

House of Representatives Standing Committee on  
Environment, Recreation and the Arts

**GREENHOUSE RESPONSE—  
EFFECTIVENESS OF THE IMPLEMENTATION  
OF AN INTERIM PROGRAM**

A review of Audit Report No. 32 1992–93—an efficiency audit of the  
Implementation of an Interim Greenhouse Response

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## ABBREVIATIONS

ABARE	Australian Bureau of Agricultural and Resource Economics
ANAO	Australian National Audit Office
CFCs	chlorofluorocarbons
DEST	Department of the Environment, Sport and Territories
DPIE	Department of Primary Industries and Energy
ERDC	Energy Research and Development Corporation
MEMP	National Energy Management Program
NGRS	National Greenhouse Response Strategy





## SUMMARY AND RECOMMENDATIONS

The National Energy Management Program (NEMP) is one of the approaches the Commonwealth Government is taking to achieve its targeted reduction in greenhouse gas emissions. The diverse range of activities which make up the program are likely, at best, to bring about a reduction in carbon dioxide emissions equivalent to only ten per cent of the required target. Although the program consists entirely of 'no-regrets' measures, it is central to the National Greenhouse Response Strategy. It needs to be pursued with as much vigour and commitment as the Department of Primary Industries and Energy can muster.

The administration of the program has been reviewed by the Australian National Audit Office (ANAO) and its effectiveness has been assessed by independent consultants who undertook an evaluation of the program at the Department's request in 1993. Both assessments found that there were serious shortcomings in the program and its administration. In particular it was found that the Department had failed to respond with the level of urgency suggested in the Government's announcement of the program. This led to considerable and unacceptable delays and most elements of the program that were eventually developed were found to be less than fully effective. The Department has taken steps to remedy the situation but the program remains grossly under-resourced compared to the magnitude of the problem and the potential economic and environmental benefits that could be achieved.

The NEMP should be significantly expanded and there is a need for the Government to commit more resources to it. However, to establish a more effective program the Department first needs to implement the recommendations of the auditors and the consultants.

The Committee has made several recommendations which reinforce the findings of the auditors and the consultants and which, if implemented along with their recommendations, will provide the basis for the expansion of the program. Resources need to be committed which allow the program to expand to a level that will do more towards attaining the Government's greenhouse gas emissions reduction target. The Committee recommends that:

- (1) the Commonwealth Government make a genuine commitment to the National Energy Management Program and demonstrate its commitment by;
  - providing substantially increased financial and personnel support for the program; and
  - ensuring that the scale of financial and personnel support is commensurate with the objectives of the program and the Government's greenhouse gas emission reduction targets. (*Paragraph 2.23*)

- (2) the Government's commitment to the success of the National Energy Management Program be matched by the Executive of the Department of Primary Industries and Energy taking an active leadership role in promoting the program and ensuring that sufficient staff are made available. *(Paragraph 2.24)*
- (3) as part of its restructuring of the National Energy Management Program, the Department of Primary Industries and Energy closely examines and scrutinises the program activities currently operating and reduces the number of activities to a level consistent with effective operations and managerial resources. The Department should identify, for continuation, those activities that are the most useful in achieving the objectives of the program. *(Paragraph 3.33)*
- (4) as part of the restructuring of the National Energy Management Program, the Department of Primary Industries and Energy should develop and initiate *new* program activities that will be more effective in achieving targeted reductions in greenhouse gas emissions. *(Paragraph 3.34)*
- (5) to facilitate public input to the National Energy Management Program and to generate greater public awareness and interest, a comprehensive report on all programs relating to greenhouse gas emissions be presented to the Parliament annually, shortly after the budget is presented. *(Paragraph 3.55)*
- (6) before the end of 1996, the Australian National Audit Office completes a follow-up efficiency audit on the continuing implementation and administration of the National Energy Management Program. *(Paragraph 4.7)*

## **CHAPTER 1: INTRODUCTION**

### **The enhanced greenhouse effect and climate change**

**1.1** The greenhouse effect is a natural phenomenon in which some of the solar energy reflected from the earth's surface is absorbed by the atmosphere rather than being lost back into space. This phenomenon plays a crucial role in maintaining the temperature of the earth's surface within the range that can support life. The average temperature does not remain constant but varies very slowly - scientific evidence suggests that during the last two million years the earth's surface temperatures have varied by 5 - 7 degrees centigrade.

**1.2** The greenhouse effect is created by the presence of certain gases in the atmosphere. The concentration of these gases has been increasing since pre-industrial times after remaining at relatively constant levels for a long period. This rise is thought to be due to the burning of fossil fuels, deforestation and greatly increased levels of agricultural activity. The increasing concentration of the natural greenhouse gases has been augmented by the addition, in increasing amounts, of certain man-made gases, such as chlorofluorocarbons (CFCs), which are also known to contribute to the greenhouse effect.

**1.3** There is growing concern that the increase of greenhouse gases is enhancing the natural greenhouse effect. There has been a warming of the earth's surface of a magnitude consistent with the increase in concentration of greenhouse gases but it remains to be established that the warming can be attributed to the enhanced greenhouse effect. However, it is clear that if this change in temperature continues to grow in magnitude it could have serious implications for the earth's climate.

**1.4** The principal greenhouse gases are carbon dioxide, methane, nitrous oxide and the CFCs. In response to increasing public and scientific concern about the prospect of climate change, the world community has moved to reduce the production and release of these gases. A Framework Convention on Climate Change was opened for signature at the United Nations Conference on Environment and Development at Rio de Janeiro in June 1992. It came into force, having been ratified by fifty countries (including Australia), on 21 March 1994.

### **Australia's interim response to the enhanced greenhouse effect**

**1.5** Despite its relatively small population Australia makes a significant contribution to net global greenhouse gas emissions. It ranks fifteenth on the world list of contributors and has the third highest source of emissions on a per capita basis. It has

been estimated that by the year 2005, over two-thirds of Australian major greenhouse gas emissions will be due to the supply and use of energy. The two largest users of energy in Australia are the transport and manufacturing sectors, which each account for just over one third of energy use.

1.6 In signing and then ratifying the Convention on Climate Change, Australia, together with the 153 other signatory countries, indicated its willingness to take action to mitigate the enhanced greenhouse effect. In keeping with the objectives of the Convention, Australia undertook to develop and implement effective responses to meet the challenge of global climate change.

1.7 In October 1990, the Commonwealth adopted an interim planning target for the reduction of greenhouse gases, other than CFCs, the use of which is controlled by the Montreal Protocol on Substances that Deplete the Ozone Layer. The target was to stabilise the emission of these gases at 1988 levels by the year 2000, and then to reduce them by 20 per cent in the following five years. This target was endorsed by all Australian governments.

1.8 At the same time, the need for a nationally coordinated approach to climate change was recognised by the Commonwealth Government, State and Territory Governments and local government. With the interim planning target as its main guide, Australian governments agreed to develop jointly a National Greenhouse Response Strategy (NGRS).

1.9 As an interim measure pending the development of the strategy, the Commonwealth Government announced, on 23 October 1990, a range of measures to reduce greenhouse gas emissions. These were intended to be implemented immediately and were to be based on available technology and techniques known to reduce energy demand. The package of measures aimed to reduce the amount of energy related carbon dioxide released into the air in Australia by about 4 per cent of projected levels. It was also anticipated that national savings on energy of \$1.5 billion annually by 2005 would result.

1.10 The initiatives were subject to the Commonwealth Government's caveat that Australia would not proceed with the adoption of response measures which would have net adverse economic impacts nationally or which would affect Australia's trade competitiveness, particularly in the absence of similar action by other major greenhouse gas producing countries. Therefore, measures of a 'no regrets'<sup>1</sup> nature were to be chosen for immediate implementation.

1.11 The Department of Primary Industries and Energy (DPIE) was given responsibility for implementing the package of measures. During the 1970s and early 1980s, the Department had been involved in improving energy efficiency and conservation of Australia's oil supplies. Programs had been initiated in response to energy security

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<sup>1</sup> 'No-regrets' measures are defined in the National Greenhouse Strategy as measures that have net benefits (or at least no net costs) in addition to addressing the enhanced greenhouse effects.

concerns raised by the 1970s oil shock. The focus of these programs was essentially resource security with particular emphasis on oil. However, by the mid 1980s, oil programs had declined in significance.

1.12 Following the 23 October 1990 announcement, DPIE received a special appropriation to accompany the implementation of the range of interim measures, together with a commitment for a further two years funding. The Department expanded the existing energy management program to which it added a number of technology transfer services. In mid 1993, the energy management program was renamed as the National Energy Management Program (NEMP).

### **The National Greenhouse Response Strategy**

1.13 The National Greenhouse Response Strategy is the vehicle through which Australia is to meet its international obligations under the United Nations Framework Convention on Climate Change. The goal of the NGRS is:

to contribute towards effective global action to limit greenhouse gas emissions and enhance greenhouse gas sinks; to improve knowledge and understanding of the enhanced greenhouse effect; and to prepare for potential impacts of climate change in Australia.

1.14 The NGRS was endorsed by the Commonwealth, the States and Territories and the Australian Local Government Association in December 1992. It incorporates detailed measures to reduce greenhouse gas emissions to the levels proposed by the interim planning target and it identifies five areas for priority action. These include:

- . the preparation of a National Greenhouse Gas Inventory to facilitate monitoring and evaluation of the progress of the strategy;
- . community involvement;
- . the establishment of a National Greenhouse Advisory Panel;
- . measures to address greenhouse gas emissions in the production and use of energy; and
- . research and development.

1.15 A phased approach has been taken for the implementation of the strategy. During the first phase, which is currently under way, particular attention is being given to energy production, distribution and use. Measures to address greenhouse gas emissions in the production and use of energy, including the transport sector, will initially emphasise:

- . an integrated least cost approach to energy planning;
- . energy pricing adjustments which better reflect economic, social and environmental costs;
- . promoting greater use of co-generation schemes;

- . minimum energy performance standards for appliances and equipment;
- . fuel efficiency improvement in new motor vehicles;
- . provision of information for energy users; and
- . research and development in relation to energy efficiency, energy demand reduction, renewable energy systems and reduction of adverse environmental impacts.

**1.16** The interim measures announced by the Commonwealth Government in October 1990 were incorporated into the first phase of the NGRS. Response measures in future phases will be developed to take account of improvements in knowledge, performance and outcomes of the first phase measured against the goals and objectives of the strategy.

#### **The efficiency audit of the administration of the interim target**

**1.17** On 29 May 1992, the Australian National Audit Office (ANAO) announced its intention to undertake an efficiency audit of DPIE's energy management program. The audit was to consider the potential for improvement in the administration of the program and in the reporting of program performance. The auditors focussed on the administration of the interim greenhouse gas response initiatives with a view to contributing to efficiencies in the implementation of the NGRS.

**1.18** On 26 May 1993, the Auditor-General tabled Audit Report No.32 of 1992-93 - Efficiency Audit on the *Implementation of an Interim Greenhouse Response*. The audit had found that DPIE had not taken sufficient action to implement the package of initiatives, announced in October 1990, despite the sense of urgent priority intended by the Government.

**1.19** The audit also found that:

- . by the end of 1992, the complete framework for making energy savings in the Government's own operation was still being put into place;
- . the significant use of energy in manufacturing had been relatively neglected and there was scope to expand greatly the understanding of energy efficiency in other sectors, and
- . studies with the States on the energy use of appliances and buildings needed to be advanced to nationally consistent actions.

**1.20** The auditors recommended that the Department could improve efficiency in running the program by:

- . setting clearer priorities for its many activities;
- . making better use of its staff;

- . scheduling and planning more efficiently;
- . upgrading marketing techniques, and
- . reporting progress realistically against program objectives.

**1.21** The auditors added that DPIE had the potential to achieve energy savings in Australia by furthering its intermediary role. This role could involve:

- . enlisting the assistance of other relevant government agencies;
- . further strengthening cooperative action with its State counterparts;
- . encouraging a national influence by energy providers; and
- . working more closely with key national associations.

**1.22** The Australian National Audit Office made a series of recommendations (nineteen in total) which were designed to contribute more effectively to the longer term implementation of the National Greenhouse Response Strategy. The ANAO commented that DPIE had responded positively to almost all of the recommendations made for improving future administrative effectiveness, expressing disagreement with only two recommendations.

#### **The Committee's review of the audit report**

**1.23** After it was tabled in the House of Representatives the audit report was referred to the House of Representatives Standing Committee on Environment, Recreation and the Arts to review the Department's implementation of the report's recommendations. The Committee called for and received submissions from the Australian National Audit Office, the Department of Primary Industries and Energy and the Department of Environment, Sport and Territories (DEST). A public hearing was held in Canberra on 30 August 1993, at which representatives from ANAO and DPIE gave evidence to the Committee.

**1.24** In its evidence, DPIE reported that it had taken remedial action on a number of the ANAO recommendations; however, it had delayed complete implementation pending the results of a forthcoming independent consultants' report on the evaluation of the appropriateness and effectiveness of the National Energy Management Program. It was intended that the auditors' recommendations would be implemented in the context of the consultants' findings and recommendations.

**1.25** The Committee decided to defer any further inquiry or comment until the consultants' report was released. The consultants presented their report to DPIE in November 1993, and copies were made available to the Committee in February 1994.

1.26 The Department was invited to give evidence to the Committee at a second public hearing on 24 March 1994. The Committee addressed the findings and recommendations made in the evaluation report by the consultants. It also examined the Department's progress in reviewing the administration of the program and in implementing the recommendations made by the auditors and the consultants.

### **The consultants' report**

1.27 The consultants' evaluation, begun in February 1993 during the conduct of the ANAO audit, was carried out by George Wilkenfeld and Associates and Economic and Energy Analysis. The consultants were required to address the extent to which the main elements of the energy management program were able to contribute to the overall objective of the program, namely to improve the contribution that the energy sector makes to the well-being of Australians through the more efficient and environmentally benign use of energy in the building, industry, transport and household sectors.

1.28 The consultants found that there were approximately fifty sub-programs in the National Energy Management Program. From a detailed evaluation of the 24 major sub-programs, which together accounted for about three-quarters of all of the resources allocated to the program, the consultants concluded that:

- the overall effectiveness of two of the sub-programs evaluated was relatively high (the Enterprise Energy Audit Program and the appliance labelling and standards);
- the overall effectiveness of nine of the sub-programs evaluated was moderate;
- the overall effectiveness of six of the sub-programs evaluated was relatively low; and
- the overall effectiveness of four of the sub-programs evaluated could not be assessed, since they were still at an early developmental stage.

1.29 The report also concluded that:

- none of the existing energy management sub-programs could be considered inappropriate, though the degree of relevance to the central objectives of the program varied.

1.30 The consultants found that there was a large number of sub-programs which differed greatly in nature, scope, operation, funding, time scale and the segments of the energy market which they targeted. This made it impossible for the consultants to establish overall measures of impact, effectiveness or efficiency for the energy management program as a whole, except through evaluation of its elements.

1.31 In relation to the environmental impact of the program the consultants found that reductions in carbon dioxide emissions could be achieved if both the current real funding and activities within the scope of the energy management program continued. However, the reduction in carbon dioxide emissions would be about one tenth of that necessary to



meet the interim greenhouse gas reduction targets adopted by the Government in October 1990. In making these observations the consultants recognised that bringing about the full targeted reduction is not a stated objective of the NEMP.

1.32 The consultants' report also stated that the total carbon dioxide savings associated with the energy savings will fall short of expectations. Energy savings were based on the Australian Bureau of Agricultural and Resource Economics' (ABARE) 'business as usual'<sup>2</sup> projections. To realise ABARE's projected energy and carbon dioxide savings on a current budget of \$5.5 million per annum, the energy management program would need to demonstrate greater effectiveness in existing programs than has been demonstrated to date.

1.33 The consultants suggested that staff resources had been a major constraint on the rate of progress in a number of the energy management programs. The large number of sub-programs meant that few were allocated adequate staff time resources, even where budgetary resources were available. It was proposed that a reduction in the number of sub-programs being funded at any given time would increase efficiency of the program. Given the fixed administrative costs, the fewer the sub-programs the greater the share of staff time resources that could be allocated to advancing, rather than just maintaining, sub-programs. Prior to introducing new sub-programs, old sub-programs need to be wound up to maintain the efficiency of the program.

1.34 The consultants recommended that forward planning of the National Energy Management Program should be undertaken on the basis that:

- . the number of activities requiring staff resources in a year be fewer than at present;
- . where possible, year long activities that do not need to be run every year be alternated with other such sub-programs;
- . once the target number of annual activities is reached, any additional sub-programs should be matched by the cessation of existing sub-programs or functions, unless there is a commensurate addition of staff resources; and
- . sub-programs suitable for contracting out be identified and, where appropriate, contract personnel be employed for the purpose of dealing with business and government enterprises.

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<sup>2</sup> Under the 'business-as-usual' scenario the pattern of energy production is projected to change only marginally in response to current and predicted changes in population, energy demand, GDP and other factors.



## CHAPTER 2: THE GOVERNMENT'S COMMITMENT TO THE NATIONAL ENERGY MANAGEMENT PROGRAM

2.1 The measures in the National Greenhouse Response Strategy have been described in an independent review<sup>1</sup> by non-government organisations as 'vague and non-specific' and it has been predicted that the strategy will 'not go nearly far enough to meet the 20% reduction target or even the stabilisation target'. The review also noted that the NGRS does not involve a fundamental shift in priorities away from fossil fuels and that 'the overwhelming majority of Government energy R&D money still goes towards fossil fuels, particularly coal'. This criticism of the lack of either decisive action or a change of direction is entirely commensurate with the findings of the ANAO which suggested that after the announcement of the intention to pursue reductions in greenhouse gas emissions, the programs that could achieve such reductions were neglected.

2.2 The expanded National Energy Program was put together in a 'climate of considerable urgency'<sup>2</sup> and concentrated on measures that could be implemented quickly using existing techniques and technologies. It was foreshadowed that a more complete program would follow, but the National Greenhouse Response Strategy, although much more detailed and comprehensive, effectively went little further than the interim program because of its reliance on 'no-regrets' measures. This was a very cautious and limited approach and it is unlikely that it would have convinced officers of the Department of Primary Industries and Energy of the need to bring any urgency or priority to their administration of the NEMP.

2.3 The 'no-regrets' measures will not necessarily result in a reduction in greenhouse gas emissions.<sup>3</sup> A stronger commitment would be required, achievable by introducing measures such as taxes on emissions or direct regulation, which have been described as the only assured way to reduce greenhouse gas emissions.<sup>4</sup>

2.4 This lack of commitment is reflected in the expenditure of funds under the NEMP. Total expenditures from the program for the past six years were:

1988/89	\$ 397,000
1989/90	\$ 953,000
1990/91	\$4,248,000
1991/92	\$4,475,000
1992/93	\$6,786,000
1993/94	\$6,389,000 (estimated)

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<sup>1</sup> US Climate Action Network, *Independent NGO Evaluation of National Plans for Climate Change Mitigation. First review, February 1994*, Washington DC, USA, p 1.

<sup>2</sup> The Auditor-General, *Audit Report No. 32 of 1992-93*, AGPS, Canberra, 1993, p 17.

<sup>3</sup> Treadwell, R, *Will 'no regrets' energy policy options reduce greenhouse gas emissions?*, *Agricultural and Resource Quarterly* 5(1) March 1993, p 92.

<sup>4</sup> *ibid* p 92.

2.5 In addition to the NEMP, there are a number of other measures administered by DPIE as part of the Government's approach to ecologically sustainable development and climate change. These include a demonstration and promotion program of renewable energy technologies, a program to encourage the use of solar water heaters and the establishment of a solar energy centre. The Department also administers the ethanol bounty scheme and associated research and development activities announced subsequent to the 1993/94 Budget.

2.6 The appropriation for the NEMP for 1994/95 is \$5.559 million and forward estimates for each of the three succeeding years are \$5.559 million. In the past this funding has been allocated across a range of sectors and used for up to fifty sub-programs. The amount of funds available to any particular program have therefore been insignificant. Representatives of DPIE told the Committee that:

We had a \$2 million cut in savings imposed upon the program, and that brings us down to a base this year of \$5.559 million.<sup>5</sup>

Mr John Wicks, the First Assistant Secretary of the Department's Energy Division, explained that informal attempts to get agreement to a higher level of funding were rejected by other areas of the Commonwealth bureaucracy:

And when we initially went for the program ... we did filter views around Canberra and network and so on, and we did look at \$10 million, but it was not on the cards.<sup>6</sup>

2.7 The Committee notes that for the next four years commencing 1994/95, funding of some \$5.6 million annually has been allocated to the NEMP. This represents a substantial real **decline** in budgetary allocations and has the potential to undermine the strategies designed to educate the community on greenhouse gas abatement and energy efficiency. The consultants were limited in their evaluation to considering the program within the confines of the existing funding level. They noted that the expected reductions in carbon dioxide levels that the program could potentially achieve would not be realised at the current funding level unless the most significant sub-programs achieved and maintained a significantly higher level of effectiveness.<sup>7</sup>

2.8 Insufficient funds have been allocated to the program and the Department has not made adequate use of those provided. However, it is not just the inadequate program funds that have limited the NEMP. The consultants found that staff time, even more than program funds, was the limiting resource for many of the sub-programs. The consultants estimated that the total staff time and costs spent on the NEMP were:

1991/92	7.9 person years	\$387 000
1992/93	13.9 person years	\$660 000

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<sup>5</sup> Evidence - Peter Webb - Canberra, 30 August 1993, p 35.

<sup>6</sup> Evidence - John Wicks - Canberra, 30 August 1993, p 35.

<sup>7</sup> George Wilkenfeld and Associates and Economic and Energy Analysis, *Evaluation of the National Energy Management Program*, Report to the Department of Primary Industries and Energy, November 1993, Part 1: Overview, p xiv.

The Department has subsequently estimated that in 1993/94 total staff time spent on the NEMP will be 16 person-years and staffing costs will be about \$900,000.

2.9 The ANAO found that human resource constraints played a significant role in delaying the implementation of the NEMP and that DPIE did not adequately recognise the impact human resource constraints had on program effectiveness. The auditors pointed out that it took two years after the announcement of the expanded program in 1990 for the NEMP to attain the staffing level anticipated at the outset of the program. The ANAO also observed that there was a heavy involvement of staff in tasks peripheral to the implementation of the NEMP. Priority was directed towards tasks such as policy development and advising which were involved only indirectly in the actual implementation of the program. The ANAO estimated that more than half of the productive time of the middle-managers was devoted to policy advice and corporate overhead tasks.<sup>8</sup>

2.10 When questioned by the Committee on the number of staff employed principally to implement the NEMP, the Department responded:

In a perfect world of auditors we would have had all the staff necessary from day one to work on the program. Unfortunately, we did not. Initially it was Denis Hally-Burton, myself and five people, and the rest of them were working on other priorities. The department was reorganised. Two R & D corporations were being established. We were running those and could not release staff from them to work on energy efficiency.<sup>9</sup>

2.11 Mr Wicks went on to explain that:

...until those corporations were set up, ERDC<sup>10</sup> was located in the division and it used division staff for a whole year. So we just were not able to shift those people from there to the energy efficiency program. When we did, a lot of people had to be trained.<sup>11</sup>

2.12 The Energy Research and Development Corporation (ERDC) funding was between \$11.5 million and \$11.75 million per annum, involving forty people in the division. The Department's appropriate commitment to the ERDC contrasts sharply with its commitment to and support for funding and staffing to the NEMP, but can be explained partially by the low level of funding allocated to the program by the Government. The DPIE commented to the Committee that initially there was funding of only \$1 million for the NEMP for twelve months, with no indication that an increase in funding would be forthcoming. Therefore, according to Mr Wicks:

when you have only got \$1 million and organisationally, it looked as though this area was going to be abolished, why would you spend a lot of resources planning for an expansion when there was no indication we were going to get it?<sup>12</sup>

This suggests that, from the outset, the Department doubted the Government's commitment.

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<sup>8</sup> The Auditor-General, pp 44, 46.

<sup>9</sup> Evidence - John Wicks - Canberra, 30 August 1993, p 34.

<sup>10</sup> ERDC is the abbreviation for the Energy Research and Development Corporation.

<sup>11</sup> Evidence - John Wicks - Canberra, 30 August 1993 p 34.

<sup>12</sup> Evidence - John Wicks - Canberra, 30 August 1993, p 33.

**2.13** The ANAO is not isolated in its criticisms of the staff shortage for program administration and delivery. The consultants found that:

staff resources had been a major constraint on the rate of progress in a number of NEMP sub-programs; and

that the large number of sub-programs has meant that few get adequate staff time resources, even where budgetary resources are available.<sup>13</sup>

**2.14** The Department informed the Committee that staffing for the NEMP was a difficult issue to resolve:

In a general sense, one of the most difficult things in the public area at the moment is to get additional staff resources. They are just not available.<sup>14</sup>

**2.15** When asked if this meant he could not get approval for additional staff, Mr Wicks answered:

Yes. Quite honestly, if I put up a submission tomorrow saying we need another 10 staff, it would not get past first base. The problem is that you have to distinguish between financial resources and staff resources. If you gave us another \$50 million tomorrow, we could not guarantee you very much more effort because, I think, Wilkenfeld points out that energy efficiency efforts are staff intensive: developing programs, calling people, getting this going and so on. When you go to the government for new programs or expansions, there are two sides to what you go for: one you go for money for a program; then you have to argue quite separately for staff to support the program. Frequently, even when you are given the money, you are not necessarily given staff resources to cope with the expenditure of that money.<sup>15</sup>

**2.16** The Department told the Committee that it had sought approval for funding levels for the program and attendant staffing needs from the Department of Finance:

It is discussed closely with Finance and then goes to cabinet. But if Finance are very strongly opposed to it, then you have got a strong message that it may not succeed.<sup>16</sup>

**2.17** Competition from other government departments for limited funds had a bearing on the final staffing levels. Limited support from a number of government departments impacted on the final funding received by DPIE to staff its NEMP. The Department advised that:

We went to Finance; we went to other departments; we asked them 'What about if we went to \$10m, that is double the program, and more staff resources?'. I will be honest about it. I think we got support from DEST; I do not think we got support from any other department because they are all in the budget process fighting for their own, and the more one program gets the less chance they have got. I do not think we got support from any other departments other than DEST, and I think we got very strong opposition from a couple of departments which said they would oppose it very strongly.<sup>17</sup>

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<sup>13</sup> Wilkenfeld, et al, Part 1: Overview, p xx.

<sup>14</sup> Evidence - John Wicks - Canberra, 24 February 1994, p 69.

<sup>15</sup> Evidence - John Wicks - Canberra, 24 February 1994, p 69.

<sup>16</sup> Evidence - John Wicks - Canberra, 24 March 1994, p 70.

<sup>17</sup> Evidence - John Wicks - Canberra, 24 March 1994, p 70.

2.18 The Departmental corporate planning process is another factor that affects staffing levels and staff allocations. Mr Wicks told the Committee that it was difficult to obtain bigger portions of the administration budget for staff increases. He commented that:

I do not allocate staff across the department; that is a matter for the secretary in consultation with the minister and so on ... I meet very regularly every day with other division heads and basically, if you had them in front of you now, they are in exactly the same position we are. It is service-wide, the drive for efficiency, to do more with resources and so on. The department is presently undergoing a 20 per cent reduction in running costs over a three year period ... if you look at our own area and the areas I am close to, they are all undergoing a reduction, all of them, without question.<sup>18</sup>

2.19 The Committee strongly believes that from the outset the then Executive of DPIE failed to take NEMP seriously and did not accord it the degree of priority and significance envisaged by the Commonwealth Government when it approved the program in October 1990. A much stronger level of commitment and leadership was needed within the Department. The Committee concurs with the observation made by the ANAO that the Department was aware of what its role was but that:

They probably approached it in more a bureaucratic way. I do not think there was the administrative will behind the political statement for the announcement. If the full amount of staff had been made available at the beginning, there may well have been a greater drive provided in the early stages.<sup>19</sup>

2.20 It is also clear that it was not only DPIE that lacked commitment to the NEMP. DPIE failed to get support from the Department of Finance and from other departments which apparently saw the program as inimical to their own interests. This is a completely unacceptable, but perhaps not unusual, response to an important and significant government program that offered enormous potential benefits to society and should have been supported by all areas of the administration. The Government failed to give direction to the bureaucracy or to allocate sufficient funds and staff to the program. For its part, the bureaucracy, led by the Department of Finance, failed to take the steps that were necessary to develop and implement a program that would work effectively towards the achievement of the targets that had been clearly established and endorsed by the Government.

2.21 Despite the findings of the ANAO and given Australia's continuing commitment to the now binding Convention on Climate Change, the staffing resources available to the NEMP appear to be a continuing concern for the Energy Programs Branch of DPIE. The NEMP has been adversely affected by bureaucratic inertia and the lack of adequate staffing resources to implement the diverse range of energy management programs. Staffing resources must be committed now to enable NEMP to function adequately in the short to medium term as well as to allow it to meet the longer term policy objective of the National Greenhouse Response Strategy.

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<sup>18</sup> Evidence - John Wicks - Canberra, 24 March 1994, p 71.

<sup>19</sup> Evidence - John Bowden - Canberra, 30 August 1993, p 46.

**2.22** At a time when domestic and international economic growth is taking place, there is a greater need to heighten community, industry and government understanding of the greenhouse effect. To decrease funding and staffing levels is irresponsible and will undermine attempts to attain the planning target for stabilising greenhouse gas emissions. It demonstrates a lack of seriousness in Australia's commitment to the Climate Change Convention.

**2.23** The Committee strongly recommends that:

- (1) the Commonwealth Government make a genuine commitment to the National Energy Management Program and demonstrate its commitment by;**
  - . providing substantially increased financial and personnel support for the program; and**
  - . ensuring that the scale of financial and personnel support is commensurate with the objectives of the program and the Government's greenhouse gas emission reduction targets.**

**2.24** The Committee also recommends that:

- (2) the Government's commitment to the success of the National Energy Management Program be matched by the Executive of the Department of Primary Industries and Energy taking an active leadership role in promoting the program and ensuring that sufficient staff are made available.**



## CHAPTER 3: IMPLEMENTATION OF THE AUDIT AND CONSULTANCY FINDINGS

3.1 The efficiency audit report carried out by the Auditor-General and the evaluation report prepared for the Department of Primary Industries and Energy by the consultants focussed on different issues. As highlighted by the consultants, the ANAO report was:

essentially an efficiency audit, which places little emphasis on program effectiveness or appropriateness, which are, by contrast, the main focus of the current evaluation.<sup>1</sup>

3.2 The Department commissioned the consultants to conduct the evaluation of the National Energy Management Program, as part of a standard requirement for government departments to ensure that programs are systematically evaluated on a regular basis.

3.3 The evaluation was not specifically in response to the audit. As the NEMP had been in operation for more than two years at its enhanced level, the Department considered it appropriate to investigate the progress and achievements of the program. At the time that the evaluation report was commissioned in February 1993, the ANAO was in its final stage of deliberations with the Department prior to the release of the efficiency audit report in May 1993.

3.4 The ANAO was aware that the consultants' evaluation was being carried out. Recognising the important role to be played by the evaluation, the ANAO recommended in its report that DPIE ensure that in relation to the evaluation of the energy management programs in 1993, a broad spectrum of stakeholders interests are included on the steering committee and reflected in the course of consultation.<sup>2</sup>

3.5 This recommendation was one of the two audit recommendations that the Department disagreed with. The Department considered that:

expansion of the steering panel to include these interests would make the panel unwieldy. Panel membership includes independent persons and meets Departmental guidelines.<sup>3</sup>

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<sup>1</sup> Wilkenfeld, et al, Part 1: Overview, p 2.

<sup>2</sup> The Auditor-General, Recommendation 13.

<sup>3</sup> The Auditor-General, p xxv.

3.6 This view was reinforced by Mr Peter Webb, the Assistant Secretary of DPIE, Energy Programs Branch, in evidence to the Committee. The Committee was advised that:

...we were within the departmental requirements in terms of the composition of the committee. ... one has to watch the numbers on these committees because they tend to become somewhat unwieldy ... it is not necessarily easy to get people from the private sector to sit on these committees, particularly in a case like this where we are looking at the whole regime of energy use in so far as the program is concerned. ... There are very few people who have the broad perspective across the whole program and who are therefore able to contribute in the context of the steering committee. In those circumstances, a judgment was made that we really did not see a great deal of purpose in expanding the committee beyond what it was.<sup>4</sup>

3.7 The Department established a steering committee to manage the consultants review of the NEMP but the composition of the steering committee was narrowly focussed. The panel included a representative from each of:

- . the Department of Primary Industries and Energy (Chair);
- . the Australian Institute of Energy (who was also an officer of DPIE);
- . the Australian Bureau of Agriculture and Resource Economics; and
- . the Department of Finance.

3.8 The Committee agrees with the Auditor-General's recommendation that a broad spectrum of stakeholders should have been included in the steering committee. An evaluation is an important management tool used by the public sector to facilitate improvements in program delivery and performance. By drawing on the knowledge and expertise of academics, government departments, industry and community groups, the Department and the consultants would have gained a wide perspective on the effectiveness and appropriateness of the program while demonstrating to the community the independence of the report and the steering committee.

3.9 The Committee is of the opinion that the composition of the steering committee was inadequate and reflected DPIE's narrow outlook and an unwillingness to allow a cross-section of people to contribute to the evaluation and to scrutinise the activities of the NEMP. The Department's attitude to external input contributed to an insular approach to an inquiry that had local, national and international significance. It tends to reaffirm the auditors' opinion that the Department was not adequately demonstrating its commitment to providing the 'type of steering' which the government expected when it chose the Department for the implementation and management of the NEMP in 1990.<sup>5</sup>

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<sup>4</sup> Evidence - Peter Webb - Canberra, 24 March 1994, p 63.

<sup>5</sup> Evidence - Gregory Williams - Canberra, 30 August 1993, p 43.

3.10 The Committee acknowledges that the consultants commissioned to undertake the evaluation are highly regarded within their respective fields of expertise and that they prepared an independent assessment of the NEMP. The consultants evaluated 24 sub-programs and made broad ranging recommendations in relation to the effectiveness and appropriateness of these sub-programs. The Committee believe the consultants report is a valuable resource for the Department in its current review of the NEMP and will assist it in its decision-making process.

### **Implementation of the National Energy Management Program**

3.11 The ANAO noted that Department of Primary Industries and Energy failed to implement the range of measures outlined in the Commonwealth Government's announcement of October 1990 with the due urgency and priority envisaged by the Government at the time.

3.12 In its report tabled in May 1993, the ANAO highlighted a number of shortfalls in achievement as well as sub-optimal implementation of the measures announced in October 1990. The ANAO found that there were clear indications that pressure in the implementation stage led to compromise and only partial implementation in a number of programs. The ANAO concluded that the Department should not have taken more than two and a half years for effective implementation of measures that were essentially measures that could have been implemented immediately using known technology and techniques.<sup>6</sup> Following the announcement of the efficiency audit, the Department exhibited a noticeable change in attitude and approach.

3.13 From the time the ANAO began the audit in mid 1992, the auditors believed that the Department acted more responsively towards implementation of the NEMP due to the presence of the auditors and the publication of their criticisms of the program administration and management. One of the auditors, Mr Gregory Williams, informed the Committee that:

...there was a fair amount of activity in recent times, and I think that is largely due to our audit activity, as indeed there was a fair amount of activity during the audit process.<sup>7</sup>

3.14 Mr Williams went on to comment that:

I have had a brief look through the department's submission this morning. It was only available after being publicly released. Again there is quite a lot of activity shown in one of the tables there. I would say it is instructive to note that a lot of that activity has taken place this year. I think our audit has tended to drive things by the fact that we were reviewing the department independently.<sup>8</sup>

3.15 It would appear that the ANAO inquiry acted as an important catalyst for change and was instrumental in getting DPIE to act more responsively to the implementation of the October 1990 measures.

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<sup>6</sup> The Auditor-General, pp 17, 19.

<sup>7</sup> Evidence - Gregory Williams - Canberra, 30 August 1993, pp 44, 45.

<sup>8</sup> Evidence - Gregory Williams - Canberra, 30 August 1993, p 45.

3.16 The initial lack of action in implementation was also a concern to the Department of Environment, Sport and Territories. In a submission to the Committee, DEST advised that it:

... was concerned that the Auditor-General concluded that DPIE had not taken sufficient action to implement the October 1990 energy efficiency initiatives. Accordingly DEST supports action being taken to improve the delivery of the Energy Management Program so that it can effectively and efficiently implement its responsibilities, bearing in mind not only the initial urgency required but the compounding urgency resulting from the delays reported. Implementation of the October 1990 energy efficiency initiatives has important implications for the progress of the NGRS.<sup>9</sup>

3.17 The Committee concludes that the Department did not take appropriate and responsive action to implement the interim greenhouse measures as detailed in the Commonwealth Government's statement released on 23 October 1990. The Committee considers it unacceptable for a department to respond to such a direction from the Government by taking over two years to implement measures and by simply re-naming existing measures as new initiatives. As indicated by the ANAO in its report, the package implemented by DPIE had:

much in common with the programs which preceded it in 1989 and 1990, and also to some extent the earlier programs. The DPIE *National Energy Management* booklet of 4 October 1990 and the Minerals and Energy Council *Energy and the Greenhouse Effect* of June 1990 outlines the extent of existing initiatives prior to the announcement of the expanded package ...<sup>10</sup>

3.18 The ANAO noted that the October 1990 expansion utilised an incremental approach in loading on a significant number of additional measures to the existing programs of DPIE. The ANAO suggested that the package signalled improvement, and expansion to the funding and scope of existing and earlier activities.<sup>11</sup>

3.19 The audit report estimated that over the first two years of the program, the Department had fallen about twelve months behind schedule.<sup>12</sup> In evidence from DPIE at the first public hearing, the Committee was informed that the implementation schedule was on target at the time. The Department advised the Committee:

Relative to the initial life of the program, which was through to June 1993, we are pretty well on target. In that process, we did not pursue one or two things but, on the other hand, we picked up a small number of activities that were not envisaged in October 1990. So we are on target, in terms of time frame which the government gave us to develop and put in water the suite of activities.<sup>13</sup>

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<sup>9</sup> Department of Environment, Sport and Territories, Submission, p 2.

<sup>10</sup> The Auditor-General, p 53.

<sup>11</sup> *ibid*, p 53.

<sup>12</sup> The Auditor-General, p 33.

<sup>13</sup> Evidence - Peter Webb - Canberra, 30 August 1993, p 36.

## Structure of the program

3.20 The DPIE formulated the expanded energy efficiency package in a short period of time in response to the Commonwealth Government's commitment to address greenhouse gas emissions. The ANAO indicated that the Department had less than a fortnight to consult on, design and obtain Government approval for the October 1990 measures. The package of measures was designed for immediate implementation using known energy management techniques with a very limited budgetary allocation for administration, management and implementation.<sup>14</sup> The ANAO indicated that the DPIE had little time to research a considered expansion at the detailed level envisaged and to consult on and coordinate with broader interest groups.

3.21 The ANAO believed that the type of measures proposed ('no-regrets' measures such as information dissemination, demonstration of technology, cooperation with the States, and increased accounting for energy in Commonwealth operations) satisfied the Commonwealth Government's brief. However, the program design was fragmented and unwieldy relative to the administrative resources made available for implementation.<sup>15</sup>

3.22 The ANAO commented that due to the lack of evaluation of earlier energy programs, DPIE had limited knowledge of their effectiveness and appropriateness, knowledge which would have assisted in the redesigning of the current energy management program.

3.23 A significant number of activities were added to the existing range of activities in the energy management program following the announcement of the energy efficiency package. By the end of 1991, there were approximately thirty activities and elements spread across sectors with limited financial and managerial resources.

3.24 The ANAO highlighted a number of deficiencies in the design of the program and stated in recommendation 12 of its report that as part of DPIE's program evaluation in the latter half of 1993, the Department should:

ensure that programs are periodically evaluated and reoriented where needed in a timely manner;

consult widely and give adequate forethought to practical implementation and management aspects as an integral part of overall program design; and

give adequate attention to sound priority setting and scheduling of program milestones.<sup>16</sup>

3.25 The Department informed the Committee at its public hearing on 30 August 1993, that the implementation of this recommendation and changes to the NEMP were to be considered in the context of the outcome of the findings and recommendations of an evaluation of NEMP by independent consultants.

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<sup>14</sup> The Auditor-General, p 51.

<sup>15</sup> The Auditor-General, p 52.

<sup>16</sup> The Auditor-General, Recommendation 12.

3.26 In their evaluation the consultants found that:

changes in approach, planning, and delivery are required to varying degrees for many sub-programs to maintain or enhance their effectiveness; and

the existing structure of NEMP as a whole and the ad hoc definitions of most sub-programs (which have accumulated over more than 15 years of activity) obscures some of the fundamental relationships between the types of activities and functions, makes it more difficult to set objectives and monitor outcomes, and militates against longer term planning.<sup>17</sup>

3.27 The consultants also found that, under the current program framework, DPIE had categorised the sub-programs according to whether *cost centres* or *program description sheets* were taken as the basis for classification. The consultants concluded that neither classification provides an ideal framework for an overview of the diverse NEMP activities. A new structure of clusters, programs, sub-programs and activities was proposed by the consultants who commented that the advantages of such a restructure included:

- . the ability to accommodate recommended changes to sub-programs, such as separation of activities which can be differentiated by objectives, performance indicators and associations closely connected with the sub-program;
- . the grouping of activities into clusters which focus either on the needs of distinct target audiences or on vital cross-sectoral support and research functions;
- . the accommodation of existing programs and foreseeable program developments;
- . the accommodation of unforeseen program developments without necessitating a change in structure; and
- . allowance for a logical and expandable (or contractible) classification and hierarchy of programs for management information, particularly the allocation and monitoring of budgetary and personnel resources.<sup>18</sup>

3.28 While the consultants had made recommendations for reorienting the present structure of the NEMP, the Committee was interested to find out if the proposed structure was acceptable to DPIE and accordingly what changes, if any, had to date been undertaken to change the program structure. The Committee was advised by DPIE that:

...you will have noted in the report from the consultants that they do outline something of a model for the organisational structure of the program. We had a good look at that. We made the judgment that we should address that very early in the piece and, in fact, we have done so. As of February this year, only a few months after the report was lodged with the department, we implemented a new structure within the function which very closely follows that model in the evaluation report. Very importantly, as part of the model, we have set up a cell or part of a section, which Mr Hally-Burton heads, which is inter alia responsible for, can I use the phrase, the macro sort of management of the program - setting in place the framework, the planning arrangements, the research arrangements, the monitoring of

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<sup>17</sup> Wilkenfeld, et al, Part 1: Overview, p v.

<sup>18</sup> Wilkenfeld, et al, Part 1: Overview, pp vii-ix.

the program, the performance indicators, the ongoing evaluation of what we are doing, the general marketing framework, and things like that. In other words, we now have an area specifically dedicated to the macro aspects of the program and getting that right will be a very significant input into the operation of the particular activities within the program. That is now in place and it is very important part of our response to the Wilkenfeld report.<sup>19</sup>

3.29 The Committee is concerned that a very large number of sub-programs may have to share limited funding levels until 1997. The consultants reported that:

...a reduction in the number of activities at any given time would increase the efficiency of the NEMP. Each sub-program has a certain fixed administrative cost, so the fewer the sub-programs under way the greater the share of staff resources which can be allocated to advancing sub-programs, and not just maintaining them. The efficiency of the NEMP declines if new sub-programs are continually added without old ones being wound up.<sup>20</sup>

3.30 The Committee sought the views of DPIE on whether it had considered that programs would be scaled down or, in some cases, abandoned as part of the review and restructuring of the NEMP. The Department responded:

...that idea emerges from the Wilkenfeld report in that we have had some human resource constraint problems... . Whilst we have had some increases in resources in recent years coming out of the 1992-93 budget, as I recall, nevertheless, one would always like more human resources to undertake a task but that is pretty difficult in these times. So one looks for other options and Dr Wilkenfeld has identified a couple of options there, such as greater contracting out of some of the work that we do and reducing in a net sense where possible the number of activities that we undertake. I think we have got into a situation in the last few years of trying to do too many individual activities with the human resources that we have. We are now trying to reduce priorities for a number of those activities and also to let some terminate in totality.<sup>21</sup>

3.31 With respect to the third part of recommendation 12 of the Audit Report, relating to DPIE giving *adequate attention to sound priority setting and scheduling of milestones*, the consultants stated that adoption of the proposed structure 'would facilitate the prioritisation of activities'.<sup>22</sup> It is noted that by implementing the proposed structure in conjunction with the suggested refinements to the *Energy Programs Branch Portfolio*, the program's planning document, those deficiencies identified by the ANAO in prioritising activities and scheduling of timing for the various activities should be overcome.

3.32 The Committee notes that DPIE has begun to implement the consultants' recommendations and is restructuring the program. The Department has indicated its intention to rectify identified deficiencies in the current NEMP structure. It is taking a phased approach to the introduction of the changes proposed by the consultants and the documents given to the Committee provide detail of the Department's plan for implementation throughout the next twelve months.<sup>23</sup>

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<sup>19</sup> Evidence - Peter Webb - Canberra, 24 February 1994, p 65.

<sup>20</sup> Wilkenfeld, et al, Part 1: Overview, p xx.

<sup>21</sup> Evidence - Peter Webb - Canberra, 24 February 1994, pp 65, 66.

<sup>22</sup> Wilkenfeld, et al, Part 1: Overview, p 95.

<sup>23</sup> Exhibits Nos. 1 and 2.

3.33 The Committee supports the consultants' proposal for restructuring of the NEMP and endorses their findings that a reduction in program activities will increase efficiency. The Committee believes that the inordinate number of disparate activities operating with minimal funding levels and managerial constraints is unrealistic and unsustainable. In view of this, the Committee recommends that:

- (3) as part of its restructuring of the National Energy Management Program, the Department of Primary Industries and Energy closely examines and scrutinises the program activities currently operating and reduces the number of activities to a level consistent with effective operations and managerial resources. The Department should identify, for continuation, those activities that are the most useful in achieving the objectives of the program.

3.34 The Committee shares the concerns of the ANAO that DPIE undertook the delivery of the NEMP without giving sufficient consideration to the design and activities of the program. Furthermore, it concerns the Committee that to date, DPIE has not thoroughly assessed the **type** of activities that now constitute the NEMP. The Committee is of the opinion that, given the history of the energy management programs, recycling the current program (albeit with a different structure) fails to inject into the program the innovation and vision needed to meet the environmental, social, and economic needs of the 1990s and beyond. Therefore the Committee recommends that:

- (4) as part of the restructuring of the National Energy Management Program, the Department of Primary Industries and Energy should develop and initiate *new* program activities that will be more effective in achieving targeted reductions in greenhouse gas emissions.

3.35 This will require the Department to consider the consultants' findings as well as reviewing examples of overseas programs that have been successful in reducing greenhouse gas emissions. The Department should also take advantage of the knowledge and experience within the Australian community to devise innovative, appropriate and effective programs.

#### **Program management**

3.36 The ANAO found that the primary management tool used by the Department to record details of each program element, the *Energy Programs Branch Portfolio*, was inadequate. The *Portfolio* is a loose leaf document containing one page summaries that briefly outline the objectives for each program element, funding requirements, milestones



and performance indicators for six-monthly review. It is prepared annually, for each financial year, and operates to assess managerial and program accountability and to assist in planning implementation. The consultants reported that it is used for program planning, for work 'contracts' between management and staff, for project control and for monitoring and evaluation.<sup>24</sup>

3.37 Regarding the *Portfolio*, ANAO observed that:

- . many entries failed to show specific dates for action;
- . the Department did not explicitly prioritise its activities;
- . the *Portfolio* became greatly outdated in parts (for example 1991-92) and did not approximate to the reality of the Department's action plans;
- . there was a lack of attention to implementation planning generally and, more specifically, to the use of planning strategies for implementation of significant program elements; and
- . there was scope for improving the control over funding for each program element.

3.38 In the report of the efficiency audit the ANAO recommended that in light of the inadequacies of the *Portfolio*, the Department should improve the documentation of information in the *Portfolio* by:

- . showing explicit priorities and target dates for each of the various elements of energy management activities planned;
- . reflecting the emergence of new performance targets or plans; and
- . containing explicit cross-references and scheduling for any detailed implementation plans in its summary planning sheets.<sup>25</sup>

3.39 The auditors noted that many of the shortcomings they identified in the *Energy Programs Branch Portfolio* were to be reviewed in the evaluation of the NEMP by the consultants who were required to 'assess the suitability of their existing management information systems for on-going monitoring of performance and advise on any further developments required'.<sup>26</sup> The consultants' assessment of the *Energy Programs Branch Portfolio* supported the observations of the ANAO and pointed to a number of

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<sup>24</sup> Wilkenfeld, et al, Part 1: Overview, p xviii.

<sup>25</sup> The Auditor-General, Recommendation 6.

<sup>26</sup> Wilkenfeld, et al, Part 1: Overview, p xviii.

deficiencies in the information documented, as well as areas where monitoring of performance was insufficient:

We find that it is potentially usable and useful ... but it requires considerable development and refinement in the following areas:

- . Systematic coding, dating, ordering and indexing of program summaries:
- . Clearer statements of objectives:
- . Appropriate performance Indicators:
- . Regular reporting against key performance indicators (some updated on a six-monthly cycle, others two-yearly after major survey or evaluations):
- . Resources allocation and use (staff time estimates as well as funding expenditure should be included); and
- . Forward planning for a two year detailed and four year outline horizon as well as the current year.<sup>27</sup>

3.40 It is quite clear that the Department's initial efforts to ensure that the NEMP was administered in the most efficient and effective way possible were inadequate. As the auditors noted:

There is scope to increase the efficiency with which the Department can control implementation actions of its many and varied activities by greater day-to-day use of its existing management tools. This will lead to more effective management of resources and activities.<sup>28</sup>

3.41 It also appears that the Department has now made a positive response to the audit. It has indicated that the approach advocated by the auditors was being adopted in the preparation of the planning portfolio of sub-programs for 1994-95 and the setting of priorities for 1994-95. The recommendations made by the consultants have also been accepted and as part of the preparation of the planning portfolio changes, the consultants' proposals are to be incorporated where appropriate.<sup>29</sup>

3.42 The ANAO also observed deficiencies in DPIE's maintenance of useful program performance indicators and program monitoring. The only systematic record of program performance indicators for each sub-program is documented in the *Energy Programs Branch Portfolio*. As part of the evaluation process, the consultants were required to 'where appropriate, propose modifications to performance criteria'. In their analysis of the performance indicators the consultants stated at the outset:

It would be a great over-simplification to think that the sole performance indicator for every NEMP activity is the amount of energy or greenhouse gas emissions saved as a result

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<sup>27</sup> Wilkenfeld, et al, Part 1: Overview, p xviii.

<sup>28</sup> The Auditor-General, p xxii.

<sup>29</sup> Exhibit No. 2.

of that activity. In some cases this is simply not measurable for individual activities, though it may be measurable for groups of activities ... <sup>30</sup>

**3.43** The main conclusions reached by the consultants were that:

- . the current lack of consistency between the types and levels of performance indicators reflects difficulties in classifying programs in a way which clarifies their function and their relationship to each other. A more systematic classification of activities would enable objectives and performance indicators to be set accordingly;
- . in most cases, performance indicators are set at too low a level: process and satisfaction rather than outcome oriented. For many programs both objectives and performance can and should be stated in terms of some quantifiable measure of impact although they should not be in too high a level nor inappropriate for the nature and stage of development of the activity being measured;
- . the main criterion for supporting activities is whether or not they continue to be essential to the effectiveness of the activities they support; and
- . some programs, average as well as marginal, need to be monitored.

**3.44** The Department of Primary Industries and Energy conceded that performance indicators had been inappropriately set. The Department commented that:

The performance indicators that we set in the first couple of years of the program quite frankly were very process oriented, achieving milestones in terms of getting something in the water, et cetera. They were not outcome oriented. I do not believe that it would have been possible in a serious way to have set meaningful outcome oriented performance indicators at that stage of developing the program ... But a very specific part of our response to this report is to develop outcome oriented indicators, both at the macro-level and at the micro level, for each activity.<sup>31</sup>

**3.45** The Department told the Committee that as part of the first phase of implementing changes resulting from the evaluation report, performance indicators were to be addressed. Exhibit 2 lists as part of the initial tasks to be addressed between February 1994 and mid 1994:

development of a preliminary set of new outcome-oriented performance indicators as the basis for -

- . assessing 93/94 performance
- . initial planning for 94/95

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<sup>30</sup> Wilkenfeld, et al, Part 1: Overview, p 95.  
<sup>31</sup> Evidence - Peter Webb - Canberra, 24 March 1994, p 74.

## Program reporting

3.46 The ANAO report highlighted the need for more detailed and tangible data on the NEMP to be documented for public scrutiny. In particular, there was a need for information on the implementation of activities, program outcomes and achievements, reporting on difficulties experienced and listing of incomplete program tasks.

3.47 The ANAO felt that the Department's reporting on the progress of the NEMP in its Annual Reports and Program Performance Statements was insufficient for public accountability and for assessing progress achieved against program objectives.

3.48 The ANAO suggested several reasons why public reporting should be improved. These included benefits such as:

- . the opportunity to disseminate information to the public on energy management opportunities and on DPIE measures to generate improvement;
- . the contributions to areas of concern which open reporting enables the Parliament and interested stakeholders to make; and
- . the level of accountability provided by public reporting on DPIE's performance.

3.49 The ANAO recommended that DPIE, in providing concise public reports on the NEMP, give more attention to the overall balance in reporting achievements against program objectives and that it raise significant matters concerning national energy management or operation of the programs.<sup>32</sup>

3.50 In their findings on the evaluation of the NEMP, the consultants reinforced the need for public reporting and in particular the need to use reporting as a device to encourage stakeholders to keep their commitments. The consultants commented:

In many cases prominent public reporting is a powerful instrument for keeping pressure on program participants to keep to agreed targets. Indeed, in the absence of the sanctions of any other kind it is likely to be the only one available to the NEMP.<sup>33</sup>

3.51 The consultants elaborated on the types of information for publication and recommended that a variety of publications be used for disseminating information on the NEMP:

... all indicators proposed for inclusion in the monitoring strategy be prominently reported in the DPIE annual report, in a special edition of *Australian Energy Management News* ... and/or *National Energy Management*, which was published by DPIE in 1990 and which could become a biennial report on the actual performance as well as the work program of the NEMP.<sup>34</sup>

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<sup>32</sup> The Auditor-General, Recommendation 11.

<sup>33</sup> Wilkenfeld, et al, Part 1: Overview, p xix.

<sup>34</sup> Wilkenfeld, et al, Overview, Part 1, p xix.

3.52 The Committee notes that DPIE has made some progress in implementing these recommendations:

The Program Performance Statement for 1993-94 more directly addressed the relevant guidelines. [A] regular opportunity for reporting in the manner proposed is the Department's annual reports.<sup>35</sup>

3.53 In the National Greenhouse Response Strategy, governments agreed that priority was to be given to mechanisms for involving the community in strategy implementation and development. Awareness of programs and access to information plays a key role in the level of community participation and hence in the degree of success of the NEMP. The NEMP also places a heavy reliance on impacting in the market place. Energy markets operate inefficiently in areas such as energy pricing, market structures, the flow of information and the capabilities of decision-makers. Information plays an important part in educating the public and influencing changes in energy use.

3.54 The Committee considers that for informing the public on the performance of NEMP, the departmental annual report and the annual Program Performance Statement are not the most practical vehicles to convey the quality of information and the level of detail the ANAO and the consultants envisaged. Neither document provides an adequate overview of what the program entails, its component activities and sub-programs and the performance of the program. Although the Committee strongly supports continued reporting through the departmental annual report and the Program Performance Statement, it is open to question whether these two documents are the most effective vehicle for informing the public to the full extent that is necessary.

3.55 The Committee also strongly supports the need for public accountability. However, the Committee believe that to document the quality of information recommended by the ANAO and the consultants, an alternative strategy is required to reach the broader community and to attract the attention of different market segments. Therefore the Committee recommends that:

- (5) to facilitate public input to the National Energy Management Program and to generate greater public awareness and interest, a comprehensive report on all programs relating to greenhouse gas emissions be presented to the Parliament annually, shortly after the budget is presented.

3.56 The Committee envisages that this report should include a review of progress in reducing greenhouse gas emissions as well as containing information about the NEMP, such as:

- . objectives of the program;
- . stakeholders involved in the program;

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<sup>35</sup> Exhibit No. 1, p 5.

- . program description;
- . action plan for implementation including target dates and milestones;
- . resource requirements including funding and staff;
- . appropriate performance indicators for the stage of development of the program and monitoring strategies;
- . impact of the program (expected and actual) on energy efficiency, energy consumption and greenhouse gas emissions; and an
- . assessment of the effectiveness of the program including any obstacles.

3.57 The Committee intends to continue to monitor the Department's implementation of the National Energy Management Program. To this end, the Committee will recall officers of the Department for a review of progress in early 1995.

### **Consultation and Cooperation**

3.58 When the interim response measures were announced in October 1990, the Commonwealth Government envisaged 'a high level of consultation and co-operation with other portfolios, State and Territory Governments and business and community associations in the implementation of these initiatives'.<sup>36</sup> However, the ANAO found that, at the administrative level, DPIE had a considerable way to go to achieve a nationwide approach on action for energy management. The ANAO concluded that DPIE could exert more leverage through greater attention to the formation of strategic alliances on energy management with major national players in the energy end-use markets and through further strengthening action in cooperation with other levels of government.

3.59 Major corporations, State governments, and some other Commonwealth agencies are all involved directly in influencing the production and end use of energy. If the energy programs managed by Department of Primary Industries and Energy are going to be fully effective the Department will need to develop communication and cooperative arrangements with these other authorities, and enlist their support in the implementation of its programs.

3.60 The Department acknowledged at the first public hearing that working relations with government departments had not been strong in the past:

We work with a number of departments. The nature of our relationship or coordination with them has evolved over time. Initially it tended to be something of an ad hoc basis, but we have progressively set up committees which meet on a fairly regular basis... <sup>37</sup>

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<sup>36</sup> The Auditor-General, Appendix A, p 78.

<sup>37</sup> Evidence - Peter Webb - Canberra, 30 August 1993, p 37.

3.61 'Ad hoc' relationships referred to by DPIE existed with the then Department of Industry, Technology and Regional Development, the Department of Environment, Sport and Territories and the then Department of Arts and Administrative Services. In its submission to the Committee, the ANAO noted that there had been an impetus towards improved relations following its audit and that departments had indicated a willingness to work more cooperatively with the DPIE in the future.<sup>38</sup>

3.62 The Department of Primary Industries and Energy has advised that cooperation and consultation has improved significantly since the release of the audit report and that it has upgraded significantly its linkages with other key departments.

3.63 Close cooperation with industry by the Department of Primary Industries and Energy is essential to progress in reducing greenhouse gas emissions. The Department has found, however, a number of continuing problems with some sectors of industry.

3.64 The consultants estimated that about 44 per cent of national energy consumption occurs in market segments where NEMP involvement would be inappropriate. The Department advised that this includes the big industry users such as BHP, the aluminium industry, the chemical industry and the power generating industry which could well fund their own energy efficiency activities. In keeping with the consultants' recommendations, the Department observed that:

The industries that are left are the ones at the other end of the scale which are relatively less organised, less cohesive, more spread around the countryside, more expensive to contact, to talk to and to draw a program up, because it is at the lower end of the spectrum where the market failure exists. I agree we can do more; I think there is a lot to be done there. It is a question of how many resources we can put into getting to those smaller industries, whereas the big ones fall more into that philosophic category where they should be able to, like Pacific Power, undertake the activities themselves.<sup>39</sup>

3.65 It would appear that DPIE still has some way to go to achieve the level of cooperation with some of the major authorities and industries that was envisaged by the ANAO. For example, the Department indicated in its 1993-94 Program Performance Statement, that following direct approaches to well over 20,000 medium to large companies, the demand for energy audits in this sector rose significantly, but the actual numbers involved were small - an increase from 63 in 1991-92 to about 188 in 1992-93.

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<sup>38</sup> Australian National Audit Office, Submission.

<sup>39</sup> Evidence - John Wicks - Canberra, 24 March 1994, p 78.

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## CHAPTER 4: OVERVIEW AND CONCLUSIONS

4.1 Australia cannot afford to be complacent about its obligations to reduce greenhouse gas emissions. Major sectors of our industry are highly energy intensive and as a result we produce comparatively high levels of greenhouse gas emissions on a per capita basis. We also export large tonnages of coal to countries that themselves have international obligations to reduce emissions. We are therefore vulnerable to any direct measures which could regulate greenhouse gas emissions and which might impact on the competitiveness of our economy or our balance of payments. A strong commitment to no-regrets measures, such as those embodied in the NEMP, must therefore be vigorously pursued.

4.2 The NEMP has been found to be both appropriate and potentially effective. It will not by itself enable the Government's greenhouse gas emission reduction target to be achieved but it could make a significant contribution. If a more effective program is not implemented to achieve the maximum possible results there could be pressure on Australia to take more far reaching steps to meet its obligations to reduce emissions, and these could go beyond no-regrets measures. More importantly, however, in view of our proximity to Asia whose growing economies and energy needs have the greatest potential to substantially increase greenhouse gas emissions, it would be in Australia's best interests to demonstrate by example a firm commitment to reducing greenhouse emissions.

4.3 However the NEMP should be pursued for economic as well as environmental reasons. It has the capacity to contribute to economic growth by reducing costs, as well as reducing reliance on fossil fuels and contributing to pollution control. **It is therefore not only disappointing to find that the program is inadequate compared to both the size of the problem to be addressed and the potential benefits to be gained, but it is also unacceptable that the Department of Primary Industries and Energy has failed to design and fully implement a more effective program.**

4.4 There is a clear need for the Department to give much higher priority to the program and to allocate more resources to its administration. The program needs to be redesigned so that it will effectively provide the greatest reductions in greenhouse gas emissions. Implementing the recommendations of the auditors and the consultants will provide the Department both with the opportunity to make the program much more effective and with guidance in improving its administration.

## **The need for continuing review**

4.5 Whilst the Committee is seriously concerned about the Department's inadequate initial response to the announcement of the program it believes that the Department now intends to implement the recommendations made by the auditors and the consultants. If this intention is translated fully into action the program will be made far more effective than it has been in the past.

4.6 The Committee considers that the Department's progress in implementing these recommendations should be regularly monitored and it has made a recommendation (No. 5) that, if implemented, would require the Department to improve its reporting. This would allow the Parliament and the community to assess the Department's progress more readily. However, more formal reviews may be required periodically in the light of Australia's vulnerability to international criticism if it fails to meet its commitments on the release of greenhouse gases.

4.7 The Department resisted the ANAO's recommendation that it broaden the membership of the steering committee of the evaluation by independent consultants. Although the consultants' report was clearly independent, objective and highly critical, the long term need would best be served if future reviews are not directed by the Department. The Committee therefore considers that the ANAO should keep the NEMP under periodic review. The Government's greenhouse gas reduction target is intended to be achieved by 2005 and it would be appropriate for the ANAO to carry out a further audit. The Committee therefore recommends that:

- (6) **before the end of 1996, the Australian National Audit Office completes a follow-up efficiency audit on the continuing implementation and administration of the National Energy Management Program.**

## **Expansion of the program**

4.8 The NEMP needs to be greatly expanded to provide a level of resources more adequate to address the size of the problem and the benefits that could be achieved. The current level of expected funding for each of the next three financial years is a derisory \$5.5 million. This is grossly inadequate given the potential annual savings of \$1.5 billion that the Government estimated could be realised if its emission reduction target is achieved. There could also be massive environmental and economic costs if Australia fails to reduce its contribution to greenhouse gas emissions. Expansion of the program should only be delayed by the need to ensure that the Department has properly redesigned and restructured the program.

4.9 The upgraded and revised program will need to consist of those activities that will best help achieve the Government's greenhouse gas emission reduction targets and there needs to be effective means to ensure accountability. Once this is done the Government must respond favourably to proposals from the Department of Primary Industries and Energy for additional resources and must provide significantly more funds for program activities.

4.10 The Committee has, in the preceding chapter, made recommendations that reinforce those made by the auditors and the consultants, and it has called on the Government to commit more resources to the program. There is evidence that the recommendations of the auditors and the consultants are being implemented and a greater commitment of funds by the Government should soon be possible.

4.11 Eventually there may be an opportunity for some of the cost of the program to be offset by pursuing opportunities to market the expertise and the skills that will inevitably accumulate as a result of the program. Developing countries in the region could gain not only from the environmental improvement techniques that will be employed but from the energy efficiency measures as well. This provides Australia with an opportunity to make a substantial contribution to limiting global climate change. The Asia-Pacific region is undergoing rapid economic development that will have a significant impact on global greenhouse gas emissions. The countries in the region have varying capacities to undertake effective emission control programs. There is a role for Australia to promote the transfer of appropriate technologies and to provide advice, assistance and leadership. Australia should be able to draw on its experience of designing, developing and implementing an energy management program that has, as its core, demonstrable energy efficiencies and economic savings.

#### **Achieving the emission reduction target**

4.12 The reductions in greenhouse gas emissions estimated for the NEMP represent only ten per cent of those necessary to meet the interim greenhouse gas reduction targets adopted by the Government in October 1990. Mr Wicks commented:

Let me emphasise for the committee that all any further action on the national energy management program and whether it is related to the ANAO report or whether it is related to the George Wilkenfeld report is going to do is help us towards achieving a 10 per cent reduction in greenhouse gases, no more. Neither of them will result in any quantum leap above 10 per cent in addressing the problem.<sup>1</sup>

4.13 It is a profound concern to the Committee that the issue of the remainder of the required reductions in greenhouse gas emissions, including those from electricity generation and from industry, has yet to be seriously addressed. Significant savings in energy consumption can be made in the industry sector but it is an area that has been left to the marketplace and, as such, has received limited attention in the NEMP. Action is urgently required to extend the impact of the NEMP towards reducing industry's energy consumption.

4.14 Considerable savings on greenhouse gas emissions have been demonstrated by large companies such as Pacific Power, the New South Wales electricity supply utility. Mr Wicks indicated that Pacific Power, which received a DPIE energy award in 1993, expended \$689 million dollars over the past four to five years on capital plant improvement.

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<sup>1</sup> Evidence - John Wicks - Canberra, 24 March 1994, p 59.

That \$689 million achieved a saving, and this is their figures, of \$1.183 billion in part refurbishments and other expenditures elsewhere. It reduced the coal usage by 4.4 million tonnes and it reduced fuel oil usage by 105,000 tonnes and there was a cumulative saving in greenhouse gas emissions of 7.8 million tonnes.<sup>2</sup>

This example shows how it is possible to reduce energy consumption and increase efficiency and industrial competitiveness while at the same time reducing greenhouse gas emissions contributions.

**4.15** The Committee urges DPIE to address industry more vigorously and to develop measures that will encourage industry to adopt energy efficiency technologies, processes and practices. The Ecologically Sustainable Development Working Group on Manufacturing noted in its discussion<sup>3</sup> on energy and global climate change that gaps existed in the information available to much of industry. The Working Group also saw an important gap in the processes that enable industry to assess the issues from their own viewpoint and therefore to plan ahead for adjustment needs and to take up opportunities. Providing such information and the necessary related analysis should be given a high priority by governments.

**4.16** If the Department of Primary Industries and Energy is going to make any significant contribution to the achievement of the Government's emission reduction targets it will have to both greatly expand the scope of the NEMP and pursue other activities that are aimed specifically at reducing greenhouse gas emissions. In both cases it should concentrate its efforts on encouraging and facilitating energy savings by the major energy users who have the greatest potential for reducing greenhouse gas emissions. However it is not up to the Department to take action alone. While it needs to improve greatly its liaison with other agencies and with industry, just as importantly other agencies, particularly Commonwealth government departments, need to be more involved and supportive. The Department of the Environment, Sport and Territories has already acknowledged this and in its submission to the Committee said that:

DEST considers that it has relevant expertise to assist DPIE in developing and implementing its Programs and is keen to work closely with them...

Liaison with DPIE has been strengthened recently with the first of planned continuing meetings between DEST and DPIE of senior departmental officials on matters of mutual interest including climate change...

Officers of the DPIE Energy Division and the DEST Climate Change and Environmental Liaison Branch are also meeting... These meetings have been a good starting point to better consultation ...<sup>4</sup>

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<sup>2</sup> Evidence - John Wicks - Canberra, 24 March 1994, p 60.

<sup>3</sup> Report of the ESD Working Group on Manufacturing, p 175.

<sup>4</sup> Department of Environment, Sport and Territories, Submission, p 2.

**4.17** Future reviews of the Government's general greenhouse response strategy will need to assess the extent to which all Commonwealth agencies are actively cooperating and contributing to the strategy.

John Langmore  
Committee Chair

12 May 1994



## APPENDIX A

### LIST OF SUBMISSIONS AND EXHIBITS

#### SUBMISSIONS

- 1 Department of Primary Industries and Energy
- 2 Australian National Audit Office
- 3 Department of the Environment, Sport and Territories

#### EXHIBITS

##### Exhibit No. 1:

Energy Management Programs - DPIE response and follow up action to Efficiency Audit Report number 32 of 1992-93, titled '*Implementation of an Interim Greenhouse Response*'

##### Exhibit No. 2:

Evaluation of National Energy Management Program; DPIE Response and Action.

