POLICY PAPER

Building a competitive Australian advisory industry

NOVEMBER 2023

Foreword

The last months have highlighted how deeply the federal public sector has been compromised by the consulting industry. Today, it lacks the substance, courage, and depth to deliver the quality and effect Australians expect, and it will take decades to rebuild capacity, capability, and trust.

This paper examines the issues that have given rise to the current situation. We propose just four policies to foster the growth of an internationally competitive Australian advisory industry and break the stranglehold of the problematic international companies, the 'big four' and their like. Achievable without spending more than we do today.

The egregious behaviour of a few firms is cautionary. Corporate and individual self-interest has been allowed to dominate, even encouraged, by industry leaders and those who hire them. These behaviours should not be tolerated from those who aspire to be 'trusted advisors'.

The behaviour, while grievous, is not the major issue. It is the astonishing exclusionary access and influence afforded to a few international companies. It has created an oligopoly of a few chosen international companies that excludes broader competition, opportunity, and the growth of a national, independent, advisory capability.

The federal public sector reportedly spends more than $1.5bn annually with PWC, KPMG, Deloitte and EY, the 'big four'. Defence has also spent almost a further $1bn a year with four consortia, known as Major Service Providers (MSPs). Two are international companies and two are underpinned by members of the 'big four'. Defence have mandated that its procurement organisation (CASG) only seek services from the MSPs.

This convergence of a monopsony (a single large buyer) and an oligopoly has generated almost cartel-like effects. It has reduced competition and innovation, fostered unacceptable and untrustworthy behaviour, and effectively marginalised new entrants. The public sector has been complicit, inadvertently at times, allowing exclusionary access for ease of doing business. All to the detriment of Australians, and the growth of a sustainable Australian capability.

Remediating the current situation requires a conscious, and active, choice by buyers across the federal and state public sectors. It requires behavioural change, and policies to encourage that change.

The opportunity arises to foster the growth of an Australian national advisory sector, one that services Australia and is itself an exportable commodity. Our raw material is an educated workforce with the unique Australian characteristics of a little irreverence and a lot of ingenuity. Frank and fearless, Australians are sought after internationally across every industry, scattered in every global organisation, and engaged during their sabbaticals and gap years to work in Olympic Organising Committees, World Cups, other sports organisations, and big business across the globe.

Australians are sought after for their energy and focus on getting the job done. They don't look for perfection or for someone to solve their problems, instead they reach for today's equivalent of fencing wire, gaffer tape, and baling twine. They are prized everywhere, except in Australia where the public sector doesn't foster Australian-led businesses, but hampers their growth.

The problems—and the people and money to solve them—already exist. They are just with the wrong companies.

We are not against big companies, there should be more of them, but they should be Australian. There are some good Australian companies out there, but not many. To grow big Australian companies, we need to foster small ones. Just four changes would make a difference.

- Pro-actively invite and engage Australian SMEs to participate in panel RFQs, reducing the natural dominance of incumbency and make RFQ process performance more certain and visible.
- Undertake an external review of Defence panels and rebuild a more balanced, supportive approach that delivers Defence needs *and* fosters the development of a vibrant, competitive Australian advisory capability.
- Prohibit the crossover of companies delivering both above-the-line (advisory) and below-the-line (solution delivery) services, avoiding real and perceived conflict and reducing the dominance of a select few companies.
- Establish a continually refreshed, whole-of-government, professional services panel that encourages competition, innovation, and new entrants, while reducing the public sector tendency towards labour hire contracting.

John Glenn
Managing Director—Kiah

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Introduction

A policy approach to building an Australian, sovereign, advisory industry

Making the easy choice is a buyer tendency, cultivated and capitalised on by several international companies working within the public sector and Defence. Those companies now hold a favoured and influential position by virtue of broad incumbency to the extent that public service delivery has been compromised.

Federally, there is an annual multi-billion dollar tactical spend across eight companies or consortia, almost without competition. Six are international and only two are independent of the 'big four'.

The problems exist. The money is there. Good people abound—they are just working for the wrong companies.

An Australian national advisory industry can be fostered without additional expenditure.

It would be economically valuable well beyond the simple value of the dollars spent, and one that could contribute to Australia's international influence. Some simple 'policy nudges' would afford equal opportunity to Australian businesses as they compete for government business.

The four policies described below, implementable by governments or by departments independently, would create the environment for such an industry to develop.

2 The extent of the problem

2.1 A monopsony and oligopoly converge to the detriment of competition

Last year, the Australian Government spent more than $1.5bn on the 'big four' international companies (PWC, KPMG, Deloitte, and EY) almost without competition. Defence spent $4.5bn over five years with four Major Service Provider (MSP) consortia. These consortia now have exclusive rights to the Defence procurement arm's (CASG) work.

Of the eight companies (the 'big four' plus Defence MSPs), only two are Australian, and only one is not a 'big four' or backed by one. It is a closed industry, an oligopoly, with a few companies afforded exclusionary access as a consequence of their scale, incumbency, buyer design and behaviour.

The convergence of a monopsony (a single large buyer) and an oligopoly has generated almost cartel-like effects. This convergence has reduced competition and innovation, fostered unacceptable and untrustworthy behaviour, and effectively marginalised new entrants. All to the detriment of the public sector and Australian national interests.

Both state and federal sectors are entwined with the 'big four'. One Queensland department spent $6.74m in 12 months on the 'big four' and only $1.1m across all other professional service providers combined.

International companies provide little sovereign capability, acting primarily in their corporate interest. PWC's actions are a clear exemplar. The parent company severed ties with their Australian government business to protect their international interests and brand. Self-interest overrode Australian client interests and arguably left Australia with an advisory shortfall.

Access to leading-edge advisory, commercial acumen, supply-chain support, design and procurement services contribute to sovereign capability. They are just as important as the capability to manufacture a fighter jet. Even if the public sector were significantly enhanced, it would still need and benefit from the support of a professional services industry.

Australia can grow a sovereign advisory industry by directing spending towards SMEs and Australian companies. Better blending of self-interest with the national interest would deliver an industry with international influence and unlock unexplored potential. The closed market and the dominance of the few make that an unachievable objective, today. It will take positive action by the largest buyers, governments, to create the conditions for an Australian advisory industry to even compete, let alone flourish.

2.2 Avarice reigns

The behaviours amongst the 'big four' are cautionary. Individuals who break trust, and arguably the law, should be dealt with forcibly and without favour. The broader issue is that self-interest has been accepted and encouraged. Greed has dominated good decision making, overriding integrity, breaking the foundations of client trust.

Large consulting companies have never been the buyer's friend, the conflict has just become clearer in recent months. We shouldn't forget the inherent conflict of interest between advisory and audit that saw most of these companies split off their consulting arms 20 years ago, only to rebuild a few years later. The leopard has not changed its spots.

Individually and corporately, consultants are naturally conflicted between the right choice for the client and their own interest. The bigger the company the larger the gap between their interests and that of the buyer. It's the nature of business.

KPMG found itself in just such a conflict when providing contrary advice to two NSW Government departments. Publicly available emails show that they did consider how best to manage the conflict—except for the obvious solution, which was to remove the conflict by withdrawing. Even more egregious than the behaviours of an individual in PWC was the support by their leadership for the individual's actions. A systemic problem is not an acceptable justification for systemic wrongdoing.

When avarice overrides ethics, it is less a conflict of interest than a failure of leadership. Most consulting companies understand that they must maintain an ethical standard and separate advice from delivery to be a trusted advisor. Most fail badly.

Growth is a mantra for large companies, especially with public ownership or partnership structures. Shareholders demand returns and reward growth. It is often less an imperative for smaller companies where founders often want to build something of value, to make a difference, to do it differently. Though not always.

Buyer beware. The risk and consequence of the poor behaviour always remains with the public sector buyer.

Advisory work provides intimacy, influence, and insight. The objective of these companies isn't work for one or two people; it is in securing large-scale work for tens and hundreds. The risk that trust will give way to avarice in these firms is high because the reward is high.

It's not just the recent misuse of confidential information that should give cause for concern. It's the misuse of privileged insight and inside knowledge to shape and create exclusive opportunities for further work. These companies use their influence with unsophisticated customers to unnecessarily expand existing project teams, to accept inexperienced and uninformed consultants, and allow the shoehorning of the wrong answer to the wrong problem.

This is simply avarice and the domain of *caveat emptor.*

2.3 The public sector has provided fertile ground

The public sector, in its role of buyer, is also complicit.

Size begets size. Big companies are in the corridors, meeting the buyer every day, putting them in front of mind. The buyer asks for advice on the construct of the RFT, which the 'trusted advisor' is always willing to offer. The market is usually approached through a panel and most requests for work are selective, going to only three or four bidders. Logically, these are the few companies of which the buyer is aware. Given their marketing and brand recognition, and their reach and omnipresence, choosing the 'big four' is just natural.

The 'big four' have scale and process that their smaller competitors do not. Smaller companies cannot afford marketing at scale, nor can they pervasively walk the corridors. This doesn't mean small companies don't have the expertise and capacity to provide the highest standards of advisory work, just that their reach is limited to those with whom they are in direct contact.

Small companies have good relationships where they are known, they are just not well known. It's no longer about who is better, or competition, it's about ease of access. Buyer complacency has compromised competition and steps need to be taken to actively close the access gap.

Plus, buying the 'big four' is easy. Only big companies can afford to accommodate public sector buying behaviour. Time is money and, for an SME without deep pockets, cash flow is everything. It's not just about paying invoices on time, at which governments are actually quite good, or not rejecting a $100,000 invoice over a $2 travel discrepancy, at which governments are quite bad. Working with the public sector has positives, they pay their bills on time and don't go into receivership. You just can't rely on having a contract according to a plan.

The underlying issue is momentum. RFTs can arrive in the market without warning and be open for as little as a week.

SMEs rarely have staff sitting around, or allocated to writing tenders, or waiting for jobs to appear. If an SME makes 20% margin, they only make money on Fridays. If someone is not working for a day, it takes a week of their billing to recover the cost. Spread that over thousands of staff and hundreds of jobs, it is an absorbable cost. Spread it over 50 people, it has a significant impact.

A decision on even the smallest RFT can be delayed for weeks, sometimes months. Staff in small business are simply not sitting around burning cash. A cash flow challenge compounded annually at financial year end as contract extensions and requoting is sought with urgency and little foresight as if 30 June snuck up a surprise. Small must act as if they are big, or they will be seen as difficult. The delays in decision making and the lack of planning is avoidable. It is simply a lack of respect and sensitivity to small business, but no one dare complain.

Buying the 'big four' is also easy.

Next Friday can look like last Friday in the public sector, delay matters little. Money appears on 1 July every year, and the cycle starts again. The buyer wants companies that can accommodate their uncertainties, their vagaries, and their inefficiencies. Big companies can accommodate this, small companies struggle.

Big companies have unassigned consultants, known as a bench, awaiting deployment and to respond to near term demands. They can 'borrow' staff from other projects to meet the needs of a new client—without inconveniencing existing clients. Size gives them flexibility to deal with the urgent, to accommodate delays, and the lack of planning and momentum in the public sector.

There is little in the public sector that is urgent, other than the need to recover from self-inflicted delay to meet a self-imposed deadline. Small companies need time to mobilise, to create teams, to onboard and deploy them. Short notice work, and near-term deadlines, reduces the opportunity for fair competition by playing to the strength of a big company, disadvantaging the smaller company.

The public sector has fostered a closed group of highly influential, self-interested, foreign companies with undue influence because it makes the public servant's life easy.

The cost of doing business with government is less absorbable by small companies than by the 'big four'. The big companies are acting as a foil for poor and uncertain management practices, giving them fertile ground to grow. Minimising bureaucratic complacency will reduce the reliance, and preference, for the 'big four'.

3 Developing transparent competition

Panels are intended to be strategic but are implemented tactically, fostering the buyer's preference for easy procurement. Current approaches have limited competition, fostered a closed industry, and have restricted the growth of a competitive Australian industry. Panels have been used to circumvent the intent of procurement regulations at all levels of government.

Sole sourcing, or selective sourcing, is prevalent in government tendering. Once established, there is no requirement to compete within a panel, and the construct is often used to avoid competition. The buyer selects one or a favoured few off a panel. Buyers choose the companies they know. It's not necessarily deliberate favouritism—a buyer cannot access companies they don't know.

There is a natural turnover of staff. New incumbents may bring new views but have little knowledge of the ecosystem in which they now operate. Maintaining progress, they follow the path set before them, perpetuating the status quo.

The approach unwittingly favours the large companies, for only they have the capacity to build broad and deep client relationships across an organisation. It is one of the reasons the 'big four', and similar, are so dominant. They know what's happening in the client, they have insight into the intent behind an RFT before its released, and the buyer doesn't have to do any work to engage with them.

Participation by smaller players needs the buyer to actively facilitate their engagement. Three simple steps would go a long way to levelling the playing field and support the development of a vibrant and competitive industry:

- Improve access to opportunity by making ALL RFTs under a panel visible to all Australian SME panel members and allow the SME to opt-in for inclusion in the RFT. Include explicit criterion for participation (capabilities the vendor is seeking). SMEs will self-select, choosing not to bid for work where they are uncompetitive. They don't have the resources for such risk. However, this would open the opportunity to SMEs unknown to the buyer but potentially valuable and competitive.
- Give SMEs momentum by conducting RFQs, with rare exception, within reasonable and preset timeframes. The growing tendency for RFQs to be unannounced, open for very short times, and then delayed for long periods before finalisation should be an unacceptable business practice. If a buyer isn't ready to commit, they shouldn't start the process. Current practices are both disrespectful and costly to the industry.
- Publicly report on the achievement of timeframes. Transparency encourages self-correction, and the public sector performance ought to be visible to the public. The insights will encourage government and industry to work together in driving efficiency and innovation in procurement, rather than the purchaser–provider transactional approach that dominates today.
- Panels should **not** be used as a mechanism for avoiding competition, or to compensate for poor planning and execution. They should be a mechanism for speeding up a competitive process by pre-qualification. They should foster efficient public sector delivery, effective engagement and support the development of an Australian sovereign advisory industry.

POLICY 1

Policy 1: Make panel RFQ processes certain, transparent, inclusive, and respectful.

Publish all RFTs released through panels on a site similar to AusTender with clear evaluation criteria, and a procurement schedule.

Provide SMEs the opportunity to opt-in for a selectively sourced RFT.

Provide a mechanism, and sufficient time, for SMEs to engage with the RFT owner prior to release so that the SME might understand the intent and background.

Publish all RFT awards, including the achievement, or otherwise, of the planned procurement schedule.

4 The biggest buyer is Defence—and Defence is the biggest problem

Defence operates the Defence Support Services (DSS) panel and a Major Service Provider (MSP) arrangement. The MSPs service the procurement arm of Defence, the Capability, Acquisition and Sustainment Group (CASG).

There are four MSP consortia, **only one is Australian or untainted by a 'big four'** in their consortia. At last count, $4.5bn was spent almost equally between the four in the previous five years.

The announcement by the then Minister Pyne at the awarding of the MSP contracts stated: "*The [MSP] agreement actively encourages healthy competition in the market, including fostering a viable and vibrant small-to-medium enterprise (SME) sector for 'above-the-line' subject matter expertise.*"

We disagree. Access to CASG work is limited to only four companies—and sourcing from those companies, according to CASG policy, doesn't require competition. The model has certainly fostered an SME sector, just not a valuable one. The MSPs are obligated to contract a percentage of their work to SMEs. There is no stipulation as to the quality of the work to be offered to SMEs. The approach has fostered an SME industry of labour hire, colloquially known as body-shop consulting—finding and placing people within an MSP program. It is low-value work, promoting an industry of questionable value.

It comes with high and compounding margins. Independent contractors engage with the small body-shop 'consulting' firms, who add a margin. The MSP adds a margin before passing on the services to Defence. Its valuable to everyone but the public who funds the practice.

This approach has also proven destructive to Defence. These companies source a revolving door of staff—in the public sector one day, contracting to it the next. Where there is a market downturn or the loss of a contract, it's the SME contract that gets cancelled, not MSP staff.

The 'vibrant SME industry' claimed by the then Minister is the equivalent of mining. It is mining the local labour resources to the benefit of international companies. It does not provide good value to the taxpayer, and the low value is exacerbated by CASG decreeing that all CASG services work is to be contracted through MSPs.

Undoubtedly Defence has specific needs that must be addressed, but this directive is structured primarily to provide a legally defensible framework with the intent of making life easier for CASG. The approach reduces competition, disenfranchises SMEs, constrains growth of a potentially vibrant Australian industry, and gives preference to primarily foreign interests. This does not represent good value for money for the taxpayer's dollar.

Providing full disclosure, we at Kiah do very little work in CASG because of this structure. We have declined to engage with the MSPs thus far because every attempt has ended in a conversation about price, they have sought to use our IP, our people and our brand to their benefit without any ongoing benefit to us, the SME, other than a fee for labour hire.

The MSP model is due for review. We understand that the MSP model is being reviewed by its original architects, in conjunction with CASG staff, and on the advice of the MSPs. This seems somewhat self-serving, and the industry could have little faith that the outcomes will serve interests other than those of the incumbents.

The MSP approach exemplifies how a major buyer, an effective monopsony, influences the market behaviours and structure. The spend with MSPs is too significant to leave the future structure in the hands of Defence where self-interest in a simple model, and a demonstrated lack of commercial acumen, will leave Australia with a model that doesn't support sovereign industry development.

The current approach inhibits the development of a vibrant sovereign capability and contributes to public sector personnel drain.

Defence clearly requires support for major projects but access to this work should not be limited to four, largely international, consortia. The obligations on MSPs to support SME growth require greater sophistication than in the structure today. Defence, and the MSPs, need to rebuild the confidence of the SME community by engaging broadly, independently, and properly considering the needs of the SME's and the strategic value to the country of fostering a local industry.

This should not be left to Defence, its traditional advisers, and the incumbents. The MSP structure requires independent review.

POLICY 2

Policy 2: Review Defence panels, engaging with the broader industry in the process, and build a supportive approach to industry engagement and sovereign capability development.

Undertake an independent, external review of Defence panels and build a more balanced, supportive approach that delivers Defence needs AND fosters the development of a vibrant, competitive Australian advisory capability.

5 A growing structural exposure

Large companies are focussed on growth. Smaller advisory work is not as commercially valuable as long-term work for large teams. Even high-end strategic consultancies, such as McKinsey, are signalling a move into the province of implementation solution providers.

Solutions work, rather than advisory, is lucrative, large-scale, long-term and commercially attractive. It also creates real and perceived conflict when the advisors define the solution they seek to deliver. The buyer must avoid creating the environment where there is such reward available to companies that temptation overrides the edicts of acceptable behaviour. We know, from recent events, that companies and individuals struggle to resist.

Ultimately the buyer is responsible for making wise choices that ensure they are not exposed to the conflict.

Linking solution design and delivery into one company is convenient, reduces buying activity and makes communication effortless. It is also hazardous for the public sector buyer, heightening the risk of cost and conflict. The simplest way to deal with conflicts of interest is to avoid them—don't allow the conditions to arise that allow the conflicts to exist.

Traditionally, a line is drawn between companies operating 'above-the-line' and 'below-the-line'. Companies supporting the buyer in advising what is required, supporting the procurement, and in managing the supplier's subsequent delivery are considered above-the-line. Those that compete and win to deliver the solution or services are considered below-the-line.

Like oil and water, the two do not mix, yet there is a growing trend for companies to operate in both domains. Even if they are not in a direct line, the temptation to pass information across is high, as seen in a high-profile case recently.

Part of the problem is the lack of choice. There isn't sufficient viable competition, above-the-line, forcing the buyer to choose below-the-line companies to work above-the-line. The lack of a vibrant industry and failure to support its development, particularly by Defence, adds to the problem.

The expedient solution of allowing creep across the line will continue to compound, rather than combat, the problem. Like the separation of audit and accounting services, if a company operates below-the-line, it cannot operate above-the-line in that same department.

Companies must choose where they wish to work, and the buyer should be ensuring it receives independent advice and avoid creating the circumstance for perceived and actual conflicts of interest.

We, as a nation, cannot afford the lack of an independent advisory industry, particularly in the current climate.

POLICY 3

Policy 3: Separate 'above-the-line' and 'below-the-line' work

Protect the public sector's independence and the clarity of advice it receives by mandating that companies engaging in below-the-line services cannot deliver above-the-line services in directly related or associated areas.

6 Panels are not fit for purpose

6.1 Current panels do not establish value for money

Panel contracts are pre-qualified vendors that are easily accessible by the buyer through a streamlined procurement process, and only requiring limited or no competition. Membership on the panel is intended to endorse the panellist as value for money but typically does so by determining consultant rates against skill sets when the panel is established.

Determining value for money in this way underpinned the ANAO opinion of the Digital Transformation Agency's Marketplace (the Marketplace). The ANAO was correct that the Marketplace does not establish value for money, but erroneous in its view that value for money was not achieved before a contract was formed.

The public sector broadly shares ANAO's view that a central procurement cell is better equipped to determine value than the delegate and their project team and can do so based on skills sets and labour rates offered on the formation of the panel. This establishes the price basis of all future offers for the life of the panel. Panels are rarely refreshed, often waiting five years or longer before being re-opened, ignoring the potential and value of new entrants.

The approach reduces competition, doesn't encourage innovation, or allow for changes in market conditions. They perpetuate labour hire, centralising control and decision making. This dilutes the concept of value for money and reduces the delegates obligation to ensure appropriate procurement practices and determining value for money.

It is no wonder that the public sector struggles to break free of labour hire arrangements.

The Marketplace isn't perfect but does move away from pre-determined rates at panel entry. Marketplace members are pre-qualified companies with an assessed capability and acceptance of the Marketplace legal framework. The Marketplace provides insight into the spread of labour costs according to skill level across the panel, which affords the delegate insight to support an informed decision.

The market self-regulates through competition and the visibility of competitive rates. A company can offer high-value service delivery at a higher labour cost and a lower overall cost for a more beneficial outcome. That's a competitive decision, encourages innovation in delivery and supports the concept of value for many.

Agencies are using the Marketplace predominantly as a labour-hire panel at this stage, but it is encouraging more service delivery contracting. Still, it offers a better framework for the public sector and industry to operate differently than traditional panels.

ANAO was erroneous and simplistic in its conclusion that value for money is determined at panel formation and that it is determined by labour costs. Nearly all panels are established on that incorrect premise. These simplistic panel structures reinforce the surrogate labour sourcing that prevails across public sector.

The determination of value for money should only be done by the end buyer in their unique context, and for their tasks and timeframes. A restructure of the traditionalist approach to panels will encourage better behaviour by delegates.

6.2 Panels constrain opportunity for buyer and seller

To be a successful tenderer for a position on the Whole-of-Government Management Advisory Services panel—a mandated panel for government agencies—companies were required to provide two relevant case studies with references to projects they had completed in the last five years. The most brilliant new companies, drawing on the most brilliant staff from across the nation, would struggle to gain entry to that panel. The criteria exclude new and developing entrants, no matter how valuable their offerings.

If that principle were applied without favour, the PWC government services spinoff, Scyne Advisory, would be ineligible to access government work for five years.

After award, the panels remain closed until refreshed, precluding new entrants or the opportunity for existing panel members to expand into categories they were not awarded at the time of the RFT. The time between refreshes is often five years or longer. The Defence Support Services Panel (DSS), the most widely used panel in government, has not been refreshed for six years.

The panels ignore and fail to leverage the fastest-moving segment of the industry, SMEs, ultimately to the detriment of the buyer. This listlessness of public sector panel management constrains rather than eases the buyer's access to the quality and innovation available in a modern, fast-moving market.

The panel process is easy to manage but it's outdated for a modern world. An aged procurement practice no longer relevant in a rapidly changing market, no longer serving the end buyer or the industry well.

6.3 Redesign and reset the panels

The traditional panel construct is only suitable for transactional and commodity procurements. They do not work well when dealing with a vibrant, competitive, and continuously developing advisory industry.

We support panels as a mechanism for pre-qualifying participants and speeding the process of competition and engagement. We do not understand why so many similar, department-centric ones exist when even department-specific needs could be met by a segment in a single panel.

They are costly and time-consuming to join, and laborious to administer, and all come with slightly different terms. If governments are trying to reduce 'red tape', the plethora of panels is an easy target.

They are also dominated by the big companies. This occurs because on establishment of the panel, big companies can apply for every category, small companies cannot. The sluggish refresh cycle means that even as companies develop their capability and capacity, they are denied access to work because of the restrictive access arrangements.

Defence has not refreshed the most significant federal government panel in six years. Not only has the industry changed, so has the world. Bureaucracies simply do not match the pace of industry development, and the immobility denies them the ability to leverage industry advances and industry growth. This does not represent value for taxpayer's money.

Simple changes would have a big effect to the benefit of government and industry. Removing the focus on labour hire pricing as an entry criterion and forcing the value-for-money consideration to the delegate who is seeking the support, would increase competitive tension at the time of tendering, and encourage innovative, solution-based requests and offers.

Enforcing a continuous refreshing of panels, encouraging new participants to apply regularly would also encourage competition and innovation. It would provide new entrants to the benefit of the buyer and open a competitive market to industry.

The DTA's Digital Marketplace provides a fresher approach. A company can apply for membership in any category without a whole-of-panel refresh. Price is determined on submission of a quote, and market intelligence provided to both buyer and seller on price competitiveness of their labour component. The market becomes self-levelling.

The Marketplace isn't perfect and would benefit from increased focus and support of solution-based offerings. Nevertheless, it is a better foundation than most other panels available today.

Panels serve industry and government yet neither party fully understands each other. A single whole-of-government panel with a single set of terms and conditions co-designed to address the public sector's needs and the development of a vibrant professional services sector—would reduce overhead, increase competition and innovation, and support local industry growth. Both parties would benefit.

POLICY 4

Policy 4: Establish a fit-for-purpose whole-of-government professional services panel

Form an industry–government working group to establish a whole-of-government professional services panel that meets the needs of both industry and the public sector.

We see no reason for Defence to operate outside this process.

7 Conclusion

The Australian Public Service, in its role as buyer, ought to be fostering a thriving national advisory industry as a matter of urgency. This is as much a sovereign capability as building components for an aircraft. Such a move would create options and capacity needed by the public sector and enliven the competition essential for delivering value for money.

Only then can the public sector free itself from reliance on the major companies and the risk of them continuing to behave in the way they have always behaved—in their international self-interest, not Australia's interest.

The Australian Government has paid international companies to build commercial dominance domestically, effectively gifting a potentially valuable and influential sovereign advisory capability to international interest. We should not be lining the pockets of partners of multi-nationals. To quote one author, we are fostering 'sports star-level incomes for men and women employing no special talent and taking no personal or entrepreneurial risk' (Richard Brooks, *Bean Counters*, 2018), many who live overseas and are driven by self-interest, making little contribution to Australia.

Remediating the current situation requires a conscious, and active, choice by buyers across the federal and state public sectors. It requires behavioural change, and policies that encourage that change. We are proposing just four policies that would encourage the development of a vibrant Australian advisory professional services industry, all achievable without hurting the budget bottom line. The Four policies are:

1

Policy 1: Make panel RFQ processes certain, transparent, inclusive, and respectful

Publish all RFTs released through panels on a site similar to AusTender with clear evaluation criteria, and a procurement schedule.

Provide SMEs the opportunity to opt-in for a selectively sourced RFT.

Provide a mechanism, and sufficient time, for SMEs to engage with the RFT owner prior to release so that the SME might understand the intent and background.

Publish all RFT awards, including the achievement, or otherwise, of the planned procurement schedule.

2

Policy 2: Review Defence panels, engaging with the broader industry in the process, and build a supportive approach to industry engagement and sovereign capability development

Undertake an independent, external review of Defence panels and build a more balanced, supportive approach that delivers Defence needs AND fosters the development of a vibrant, competitive Australian advisory capability.

3

Policy 3: Separate 'above-the-line' and 'below-the-line' work

Protect the public sector's independence and the clarity of advice it receives by mandating that companies engaging in below-the-line services cannot deliver above-the-line services in directly related or associated areas.

4

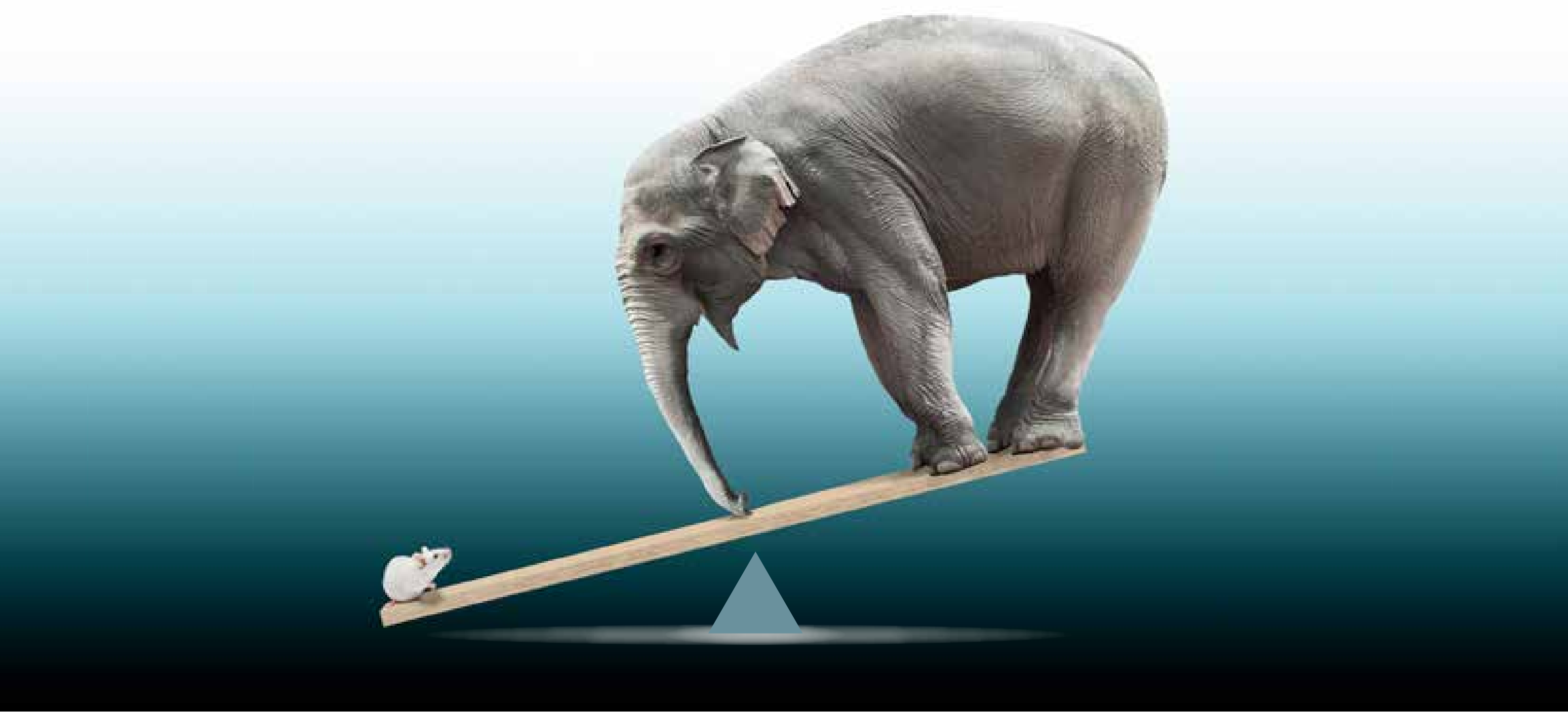
Policy 4: Establish a fit-for-purpose whole-of-government professional services panel

Form an industry–government working group to establish a whole-of-government professional services panel that meets the needs of both industry and the public sector.

We see no reason for Defence to operate outside this process.

If you have any questions or would like to discuss this paper please contact us on 1300 00 KIAH

You don't have to be BIG to make a difference



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