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

The first eighteen months: flying start or flying blind?

Departmental secretary Dr Martin Parkinson sat in his office and gave a sigh of relief. The newly-created Department of Climate Change (DCC) that he had been asked to lead following the November 2007 election of the Rudd Labor government, had reached a milestone. Today, 14 May 2009, the department's legislative centrepiece, the draft bill for a Carbon Pollution Reduction Scheme (CPRS) had been tabled in Parliament. It had taken eighteen months of frantic but exhilarating work. His small but fast-growing band of dedicated and talented staff had stepped up to the plate. They had worked impossible hours to meet the high and quickly evolving demands of the government as it prepared its bid for an historic public policy reform that would transform the Australian economy and its society. Now it was up to the politicians to do their part. Not that the department was lacking urgent challenges: it had already launched a range of initiatives and policy development processes covering domestic adaptation, emission reporting regimes, renewable energy targets, international financing and technical assistance to enhance preparedness in developing countries. It was now devoting much energy to preparation for the United Nations Climate Change summit in Copenhagen that was only six months away, and the establishment of a climate change regulatory agency.

However, for Parkinson the tabling of his watershed legislation meant that there was finally some time to reflect and take stock of where the department stood and where it needed to go. It had been quite a ride. Looking back, the golden opportunity offered when he was tapped on the shoulder immediately after the election to set up DCC and become its inaugural departmental secretary had delivered a tumultuous eighteen months, beyond anything he had

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.

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imagined. In terms of central agency policy experience, he had been eminently qualified for the job, having played a leading role in Prime Minister Howard's Task Group on Emissions Trading and the Climate Change Group in the Department of Prime Minister and Cabinet (PM&C). He had been a deputy at two central agencies (Treasury and PM&C) and was widely recognised as one of the sharpest economic minds in the Commonwealth public service. Yet with all that under his belt, he was still not quite prepared for the roller-coaster ride that setting up and running this new department was turning out to be.

In retrospect, the shape of things to come was revealed even in the first few months of the department's turbulent existence. Just days after his appointment, Parkinson was rushing to the UN climate change conference in Bali (held from 3-14 December 2007) accompanying the new Prime Minister Kevin Rudd, Climate Change Minister Senator Penny Wong, Environment Minister Peter Garrett and Treasurer Wayne Swan. As Parkinson was representing a department of which he was at the time the only staff member, he had to scramble to provide, and interpret, the diversity of policy advice they required as the negotiations over the Bali Action Plan unfolded. This was symbolic; keeping up with what turned out to be relentless demand from a new government keen to deliver in one of its key priorities remained one of the primary challenges for the fledgling department.

The issue of climate change, moreover, would prove to be politically highly combustible in Parliament, both between and within the major parties. It was further complicated by the tight coupling that developed between the content and timing of the Australian government's policy development and the rhythm of the international negotiations proceeding in parallel towards the UN Framework Convention on Climate Change in December 2009 in Copenhagen. The Rudd government had made it clear it wanted to get an Australian emission reductions target and some form of carbon trading scheme up (if not yet quite running) *before* Copenhagen. This would strengthen Australia's credibility and clout at the global negotiating table, where it was hoped an international agreement on emission reduction targets would be finalised. So over 2008 and 2009 the pressure was on for the department to deliver with great speed on a complex and contested set of agendas. At the same time Parkinson and his deputies had to build and consolidate an organisation composed of disparate groups it had inherited from agencies that had been leading various aspects of climate change policy under the Howard government.

Getting serious about climate change policy

The creation of DCC consolidated the momentum that climate change policy had started to gain in the last 24 months of the four-term Liberal government led by John Howard. For a long time, the Howard government had paid little attention to the issue, and had gained international notoriety by refusing to sign up to the Kyoto protocol which among other things set binding targets for 37 industrialised countries and the European community for reducing greenhouse gas emissions. Along with the US, Australia was one of the few Western states not to do so (between 1998 and 2005, when the protocol entered into force, 156 nations had signed on). In recent years, the domestic policy agendas had started to move. The Prime Minister had been lobbied from several sides, not least by the Secretary of his own department, Dr Peter Shergold, to start thinking about policy options for reducing Australia's carbon emissions which on a per capita basis were among the highest in the world. Also, a severe ongoing drought in Australia dramatised the idea of climate change among sections of public opinion, and raised the relevance of thinking seriously about adaptation in a range of areas. Long known as a climate change sceptic himself, Howard overcame the misgivings

within his own party and its rural-based coalition partner, the National Party, and established a prime ministerial task group to examine the options for reducing Australia's greenhouse gas emissions. The Task Group on Emissions Trading, headed by Shergold and with heavy representation from leading industry executives, surprised many sceptics by recommending (in July 2007) a fairly elaborate emissions trading scheme to deliver a price on carbon and that the Government should move to implement this in advance of a global agreement.

Still, Howard's record of protracted inaction on climate change made him vulnerable to Opposition charges of not being "serious" about the issue. Kevin Rudd, as the new Opposition leader and challenger at the 2007 election, sensed the public mood was shifting, describing climate change in campaign speeches as "the greatest moral challenge of our time." He upped the ante by announcing that a Rudd government would sign Kyoto, take decisive unilateral action on emissions reduction, and would support (yet to be finalised) targets and measures in a post-Kyoto UN treaty.

At the time there did not appear to be much appreciation across the public service of how this new climate change policy would play out, or where policy and administrative responsibility would lie. Labor's campaign promise was to create a dedicated Office of Climate Change within the Department of Prime Minister and Cabinet. Once elected, the Prime Minister changed his mind. To the surprise of many, an entire department was announced in the new Rudd ministry, initially within the PM's portfolio, but with all the depth, breadth, mandate and reporting lines of a department of state.

Perhaps the genuine surprise was due to the fact that out-of-the-blue creation of a fully-fledged, entirely new government department happened only rarely (though the Department of Human Services had also been created from scratch in 2004). Typically, machinery of government (MOG) changes involved transferring existing policy responsibilities and related staff between departments. The Australian Public Service Commission maintained a "good practice guide" for implementing MOG changes, but this presumed that established units were being moved between existing wholes, not the creation of altogether new entities. There was little corporate memory about what it might take to build a new department from scratch. Parkinson and his band of pioneers had, in many ways, to invent the script as they were going along.

Setting up shop: the start-up challenges

The new department had a lot going for it. It had a high-priority mission; a location within the powerful portfolio of a grimly determined PM; a highly competent portfolio minister; due to the Shergold Report, a well-researched policy roadmap on mitigation (though not as clear on science, adaptation or international); and a clear if highly ambitious mitigation time-table to work towards. It was to be engaged in "über policy". All this enabled Parkinson to attract some of the best and brightest in the Australian Public Service: young, idealistic, hard-working public servants who wanted to be where the most exciting policy design and international negotiation challenges of the coming years were going to be. One of Parkinson's first recruits was Deputy Secretary Blair Comley, another sharp Treasury economist. Together, they would be the chief designers of what would later become known as the Carbon Pollution Reduction Scheme (CPRS). Their skills as policy economists were complemented by the deep subject matter knowledge and extensive international experience of the other Deputy Secretary, Howard Bamsey, the former ambassador for the environment. A Foreign Affairs veteran, Bamsey had more recently headed up the Australian Greenhouse

Office (AGO). In 2006-7, he had intensive involvement with international climate change negotiations in the lead up to the Bali Action Plan. So, momentum was building, high quality people were joining the department. Now a core departmental structure had to be identified.

This was relatively straightforward. DCC would be a policy-focused department. One division would concentrate on design of the CPRS. Another would deal with cross-government policy coordination and all other issues to do with mitigation - preventing the occurrence of dangerous levels of climate change through reducing the emission of greenhouse gases. A third division would focus on adaptation and science, ensuring that Australian policy would be informed by reliable and cutting-edge scientific information, and facilitating societal resilience in the face of already apparent and likely future manifestations of climate change. A fourth division was to focus on the international arena, and prepare Australia's bilateral and multilateral engagement with a whole suite of climate change-related initiatives. There was no corporate division, just a branch reporting directly to the Secretary.

Birth pains: from task force to department

But there were organisational problems from the moment of birth. An immediate one was that the new department was not, of course, entirely built upon an institutional green field. Its initial core group consisted of staff imported from other parts of the public service with prior involvement in the absorbed activities. In particular the mitigation policy heart of the new department consisted of the task force and implementation team run out of the Department of Prime Minister and Cabinet in the late Howard era, and from which Secretary Parkinson had been drafted. Added to this was the AGO, established in 1998 to coordinate national and international policy responses to reducing greenhouse gas emissions. The AGO was an executive agency initially reporting to a ministerial council, then attached to the Department of the Environment and Heritage, and later responsible to the Environment Minister and the Minister for Industry, Tourism and Resources (later Resources, Energy and Tourism).¹ A significant portion of the AGO staff joined DCC in early 2008 with new Deputy Secretary Howard Bamsey. They brought with them program, policy and international expertise, and backgrounds in forestry, environmental science, industry and energy issues. In addition eight international climate change negotiators came from the Department of Foreign Affairs and Trade (DFAT), while a few economists from Treasury, previously working with Parkinson in PM&C, also came across.

By gaining staff from these various agencies, DCC also imported distinct professional cultures and sets of beliefs and practices regarding climate change policy. These views did not always align in the new organisation. Particularly, many former AGO staff regretted the loss of their organisation's identity and its strong commitment to doing what was best for the environment. At DCC they found themselves into the same boat with – even led by – economic rationalists who were perceived as far more willing to make trade-offs between environmental and business interests. A significant proportion of the AGO people who moved over went back to their old department (which had morphed into the Department of Environment, Water, Heritage and the Arts in the late 2007 MOG change) within the first year. Likewise, former AGO international policy officials were now having to cooperate within DCC's international division with seconded DFAT staff. They had worked together

¹ Already a government report had noted that 'throughout the history of the AGO, the differing accountability models that it has been subject to have impacted differently on the effectiveness of the policy development and program delivery' (see Management Advisory Committee, *Connecting Government*, MAC Report 4, 204:145).

well in their previous agencies, but throwing them together in one organisation unearthed some serious professional rivalries.

It did not help that over the first four months of its existence, the newly amalgamated DCC staff segments all continued to reside within their former agencies' offices whilst the DCC executive was groping for adequate office space in a very tight Canberra real estate market. Physical separation made it difficult to encourage the constituent groups to gel into a coherent whole. Even arranging meetings of the entire Senior Executive Service cohort was a tortuous task. There was talk of different "tribes" inhabiting the department, each with its own value-system, language, ancestral home and ways of working. While there was an underlying mutual respect for the different perspectives, some also saw it as attempting to mix "oil and water". The spatial arrangements improved in March 2008, when the number of departmental locations was reduced to two. However, underlying cultural and policy differences among segments of staff persisted, and would surface every now and again on a range of issues including non-policy matters. One example was the choice and operation of DCC's performance management system (where a task-oriented ex-DEWHA approach contrasted with a behaviours-oriented ex-Treasury/PM&C approach).

Keep corporate small, and contract it out

A second problem, quickly turning into a running sore for the department's Executive Board, was that although DCC was explicitly set up within the PM&C portfolio, its "mother department" was unable to help in getting the new department up and running. PM&C, itself a relatively small agency, was going through a leadership change with the announcement of Peter Shergold's departure in February 2008, when he was succeeded by the head of the Victorian Premier's department, Terry Moran. Moreover, like DCC it was confronted from day one of the Rudd government's tenure with the punishing pace and erratic demands of the prime minister, who among the media quickly gained the half-admiring, half-cynical nickname of "Kevin 24/7". Struggling to adjust, PM&C believed it had neither the resources nor the capacity available to assist DCC by providing transitional continuity with regard to even its most elementary infrastructural needs, such as office space and IT support, payroll systems and other HR systems. "We were simply cut off and left to fend for ourselves by PM&C," said one DCC pioneer. "We were literally thrown out within the space of three weeks," recalled another. Moreover some senior PM&C staff did not accept that DCC was to become a "central policy agency" for climate change. They felt that the new department instead should have been attached to a relevant line department such as DEWHA.

More broadly, "losing agencies" (in the oddly revealing official jargon of MOG) lack incentives to help set up a new department that was likely to be encroaching upon bits of their own traditional "turf". DCC's need for assistance was not associated with policy work but with corporate and operational matters (paying staff, booking air tickets, IT systems, managing correspondence, FOI requests etc), but the new department was unable to gain the injection of equity required to enable it to establish its own core capabilities. The DCC executive had bigger policy concerns, and corporate services did not seem such a big issue to them. The philosophy was: keep corporate small and contract it out. This made all the sense in the world for a small department which might only last for two or three parliaments, and whose remit would eventually revert to other departments once the major legislative work had been done, treaties concluded, and regulatory bodies set up.

It seemed an ideal solution when the secretary of DEWHA, David Borthwick, offered the just-launched DCC the use of his department's corporate systems on a cost recovery basis. DCC would act as a purchaser, and DEWHA as a provider. The head of DCC's corporate affairs branch, Robert Twomey, breathed a sigh of relief: the continuity of elementary business functions now appeared guaranteed. But it was not to be. In the weeks and months following the DEWHA offer, negotiations about the deal between DCC and DEWHA turned more and more difficult. Given DEWHA's own challenges, providing corporate services to DCC was no longer a priority. Also, ongoing negotiations about the size of the base funding that was to flow from DEWHA to DCC complicated the picture. As a result, DEWHA's service provision to DCC was diminished. In late March 2008 Parkinson was notified that as of 1 July 2008 the delivery of services would have to be terminated. This then triggered a patchwork of improvisation to get by with alternative arrangements, with a fair number of surprises and disappointments along the way. Or, as one senior official put it more bluntly: "On the corporate side it was a complete disaster. Nobody seemed to know anything." Another added: "The merger headache became the corporate headache." A more benign view expressed by one executive was that "we were not funded appropriately at the outset", we "prioritised policy and effectively 'parked' our corporate responsibilities".

Further problems were created by blurred lines of accountability. DCC was initially created in the Prime Minister's portfolio, but had its own senior minister, Senator Penny Wong. It had evolved from a task force briefing the PM to a position where it had effectively two interested ministers. Moreover, Kevin Rudd had a deep personal commitment to addressing climate change issues, and generally it appeared to be one of the government's top priorities. For a while the DCC briefed both the Prime Minister (and the PMO, his private office) and its own Minister, Wong. Given the importance attributed to global warming internationally, DCC senior staff often travelled with Rudd on international visits, briefing him as he went. They also briefed the PM for meetings in Australia where overseas representatives might raise climate change issues.

This dual line of accountability led to associated challenges. Did DCC's briefs constitute the briefs of PM&C? Should DCC routinely brief the PM and PM&C on climate change issues or simply when asked? Should DCC and PM&C "agree" all briefing positions and what if they could not? What if the two ministers differed over points of policy or emphasis? Should DCC have open access to potential proposals going to cabinet (as PM&C had) to comment upon or consider climate impacts? Ultimately, these issues went to key questions about the place and identity of the department.

Despite these teething issues, Parkinson was hopeful that something great could be created. His vision for DCC was that of a "boutique policy department" – small and high quality – which would effectively become a central agency in all matters touching on climate change. The department would gain authority and credibility through the quality of its ideas and its policy work. It would drive a revolution in Australia's economy and society through the smart use of regulatory incentives. It would enhance its stature by gaining the support and trust of the key political principals. And it would be a policy incubator across government. DCC should become a high-performing, agile, mission-driven, easy-to-manage place, much like Treasury, where Parkinson had spent most of his working life. DCC, like Treasury, would perform a gatekeeper role across government, or so its senior executives thought.

With a projected maximum size of about 225, the department was never going to become a behemoth. Appropriate leadership from a strongly collegial Senior Executive Service cadre

should be able to provide coherence around the mission. The department would leverage its status as the “hot” place to be in the public service, by drawing in top-level, highly-motivated graduates and challenging them with delivering the most fundamental economic reform of the era – and helping to avoid a global catastrophe in the process. It was seductive work. Educational courses on climate change and introductory economics were to be taught widely to socialise new recruits; regular seminars conveyed the science and regulatory debates.

Early achievements

The department became very productive very soon, not because it was all geared up and ready to do so, but because it had to be. Political imperatives to produce were overwhelming and relentless. Just a glance at the timetable of landmark events of the first eighteen months shows this. The government signed the Kyoto Protocol in December 2007, agreeing to emission targets for 2008-2012. At the Bali UN Climate Change meeting, agreements were reached on the necessity to reduce deforestation and to exchange know-how on clean energy technologies. But the world’s main carbon-emitting nations, such as the US, China, India, Russia, Japan and Canada, showed little appetite for setting new enforceable reduction targets. The only agreement at Bali was to discuss targets over the next two years before reporting progress at Copenhagen.

The government issued the Green Paper on the options for a Carbon Pollution Reduction Scheme in July 2008, and a White Paper in December 2008. An exposure draft of the proposed legislation was circulated for industry comment, and the bills introduced into the federal Parliament in May 2009. In parallel, widespread consultation with industry and state governments on how to meet the renewable energy target took place in 2008, with a discussion paper released in July 2008, and leading to the announcement in 2009 of policy on how to reach the 20 percent target by 2020. The Council of Australian Governments (COAG) had already introduced legislation necessary for greenhouse gas and energy reporting.

Also during 2008, the government awaited the economic analysis and recommendations from its own review into climate change impacts and policy responses headed by Professor Ross Garnaut. DCC provided important liaison work for this, and furthermore established the Climate Change Action Fund (\$2.75 billion) framework in 2009 to assist industry in its transition to a low-pollution economy. In the lead-up to the Copenhagen summit the department also focused on driving bilateral agreements with regional partners designed to limit deforestation, COAG-based discussions about adaptation strategies, and promoting the understanding of science agendas regarding future impacts and the mitigation of climate change.

All of this policy work required massive effort, not the least because much of it was designed from scratch and involved extensive interdepartmental, intergovernmental and stakeholder engagement. Martin Parkinson’s small, yet rapidly growing staff rose to the challenge. Many individuals worked far beyond the call of duty. The department performed well in policy delivery, both in terms of speed and quality. But it did so in spite of its own internal institutional impediments, lack of consistent processes and particularly its poor corporate support systems. Constant improvisation combined with individual heroism and team-level solidarity saw DCC through those pioneering months.

Flying blind

However, there were disturbing signs that DCC was evolving in an unsustainable fashion. First and foremost, there was ongoing uncertainty about its funding. The fledgling department was desperate for an equity injection from the government, but it never really got what it felt it needed to set up its corporate architecture properly. It could not meet even the most basic Australian National Audit Office (ANAO) compliance requirements, let alone provide its management with appropriate strategic information systems. The Department of Finance and Deregulation remained unyielding on the sticky point of granting DCC an appropriate base level of funding on top of the program funds that had been “moved in” from the “losing agencies”. Although staff from PM&C, DFAT and the AGO had been signed over, they came with no start-up corporate budget. It would take a full two years of increasingly contentious interdepartmental negotiation to arrive at a final funding agreement for DCC, which was forced to report a \$5 million deficit after its first full year of operation.²

Secondly, the gradual development of corporate support systems was not keeping pace with the exponential growth of the department (and the planned build-up of the future emissions trading regulator) and its operating needs. This caused much frustration, uncertainty and delay. During much of 2008 the executive was “flying blind” in managing the organisation due to lack of fungible information systems about expenditure and performance. Negotiations about a collective agreement took longer than initially planned, leaving many staff uncertain about essential career and remuneration parameters. Some weeks saw serious payroll problems that required even more effort by an under-resourced corporate area. No-one knew the extent of entitlements such as annual or long-service leave. And the building in which the department was housed was plagued by poor heating, cooling and ageing lifts (although it did have indoor waterfalls after rain!).

Thirdly, as both DCC’s policy responsibilities and its staff grew rapidly, very little time was available to socialise the newcomers into a consolidated departmental culture. At the same time, some of the “tribal” fault lines inherited at birth were not going to go away of their own accord. They complicated internal communication and coordination, and hit morale. Parkinson and Comley’s insistence upon instilling in DCC staff an analytical rigour of the economic kind they felt was key to DCC acquiring the authority around town needed to play its role as a “central agency” did not sit well with some of the former Australian Greenhouse Office contingent. The greenhouse people felt they were being subjected to a “Treasury take-over” instead of enjoying the respect for their own traditions that they associated with a genuine interdisciplinary merger. The tension manifested itself among other things in philosophical disagreements about which policy choices were most apt to achieve the emissions reduction goals. Key stakeholder groups also influenced the context in which the department was trying to find its philosophical modus operandi. Environmental non-Government organisations (NGOs) insisted on a “fair share logic” which would spread the pain of compliance, whereas Parkinson and the Treasury people were interested in the “least cost pathway logic”, focused on long-term transformation of the Australian economy. Engaging stakeholders sometimes saw arguments about (morally) “right” policy pitted against assessments of what was (analytically) “correct”. At the same time, within DCC, there also developed a chasm between – as one official put it – the “glamorous” parts of the portfolio (mitigation, international engagement) and the “unseen” parts (greenhouse reporting, adaptation, science).

² DCC Annual Report 2008-09:1.

Such disagreements about the mission and modus operandi of the department came to the surface during the early Senior Executive Service planning days, and also affected progress on developing a mission statement, corporate planning processes and the design of a collective agreement (see below for mission statement). As one of the senior executives reflected: “We never became *one* organisation in a cultural sense. Cultural identities are hard to change, and any super-ordinate identity takes a long time to emerge. This is not to lament such differences. You must live with them in a conscious and mindful way, instead of suppressing their existence. We’ve got tribes, now let’s ensure there is mutual respect between them.” The issue of internal heterogeneity was unresolved, yet eclipsed by the day-to-day pressures to deliver on the “main game”.

DCC’s mission (2009):

To support the government by leading and coordinating the cost-effective mitigation of climate change, adaptation to its impacts, and the shaping of global solutions through

- * advice to the government that is of the highest quality, integrated, objective and well informed
- * effective delivery of programs and services to Australia.

(Source: DCC Annual Report, 2008-9)

By May 2009, with DCC’s much-prized Carbon Pollution Reduction Scheme legislation embarking on its journey through Parliament, and the Copenhagen conference still seven months away, it was high time for the Executive Board to take stock and look ahead. Parkinson and his colleagues had to reassess their challenges and priorities in bedding down the department and driving its portfolio agendas in and beyond the remainder of the present government’s term. How could DCC be moved from the “giant task force” that it had been to becoming a real department?