

Senate consultancies inquiry

Response to questions on notice

June 2023

Thank you for the opportunity to appear before the inquiry into consultancies on 2 May 2023. The Australia Institute took three questions on notice from the committee.

How New Zealand, United States, and Western Australia manage and report the use of consultants

New Zealand

In 2018, the NZ Government outlined “expectations” that “State services agencies invest more in building government core administrative capability in line with the Government’s vision of a stronger public service, and reduce their reliance on purchasing external capability where this is appropriate to deliver value”.¹ This was accompanied by guidelines on reporting contractor and consultant use and public reporting on contractor and consultant expenditure.²

The NZ Public Service Commission (Te Kawa Mataaho) reports operating expenditure on contractors and consultants as a percentage of spending on the public service workforce. Expenditure has decreased slightly since June 2018 (from 13.4% to a forecast 12.8–13.1% in June 2023), with the Commission attributing a sharp increase since June 2021 to the “significant additional resources required to support Government’s COVID-19 response”.³

¹ NZ Cabinet (2018) *Reducing state services agencies reliance on purchasing external capability*, <https://www.publicservice.govt.nz/assets/DirectoryFile/Cabinet-Minute-Reducing-State-Services-Agencies-Reliance-on-Purchasing-External.pdf>

² New Zealand Government (n.d.) *Guidance to enable state services agencies to consistently measure and report their usage of contractors and consultants*, <https://www.publicservice.govt.nz/assets/DirectoryFile/Contractors-and-Consultants-Guidance.pdf>

³ NZ Public Service Commission (2023) *Public service workforce composition – March 2023 quarter*; NZ Public Service Commission (2023) *Workforce resourcing – December 2022 update*, ss 13–16, <https://www.publicservice.govt.nz/research-and-data/public-service-workforce-composition-march-2023-quarter/> (same URL for both sources)

While the scale may be smaller, the NZ Government's use of consulting firms seems similar in nature to that of the Australian Government, including some of the same problems.⁴ This year, both of New Zealand's major parties expressed interest in reducing the use of consultants and contractors.⁵

NZ's public servant wage freeze, which could encourage public servants to quit only to be re-hired as consultants at a higher wage, may be a factor in the continued reliance on consultants.⁶

The NZ Government directive to reduce reliance on contractors and consultants has at best led to a modest decrease in the use of contractors and consultants. However, it is possible that it prevented an *increase* in the use of contractors and consultants, like that seen in Australia over a similar period.

United States

The US Government's Federal Acquisition Regulation rules on using contractors includes debarment and suspension of contractors and how to identify, evaluate and resolve conflicts of interest.⁷ The General Services Administration (the central management agency) maintains the Excluded Parties List System that identifies businesses and individuals that have been excluded from government contracting.⁸

Professor Adam Graycar, a public policy academic, identified a published debarment list along the lines of the US model (or that of the World Bank) as an important step towards efficiency and effectiveness in Australia.⁹

The US Government also has a Federal Consulting Group which offers "consulting, executive coaching, and performance and customer satisfaction measuring services to

⁴ See for example Edwards (2023) *Time for a big debate about Govt use of business consultants*, <https://www.nzherald.co.nz/nz/politics/bryce-edwards-time-for-a-big-debate-about-govt-use-of-business-consultants/WRFGYFZGRZC2RFLIOPA2VEZJUY/>

⁵ Coughlan (2023) *Public servants might get a pay rise, as Chris Hipkins and Chris Luxon try to use fewer consultants*

⁶ Coughlan (2023) *Public servants might get a pay rise, as Chris Hipkins and Chris Luxon try to use fewer consultants*, <https://www.nzherald.co.nz/nz/politics/public-servants-might-get-a-pay-rise-as-chris-hipkins-and-chris-luxon-try-to-use-fewer-consultants/6ZKHEFEE7JGQ7NK6GGJAWJFMYA/>

⁷ United States Government (2023) *Federal Acquisition Regulations: Part 9 – Contractor Qualifications*, <https://www.acquisition.gov/browse/index/far>

⁸ Williams (2009) *Transparency and fairness in the acquisition process: Excluded Parties List System*, <https://www.gsa.gov/about-us/newsroom/congressional-testimony/transparency-and-fairness-in-the-acquisition-process-excluded-parties-list-system>

⁹ Graycar (2023) *Consider debarment to deter consultancies from breaching integrity*, <https://www.themandarin.com.au/221106-use-debarment-to-deter-consultancies-that-breach-integrity/>

federal agencies”.¹⁰ This could provide lessons for the government’s proposed internal consulting service, although publicly-available information on the Federal Consulting Group seems to be very limited.

Western Australia

The Department of the Premier and Cabinet collates the number and cost of consultancies by department/agency every six months.¹¹ There is also a requirement that entities liaise with, and seek approval from, the Department of Premier and Cabinet (DPC) before engaging consultants for strategic advice, which a 2019 report by the WA Auditor-General found that “entities were generally complying with”.¹²

Despite this requirement, spending on consultants rose to \$12.2 million in the six months to June 2022, almost double the \$6.5 million spent in the same period the year earlier and just ahead of the \$12.1 million spent by the Barnett Government over six months in 2009.¹³ The Australia Institute had trouble finding data for every half-year, without which it is hard to tell what effect – if any – the requirements for transparency and DPC approval may have had on consulting spending.

Western Australia also has a regulation covering the debarment of suppliers.¹⁴

Including employee on-costs in comparisons of public sector employment costs versus consultants’ fees

The Australia Institute has not found a reliable figure for employment on-costs in the Australian Public Service.

After our appearance before the committee, we wrote to the Department of Finance asking for details of on-costs. The Department supplied information on how some employment on-costs are estimated across the public service. Superannuation is costed at 15.4% of salary, long service leave at 2.6% of salary and training at 3.0%. No information was provided for workers compensation. Human resources, organisational

¹⁰ United States Government (n.d.) *Federal Consulting Group*, <https://www.doi.gov/fcg>

¹¹ Western Australian Government (2021) *Report on Consultants Engaged by Government - Premier's Circular 2021/17*, <https://www.wa.gov.au/government/publications/report-consultants-engaged-government-premiers-circular-202117>

¹² Western Australian Government (2019) *Engaging consultants to provide strategic advice*, <https://audit.wa.gov.au/wp-content/uploads/2019/05/Engaging-Consultants-to-Provide-Strategic-Advice.pdf>

¹³ Hastie (2022) *McGowan government spends record amount on consultants*, <https://www.watoday.com.au/politics/western-australia/mcgowan-government-spends-record-amount-on-consultants-20221202-p5c39j.html>

¹⁴ *Procurement (Debarment of Suppliers) Regulations 2021* (Western Australia)

service, desktop ICT and property are all set dollar amounts, but these were not detailed because they are cabinet in confidence.¹⁵

A potential proxy for those costs that the Department does not enumerate or does not publish are the equivalent costs for state or territory public services.

ACT Treasury published employment on-costs as part of its duty to cost election commitments in the lead up to the 2020 ACT election. Superannuation is costed at 11.5% of salary, long service leave at 4% and workers compensation at around 1–2% for most ‘desk’ jobs. Administrative on-costs (that is, IT support, property, insurance and training) are added at a standard \$20,590 regardless of salary.¹⁶

We have estimated Commonwealth employment on-costs by combining Department of Finance and ACT Treasury data: estimating superannuation at 15.4% (Department of Finance), long service leave at 2.6% (Finance), workers compensation at 1.5% (ACT Treasury), administration costs at \$20,590 (ACT Treasury – IT, property, insurance and training). This totals 19.5% plus \$20,590.

On this basis, the average Commonwealth public servant salary of \$96,500 would amount to \$135,908 including employment on costs – an increase of 41%. *Financial Review* journalist Ronald Mizen calculated that the ‘Big Five’ consulting firms secured \$2 billion of work in 2021-22.¹⁷ This would have employed 14,700 public servants based on the average employment cost of \$135,908.¹⁸

We have updated Figure 1 from our initial submission with the estimated average public servant on-costs, based on the calculations outlined above. We have also taken the opportunity to include figures from EY (both the core firm and its “boutique” consultancy brand EY Port Jackson Partners).

As we noted in our initial submission, the fees are before discounts and the figure shows minimum and maximum fees (although technically McKinsey’s fees are uncapped, since each “maximum” had a plus sign next to it).

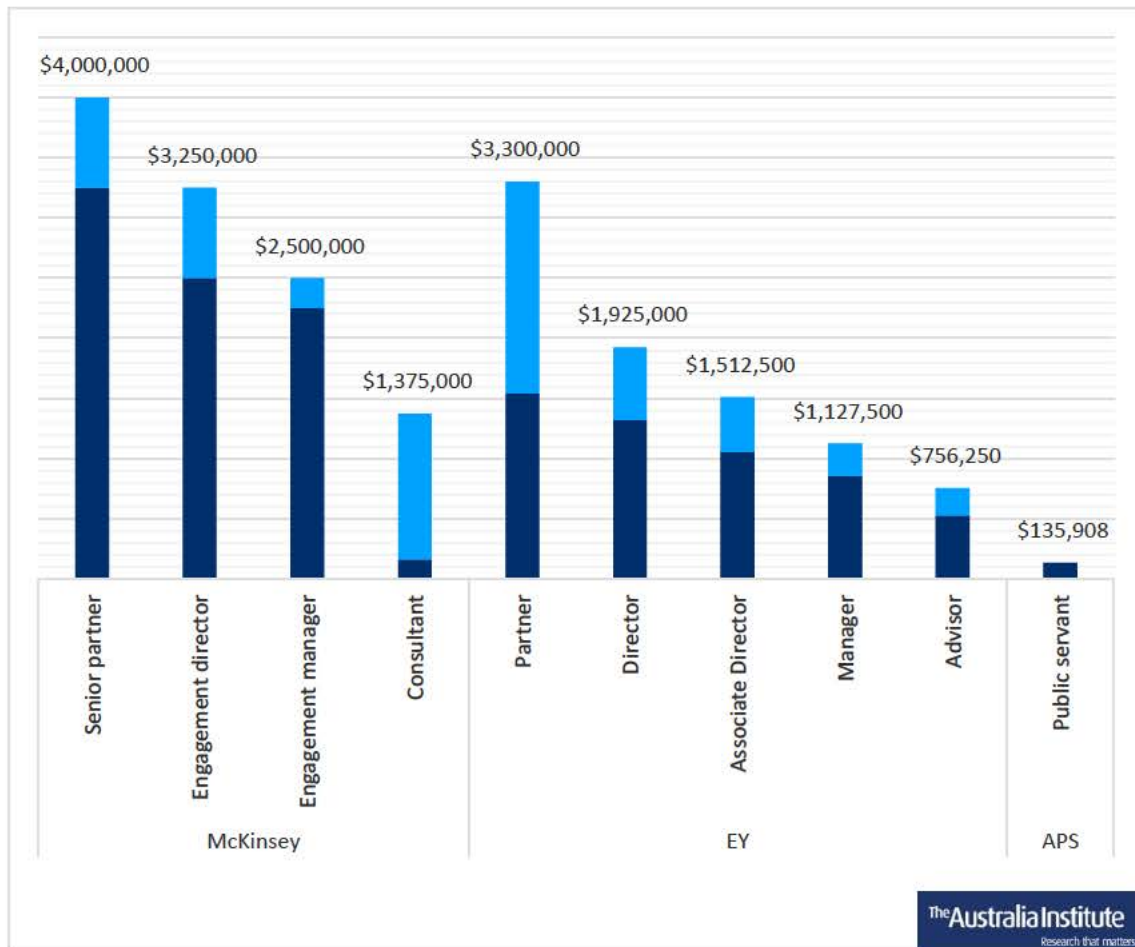
¹⁵ Correspondence with the Department of Finance (May 2023)

¹⁶ ACT Government (2020) *Standard Costing Parameters 2020*, https://www.treasury.act.gov.au/__data/assets/pdf_file/0006/1622427/Standard-Costing-Parameters-2020.pdf; these numbers for ‘standard’ public servants. There are separate costings for frontline staff, for example, nurses, firemen and teachers.

¹⁷ 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>

¹⁸ Mizen (2022) *Accenture beats the big four in record \$2b for Canberra work*

Figure 1: Quoted fees for 250 days versus average public servant cost (including estimated on-costs)



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>; 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>; Department of Industry, Science, Energy and Resources (2020) *Deed of Standing Offer for the Provision of Services number PRI-00004295*, p. 51; correspondence with the Department of Finance (2023); ACT Government (2020) *Standard Costing Parameters 2020*, https://www.treasury.act.gov.au/__data/assets/pdf_file/0006/1622427/Standard-Costing-Parameters-2020.pdf

The Department of Defence and its capability to manage numerous very large, complex contracts

Some Defence consultancies are contracted to “insiders” – former Defence officials or prominent former Defence leaders such as Sir Angus Houston and the Hon. Stephen Smith. There are no national security implications attaching to such contracts – the former officials and leaders have already been cleared. But to judge from the final product, there are questions of competency. The Defence Strategic Review, for example, is not an especially well-argued or persuasive document.¹⁹

Other Defence consultancies are contracted out to senior former US military officers, and again there are no national security issues relating to such contracts. There may, however, be some concerns regarding competencies and experience/expertise regarding Australian policy development and defence planning, given the differences in scale and focus of the respective defence forces. There may also be issues relating to conflict of interest, given the experience and preferences of US senior military officers who have mature and long-term professional relationships with US Defence primes.

Many other defence contracts go to public tender, or restricted tender. There may be security implications for such contracts, though anyone doing sensitive business would be vetted by the vetting agencies and given the necessary briefings and clearances.

The over-riding consideration, however, is value for money, and given the amount of money that sloshes around Defence, one might question whether the outrageous fees commanded by many of the consultants represent a reasonable return on the dollar. As shown by the Auditor-General’s recent audit of Defence’s procurement of Hunter class frigates,²⁰ contracting does not necessarily deliver value for money.

¹⁹ For more, see Behm (2023) *DSR: A case of ‘so much for so little’?*

<https://www.theaustralian.com.au/special-reports/dsr-a-case-of-so-much-for-so-little/news-story/3e157aa0984571b0f1a047097b19de69>

²⁰ ANAO (2023) *Department of Defence’s procurement of Hunter class frigates*,

<https://www.anao.gov.au/work/performance-audit/departments-defences-procurement-hunter-class-frigates>