Booming business for Big Four comes at a high cost

Big Four Donations, Contracts and APS Capability

Briefing paper

Over the last ten years, the Big Four (KPMG, PricewaterhouseCoopers, Ernst & Young and Deloitte) have donated $4,289,253 to the ALP and Coalition. Over the same period, total contract volume for the firms jointly has increased by over 400 per cent, from $282 million in 2012-13 to over $1.4 billion in 2021-22. While business has boomed for the Big Four, the Australian Public Service (‘APS’) – one of the pillars upon which our Westminster democracy depends – has been left with static staff numbers and a diminished policy capability. The increased outsourcing of crucial public interest policy work to private contractors who are not directly accountable and financially back both parties raises both questions of integrity and public value-for-money. To arrest the decimation of Australia’s public service, the Centre for Public Integrity recommends:

1. Recentring the APS as the main policy advisory body in government, with resort to external advisors only where there is a demonstrated and acute need for such services;

2. Imposing a cap on each department’s use of consultants (with exceptions available for circumstances of national emergency);

3. Requiring rigorous reporting by departments to Parliament in respect of the use of consultants;

4. Removal of the APS Average Staffing Level Cap introduced in 2015-16;

5. Implementation of a donation cap and spending caps to reduce undue influence of well-resourced corporations;
**Persistent donors**

The Big Four have jointly averaged donations of over $400,000 to both the Coalition and Labor since 2012-13, though this figure has been closer to $500,000 per year since 2016-17. While there was previously a greater equality between donors, PricewaterhouseCoopers (‘PwC’) has emerged as the major donor of the Big Four since 2016-17. Since 2012-13, PwC has donated over $2 million.

![Figure 1: 'Big Four' Aggregate Real Donations by Firm – 2012-2022](image-url)

<table>
<thead>
<tr>
<th></th>
<th>KPMG</th>
<th>EY</th>
<th>Deloitte</th>
<th>PwC</th>
<th>Annual totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-2013</td>
<td>$99,000</td>
<td>$15,000</td>
<td>$54,600</td>
<td>$219,600</td>
<td>$388,200.00</td>
</tr>
<tr>
<td>2013-2014</td>
<td>$208,845</td>
<td>$20,358</td>
<td>$46,800</td>
<td>$-</td>
<td>$276,003.00</td>
</tr>
<tr>
<td>2014-2015</td>
<td>$145,475</td>
<td>$-</td>
<td>$46,000</td>
<td>$31,625</td>
<td>$223,100.00</td>
</tr>
<tr>
<td>2015-2016</td>
<td>$142,945</td>
<td>$84,637</td>
<td>$31,075</td>
<td>$93,225</td>
<td>$351,882.00</td>
</tr>
<tr>
<td>2016-2017</td>
<td>$109,890</td>
<td>$107,134</td>
<td>$30,525</td>
<td>$259,185</td>
<td>$506,733.87</td>
</tr>
<tr>
<td>2017-2018</td>
<td>$107,910</td>
<td>$54,988</td>
<td>$63,874</td>
<td>$226,175</td>
<td>$452,947.32</td>
</tr>
<tr>
<td>2018-2019</td>
<td>$89,100</td>
<td>$85,724</td>
<td>$51,300</td>
<td>$332,100</td>
<td>$558,223.92</td>
</tr>
</tbody>
</table>
A peculiar feature of the Big Four’s donations is that they are largely party indiscriminate. Between 2012-13 and 2020-22, 47.8 percent of their donations were to the Labor Party, whereas 52.1 percent were to the Coalition (though the proportion given to the Labor Party steadily increased between 2017-18 and 2020-21 before falling in 2021-22).

Analysis of donations going back to 1998-99 reveals that the Big Four donations tend to move in political ‘cycles’, whereby the firms prefer to move their donations away from incumbent governments and towards opposition parties as presumptive future governments.
As seen in Figure 4, during the Howard Government, from 1998-99 to 2007-08, the Big Four gradually transitioned their donations to the Labor Party. After the Rudd Government was elected in 2007-08, donations to the Coalition started increasing proportionally before peaking in 2012-13 immediately before the election of the Abbott Government, after which their donations started gradually moving towards the Labor Party before their victory at the 2022 election.

This donation behaviour is distinct from most other donors. Most interest groups donate to political parties in furtherance of their own ideological interest to one rather than both major parties. Unions, for example, donate typically to the Labor Party in furtherance of their interests, while business associations will typically donate to the Coalition in furtherance of theirs.

The Big Four’s persistent donations to both major parties show that their donations are unrelated to any ideological goal or end sought but are rather focused on currying favour with whoever may be in power. This trend in bipartisan donations has been observed among other large
industries in Australia and characterised by some as a form of ‘state capture’. This is consistent with the increasing reliance of the Big Four on government contracts as a significant source of revenue. In this sense, such donations are not bona fide attempt to genuinely support a cause, but to create a sense of interdependency. This interdependency is amplified by the extremely limited public routine financial support for political parties at the Commonwealth level.2

The major parties’ reliance on Big Four donations leaves the parties vulnerable to corruption in the form of ‘clientelism’, whereby ‘patron-client’ relationships emerge and ‘political support is exchanged for privileged access to public goods’.3 Clientelism was contemplated in McCloy v New South Wales as creating the risk that ‘officeholders will decide issues not on the merits or the desires of their constituencies, but according to the wishes of those who have made large financial contributions valued by the officeholder’.4

Clientelism aside, it is not difficult to see the increasingly close relationship which has developed between the Big Four firms and their political patrons. For example, Christopher Pyne accepted an employment offer from Ernst & Young (EY) while still Minister for Defence in 2019;5 former Trade Minister Craig Emerson joined KPMG as an economic consultant three years after leaving office in 2016;6 recently elected Labor member for Hawke, Samuel Rae, formerly worked at PwC after having been State Secretary of the Victorian Labor Party;7 former Labor Party National Secretary Noah Carroll joined KPMG after the 2019 election loss;8 and Jamie Briggs, former Minister for Cities in the Abbott Government from 2013-15, joined PwC in 2017.9

---

2 See Electoral Act 1918 (Cth) pt XX div 3.
5 See Finance and Public Administration References Committee, Parliament of Australia, Compliance by former Ministers of State with the requirements of the Prime Minister’s Statement of Ministerial Standards (Final Report, September 2019) 13.
**Return on investment?**

The Big Four’s donations and access have been handsomely rewarded: total contract volume for the firms jointly has increased by over 400 per cent from $282 million in 2012-13, to over $1.4 billion in 2021-22.

![Figure 5: 'Big Four' Total Contract Volume – 2012-22 – Constant 2021-22 Dollars](image)

The blowout in AusTender public contract volume to these firms is consistent with above mentioned account of ‘clientelism’. Samuel Issacharoff argues that the ‘pathology’ of clientelism benefits incumbent politicians ‘for an expansion of the public sector in a way that facilitates […] rewards to constituent groups’. While these firms undoubtedly provide some necessary work to the Commonwealth Government, a 400 per cent increase in demand over 10 years is inexplicable.

---

11 Issacharoff (n 3) 128.
At what cost?

While the Big Four, among other consultants, have a rightful place in the public policy environment, the overreliance upon them has had a deleterious impact upon the increasingly tenuous role of the Australian Public Service (‘APS’). Since the 2015-16 Budget, the Government has constrained the size of the APS to be at or around the 2006-07 average staffing level (‘ASL’) of 167,596.\(^\text{12}\)

![Australian Public Service Staffing Level 2010-2021](image)

**Figure 6: Australian Public Service Staffing Level 2010-2021**

The explosion in private contracting while APS staffing remains stagnant has been characterised as ‘privatisation by stealth’.\(^\text{13}\) and led Australia to maintain arguably the heaviest reliance on external consultants for public advisory in the world.\(^\text{14}\)

In 2019, the Thodey Review of the APS found that external consultants, such as the Big Four, are increasingly being used to perform work which had previously been part of the core capability of


\(^{14}\) Ibid [5.6] 79.
the APS. The Review concluded that the cap, along with the increased use of external consultants, had led to a significant decrease in the capability of the APS. Big Four consultants had otherwise become a ‘para public service’. The Review ultimately recommended the abolishment of the Average Staffing Level (ASL) cap.

Similarly, in 2021, the Senate Standing Committee on Finance and Public Administration expressed grave concern about the ‘excessive use of consultants within the APS and the relationship of dependence that has formed’. The Committee concluded that such use was ‘utterly unacceptable’ and that while frank and fearless advice by an impartial public service is a ‘key characteristic of a properly functioning Westminster democracy’, when the government ‘consistently chooses to spend exorbitant amounts of taxpayer money on commissioning strategic policy advice from private consulting firms, public sector capability is undermined’. The Committee ultimately recommended that ‘as a first principle, all strategic policy development work should be performed in-house by the APS unless there is a demonstrated and acute need to engage consultants’.

John Quiggin has similarly noted that the ‘state capacity of the Commonwealth government is a shadow of what it was in the mid 20th century’ can be significantly attributed to the rapid increase in use of external consultants. International academic research on use of consultants in the public sector have found a ‘significantly positive relationship between consulting expenditure and organisational efficiency’.

---

16 See Finance and Public Administration References Committee (n 13) [5.7] 79.
17 See Independent panel of the APS review (n 15) 192.
18 Finance and Public Administration References Committee (n 13) [5.52] 90.
Policy choice

It must be remembered that the capping of APS staff numbers and the consequential outsourcing of government functions to external consultants such as the Big Four is a policy choice rather than an inevitability. The ASL cap introduced by Joe Hockey in 2015-16 under the guise of ‘fiscal responsibility’ has in fact just pushed lucrative work to external consultants while the APS loses core capabilities.

These consultants, of whom the Big Four are the most prominent, ‘operate with an ethos vastly different from that characterised by the values of service, integrity and impartiality which define the APS’. In fact, the work of these firms can be inimical to the values of the APS. For example, in 2011 Deloitte sought to undermine plain packaging legislation with arguably erroneous research about illicit tobacco in Australia, and more broadly, the Big Four make a significant amount of revenue assisting companies to avoid their tax liabilities both in Australia and overseas.

Australia’s overreliance on the Big Four is not inevitable. As early as 2018 Jim Chalmers committed to getting rid of ‘the Liberals’ arbitrary ASL cap’ and the ‘false economies’ it had created. Since Labor formed government in May 2022, there have been consistent commitments to cut external consulting fees, remove the ASP cap, and reinvigorate the internal capability of the APS. In the October Budget the Government committed to ‘addressing excessive reliance on [L] consultants’ via focusing on ‘practical reforms’ to the APS. The budget also forecasted a higher ASL across

---

23 Finance and Public Administration References Committee (n 13) [5.69] 91.
the whole of government for 2022-23, yet did not openly address the ASL cap. Only time will tell whether these commitments will be realised.

**Conclusion**

The Big Four consistently financially support both of Australia's major political parties, though they prefer to donate to presumptive winners. The last ten years have seen a ballooning in Commonwealth contracts going to these firms to perform work previously done by the APS, and an increasingly active revolving door between these firms and the prominent positions in government and party administration. This relationship is arguably one of clientelism and comes at significant cost to the taxpayer, to the capability of the APS, and to accountability. This outcome is not inevitable but is rather the consequence of conscious decisions by successive governments to outsource crucial functions to a new 'para public service' while the public service is sidelined. These outcomes are not inevitable. To remedy any potential for undue influence, and to recentre the role of the APS, the Centre for Public Integrity recommends:

1. Recentring the APS as the main policy advisory body in government, with resort to external advisors only where there is a demonstrated and acute need for such services;

2. Imposing a cap on each department's use of consultants (with exceptions available for circumstances of national emergency);

3. Requiring rigorous reporting by departments to Parliament in respect of the use of consultants;

4. Removal of the APS Average Staffing Level Cap introduced in 2015-16;

5. Implementation of a donation cap and spending caps to reduce undue influence of well-resourced corporations;

---

29 Ibid 159.
About The Centre for Public Integrity

The Centre for Public Integrity is an independent think tank dedicated to preventing corruption, protecting the integrity of our accountability institutions, and eliminating undue influence of money in politics in Australia. Board members of the Centre are the Hon Stephen Charles AO KC, the Hon Anthony Whealy KC, the Hon Pamela Tate KC, Professor George Williams AO, Professor Joo Cheong Tham, Professor Gabrielle Appleby and Geoffrey Watson SC. Former board members include the Hon Tony Fitzgerald AC KC and the Hon David Ipp AO KC. More information at [www.publicintegrity.org.au](http://www.publicintegrity.org.au).