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Central Government's use of consultants: Methodology

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1. Overview of methodology

1.1 This supporting paper is for the NAO report 'Central government's use of consultants'. **Figure 1** shows the methodological approach that we applied

1. Overview of research methodology	
Scope Area	Methods applied
Analysis of Public Sector spend on consultants (Described in section 2)	<ul style="list-style-type: none"> a survey of top spending government organisations to provide a comprehensive picture of spend on consultancy, including 16 of the 17 government departments (GCHQ excluded) analysis of supplier industry data from the consultancy trade body, Management Consultancies Association discussions with suppliers comparison of private sector practice and experience of working with consultants to prepare potential benchmarks on spend cross checks of departmental survey returns with financial account data to validate the information provided by departments triangulation of the data sources listed above to develop a full picture of spend by the public sector
Scope for potential efficiency gains (Described in section 3)	<ul style="list-style-type: none"> impacts of recommendations estimated by the NAO team and reviewed by key stakeholders
Follow-up of previous good practice recommendations (Described in section 4)	<ul style="list-style-type: none"> document research and in-depth interviews with the Office of Government Commerce to review the progress made on implementing the recommendations from the 2002 Committee of Public Accounts report 'Better value for money from professional services' and to examine their processes for the procurement of consultants five in-depth case studies of central government departments to review the progress made on implementing the recommendations from the 2002 PAC report and to explore the processes and guidance in place to identify the need for, procure and manage consultants production of high-level process maps for at each of the case study organisations to understand how they procure consultants examination of 12 consultancy projects across the 5 case study organisations to understand how procurement and management processes have been implemented at the project level and to assess what clients and suppliers need to do to build commitment
Analysis of how to build shared commitment on consultancy projects (Described in section 5)	<ul style="list-style-type: none"> creation of a framework to assess and describe shared commitment examination of 12 consultancy projects across the 5 case study organisations to apply and test the framework use of private sector good practice examples to identify lessons that can be implemented in the public sector literature research review of framework by leading academics in the field
Analysis of the consultancy market (Described in section 6)	<ul style="list-style-type: none"> examination of the public and private sector consultancy market to establish existing and future trends review of Management Consultancies Association research.

Source: NAO

1. Overview of research methodology

Supporting research (Described in section 7)

- interviews with nine private sector companies to understand procurement and management challenges
- review of existing literature including NAO Value For Money reports
- review of emerging findings and recommendations with the supply industry to evaluate their resonance and practicability

Source: NAO

2. Analysis of Public Sector spending on consultants

Survey among central government organisations

2.1 As there is no comprehensive single source of data on the use of consultants in the central government sector, primary research was required to gain a definitive picture of spend on consultancy. Research was undertaken by Ipsos MORI, via an online survey, conducted between June and September 2006.

2.2 We issued an online survey to 6 pilot organisations to test the design and assess potential difficulties in completing the survey. This included reviewing the definitions used in the survey to ensure that respondents provided comparable answers. The pilot resulted in three amended questions and lessons from the pilot departments on how best to successfully complete the survey. These lessons were used to coach future respondents. Each of the pilot organisations were asked to resubmit answers to the three revised questions.

2.3 The survey was completed by the top 28 spending organisations across central government including 16 of 17 departments. These organisations were selected according to their total procurement spend reported in the NAO 2004 report, *Improving Procurement (HC361-I 2003-04)*. **Figure 2** shows the full list of organisations included in the survey.

2.4 Participating organisations were asked to provide quantitative data on the value of consultancy expenditure over the past three years, including information on suppliers, the type of consultancy spend and the procurement route used. While questions were standard across the sample, optional comments boxes were provided for respondents to report any inconsistencies, assumptions or comments on the data.

2.5 Overall, response to the survey was good, although some assumptions were necessary at the analysis stage in order to take account of gaps in information supplied (as described below).

2. Organisations surveyed		
Departments	Agencies	Other Public Bodies
Cabinet Office	Central Office of Information	Environment Agency
Department for Communities and Local Government	Driver and Vehicle Licensing Agency	UK Atomic Energy Authority
Department for Constitutional Affairs	Highways Agency	Youth Justice Board for England & Wales
Department for Culture Media and Sport	HM Land Registry	
Department for Environment Food and Rural Affairs	HM Prison Service	
Department for Education and Skills	Office of Government Commerce	
Department of Health	Royal Mint	
Department for International Development	UK Passport Service	
Department for Transport		
Department of Trade and Industry		
Department for Work and Pensions		
Foreign and Commonwealth Office		
Government Actuary's Department		
Home Office		
HM Revenue and Customs		
HM Treasury		
Ministry of Defence		

Source: NAO

Calculations

Total consultancy expenditure across central government

2.6 In order to extrapolate the findings of total spend among our survey participants to total spend across the whole of central government, it was necessary to estimate the coverage of spend accounted for by the 28 organisation who supplied information on their consultancy expenditure (**figure 3**). Data on total procurement expenditure, taken from an NAO study on OGCbuying.solutions that was in progress during our research, was used to estimate the level of coverage.

3. Spend reported by organisations covered in our survey			
	Consultancy expenditure (£ million)		
	2003-04	2004-05	2005-06
Department for International Development	270	276	255
Ministry of Defence	254	203	213
Department for the Environment Food and Rural Affairs	160	180	160
Home Office	N/A	139	129
Department for Health	N/A	111	126
Environment Agency	107	114	110
HM Revenue and Customs	95	136	106
Department for Work and Pensions	250	127	76
Department for Transport	58	65	60
Department for Trade and Industry	112	86	54
Cabinet Office	28	46	51
Department for Communities and Local Government	39	55	36
UK Atomic Energy Authority	42	31	30
Department for Education and Skills	5	9	22
Foreign and Commonwealth Office	21	21	22
HM Prison Service	N/A	7	11
Office of Government Commerce	4	6	11
Department for Constitutional Affairs	8	10	10
UK Passport Service	4	4	9
HM Treasury	6	5	6
Driver and Vehicle Licensing Authority	3	5	5
HM Land Registry	3	3	5
Highways Agency	4	3	4
Youth Justice Board England & Wales	10	6	3
The Royal Mint	1	1	2
Department for Culture Media and Sport	0.5	0.7	1
Central Office of Information	0.1	0.2	0.3
Government Actuary Department	0	0	0
Total	1485	1664	1534

Source NAO

2.7 Even though the Ministry of Defence and OGC took part in the survey, these departments were excluded from the calculations of survey coverage. The Ministry of Defence is a very high spending department and furthermore spends disproportionately more on total procurement in relation to consultancy spend. Including this department in this calculation of survey coverage would drastically skew the results. Therefore, Ministry of Defence spend was excluded in the extrapolation of survey findings (i.e. excluded from both the survey coverage estimation and the total consultancy spend among respondents) but was instead added to the final figure in order to obtain a total consultancy expenditure estimation. Data on OGC total procurement expenditure was not available from the OGCbuying.solutions survey. Survey results showed that OGC are a relatively low spender with regards to consultancy, therefore an assumption was made that their expenditure would not significantly change the survey coverage estimation.

2.8 When analysing this total procurement information, it was found that of the 28 organisations participating in the survey that provided spend information for 2004-05 and 2005-06, 26 (excluding Ministry of Defence and OGC) accounted for approximately 83 per cent of total procurement spend. Therefore, this percentage coverage was used to calculate the total consultancy expenditure figure in these years (figure 4).

4. Calculation of total spend in central government

Total consultancy expenditure across central government =

[(total consultancy spend among survey respondents excluding Ministry of Defence) / (percentage coverage of total procurement spend in the survey excluding Ministry of Defence)] + Ministry of Defence consultancy expenditure

For example,

2005-06 total consultancy expenditure across central government =

[£1,305 million / 83%] + £213 million
= £1.8 billion

Source: NAO

2.9 A different calculation was made for 2003-04 to take account of missing consultancy spend data from Home Office and Department of Health. HM Prison Service was unable to supply spend data for 2003-04; however due to its relatively small level of consultancy spend, the assumption was made that their contribution would not significantly change the survey coverage estimation. Taking this into account, the remaining 23 organisations accounted for 71 per cent of total procurement spend.

Total consultancy expenditure across the public sector

2.10 Using this estimation of consultancy expenditure among central government organisations, further calculations were made in order to extrapolate this figure across the public sector more broadly.

2.11 The basis for this estimation was information obtained from the Management Consultancies Association and industry data, indicating the relative breakdown of consultancy expenditure across three sectors (figure 5)

5. Proportion of spend on consultants accounted for by central government, local government and the National Health Service from 2003 to 2005

	2003	2004	2005
Central government	94%	86%	65%
Local government	5%	9%	14%
NHS	1%	5%	21%

Source: NAO estimates based upon NAO survey, MCA and industry data

2.12 The percentage of public sector spend accounted for by central government organisation was then mapped against consultancy spend estimations for central government obtained through the survey research. Using the percentage of public sector spend accounted for by local government and the NHS, we were able to extrapolate the estimation of central government spend to these two sectors.

2.13 The expenditure estimations for the NHS and local government, together with the estimations of central government consultancy spend were summed in order to calculate total expenditure across the public sector (figure 6).

6. Calculation of total spend by Local Government, NHS and the full Public Sector

A = Total consultancy expenditure across local government =

[(central government consultancy spend estimated from survey) / (% public sector spend accounted for by central government)] x % public sector spend accounted for by local government

B = Total consultancy expenditure across NHS =

[(central government consultancy spend estimated from survey) / (% public sector spend accounted for by NHS)] x % public sector spend accounted for by NHS

Total consultancy expenditure across public sector =

A + B + [central government consultancy spend estimated from survey]

For example,

2005-06 total consultancy expenditure across local government =

[£1.8 billion / 65%] x 14%
= £0.4 billion

2005-06 total consultancy expenditure across NHS =

[£1.8 billion / 65%] x 21%
= £0.6 billion

2005-06 total consultancy expenditure across the public sector =

£1.8 billion + £0.4 billion + £0.6 billion
= £2.8 billion

Source: NAO

2.14 Where survey participants supplied data relating to consultancy spend and the size of their organisation, in terms of numbers of employees and operating cost, estimations were made as to the average spend by organisation size. This calculation was first performed on an individual basis, taking each organisation in turn to calculate:

- consultancy spend per employee;
- consultancy spend as a proportion of operating cost;

The average value was then taken across these organisations in order to obtain estimations of the average central government organisation's spend per employee (£10,000) and the average central government organisation's spend as a proportion of operating cost (11 per cent). This approach weights all organisations equally, so the data is not skewed by very large departments in our survey.

2.15 Survey respondents who supplied insufficient data were excluded from these calculations. DEFRA, HM Treasury, and Highways Agency did not supply information relating to numbers of employees, and hence were excluded from the average spend per employee calculation. DCA, DEFRA, DfID, HM Treasury and Highways Agency either did not supply information relating to operating cost or supplied non-comparable information, and hence were excluded from the average spend as a proportion of operating cost calculation.

2.16 We interviewed eight private sector organisations to collect comparative data on spend per employee and spend as a proportion of operating cost. The private sector organisations covered the software, pharmaceutical, business services, retail, energy, technology, insurance and banking sectors. Seven out of the eight organisations were able to provide us with the required data to calculate average spend per employee and six out of eight provided the required data to calculate spend as a percentage of operating costs.

Consultancy spend by service provided

2.17 We estimated the value of consultancy spend by service provided by taking data from the MCA figures and industry data on the percentage of spend accounted for by each service and applying that percentage to the total consultancy spend figures obtained from our survey (figure 7). For example MCA and industry data indicate that, in 2005, information systems and technology consultancy accounted for 31 per cent of total consultancy spend. We used this percentage to calculate the value of spend on information systems and technology consultancy based upon the total spend reported in our survey.

7. Calculation of total spend by service

Spend on information systems and information technology consultancy in 2005-06 =

([Percentage of spend on IS/IT consultancy in 2005 according to Management Consultancies Association and industry data] x total spend on consultancy in 2005-06 from our survey)

Spend on IS IT consultancy in 2005-06 = 31.25 per cent x 1795

= 0.3125 x 1795

= 561

Service	Spend (£million) per year		
	2003-04	2004-05	2005-06
Information systems / Information technology	876	915	561
Programme / project management	245	309	316
Operational improvement consulting	86	165	303
Management / strategy	533	270	174
Outsourcing advisory	93	113	116
Change management	44	60	116
Human resources	67	45	102
Financial management	39	46	85
Risk management	11	28	17
Economic / environmental	0	4	4
Marketing / corporate communications	1	1	1
Total	1995	1957	1795

Source: NAO estimates based on industry data

Consultancy spend by supplier

2.18 We estimated the value of consultancy spend by supplier using information from our survey, MCA, industry data and discussions with suppliers.

Engagements with small to medium sized consultancy firms

2.19 Survey respondents were asked to report on the percentage of engagements won by small and medium sized consultancy firms. Average values were calculated across all organisations that provided information on this topic in order to obtain indicative results on the proportion of consultancy engagements won by small and medium sized consultancy firms of the average central government organisation. Organisations included in this estimation were the Office of Government Commerce (OGC), Department for Culture Media and Sport (DCMS), Department for Health (DH), Department for Education and Skills (DfES), Department for International Development (DfID), Department for Transport (DfT), Department

for Work and Pensions (DWP), Government Actuary Department (GAD), HM Revenue and Customs (HMRC), Central Office of Information (COI), Driver and Vehicle Licensing Agency (DVLA), HM Land Registry (HMLR), Royal Mint, Environment Agency, UK Atomic Energy Authority (UKAEA) and Youth Justice Board for England and Wales (YJB). The other survey participants were unable to provide the required data.

2.20 Survey respondents were also asked to rank the top consultancy services supplied to them by small to medium sized consultancy firms, according to spend. An indicative assessment was made of this ranking information supplied by OGC, DCMS, DH, DfES, DWP, FCO, GAD, HMRC, COI, DVLA, HM Land Registry, HM Prison Service, Royal Mint, UKAEA and YJB, in order to assess the top service supplied by small consultancy firms to central government organisations.

Contract types

2.21 Survey respondents were asked to estimate the percentage of consultancy engagements where

tenders were issued to one supplier and those where tenders were issued to multiple suppliers. Respondents were also asked to estimate the percentage of tenders that were only issued to one supplier that were issued through framework agreements.

2.22 An evaluation was undertaken to estimate the proportion of engagements bought using the various contract types for an average central government organisation, based on the information received from OGC, DCMS, DfID, DfT, DfES, DWP, FCO, HMRC, COI, DVLA, GAD, HM Land Registry, HM Prison Service, Royal Mint, UK Passport Service, Environment Agency, UKAEA and YJB. The other survey participants were unable to provide the required data.

Payment mechanisms

2.23 Survey respondents were asked to estimate the percentage of consultancy engagements where the contract included an element of gain share or risk reward, were wholly time and materials, or were wholly fixed price.

2.24 Estimations were made as to the average participating organisation's distribution of contract types based on information received from Cabinet Office, OGC, DCMS, DfES, DfID, DWP, FCO, HMRC, COI, DVLA, HMLR, Royal Mint, UKPS, UKAEA and YJB. The other survey participants were unable to provide the required data.

Information held by government organisations

2.25 In gathering the information requested in our survey, many respondents relied initially on centrally held, easily accessed information in their organisation's financial systems. The types of accounting systems varied by organisation. In many cases the systems did not hold the level of detail required to answer the questions asked. In these cases respondents had to rely on paper records and the knowledge of other members of their organisation.

2.26 Most survey participants collect information regarding fee rates by supplier and spend by all suppliers. However, less than a half of participants collect information relating to supplier performance against the business case, or buyer's satisfaction with performance of the supplier (although around two thirds did collect information on project team's satisfaction with supplier). Furthermore, comments received suggest that in many cases, information collected is not necessarily complete, held centrally or easily accessible. Consequently, although overall

response to the survey was good, in many instances assumptions were made in order to provide estimations.

Validation of department survey returns

2.27 We worked with NAO financial audit teams to validate the survey responses from a selection of respondents. The financial audit teams reviewed the survey returns against financial and purchasing information they hold or accessed from departments. Any issues identified were discussed with the client organisations to produce a final, agreed survey return. The following departments' survey returns were reviewed in this way: the Department for Communities and Local Government; the Department for Education and Skills; the Home Office; the Ministry of Defence ; HM Revenue and Customs; the Office of Government Commerce; and HM Treasury.

Analysis of supplier data

2.28 We also worked with suppliers to produce a picture of consultancy spend by the public sector. This information was used at an aggregate level to compare against our survey returns and supplement the information produced by the MCA. The MCA membership includes approximately 70 per cent of the total UK consultancy market (by revenue); therefore, we focused on meeting with the larger non-members.

3. Estimated impact of potential efficiency gains

3.1 We estimated the impact of each of our recommendations across a three year period, understanding that the recommendations will take some time to bed in and will be applied more effectively over time (**figure 8**). The impacts are efficiency gains; these can be reduced costs producing the same results or improved results at the same cost. We have provided a financial equivalent calculation for those potential efficiency gains that will lead to improved results. As we appreciate that the recommendations may not be applied across all consultancy projects, we have been very conservative about their overall impact (hence some impacts are as low as 1 per cent). We have also estimated costs required to implement the recommendation where applicable. These will, of course, vary from organisation to organisation, so we have made a broad estimate. We have discussed the realism of all the estimates made in our calculations with two of our case study departments and OGC – all of whom broadly agree with our assumptions. We estimated the financial

impact of each recommendation in isolation; in other words, what would be their impact if no other recommendation was implemented. The potential efficiency gain of each recommendation was set against the 2005-06 baseline of spend in central government. We recognise that any efficiency savings achieved over the three year period, wholesale changes in spend on consultants and the cumulative effect of the efficiency savings are likely to change the baseline spend figure and the efficiency savings achieved in subsequent years.

4. Follow-up of previous good practice recommendations

Departmental case studies

4.1 We examined five central government departments to evaluate the processes in place to assess demand planning, procurement, management, and use of management information on the use of consultants. Our five case study departments (the Cabinet Office, the Department for Communities and Local Government, the Department for Education and Skills, the Home Office and the Ministry of Defence) were selected to cover a cross section of central government departments with varying levels of spend on consultants, types of consultancy services bought, and previous track record in the procurement and management of consultants. We also examined the Office of Government Commerce to review their progress in implementing the recommendations made in the 2002 Committee of Public Accounts report, *“Better value for money from professional services”* and their own processes for procuring consultants.

4.2 Each department nominated a primary contact as the focus for discussions on the management processes. These contacts were largely drawn from the commercial and procurement teams within departments. Discussion with the primary contact identified further key contacts within the department for us to interview. We held a number of in-depth interviews with nominated contacts at each department to:

- follow up good practice recommendations from the 2001 NAO report *“Purchasing Professional Services”* and the Public Accounts Committee’s twenty-first report of 2001-02, *“Better value for money from professional services”*. We used a Red / Amber / Green framework to assess progress which is detailed in Appendix 1;
- identify the current processes and procedures applied within departments to assess the need for, procure and manage consultants;
- assess how well the department collects and uses management information on the use of consultants;

One of the outputs from our meetings was a process map detailing the procurement of consultants, highlighting the involvement of the central procurement team. **Appendix 2** provides an example of the set of the interview questions used for these meetings.

8. Potential efficiency savings

Baseline spend on consultants in central government 05-06 £1,800,000,000

Recommendation	Saving / Efficiency			Comments	Cost	Net saving / efficiency against baseline			Financial estimate			Total
	Year 1	Year 2	Year 3			Year 1	Year 2	Year 3	Year 1	Year 2	Year 3	
I. Public bodies need to be much better at identifying where core skill gaps exist in relation to medium and long term programme requirements.	8%	10%	15%	This suggests that (e.g) 15% of roles could be filled internally.	We will assume that internal staff (incl. all benefits, etc) cost 2/3 as much as consultants	3%	3%	5%	£47,520,000	£59,400,000	£89,100,000	£196,020,000
II. Public bodies should start with the presumption that their own staff are best fitted for their requirements.	above includes this recommendation											
III. Public bodies should adhere to OGC guidance on the recommended threshold levels requiring Ministerial or Permanent Secretary approval of consultancy contracts.	1%	1%	1%		0	1%	1%	1%	£18,000,000	£18,000,000	£18,000,000	£54,000,000
IV. Public bodies need to engage with the market earlier to explore a range of possible approaches and contracting methods.	1%	1%	1%		0	1%	1%	1%	£18,000,000	£18,000,000	£18,000,000	£54,000,000
V. Public bodies should make more use of different payment mechanisms such as fixed price and incentivised contracts instead of the standard time and materials.	8%	10%	15%		2%	6%	8%	13%	£108,000,000	£144,000,000	£234,000,000	£486,000,000
VI. Public bodies must be smarter when it comes to understanding how consulting firms operate and in sharing information about their performance.	1%	1%	1%		0	1%	1%	1%	£18,000,000	£18,000,000	£18,000,000	£54,000,000
VII. Public bodies need to provide sufficient incentive to staff to make the consulting project a success.	8%	10%	15%		5%	3%	5%	10%	£54,000,000	£90,000,000	£180,000,000	£324,000,000
						15%	19%	31%	£263,520,000	£347,400,000	£557,100,000	£1,168,020,000

Source: NAO

Case studies of consultancy projects

4.3 **Figure 9** shows the 12 consultancy projects we examined across our case study departments to identify if the department's management processes are applied on individual projects as well as to gain a better understanding of how to maximise client and consultant buy-in. These were sometimes projects within programmes which may have involved other consultancy suppliers. For example, we looked specifically at the Home Office's use of Deloitte consultancy for procurement advice on the eBorders programme though other consultants are

also used on the programme. Case study projects were selected to give coverage across a number of variables including cost of consultancy engagement, multiple and single supplier projects, analysis and implementation projects, a range of consultancy services and both ongoing and completed projects. In-depth interviews were held with key project team members and buyers for each of the case study projects. **Figure 10** provides examples of the interview questions used for these meetings. We also asked a selection of questions focused on maximising buy-in, as referenced in paragraph 5.1.

9. Characteristics of the projects examined

Department	Project	Spend on consultants	Multiple or single supplier	Supplier	Analysis or implementation	Major service provided	Status of consultancy project
Cabinet Office	PMDU Capability Review	£480,000	Single	Capgemini	Analysis	Programme and project management, Strategy	Complete
Cabinet Office	Electronic Records Management	£100,000 (2005-06)	Single	Single practioner	Implementation	Information Technology	Complete
Department for Education and Skills	Academies Transformation	£3.2 million	Single	Capgemini	Analysis	Programme and Project Management / Management / Strategy	Ongoing
Department for Education and Skills	Bichard Implementation	£3.8 million (2005-06)	Single	Multiple suppliers including Alpine Consortium	Analysis	Programme and Project Management / Information Services / Information Technology	Ongoing
Department for Education and Skills	electronic Common Assessment Framework	£900,000	Single	Capgemini	Analysis	Management / Strategy / Programme and Project Management / Information Services / Information Technology	Ongoing
Department for Communities and Local Government	FireLink	£10.3m (as at June 2006)	Single	Mott McDonald	Analysis / Implementation	Programme and Project Management / Engineering	Ongoing
Department for Communities and Local Government	New Dimension	£6.5m (as at June 2006)	Single	Serco	Analysis / Implementation	Programme and project management	Ongoing
Home Office	Business Process Re engineering VFM	>£1 million	Multiple	McKinsey, KPMG, Collinson Grant, PWC	Analysis / Implementation	Process design, programme and project management	Ongoing
Home Office	ID Cards	>£10 million (November 2005 to April 2006)	Single	PA	Analysis	Programme and project management, Procurement	Ongoing
Home Office	e-Borders	>£2 million (in 2005-06)	Single	Deloitte	Analysis	Programme and project management, Procurement	Ongoing
Ministry of Defence	Procurement Reform	£53.5 million	Single	Atos Origin	Implementation	Process design	Complete
Ministry of Defence	Business Management System peer review	£70,000	Single	McKinsey	Analysis	Management and organisation	Complete

Source: NAO

10. Example of questions used in project interviews

- How were the requirements specified?
- How did you contract with the consultants?
- What was the fee structure?
- What did the consultants do?
- What services did you buy?
- Why were they engaged?
- What outputs were they responsible for?
- Who were their main contact points? How did the ongoing relationship work?
- Was there a mixed team?
- Were responsibilities clearly delineated?
- How was the management of the consultants linked to the buyer values?
- How quickly were the consultants able to learn about your business?
- Were you able to take on what they left you with?
- What would you do differently in your use of consultants?
- What worked well?
- How satisfied are you with the job they did?
- Will you use them again?
- How much have you spent/planned to spend?
- What value have consultants added?
- How are you managing getting VFM from them?
- How did you measure their success?
- Did the engagement finish on time?
- In hindsight, would this project have been possible using internal resources?
- Did you get what you wanted from your consultants?
- What outputs have they delivered/planned against what was initially projected?
- Have the consultants brought a fresh perspective and new knowledge?
- What lasting impact have they left?
- Did the consultancy engagement provide VFM on this project?

Source: NAO

5. Analysis of how to build shared commitment on consultancy projects

5.1 We carried out a review of existing research on how organisations make good use of consultants (see the bibliography at the end of this section) and used this material to develop a framework which brought together the common critical success factors. A questionnaire derived from this framework was tested with academic experts in this field and a refined version of it was used during our interviews with government departments in order to gather practical illustrations of its key conclusions (**figure 11**).¹ The set of questions used were tailored for each individual interviewee depending upon their role on the project. For example we used a specific subset of questions when interviewing the senior decision maker accountable for delivery of the project, the project manager, a secondee to the project or those impacted by what the project would deliver.

5.2 Using literature research and interviews, we found additional good practice examples in the private sector.

¹ The NAO would like to thank Andrew Sturdy at the University of Warwick, Tim Clark at Durham Business School, Heidi Gardener at London Business School, Tim Morris at Said Business School in Oxford and Karen Handley at Oxford Brookes University for their help in developing this framework

11. Examples of questions used in project interviews

- What are your personal impressions about the values and culture of your department?
- How comfortable is the department with change?
- How easy is it to get decisions taken?
- How would you describe your department's attitude towards working with external people?
- What were your expectations (high or low) in terms of the consultants' input, and the project as a whole?
- How did you prepare for the ground for the consultants (eg briefing them about your department, background to the project)?
- Why did you decide to use consultants?
- How clear do you think your department really was about the reasons why the input of consultants was needed?
- To what extent did you evaluate the individual consultants who would do the work, as well as the firm?
- What opportunity did potential suppliers have to comment honestly on the scope, shape and budget for the project?
- How would you describe the personal relationships between yourselves, the procurement team and the consultants?
- Did the project meet your expectations? If it didn't, did that matter (ie had things changed)?
- To what extent have you acted on the consultants' recommendations and/or adopted the changes/new processes/new systems they implemented?
- What, if any, feedback did you give to the consulting team about their performance?
- To what extent was the 'end' of the project clearly defined? For example, were there multiple contract extensions which might have blurred this?
- How well equipped were you and your colleagues to take over the work / roles previously done by the consultants?
- Will you need to hire consultants for similar work in the future, or have you now acquired the skills to do this?

Source: NAO

6. Analysis of the consultancy market

6.1 The figures in Supporting Paper II – Market Analysis come from a combination of sources: from the Management Consultancies Association; from information gathered by the NAO from discussions with major consulting firms; and from our survey of 28 central government organisations. In addition, this section of the report made use of published research on the challenges facing clients and consultants.

7. Supporting research

Private sector comparison

7.1 We interviewed nine private sector organisations to understand general procurement and management challenges and develop spend benchmarks.

Supplier focus group

7.2 We held a meeting with the NAO's strategic consultancy partners to discuss our emerging findings and recommendations. The objectives of this meeting were to get feedback as to whether our findings and recommendations rang true, were sensible, and achievable and to collect relevant case examples to support or disprove our findings and recommendations. We also presented our emerging findings to the Professional Services Forum, a joint supplier and public sector body run by OGC, MCA and the Institute of Management Consultancy. We also met independently with representatives from the MCA and the Institute of Management Consultancy to gather their views on our study.

Literature review

7.3 We reviewed, and used, existing literature to help shape the scope of the study and supplement our primary research. Our sources, including other NAO value for money reports, are listed in the bibliography.

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Appendix 1 – Red, amber, green rating criteria

1. Progress against recommendations assessment framework			
Recommendation	Red Rating	Amber Rating	Green Rating
Departments to improve the quality of information on spend on professional services	<ul style="list-style-type: none"> The department cannot provide a reasonable estimate for its spend on consultancy The department has no system support to record management information There is no established process for collecting management information The process is not followed No compliance checks are done on the collection of management information The department has provided few answers (less than half) to the survey 	<ul style="list-style-type: none"> The department can provide a reasonable and defensible estimate for its spend on consultancy The department has some system support to record management information The department has a process for collecting management information The process is normally followed (some compliance checks are done)Collection of management information is irregular and inconsistent The department has provided most (1/2 – 2/3) answers to survey questions 1 to 12 	<ul style="list-style-type: none"> The department has an accurate figure for its spend on consultancy, with evidence to support its robustness The department has full system support to record management information The process for gathering information is nearly always followed (regular compliance checks are done)Information is collected and analysed regularly The department has provided full answers (more than 2/3) to the survey
Departments to make either the finance director or head of procurement responsible for ensuring that management information is collected, analysed, and acted upon	<ul style="list-style-type: none"> There is no one person accountable for the collection of management information and acting upon it 	<ul style="list-style-type: none"> There is one person accountable for the collection of management information and acting upon it, however, the person responsible is not of sufficient seniority to take action 	<ul style="list-style-type: none"> The finance director or head of procurement is responsible for the collection of management information and acting upon it
Departments to assess how best to divide work between internal and external staff	<ul style="list-style-type: none"> The department does not have a process to ensure that internal resources are considered in the first instance or if one exists, there is no evidence to suggest it is regularly followed 	<ul style="list-style-type: none"> The department has a process to ensure that internal resources are considered in the first instance. There is some evidence of compliance with the process. 	<ul style="list-style-type: none"> The department has a process to ensure that internal resources are considered in the first instance, the process is regularly complied with and there is evidence of its use The Department takes a medium to long-term view of what work can be done internally versus what will require external staff

Source: NAO

1. Progress against recommendations assessment framework (continued)			
Recommendation	Red Rating	Amber Rating	Green Rating
Departments to reduce the number of contracts awarded by single tender	<ul style="list-style-type: none"> The department cannot provide a reasonable estimate for its use of single tenders Single tender actions are not limited in line with OGC guidelines on spend amount / there is no guidance given on the use of single tender actions There is no process to monitor compliance with guidance (if exists)Single tender action spend limit and process is rarely followed 	<ul style="list-style-type: none"> The department can provide a reasonable and defensible estimate for its use of single tenders Single tender actions are limited broadly in line with OGC guidelines on spend amount There is a process to monitor compliance with guidance Single tender action spend limit and process is normally followed 	<ul style="list-style-type: none"> The department has an accurate figure for its use of single tenders, with evidence to support its robustness Single tender actions are limited broadly in line with OGC guidelines on spend amount Compliance checks against guidance are done regularly Single tender action spend limit and process is almost always followed
Departments to make more use of framework agreements	<ul style="list-style-type: none"> Framework agreements are used for less than 25 per cent of consultancy engagements (using private sector and OGCbuying,solutions benchmarks) 	<ul style="list-style-type: none"> Framework agreements are used for between than 25 and 40 per cent of consultancy engagements 	<ul style="list-style-type: none"> Framework agreements are used for more than 40 per cent of consultancy engagements
Departments to share consulting contract information with other departments and across their own department to help identify opportunities for collaborative purchasing	<ul style="list-style-type: none"> Contracting information is not shared across the department There is no identification of opportunities for collaborative purchasing There is no sharing of contract information outside the department 	<ul style="list-style-type: none"> Contracting information is only shared on an 'as-requested' basis Opportunities for collaborative purchasing are identified on an adhoc basis Contracting information is shared outside the department on an adhoc and informal basis 	<ul style="list-style-type: none"> Contracting information routinely shared and is freely available Opportunities for collaborative purchasing are regularly reviewed and planned Contract information is routinely shared outside the department and opportunities for collaboration are reviewed
Departments to undertake post-engagement reviews and share this information with other departments and across their own department. Departments to use this information and seek references when assessing suppliers	<ul style="list-style-type: none"> There is no process for conducting post-engagement reviews of consultants. They are rarely conducted (<25%) Post engagement reviews are not collated centrally Very few (or no) compliance checks are done 	<ul style="list-style-type: none"> There is a process for conducting post-engagement reviews. They are often conducted (25 – 50%) Post engagement reviews are collated centrally Some compliance checks exist 	<ul style="list-style-type: none"> There is a process for conducting post-engagement reviews. They are nearly always conducted (>50%) Post engagement reviews are held centrally and made available to the whole department Regular compliance checks are done

Source: NAO

1. Progress against recommendations assessment framework (continued)			
Recommendation	Red Rating	Amber Rating	Green Rating
Departments to ensure that qualified procurement staff are involved in procurement decisions	<ul style="list-style-type: none"> Qualified procurement staff are rarely involved in the procurement decision Very few (or no) compliance checks are done 	<ul style="list-style-type: none"> Qualified procurement staff are normally involved in the procurement decision Some compliance checks exist 	<ul style="list-style-type: none"> Qualified procurement staff are always involved in the procurement decision Regular compliance checks are done
<i>Good practice recommendations from 2001 NAO report and OGC guidance</i>			
Business cases and detailed requirements specifications should be routinely written for the use of consultants	<ul style="list-style-type: none"> No specific financial justification is required for the use of consultants Business cases, specifically for the use of consultants, are rarely produced There is no guidance on the specification of requirements for consultants Very few (or no) compliance checks are done 	<ul style="list-style-type: none"> Separate financial justification is required under explicit rules (e.g. above a certain spend level) Business cases are normally produced, specific to the use of consultants There is guidance on the specification of requirements for consultants. Requirement specifications are normally written Some compliance checks exist 	<ul style="list-style-type: none"> Separate financial justification is always required for the use of consultants Business cases, specific to the use of consultants, are always produced Business case feedback is collected and shared to spread good practice There is guidance on the specification of requirements for consultants. Requirement specifications are always written Regular compliance checks are done
Skills transfer should be encouraged, where appropriate, to increase departmental capacity	<ul style="list-style-type: none"> The department rarely assesses and identifies future capabilities required The department rarely reviews the success of skills transfer to inform assessments of departmental capability 	<ul style="list-style-type: none"> The department sometimes assesses and identifies future capabilities required The department normally reviews the success of skills transfer to inform assessments of departmental capability 	<ul style="list-style-type: none"> The department regularly assesses and identifies future capabilities required The department regularly reviews the success of skills transfer to inform assessments of departmental capability

Source: NAO

1. Progress against recommendations assessment framework (continued)			
Recommendation	Red Rating	Amber Rating	Green Rating
<i>Good practice recommendations from 2001 NAO report and OGC guidance (continued)</i>			
The relations with key consultancy suppliers should be managed to understand the drivers for the Department and suppliers	<ul style="list-style-type: none"> The department can not readily identify their key consultancy suppliers Responsibility for engaging with key suppliers is unclear 	<ul style="list-style-type: none"> The department can identify key consultancy suppliers The department has a defined engagement process with key suppliers and meet at least every year Individual responsibility for engaging with key suppliers is poorly defined and applied 	<ul style="list-style-type: none"> The department can identify key consultancy suppliers The department has a clear view of its relationship with key suppliers across all business units within the department The department has a defined engagement process with key suppliers and meet at least every 6 months Individual responsibility for engaging with key suppliers is clearly defined and applied
Consultants' expenses such as travel costs should be monitored to ensure compliance with departmental procedures	<ul style="list-style-type: none"> There is no policy guidance on consultants expense rates 	<ul style="list-style-type: none"> The policy is sometimes applied Compliance is sometimes checked 	<ul style="list-style-type: none"> There is policy guidance on consultants expense rates The policy is regularly applied Compliance is regularly checked

Source: NAO

Appendix 2 - case study interview questions

1. Interview questions used to discuss management and procurement processes

Applying Good Practice Guidance

Demand Planning

- Does the department understand the drivers for consultancy demand within the department? What are the drivers and how do they translate into demand?
- Who is responsible for consultancy spend across the department?
- How does the department plan ahead for consultancy spend?
- Does the department have an internal consultancy function and what functional expertise does it supply?
- Does the department always assess its own capability to deliver the service required?
- How does the department measure the pro's and con's (quality, timeliness, cost) of using internal resources versus external?
- Does the department have procedures in place that require internal expertise to be considered in the first instance?
- Is there evidence that the procedures to first consider internal experience are being followed?
- How often are consultancy requirements fulfilled by internal expertise and what functional expertise has been typically provided in each case?
- Does the department consider whether or not the required skills exist in another department? Or if similar consulting work has been done by another department? Does the department seek to collaborate with other departments for aggregated purchasing of services?
- How does the department expect its need for consultancy to grow over the next 5 years?
- What functional expertise does the department predict will be in most demand?
- How do Buyer Values affect engagements with consultants?

Applying guidance and procedures

- Does the department have procedures to ensure that the procurement function is involved in making buying decisions? Are the appropriate skills used in the purchase of consulting services?
- How is 'good practice' maintained when speed is of the essence?
- Is there a de minimis contract spend level beyond which the procurement function must be involved? If so, how does the procurement function ensure that it is involved in the buying decision?
- What procurement routes does the department use - OGC frameworks, joint frameworks, own framework and single tender actions
- Has the department applied the OGC / Management Consultancies Association good practice guide? NAO recommendations (2001 report)? Internal Audit guidance? Other guidance?
- Does the department measure efficiency gains from the improved use of consultants?
- Does the department routinely require a business case to be written for consultancy engagements?
- Where a business case has not been written, why is this the case?
- Does the department have established guidance for developing requirements for consultancy engagements?
- Are requirement specifications routinely written? Example of content?
- When requirement specifications have not been written, why is this the case?
- Are outputs specified in the contract?
- How often do engagements deviate from the original terms?
- Are changes tracked? How and what impact does this have?
- How significant are changes? Examples?
- Does the department have a policy for skills transfer from consultancy engagements?
- Is the requirement for skills transfer written into the requirements specification for the engagement?
- How does the department ensure that the skills transfer happens?

Source: NAO

1. Interview questions used to discuss management and procurement processes (continued)

Supplier management

- How satisfied is the department with the service provided by consultants?
- Does the department have a strategic partnership for the provision of consultancy?
- Does the department articulate its strategic consultancy needs to suppliers?
- Does the department understand what the supplier is looking to achieve from their relationship? How is this demonstrated?
- Is the department aware of the tactics adopted by suppliers when they engage with clients?
- Does the department possess a category management function that can provide the required corporate knowledge for consultancy engagements?
- Does the department collect information about their suppliers and share this across the department? Share with others?

Is the department happy with the range of products provided by OGCbs?

Sharing supplier information

- Does the department routinely conduct post-engagement assessments? How does the department use the information / lessons from these assessments and how does it ensure that lessons are shared and implemented?
- Does the department share this information with others?
- Is knowledge on fee rates shared within and between departments?

Expense policies

- Does the department check if travel costs charged by consultants are reasonable?
- Is it checked whether relocation costs charged by consultants are necessary?
- Does the department check that the time billed for by consultants is the same as the time they have actually worked?
- Does the department check whether it is being overcharged for overheads?
- Does the department check whether expenses charged by consultants are reasonable?
- Does the department check that the fee paid corresponds to the level of consultant engaged?
- Does the department check whether travel rebates are being claimed by the supplier and then passed back (or not) to the department?

Source: NAO