The Australia Institute
Research that matters.

Consultants: corrosive and conflicted

Submission to NSW inquiry into the Government's use of consultants

The problems attached to over-use of consultants are becoming clearer. The experience in New South Wales accords with the national experience: dependency on consultants hollows out public sector capacity and leads to bad government decisions. The NSW Government should reduce its use of consultants and have firmer rules for the consultants it does use. NSW Parliament should consider limiting political donations from contractors, an order for papers for consultants reports and requiring consultants to appear before Estimates.

Tony Shields
Alexia Adhikari
Rod Campbell
Bill Browne

August 2023

ABOUT THE AUSTRALIA INSTITUTE

The Australia Institute is an independent public policy think tank based in Canberra. It is funded by donations from philanthropic trusts and individuals and commissioned research. We barrack for ideas, not political parties or candidates. Since its launch in 1994, the Institute has carried out highly influential research on a broad range of economic, social and environmental issues.

OUR PHILOSOPHY

As we begin the 21st century, new dilemmas confront our society and our planet. Unprecedented levels of consumption co-exist with extreme poverty. Through new technology we are more connected than we have ever been, yet civic engagement is declining. Environmental neglect continues despite heightened ecological awareness. A better balance is urgently needed.

The Australia Institute's directors, staff and supporters represent a broad range of views and priorities. What unites us is a belief that through a combination of research and creativity we can promote new solutions and ways of thinking.

OUR PURPOSE – 'RESEARCH THAT MATTERS'

The Institute publishes research that contributes to a more just, sustainable and peaceful society. Our goal is to gather, interpret and communicate evidence in order to both diagnose the problems we face and propose new solutions to tackle them.

The Institute is wholly independent and not affiliated with any other organisation. Donations to its Research Fund are tax deductible for the donor. Anyone wishing to donate can do so via the website at https://www.australiainstitute.org.au or by calling the Institute on 02 6130 0530. Our secure and user-friendly website allows donors to make either one-off or regular monthly donations and we encourage everyone who can to donate in this way as it assists our research in the most significant manner.

Level 1, Endeavour House, 1 Franklin St
Canberra, ACT 2601
Tel: (02) 61300530
Email: mail@australiainstitute.org.au
Website: www.australiainstitute.org.au
ISSN: 1836-9014

Contents

Summary

This submission identifies that New South Wales faces similar problems arising from the over-use of consulting firms as those found at the federal level, as discussed in the Australia Institute's submission *Neither frank nor fearless.*

Over the last five years, NSW has spent over $1 billion on consulting firm contracts. Per capita, that is six times more than the amount Western Australia spends on consultants. This suggests that consultants have become over-used and entrenched, doing core government work at the expense of a skilled and capable public service. It also points to the potential savings that could arise from redirecting that funding to hiring more public servants.

The submission identifies case studies from NSW, which match the broader problems seen in other jurisdictions with the over-use of consultants.

- The NSW Department of Planning and Environment appears to have no capacity to assess the economic merits of major projects, particularly mining projects.
- NSW's *Guidelines for economic assessment of mining and coal seam gas proposals* are more developed than those elsewhere and are often referred to in planning processes in other states. Unfortunately, this modest success of the Guidelines has been used by the Department to further evade responsibility for the quality of the advice that it provides.
- In approving the state-owned Cobbora Coal Project, the Planning Department and the Planning Assessment Commission preferred favourable advice from a private consultant over a realistic assessment by NSW Treasury. As forecast by Treasury, the project was not financially viable and has been abandoned at considerable cost to the state and local community.
- KPMG offered seemingly contradictory advice to different government agencies regarding the Transport Asset Holding Entity, and by its own admission mishandled the potential conflicts of interest.
- A heritage architect alleges that the NSW Government shopped for a different consultant after he recommended heritage listing for the Powerhouse Museum.
- In both the Dendrobium coal mine extension and Narrabri Gas projects, the Department of Planning and Environment engaged a controversial, industry-aligned economist in the place of their usual consultants. It is difficult not to conclude that the Department shopped for a pro-industry opinion.
- A NSW Government-commissioned report from Deloitte that found carbon capture and storage would cost NSW $16 billion between 2019 and 2050 has never been released despite multiple requests.

This submission also identifies tens of thousands of dollars of political donations from the Big Four consulting firms to the Coalition and Labor.

These findings lead to seven recommendations:

1. Oversight of the NSW Government's use of consultants be strengthened.
2. Include public sector capacity building in consultancy contracts.
3. Improve data on the NSW Government's use of consultants.
4. Publish a clear and strict revolving door policy for public servants.
5. The NSW Parliament issue a standing order for papers, for the production of consultant reports and advice.
6. The NSW Parliament consider whether consulting firms could be called Budget Estimates when they have taken government work.
7. The NSW Government and Parliament review whether a ban on political donations and other contributions from big government contractors, including consulting firms, would be appropriate and, if so, how it might be implemented.

A final section covers developments at the federal level since we wrote *Neither frank nor fearless*, which we believe illuminate problems with consulting firms present in all jurisdictions.

Introduction

The Australia Institute welcomes the opportunity to make a submission to the inquiry into the NSW Government's use of consultants. Earlier this year we made a submission to, and appeared before, the Senate inquiry into the federal government's use of consultants. We have attached our submission, *Neither frank nor fearless,* and our answers to questions taken on notice. These particularly address the following terms of reference of the NSW Legislative Council inquiry:

> (d) whether consultants are being used strategically and offer value for money.
>
> (e) conflicts of interest and unethical behaviour.
>
> (f) the impact on public service capacity.
>
> (g) integrity and transparency.
>
> (h) "consultant shopping" and its impact.

Our supplementary submission, which discusses The Australia Institute's experience with economic consultants, particularly at the NSW level, is included as an appendix.

The term "consultant" is a broad one,[1] and the committee's terms of reference suggest that it is interested in covering the whole range of consulting services governments contract for. We understand that the consulting services provided by the Big Four firms, diversified professional services providers that began as accountants and auditors, might be quite different from the strategic consulting that McKinsey, Bain & Company and Boston Consulting Group specialise in. Services provided by boutique consultants may be different again. The Big Four receive the lion's share of NSW Government spending on consultants.[2]

Rather than focus on the merits or otherwise of particular types of consulting or the work of particular consulting firms, this submission goes back to the problems identified in *Neither frank nor fearless:* over-use of consultants 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. These problems are seen in New South Wales as well, and the Australia Institute's recommendations would help address them. As a general principle, consulting firms should not do core government work.

[1] A good introduction to the concept is Turner (1982) 'Consulting is more than giving advice', *Harvard Business Review,* https://hbr.org/1982/09/consulting-is-more-than-giving-advice

[2] Audit Office of NSW (2023) 'NSW government agencies' use of consultants', exhibit 2, https://www.audit.nsw.gov.au/our-work/reports/nsw-government-agencies-use-of-consultants

Problems with the over-use of consultants:

It undermines public service capability:

- Reliance on consultancies to do core government work has stopped the public service from developing skills and knowledge in-house.
- Contracts are inflexible when circumstances change, while public servants can be redeployed. In addition, good tendering depends on in-house knowledge.
- Consultancies can become entrenched, which increases their bargaining power, further diminishes public sector capability, and can lock departments and agencies into proprietary or otherwise arcane systems and processes.
- Consultancies offer poor value for money and take money that could better employ public servants.

It causes poor decision-making:

- Undue deference is paid to consultants. Examples abound of public figures repeating uncritically flawed analysis by consultants.
- Consultants are used to get desired advice, which results in consultant shopping. 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.
- Consultancies are often beset by conflicts of interest. The philosophy that "he who pays the piper calls the tune" encourages consultants to favour their corporate clients in advice that the consultants give government.
- Abuse of trust undermines government policy.
- There are particular misalignments of objectives between consultants and the public interest, including perverse incentives (a) to justify their fees by recommending sweeping changes, (b) to "satisfice" by doing the minimum required and (c) to recommend dramatic changes because the consultants are not the ones who have to implement them.

NSW problems with consultants

There is evidence that the use of consulting firms by the NSW government suffers from similar problems to those identified in other jurisdictions.

CONSULTANCIES UNDERMINE PUBLIC SERVICE

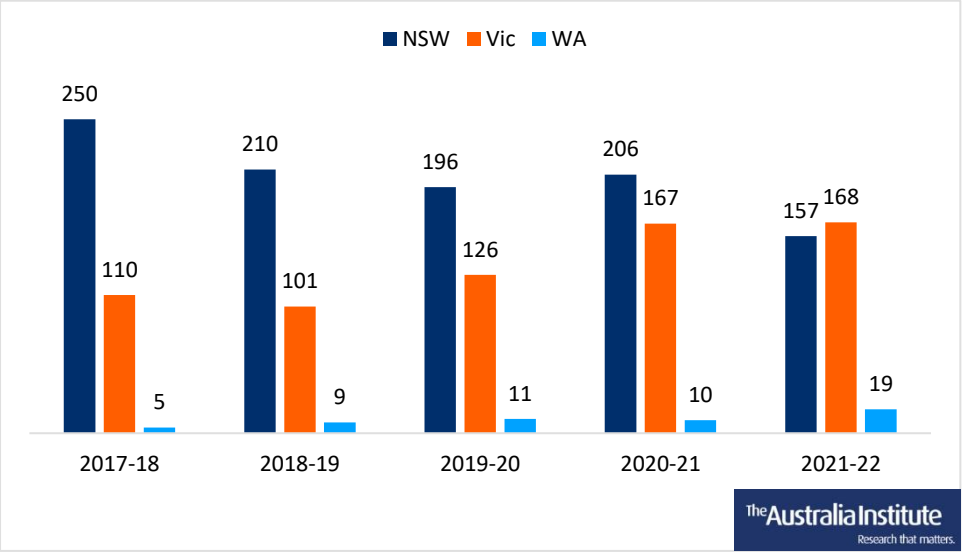
NSW spends comparatively more on consultants

The use of consulting firms for core government work leaves the public service hollowed out. The public service loses skill and capacity to the private sector. Eventually, the public service can struggle even to tender for and assess the quality of work done by consulting firms – since these require the same knowledge and experience that have been outsourced.

Data on the use of consulting firms is not standardised across jurisdictions. However, data from Western Australia suggests that the use of consultants by NSW (and Victoria) is much greater than it needs to be. As shown in Figure 1 below, the NSW Government spent an average of $200 million a year on consultants for the five years to June 2022 (albeit declining over that time) and the Victorian Government spent an average of $135 million per year over the same period.

By contrast, the Western Australian Government spent an average of only $11 million per year, although it has increased in recent years. On a per capita basis, NSW still spends six times as much on consultants as WA does. This money could be better spent on hiring public servants.

Figure 1: Spending on consultants by NSW, Victorian and WA governments ($m)



Source: Audit Office of NSW (2023) 'NSW government agencies' use of consultants', https://www.audit.nsw.gov.au/our-work/reports/nsw-government-agencies-use-of-consultants; VAGO (n.d.) 'Departments' reported consultant spend: 2017–18 to 2021–22', https://www.audit.vic.gov.au/dashboards/departments-reported-consultant-spend-2017-18-2021-22; WA Parliament (n.d.) 'Report on consultants engaged by government (reports for the six months ended…)', https://parliament.wa.gov.au/Test/Tables.nsf/screenLaunch

Note: Data is not strictly comparable because of different reporting requirements, particularly disclosure thresholds.

One measure in WA that may contribute to the state's lower spend on consulting firms is the requirement that entities must entities liaise with, and seek approval from, the WA Department of Premier and Cabinet before engaging consultants for strategic advice (for contracts of $50,000 or more). This allows for a second opinion, and makes it harder to default to using consultants out of institutional inertia. A 2019 report by the WA Auditor-General found that "entities were generally complying with" this requirement.[3]

NSW has an approval process, but it is for projects worth more than $275,000 (notably, it applies to more than just strategic consulting).[4] The vast majority of NSW Government spending on consultants is for engagements above $50,000 (accounting for $141 million of the $157 million spend in 2021-22),[5] suggesting that lowering the threshold before NSW's approval process is triggered or adopting the WA requirement could be effective in controlling costs in NSW.

Assessment of mining projects and minimal capacity within public service

The NSW Department of Planning and Environment appears to have no capacity to assess the economic merits of major projects, particularly mining projects. In our experience, the Department has never made its own assessment of a project's financial or economic risks and strengths, likely job numbers, royalty payments, rehabilitation costs or other relevant economic impact. Like other aspects of the environmental impact statement (EIS) process, such as water impacts, biodiversity impacts, etc, the economic aspects of mining projects are assessed by consultants that are commissioned by proponents and submitted to the Department as part of the project assessment process.

As detailed in our Senate submission *Neither frank nor fearless* (reproduced in the appendix of this submission), the Department accepted consultant assessments with seemingly minimal scrutiny until two decisions by the NSW Land and Environment Court and others by

[3] 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

[4] Tadros (2019) 'Revealed: the maximum rates NSW will pay for consultants', *Australian Financial Review,* https://www.afr.com/companies/professional-services/revealed-the-maximum-rates-nsw-will-pay-for-consultants-20190829-p52luq

[5] Audit Office of NSW (2023) 'NSW government agencies' use of consultants', exhibit 1

the Planning Assessment Commission (PAC, now Independent Planning Commission, IPC). These decisions made it clear that the economic assessments commissioned by project proponents needed critical review.

Rather than developing this capacity within the Department, the process instigated by then-minister Pru Goward saw the Department commission external consultants to review the assessments of consultants commissioned by mining companies. These reviews were usually, but not always, commissioned. In some cases, mining companies would commission a third consultant to critique the Department's consultant's review of the mining company's first consultant (see the appendix for the example of the Hume Coal Project in the Southern Highlands).

Guidelines and consultants used to evade responsibility for quality of advice

Amid the controversy around economics consultants and mining planning decisions, Minister Goward also initiated an update of the relevant guidelines. This process saw the NSW Government commission at least five consulting groups to work on the update – Deloitte, ACIL Allen, Centre for International Economics, Vivid Economics and the Sustainable Development Group. The resulting 2015 NSW *Guidelines for economic assessment of mining and coal seam gas proposals* have not ended controversy around proponent-commissioned assessment, but have ensured assessments are at least broadly comparable. These *NSW Guidelines* are more developed than those elsewhere and are often referred to in planning processes in other states.

Unfortunately, this modest success of the Guidelines has been used by the Department to further evade responsibility for the quality of the advice that it provides. In 2021, the Department told the IPC that as long as economic assessment by mining company consultants was broadly consistent with the Guidelines, the Department paid little attention to the accuracy and integrity of the assessment. As long as guidelines have been arguably met, officials are content to take commissioned economic assessment "on its face". The IPC's Commissioner Cochrane pushed officials on this point during a public hearing:

> [IPC] MR COCHRANE: But your analysis of that really – hearing [Department official Mike Young's] comments, your assessment of that is really whether or not that approach was consistent with the relevant guidelines, not on the actual data that was used. Is that correct?
>
> [Department] MR SPROTT: Yes, whether the – sorry, Mike, you go.
>
> [Department] MR YOUNG: Go, Matt. You go. You go. That's fine.

> [Department] MR SPROTT: No. I was just going to clarify that, yes, our consideration has been whether the approach undertaken has been appropriately consistent with guidelines.[6]

At the risk of being repetitious – as long as mining industry consultants present analysis that technically complies with the *Guidelines*, the Department makes little "consideration" of the "actual data".

The exchange above is a quote from the IPC public hearing regarding the Mangoola Coal Continuation Project, a mine owned by tax haven-based multinational Glencore. The Department did not commission a review of Glencore's consultant's assessment, noting that Glencore had commissioned a second consultant to "peer review" the work of its first consultant. Both consultants are closely linked to the NSW coal industry.[7]

The IPC approved the Mangoola project, but rejected much of the economic assessment, concurring with The Australia Institute's criticisms of the methods and the Department's "statement that the applicant's EIS was prepared in accordance with the economic guidelines."[8]

The Department's decision not to at least commission its own review was surprising because Mangoola's consultant, Stephen Brown of Cadence Economics, had appeared against the Department in the NSW Land and Environment Court case on the Rocky Hill Coal Mine. This case was won by the Department with the court famously upholding the Government's refusal of the mine. Mr Brown used exactly the same methods assessing Mangoola that the Rocky Hill judgement described as "inflated", "not able to be tested and verified" and "plainly wrong".[9]

In The Australia Institute's view, the Department used the argument that Cadence Economics had complied with the Guidelines to ignore clear flaws in the economic assessment. The Department did know, or should have known, about these flaws because it had previously highlighted them in court.

---

[6] IPCN (2021) 'Transcript of Mangoola Coal Continued Operations project Public Hearing Day 2', https://www.ipcn.nsw.gov.au/resources/pac/media/files/pac/transcripts-and-material/2021/mangoola/210304-public-hearing-transcript-day-2.pdf

[7] DPIE (2021) 'Assessment report – Mangoola Coal COP', https://majorprojects.planningportal.nsw.gov.au/prweb/PRRestService/mp/01/getContent?AttachRef=SSD-8642%2120210201T045402.510%20GMT

[8] IPCN (2021) 'Mangoola Coal Continued Operations Project: Statement of reasons for decision', paragraph 239, https://www.ipcn.nsw.gov.au/resources/pac/media/files/pac/projects/2020/12/mangoola-coal-continued-operations-project-ssd-8642/determination/210426-mangoola-coal-continued-operations-project-ssd-8642--statement-of-reasons.pdf

[9] For full references and more detail see Campbell (2021) 'The banality of Anvil: Submission on the Mangoola Coal Project', *The Australia Institute,* https://australiainstitute.org.au/report/the-banality-of-anvil/

The *NSW Environmental Planning and Assessment Act 1979* s 10.6 states that it is an offence to provide false or misleading information in connection with a planning matter:

> A person must not provide information in connection with a planning matter that the person knows, or ought reasonably to know, is false or misleading in a material particular.[10]

In our view, the Department's officials and the consultant Cadence Economics are all in breach of this section of the Act.

Despite this, Mr Brown's career as an economic consultant has flourished. He is now a partner at major firm EY,[11] which continues to use the same discredited methodologies in coal mine assessments.[12]

Consultant advice being preferred to public service advice in Cobbora Coal Project

In 2015 the Planning Assessment Commission approved the state-owned Cobbora Coal Project, located near Dunedoo. The commission was presented with conflicting advice between the consultant commissioned by the state-owned project that was supported by the Department of Planning and an assessment by NSW Treasury. Planning's consultant claimed that the project would have net benefit of between $1.9 and $2.1 billion, while the 2013-14 NSW Budget Papers stated:

> The final feasibility study for the Cobbora coal mine has confirmed that around $1.5 billion of capital expenditure is required to develop the Cobbora coal mine until it produces first coal. Forecast cash flows are insufficient to cover subsequent capital and operating expenditure over the life of the mine. The total loss to the Government, if arrangements are unchanged, would be in excess of $1.5 billion.[13]

Despite NSW Treasury finding the project was not financially viable, it was recommended for approval by the Department and subsequently approved by the Planning Assessment Commission. As forecast by Treasury, the project has never proceeded as it is not financially viable. It has imposed considerable costs on the community of Dunedoo, as many families

[10] *Environmental Planning and Assessment Act 1979* (NSW), http://classic.austlii.edu.au/au/legis/nsw/consol_act/epaaa1979389/s10.6.html

[11] EY (n.d.) 'Steve Brown', https://www.ey.com/en_au/people/steve-brown

[12] See for example Fernandez (2021) 'Ernst and Young rejects allegations it overvalued Tahmoor coal mine project by hundreds of millions', *ABC News,* https://www.abc.net.au/news/2021-03-03/mine-value-overstated-by-hundreds-of-millions-of-dollars/13201228

[13] For full references and further detail see Campbell (2014) 'Cobbora coal project: Submission to Planning and Assessment Commission', *The Australia Institute,* https://australiainstitute.org.au/report/submission-cobbora-coal-project/

left the area assuming the mine would proceed. It also imposed costs on NSW taxpayers through the Cobbora Transition Fund, which attempted to undo some of the damage inflicted on the community.[14]

CONSULTANCIES LEAD TO POOR DECISION-MAKING

TAHE

When a single firm advises multiple clients with conflicting objectives, it creates the potential for conflicts of interest. This is vividly illustrated by KPMG giving different advice to separate branches of the NSW Government on the proposed Transport Asset Holding Entity (TAHE).

The Transport Asset Holding Entity (TAHE) manages some of the state's transport assets, with the objective of "tak[ing] the annual maintenance and upgrade payments off the budget".[15]

KPMG worked for both Transport for NSW (TfNSW) and NSW Treasury despite the apparent conflict of interest. KPMG gave seemingly contradictory advice. KPMG's report to TfNSW by former partner Brendan Lyon "concluded that TAHE didn't work and would leave the state budget $10 billion worse off than Treasury had claimed" while KPMG's report to Treasury by former partner Heather Watson "argued TAHE would have no impact on the budget".[16] KPMG internal emails have since emerged where senior partner David Linke admits the conflicting advice was "difficult to reconcile", though KPMG later denied a conflict in correspondence with TfNSW.[17]

There are questions on which reasonable people can disagree. However, the fact that the same consulting firm gave contradictory advice to its different clients, and in both cases the advice favoured the general position of the agency that received it, raises concerns that the consulting firm was telling its clients what they wanted to hear.

[14] See for example Dunkley (2013) 'Cobbora Transition Fund announced', *ABC News,* https://www.abc.net.au/local/stories/2013/09/03/3839873.htm

[15] Burton (2021) 'NSW Treasury to delay federal approval for new transport agency', *Australian Financial Review,* https://www.afr.com/politics/nsw-treasury-to-delay-federal-approval-for-new-transport-agency-20211116-p599fz

[16] Ferguson (2023) ' "Still full of KPMG-shaped bullet holes in our backs": ex-partner on TAHE', *Australian Financial Review*, https://www.afr.com/companies/professional-services/still-full-of-kpmg-shaped-bullet-holes-in-our-backs-ex-partner-on-tahe-20220213-p59w10

[17] Tadros (2022) 'KPMG partner concedes TAHE 'conflict' in private email', *Australian Financial Review,* https://www.afr.com/companies/professional-services/kpmg-partner-concedes-tahe-conflict-in-private-email-20220213-p59w19

The scandal also illustrates the potential for conflicts of interest when a consulting firm has clients with conflicting agendas, even if ethical screens keep the teams themselves from coordinating.

Treasury took issue with the report for TfNSW, "and requested that all references to their advice about the fiscal model be removed".[18] This request presumably carried more weight with the consulting firm because Treasury was also a client of KPMG. The Public Accountability Committee concluded that "it was highly inappropriate for NSW Treasury to instruct Mr Brendan Lyon, former Partner, KPMG Australia, to amend his report, given the report was provided pursuant to KPMG's engagement with Transport for NSW".[19]

The NSW Auditor-General concluded that KPMG's perceived or real conflict of interest should have been managed by Treasury and TfNSW.[20] KPMG chief executive Andrew Yates has admitted that the firm mismanaged its conflict:

> We were in a complex situation. And the way that we would talk about that, is that we focus purely on the real conflict, 'were the two scopes of work operating independently of one another?' And they were.
>
> I'll say, again, we got it wrong. In terms of how we thought about that.[21]

Sixteen consulting firms worked on 36 contracts covering the design and implementation of the TAHE. KPMG was not the only firm employed by different agencies, with the Auditor-General finding "Boston Consulting Group was employed five times (three times by TfNSW and twice by TAHE) [and] Ernst and Young was employed eight times (seven times by TfNSW and once by TAHE)", although apparently only KPMG was employed by two agencies at the same time. The value of the TAHE consulting contracts jumped from the $12.9 million initial estimate to $22.6 million.[22]

Undue pressure on consultants and the seemingly contradictory results from reports from the same consulting firms suggest that NSW Government has employed consultants with an

[18] Audit Office of NSW (2023) 'Design and implementation of the Transport Asset Holding Entity', p 42, https://www.audit.nsw.gov.au/our-work/reports/design-and-implementation-of-the-transport-asset-holding-entity

[19] Public Accountability Committee (2022) 'Transport Asset Holding Entity', p ix, https://www.parliament.nsw.gov.au/committees/inquiries/Pages/inquiry-details.aspx?pk=2819#tab-reportsandgovernmentresponses

[20] Audit Office of NSW (2023) 'Design and implementation of the Transport Asset Holding Entity', p 9

[21] Kruger (2023) 'PwC tax scandal disturbing and unacceptable, says KPMG boss', *Sydney Morning Herald,* https://www.smh.com.au/business/the-economy/pwc-tax-scandal-disturbing-and-unacceptable-says-kpmg-boss-20230607-p5detj.html

[22] Burton (2023) 'Why big consulting is on the nose', *Australian Financial Review*, https://www.afr.com/politics/federal/why-big-consulting-is-on-the-nose-20230208-p5cixf; Audit Office of NSW (2023) 'Design and implementation of the Transport Asset Holding Entity', pp 40–42

eye to getting the findings it wants at the expense of public money, and with a personal and professional toll on the consultants caught in the middle.

Powerhouse Museum decision

A dispute involving consultants occurred in relation to the heritage status of the Powerhouse Museum.

Heritage architect Alan Croker alleges that after he drafted a conservation management plan that recommended heritage listing for the Powerhouse Museum, communications with Create NSW "stalled", the public response at consultations was misrepresented by Create NSW and his contract was terminated. A second company was then commissioned to produce a conservation management plan, which "categorised much of the museum as of low to moderate heritage significance".[23]

This account is disputed by the second company, which has contacted The Australia Institute with a different version of events.

The dispute between consultants demonstrates the potential for consulting shopping: it gives the NSW Government the flexibility to find the consultant who will tell the government what it wants to hear. Since consultants can reasonably disagree, there need not be any wrongdoing on the part of either consultant – they may sincerely believe what they are saying. If the Government deliberately chose that consultant over another because of their views, it would still represent an effort by the Government to present a limited, favourable picture to the public. Of course, this is exacerbated if consultant shopping (real or perceived) leads consultants to believe they must tailor their advice to stay in business.

If the NSW Government has a particular position, it should defend that position on its own merits – not hide behind consulting firms.

Industry-aligned consultant appointed to review controversial projects

As discussed above, several court and planning panel decisions led the NSW Government to revise guidelines for consultants' economic assessments of mining projects and led the Department of Planning and Environment to commission its own consultants to review the work of proponent-commissioned consultants.

[23] Burke (2023) 'Revealed: the 'buried' Powerhouse Museum report that could have stopped $500m redevelopment', *The Guardian*, https://www.theguardian.com/australia-news/2023/apr/25/revealed-the-buried-powerhouse-museum-report-that-could-have-stopped-500m-redevelopment

Usually, the consultants employed by the Department did not regularly consult to mining companies operating in NSW and had no obvious conflicts of interest. The most regularly used consultant has been the Centre for International Economics, which provided usually robust reviews. Other consultants used include BDA Group, Marsden Jacobs and BIS Oxford Economics.[24] While The Australia Institute does not always agree with the conclusions of these consultants, in our view, their work as reviewers for NSW Planning has always been critical, constructive and without obvious conflicts of interest. While this work should have been conducted internally by the Department, in most cases that we are aware of, the consultants engaged by Department provided reasonable advice and review.

Two projects stand out as exceptions to this acceptable standard of review by consultants for the Department. On these two occasions, highly politically sensitive projects were reviewed not by reasonably disinterested consultants, but by one of Australia's most controversial pro-industry economists, Brian Fisher and his consulting company BAEconomics.

Consultant shopping – Santos Narrabri Gas Project[25]

The first of these projects was the Narrabri Gas Project, a proposal by Santos to frack for gas in and around the Pilliga Forest in central-northern NSW. The project is highly contested by farming groups, traditional owners and environmental groups due to the potential impacts on groundwater, sensitive sites, native forest and climate change.

The economic and financial viability of the Narrabri Gas Project has long been questioned, particularly as Santos corporate reports have valued the project at nil since 2016. Despite approvals from state and federal governments, no final investment decision has been made. By contrast, the economic assessments commissioned by Santos and performed by consultants GHD and ACIL Allen suggest that the project has a net present value of between $1.5 billion and $2.1 billion.

This contradiction between the value of the project Santos reports to its investors and the values that consultants report to the NSW Government was highlighted in detailed submissions by The Australia Institute, Institute for Energy Economics and Financial Analysis and others.

Other consultants commissioned by the Department to review economic assessment of resource projects have typically produced reviews that are detailed and tens of pages long. The BAEconomics' "Final report" is barely one A4 page, endorsing the ACIL Allen report. It

[24] For detailed discussion on the work done by these consultants and the Narrabri Gas Project review by BAEconomics/Brian Fisher, see Ogge et al (2020) 'Fast and loose: Analysis of Santos's eleventh-hour Narrabri Gas Project documents', *The Australia Institute,* https://australiainstitute.org.au/report/fast-and-loose/

[25] For full references and detailed discussion on this section see Ogge et al (2020) 'Fast and loose: Analysis of Santos's eleventh-hour Narrabri Gas Project documents'

includes just one paragraph discussing the difference between the GHD and ACIL Allen assessments and the Santos book value of the project.

In its Assessment report, the Department relied heavily on the review by Brian Fisher to endorse the claimed economic benefits and avoid scrutinising these claims.

Consultant shopping – Dendrobium coal mine

The Dendrobium Mine Extension was a controversial proposal to extend a metallurgical coal mine under some of Sydney and the Illawarra's drinking water catchments. Cadence Economics (discussed above in relation to the Mangoola and Rocky Hill coal projects) were commissioned to conduct economic assessment for proponents South32. Cadence Economics estimated the value of the project at over $1 billion.[26]

The Department of Planning, Industry and Environment again commissioned Brian Fisher of BAEconomics to review the work of Cadence Economics, which was approvingly done in just four A4 pages.[27] The Department also commissioned Brian Fisher to write a more detailed *Review of the key economic interactions between the Dendrobium Mine and related entities in the Wollongong Region*.[28] This review suggested that the Dendrobium mine extension was important for a range of mining and industrial entities.

Despite these reports and the recommendation of the Department, the IPC refused the project as being not in the community interest, largely due to potential drinking water impacts.[29]

In both the Dendrobium and Narrabri Gas examples, the Department was under pressure to recommend approval of controversial projects. Instead of engaging its usual consultants with minimal links to the mining and gas industries, it engaged a controversial, industry-aligned economist. Given the prominence of Brian Fisher over decades, it is difficult not to conclude that the Department engaged him in the expectation of a pro-industry opinion. Dr Fisher obliged with simplistic reports supporting approval rather than the critical, detailed reviews of other consultants, that the community interest required.

[26] Cadence Economics (2019) 'Economic impact assessment of the Dendrobium Mine – plan for the future: coal for steelmaking', https://majorprojects.planningportal.nsw.gov.au/prweb/PRRestService/mp/01/getContent?AttachRef=SSD-8194%2120190724T060901.866%20GMT

[27] BAEconomics (2020) 'Review of the Economic Impact Assessment of the Dendrobium Mine Extension', https://majorprojects.planningportal.nsw.gov.au/prweb/PRRestService/mp/01/getContent?AttachRef=SSD-8194%2120201120T025048.706%20GMT

[28] BAEconomics (2020) 'Review of the key economic interactions between the Dendrobium Mine and related entities in the Wollongong Region'

[29] McLaren et al (2022) 'Australian company South32 scraps Dendrobium coal mine extension plans in NSW', *ABC News,* https://www.abc.net.au/news/2022-08-23/south32-scraps-dendrobium-coal-mine-extension-plans-nsw/101360104

Deloitte CCS work buried

A major criticism of consultants PwC during the Robodebt inquiry was that a key report critical of government policy was buried.[30] A similar phenomenon played out in the Coal Innovation NSW (CINSW) Fund regarding a commissioned report on carbon capture and storage (CCS).

The 2019 CINSW Fund Annual report states that Deloitte Access Economics was paid $84,366 for analysis of CCS, specifically a cost benefit analysis of the Darling Basin Drilling Program.[31]

The 2020 CINSW Fund Annual report says that $245,821 was paid to Deloitte in the 2019-20 year in relation to this CCS report. Deloitte gave a presentation to the CINSW meeting on 12 August 2019 that "demonstrated that the cost to NSW for CCS, including storage and transport, between 2019-2050 is approximately $16.432 billion. The Council decided stage 3 and 4 of Deloitte study were no longer required."[32]

This is a significant finding. CCS continues to be a recurring theme in Australian climate policy despite its many failures. A NSW Government-commissioned report from a prominent consultant that suggested overwhelming costs of CCS could play a significant role in this debate.

Unfortunately, CINSW has never released the Deloitte report. The Australia Institute has asked for it by email four times in January–February 2021, and again in 2023 while preparing this submission, with no response.

RECOMMENDATIONS

More details on these recommendations from a federal context can be found in *Neither frank nor fearless.*

1. Oversight of the NSW Government's use of consultants be strengthened.
2. Include public sector capacity building in consultancy contracts.

Governments should be thoughtful about how public sector capacity can be built and measured. Training sessions for public servants run by consultants may be effective, but it

[30] Robin (2023) 'PwC's $1m PowerPoint presentation all that's left of robo-debt assessment', *Australian Financial Review,* https://www.afr.com/rear-window/pwc-s-1m-powerpoint-presentation-all-that-s-left-of-robo-debt-assessment-20230523-p5daoy

[31] CINSW (2019) *Annual Report Coal Innovation NSW Fund 2018/19*, https://www.parliament.nsw.gov.au/tp/files/76857/CINSW%20Annual%20Report%20201819.pdf

[32] CINSW (2020) *Coal Innovation NSW: Income, expenditure and project evaluation October 2020*, https://www.dpi.nsw.gov.au/__data/assets/pdf_file/0003/1308054/CINSW-Annual-Report-201920.pdf

might be more effective to have mixed teams of public servants and consultants where public servants learn "on the job". Outcomes rather than process should be the priority.

3. Improve data on the NSW Government's use of consultants.
4. Publish a clear and strict revolving door policy for public servants.

Studies looking at other industries, including fossil fuel and the alcohol, food, and gambling industries, draw attention to the potential effects of revolving door posts on government decision making and policy influence and highlight the need for further research.[33] The 2019 Senate Committee on Finance and Public Administration recommended a five-year 'cooling off' period for post-Ministerial lobbying and advocacy activities,[34] but these kinds of restrictions need to be better enforced and monitored, and could include considerations of positions held prior to holding a government position.[35]

5. The NSW Parliament issue a standing order for papers, for the production of consultant reports and advice.
6. The NSW Parliament consider whether consulting firms could be called before Budget Estimates when they have taken government work.

Australia Institute polling research found 85% of respondents agree that consultants should be required to answer questions about their work when requested by parliament or other inquiries.[36]

If consultants do appear before Estimates, it should be alongside senior public servants and ministers, and the presence of management consultants should not be an excuse for senior public servants and ministers to redirect tricky questions or shift blame. The intention is that parliamentarians would make consultants give a full explanation of their advice and involvement, and ask senior public servants and ministers to explain how that advice affected government decision making.

[33] Lucas (2021) 'Investigating networks of corporate influence on government decision-making: The case of Australia's climate change and energy policies', *Energy Research & Social Science*, https://doi.org/10.1016/j.erss.2021.102271; Robertson et al (2019) 'The revolving door between government and the alcohol, food and gambling industries in Australia', *Public Health Research and Practice*, https://doi.org/10.17061/phrp2931921

[34] Commonwealth of Australia (2019) *Finance and Public Administration References Committee, Compliance by former Ministers of State with the requirements of the Prime Minister's Statement of Ministerial Standards*, p. 36, https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Finance_and_Public_Administration/MinisterialStandards/Report

[35] See Mulgan (2021) 'Regulating the post-employment of public officials: Australian experience in an international context,' *Australian Journal of Public Administration*, doi: 10.1111/1467-8500.12466

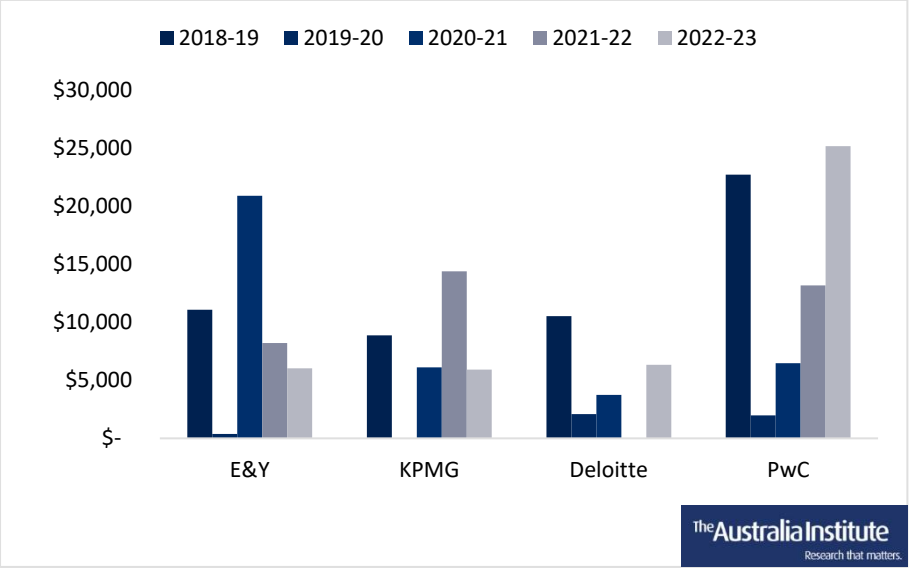
[36] The Australia Institute (2023) 'Four-in-five want PwC banned from new government contracts', *The Australia Institute,* https://australiainstitute.org.au/post/four-in-five-want-pwc-banned-from-new-government-contracts/

Donations in NSW from consulting firms

Academic research on corporate donations to political parties in Australia indicates that donations help to gain access and increase influence.[37]

Figure 2 shows donations registered through the NSW Electoral Commission (NSWEC) from the Big Four consulting firms to Labor and the Coalition for period 2018-19 to 2022-23. Many commentators have noted that due to the complexity and opacity in reporting systems much of the funds which political parties receive does not fall into the category of "donations".[38] Also, funds given at the national branch or other state (for example, Victorian) branch of a political party are not recorded in NSWEC data. For these reasons Figures 2 and 3 are likely to understate funds given to political parties.

Figure 2: Combined donations from Big Four to Coalition and Labor, 2018-19 to 2022-23



Source: NSWEC (2023) 'Disclosures made in relation to the 2018-19 financial year onwards' and 'Donations by district, disclosed for the 2023 NSW State election', https://elections.nsw.gov.au/funding-and-disclosure/disclosures/view-disclosures

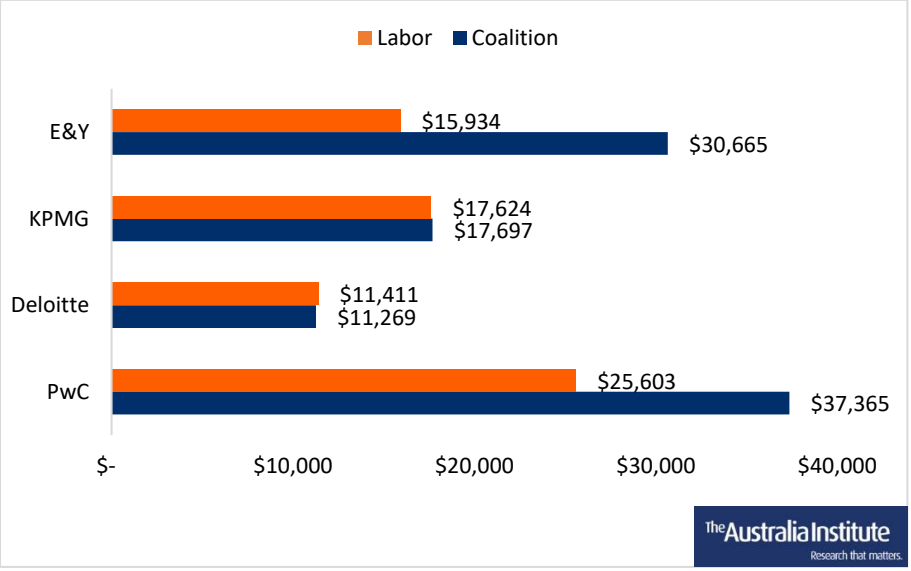
[37] Edwards (2017) 'Political donations in Australia: What the Australian Electoral Commission disclosures reveal and what they don't,' *Australian Journal of Public Administration*, doi: 10.1111/1467-8500.12283; Kypri et al (2019) 'If someone donates $1000, they support you. If they donate $100 000, they have bought you', *Drug and Alcohol Review,* doi: 10.1111/dar.12878

[38] Edwards (2017) 'Political donations in Australia: What the Australian Electoral Commission disclosures reveal and what they don't; Kypri et al (2019) 'If someone donates $1000, they support you. If they donate $100 000, they have bought you'

PwC's donations fell away after the election year of 2018-19 and then rose steadily each year until the 2022-23 election year.

Figure 3 shows the combined amounts donated to the Coalition and Labor from each of the Big 4 consulting firms for the period 2018-19 to 2022-23. The Coalition received $96,996 in donations and Labor received $70,572. PwC donated the most.

Figure 3: Donations to Coalition and Labor from the Big Four, 2018-19 to 2022-23.



Source: NSWEC (2023) 'Disclosures made in relation to the 2018-19 financial year onwards' and 'Donations by district, disclosed for the 2023 NSW State election'

RECOMMENDATION

PwC has announced it will stop making political donations.[39] The other Big Four consultancies (KPMG, EY, and Deloitte) are, so far, not following suit.[40] The Australia Institute recommends that:

7. The NSW Government and Parliament review whether a ban on political donations and other contributions from big government contractors, including consulting firms, would be appropriate and, if so, how it might be implemented.

[39] Ross (2023) 'PwC dumps political donations as new CEO prepares to land in Australia', *The Australian,* https://www.theaustralian.com.au/business/financial-services/pwc-dumps-political-donations-as-new-ceo-prepares-to-land-in-australia/news-story/112c079f5f8e1cbee190715f894cfcc2

[40] Belot (2023*)* 'KPMG and Deloitte refuse to join PwC in banning political donations in Australia', *The Guardian*, https://www.theguardian.com/australia-news/2023/jul/12/pwc-scandal-kpmg-deloitte-ban-political-donations

The extent of problems with consultants becomes clearer

Since The Australia Institute made its submission to the Senate inquiry, further problems with the over-use of consultants have emerged. While these are federal examples, they demonstrate the depth of the problem – which is by no means limited to a single bad actor or a single level of government.

The AFP's investigation into PwC

> Government Engages Consulting Firm PwC to Investigate How Confidential Treasury Information Was Shared by Consulting Firm
>
> – Satirical website The Shovel.[41]

The Australian Federal Police investigation into PwC is an eyebrow-raising illustration of the extent to which consultants have become embedded in government. As the scale and effects of the leaking of confidential tax information by PwC tax partner, Peter Collins, became clearer, Treasury referred Mr Collins and PwC to the Australian Federal Police.[42] PwC has been the 'consultant of choice' for the AFP. Since January 2021 PwC has completed or won 24 contracts to provide the AFP with the following services:

- Auditing.
- Management consulting services.
- Software support.
- Strategic planning.
- Analysis services.
- Recruitment review services.
- Enabling services review.[43]

Private consultants may be needed in limited circumstances to provide skills that are not held in house (and are not worth bringing in house because they are only needed for a short time or a specific purpose). However, the dependence on consulting firms across core areas

[41] The Shovel (2023) 'Government engages consulting firm PwC to investigate how confidential Treasury information was shared by consulting firm PwC', *The Shovel*, https://theshovel.com.au/2023/05/17/government-engages-consulting-firm-pwc-to-investigate-pwc/

[42] Ross (2023) 'PwC preparing report on "accountability" as investigation into tax leak continues', *The Australian*, https://www.theaustralian.com.au/business/financial-services/pwc-preparing-report-on-accountability-as-investigation-into-tax-leak-continues/news-story/

[43] Australian Government (n.d.) *AusTender*, https://www.tenders.gov.au/

suggests that internal skills and capacity have not been cultivated. Relying on a single consulting firm further multiplies conflict of interest issues. The AFP commissioner said he had the "utmost confidence" the right systems are in place to avoid any conflict of interest.[44]

Developments in the PwC tax scandal

Developments in the PwC scandal have illustrated how damaging the consequences of using consultants can be.

The problem was not limited to a few "bad apples". Former PwC director Tracey Murray has alleged that aspects of the firm's tax leaks scandal would been widely known within the firm's tax practice[45] and PwC has confirmed that 63 current and former staff received confidential information.[46] PwC claims it will name all staff involved after an internal investigation,[47] although the internal investigation has been criticised by Labor Senator Deborah O'Neill and Greens Senator Barbara Pocock as an exercise in damage control and not what is needed.[48] The Tax Practitioners Board is investigating PwC's failure to report Mr Collins' confidentiality breaches.[49]

[44] Basford Canales (2023) 'Australian Federal Police grilled over PwC links after Treasury refers for investigation', *Canberra Times*, https://www.canberratimes.com.au/story/8209622/afp-top-cop-received-text-from-pwc-friend-after-scandal-broke/

[45] Tadros (2023) 'Deloitte CEO defends $3.5m pay amid calls for reform, royal commission', *Australian Financial Review*, https://www.afr.com/companies/professional-services/deloitte-ceo-defends-3-5m-pay-amid-calls-for-reform-royal-commission-20230717-p5doyk

[46] Barrett (2023) 'PwC Australia names former partners it says misused confidential information in tax scandal', *The Guardian,* https://www.theguardian.com/business/2023/jun/05/pwc-australia-names-former-partners-it-says-misused-confidential-information-in-tax-scandal

[47] Belot (2023) 'PwC to publicly name all staff involved in tax scandal, inquiry told, *The Guardian,* https://www.theguardian.com/australia-news/2023/jun/26/pwc-has-been-accused-of-trying-to-phoenix-its-staff-back-into-business-with-government

[48] Ravlic (2023) 'PwC internal inquiry under fire as government plans stricter review on the use of consulting firms', *SmartCompany,* https://www.smartcompany.com.au/business-advice/legal/pwc-internal-inquiry-government-review-consulting-firms/

[49] Chenoweth and Tadros (2023) 'Tax regulator probes failure to report PwC leaks scandal', *Australian Financial Review,* https://www.afr.com/companies/professional-services/tax-regulator-probes-failure-to-report-pwc-leaks-scandal-20230607-p5deto

The NSW Government has temporarily banned PwC from working on tax projects[50] and the federal government has reportedly effectively banned PwC from any new contracts.[51] Despite this, the firm still appears to be securing federal government contracts.[52] In a legal manoeuvre Senator Barbara Pocock has equated to "phoenixing" in the construction industry,[53] PwC has sold its government consulting arm to private equity company Allegro Funds for one dollar. The new business is called Scyne Advisory.[54]

The system itself is dysfunctional

> I have absolutely no doubt that this is not contained to PwC. What this demonstrates is that the system itself is so dysfunctional … that it is no longer possible, even in theory, to uphold the public good.
>
> Associate Professor Andy Schmulow[55]

Events with other consultants show problems lie with the consulting model in general, rather than being limited to the PwC tax scandal or PwC more generally.

Further evidence has emerged of consulting firms making improper use of government information:

- *The Age* reports that "A former Deloitte partner leaked confidential Australian Defence Department documents he obtained while working at Deloitte to associates at a new business he founded and which was seeking to win its own military contracts."[56]

[50] Maddison (2023) 'NSW bans PwC from future tax work, as inquiry prepares to examine the use of consultants', *The Australian*, https://www.theaustralian.com.au/business/nsw-bans-pwc-from-future-tax-work-as-inquiry-prepares-to-examine-the-use-of-consultants/news-story/c670648fcdd3ca572cd73fc45f89ef65

[51] Tadros et al (2023) 'PwC shut out of future federal contracts', *Australian Financial Review*, https://www.afr.com/companies/professional-services/pwc-effectively-banned-from-government-contracts-20230525-p5dbde

[52] Ross (2023) 'PwC awarded three new government contracts under new finance rules', *The Australian,* https://www.theaustralian.com.au/business/financial-services/pwc-awarded-three-new-government-contracts-under-new-finance-rules/news-story/42002a206e11e97d56001249964b07af

[53] Belot (2023) 'PwC to publicly name all staff involved in tax scandal, inquiry told, *The Guardian,* https://www.theguardian.com/australia-news/2023/jun/26/pwc-has-been-accused-of-trying-to-phoenix-its-staff-back-into-business-with-government

[54] Ross (2023) 'PwC awarded three new government contracts under new finance rules'

[55] Belot (2023) 'Deloitte admits misuse of government information as scandal engulfing PwC widens', *The Guardian,* https://www.theguardian.com/business/2023/jul/14/deloitte-misuse-of-government-information-senate-inquiry-pwc-scandal

[56] McKenzie and Crowe (2023) 'Ex-Deloitte partner used confidential Defence documents to win work for his new business', *The Age*, https://www.theage.com.au/politics/federal/ex-deloitte-partner-used-confidential-defence-documents-to-win-work-for-his-new-business-20230719-p5dpka.html

- The federal Auditor-General has warned PwC for misusing confidential information gained from meetings it attended as a strategic partner to the Department of Agriculture, Fisheries and Forestry (DAFF). PwC used the information to make unsolicited proposals to DAFF to carry out extra work. That included "an instance where the strategic partner offered an Information Technology solution [to the department] as a result of insights gained by the strategic partner firm from attending [executive leadership team] meetings".[57]

Consulting firms and government have been enmeshed in issues of conflict of interest:

- Deloitte failed to disclose conflicts of interest in contracts with the Department of Home Affairs and Australian National Audit Office (ANAO). Home Affairs terminated the contract after it found out about the conflict of interest. The ANAO engaged Deloitte to audit a government agency's environment, social and governance data while it was also engaged by that agency to audit its financial statements.[58]
- The federal government paid KPMG to audit aged care facilities while KPMG was advising the aged care providers on audits and accreditation.[59]
- EY charged $200,000 for completing an independent review of overseas carbon credit programs for the Climate Change Authority which found the US-based Verra and Gold Standard were the best providers. EY was working for Verra and neglected to mention controversy around US$1 billion in rainforest credits sold by Verra.[60]

Further evidence of consultants providing poor value for money have emerged, with KPMG accused of repeatedly wasting public money while employed by the Department of Defence.[61]

An example of how the public sector has become hollowed out through prolonged and extensive use of consultants is the Department of Finance bringing in a consultant to help the department decide how to engage best with PwC and its spin-off Scyne.[62]

[57] Chan (2023) 'PwC warned for using confidential information to suggest more work for Australian agriculture department', *The Guardian*, https://www.theguardian.com/australia-news/2023/may/24/pwc-warned-for-using-confidential-information-to-suggest-more-work-for-australian-agriculture-department

[58] Belot (2023) 'Deloitte admits misuse of government information as scandal engulfing PwC widens'

[59] Belot (2023) 'KPMG Australia launches internal review after potential conflict-of-interest concerns raised', *The Guardian*, https://www.theguardian.com/australia-news/2023/jun/27/kpmg-australia-launches-internal-review-after-potential-conflict-of-interest-concerns-raised

[60] Wootton (2023) 'EY cashes in on offset conflicts', *Australian Financial Review,* https://www.afr.com/rear-window/ey-cashes-in-on-offset-conflicts-20230525-p5db69

[61] Grigg and Longbottom (2023) 'Shadow state: How consultants infiltrated government', *Four Corners,* https://www.abc.net.au/news/2023-07-28/shadow-state:-how-consultants-infiltrated/102662342

[62] Belot (2023) 'Finance department hires consultant to advise on hiring consultants in move compared to ABC's Utopia', *The Guardian,* https://www.theguardian.com/australia-news/2023/aug/03/australian-finance-department-hires-consultant-to-advise-on-hiring-consultants-in-move-compared-to-abcs-utopia

Conclusion

The PwC tax scandal has made the problems with government over-use of consulting firms much more prominent, but they were always there. Neither level of government has avoided these problems altogether, and they are present regardless of which side of politics is in power.

Public servants, not consultants, should do the core work of government. Procurement rules should ensure that consultants present real value for money and address conflicts of interest both real and perceived. A healthy scepticism should apply regarding the quality of and motivations behind the advice furnished by consulting firms. Where governments rely on the advice of consultants to justify their decisions, that advice should be publicly available and the consultants who furnished it required to explain and justify it.

Appendix: Australia Institute experience with economic consultants

First published in the Australia Institute's submission to the inquiry into management and assurance of integrity by consulting services. Gillespie Economics' response has also been published by the committee.[63]

The Australia Institute's experience with state government planning processes provides clear evidence of the use of consultants at the expense of public service capacity, and can serve as an extended case study. Our experience relates mainly to commissioned economic assessment of mining proposals, but the same undermining of public service capacity is likely to occur in other fields.

Most state planning processes provide decision makers with estimates of job numbers, royalty payments and other economic impacts that a proposed mine could create. Making such estimates requires some training and experience in project assessment and cost benefit analysis, but such skills should, in our view, be widely held within most public agencies. These skills should certainly be developed within state and federal planning, economic and environment departments. Unfortunately, they seem to be almost entirely absent from planning departments in most states, particularly New South Wales (NSW), Queensland and the Northern Territory.

Ideally, a public servant or small team would obtain the relevant data from project proponents and make basic estimates of employment, royalties, and other key data to inform approval decisions. Instead, this work is invariably carried out by consultants commissioned by the mining companies and then submitted to state authorities.

From 2008 to 2013, every economic assessment of a coal mine in NSW that we are aware of was carried out by a single consultant, Gillespie Economics. With tens of coal projects commissioning work, Gillespie Economics had a strong incentive to provide favourable economic assessments for coal company clients. Gillespie Economics' assessments were accepted at face value by NSW Planning until local community groups began requesting

[63] Gillespie Economics (2023) '13.1 Response to comments made by Australia Institute', https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Finance_and_Public_Administration/Consultingservices/Submissions

reviews by The Australia Institute and not-for-profit group Economists at Large.[64] This is a clear example of the conflict of interest between the public and private-sector clients of a single consulting firms. As research has shown, consultants working on behalf of the fossil fuels industry have 'infiltrated' Australian governments to influence favourable policies.[65] The Australia Institute critiqued many Gillespie Economics assessments during that period and found that, without exception, the benefits of coal mines were overstated and their costs were understated.[66]

Despite these critiques, the NSW Planning Department continued to accept Gillespie Economics assessments as it lacked any capacity (or requirement) to assess competing economic arguments. However, when Gillespie Economics' claims were tested in court they were found wanting. In the landmark case against the Warkworth Mine, the NSW Land and Environment Court was critical of Gillespie Economics. It found that that "the economic assessments do not support the conclusion that the economic benefits of the project outweigh the environmental, social and other costs."[67] Gillespie Economics work was also panned in the Ashton Coal case,[68] and then by the Planning Assessment Commission (now Independent Planning Commission, or IPC) decision on the Wallarah 2 project. Following the Wallarah 2 criticism, then-Planning Minister Pru Goward undertook to ensure the claims of consultants were better scrutinised.[69]

However, hopes that Minister Goward would build the capacity of the NSW Planning Department were soon dashed. Rather than train and support economists in the public service, NSW Planning began to commission economic consultants to peer review the claims

[64] See for example Campbell (2012) *Coborra Coal Project – review of economic assessment and trip to Dunedoo,* http://www.ecolarge.com/coborra-coal-project-review-of-economic-assessment-and-trip-to-dunedoo/

[65] Lucas (2021) *Investigating networks of corporate influence on government decision-making: The case of Australia's climate change and energy policies*, https://doi.org/10.1016/j.erss.2021.102271

[66] See for example Campbell (2014) *Report on proposed Watermark Coal Project*, https://australiainstitute.org.au/report/report-on-proposed-watermark-coal-project/; Campbell and Denniss (2014) *SUBMISSION: Terminal 4 Project*, https://australiainstitute.org.au/report/submission-terminal-4-project/

[67] *Bulga Milbrodale Progress Association Inc v Minister for Planning and Infrastructure and Warkworth Mining Limited* [2013] NSWLEC 48, available at: https://elaw.org/bulga-milbrodale-progress-association-inc-v-minister-planning-and-infrastructure-and-warkworth

[68] See Ray (2014) *Win for residents as Wendy Bowman locks gate on Ashton's Camberwell mine expansion*, https://www.newcastleherald.com.au/story/2779384/locking-the-gate-on-mine-expansion/. Judgement available at: *Hunter Environment Lobby Inc v Minister for Planning and Infrastructure (No 2) [2014] NSWLEC 129*, https://www.caselaw.nsw.gov.au/decision/54a63ed83004de94513dc3c7

[69] Mckenny and Whitbourn (2014) *Mining assessments to be beefed up after scathing review*, https://www.smh.com.au/national/nsw/mining-assessments-to-be-beefed-up-after-scathing-review-20140616-zs9sd.html

of the economic consultants hired by mining companies.[70] In response, mining companies hired yet more consultants to provide peer review of these peer-reviewed reports.

This process reached farcical levels with the Hume Coal Project, proposed for near Berrima in the NSW Southern Highlands, which saw:

- A February 2017 Economic impact assessment for the initial environmental impact statement (EIS) commissioned by Hume Coal from BAEconomics, led by Dr Brian Fisher.
- An October 2017 updated economic impact assessment, conducted by BAEconomics for Hume Coal.
- A December 2017 Review of the initial economic assessment, commissioned by the Department of Planning from BIS Oxford Economics.
- A January 2018 response from BAEconomics to the BIS Oxford Review.
- An October 2018 updated economic impact assessment, conducted by BAEconomics for Hume Coal.
- A December 2018 further comment on economic impact assessment by BIS Oxford Economics.
- A March 2020 further updated Economic impact assessment, conducted by BAEconomics for Hume Coal
- A March 2020 peer review, conducted by the Stoeckel Group of the latest assessment by BAEconomics, both commissioned by Hume Coal.

All these reports, even those commissioned by the Department of Planning, suggested that the project would result in a net benefit to the NSW community. But these findings were contradicted by both the Department's recommendation and the ultimate determination by the IPC that "the stated benefits of the Project do not outweigh the adverse environmental, social and economic impacts."[71] This result would have been plain from the outset to any frank and fearless public servant who had received proper training and support.

These state planning system consultancies also have influence in the federal sphere. The economic claims made in commissioned reports for state processes are often used as justification for project assistance in other contexts. A key example was then-Prime Minister Malcolm Turnbull seemingly quoting research commissioned by Adani for its Carmichael Mine, claiming it would create "tens of thousands" of jobs. This claim was used not only to

[70] See for example Center for International Economics (CIE) (2016) *Peer review of economic assessment Wallarah 2 Coal Projec*t, https://majorprojects.planningportal.nsw.gov.au/prweb/PRRestService/mp/01/getContent?AttachRef=SSD-4974%2120190226T123216.892%20GMT

[71] IPCN (2021) Hume Coal Project and Berrima Rail Project: Statement of reasons, https://www.ipcn.nsw.gov.au/resources/pac/media/files/pac/projects/2021/06/hume-coal-project/determination/210831-hume-coal-and-berrima-rail-statement-of-reasons.pdf

lobby for approval from the Queensland Government, but also for subsidised loans from the Federal Government.[72]

The source of Adani's jobs claim was not an independent assessment by a Treasury or planning department official, but a report from consulting firm GHD. GHD wrote a 2013 economic assessment for the Carmichael Mine Supplementary Environmental Impact Assessment, which estimated that the project would increase employment by over 10,000 people in the 2030s.[73] This estimate was based on discredited methodology that is widely understood within the economics profession. GHS's claims were famously rejected by another consultant representing Adani in court, ACIL Allen's Jerome Fahrer, who estimated the project would increase employment by just 1,300 jobs.[74]

Economics consultants have no professional governance or standards. There are no repercussions for consultants if they are wrong or if they inflate a client's case. This is not the case for other professions. Doctors, accountants or plumbers that have carried out work found to be faulty can be punished or deregistered. While there are no consequences for private consultants, standards are more likely to be applied to economists working within the public service, where some degree of accountability is generally required.

[72] Crowe (2017) *Adani mine has 'huge economic benefits' for Australia, Turnbull says*, https://www.theaustralian.com.au/nation/foreign-affairs/adani-mine-has-huge-economic-benefits-for-australia-turnbull-says/news-story/76322acfc4bed6073f1f4b6c2001676d

[73] GHD (2013) *Carmichael Coal Mine and Rail Project SEIS: Report for Economic Assessment*, available on request

[74] Robertson (2015) *Adani coalmine would not deliver jobs and royalties promised, land court hears*, https://www.theguardian.com/australia-news/2015/apr/27/adani-coalmine-would-not-deliver-jobs-and-royalties-promised-land-court-hears