop an improved internal capability for implementing new programs, including the establishment of a suitably skilled and experienced Project Implementation Team. The Project Implementation Team is required to develop a comprehensive project plan which incorporates: • Program development(i.e. defining the program parameters; • Program design; • Program delivery; and • Exit strategy. These plans should all be in place prior to the commencement of the program. The Project Implementation Team needs to be supported by an adequate level of senior executive oversight and report on a key milestone basis to a governance committee. Conduct a risk assessment on any future process before commencement of the program using DEWHA's risk matrix. Ensure worst case and catastrophe scenarios are included.	3.3	Highest
2	Ensure that an appropriate minimum timeframe (up to	3.2	Highest

Number	Recommendation	Section #	Timeframe
	three months) for the program design phase is built into the implementation timetable. The program design must be managed by an appropriately skilled and experienced manager.		
3	All projects should involve the CFO's Branch. This involvement at the start of a program will ensure proper financial reporting and controls and that appropriate financial regulations and ministerial signoffs on funding requirements are in place. Ensure the program budget is clearly defined and that all changes are clearly documented to provide both an audit trail and to ensure effective financial management. Demand driven programs require more stringent financial controls and monitoring such as timely updates on the level of demand and trigger points for management to take corrective action. This would include ensuring commitments as well as expenses were fully recognised and reported.	3.1	**Highest**
4	Consideration should be given to increasing the level of financial management training at the EL1 and EL2 levels, to ensure the program managers understand the information available from SAP and what it means for their programs.	3.1	**Medium**
5	Procurement training should be provided to project management staff. This training must include: • Procurement management; • Proper identification of project requirements (i.e. ensure the procurement is in line with the project plan); • Assessment of deliverables; • Documentation; and • Contract management, particularly in relation to payments for items or systems that do not meet the project specifications.	3.1	**Medium**

2. Analysis of the Green Loans Program

This section of the report provides an analysis of the project planning, program delivery, and audit and review processes for the implementation and management of the Green Loans program.

The program design required:

- Establishment of a group of assessors with appropriate training to undertake the household assessments;
- A mechanism for making and managing bookings for the assessments;
- An assessment tool for use in the household assessments;
- A distribution process for the reports;
- Development of partnerships with a number of financial institutions to provide the Green Loans;
- Contract relationship with a third party to manage and distribute the Green Rewards Card;
- Contracting and payment with project partners (assessors, financial institutions, contractors, etc.)
- Audit and review of the program; and
- Partners to undertake research on the information coming from the program.

2.1 Assessors and Appropriate Training

The Green Loans program needed a number of assessors to ensure the program's success. The assessors needed appropriate skills to undertake their role which was provided for through a training course. The program sought expressions of interest for accrediting agencies to review assessor applications and developed a protocol for Assessor Accrediting Organisations. This protocol was to provide a national framework for the approval and operation of organisations that accredit persons to conduct Household Sustainability Assessments. This was to provide quality control for the assessment services. However, only one organisation applied for this role; the Association of Building Sustainability Assessors (ABSA).

To receive accreditation, assessors must:

- Undertake training which costs between $1500 and $2000;
- Apply to ABSA for membership and pay a membership fee of $650 and annual renewal of $400;
- Undertake a police check; and
- Hold appropriate public liability insurance (cost about $1500).

Once accredited, the assessor is given a number by ABSA and is then able to apply to the Department to be contracted to conduct home sustainability assessments under the Green Loans program. The contract establishes clearly in Clause 3.2 that it does not guarantee work for the assessor.

DEWHA information indicates that about 75% of assessors under contract to the Department appear to be individuals with the remainder companies having anywhere between two and 250 assessors. Once contracted, they are then free to run their own business. Assessors can operate in a maximum of 10 postcodes at any one time, but this area will obviously vary considerably in size (e.g. Canberra including Queanbeyan would be covered by less than 10 postcodes; while in Sydney 10 postcodes would cover a significantly smaller area). Assessors can advertise their own business and the call centre also has a list of assessors which are allocated by rotation when households call to book an assessment subject to their availability. DEWHA also established a protocol for assessors in approaching households.

Contracts for assessors as both individuals and organisations appear to have appropriate controls including a requirement for auditing. Assessors are advised that there is no guarantee of work. However, at the time the review was conducted budget overspends meant there were no funds available to allow auditing. There have been some complaints about assessors and the assessment process.

2.1.1 Training

DEWHA funded a training program developed by ABSA for assessors in association with industry. There does not appear to have been a quality check by DEWHA. It sought tenders for the training and contracted six Registered Training Organisations (RTO's). However ABSA appears to have provided training modules to any RTO which sought to provide the training. There is no information on why this occurred. There is a risk that RTOs contracted by the Department to provide this training may complain and seek recompense for opportunities forgone although it is difficult to estimate the level of this risk. However DEWHA does not have a contract with ABSA and there appears to be no mechanism by which ABSA could be held accountable for this breach.

In addition, DEWHA appears to have given a commitment in industry updates to further training of assessors in the use of the assessment tool and updates as they occur and has already expended some money on updated training for assessors. It is not clear that this is a role that could or should have been taken on by the Department and it is not clear that the funding provided was correctly approved. However updated training modules were funded and appear to have been provided. DEWHA should avoid future commitments or explicitly define what training they are to provide and fund it appropriately.

2.1.2 Online Booking System and Call Centre

The booking system used for the Green Loans program was developed by the Household Insulation Program (HIP). The online booking system provided work for assessors where consumers rang and booked a Household Sustainability Assessment. It would appear that assessors were provided on a rotational basis where they were available. This provided a degree of equity in assigning work to individual assessors.

The online system appears to work effectively except that RCS was advised that the costs of the Call Centre and online booking system are being paid by the HIP program. There appears to be a budget allocation for this cost in the original project plan budget. If the costs are not being paid by the Green Loans program, it is not clear from documentation why or how this has occurred.

2.1.3 Household Sustainability Assessments and Fees

The objective of the Household Sustainability Assessments is to look at the energy and water use in the household and to propose actions to make the household more energy and water efficient. The program looks at both the physical household and its equipment and household behaviour, as in many cases it is behavioural issues that need to change. The assessment recommends items for which the householder may choose to apply for a Green Loan. DEWHA does not dictate the credit criteria and financial institutions that have partnered for this program undertake their own credit checks and may refuse a loan. Households are not guaranteed access to a loan.

Each Household Sustainability Assessment was expected to take approximately one to two hours, although from reports and complaints it is clear that the time taken ranges from 30 minutes to four hours depending on the skill level and dedication of the assessor. Assessors are not able to undertake more than five assessments per day as a requirement of their contract with the Department. However, the booking system allows for seven bookings per day and it appears assessors undertook the maximum seven assessments in a number of cases. The limit if five does not appear to have been enforced. This does limit the potential of over-servicing and low quality assessments to an extent.

Assessors are paid a fee for each assessment. The original program plan was for an amount of $150 per assessment. Householders were to complete a self-assessment prior to the appointment. Where householders were unable to complete a self-assessment, or had not completed it to a satisfactory standard, an additional fee of $50 was to be paid to the assessor. However the self-assessment tool was never commissioned and assessors are paid $200 for each appointment. There are also travel fees of $25 and $50 respectively where the assessor needs to travel more than 50 or 100 km respectively from the nearest post office to the household to be assessed. It is not clear how payment of travel fees is checked by DEWHA. Assessors also receive a "no show" payment if they arrive for an assessment and the householder is not at home.

The growth rate of assessments has meant a significant overpayment of 33% per assessment on the original budget estimate of $150 with no mechanism in place to limit them to the approved and intended amount. The Ernst & Young assessment tool showed that 320,000 assessments can now be done with the current fee structure. With the flat fee of $150, the 360,000 assessments promised as an election commitment and in the program launch could have been undertaken within the original allocation in the program budget.

Assessors have a contract with DEWHA but there is nothing in the contract to require timely submissions of assessment reports, which are sent through to the Department. The reports are downloaded by departmental officers and sent to a mailing house which sends the report to the householder. At the moment, the mailing house is sending 5000 reports a week but the Department is receiving 10,000 reports a week. Therefore there are delays in householders receiving their assessments.

The program intended to undertake an audit of a proportion of assessments and there was a budget allocation for this in Departmental funds according to the original project plan. However, the budget overspend has put the audit services at risk and no contract has been let for this program. Therefore quality cannot be assured as there are no mechanisms by which DEWHA can review the program and ensure that public funds being expended on the assessments are adequately protected.

2.1.4 Number of Assessors

The number of contracted assessors was 3,119 as of Friday, 8th January and there are several thousand more currently awaiting accreditation with ABSA. ABSA notified that they would stop accepting applications for accreditation on 21 January 2010 with training to have been completed by 24 December 2009 because they were receiving complaints from their members about the level of competition (i.e. too many assessors).

ABSA imposed this decision unilaterally and DEWHA could not have prevented this decision as there is no contractual arrangement with ABSA. In the event, ABSA's decision to limit accreditation of assessors created a last minute rush of trainees. Current estimates are that there will be in the order of 10,000 assessors who had undertaken training prior to the ABSA cut-off date. It is highly unlikely there will be sufficient work for many of these assessors and many will not recoup their training fees and cost of registration. There are likely to be complaints and representations to MPs and the possibility of public reporting of complaints.

From the program perspective, the project plan should have had a realistic assessment of the numbers of assessors required and limited accreditation to that number. This would have had a double effect of limiting assessor complaints and limiting the rate of growth of assessments which may have helped keep the assessments proportion of the budget under control.

The number of assessors anticipated to be necessary in the project plan was 2000 over the anticipated four years of the program with an expected phasing in approach. Initially 200 assessors were involved in training to check the assessment tool. No controls were put in place to manage the number of assessors or to subject the growth in the numbers of assessors to review. The lack of control of assessor numbers has been a major factor in the loss of financial control of the program.

2.1.5 ABSA's Conflict of Interest

The appointment of ABSA as an accrediting agency was flawed because assessors were required to become members of that organisation as part of the accreditation process. This meant that ABSA had a financial interest in accrediting assessors and this could have contributed to the significant growth in the number of accreditations. As there has been no quality audit to date of the ABSA accreditation program, it is also not clear that all assessors accredited are appropriate. Future demand driven programs should ensure that the accrediting agency has no financial interest in the numbers that they accredit other than to earn an appropriate flat fee for the accreditation process.

ABSA is also a lobby group and there was a risk that they would act to protect their membership. This in fact appears to be a factor in the limiting of the number of accreditations. While that has proved ultimately to have been an appropriate decision, it was not a decision over which the Department had control. The project plan should have required a contract to ensure that the accrediting agency meets the Departmental requirements (not the organisation's own requirements).

An additional downside to the requirement that all assessors become members of ABSA is that the Department now faces a significantly influential lobby group that is likely to draw attention to what they will perceive as failures in the program and the disadvantage to their members in the closure of the program.

2.1.6 Assessment Software

The objective of the software is to gather information about the structure of homes, the appliances within the home and the behaviour of householders and enter these into the assessment calculator. This program was developed by RMIT and was used in the trial program. However, RMIT did not identify that problems existed in the calculation until July 2009, by which time the system had gone live (e.g. a recommendation to replace an old dishwasher when there was no dishwasher or install natural gas when it already existed). DEWHA did not know of these problems until August 2009.

The tool was to be applied across Australia and to every size home from small to large. There were anomalies in the assessment (e.g. in Alice Springs it was recommending a dark roof when a light roof is clearly more energy-efficient as it reflects the heat). Obtaining feedback from the tool or from assessors and households on the use of the tool was also difficult.

The tool has been updated and was re-released on the 18th December 2009. So far there has been a positive response with generally better reports. About 270 householders had contacted the Department before this iteration of the assessment tool and said their report was wrong. DEWHA has reviewed and re-generated a number of reports.

The assessment software appears to be one of the key failures of the system in two ways. Firstly, the development of the software appears to have breached a number of procurement processes within the Department. Secondly it did not work to a standard that could be expected and this was not detected until after the trial was completed and the program had gone live. This has generated complaints that have raised questions about the credibility of the program amongst consumers.

During discussions about the program, [*words have been removed pursuant to legal advice*] noted that he had sought to have a selective tender for an appropriate assessment tool but this was stopped and he was advised to seek an open tender in accordance with Departmental procedures. He commented that there was insufficient time. There is no evidence of an open tender for the assessment tool.

Instead there appear to have been a series of contracts let with RMIT, all of which are under $80,000. I was advised that each of these contracts were let as the need became clear. However, they all have gone to the same contractor and if it was clear what was required for an assessment tool for the selective tender originally considered, it is not clear why a number of smaller contracts were let. There was also a changeover of SES officers about this time which may have allowed some of these contracts through without appropriate attention.

The management of these contracts was referred to Internal Audit (Protiviti) for a review of the procurement practices. That report is still in draft, but it has identified breaches of the Departmental contracting requirements and potential breaches of FMA Regulations 9 and 10. While that draft report identifies a lack of training amongst current Green Loans staff, it is the considered view of RCS that based on the information available, [*words have been removed pursuant to legal advice*] has worked around departmental guidelines. The broader management controls expected for financial processes were either not in place or were not applied. The lack of rigor around this series of contracts has meant that payments were made for incomplete and inadequate work which may have contributed to the assessment tool being inaccurate and late.

2.1.7 Complaints

There have been a number of complaints investigated, many of which concerned the poor quality of the assessment tool. There are also several thousand enquiries or complaints that have not yet been investigated.

Key failures in relation to the assessors and assessments include:

- There are no quality assurance processes, leading to complaints from householders, although these may also be related to problems with the assessment tool;
- DEWHA has no information on which to verify if the assessments are being done correctly and appropriate fees are being paid;
- The lack of a self-assessment instrument has meant that the payments to assessors increased by approximately 33% over the budget estimate of $150.
- The notional budget allocation for assessments will now only allow 320,000 assessments instead of the 360,000 promised in the election commitment and in the program announcement because of the overpayments of assessment fees;
- There is a risk that RTO's contracted by DEWHA to provide assessor training may seek recompense as the training pack was provided to many more RTO's not contracted to the Department by a third party ABSA, apparently without permission, although there is insufficient information to assess the level of this risk;
- DEWHA should ensure that further training provided to assessors is not at departmental expense;
- The project plan should have identified an optimum number of assessors and limited accreditation to that number. This would not have prevented a review if the numbers accredited had been clearly inadequate to achieve the desired number of Household Sustainability Assessments in any given year.
- ABSA had a conflict of interest in accrediting assessors. Assessors should not have had to join ABSA as part of the program. The accrediting process allowed ABSA to profit from the program and provides a risk to government revenue; and
- There appear to have been inappropriate contract arrangements for the acquisition of the assessment tool. As the tool had a number of problems, it is also possible that payments were made before the contract outputs had been successfully met.

2.2 Green Loans, Financial Partnerships and the Interest Rate Subsidy

Green Loans were designed to allow householders to implement the recommendations of the Household Sustainability Assessments. The original program promised to deliver interest free loans of up to $10,000 for eligible households over a maximum period of four years. The criteria are established quite clearly on the website. Financial partners are to apply normal lending criteria in determining whether or not to make loans available to an individual householder to implement the recommendations.

DEWHA pays a $200 administration fee for each loan. However the Minister had only approved a payment of $50 for a drawdown on a mortgage or $150 for a personal loan. There was no evidence of Ministerial approval of the $200 amount.

Controls around a Green Loan require a financial partner to go online to the department's eGateway and verify that an assessment report has been issued to the loan applicant. The program pays the interest for the loans calculated for a maximum period of four years. The interest rate is calculated at the Reserve Bank of Australia official cash rate plus five per cent on the date that the loan is drawn down. The formula for the loan subsidy is a standard simple interest loan calculation. DEWHA pays this subsidy amount upfront once the loan has been drawn down.

A critical issue is that the DEWHA CFO has identified that the Loan subsidy is to be classified as a loan guarantee and accordingly needs the approval of the Finance Minister. DoFD representatives advised that the ERC/Cabinet approval is not the Regulation 14 approval required. However, there remains no agreement about the classification of the interest and fee subsidy payments between DEWHA and DOFD. Effectively, the Green Loans program was breaching FMA Reg 14 of Reg 9 each time a subsidy deed was signed. This has not yet been rectified although the scheme was closed to new financial partners with effect from 29 October 2009 so further breaches should not have occurred. However, it appears that several subsidy Deeds were signed by DEWHA after that date

There are no controls around the number of loans issued other than the overall budget allocation. The budget allocation will be affected by changes in interest rates by the Reserve Bank. This has already resulted in an increase to the cost of a loan subsidy by official interest rate increases over the last three months and is a normal commercial risk that should have been factored into the budget estimates for the cost of the subsidy. There is no evidence of this.

The financial partner sends an invoice to DEWHA once a month for payment of the administration fee and loan subsidies on loans in the previous month. There has been a delay in payment of the loan subsidies since the first loans were issued in September 2009 due to there being no agreement on whether Reg 9 or Reg 14 approval is required. This cost is currently being accrued. The project plan intended a program lasting until 2013 with the last loans issued no later than 31 March 2013 so the program would end on 30 June 2013. On available information, the budget funds allocated for loans will run out by March 2010.

The program under the revised budget of approximately $175 million anticipated up to 75,000 loans with an average loan budget of $4,040. Actual loans are averaging $8,800. It is not clear why the lower amount was used as the budget amount when the loan could be up to $10,000. For planning purposes, it should have been assumed that all loans would be $10,000. This under-estimation will cut the number of loans available from 75,000 to about 30,000.

Loan take-up is about 800 loans to the end of December 2009. Loan approvals are behind expectations but this may be because of the Christmas break. Given that an assessment report is valid for six months, there has been significant growth in the number of assessments completed and there have been improvements in the economy, there is a real risk that a significant number of loan approvals may come through in early 2010.

DEWHA commissioned Ernst & Young (EY) to develop a model to allow them to estimate the uptake of Green Loans and the costs relating to that. The tool estimated $900,000 for the subsidy on 836 loans to the end of December 2009 but based on the actual invoices this cost is $1.2 million. The EY tool is providing a 30% under estimate.

It is not clear whether this is because of a faulty model or faulty data or incorrect use of the model. Regardless of the reason, it provided a false sense of security at a time when the budget for this program was facing a growth in activity. RCS was unable to assess the EY model in the timeframe for this report. There are also significant problems with the reporting from the financial partners. A new database was rolled out in December 2009 which should give real time data but at the present time DEWHA is not sure it can rely on the numbers in the database. A number of financial partners have reported difficulties in using the database and, in any case, the validity of the data relies on staff at all financial institutions making regular updates.

The subsidy deed between financial partners and DEWHA provides for 30 days notice of the end of the program, however, if there is significant growth in the rate of loans, there is a real risk that the financial partners will have committed to loans in excess of budget availability prior to the completion of the 30 days notice. DEWHA needs to consider within the next month whether to give the financial partners notice of the completion of the program or institute other demand management mechanisms on the loans.

There are financial controls within the subsidy deed for financial partners, which require partial repayment of the subsidy in the event of early payout of the Green Loan and also requirements to allow auditing of the program. These controls appear adequate and are commercially sensible. However, it is quite likely that there will be no budget remaining for the cost of undertaking the audit.

Key failures in relation to the Green Loans include:

- There does not seem to have been Ministerial approval of the actual establishment fee of $200 for each Green Loan;
- There were probable breaches of FMA Act Regulation 14 each time a subsidy deed was signed with a financial partner as the Finance Minister’s approval had not been sought. Some invoices have since been paid and are probably in breach also.
- The size of each loan was underestimated by more than 50%. Good practice would have been to calculate each loan at $10,000. This would have allowed more loans to be provided than initially estimated because the average loan is lower thus providing a public policy "win" by providing more loans than originally budgeted for;
- It is estimated that less than half the number of loans promised will be provided from the budget. This is likely to generate some public criticism either from consumers that miss out on loans they will feel entitled to or from the media following up on complaints;
- There should have been a reporting tool for estimating the loans and loan subsidies in place and tested prior to the program commencing;
- Potential rises in interest rates were not factored into the budget estimate for the loan subsidy; and
- Unless additional controls are implemented, there is a real risk the number of loans committed by the financial partners will exceed the funds during the 30 day notice period.

2.3 eGateway

eGateway was designed to be an electronic interface between assessors and the Department, an integrated online portal, database and reporting tool. Stage one of the process was for assessor reporting and invoicing, Stage two was for auditor reporting and Stage three for utilities data collection. There is a separate reporting requirement from financial partners for the Green Loan program.

It is not clear what happened to the eGateway but the Ministerial briefs identify a considerable number of delays and it is at least six months late in delivery. It does not appear to be fully functional. The key failure in relation to the eGateway was that the project was not delivered on time. It is not clear what the cause of the delays were but it can be assumed given the other systemic failures that there is strong possibility that the project scope was not correctly defined and project management was inadequate.

2.4 Green Rewards Card

The Green Rewards Card was part of the Green Loans program. The objective was to provide a $50 card to allow consumers to buy items such as energy-efficient light globes and other items that increased energy efficiency and decreased water use, objectives of the Green Loans program. The Green Rewards Card was to be sent to all households that underwent a household sustainability assessment with their assessment report. Since October 2009, reports going to households have noted that the householders will be sent a Green Rewards card at a later date.

Provision of the Green Rewards Card was put out to tender and has been considerably delayed. Retail Decision was offered a contract on 15 Aug 2009 but there are still negotiations under way and no contract has been signed based on information to hand while preparing this report.

The Minister was advised of that delay and at one point made a decision to provide gift cards from a number of hardware stores for about $50. This was ultimately not implemented because of insufficient controls to ensure that the money was spent in accordance with the program. At the time of preparation of this report, the contract for the Green Rewards Card had still not been finalized. Due to the budget overspend, there is considerable doubt as to whether the obligation to provide a Green Rewards Card for all households that undergo a household sustainability assessment can be met. Since mid-December, households have not been informed about their entitlement to the card.

There is a risk that households that miss out on this card will complain and there is potential for embarrassment to the Government. There may also be some legal risk with the company that has been negotiating to provide the Green Rewards Card if the program does not proceed. They may seek to recover costs incurred in good faith.

Key failures in relation to the Green Rewards Card include:

- The Green Rewards card should have been ready when the program was implemented. Theoretically it should have been a simple part of the process;
- It now appears there is insufficient money to meet the commitment made when the Green Loans program was announced; and
- There are reputational risks for the government in not supplying the Green Rewards card promised as part of the Green Loans program.

2.5 Research

One side benefit, but not an official objective, of the programme was the recognition that the Household Sustainability Assessment of 360,000 homes could provide useful information on energy and water usage in households.

There is some evidence that a number of Universities have been asked to provide input into the research but there has been no formal expression of interest and no clear funding agreement, so there should be no budget risk.

The key failure in relation to the research process was that the relationship between the Department and possible research organisations to use information collected through the household sustainability assessment does not appear to have formal agreements such as a Memorandum of Understanding.

2.6 Risk Management

There have been comprehensive failures of risk management throughout the program. There is now a Green Loans program risk register that was developed recently but many of the risks have been inadequately addressed and it is not clear that it is a realistic understanding of the risks faced by DEWHA in managing this program. Many of the risks do not have risk owners and there are no planned completion dates for the risk mitigation strategies.

The Risk Management Plan appears to have been established to deal with the risks after they had become apparent, rather than in the planning of the program as should have occurred as better practice. As well, the Risk Management Plan does not adequately address the financial controls which should have been put in place to manage a demand driven program.

Many of the risks identified are now extreme. Two key issues are the take-up rates of assessments and the loss of budget controls. These risks are poorly identified in the Risk Management Plan.

The program has had incredible take-up rates. However, Risk 3.3 "Uptake is significantly different (+ or - 10%) from targets" does not really address a significant increase in assessments to the extent that has occurred. Based on the current budget situation, it is too late to mitigate this risk. These risks should have been identified at the beginning of the program.

Demand driven programs are inevitably difficult to measure. However where the program is free to the householder, it is reasonable to assume, based on behavioral economic theory, that the uptake is likely to be considerable. It may also occur rapidly based on word of mouth, media reporting or be service driven (e.g. the assessors can increase their businesses and with many more assessors than expected there is increased demand on the program). These risks were partly identified in the Risk Management Plan, but the proposed risk treatments were weak and unsuccessful. Consequently there is a lack of responsibility in managing the risks. Some of this is probably due to inadequate risk management training and management attention.

Risk 4.2 "Project doesn't meet financial targets for administered funds" identifies what could happen but the proposed risk treatments are inadequate. More importantly there are no risk owners, so no one is responsible and the risk is not managed.

It would appear that most of these untreated risks were inherited by the current program manager and the risk mitigation strategies should have been put in place as the program was developed in its early stages. The Risk Management Plan should have been completed prior to the trial of the program. This does not appear to have occurred.

The Risk Management Plan still does not appear to recognise that a key mitigation strategy for financial risk would have been to involve the Chief Financial Officer (CFO) from the commencement of the program design phase. The CFO would have been able to advise on where appropriate financial controls needed to be built into the program. This would have reduced the opportunity for breaches of Regulations 9 and 10, and possibly 14, of the FMA Act.

In addition, the program was set up as an administered appropriation. It is unclear as to whether an alternative appropriation structure was considered. An annual appropriation was established but this is inappropriate and proved inadequate for a demand driven program.

As part of the documentation review, RCS examined the Legal Risk Management Plan. The version provided was still in draft form but there was inadequate consideration of the possibility of a breach of financial regulations.

Key failures in relation to risk management include:

- The Risk Management Plan does not appear to have been developed with the project plan;

- RMP significantly underestimates the risks that have occurred;
- There is little understanding of the financial risks;
- There is little understanding of behavioral risks with consumers getting something for "free";
- Risk treatment strategies do not include the CFO or DSU, a critical failure; and
- It is not clear that Departmental officers understood risk management and the process of identifying, and applying risk treatments.

2.7 Management Controls

The Green Loans Section has been surprised by an unprecedented growth in a demand driven program. This was compounded by failures in key program items such as the assessment tool, the eGateway, and delays in the Green Rewards Card. They have been overwhelmed by the workload. However, their focus was on meeting Government expectations for the timeliness of program delivery rather than running the program effectively and in accordance with Departmental requirements. Most of the system management failures were set in train at the start of the program, through a lack of consideration and planning of proper management processes and controls.

Normal management controls do not appear to have been in place and were clearly not adequately identified. The project plan lacks management detail which could have been addressed by a business plan, strategy document and implementation plan. There is no evidence that any of these were put in place.

The design of the program was heavily over engineered, but controls were non-existent. The assessor is the driver of assessment appointments and therefore the costs of the program which leaves DEWHA with limited control of the financial position in relation to the budget.

There were failures in the procurement process (see Section on Assessment software above), financial reporting and controls, and management reporting systems. This meant that the blowout in the program budget was identified far too late. It also meant that the Minister was not advised correctly on the financial and operational positions of the program on a number of occasions. In addition, expenditure was made in breach of FMA Act Regulations 9 and 10 and possibly 14 because there was no realization that commitments had exceeded the budget for the year.

Management of the Green Loans program was complicated by a constant turnover of people within this section and at the SES level. The lack of consistent staffing has increased the training load and the risk of poor management controls and reduced the possibility of effective oversight of the program.

In addition there needs to be good record-keeping. While RCS did not directly investigate the quality of the record-keeping, Internal Audit indicated the records for the program were inadequate in a number of areas. Poor record-keeping compounds the problem of staff turnover as there is no baseline information for them when moving into a new program.

The growth of assessments and the need for the Department to send out the assessment reports and in some cases review the reports when the assessment tool proved to be faulty also meant a significant growth in staff. It is not clear that adequate training was provided or available.

There is no evidence of deliberate abuse of the system in the current Green Loans program. However, there appears to be a culture of delivering the program no matter what, which has lent itself to getting around financial controls and systems. Government regulations are in place to ensure that public money is spent in accordance with due process. It is unlikely that this culture solely applies to the Green Loans program and therefore the department should consider the adequacy of training for program managers in risk management, procurement, financial controls and program planning systems.

Key failures in relation to management controls include:

- Project plan was inadequate;
- There was no business plan or implementation plan;
- There were no proper financial controls and reporting tools. The system allowed invoices to be paid and purchase orders to be raised beyond the limit of approved funds i.e. beyond Reg 9 approval;
- There was a constant turnover of staff and management which complicated knowledge bases and management control;
- The significant growth in the program was unexpected and staff "delivered the program" rather than managed it in accordance with proper process;
- It is not clear that staff had proper training in program management and delivery; and
- There appears to be a culture of "getting around the controls" which may have led to inadequate oversight of the program.

2.8 Financial Controls

The program was designed without taking into account appropriate financial controls. This inevitably meant that key controls were lacking and there is some information which suggests the former director of the Green Loans program may have made a deliberate attempt to get around procurement controls as the correct process would have delayed the implementation timeframes of the program.

The administered program budget for the first year was $35.603 million which was committed prior to mid-December 2009. DEWHA is seeking to bring money forward from the program out years. If this is allowed, the budget could be completely allocated by March 2010. If not allowed, the program will have to go on hold until next financial year and the funding shortfall met from funds from the DEWHA budget or elsewhere.

The Departmental funds component has also been overspent significantly and there are other unallocated funds spent by the program

The budget itself is not clearly defined and has changed over time. A number of different budget versions were identified as part of the Review and it not clear when or why they had changed. Record keeping is vital here to ensure that the reasons for change are documented and the Minister's Office is always correctly informed about the overall administered program budget position.

The budget in the project plan is provided below. Green Loans Budget[1]	2008-09 Actuals	2009-10	2010-11	2011-12	2012-13	Totals
Departmental Funds ($ M)						
DEWHA Staff (Over life of program)						**$4.921**
Totals	**$3.507**	**$2.757**	**$3.603**	**$3.425**	**$2.578**	**$12.525**
Administered Funds($M)						
Totals	**$0.690**	**$35.603**	**$44.519**	**$44.519**	**$26.674**	**$153.275**

[1] These numbers are from the Project Plan and do not line up with budget briefings to the Minister and other financial statements. Although the variations are not huge, they highlight the difficulties with financial management of a program where the budget is not clear.

Program Budget	$4.197	$38.36	$48.122	$47.944	$29.254	$171.196[2]

Expenditure for the Green Loans program started relatively slowly but in November 2009 it accelerated sharply. Reporting appears to have been based on actual expenses only and did not include commitments. Most assessors bill monthly, but considering the potential for time lags it is possible that there is still not a completely accurate understanding of the financial position. The expenditure on assessments has exceeded the budget for 2009-10, however it appears Regulation 9 approval was not sought for expenditure in excess of the original notional budget allocations for this component of the program. In fact it is possible that the Section was not aware it had exceeded budget, given the level of financial reporting provided.

The following table provides a forecast position for the end of the financial period.

Green Loans Budget	YTD 18 Dec.09	Forecast
Administered Funds ($ M)		
Home Sustainability Assessments	$29.422	$66.222
Loan subsidies	$1.770	$24.505
Loan Administration Fees	$0.230	$3.000
Green Renovations (Rewards Card)	$8.246	$18.560
Training of Assessors	$0.115	$1.015
Totals	**$39.783**	**$113.302**
	2009-10 Budget	**Total Admin Budget (over 4 years)**
Administered Program Budget	**$35.603**	**$153.275**

The Divisional Support Unit (DSU) is the principal source of financial advice within the Branch but is not always used adequately by programs. Since the advent of the Taskforce, DSU have put significant resources into providing detailed analysis of the current financial position. DSU commented that proper financial management had only been in place since the commencement of the Task Force.

The focus within the Green Loans program had been on process rather than reporting.

SAP is the financial tool for DEWHA although it is clear that programs do not always understand their budget. It would appear that program staff don't fully understand cash flows and accruals which has made managing the budget very difficult. There was also some confusion about the type of program: is it a grant, procurement or an entitlement. The current program is considered as a grant but it cannot be managed as a normal grants program. Early involvement of the CFO's Branch in program design may have ensured a more effective solution.

Key failures in relation to financial controls include:

- It is not clear what the budget actually is as the numbers vary in different financial reports and briefs to the Minister;
- Financial controls were not defined;
- It is not clear that program staff had an adequate understanding of the Departmental financial system SAP;
- Program managers appear to lack financial skills;
- There were budget overspends without appropriate authority leading to Reg 9 and 10, and possibly 14, breaches; and
- There is a perceived unwillingness to seek advice from the CFO or DSU.

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[2] In 2008-09, $3.4 million was transferred from Green Loans to the Solar Homes and Communities Plan. It is not clear if this amount is to be returned to the budget.

2.9 Exit Strategy

A demand driven program with a set budget would inevitably have an ending. The project plan should appropriately have considered as part of the program design how to manage the way out of the program.

This would include consideration of how to manage the public position of closing off access to assessments and to the Green Loans as well as the Green Rewards card. It also warrants consideration of staffing issues.

The exit strategy requires consultation with Public Affairs and the Minister's Office to ensure there is an appropriate method and message to manage the end of the program. In this case, there are likely to be:

- Issues with assessors who will feel aggrieved at having their businesses curtailed, especially when many of them will have thought they had three or four years work;
- Possible push back from applicants for Household Sustainability Assessments where they exceed the number that can be funded;
- Possible complaints from Green Loans applicants where there is insufficient funds to subsidise loans;
- Possible complaints from financial partners especially where they have recently joined the program only to find it ending; and
- Reputational risks around the fact that fewer assessments are likely to be done and fewer loans are likely to be made than promised in the program announcement.

2.10 Audit and Review Processes

The program plan identified audit and review processes as a part of the program. In particular, it is clear from the contracts with assessors, ABSA and the financial partners that it was anticipated that audits would take place of their participation in the program. This was to ensure that the assessors and financial partners had met the standards required. For assessors this was a quality review of the Household Sustainability Assessments and for financial partners it was intended to be a review of the way in which financial partners have implemented the loans agreements.

A review of the budget indicates $2.4 million was originally provided from the departmental funds for audit services. DEWHA is negotiating a contract with AECOM Australia Pty Ltd for audit services. This contract was expected to be signed by early January with the audits beginning shortly thereafter however the contract is being reviewed as a result of poor definition of risk and the considerable change to program delivery.

Audit and review processes are an integral part of any program. The program plan should have specifically designed the audit program as part of the implementation plan with audit services scheduled to provide timely feedback at an early point in the process (e.g. key milestones). Had this occurred, there may have been recognition earlier of faults with the assessment tool and it may have reduced complaints.

There seems to be no funds provided for evaluation of the program. There is no evidence that an evaluation of the program was considered other than the possibility of using information gained from Household Sustainability Assessments for research purposes. It is not clear therefore that there was any method proposed to ensure that one of the objectives of the program, a reduction in greenhouse gases, could actually have been met other than by an assumption that equipment purchased under the Green Loans program is more efficient and that household behaviour will have changed. The evidence for improvement would be, at best, anecdotal.

2.11 Conclusion

The design of the Green Loans program was over engineered and unnecessarily complex, particularly in areas such as the eGateway and the assessment tool. At the time of preparation of this report, there were still problems with both tools and it is highly likely that they may not be working effectively before the budget for the Green Loans program has been expended. Procurement processes do not appear to have been followed appropriately and this is likely to have been a factor in the problems with both the eGateway and the assessment tool.

There was some recognition that demand driven programs are difficult to predict. However, financial and reporting systems were not put in place to allow early recognition of the explosive growth in the program. This was compounded by having funding provided through an administered appropriation which was inherently difficult to manage for an unpredictable demand driven program. There was no involvement of the CFO's area from the start of the program which reduced the opportunity to ensure that appropriate financial and reporting tools and correct expenditure authorities were put in place.

It is not clear that the staff running the program had been appropriately trained, particularly to cope with the sudden increase in workload. This was compounded by rapid turnover of staff including at the SES level which meant there was no consistent source of advice and counsel for the section head. There appears to be a culture within the Department of working around financial issues. This attitude is evident in places in this program and, noting that a number of other demand driven programs in the Department also have problems; it is a reasonable assumption that this culture may be widespread.

The Green Loans staff have undoubtedly worked very hard dealing with extremely high workloads that were unexpected. They focused on delivering the program but in doing so did not adequately observe and implement financial controls. This led to breaches of several financial regulations.

There is no exit strategy and so there is considerable political risk and possibly legal risk surrounding the closure of the program over the next few months unless considerable additional finance is provided.

There appears to be a culture within the Green Loans program of working around financial issues. This may be due to a lack of understanding of the critical nature of controls on Government spending combined with a significant focus on “delivering the program”.

3. The Way Forward

RCS notes that our terms of reference did not require a solution to the current budget problem but to provide advice on how demand driven programs can be managed better into the future. It is critical to ensure better program implementation and program design. This section deals with options and methodologies that should improve planning. Annex C provides a summary of ANAO better practice guide for grants management and a summary of the relevant FMA Act legislation. Annex D contains an illustration of the basic government processes, from the initial research to the final evaluation phase of the project.

3.1 Governance and Management

Governance arrangements need to be considered as part of the initial planning process, including: who has control of the program, what executive oversight is required and when that oversight is required, accountability mechanisms, reporting mechanisms, and what evaluation and review processes are required.

A Governance Committee at the Executive Level would provide oversight to the program design, implementation and evaluation phases. This committee should include representatives from the program area, the CFO and Public Affairs. CFO approval that all key controls are in place and the design is consistent with compliance obligations should be obtained prior to consideration by the Executive. Note - a key factor in the failures of the Green Loans program was that there was no effective executive oversight of the program and there was a considerable turnover of Executives.

A key consideration is ensuring that the right internal capability is deployed for the program design and implementation and for ongoing program management and that there is an adequate timeframe for ensuring that the processes are effectively completed. This will likely require briefings to the Minister about the required timeframes to implement the new program properly.

The standards of service delivery and program delivery need to be defined as part of the program plan and key risks identified during risk management planning. These become the standards against which the Quality Assurance process can be undertaken.

The following table provides an illustrative high level summary of the management responsibility for each of the basic government business processes (refer to Annex D).

Process	Senior Executive	Branch Manager	Section Manager	CFO
Research	Determine priorities	Provide direction and input as required	Undertake research activities	
Policy Development	Identify initiatives and develop options Determine performance framework Obtain ministerial approval	Provide direction and input as required Consult with stakeholders Oversight budget estimates	Examine needs and issues Evaluate options Develop and amend legislation and standards as required Prepare the new policy proposal and cost estimates	Consider options for source appropriation Review budget estimates Preliminary financial modelling Preliminary analysis of system requirements

Program Design	Define the overall requirements Approve the design and plans	Review and clear proposals Ensure adequate oversight mechanisms and processes are in place and functioning	Establish business and risk management plans Develop operational requirements Develop strategies and program guidelines Determine staffing and resource requirements Establish funding arrangements	Develop financial guidelines and systems Determine accounting treatment and reporting issues Provide input into the drafting of funding agreements Set up drawing rights and delegations Ensure compliance with the accountability requirements (e.g. FMA Act)
Program Implementation	Provide oversight at key milestones	Oversight the implementation	Project manage the implementation	QA implementation of key financial controls and compliance with accountability requirements
Program Delivery	Review performance on a monthly basis	Provide direction and input as required Develop the communication strategy and manage key stakeholder relationships	Ensure compliance with funding agreements (e.g. acquittals) Process claims for payment Monitor performance Prepare performance reports Provide information to stakeholders	Ongoing management of procurement and contract processes Management of cash flows Monitoring of actual expenditure against budget targets Process payments Provide assurance that the financial controls are working
Evaluation	Evaluate performance	Oversight scope and project plan Oversight evaluation process	Determine scope and prepare project plan Engage resources to conduct evaluation	Provide input as required

3.2 Program Design

There are a number of key questions for consideration in the program design process.

1. Is the program demand driven? How will the demand be controlled? Are there going to be yearly limits or will the program run until funds are expended? What is the best appropriation framework for managing the program?
2. The appropriation framework needs to be considered in conjunction with the controls over demand and expenditure. Using the Green Loans as an example, this would mean identifying the number of services to be provided in a given time frame (i.e. the number of Household Sustainability Assessments to be funded each year). Limitations would then have been placed on the number

of assessors who were accredited. When there was significant growth in the number of assessors, there was a surge in demand as they self generated an increase in the workload.

3. Managing the payments means developing appropriate payments systems, making and recording the payments and ensuring they are reconciled and identifying what payments are in pipeline (i.e. commitments).
4. Where are the choke points or demand drivers? How do we manage these? Are the limitations on the program both non-discriminatory and achieving the planned objectives of managing the program within budget? What controls are there over demand and expenditure? What triggers are there? What lead times do we have to take action? In the Green Loans program, for example, there is a 30 day notice period in the contract with the financial partners. It is likely there will be a surge in demand once the notice period is applied as financial partners will advise clients of the cut off times. Therefore there is a real risk of an unplanned surge in demand as the program moves to closure. Forecasting for the target expenditure would therefore require an estimate of the likely surge in demand (based on current take-ups and a surge capacity) once notice has been given and subtracting this from the target expenditure. This would identify the trigger point for providing the notice to close the program.

There are a number of key principals for better practice in program design, including:

1. The program should align with the intended policy outcomes or public benefits.
2. There must be an efficient and effective use of resources, including financial resources, human resources, procurement, grants and any other parts of the process.
3. An options analysis needs to be part of program planning and design. A good options analysis will consider alternative methods of delivering the program to achieve the policy outcomes desired. This options analysis will be subject to risk management review to identify areas where problems may arise with alternative methods. A cost benefit analysis is a vital part of any program planning. It looks at the options identified in the options analysis and subjects them to financial and other assessment to identify which is the most efficient and effective alternative. There is always the possibility that political considerations may override a good program design. However if the analysis is undertaken, the Minister can be advised and planning proceed with the risks and benefits clearly identified and managed.

   Compliance and accountability need to be designed into the program from the commencement. Delivery methods need to include an accountability process that allows the Department to ensure that the funds or services have been provided in accordance with program and not misspent or misallocated. The financial management framework is developed in accordance with government policy and requirements. This would include payment arrangements.
4. A risk based approach is a key part of any program. It is not possible to prevent risk however it is important that an understanding of the risk is clear and that appropriate strategies are developed to manage the risk within defined and acceptable levels.
5. Evaluating the outcome is a critical part of any government program. The scope of the evaluation needs to be set into the program design as a specific strategy. The framework used will depend on the particular program and the needs of the program. In effect it will be tailor made.
6. Communication of government policy to stakeholders and the public is a major part of the design. In the Green Loans program, there are public statements and within contracts that the program is limited to the available funds, however given assessors were still being accredited in January 2010 and the programs funds are almost fully committed, there may be considerable complaints about expectations that are not fulfilled. The communications strategy around budgets and funding constraints need to be very clear from the commencement of the program and this communication needs to be focussed on the target audience.

7. The operational requirements need to be clearly defined. These include developing the program policy, developing clear performance indicators, the standards that are to be applied to the program delivery, a monitoring framework, the ongoing risk management assessments and the budget.
8. Strategies and guidelines need to be defined. These would include who is entitled to benefits from the program and what limitations are to be placed on take up (e.g. means testing, public contribution, needs analyses and priority setting).
9. The system requirements for managing the program need to be in place. Do new IT systems need to be designed and if so what is the timeframe for delivery. Has the system architecture been carefully considered? For example, the Green Loans eGateway is likely to be fully functional just as the program is completed. Testing assumptions; all systems, whether they are IT or service delivery, need to be fully tested and the assumptions for that testing properly challenged. Testing needs to include worst-case and catastrophe scenarios. The controls need to be tested to see if they work and whether or not they provide the appropriate accountability for a government funded program.
10. Prior to the implementation of any significant program, there will need to be field testing of the program. This will allow the identification and rectification of problems prior to the program being fully implemented. In the Green Loans program as an example, there was a test of the program but it went live before there had been a complete review of the testing phase. Consequently, problems with the evaluation tool for the Household Sustainability Assessments were not identified and managed until the program was live. This generated complaints and required DEWHA to undertake mitigation strategies later and under more stressful circumstances than should have been necessary. Evaluation of the testing program will also identify any key weaknesses which can be resolved before the program is fully implemented. It is easier to fix things in the testing phase than changing arrangements part way through an implementation process.
11. An appropriate timeframe should be allowed for designing a new program. The design phase will include proper system testing. Inadequate testing can lead to systemic failure because the risks are not identified early enough to mitigate them. Performance monitoring is a routine part of the design plan. Key indicators for the program should be developed and tested at this time.

The program design phase is likely to take at least three months. Cutting short this timeframe increases the risk of failure because there may not have been adequate consideration of the risk or the processes by which the program is to be delivered. Accountability mechanisms may not have been adequately tested. Program design is a critical phase and getting it wrong substantially increases the risk of program failure.

The program delivery process should simply be a rollout of the work done in the program implementation and design phases. If the preliminary planning has been effective, then control mechanisms are in place, adequate testing has been undertaken and errors rectified, and operating and reporting systems work.

Program delivery is rarely this smooth but in the event of problems, the strategies for managing the system put in place during the design phase will detect errors and problems and corrective action can be identified and implemented quickly. DEWHA needs to be on the front foot in dealing with problems in the programs they are delivering rather than being reactive to crises.

3.2.1 Funding

As part of the policy development stage, there needs to be consideration of the budget appropriation for the program, (e.g. special or an annual appropriation or some other method of funding). This would be supported by financial modelling to prepare an estimate of the size of the required funding levels. The financial modelling would include stress testing of the assumptions in the program design (e.g. take up rates) and include best case and worst case scenarios.

Reporting systems to support the program need to be developed including the accountability mechanisms around expenditure of public money such as the FMA regulations, in particular Regulations 9 and 10. Drawing rights need to be established with the appropriate delegations.

3.3 Program Implementation

There has been a considerable whole of government focus in recent years on improving agency capability in managing the implementation of new policy initiatives and this has raised the level of awareness within agencies of the importance of successfully implementing new policy initiatives.

Most agencies have expressed a degree of concern with the base capability in program management, which was further impacted by the high level of staff turnover and the ageing workforce. There was a distinct shortage of highly skilled and experienced persons with specific experience in implementing major new policy initiatives.

The best people management strategy to develop a sustainable internal capability in the future was through a concerted and ongoing investment in growing your own staff. It is acknowledged that there would always be a high level of staff movement between agencies but the situation would improve markedly if all agencies adopted a whole of government approach to improving the public sector management skills of APS staff.

There are a number of key result areas for successful implementations, including:

- Well defined performance criteria to support an effective evaluation of implementations and the ability to leverage off a well established performance measurement framework and evaluation processes;
- Well defined business architecture (systems and processes) or blueprint of the organisations core activities to provide a high level of visibility of the touch points of the new initiative and how best to integrate with existing processes and other planned initiatives to ensure an enterprise wide solution;
- Well established corporate culture and governance and control processes (planning, budgeting and reporting) so that project and program management is a logical extension rather than a major business transformation;
- Well defined and repeatable program management processes and high level of awareness and focus in all programme areas of the need to take an end to end process view (i.e. integrated approach from design through to implementation through to evaluation);
- Effective partnership between the business owners of major initiatives and those areas responsible for implementation;
- Appropriate level of investment in developing project and program management frameworks and continued strong executive commitment and leadership;
- Completion of major initiatives within the agency in recent years and retention of expertise;
- Appropriate due diligence in the tactical deployment of the 'right' persons to the implementation project teams and governance forums (i.e. depth of relevant experience and project management skills);
- Early and effective integration of policy development and program implementation considerations (i.e. mitigate the risk exposure of 'bad' policy decisions being made through early involvement of CFO, CIO and other program areas – informed decision making); and
- Credible working relationships between the agency and central agencies and, within agencies, between the program and corporate support functions.

Central agencies have a number of key touch points with agencies throughout the end to end lifecycle of major implementation projects, including:

- Finance: Gateway Reviews, Strategic Reviews (new process – 3 to 5 each year at Senior Ministers' Review(SMR)), New Policy Proposals (NPP) review and costing, Agency Advice Unit (AAU) processes, budget estimates and reporting;
- Australian Public Service Commission (APSC): networks and forums, accredited training and mentoring program, and national competency standards;
- Australian National Audit Office (ANAO): performance audits of major initiatives and better practice guides;

- Prime Minister & Cabinet: line area involvement in policy development, and Cabinet Implementation Unit reporting, committee processes, better practice frameworks, networking, policy framework, and standard processes; and
- Australian Government Information Management Office (AGIMO): analysis of Chief Information Officer (CIO) functions, evaluation of Information and Communication Technology (ICT) projects, and CIO forums.

There is recognition that externally driven change by central agencies through ANAO performance audits and management reform agendas such as financial and risk management and procurement have improved public sector administration. However, central agency processes are often seen by agencies as an additional administrative hurdle to overcome rather than a value added initiative (note – this is also typical for corporate support functions within agencies). Not surprisingly, there is a preference for further change in this area to be driven through agency executive accountability and leadership rather than central agency intervention.

The key benefits of developing a more effective program implementation capability include:

- Increased awareness of the importance of implementations;
- Increased level of compliance with implementation plans;
- Improved quality of project delivery (quality, schedule and cost);
- Better targeting of funding the 'right' projects in accordance with strategic direction and risk management framework (i.e. organisational alignment), and enterprise wide solutions;
- Increased visibility of progress and performance through improved monitoring and evaluation;
- Improved transparency and more informed decision making (e.g. more business like business cases);
- Increased management accountability for performance;
- More business like behaviour;
- Comprehensive and structured approach with appropriate stakeholder engagement;
- Sharing of innovative solutions across agencies;
- Best use of available resources; and
- Reduction in number of surprises in budget shortfalls through lifecycle costing and securing funding for ongoing business as usual activities.

3.3.1 Project Implementation Team

The Project Implementation Team is responsible for program design and implementation phases. It is critical that the right mix of skills and experience are included as part of the team, including:

- Complex project management;
- Financial management;
- Contracting and procurement;
- Risk management;
- Subject matter experts;
- Public affairs;
- Governance and probity;
- Quality assurance and evaluation; and
- Public sector management.

The program implementation team should be headed by an SES officer. That could be the Branch AS, or preferably an AS level officer tasked to head up the team for the program.

Annex A List of People Interviewed

Words have been removed to protect the privacy of individuals

Annex B Documentation

- Green Loans Program Guidelines 2009, Department of Environment, Water, Heritage and the Arts.
- Household Sustainability Assessment Scheme, Protocol for Assessor Accrediting Organisations, 22 December 2008
- Association of Building Sustainability Assessors website
    1. Becoming an Assessor
    2. Green Loans
- Draft of Internal Audit Review of the Procurement Practices in the Green Loans program
- Relevant Ministerial Briefs
- Relevant financial reporting documents for the Green Loans program
- Energy Efficient Taskforce Green Loans Program Governance Model
- REED Risk Assessment Matrix, Green Loans Program Risk Register v0.3 24 October 2009
- Subsidy Deed, Green Loans Program
- Green Loans Program Project plan v0.2 Dated 14 December 2009
- Contract for the provision of Assessor Services by an individual
- Contract for the provision of Assessor Services by an organisation
- CD Green Loans Style Guide and Resources
- Draft of Legal Risk Assessment by Minter Ellison
- Australian National Audit Office, Better Practice Guide, Administration of Grants, 2002

Annex C - Financial Reporting and Related Legislative Requirements

In recent years significant changes have been made to the Commonwealth's accountability framework, heavily influenced by the *Financial Management and Accountability Act 1997*(FMA Act) and associated legislation. The FMA Act provides an accountability framework within which grant programs administered by an agency must conform. Grant administrators need to consider their agency's obligations under the FMA Act when planning and establishing grant programs, and designing monitoring and review arrangements. Chief Executives Instructions (CEIs) should cross reference these requirements, as appropriate, and include the agency's specific policy requirements.

In 1997, the Government made significant changes to the accountability framework that removed unduly prescriptive requirements and provided more flexibility and responsibility to agency managers. Chief Executives now have a greater degree of discretion through the CEIs to introduce innovative solutions to best manage programs.

The FMA Act and Regulations impose a number of obligations on Chief Executives of agencies. Specifically:

- *Section 44* of the FMA Act requires Chief Executives to manage the affairs of the agency in a way that promotes the proper use of Commonwealth resources for which they are responsible. 'Proper use' is defined as 'efficient, effective and ethical use'. It is important that grant-giving agencies define the purpose and objectives of grant programs and plan for appropriate monitoring and review mechanisms to ensure the efficient and effective achievement of funding objectives.
- *Section 47* of the FMA Act requires that the Chief Executive must pursue the recovery of debts. One purpose of a funding agreement is to allow the recovery of unused grant funds and grant funds that have been misused.
- *Regulation 9* of the FMA Regulations requires that public spending:
    1. Be in accordance with the policies of the Commonwealth;
    2. Make efficient and effective use of public money; and
    3. Be approved by someone with the relevant delegation.
- *Regulation 13* of the FMA Regulations requires compliance with regulation 9 before entering into a contract, agreement or arrangement for the spending of public money.

Grant administrators should ensure that mechanisms for assuring the above requirements are incorporated in selection and approval procedures, funding agreements and monitoring arrangements.

It is important that the agency reports regularly to the Government and Parliament on its use of public funds. Progress towards achievement of outcomes should be reported in Portfolio Budget Statements and Annual Reports. Public and internal reporting mechanisms are both part of the management trail. It is the responsibility of grant administrators to ensure that this accountability requirement is developed in a way that accurately reflects the operations and outcomes of the program.

Well-drafted formal agreements are necessary for the effective management of grants. In some cases, legislation mandates the conduct and conditions applied to grant programs and individual grants. In the absence of legislation, the funding agreement is the instrument through which the funded project is facilitated. The formal agreements should protect the Commonwealth's interests in ensuring that public money is used for the intended purpose, define project deliverables, schedule payments (according to progress), and specify progress reporting requirements and acquittal procedures etc.

In most cases independently certified evidence of costs should be obtained before payment of the grant. This will also help to avoid paying grants before they are required. Other than for low value grants, visit the project and/or hold a progress meeting with the grant recipient before settlement of the final claim, to ensure that the grant has been spent as intended. It may also be helpful to examine a copy of the recipient's annual audited accounts.

Where payments are made in advance there should be a net benefit in doing so. The net benefit could be demonstrated by:

- Comparing the cost of administering payments in arrears to interest foregone;
- Efficiencies for the recipient in either reducing the time to complete the project or funds required (possibly linked to reducing the amount of funding as these benefits are realised); or
- Establishing that the funded activity would not proceed at all or in a timely fashion without payment in advance.

Budget targets should be monitored regularly to ensure that management is alerted to any potential problems with a particular project (including its ongoing viability). The cash flow information provided with applications can often be imprecise, particularly where voluntary community-based organisations or individuals are involved. There are potential risks that the project might be prematurely committed, overspend or, conversely be unable to spend the full grant in the prescribed period. In addition, monitoring of cash flows and progress payments against budgetary targets is important if public money that has been committed is not to remain unused for long periods.

Grant acquittals are an integral part of good risk management and provide a measure of assurance that public funds allocated to grant recipients have been spent for their intended purposes. Adequate and well-documented arrangements to ensure financial accountability are the basis of effective grant acquittal. Reliable, timely and adequate evidence is required to demonstrate that grant funds have been expended in accordance with the terms and conditions of the grant agreement. Administrative procedures to acquit grants on a regular basis are an important management control. The stringency of acquittal procedures should be balanced against the level of risk and take into account the cost of compliance. Risk management strategies will help achieve this balance.

Evidence could include:

- Certificate or statement of compliance from the responsible officer of the recipient organisation; and
- Financial statements covering the period of the grant, which grant administrators may require to be audited by a registered auditor, depending on the assessed risk.

Where acquittal is not possible, the decision to recover or write-off outstanding funds should be documented. If grant funds remain after completion of a project, efficient procedures to recover those excess funds should ensure that the opportunity cost of delays in returning funds are minimised. Where appropriate, approval to carry over surplus funds to the next financial year could also be an option.

In cases where the GST applies to grant payments, recipients should be required to account for the GST paid or payable to the ATO, by the grant recipient, (net of any input credits claimed or claimable) in any acquittal provided to the grant-giving organisation.

Public reporting of performance against outputs, administered items and Government outcomes is the primary means through which agencies and the Government discharge their accountability requirements to the Parliament and the public. In the absence of any separate, tailored performance reports, this accountability is usually achieved through disclosure in Portfolio Budget Statements and departmental annual reports.

Administration of Grants and Subsidies

The administration of grants and subsidies is a significant feature of public sector administration. Grants and subsidies require a sound risk management approach as this money is commonly provided to individuals and community organisations not directly accountable to the Government. In small to medium organisations, this funding can represent a significant proportion of their total expenditure.

Best practice as identified by the ANAO, includes:

Financial management:

- Establish clearly defined terms and conditions in the funding agreement;
- Progressively monitoring project actual expenditure against budgets, at the category/expenditure level;
- Well documented and implemented acquittal process (provide assurance that public funds have been spent in accordance with the intended purpose) and linking interim financial acquittals to milestone payments;
- Well documented debt recovery process (embedded in the program design);
- Establishing timely, consistent and transparent methods of follow-up of recipient provided information within organisations;
- Considering the documentation needs of all stakeholders; and
- Performing, reviewing and appropriately documenting reconciliations.

Risk management:

- Risk rating of providers;
- Risk register which summarised risks identified through the risk assessment process; and
- Mitigate individual risks at both an organizational and process level.

Control:

- Policies, procedures and templates are distributed to staff via the environment Intranet/network server and other electronic means such as e-mail, which provided a single reference source so that consistent and up to date information can be accessed;
- 'Master Document Status List' is maintained to record all current documents utilised (induction, formal and one-off training programs had been used effectively);
- Job description documentation is in place to identify tasks and responsibilities;
- Program areas are provided with ready access to specialist financial experience and knowledge to assist with the review of financial acquittals and reports;
- Grant Management Systems (GMS) are interfaced with the Financial Management Information System (FMIS);
- An integrated information system environment comprising of record keeping system, GMS, workflow system, performance reporting, and an FMIS;
- Standard templates are used for the assessment of milestone reports and acquittals;
- Guidelines and templates are provided to recipients to assist in the preparation of required information;
- Funding is withheld until such time as required milestones were met; and
- Interim acquittals are attached to milestones and hence payments (this ensured recipients were meeting the terms and conditions of their funding agreement prior to further payments being released.

Information and communication:

- Comprehensive communication plans and strategies in place;
- Well designed report formats; and

- Decision makers are provided with access to real-time financial data.

Monitoring and review:

- Monitoring strategy (e.g. financial and performance information and analytical framework);
- Clear definition of responsibilities;
- Risk based approach to managing workload;
- Monitoring arrangements are linked to the fraud control plan;
- Quality assurance reviews are undertaken and provide assurance to management in relation to the administration of grants; and
- Decentralised monitoring (i.e. at the 'coal face').by staff with appropriate skills and knowledge of the activities undertaken, standard processes, and with adequate administrative support to process routine monitoring data.