

Neither frank nor fearless

Submission to the Senate inquiry into consultancies

The over-use of consultancies has corroded Australian democracy. It hollows out public sector capacity and leads to bad government decisions. The interests of consulting firms differ from the public interest, making consultants a poor substitute for public servants. Governments should only use consulting firms under narrow circumstances, and be more transparent about their conflicts of interest, contracts and findings.

Submission to the Senate Finance and Public Administration
References Committee

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Summary and recommendations

The Australian Government has become overly-dependent on consultants to guide and justify its decision-making. This dependence is corrosive to Australian democracy in two ways: it hollows out the capabilities and skills of the public service and it leads the government to make decisions based on advice that can be poor, compromised or self-interested.

Undermining public service capability

The use of consultants to conduct work that the public service can do stops public servants from developing those skills. In a vicious cycle, an under-skilled public service becomes increasingly dependent on external consultants, and even loses qualified staff who realise they can do the same or more satisfying government work in the private sector for higher pay.

The loss of capacity from the public service also reduces the quality of the consulting that the government receives, since writing a good tender requires deep knowledge of whatever is being consulted on.

Once consultants secure a contract, they are difficult to replace because they develop the specific knowledge that the public service lacks. They can also lock departments and agencies into proprietary or otherwise arcane systems and processes. The heavy discount that consulting firms are prepared to give on the initial tranche of work is evidence of how much is gained through incumbency.

Consultancies take large and growing amounts of public money, but provide uncertain benefits. Money spent on consultancies could hire thousands more public servants.

Poor government decision-making

Consulting firms make a virtue of over-confidence, which seems to lead politicians and public servants to show them deference that is not always deserved. Examples abound of public figures repeating uncritically flawed analysis by consultants.

Other times, consultants are hired to tell the government what it wants to hear. This is a misuse of public money and can help governments mislead the public about the merits of a policy or scheme. Consultants are sometimes paid to *not* tell the government what it *does not* want to hear: quietly dropping reports that would embarrass the government or reveal unlawful activity.

The philosophy that “he who pays the piper calls the tune” does not just lead to consultants delivering reports and findings that flatter the government, but also encourages them to favour their corporate clients in advice that the consultants give government.

Recommendations

1. Abolish public service staffing caps
2. Establish APS guidelines on the use of consultants
3. Include public sector capacity building in consultancy contracts
4. Publish a clear and strict revolving door policy for public servants
5. Improve the usability of the AusTender website
6. Include more information in tenders/contracts listings on AusTender
7. The Senate should issue a standing order for production of consultant reports
8. The Senate should consider whether consulting firms could be called before Senate Estimates when they have taken government work
9. Ban PwC from receiving government contracts
10. Establish an independent inquiry into the quality and integrity of PwC consulting

Introduction

The Australia Institute welcomes the opportunity to make a submission to the Senate inquiry into the integrity of services provided to the Australian Government by consultancies.

The use of consultancies by government has been the subject of recent reviews and inquiries including the 2021 Senate finance and public administration committee inquiry *APS Inc: undermining public sector capability and performance* ('APS Inc');¹ David Thodey's 2019 review of the public service (the 'Thodey Review');² and the Joint Committee of Public Accounts and Audit's Inquiry into Australian Government Contract Reporting, which attracted detailed and useful submissions before it lapsed.³

The inquiry is particularly timely because consultants have taken advantage of the COVID-19 pandemic to entrench private advice in public decision making.⁴ In 2016-17, Commonwealth Government spending on consultants was 2.7 times higher than in 1988-89 (adjusted for inflation),⁵ and it has increased again since then.

The Big Con, by Professor Mariana Mazzucato and Rosie Collington, shows that the problems arising from the government use of consultants in Australia are not limited to Australia. The use of consultants creates the same problems around the world: a reduction in the capacity of the capacity in the public services, reduced accountability, conflicts of interests, high costs, and the risk of corruption.⁶

¹ Senate Finance and Public Administration References Committee (2021) *APS Inc: undermining public sector capability and performance*,
https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Finance_and_Public_Administration/CurrentAPSCapabilities/Report

² Commonwealth of Australia (2019) *Our Public Service, Our Future*,
<https://www.pmc.gov.au/publications/independent-review-australian-public-service>

³ Joint Committee of Public Accounts and Audit inquiry (n.d.) *Australian Government Contract Reporting - Inquiry based on Auditor-General's report No. 19 (2017-18)*,
<https://www.aph.gov.au/~link.aspx?id=4F19144C47DF41C2940C069996DBFC8D&z=z>

⁴ Vogelpohl, Hurl, Howard and Marciano (2022) *Pandemic consulting. How private consultants leverage public crisis management*,
https://www.researchgate.net/publication/361364956_Pandemic_consulting_How_private_consultants_leverage_public_crisis_management_Pandemic_consulting_How_private_consultants_leverage_public_crisis_management

⁵ Van de berg (2019) *Entrenched and Escalating: Policy-Relevant Consulting and Contracting in Australia, 1987–2017*, chapter 4 in *Policy consultancy in comparative perspective: patterns, nuances and implications of the contractor state*, Cambridge University Press, Cambridge University Press

⁶ Mazzucato and Collington (2023) *The Big Con*, Penguin

The Australia Institute has a long history of engaging with the work consultancies have conducted for both private clients and government. Our engagement has identified shoddy, incomplete or compromised work. In this submission, we combine a growing body of theory about the relationship between consulting firms and government with real Australian examples of how that relationship can lead to poor outcomes for the public.

Undermining public sector capability

This chapter describes how the use of consultancies undermines public sector capability because contracting work out to consultants prevents the public service from developing skills and knowledge internally, tendering for consultants is inflexible and depends on in-house knowledge anyway, consultancies become entrenched and consultancies take public money that could hire public servants.

It makes six recommendations for restoring public sector capability, including: guidelines on the use of consultants, making capacity building a condition of consultancy contracts and improving the AusTender website. A later chapter, “Australia Institute experience with economic consultants”, provides a case study.

HOW CONSULTANCIES UNDERMINE PUBLIC SECTOR CAPABILITY

Consultancies stop the public service from developing skills and knowledge in-house

Using consultancies undermines the public sector’s ability to develop its own capacity. When it carries out strategic work, the public service learns skills, develops capacity, and builds networks – in other words, it invests in itself. As Paul Barratt AO, a former Secretary of Defence, put it:

Every policy development or service process design project is inherently a training opportunity for staff at every level, and an opportunity for juniors to learn from more senior and experienced officers.⁷

The capability of the public service is further undermined if talented public servants leave for the higher pay and prestige of consulting firms, particularly if consultants increasingly do the strategic, interesting work. Australian Public Service (APS) staffing caps also contribute to the growth in the use of consultants by artificially limiting the supply of public servants.⁸

⁷ Barratt (2018) *Joint Parliamentary Committee of Public Accounts and Audit: Submission to Inquiry into Auditor-General’s Report No. 19*,
https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Public_Accounts_and_Audit/AGReport19/Submissions

⁸ Commonwealth of Australia (2019) *Our Public Services, Our Future*, p. 185

Tendering is inflexible and depends on in-house knowledge

Consultants are contracted to deliver specific services, making them less flexible than public servants. Tender documents can run to hundreds or even thousands of pages. If contract variations are required, more time and money must be spent.

Barratt gives an example of a simple but very expensive oversight when tendering:

In the early 2000s I assisted one of the bid teams re-bidding for the first Defence Integrated Distribution System (DIDS) contract, which as well as warehousing and distribution involved materiel maintenance for Army land vehicles. Part of the purpose of the outsourcing was that the successful tenderer would be required to find efficiencies to reduce the cost of this continent-wide distribution system. When the tenders came in, the Commonwealth was shocked to discover that the tenderers proposed to save cost by closing small bases in regional Australia. The tenders did not proceed to contract; the Commonwealth withdrew the RFT and released a new one which specified that no bases in regional Australia were to be closed. By way of compensation the Commonwealth paid each of the six tenderers \$2 million to cover the cost of rebidding.⁹

Writing good tenders depends on having the same knowledge and skills inside the department that are being contracted. Barratt clearly describes this “inherent contradiction”:

There is an inherent contradiction in expecting Departmental officers to draw up detailed specifications for a policy framework, a process design or a service delivery that they supposedly lack the skills to develop themselves – this lack of inhouse skills being the usual justification for outsourcing the work.

The difficulty of specifying the requirement is matched by the difficulty of evaluating the tenders. As a matter of methodology, I would argue that a person who lacks the qualifications, skills and experience to perform the contract is almost by definition unable to evaluate the competing bids – they don’t know what they don’t know.¹⁰

⁹ Barratt (2018) *Submission to Inquiry into Auditor-General’s Report No. 19*

¹⁰ Barratt (2018) *Submission to Inquiry into Auditor-General’s Report No. 19*

Consultancies become entrenched

Once a consulting firm wins a contract it gains specialised knowledge specific to the department it is working with. This puts them in a position of power, as departments would face substantial costs if they were to decide to switch consultants. Consulting firms low-ball an initial contract knowing that if they win the first contract they will be well-positioned to bid for related work.

To give one example, in 2019 McKinsey applied a discount of 66% to its typical commercial rate to win an initial consulting contract on the transformation of the Human Services Department. Writing in the *Australian Financial Review*, Edmund Tadros and Tom McIlroy explain the long-term thinking behind this apparent altruism:

Government and consulting insiders point out that the price would mean the initial work is being treated as a loss leader by the firm and will put them in the box seat to pitch for, and win, the subsequent stages of work in what will be a mammoth program.¹¹

Consultancies take public money that could employ public servants

Australia's consulting industry (public and private) is the fourth largest in the world. By population, Australia's spending on consultancies is greater than that of any other country, and about double that of comparable countries like Canada or Sweden.¹² Australian Government spending on consultancies tripled between 2010 and 2020, to over \$1 billion, and in 2021–22 the five largest consultancies secured \$2 billion in contracts (some stretching over several years).¹³

In 2021, the Australia Institute calculated that the \$1.1 billion spent on consultancies in the previous year could hire an additional 12,000 public servants.¹⁴ In 2021–22 the Commonwealth Government paid \$24.5 billion in salaries and, at June 2022, employed

¹¹ Tadros and McIlroy (2019) *Revealed: McKinsey partners charge \$16,000 a day (before discounts)*, <https://www.afr.com/politics/federal/revealed-mckinsey-partners-charge-16-000-a-day-before-discounts-20190808-p52f2a>

¹² Of the 18 countries that make up 80% of the consulting market: Consultancy.com.au (2020) *Australia's consulting market punching above its weight*, <https://www.consultancy.com.au/news/1802/australias-consulting-market-punching-above-its-weight>; IMF (2021) *World Economic Outlook database: April 2021*, <https://www.imf.org/en/Publications/WEO/weo-database/2021/April/weo-report>

¹³ Consultancy.com.au (2021) *Federal government spend on big 7 consulting firms tops \$1 billion*, <https://www.consultancy.com.au/news/3213/federal-government-spend-on-big7-consulting-firms-tops-1-billion>; Mizen (2022) *Accenture beats the big four in record \$2b for Canberra work*, <https://www.afr.com/politics/federal/the-big-consulting-winners-from-record-government-spend-20220809-p5b8bb>

¹⁴ Browne (2021) *Talk isn't cheap*, <https://australiainstitute.org.au/report/talk-isnt-cheap/>

254,000 public servants (an average wage of \$96,500). On this measure, the \$2 billion in new contracts in 2021–22 could have employed 20,700 public servants for a year.¹⁵

Although information on the charge out rates of individual consultants is limited, what evidence does exist suggests they are very expensive. In 2019, McKinsey’s agreed daily fees with the Department of Finance ranged from “\$660–\$5,500+” for a consultant/associate/business analyst to “\$13,000–\$16,000+” for a senior engagement director/senior partner. This works out to up to \$1,375,000 per year for a consultant and up to \$4,000,000 per year for a senior partner.¹⁶

Prices seem to be similar for Ernst & Young (EY). A Department of Industry, Science, and Resources contract for the provision of advice on energy policy obtained under a Freedom of Information request made by the Australia Institute includes tables with daily rates for EY and EY’s ‘boutique’ consultancy brand EY Port Jackson Partners. The daily rate for an adviser/consultant (the lowest tier) was between \$2,112 and \$3,025 (\$528,000 to \$756,250 per year). For a partner/senior executive/executive director (the highest tier) it was between \$6,160 and \$13,200 per day (\$1,540,000 to \$3,300,000 per year).¹⁷

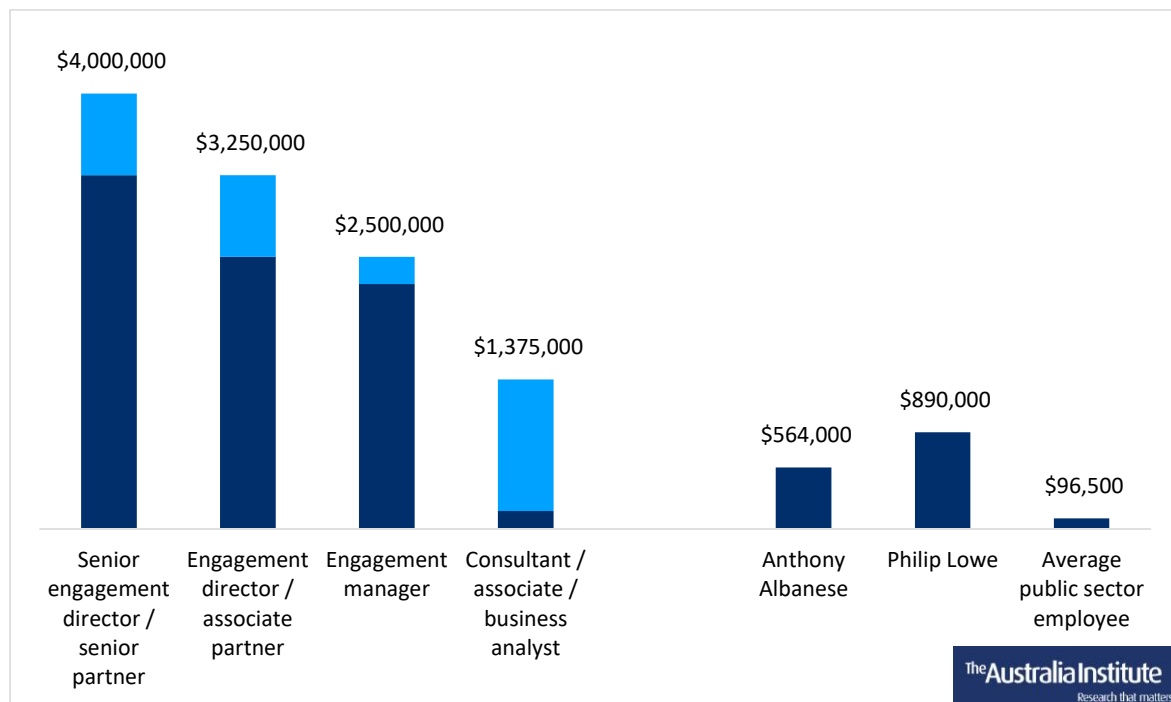
As shown in Figure 1, the fees quoted by consultancies exceed the salaries of public figures. The base pay for MPs and senators is \$217,000 per year, it is \$564,000 per year for the prime minister and – as mentioned – the average public sector employee is paid \$96,500.

¹⁵ ABS (2022) *Employment and Earnings, Public Sector, Australia, 2021-22 financial year*; <https://www.abs.gov.au/statistics/labour/employment-and-unemployment/employment-and-earnings-public-sector-australia/latest-release#key-statistics>

¹⁶ Tadros & McIlroy (2019) *Revealed: McKinsey partners charge \$16,000 a day (before discounts)*, <https://www.afr.com/politics/federal/revealed-mckinsey-partners-charge-16-000-a-day-before-discounts-20190808-p52f2a>

¹⁷ Department of Industry, Science, Energy and Resources (2020) *Deed of Standing Offer for the Provision of Services number PRI-00004295*, p. 51; Lo (2023) *Consultants close to industry shaped Australia’s controversial carbon credit policy*, <https://www.climatechangenews.com/2023/03/30/revealed-consultants-close-to-industry-shaped-austalias-controversial-carbon-credit-policy/>

Figure 1: McKinsey standard fees for 250 days compared to base annual salaries



Source: ABS (2022) *Employment and Earnings, Public Sector, Australia, 2021-22 financial year*, <https://www.abs.gov.au/statistics/labour/employment-and-unemployment/employment-and-earnings-public-sector-australia/latest-release#key-statistics>; Madden and McKeown (2022) *2022 Parliamentary remuneration and business resources: a quick guide*, https://www.aph.gov.au/About_Parliament/Parliamentary_departments/Parliamentary_Library/pubs/rp/rp2223/ParliamentaryRemuneration2022; Tadros & McIlroy (2019) *Revealed: McKinsey partners charge \$16,000 a day (before discounts)*, <https://www.afr.com/politics/federal/revealed-mckinsey-partners-charge-16-000-a-day-before-discounts-20190808-p52f2a>; Morrissey (2022) *RBA bunkers down after 2nd loss in 2yrs*, <https://www.canberratimes.com.au/story/7964737/rba-bunkers-down-after-2nd-loss-in-2yrs/>

It should be noted that these numbers are before discounts, which were almost 66% in McKinsey's 2019 bid (although, as discussed above, the motive for the discount was presumably to secure more work).

In addition, when a consultant is hired the consultancy is presumably responsible for management, administration and other overhead.

Nonetheless, the extreme difference in cost between the Commonwealth contracting work out versus hiring someone to do the work internally suggests that enormous value could be created by a change in hiring philosophy.

There are also serious questions about the level of genuine expertise consultants can offer to government. The skills and knowledge that consultants possess are often general, and consultants frequently move between projects without building sector-specific knowledge,

let alone firm- or government department-specific knowledge.¹⁸ This raises questions about the quality of the advice consultants can provide.

For example, it is not clear what value the public received from the \$660,000 contract between McKinsey and the federal Department of Health for advice on a COVID-19 vaccine strategy. ABC News reports that “[t]he only document the department could produce from the four-week consulting contract was an eight-page summary of publicly available vaccine data.”¹⁹

RESTORING PUBLIC SECTOR CAPABILITY

The Australia Institute recommends:

1. Abolish public service staffing caps

One reason why departments and agencies contract expensive consultants is because staffing caps have prevented them from employing public servants.

The 2019 Thodey review and the 2020 Senate Inquiry report into the outsourcing and privatisation of government services called for the abolition of staffing caps.²⁰ In 2022, the Albanese government committed to their abolishment as part of broader reforms to the APS.²¹

Abolishing the caps would allow departments and agencies to spend public money more efficiently, on greater internal capacity instead of expensive external consultants.

¹⁸ Quiggin (2021) *Dismembering government: Why the Commonwealth can't do anything anymore*, <https://www.themonthly.com.au/issue/2021/september/1630418400/john-quiggin/dismembering-government#mtr>

¹⁹ Farrell and McDonald (2021) *A consultancy firm was paid \$660,000 to advise on Australia's COVID-19 vaccine strategy. But a government official said they provided no 'specific advice'*, <https://www.abc.net.au/news/2021-06-03/federal-government-mckinsey-covid-vaccine-strategy-advice/100185786>

²⁰ Senate Legal and Constitutional Affairs References Committee (2020) *Impact of changes to service delivery models on the administration and running of Government programs*, p. vii, https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Legal_and_Constitutional_Affairs/ServiceDelivery; in the Thodey Review the lifting of the caps was to come after the public service demonstrated its workforce planning capacity: Commonwealth of Australia (2019) *Our Public Service, Our Future*, p. 192

²¹ Governmentnews.com (2022) *Labor party pledges to abolish APS staffing caps*, <https://www.governmentnews.com.au/labor-party-pledges-to-abolish-aps-staffing-cap/>

2. Establish APS guidelines on the use of consultants

Given the dangers of using consultants and the attractions for governments using them, there should be guidelines on the use of consultants. The Victorian Public Service (VPS) introduced such guidelines in 2019 to improve capacity building and investment in the VPS and reduce “inappropriate use” of consultants and contractors.²²

APS Inc recommend that similar guidelines be implemented in the federal public service. The committee also recommended that where multinational information communications technology (ICT) corporations are contracted by the government, they should, at a minimum, be required to “produce a copy of reporting under the Global Reporting Initiative Tax Standard, or implement the standard within one year”.²³

3. Include public sector capacity building in consultancy contracts

Embedding training and capacity building for public servants into consultancy contracts would mean that the use of consultants strengthened the public service instead of diminishing it.

This is a popular recommendation, appearing in *The Big Con* as well as Boston Consulting Group’s submission to the lapsed inquiry into Australian government contract reporting.²⁴ APS Inc recommended skills-transfer provisions as well as the establishment of a government consultancy hub responsible for monitoring, developing APS policy capabilities, and assessing and approving all external consultancy requests.²⁵

4. Publish a clear and strict revolving door policy for public servants

Post-separation requirements in the Public Service Commission Code of Conduct reportedly rely on the goodwill and ethical behaviour of the individuals involved.²⁶

A more detailed or strict policy would help address these ambiguities. Worth consideration is whether it should include a mandatory post-separation period for public servants who have who have had direct contact with consulting firms.

²² Victorian Government (2019) *Administrative Guidelines on Engaging Professional Services in the Victorian Public Service*, p. 3, <https://www.vic.gov.au/administrative-guidelines-engaging-professional-services-victorian-public-service>

²³ Senate Finance and Public Administration References Committee (2021) *APS Inc: undermining public sector capability and performance*, p. xiii–xiv

²⁴ Mazzucato and Collington (2023) *The Big Con*, chapter 10, section 3, Penguin; Boston Consulting Group (2018) *Submission to Joint Committee on Public Accounts and Audit*, p. 5, https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Public_Accounts_and_Audit/AGReport19/Submissions

²⁵ Senate Finance and Public Administration References Committee (2021) *APS Inc: undermining public sector capability and performance*, p. 92

²⁶ Barratt (2018) *Submission to Inquiry into Auditor-General’s Report No. 19*, p. 12

5. Improve the usability of the AusTender website

The AusTender website is difficult to navigate. The unwieldy interface has even led to the creation of a third-party platform, Love Me Tender, that presents the same data in a more usable format.²⁷

The AusTender website should be reviewed with an eye to making it more useful and user-friendly.

6. Include more information in tenders/contracts listings on AusTender

AusTender provides limited information on each contract. In addition, while AusTender has a special flag for consultancies, much work done by consulting firms is not flagged. *APS Inc* noted there was “no clear picture on expenditure” on consultants.²⁸

The Australia Institute recommends that the Senate issue an order for the production of documents that requires the appropriate minister for each Commonwealth department or agency to table details about requests for tender/contracts with consultancies, covering the purpose, scope and anticipated elements of the consultancy’s report or advice.²⁹

²⁷ McNamara (2023) *Love Me Tender*, <https://www.lovetender.com.au/>

²⁸ Senate Finance and Public Administration References Committee (2021) *APS Inc*, p. 83

²⁹ First proposed in Browne (2021) *Talk isn’t cheap*, p. 6, <https://australiainstitute.org.au/report/talk-isnt-cheap/>

Poor government decision-making

This chapter describes how consultancies contribute to poor decision-making because governments give their advice undue deference or even use consultants to get the advice that they want, and because the interests of consulting firms are not the same as the public interest.

It makes four recommendations for improving government decision-making, including: a standing order that would require consultants' advice to be published, options for calling consultants before Senate Estimates, a ban on PwC receiving government contracts or confidential information and an independent inquiry into the quality and integrity of consulting work done by PwC.

HOW CONSULTANCIES CONTRIBUTE TO POOR DECISION-MAKING

Undue deference

Mazzucato and Collington quote a handbook written by a former McKinsey consultant:

Clients often interpret nervousness as a lack of conviction about a particular recommendation, which is why answering a case perfectly [in a job interview with McKinsey] but nervously will get you rejected.³⁰

The premium consulting firms place on confidence may explain why politicians sometimes pay consultants undue deference, suggesting that they are not critical enough of the consulting advice they receive.

During the COVID-19 pandemic, Australia was slow to procure vaccines. Trade publication BioPharmaDispatch reported that the health portfolio's "'sit and wait' strategy" was "significantly based on advice from McKinsey & Company with the support of senior officials in the Department of Health".³¹ It should be noted that the office of the Health Minister said that the BioPharmaDispatch report was inaccurate.³² Richard Glover, writing for the

³⁰ Cheng (2012) *Case interview secrets*, Innovation Press quoted in Mazzucato and Collington (2023) *The Big Con*, chapter 5, Penguin

³¹ BioPharmaDispatch (2021) *Exclusive: PM was forced to intervene on vaccine after months of inaction*, <https://pharmadispatch.com/news/exclusive-pm-intervened-to-get-action-on-vaccine-procurement>

³² Knaus (2021) *Coalition to pay consultants McKinsey \$2.2m for two months' work but won't reveal nature of job*, <https://www.theguardian.com/australia-news/2021/jul/29/coalition-to-pay-consultants-mckinsey-22m-for-two-months-work-but-wont-reveal-nature-of-job>

Washington Post, said Australia's vaccine roll-out was evidence of complacency, noting that at the time Australia's share of the population vaccinated was the lowest in the developed world.³³

Last year, Resources Minister Madeleine King referred to EY research finding that the resources industry paid \$43.2 billion in company tax and royalties in 2020-21. However, "up to 60% of the tax that they claim the mining industry pays is returned in the form of GST refunds". Deloitte's calculations for the previous year had the same omission.³⁴

In his testimony at the Royal Commission into the Robodebt Scheme, Prime Minister Malcolm Turnbull said he had assumed that Alan Tudge, then the minister responsible for Robodebt, was a "technocrat" and "I didn't regard him as being a negligent or incompetent or careless minister", seemingly on the strength that "he was a management consultant."³⁵

Using consultants to get desired advice

The contest of ideas that makes a strong democracy is weakened when consultancy reports tell governments what they want to hear, rather than what they need to hear. Similarly, the accountability of politicians and senior public servants is diminished when they claim an outcome or idea was recommended by a prestigious consultancy.

Barratt notes that it is a "very obvious risk management strategy for a [public service] Secretary" to say the department doesn't have the capacity to advise on a policy change and bring in a consultant to advise. If the change does not work out, then it can be blamed on the consultant.³⁶

Professor Jane Andrew, from the University of Sydney Business School, argues that for-profit consulting firms should not be given reviews of government programs such as the Robodebt

³³ Glover (2021) *Australia's vaccine 'stroll-out' shows the dangers of covid complacency*, <https://www.washingtonpost.com/opinions/2021/07/02/australias-vaccine-stroll-out-shows-dangers-covid-complacency/>

³⁴ Foote (2022) *Mining lobby tricks government with its big taxpayer fairytale, swaps Deloitte for EY*, <https://michaelwest.com.au/mining-lobby-tricks-government-with-its-big-taxpayer-fairytale-swaps-deloitte-for-ey/>

³⁵ Henrique-Gomes (2023) *Malcom Turnbull raised initial concerns about robodebt with minister Alan Tudge in early 2017, inquiry hears*, <https://www.theguardian.com/australia-news/live/2023/mar/06/australia-news-politics-live-turnbull-robodebt-royal-commission-voice-indigenous-parliament-referendum-anthony-albanese-peter-dutton-question-time-weather>; Chrysanthos (2023) *Turnbull texted Tudge to ask if he was getting 'the right advice' on robo-debt*, <https://www.smh.com.au/politics/federal/turnbull-texted-tudge-to-ask-if-he-was-getting-the-right-advice-on-robo-debt-20230306-p5cprz.html>

³⁶ Barratt (2018) *Submission to Inquiry into Auditor-General's Report No. 19*

scheme (discussed further below) because they are “obligated to follow their clients’ instructions”.³⁷

There are several examples of a consultant telling government what they want to hear.

In 2015, Infrastructure Minister Warren Truss commissioned Predictive Analytics Group to conduct a cost–benefit (CBA) analysis of coastal shipping regulations. Truss indicated that he supported changes to the regulations,³⁸ but analysis from the Australia Institute found significant problems with the CBA report.³⁹

In 2019, consultant economist Brian Fisher produced estimates of the cost of Labor’s climate change policy that were five to ten times higher than estimates from numerous other economists.⁴⁰ In Senate estimate hearings in October 2021, officials from Energy Minister Angus Taylor’s office confirmed that Fisher was being paid \$100,000 for work in climate modelling. Fisher stated, “There is potentially other work that might be mentioned in the future in the context of the model when it’s released. I do have a contract. And I can’t discuss it with you.”⁴¹

In 2019, the Government commissioned a report from Boston Consulting Group on the future of Australia Post. The relevant ministers wrote to Australia Post’s board and management “mak[ing] clear that the BCG review should be used to guide Australia Post’s next strategic plan”. According to Senator Kim Carr, when CEO Christine Holgate pushed back, a convenient pretence was found to stand her down.⁴² The BCG report was apparently of poor quality, with a former Australia Post director saying:

Christine [Holgate, then CEO of Australia Post] was right to oppose the BCG report. The brief they were given was with a preconceived answer in mind. She wasn’t asked to contribute, and the data was rubbery.⁴³

³⁷ Tadros (2023) *One big lesson from the buried PwC robo-debt review*, <https://www.afr.com/companies/professional-services/buried-pwc-robo-debt-review-shows-consultant-reports-should-be-public-20230207-p5cigj>

³⁸ Cauchi (2014) *Freight vessels coasting to their demise*, <https://www.smh.com.au/business/freight-vessels-coasting-to-their-demise-20140207-327c5.html>

³⁹ Campbell and Richardson (2015) *Shipping Legislation Amendment Bill 2015*, <https://australiainstitute.org.au/report/shipping-legislation-amendment-bill-2015-submission/>

⁴⁰ Secombe (2021) *The man behind Scott Morrison’s climate panic*, <https://www.thesaturdaypaper.com.au/news/politics/2021/11/13/the-man-behind-scott-morrison-climate-panic/163672200012870>; Australia Institute (2019) *New Analysis: Brian Fisher Modelling Climate Outlier*, <https://australiainstitute.org.au/post/new-analysis-brian-fisher-modelling-climate-outlier/>

⁴¹ Secombe (2021) *The man behind Scott Morrison’s climate panic*

⁴² Carr (2021) *Pipped at the Post: How the government tried to sell Australia Post*, <https://johnmenadue.com/pipped-at-the-post-how-the-government-tried-to-sell-australia-post/>

⁴³ Durkin (2021) *Secret BCG report is key to Christine Holgate saga*, <https://www.afr.com/companies/retail/secret-bcg-report-key-to-holgate-saga-20210414-p57j7j>

BCG has form on Australia Post, having written an earlier report on the organisation in 2014. Australia Institute researcher Mick Peel identified six specific problems with this report, noting that some of its claims were “selective”, “arbitrary” and “exaggerat[ed]”.⁴⁴ The report appears to have been commissioned to justify a reduction in Australia Post’s letter delivery service.

Consultants can also be paid *not* to provide advice that governments *do not* want to hear.

In testimony before the Royal Commission into the Robodebt Scheme, PricewaterhouseCoopers (PwC) revealed that it did not document the decision to drop a 70-page report into the Robodebt Scheme, despite it making up part of a body of work they were paid almost \$1 million to produce. While the Commission is yet to release its final report, it appears the PwC report was dropped because it was “damning” of the scheme.⁴⁵

Similarly, the Commission has heard evidence that advice was requested from law firm Clayton Utz that found that the use of “income averaging” to raise debts was unlawful. The advice was apparently left in draft form.⁴⁶

Consultancies are often beset by conflicts of interest

The role of government should be to act in the public interest. Consultancies, both in their consulting and auditing arms, work for specific companies or industries. When working for the government, consultancies are unlikely to recommend any policy that would significantly disadvantage their private sector clients.

There are several examples where consulting firms gave advice to government that might have benefited their other clients.

In 2020 Ernst and Young (EY) were employed by the Climate Change Authority to advise on carbon market schemes policy. EY had previously done unpaid work for Verra and Gold Standard but “EY did not declare any competing interests”. In its final report, EY concluded that Verra and Gold Standard were “the leading international offset schemes for governance”.⁴⁷

⁴⁴ Peel (2014) *Review of the Boston Consulting Group’s report to the Minister for Communications Briefing for the CWU on Australia Post’s operations*, <https://australiainstitute.org.au/report/review-of-the-boston-consulting-groups-report-to-the-minister-for-communications-briefing-for-the-cwu-on-australia-posts-operations/>

⁴⁵ Royal Commission into the Robodebt Scheme (2023), *Transcript hearing day 31 – 3 February 2023*, <https://robodebt.royalcommission.gov.au/publications/transcript-hearing-day-31-3-february-2023>

⁴⁶ Jones (2023) *Taxpayer-funded review that found ‘flaws’ in Robodebt scheme was discontinued by Department of Human Services, royal commission told*, <https://www.abc.net.au/news/2023-02-03/qld-robodebt-scheme-government-royal-commission-review-pwc/101900514>

⁴⁷ Lo (2023) *Consultants close to industry shaped Australia’s controversial carbon credit policy*

In 2019 Commonwealth, state and territory governments were considering changes to Australia's air quality standards. The Commonwealth employed Aurecon to conduct a cost-benefit analysis (CBA) of the changes. Aurecon is a design and engineering company which likely does considerable work for companies that produce air pollution. The CBA significantly over-estimated the cost of air quality improvements and under-estimated the benefits. In fact, the CBA found that the costs of the proposed changes (most of which were already in place in other countries) would be up to 100 times greater than the benefits of air quality improvement. The resulting report was a major outlier in the economic literature, as international studies almost always show that the benefits of air quality improvement outweigh the costs. For example, an analysis of the economics of the US Clean Air Act estimated that its benefits could have been 90 times its costs.⁴⁸

The Aurecon example also highlights the issue of public sector capability. If there is one organisation that should be 'the repository of knowledge' in Australia about regulating air quality, with an up-to-date and in-depth knowledge of the costs and benefits of air quality regulation from around the world, it is the Commonwealth Government.⁴⁹

Abuse of trust undermines government policy

A particularly extreme example of a conflicted consulting firm is PwC's use of confidential government information to potentially help their clients game Australia's tax avoidance laws. PwC's then head of international tax Peter Collins had access to confidential government information and policy deliberations because he was advising on Australia's Multinational Anti-Avoidance Law (MAAL), the Diverted Profits Tax and Hybrid mismatch rules.⁵⁰

Collins shared the documents with 20 to 30 other PwC partners and staff, who shared it with clients and potential clients, with an understanding that it would be used to help clients circumvent the intent of the legislation.⁵¹

⁴⁸ Shields and Campbell (2019) *Coffin it up*, <https://australiainstitute.org.au/report/coffin-it-up-submission-to-nepm-air-quality-review-regarding-cost-benefit-analysis/>

⁴⁹ Shields and Campbell (2019) *Coffin it up*

⁵⁰ Chenoweth (2023) *PwC partner leaked government tax plans to clients*, <https://www.afr.com/companies/financial-services/pwc-partner-leaked-government-tax-plans-to-clients-20230120-p5ceaz>

⁵¹ Chenoweth (2023) *PwC partner leaked government tax plans to clients*; Chenoweth and Tadros (2023) *PwC leaks scandal widens*, <https://www.afr.com/companies/financial-services/pwc-leaks-scandal-widens-20230215-p5ckvv>

PwC seems to have escaped serious consequences for this breach of trust. Collins' registration as a tax agent was cancelled for two years and PwC has to conduct training sessions on conflict of interest.⁵²

Assistant Treasurer Stephen Jones has put the consulting firms "on notice" that they may lose access to confidential tax briefings.⁵³ The tax agent regulator will be strengthened, in line with recommendations made before PwC's wrongdoing was revealed.⁵⁴

Although Treasurer Jim Chalmers said he was "absolutely furious, absolutely ropeable" over PwC's breach of trust,⁵⁵ the Federal Labor Business Forum has invited about 400 guests to a \$5,000-a-head Budget night dinner hosted by PwC.⁵⁶

Former Coalition Assistant Treasurer Michael Sukkar has supported PwC and rejected calls for the government to stop PwC consulting on tax policy. Mr Sukkar worked for PwC between 2005 and 2006.⁵⁷

There is a history of PwC enjoying a close relationship with government despite being subject to disciplinary or legal action. Investigative journalist Neil Chenoweth reports that the then Coalition Government appointed ex-PwC legal partner Judy Sullivan to the Tax Practitioners Board in October 2020 and ex-PwC partner Peter Hogan in August 2021, at the same time the ATO was taking PwC to court over its legal privilege claims.⁵⁸

⁵² Chenoweth (2023) *PwC partner leaked government tax plans to clients*

⁵³ Kruger & Thompson (2023) *Treasury threatens to stop briefing tax multinationals after leak*, <https://www.smh.com.au/business/companies/former-pwc-partner-banned-after-leaking-confidential-government-tax-plans-20230123-p5ceq9.html>

⁵⁴ Chenoweth (2023) *Tax agent regulator gets more teeth in wake of PwC leaks*, <https://www.afr.com/companies/financial-services/tax-agent-regulator-gets-more-teeth-in-wake-of-pwc-leaks-20230213-p5ck52>

⁵⁵ Tadros, Kehoe and Chenoweth (2023) *Treasurer slams PwC tax leak as 'shocking breach of trust'*, <https://www.afr.com/companies/professional-services/treasurer-slams-pwc-tax-leak-as-shocking-breach-of-trust-20230125-p5cfdj>

⁵⁶ Robin (2023) *PwC and Labor to mend bridges at budget fundraiser*, <https://www.afr.com/rear-window/pwc-and-labor-to-mend-bridges-at-budget-fundraiser-20230322-p5cubt>

⁵⁷ Chenoweth and Tadros (2023) *Sukkar dismisses calls to sanction PwC over leaking scandal*, <https://www.afr.com/companies/professional-services/sukkar-dismisses-calls-to-sanction-pwc-over-leaking-scandal-20230124-p5cf2m>

⁵⁸ Chenoweth (2023) *Senate's consultancy inquiry promises plenty of fallout*, <https://www.afr.com/rear-window/senate-s-consultancy-inquiry-promises-plenty-of-fallout-20230318-p5ct8n>

The misalignment of objectives and incentives

Public servants are legally required to provide the government with advice that is “frank, honest, timely and based on the best available evidence”.⁵⁹ Their work is subject to freedom of information law, and they can be called in front of Senate Estimates hearings for questioning and to give evidence. These rules provide an incentive for public servants to do as required by the *Public Service Act*.

Pointing out other incentives public servants face, Barratt states that:

In the case of an in-house project the objective of the people working on the project is to perform to the satisfaction of their supervisors and enhance their chances of promotion. It is always in the interests of the participants to put in their best possible performance.⁶⁰

The incentives facing management consultants are very different. Andrew Podger, a former APS Commissioner says, “There is a danger, in using consultants, that they will say what they think is wanted in order to get the next job”.⁶¹

Barratt observed three ways in which the incentives consultants face are at odds with their objective to advise the government:

- as for-profit companies, they have an incentive to minimise costs;
- to justify their fees, they have an incentive to recommend novel and sweeping changes; and
- as contractors, they do not have to experience the disruption that comes from their recommendations.

Barratt described the way consulting firms minimise costs as “satisficing”. Consulting firms ask: “How little can we do/spend, still get paid, and not be ruled out for future contracts?” Barratt gave as an example:

A few years ago a US contractor was given a major contract to undertake a market survey and provide advice to a Commonwealth agency. I was advised at the time that from the outset the contractor determined that the profit on the project would be 50% of the total contract price. Accordingly, the budget for the project was set at 50% of the contract price, and what the Commonwealth received was a report based on the amount of work the contract could do within that budget. I know that corners were cut.⁶²

⁵⁹ *Public Service Act 1999* (Cth), s. 10, <https://www.legislation.gov.au/Series/C2004A00538>

⁶⁰ Barratt (2018) *Submission to Inquiry into Auditor-General's Report No. 19*

⁶¹ Quoted in Senate (2021) *APS Inc*, pp. 79–80

⁶² Barratt (2018) *Submission to Inquiry into Auditor-General's Report No. 19*

Consultants find it hard to justify their expenses if they do not recommend something new, even when existing public service processes are suitable. Barratt observed:

If anyone can refer me to a consultant's report that says the agency is well managed and only incremental changes are recommended, I would be interested to read it.⁶³

Furthermore, unlike senior public servants, consultants do not have to implement the changes they recommend. These changes can be enormously disruptive and offer no substantial improvement in performance. In 2015 businessman David Peever headed a review into the Defence Department. Barratt commented:

One of its more interesting recommendations was that the quasi-independent Defence Materiel Organisation should be moved back into the Department of Defence. Thus ten years after one Panel recommended that DMO be broken out of Defence, another recommended that that move be reversed. These are enormously costly and disruptive changes.⁶⁴

IMPROVING GOVERNMENT DECISION-MAKING

The Australia Institute recommends:

7. The Senate should issue a standing order for production of consultant reports

In response to the controversial BCG report on Australia Post, The Australia Institute called for a standing order for the production of documents. The order would require the appropriate minister for each Commonwealth Government department or agency to table the final reports and/or written advice received from a consultancy.⁶⁵

Revelations that PwC seemingly buried a report into Robodebt because it was unfavourable to the government underscores the necessity for such an order, but also that it cannot be limited to final reports as The Australia Institute originally suggested. The order should include draft versions of reports that were never finalised.

8. The Senate should consider whether consulting firms could be called before Senate Estimates when they have taken government work

Public servants are required to appear before Senate Estimates to explain and defend their advice and decision-making. With governments leaning on consulting firms to do work formerly done by the public service, serious consideration should be given to how parliamentary mechanisms can hold consultants to account. One option would be for

⁶³ Barratt (2018) *Submission to Inquiry into Auditor-General's Report No. 19*

⁶⁴ Barratt (2018) *Submission to Inquiry into Auditor-General's Report No. 19*

⁶⁵ Browne (2021) *Talk isn't cheap*

consulting firms who take government work to be required to appear before Senate Estimates.

9. Ban PwC from receiving government contracts for a suitable period of time

PwC's breach of trust around confidential government policy is a serious concern. The consulting firm should be banned from receiving Australian Government contracts or receiving confidential government information.

The duration of the ban should reflect the seriousness of the breach of trust, the years that the breach of trust took place over, the number of PwC staff and partners involved and the potential cost to the public of tax minimisation facilitated by PwC.

10. Establish an independent inquiry into the quality and integrity of PwC consulting

PwC's appearances before the Royal Commission into the Robodebt Scheme do not engender confidence that the public has received value for their consulting work.

An academic or auditor should be appointed to conduct an independent inquiry into the quality and integrity of recent PwC consulting provided to government.

Conclusion

There is a growing body of evidence that consulting firms do not, on the whole, provide government with value for money. They charge high fees for work that can be basic, pro forma or even erroneous; have interests that do not align with those of the public; and the inflexible tendering process may leave them less responsive than public servants. A department or agency only knows what to tender for if it already has that skill and knowledge in-house. A significant portion of the work of the public service has been outsourced to consultants who are not subject to the same “frank and fearless” obligation.

However, the corrosive effect that the over-use of consultants has on our democracy goes much further than an inefficient use of public money.

By taking work that the public service would otherwise do, consulting firms stop the public service from developing knowledge and capacity. Consulting firms become entrenched in government processes; in fact, consulting firms depend on it when offering discounted “loss leader” quotes for the first tranche of work in larger programs. Instead of a department or agency having the skills to assess the claims made by vested interests, they depend on the findings of consultants.

The premium that consulting firms place on confidence means their work is treated with undue deference, luring politicians and public servants into making use of advice and findings that can be incomplete or wrong. Sometimes, that is the reason they are contracted in the first place: to tell the government what it wants to hear.

At their most extreme, consulting firms use their access to confidential government information for private gain, potentially directly undermining the very policies they have been trusted with developing and supporting.

The Australian Government and the public service have become excessively dependent on consultants, at the expense of frank and fearless advice and state capacity.