

**INQUIRY INTO NSW GOVERNMENT'S USE AND
MANAGEMENT OF CONSULTING SERVICES**

Organisation: Southern Youth and Family Services

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Submission Inquiry NSW Government Use and Management of Consultants July 2023

17th July 2023

Ms Abigail Boyd, MLC
Chair, Public Accountability and Works Committee
Parliament House
Macquarie Street
Sydney. NSW. 2000.

Dear Ms Boyd,

RE: Inquiry into the NSW Government's use and management of consulting services

Thank you for conducting this important inquiry into the NSW Government's use and management of consulting services and for the opportunity to make a submission. In recent months, evidence has emerged of the egregious abuse of public trust committed by the accounting and consulting firm PwC.¹ The Australian Senate's Finance and Public Administration References Committee's investigation of this episode has found that, far from being an aberration, PwC's use of information to which it was entrusted by the Federal Treasury to enable its private clients to avoid paying tax, was not an oversight but a 'calculated breach of trust' and part of a 'deliberate strategy'.² Nor can we dismiss what happened at PwC as an isolated incidence of malpractice. Recent studies have found that such practices are rife within the consulting industry. These practices have been enabled by the excessive dependency by governments around the world on management consultants.³

As a leading community-based provider of social services, Southern Youth and Family Services (SYFS) has direct experience of the damage excessive reliance on external consultants has done to the community sector. Over the past 30 years, we have witnessed an erosion of trust in the relationship between government and the community sector as management consultants are brought in to justify sweeping changes to social policy. These changes are often detrimental to outcomes for people who are disadvantaged and lead to a reduction in the capacity of both the public service and the community sector.

We call on this Committee to issue a strong finding to limit severely the use of external consultants by the NSW Government, particularly in social policy.

About Southern Youth and Family Services

Southern Youth and Family Services (SYFS) provides services to children, young people, adults, and families in the Illawarra Shoalhaven and Southern districts of New South Wales. The organisation was established in 1977, when a group of people in Wollongong who were concerned about homelessness and young people came together to establish a youth refuge. It opened its first service in January 1979 and has since grown to over 200 employees and 47 services. These services include supported accommodation, housing, outreach, early

¹ Henry Belot, "'Disgraceful Breach of Trust': How PwC, One of the World's Biggest Accountancy Firms, Became Mired in a Tax Scandal," *The Observer*, May 12, 2023, sec. Business, <https://www.theguardian.com/business/2023/may/12/disgraceful-breach-of-trust-how-pwc-one-of-the-worlds-biggest-accountancy-firms-became-mired-in-a-tax-scandal>.

² Finance and Administration References Committee, *PwC: A Calculated Breach of Trusts* (Australian Senate: June 2023)

³ Walt Bogdanich and Michael Forsythe, *When McKinsey Comes to Town: The Hidden Influence of the World's Most Powerful Consulting Firm* (London, UK: Jonathan Cape, 2022); Mariana Mazzucato and Rosie Collington, *The Big Con: How the Consulting Industry Weakens Our Businesses, Infantilizes Our Governments, and Warps Our Economies* (New York: Penguin Press, 2023).



intervention, financial and material assistance, skill development, psycho-social support, advocacy, information and referral, health and personal care, education, training, and pre-employment support, a mobile preschool, and a multicultural playgroup. In 2022/23 SYFS provided substantial support to 5,401 young people and 2,970 families. In addition, we provided 15,048 instances of one-off or casual support. Our programs are funded through a number of Commonwealth and State funding agreements. We also obtain grant funding from governmental and private funding bodies and receive philanthropic donations from individuals and organisations in the communities where we operate.

Use of Consultants in the Community Sector

Over the past 30 years, the introduction of New Public Management and other forms of neoliberal governance in the public sector has led to the ever-greater reliance by government on the advice of external management consultants.⁴ As governments have come to rely more on consultants, they have shown less and less interest in genuine engagement with the community sector. Community organisations have been subjected to increasing levels of control over our advocacy activities and funding models have shifted from guaranteed, long-term funding models to competitive tendering for short-term funding. Many of these changes have been urged on by private sector consultants and other ‘experts’ without input or consultation from the community sector.

One example in the past where consultants were used was with the NSW Out of Home Care Program Reform in 2016. Consultants Ernst and Young (EY) were contracted by the NSW Department of Community Services to develop the reforms and costings. The costings for residential services were incorrect, despite evidence provided by the Service Providers. This led to funding deficit for several years until the end of 2020/2021, when a funding uplift was agreed to. A second example is the NSW Going Home Staying Home reform of Specialist Homelessness Services in 2014, which led to a range of unintended or intended consequences including forced amalgamations and partnerships. PwC were part of the tender assessment process that was introduced through this reform. The process was not well explained or well supported in the Sector.

Currently, two of our program areas, the Specialist Homelessness Services and Targeted Early Intervention programs, are undergoing evaluations involving management consultancies working under contract with the Department of Communities and Justice. The Targeted Early Intervention Evaluation is being conducted by an evaluation team made up of Taylor Fry in partnership with Social Ventures Australia and Gamarada Universal Indigenous Resources, with a final report due 1 May 2024. The Specialist Homelessness Services are being evaluated by Ernst and Young (EY) with an evaluation due mid-year. The evaluations will provide a basis for consultation on future service designs and commissioning processes.

SYFS’ recent experience with the use of Insight Consulting Australia (ICA) for consultation on the future Homeless Youth Assistance Program (HYAP) service design and commissioning processes leaves us with little confidence that these consultation processes will result in improved services or processes. An evaluation of HYAP conducted by the Centre for Evidence and Implementation and Monash University found that the program was achieving good outcomes for vulnerable children aged 12 to 15 years who were at the early stages of risk, the target cohort. It was less effective for highly vulnerable children of this age who have a statutory child protection history.⁵ As a result of these findings, DCJ undertook a consultative process to inform a reconfiguration of HYAP within existing funding levels. DCJ engaged ICA to undertake the consultation process as well as an evidence review of effective youth homelessness assistance models.

The HYAP service sector and peaks participated in good faith in consultations, even though it was unclear why the program needed reconfiguring when it was successful in achieving its intended early intervention outcomes. The only apparent reason for this evaluation was that it was a recommendation of the initial evaluation. This recommendation displayed little understanding of HYAP services or the homeless service systems. The sector was also sceptical as to how it could provide more intensive support within current resourcing. The outcome of

⁴ Mariana Mazzucato and Rosie Collington, *The Big Con: How the Consulting Industry Weakens Our Businesses, Infantilizes Our Governments, and Warps Our Economies* (New York: Penguin Press, 2023).

⁵ David Taylor et al., *Evaluation of the Homeless Youth Assistance Program: Final Report* (Sydney: Centre for Evidence and Implementation, 2020).

this so-called consultation was that some HYAP services would remain the same and some would transition over three years, without additional funding, to provide intensive family support for children with a child protection history. The consultants also identified Ruby's Reunification Program which provides supported accommodation and therapeutic family counselling in South Australia as an effective youth homelessness assistance model. Very few HYAP services provide accommodation. In the ACT, \$1million was committed to establish a fit-for-purpose service for young people under the age of 16 years, based on the Ruby's model. HYAP is not funded at a level that would enable this kind of investment by providers. We are sceptical that the post transition re-commissioning process will be effective.

This experience, and our broader experience with the use of external consultants in the areas where we work have enabled us to identify the following major issues which will be discussed further below:

1. Breakdown in Trust Between Community Sector and Public Service
2. Lack of Relevant Expertise
3. Running Down of Public Service Capacity
4. Conflicts of Interest

1. Breakdown in Trust Between Community Sector and Public Service

The use of external consultants to evaluate services breeds distrust between government agencies and providers. Typically, providers do not have access to the briefs that have been given to the consultant, generating concern that government is looking for pre-determined outcomes. Often, this secrecy is justified on the basis that these briefs are 'commercial-in-confidence'. Sometimes, even the findings and reports to government are treated as confidential. These secret briefings and reports are then used to make and guide public policy, funding decisions, and major reforms. It is inappropriate in a democratic society to outsource important policy decisions in human services to a process deemed commercial-in-confidence as it denies the possibility of democratic involvement and scrutiny by those most directly affected.

The community sector seeks consultation with government on all aspects of the services that we deliver. However, to be meaningful consultation must be agreed on between all parties affected by any change. Over the past 30 years, we have seen a shift by government away from this consultative relationship based on building consensus and legitimizing decisions with the community sector in favour of the political management of top-down change. External consultants have frequently been used to justify these changes or to determine outcomes commissioning processes. The community sector shares with government a commitment to the public good. These values are not shared by for-profit consulting firms, which are motivated primarily by the maximisation of shareholder value. The outsourcing of the relationship between community sector and government to external consultants has resulted in a process whereby consultants have been substituted for genuine consultation.

2. Lack of Relevant Expertise

There is a legitimate role for outside expertise in policymaking when the relevant expertise is so specialised or needed so rarely that it would not make sense to maintain this expertise within the public service. In the case of social policy, however, this is rarely if ever the case. For DCJ, for example, commissioning and evaluating services is clearly core business. The expertise needed to perform these functions appropriately needs to be maintained within DCJ and the public service more broadly. Where this expertise does not currently exist, it ought to be developed. It is unclear what expertise private management consultants can bring to youth homelessness and other social policy issues. At best, consultants can bring expertise of a general nature that relates to the ability to carry out research and evaluation and the application of economic modelling to social policy. This expertise is, or ought to be, the core business of government.

SYFS has expertise in youth homelessness and disadvantage. In NSW we have a peak body representing the youth homelessness sector, Yfoundations, representing a significant body of expertise relevant to youth homelessness policy. Closely related expertise is held by other peak bodies, such as Homelessness NSW, which represents the homelessness services sector more broadly. These peak bodies maintain in-house policy and

research staff who have detailed knowledge of the field. This expertise is available to consult directly with government, helping to build trust and communication rather than suspicion. However, when external consultants are engaged to advise on social policy, the expertise of providers and peak bodies is routinely sidelined. We often have to lobby DCJ for sector expertise to be included and recognised in reviews and evaluation processes that have been outsourced to external consultants.

3. Running Down of Public Service Capacity

Government needs to invest in its own capacity to manage contractual relationships with providers, evaluate services, and develop policy. The enormous amount of money currently being spent on external consultants by the NSW government is undermining its ability to grow and train the public service to carry out its functions not for private gain but for the public good. As the NSW Auditor-General's submission to the current inquiry makes clear, the proliferation of different types of consultants being used by government makes it difficult to determine exactly how much money is being spent.⁶ One figure contained in a recent report from the Auditor-General puts this expenditure at around \$1 billion between 2017/18 and 2021/22.⁷ This enormous sum represents a drain on the public service's capacity to recruit, retain, and train its own internal policy advisory capacity. If these resources were invested in the public service, then it would be better positioned to develop its capacity for understanding frontline service delivery and relevant policy issues in direct consultation with the community and not-for-profit organisations.

4. Conflicts of Interest

The PwC scandal has revealed the business model used by management consultancies. By embedding themselves and their services in government, consultants create markets for their services and then on-sell their access to government to private clients. It is no coincidence that the increasing use of management consultants in social policy has become self-perpetuating, justifying further contracts for evaluations that produce similar policy prescriptions. Consultants are creating markets for their own services by running down the sector and the capacity of the public service to manage it. There is an inherent conflict of interest in involving external consultants in areas of social policy where they have no discernible expertise and where they have much to gain in terms of markets for future services. The use of external consultants is also counterposed to the development of good policy in that they often tell the department what they want to hear.

Recommendations

DCJ has signalled that it is shifting its approach to funding peak bodies and providers to a 'commissioning' model. The *Commissioning Project* undertaken by the Sydney Policy Lab interviewed the community sector, peak bodies, government, and an international expert to formulate four principles for making commissioning a success:⁸

1. putting relationships first
2. letting communities lead
3. investing in people
4. embedding learning

The use of external management consultants to undertake reviews of services delivered by the community sector undermines these principles. We therefore make the following recommendations:

1. That the NSW Government puts its relationship with the community and not-for-profit sector first by consulting directly with them, rather than engaging external consultants to act as intermediaries
2. That the NSW Government allows communities to lead, listening to and responding to the advice it receives from the community sector

⁶ Auditor-General for New South Wales, Submission to the Inquiry into NSW Government's Use and Management of Consulting Services, 13 June 2023.

⁷ Audit Office of NSW, *NSW Government Agencies Use of Consultants* (2 March 2023).

⁸ Mark Riboldi et al., "Making Commissioning Work: The Relational Gap between Intent and Implementation in the Transition to 'Commissioning' Community Services in New South Wales," *Australian Journal of Public Administration* 80, no. 3 (2021): 565–76.

3. That the NSW Government invests in people by rebuilding public service expertise in social policy and reducing the need for expenditure on expensive and unnecessary external consultants
4. That the NSW Government reduces its use of external consultants and embeds learning within the public service, rather than losing the opportunity to learn from evaluations by outsourcing them to external consultants

Thank you for the opportunity to contribute to the Public Accountability and Works Committee's inquiry. Please don't hesitate to contact us if you would like further information about any of the issues discussed in this submission.

Yours sincerely,

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