

**Submission
No 17**

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

Organisation: Health Services Union

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Submission to the Inquiry into the NSW Government's use and management of consulting services.

To confront and overcome the complex and evolving public policy challenges of our time it is imperative for governments and public sector leaders to be guided in a democratic manner by those with appropriate technical skills in management and administration – this is particularly pertinent to public health systems. The function and utility of private consultants in this project are abstruse – and upon analysis principally redundant. Accordingly, the persistent overreliance and dependence by the NSW Government on the ideologically driven and opaque advice of consultants is damaging to the operation of the NSW public health system. We submit the following recommendations to address these concerns.

Recommendations for the NSW Government:

1. Examine the use and management of consultants in the announced Special Commission of Inquiry into Health Expenditure.
2. Immediately review and report on all NSW Government consulting contracts awarded above \$50,000¹ to assess the quality of work provided by consultants and if net positive value propositions can be identified.
3. Develop a strategic framework for the use and management of consultants, which includes detailed guidance as to when, why and how firms can be engaged.
4. Commit to reducing the use of consultants by 80% based on 2022-23 financial figures by the end of the 2025-26 financial year.
5. Re-invest savings from reduced spending on consultants to support the attraction and retention of directly employed public servants and public health workers.
6. Follow the lead of other public sector agencies to support and rebuild current and future internal human resources and management capacities of Local Health Districts to foster innovation from within.

Introduction

1. Health Services Union – NSW/ACT/QLD (HSU) thanks the Parliament of New South Wales (NSW) for inviting us to make a submission to the Inquiry into the NSW Government's use and management of consulting services (Inquiry) – we do so on behalf of nearly 48,000 union members.
2. Our members work in public and private health, ambulance, aboriginal health, aged care, and disability sectors across NSW². They are pathologists, paramedics, aged care workers, mental health practitioners, physiotherapists, cooks, radiographers, cleaners, administrators, laundry staff, dental assistants, junior doctors, theatre technicians, ward clerks and approximately 100 additional unique health occupations.

¹ Annual Reports (Statutory) Bodies Regulation 2015 requires agencies to report on the use of consultants. For engagements that cost \$50,000 or more this only includes reporting details on the name of the consultant, the title of the project and the actual cost of engaging the consultant.

² HSU also represents health workers in the Australian Capital Territory and Queensland.

3. HSU members work in big cities and small remote towns. They are most often the first on the scene and the last to be seen. Without them, there is no health system in NSW. Our members are uniquely proud of the work they perform in the communities they serve.
4. HSU has a long tradition of leading the fight for economic justice and industrial fairness on behalf of these workers. In recent years, the industrial activism of HSU has helped workers secure paid family violence leave, improved occupational health and safety standards, safer staffing levels in the ambulance service and a historic 15 per cent pay rise for our nation's unvalued aged care workers from 1 July 2023.³
5. In addition, a defining aspect of our mission is to continuously advocate to ensure citizens and residents have access to equitable, affordable, and accessible healthcare. We understand the symbiosis between the industrial conditions of workers and the performance of health systems. We continue to campaign fiercely against privatising public health assets and services because we recognise the threat to quality care that emerges when rationalising staffing complements and placing profits before patients.⁴

Submission purpose

6. It is with reference to this distinct history and work culture that we make a submission to this Inquiry. We are a central and critical actor in the functioning and performance of the NSW public health system – a system whose costs represent nearly one-third of the NSW State Budget (\$33 billion in 2022-23) – and a system desperately needing structural reform.⁵
7. One fundamental element of this necessary reform project is to address the seemingly unrestricted market-driven proclivity inherent in government agencies to shed risk and responsibility through the engagement of costly external consulting⁶ services – an increasingly problematic and redundant management technique.
8. This submission does not intend to address all structural deficiencies or conflicts of interest arising from the use of consulting services – this is the responsibility of the government and discerning political leaders.

³ In 2020, four HSU aged care members, Virginia Ellis, Mark Castieau, Sanu Ghimire, and Paul Jones, applied to prosecute a work value case and vary an award under the Fair Work Act. The Fair Work Commission's subsequent determination represents the single largest one-time increase in the salaries of aged care workers in Australian history. The union continues the fight to expand the ruling to cover additional workers. See the application and determination here: <https://www.fwc.gov.au/hearings-decisions/major-cases/work-value-case-aged-care-industry>.

⁴ In 2016, the NSW Government unveiled its plans to sell off five public hospitals. HSU led a successful community campaign 'We Own It' to keep these assets in public hands. See <https://www.smh.com.au/healthcare/nsw-government-abandons-fifth-hospital-privatisation-plan-in-maitland-20180126-h0owjn.html>.

⁵ See the NSW Budget - [https://www.hinfra.health.nsw.gov.au/news/latest/latest/nsw-budget-allocates-\\$33-billion-for-health#:~:text=NSW%20Government%20has%20announced%20%2433,for%20NSW%20families%20and%20communities](https://www.hinfra.health.nsw.gov.au/news/latest/latest/nsw-budget-allocates-$33-billion-for-health#:~:text=NSW%20Government%20has%20announced%20%2433,for%20NSW%20families%20and%20communities).

⁶ The NSW Procurement Board Direction PBD-2021-03 defines a consultant as 'a person or organisation that provides recommendations or professional advice to assist decision-making by management'. We note the definition of a consultant is contested in the academic and public service literature.

9. Our arguments are straightforward: the net costs of employing external consultants to perform the role of public health officials represents a lacuna in management thinking, obstructs transparency, and undermines the development and capacity of current and future public health administrators. A superior value for money proposition would be attained by redirecting operational expenditure earmarked for consultants to health workers and those directly running health services. Reform is critical.

...the data - lack of transparency, escalating costs

10. HSU notes that an alarming lack of consistency and transparency exists in the obligations imposed upon government agencies in reporting on the use of consulting services to the people of NSW. We contend that this inconsistency opens the NSW Government up to criticism that through an absence of appropriate governance frameworks, it is aiding in the obfuscation of data.
11. Historically, Local Health Districts (LHDs) have not been subject to any specific legislative requirements that compel the production of transparent and codified data on the quantum and use of consultants.⁷ It is the view of HSU that this 'business as usual' practice does not meet minimum and acceptable accounting and governance thresholds expected in the deployment of taxpayer money.
12. Multiple sources of data contain information about the spending on consultants by the NSW government, found primarily within divisions of NSW Treasury - including Prime, Business Advisory Services, and Spendcube – and agency annual reports. Of these sources of data, the NSW Auditor-General makes the following observations: a) 'none of these provide a complete source of data on spending on consultants' b) 'there is no single comprehensive data source on all consulting spending' c) there is an 'incomplete recording of all spending'.⁸
13. The most accurate figures disclose that aggregate spending by the NSW Government on consultants between 2017-18 and 2021-22 reached approximately \$1 billion across more than 10,000 engagements.⁹ Of this total, the so-dubbed 'Big Four' firms, KPMG, Ernst & Young, PwC, and Deloitte, accounted for around 27% of total spending on consultants.
14. Data obtained during the initial course of this Inquiry indicates the following health-related spending on consultants from 2011-2022 inclusive:
 - NSW Ministry of Health - \$235.3 million.¹⁰
 - LHDs - \$125.2 million.

⁷ See the 2 March 2023 report of the NSW Auditor-General. 'NSW Government agencies use of consultants'. Accessed at <https://www.audit.nsw.gov.au/our-work/reports/nsw-government-agencies-use-of-consultants>.

⁸ Ibid.

⁹ Ibid.

¹⁰ This figure represents the inclusive total of spending across the NSW public health system.

- Four LHDs spent more than \$10 million.¹¹

15. Figures analysed by HSU reveal that the collective LHD spend on consultants for the two consecutive six-year intervals dating 2011-2016 and 2017-2022 inclusive rose by at least 50 per cent.¹²
16. HSU draws attention to the reconfiguration of the NSW health system in 2011 and the creation of LHDs. Several consulting firms were commissioned to advise the Department of Health, and by extension, political leaders on how to restructure public health services – this advice remains cabinet-in-confidence.
17. The NSW Government's 2019 policy to reduce consultancy expenses by 20 per cent each year to 2022 will not be met, with real net spending being more than \$100 million higher than savings in the three-year period.¹³

The experiences of HSU members

18. In preparation for this submission, HSU surveyed members to ascertain their views on the use of consultants in LHDs across NSW. Dozens of detailed responses were received – all have been de-identified.
19. Our members identified several significant 'areas of concern' that they believe require a response from the NSW Government:
 - Inefficient and non-strategic solutions are being proposed by consultants with little or no knowledge of health work and health systems.
 - A complete lack of transparency exists in the operations of consulting services within LHDs.
 - The engagement of consultants is having a net negative impact on both the retention and the health and well-being of health workers.
20. Case Study One: A 'Big Four' consulting firm was brought in to redesign an information technology system within a department of an LHD vital to the administration of care to critically ill patients. Following a costly multi-year and externally driven process, an 'off the shelf' accounting system was 'tweaked' and implemented. The following observations were made by health workers¹⁴:
 - Consultations were 'opaque' and 'misdirected' from the commencement of the process. The agency and knowledge of health workers were 'not considered'.
 - One individual noted that 'while some parts of the [new] system work well, for the most part, it does not work well at all'.

¹¹ See data supplied to Inquiry Chair, Abigail Boyd MLC, and published on the Public Accountability and Works Committee website accessed at <https://www.parliament.nsw.gov.au/lcdocs/other/18295/Tabled%20Document%20Ms%20Abigail%20Boyd%20MLC%20-%20received%2015%20June%202023.pdf>.

¹² Ibid.

¹³ See the 2 March 2023 report of the NSW Auditor-General.

¹⁴ HSU member surveys conducted 1-10 July 2023.

- It is frequent for the system to ‘crash’ – leading to significant delays in the time taken to admit patients.
- There’s been a total disregard for matching the skillsets of health workers with the new workplace infrastructure – ‘it’s like ramming a round peg into a square hole, and just hoping for the best’.
- Staff have ‘lost reports in the system’ to the point that many ‘don’t even know how many cases they have due for reporting’.
- Staff are ‘burning out due to added work pressure’ of a system that is ‘not fit for purpose’ – despite the expert advice of health workers to cease the implementation.
- The department has experienced ‘an exodus’ of staff because of a consulting process that patently lacked transparency, provided no workflow efficiencies, and had a detrimental impact on the health, well-being, and careers of highly trained professionals.

21. HSU members, including those in management positions, believe that using consultants presents a ‘direct threat’ to their security of work – and clearly impacts the current and future capacity of health workers.
22. Of significant concern is the propensity for consulting services to indirectly manufacture management strategies that recommend redundancies or retrenchments for contractors attached to consulting firms to fill the lucrative workload void created.¹⁵
23. One senior public health staff member involved in a major restructuring process led by a consulting firm framed their experience in the following manner: ‘It has nothing to do with creating efficiencies and all to do with shedding risk and lining pockets...it’s crazy, [LHD] board members are also partners in big firms...I guess some are getting paid’.¹⁶
24. It is also the experience of HSU that it is common practice for LHDs to engage external consultants and solicitors in the management of internal human resources functions; and, for routine matters before the Industrial Relations Commission of NSW.¹⁷
25. Case study two: To demonstrate the negative corollaries of outsourcing activity, we draw attention to the Mid North Coast Local Health District (MNCLHD) which retains a Sydney-based law firm to conduct its disciplinary investigations. We note the following:¹⁸

¹⁵ HSU cites recent examples from the Southern NSW LHD. HSU can reveal through the ‘Elevate, Together as One’ strategy, formed in consultation with external consultants, nearly 100 essential workers have been targeted in efficiency generating ‘voluntary’ redundancies. We draw attention to pages 4 and 19 of the internal ‘Strategy 2026’ document, suggesting central pillars of the ‘Elevate’ mission is to ‘enhance workforce capability through targeted training and development; build positive work environments that bring out the best in everyone; attract and retain quality workers who put patients first’. See https://www.snswhd.health.nsw.gov.au/getmedia/a6cfaf46-0d1b-4420-befd-b79edbe94d52/southern-nsw-lhd-strategy-2026_final.pdf.aspx?ext=.pdf.

¹⁶ HSU member survey.

¹⁷ HSU highlights that the definition of ‘consultant’ is contested – and that legal services and advice acquired by LHDs clearly align with definitions found within a large body of management research. Therefore, we posit that the use of external legal firms is directly relevant to this submission and the Inquiry. We also note that the ‘Big Four’ consulting firms are acquiring legal firms at an accelerating rate.

¹⁸ Information obtained from HSU analysis and member surveys.

- Upon external advice in 2018, the internal role of District Investigator was made redundant.
- Investigations overwhelmingly 'involve simple and elementary disciplinary matters' where the worker who is the subject of the investigation is stood down on full pay for the duration.
- This process 'creates a completely inefficient and overly litigious approach' to dispute resolution in which complex legal arguments need to be fought, while the core issues of the dispute remain unresolved.
- Human resources (HR) managers need to translate local issues to expensive external consultants and solicitors who hold a limited understanding of the workplace context and thus obstruct efforts to meaningful conciliation.
- This approach 'fuels distrust' in the workplace as staff know that matters that could be resolved quickly and directly by the LHD are deliberately protracted. It is observed that this process has a detrimental effect on the health and well-being of those subject to disciplinary investigations that are frequently discontinued.
- The MNCLHD case study confirms that the utilisation of external consultants and solicitors is an inefficient and costly allocation of taxpayer money, undermines the appropriate work duties of internal HR managers, and encourages a non-collegiate work culture.

26. HSU thanks members for presenting their feedback – recording that many have cited a 'risk of retribution' in providing factual evidence for this submission.¹⁹

Do we need external consultants in the public health system?

27. HSU locates its response and recommendations to this Inquiry not only in the knowledge and experience of our members but also in the established and growing domestic and international management and health management analysis examining the utility of consulting services to the administration of public agencies.
28. To be clear, HSU rejects the consulting industry's fundamental value proposition: that its advice and services lead to enhanced operational efficiencies through emergent management processes and practices. In contrast, we contend that this is 'old thinking' in management theory and is wholly unsuitable for public health services still responding to the challenges of a post – pandemic world.
29. We highlight the findings of the NSW Auditor-General's report on 2 March 2023, which made the following conclusions regarding the NSW Government's engagement of consultants: A) [agencies] 'do not procure and manage consultants effectively' b) 'do not have a strategic approach to using consultants, or systems for managing or evaluating their performance' C) commonly found were 'examples of non-compliance with procurement rules, including contract variations that exceeded procurement thresholds'.²⁰

¹⁹ Numerous survey respondents noted their concern that Senior Management with strong links to consultants would commence disciplinary or other proceedings against them if their identity is disclosed. HSU vigorously defends and represents our hardworking health members before judicial and industrial bodies when they are inappropriately and unfairly targeted.

²⁰ See the 2 March 2023 report of the NSW Auditor-General.

30. Further, the current findings of the Commonwealth Parliament's Senate Inquiry into Consulting Services align broadly with concerns we hold for the NSW Government and its use of consultants. While the alleged and potential criminality of tax avoidance schemes designed by PwC has been the subject of extensive national media attention, we observe that near daily other examples of malpractice or the deliberate obfuscation of data are emerging on the national level. To this end, the former Australian Competition and Consumer Commission Chairman, Allan Fels, called on the Commonwealth Government to introduce legislation to break up large consulting firms.²¹
31. We also note that the broadest, most comprehensive, and most recent literature review and study conducted by researchers Carrdo Cerruti, Ernesto Tavoletti, and Celia Greico indicates that there is limited and conflicting evidence to affirm any positive impact of consulting services in optimising performance metrics in the private and profit-for-purpose sectors.²²
32. More relevant to this submission is the complete non-existence of academic peer-reviewed research demonstrating the positive impacts, based on quantitative evaluation measures, of consulting services in the field of public administration.
33. It is with considerable concern that HSU highlights the *negative impacts* of consulting services on the economic performance of public health agencies. We refer to a six-year study conducted by Ian Kirkpatrick et al. which examined the impact of consulting advice on efficiency in 125 hospitals in the National Health System (NHS) in the United Kingdom (UK)²³. This study is the largest and most comprehensive public health peer-reviewed management study to date. The findings of the study indicate the following:
- The econometric analysis states, 'If the average annual expenditure on consulting services for a hospital trust is considered (around £1.2 million), then each one would be roughly £10,600 worse off per annum (in addition to the consulting fees paid)'.²⁴
 - The use of management consulting is 'not statistically associated with improvements in efficiency' and on the contrary 'results appear to suggest that higher levels of spending on management consultants have had a statistically negative effect on...indicators of efficiency'.²⁵
 - '... expenditure on management consultants seems to have the reverse effect to what is intended by policymakers and users'.²⁶

²¹ See the Australian Senate, 'Inquiry into the management and assurance of integrity by consulting services (Consulting Services)', 2023. https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Finance_and_Public_Administration/Consultingservices/Public_Hearings. Testimony submitted on 17 July 2023.

²² See Cerruti, C., Tavoletti, E. and Grieco, C. (2019), 'Management consulting: a review of fifty years of scholarly research', *Management Research Review*, Vol. 42 No. 8, pp. 902-925.

²³ See Kirkpatrick, I., Sturdy, A. J., Alvarado, N. R., Blanco-Oliver, A., & Veronesi, G. (2019). 'The impact of management consultants on public service efficiency', *Policy & Politics*, Vol. 47 No. 1, pp. 77-95. See specifically pp. 86-91.

²⁴ In terms of overall costs when deciding to employ management consultants instead of using these financial resources in alternative ways (opportunity costs). Ibid. p. 86.

²⁵ Ibid. p. 90.

²⁶ Ibid. p. 90.

- A 'suboptimal deployment' of consultants results from 'a lack of clarity of vision at the heart of government about the future shape and objectives of the public sector'.²⁷
34. Moreover, HSU calls attention to the stream of literature highlighting the unavoidable perception of consultants as 'for-profit salespersons' who sell off-the-shelf managerial ideas through jargon, evocative storytelling, rhetoric, and elitism.²⁸ It has been the subject of wide commentary that firms are adept at public relations and creating unique narratives infantilising their work capacity. One management expert describes the actions of firms as 'exploiting the pressure on executive performance to create an addiction whereby consulting begets more consulting'.²⁹
35. Consulting firms are highly skilled at convincing 'fashion-followers' that a 'quasi-academic' management technique is rational and at the forefront of an advanced new workflow system - and they do so 'by exploiting sociopsychological vulnerabilities' such as the fear of falling behind or appearing out of date and retrogressive.³⁰ It has by some been described as the 'trillion-dollar confidence trick'. Senior executives, placed under considerable pressure by political leaders in tight fiscal environments, turn to those they know and trust for solutions – a phenomenon documented ever since the publication of C. Wright Mill's sociology classic *The Power Elite* - those in powerful positions have acquaintances in powerful positions.³¹
36. HSU also rejects the ubiquitous proposition advanced by consulting firms that HR and management work cannot be performed by embedded and established public health staff. In contrast, we argue that experienced and directly employed public health staff are best placed to administer and assist in driving reform and workplace innovation within public health systems.
37. HSU records that the COVID-19 pandemic affirms that investment – or lack of investment – in the capabilities of public service agencies and their staff is critical in addressing complex problems. COVID-19 was not simply a health crisis but also a governance crisis. In the UK it was citizens who bore disastrous health and economic consequences of the government's decision to outsource so much of the initial response to the crisis to consultants. Similarly, the Victorian State Government's decision to spend over \$1 million on consultants to advise on the outsourcing of COVID-19 hotel quarantine arrangements was a catalyst to one of the world's longest lockdown periods.³²
38. To this point, we observe the detrimental and frequently extreme consequences of 40 years of outsourcing public sector work that has occurred right across the world. As economists Mariana Mazzacato and Rosie

²⁷ Ibid. p. 91.

²⁸ Abrahamson, E., (1996), 'Management fashion', *Academy of Management Review*, Vol. 21, No. 1, pp. 254-285.

²⁹ See Josserand, E., 'Who needs PwC when consultancy work could be done more efficiently in-house?' 13 June 2023 accessed at <https://theconversation.com/who-needs-pwc-when-consultancy-work-could-be-done-more-efficiently-in-house-207330>

³⁰ See Abrahamson, E. 'Management fashion'.

³¹ Mills, C. Wright (Charles Wright). 'The Power Elite'. New York: Oxford University Press, 1956.

³² See Taylor, J., 'Victorian government spent \$1m on hotel quarantine consultants as costs went over budget, inquiry told' 3 September 2020 accessed at <https://www.theguardian.com/australia-news/2020/sep/03/victorian-government-spent-1m-on-hotel-quarantine-consultants-as-costs-went-over-budget-inquiry-told>.

Collington argue the reliance on consultants has rapidly de-skilled and ‘hollowed-out’ essential public agencies and undermined confidence in public services in the name of phantom efficiencies that do not appear on medium and long-term aggregated bottom lines. As they remark: ‘the more governments and businesses outsource, the less they know how to do’, and that ‘often the capabilities of managing the delivery of a service in-house would be completely lost after they had been outsourced’.³³

39. Instead, we emphasise the growing body of analysis and research that affirms the importance of properly resourcing, equipping and training public servants and public health officials. Ensuring public service agencies attract innovative, curious, competent, and high-performing individuals is critical. Public health officials must not be reduced to managing consultants and contractors, shedding perceived risks, and meeting targets for blunt workforce efficiency. By providing security of work and the opportunity to learn by taking on complex new challenges, we increase the capabilities of internal staff and ensure that they feel valued and empowered to take risks and develop. Mazzacato and Collington observe the following: ‘development of an employees’ knowledge and the attractiveness of remaining in an organisation are...key for an organisation’s evolution. Learning is supported – and the capabilities of government evolve – because existing employees have know-how and longer-term experiences that can be building blocks of innovation’.³⁴

Conclusion

40. In our submission to this Inquiry, HSU has in plain terms highlighted that the NSW Government’s excessive use of consultants represents flawed and increasingly redundant management practice, creates real problems regarding transparency in the utilisation of taxpayer money, and obstructs the development and capacity of current and future staff.
41. We have paid particular attention to the concerns expressed by our members, the tens of thousands of health workers who operate the NSW public health system, and how the relentless and accelerating reach of consultants into their work has created significant inefficiencies and even dangerous consequences that ultimately impact upon the ability of NSW residents and citizens to receive the healthcare they deserve.
42. To conclude, HSU looks to the NSW Government to exhibit the necessary leadership required to arrest the excessive and near unrestricted use of consultants. This practice has become so pervasive that it is now an entrenched management approach within public agencies. Leadership and reform are critical – this is the expectation of the people of NSW, and of committed, passionate, and highly skilled public health workers.

³³ Mazzucato, M., & Collington, R. ‘The big con: How the consulting industry weakens our businesses, infantilizes our governments and warps our economies’. London: Allen Lane, 2023. p.23.

³⁴ Ibid. p. 243.



HSU Contacts:

Gerard Hayes

Secretary – Health Services Union – NSW/ACT/QLD

National President – Health Services Union

Dr Dustin Halse

Division Secretary – Strategy, Research, Projects

Adam Hall

Political Division Secretary