the Australia and New Zealand School of Government

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Institution-building at the Department of Climate Change: administrative leadership of a roller-coaster ride (B)

Feeding the cuckoo within: expansion, setbacks and crises

The climate change-related legislative package tabled in Parliament in May 2009 to establish the Carbon Pollution Reduction Scheme (CPRS) legislation also introduced a bill to establish the Australian Climate Change Regulation Authority (ACCRA) as the independent regulatory body to supervise and monitor the market that was about to be created by the emissions trading scheme. As the carbon trading market would eventually penetrate every nook and cranny of the Australian economy, the task of laying the groundwork for its smooth and fair operation was a very significant one. This became a new key challenge for Dr Martin Parkinson and his team at the Department of Climate Change.

Preparatory work had already begun at DCC. Deputy Secretary Geoff Leeper had been brought in early in 2009 from the Department of Families, Housing, Community Services and Indigenous Affairs to establish ACCRA and to become its interim chief executive. Drawing upon his leadership experience in service delivery and regulation, his job was to build ACCRA into an independent agency, with a distinct mission, identity and *modus operandi*.

This was a big task and to accomplish it within the existing DCC organisation was a challenge. The department that had not yet fully established itself was being asked to establish a newer and larger body that would soon become a stand-alone authority. As one DCC official summed it up: “We were a newborn child learning to walk, and yet we were pregnant.” Moreover, the foetus implied was not that of a regular baby but rather that of an alien giant – a cuckoo in a wren’s nest.

This case was written by Professor Paul ‘t Hart (Australian National University and Utrecht University, the Netherlands) and Professor John Wanna, (Australian National University.) It has been prepared as a basis for class discussion rather than to illustrate either effective or ineffective handling of a managerial situation. Disclaimer: All views represent those of the authors. DCCEE has assisted with preparation of the case study, but does not necessarily endorse the assessments contained herein.

ACCRA's mission was alien to DCC in the sense that its intended regulatory functions differed markedly from DCC's initial focus on policy development. Staffing ACCRA implied recruiting a completely different type of professionalism into the organisation, one that was not always well understood or respected by existing DCC staff. Also, ACCRA was likely to be larger than its parent policy department – with its projected staff numbers once fully operational running at least 250 FTEs compared to at most 225 in DCC. (These proportions are not unusual within existing portfolios where the size of service delivery or regulatory agencies often eclipses that of the policy department to which they technically belong. However, in the developmental context of a new policy department working its way through a range of teething problems, accommodating a "cuckoo within" of this size was a big ask).

Somewhat galling to the DCC pioneers was that ACCRA's birth, unlike DCC's, was properly planned and funded. It was given a six-month lead time to set itself up before it became operational. As a result, a "two-worlds" situation developed within the one agency. Staff in the under-funded and under-supported home department, facing relentless workloads, warily eyed the planning time enjoyed by their colleagues in the emerging, well-resourced and assiduously managed yet only partly operational regulator. Moreover, the neophyte regulators were being socialised to establish an independent regulatory identity, albeit one based on robust but good relations with their host.

The rapid growth and diversification of the corporate support needs of DCC–ACCRA put even further pressure on the still limited available resources, pushing them beyond the breaking point. There was still virtually no "support infrastructure" behind the DCC policy divisions. The ACCRA people began building their own internal corporate capacities on the assumption that they would require their own stand-alone services. But the extra volume of work created by the process of hiring new departmental staff, recording their transactions, running payroll and paying invoices for two parallel requirements proved problematic. What had long been a nuisance had now become intolerable, forcing Parkinson to reconsider his original vision for "a small, boutique policy department" that would work with minimal corporate "overhead" and buy in its needs from elsewhere. The department was becoming mid-sized and was doing a lot more than would a standard core policy agency. This required an in-house corporate services capacity on a bigger scale encompassing a wider range of systems and skill sets. In September 2009, he bit the bullet. Hitherto limited to a single branch, the corporate function was reorganised into a division (to be two divisions from March 2010). Twenty-one months after DCC's inception, its basic organisational processes were finally being put on a firm footing, although the new systems still faced funding shortfalls and a mountain of backlog. Their resilience was soon be tested severely by yet another massive restructuring.

The new ship sails into political headwinds

In the meantime, DCC's original "main game" (the emission trading scheme) was getting more protracted and politically complicated. The CPRS had run into political headwinds. Public opinion about it was lukewarm at best, not just among known climate change sceptics and business interests fearful of cost increases but also among groups who wanted action on climate change to be taken but were having doubts about the effectiveness of the proposed measures. Many did not comprehend the scheme or understand how it would work, fearing only an increase in the bills for utilities and a hit in the hip pocket. The need to maintain the transitional competitiveness by managing impacts on emission-intensive, trade exposed industries was criticised as providing exemptions for politically powerful industries. Prime

Minister Kevin Rudd and Climate Change Minister Penny Wong worked hard on achieving necessary parliamentary support, negotiating a range of amendments with the Opposition Coalition. However, there were worries that the battle for the public's "hearts and minds" was being lost as powerful forces worked to undermine the commitment to climate action.

Events came to a head during the final months of 2009. The Coalition was internally divided about the proposed legislation. For the first time, in August, the Opposition had used its numbers in the Senate (along with the Greens and independents), to vote down the CPRS legislation. Opposition leader Malcolm Turnbull and his chief CPRS negotiator Ian MacFarlane remained determined to reach an agreement with the government over the legislation, but support for their position among their colleagues was slipping. Some right-wing coalitionists were prepared to go public with their unease, and had allowed an ABC *Four Corners* team to shadow and interview them about their political concerns. These rebellious "climate change sceptics" represented the global warming issue as a conspiracy from the left which sought to "exploit people's fears", drive a "stake through the heart" of Australia, and merely deliver a "massive new tax" for the government at the cost of industry and families. They claimed the majority of scientists had got the science wrong and that only a few brave dissidents had managed to speak out. Senator Nick Minchin claimed that a majority of the Liberal Party did not accept that human beings were causing global warming.

A smaller and smaller number of Coalition politicians were prepared to support the government's policy. Tensions rose further when Turnbull put his leadership on the line over the emissions reduction scheme, saying he would not lead a party that would not support carbon reduction. In the context of consistently low polling scores, speculation over his leadership became rife. On 26 November, Tony Abbott, who had positioned himself as a vocal climate change sceptic, toppled Turnbull as leader in a party room spill by one vote; part of his mandate clearly was to get tough with the Government on climate change. The Opposition again chose to block the CPRS legislation in the Senate with help from the Greens (who did not consider the scheme adequate) and the independents Nick Xenophon and Steve Fielding. The CPRS legislation was defeated for the second time on 2 December 2009, just ahead of the global gathering in Copenhagen.

This came as a big blow to DCC, which had been working on the presumption that the CPRS would be adopted in some form or other. After the first vote against the CPRS Parkinson had retained a residual optimism that some sort of deal would be worked out, given the importance of the issue and the late-Howard era support within the Liberal Party for the idea of emissions trading. But, with the legislation rejected and the political momentum stalled, he was forced to engage in contingency planning. What was the department to do and prepare for if the legislation was stymied again? Would a double dissolution be called on the issue by the Prime Minister? Would the legislation lapse at the end of the first Parliament, and how long would it before some cogent action or scheme of some sort would be forthcoming? This was his new world.

Domestic impasse, global disappointment

The domestic political crisis over climate change policy was compounded by the disappointing outcome of the much-vaunted Copenhagen conference later that month. Optimists had anticipated the meeting would provide the world with a robust multilateral framework for binding action. But the onset of the unprecedented global economic downturn had severely complicated the picture. Throughout 2008-09 the crisis had brought to their knees some of the world's biggest financial institutions, and thrown large parts of the developed world into recession. Taking action on climate change to prevent future harm would impose short-term costs on businesses, consumers and governments. These were hardly auspicious times for government leaders to embrace and "sell" that idea domestically. It became clearer and clearer that the main players were at odds on this, and unlikely to move far enough from their positions to enable a global deal to be reached. China, India and the developing world had different positions from the developed world and the US Congress had effectively limited President Barack Obama's capacity to deliver on his commitments.

No agreement was concluded at Copenhagen despite frantic last-minute efforts, not least on the part of the Australian delegation, to bridge the divide between some of the key developed and developing nations. Instead individual nation states could register their non-binding pledges in the Copenhagen Accord, and agree to keep talking and informing others what progress they were making. Worn out and disappointed by the result, DCC's negotiating team had to come to terms with the new realities of a slower, more tenuous pace of progress. This was not easy, as one of them admitted: "We experienced a morale dip… Our adrenaline which had been flowing so freely and had sustained us through impossible task loads during 2009, dried up after Copenhagen." Quite a few people from the international division left shortly after Copenhagen, though the department was lucky enough to remain able to attract a steady flow of talented young staff.

By early 2010, the Department of Climate Change was licking its wounds. It had had to absorb two major setbacks in quick succession: domestically an impasse with the failure to pass the CPRS legislation and, internationally, the post-Copenhagen global sense of failure to pass. The former had implications for Deputy Secretary Geoff Leeper and his fast-growing ACCRA staff: should DCC allow its ongoing build-up to proceed as if the original intended time-line of becoming operational by 2010 would somehow be met? Or should the pace be slowed in order to await further political developments? Answering these questions one way or the other had significant financial and staffing implications, especially as ACCRA now exceeded the size of the former DCC. ACCRA entered a period of deep uncertainty and, inevitably, speculation about its future. Still, many assumed that the government would maintain its commitment to address what its leader had dubbed "the greatest moral challenge of our time", and find a way to secure a deal with the Opposition. A decision on ACCRA's future (and the department's response) was put on hold for a few more months.

Bombshells and trauma

Before the fate of ACCRA could play itself out, the department was hit by another bombshell in late February 2010. For several months now, the Rudd Government had been facing negative publicity and persistent Opposition attacks over the implementation of some of its key spending initiatives. These were part of the massive multi-billion dollar stimulus packages that it had announced as part of its recession-busting strategy. The overall strategy seemed to have been a success, with Australia being one of less than a handful of OECD nations avoiding recession. However some of its constituent stimulus programs ran into trouble. One that was particularly controversial was the Home Insulation Program (HIP), which offered virtually full government subsidies for the installation of roof insulation. In theory, the scheme would serve two worthwhile policy purposes simultaneously: it would secure trades jobs and at the same time reduce household energy consumption. The uptake of the program was massive: within the initial period of program implementation the number of insulation "retrofits" performed nationwide rose from between 60,000 and 65,000 annually before the scheme, to 1.2 million installations for the June 2009-February 2010 period. Administering such a program was a Herculean task, which had fallen to the Department of Environment, Water, Heritage and the Arts (DEWHA) through its Renewables and Energy Efficiency Division (REED).

As the scheme was being rolled out, reports of rorts, incompetence, safety violations and increased incidence of house fires kept popping up. The story grew and grew, and so did the level of embarrassment it caused the government. Over time the program was associated with four accidental deaths. The HIP program had become a case study of poor implementation and poor risk management – and the issue reached crisis point politically. DEWHA's minister, Peter Garrett, came under severe pressure, and so did the Prime Minister. To relieve this pressure, Rudd announced a Cabinet reshuffle on 26 February 2010. Garrett's portfolio was stripped of its remaining energy efficiency functions. As well as HIP these included another implementation problem-child, the Green Loans program.[1] The task of taking the oxygen out of the HIP controversy was given to Greg Combet, then Minister for Defence Personnel, Materiel and Science, and a rising star in the Labor Party ranks.

From DCC to DCCEE: a MOG move with massive consequences

Along with the reshuffle came a big surprise for the public service: another machinery of government change. All remaining household and community energy efficiency matters were to be moved from DEWHA to a new Department of Climate Change and Energy Efficiency (DCCEE). The consequences for DCC were massive. It was immediately moved out of the Prime Minister's portfolio to become the stand-alone DCCEE. As a result, the department would once again double in size: this time to around 1100 FTE, and again be divided across five separate locations. The department was handed yet another augmentation to its mission and another diversification of its activities. DCCEE now encompassed not only policy development, international engagement, and industry regulation but also classic large-scale program delivery. The new department would have to deal seriously with a range of high-stake, ongoing investigations into the causes, responsibilities and lessons of the Home Insulation and Green Loans program problems. No one, however, was fooled about the reality of the situation. As one senior executive reflected: "The government was dumping its mess on DCC in a quixotic vote of confidence in our ability to deliver."

Politically, only one thing mattered: could the damage be contained? Administratively, the department would have to consider whether the insulation programs could be resurrected or whether it was preferable to put in place assurance measures (safety audits, inspections) to reduce the risk of fires or further deaths in the industry. While not as sharp, deep problems in the Green Loans program also required rapid attention and correction.[2]

What the new machinery of government arrangements meant was that the old DCC, which had been on its own roller-coaster experience for over two years, was now inheriting another large contingent of staff. Many of the newcomers – those from the Renewables and Energy Efficiency Division – welcomed the move as a correction to the leaving behind in DEWHA of key energy efficiency functions when DCC was created. But for others this was not in the script – they were exhausted, demoralised and stressed, and now they had to move from DEWHA, whether they wanted to or not.

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[1] Also part of the Energy Efficient Homes Package, this was a scheme offering loans for households to assess and improve their energy efficiency.
[2] In June 2010 the program was renamed as Green Start.

Parkinson and his colleagues had to find a way to deal with a “thoroughly traumatised” group of people who felt they were “caught in a maelstrom” not of their making. Rightly or wrongly, many among them felt they were being victimised in a moral panic that had little basis in fact: four fatalities across over a million installation jobs was actually an improvement over existing industry averages (as a detailed report by a former departmental secretary Dr Allan Hawke recorded).[3] They also knew that in the political climate of the moment, pointing this out would be futile, even counterproductive. In the meantime, those staff associated with the insulation and Green Loans programs felt they were being punished; some felt they were facing a “hostile takeover” by a policy department with which they had little in common with thus far.

To assist the amalgamation and sort out the problems, a senior crisis manager (Martin Bowles) at the deputy secretary level was implanted into DCCEE from the Defence Department, handpicked by the secretary of the Department of Prime Minister and Cabinet, Terry Moran. With a deputy transferred from DEWHA (Malcolm Thompson) for the same reason, the crisis managers were to do whatever it took to fix the problems with HIP, Green Loans and other “demand-driven programs” in the energy efficiency domain. Parkinson saw his role as providing the two crisis managers with the resources and support they needed, but, with a risk management focus, focused more of his attention on the Green Loans program, reporting to Minister Wong, leaving Deputy Secretary Bowles to work more directly to Minister Combet.

On 22 April 2010, within one month of the DEWHA staff having been actually transferred, the Home Insulation Program was suspended. Five days later, on 27 April, the government dropped another bombshell on the department: placing the CPRS proposal in limbo until 2013. Not only was the CPRS declared dead for the remainder of the government’s term, not to be reconsidered before 2013, no other major alternative would be brought forward either at this point. With no immediate need for a regulator, this meant ACCRA was to be shelved.

As a result the executives with oversight for the regulator had to turn their skills and project management expertise to the task of a fast and orderly program closure. This could have magnified the frustration and turbulence felt by staff. Instead, calm leadership and a clear vision of what was required meant that 190 existing staff were redeployed, a closure report was prepared for each of the eight sub-programs of work, and a lessons learnt exercise was undertaken, all in an eight-week period. The rapid growth in the size of the department had meant that all the displaced ACCRA staff who wanted to continue in DCCEE could do so, luckily avoiding a messy close-down and widespread redundancies.

Despite this, things could hardly have gone worse for Parkinson and his colleagues. To them, like Nero, Rome was burning left, right and centre. The DCCEE executives nevertheless had to stop, reconsider and regroup. How was DCCEE to cope with the political turbulence in and around the cobbled-together portfolio? How could it cope with the damage to its original core mission, and the simultaneous expansion in its size and responsibilities? How could this collection of parts grow into a more coherent whole? What should this string of setbacks and challenges imply for their own priorities in leading the organisation? And how resilient were they themselves in the face of this roller-coaster ride?

[3] Hawke, A, ‘Review of the Administration of the Home Insulation Program’, 6 April 2010.