

Purchasing Professional Services

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
HC 400 Session 2000-2001: 25 April 2001



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This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

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Comptroller and Auditor General	20 April 2001

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Contents

Executive Summary	1
Annex 1	15
Key questions for departments to consider to promote value for money in their expenditure on professional services	
Part 1	17
What are professional services?	17
Why do departments use professional services?	17
How departments purchase professional services	19
Why we carried out the examination and how we set about it	22
Part 2	24
Departments' expenditure on professional services and the expertise they purchase	25
Part 3	34
Better identification and specification of departments' requirements	36
Using the most appropriate and cost effective form of procurement	38
Better collaboration	40
More astute and robust approach to negotiations	42
Better management information on expenditure and on suppliers' and departments' performance	44
Better dissemination and implementation of good practice	46
References and Websites	48
Glossary	49

executive summary

- 1 This report is about how departments can get better value for money from the £600 million which they spend each year on professional services from a wide range of suppliers providing specialist expertise, advice and assistance. The report sets out how departments can improve the way in which they purchase professional services and achieve gains of at least 10 per cent (£60 million) (Figure 1). These gains could be used to deliver the same service and provide resources for departments to spend on other priorities or to obtain a higher quality of service from suppliers.



1 Potential savings from opportunities to improve the value for money from the purchase of professional services

Illustrates the potential gains for departments from better procurement practices identified in this report

Opportunity to improve value for money	Potential Savings £ million
More astute negotiation with suppliers Departments negotiating lower prices for consultancy services by using information to compare fees and understand suppliers' costs such as travel and subsistence	45 ¹
More collaboration between departments Departments collaborating to put combined requirements for work under a single contract and thereby obtain volume discounts	3 ²
Use of the appropriate form of procurement Using competitive tendering and appropriate forms of contract to get better deals and reduce internal processing costs	12 ³
Total	60

- Note: 1. Based on reducing fee rates by 8 per cent so that all fee rates are closer to the average in our survey.
 2. For example based on a 10 per cent saving on £31 million spent annually on financial services.
 3. Based on a 2 per cent saving on the £610 million spent annually by departments.

Source: National Audit Office

- 2 Departments acquire professional services in two ways: either from within government (staff they directly employ or from another department), and externally from the private sector.
- 3 Professional services is one of the areas of procurement expenditure which the Office of Government Commerce have identified as having potential to achieve price and efficiency savings quickly. This is in support of the achievement of a wider value for money improvement target of £1 billion by April 2003 from the estimated £13 billion which departments spend annually on civil procurement. Departments can obtain advice on purchasing professional services from the Office of Government Commerce.
- 4 Professional services cover a vast range of activities and specialist disciplines including the design, development and implementation of information systems, advertising for recruitment of staff, the delivery of contracted out services such as payroll administration, the provision of expert advice for instance on legal issues, research and development, and staff substitution. In this report we focus on those services which because they are in demand across departments and because there are many suppliers have the greatest potential to secure improvements in value for money. These are consultancy or advisory services in the areas of human resources, financial, legal and general management consultancy. Expenditure on the development of information systems and construction projects has been covered by other National Audit Office reports.¹
- 5 In 1994 a Cabinet Office Efficiency Scrutiny into departments' use of external consultants recommended how their procurement and management could be improved to achieve savings, mainly in consultancy fees of £65 million. Our examination which included a survey of 152 departments, agencies and non departmental public bodies (collectively referred to as departments throughout this report), discussions with eight departments found that while many departments have implemented some of the recommendations, for example by departments revising internal guidance and procedures, progress in doing so has not been uniform nor have departments monitored systematically the extent to which implementation has resulted in savings and efficiency gains.
- 6 We focus on three issues:
 - i) why departments purchase professional services;
 - ii) what they spend on them and how they are purchased; and
 - iii) how to unlock the potential to improve value for money, focusing on economy and efficiency in purchasing professional services.

Why departments purchase professional services (Part 1)

- 7 The growth in public-private partnerships and commercialisation, the drive for more electronic service delivery, the introduction of resource accounting, and the Modernising Government programme's commitment to more joined-up service delivery, are requiring departments to consider new ways of carrying out their business and to draw on a much wider range of skills. Departments often seek expert external advice and assistance because of the specialist expertise and independence of view which these can bring to issues.

¹ - Committee of Public Accounts First Report 1999-2000 - *Improving the delivery of Government IT projects which set out key factors which departments and agencies need to pay careful attention to in implementing new IT systems.*
 - Cabinet Office 'Successful IT Modernising Government in Action' which set out measures to improve IT project delivery.
 - NAO Report Modernising Construction HC 87 2000-2001.
 - NAO Report (HC 411 1997-98): *Ministry of Defence; The Defence Evaluation and Research Agency Review of Performance which looked at the Agency's role in providing scientific and technical services to departmental customers, its relationship with industry and the reporting of performance.*



What departments spend on professional services and how they purchase them (Part 2)

8 Our survey of 152 departments in October 2000 found that:

- **Expenditure.** Departments spent in total some £610 million² purchasing professional services in 1999-2000 a seven per cent increase in real terms compared to 1993-94. Thirty-eight per cent (£231 million) was spent on management consultancy; 11 per cent (£67million) on legal services; 5 per cent (£28 million) on financial; and 3 per cent (£21 million) on human resource advice and assistance. Departments were unable to allocate the remaining 43 per cent (£263 million) to particular categories.
- **Who spends the most.** Not surprisingly, the largest departments - Ministry of Defence, Department of Trade and Industry, Inland Revenue, Department of Social Security and Customs and Excise spend the most on professional services, accounting for 56 per cent (£344 million) of all departments' expenditure. This is in line with their share (53 per cent) of all departments' spending on goods and services. Fifty-five percent of all departments' spending on professional services was covered by contracts worth individually more than £149,000 and only 6 per cent of expenditure was for contracts less than £10,000. Twenty-five suppliers accounted for 37 per cent of all departments' expenditure.
- **How professional services are purchased.** Out of 468 examples of professional services contracts quoted to us by departments, fifty per cent (234 contracts) were awarded following full competition, 32 per cent (150 contracts) were on the basis of a single tender or informal³ price tendering, and for the remaining 18 per cent (84 contracts) the contracts were either carried out by in-house teams or were part of framework⁴ agreements which were established competitively.
- As with the purchases of all other goods and services, the procurement of professional services must follow the Treasury's Procurement Policy Guidelines⁵ which require that all public procurement of goods and services are based on value for money. They also make clear the need to ensure that services are acquired through competition unless there are convincing reasons to the contrary, for example the cost to the purchaser precludes a competitive tender. In addition public purchases must comply with the European Communities procurement rules which are consistent with the Government's procurement policy. Competition is sought normally by advertising the contract in the Official Journal of the European Communities. Unless the cost of going out to tender is disproportionate to the value of the contract, appointing suppliers through competition is the best means of ensuring that departments achieve value for money and benchmark the services offered by different suppliers. It is therefore surprising, that departments could not identify more than 50 per cent of contracts having been awarded through full competitive tendering, given that no more than 12 per cent of the 468 contracts were under £10,000. (The 1994 Efficiency Scrutiny found that there was too much reliance on single tendering by departments in appointing consultants). Our discussions with a number of departmental procurement officers and the Office of Government Commerce suggested that staff requiring professional services were often driven more by pressures of time

² This includes some £21 million for the purchase of management consultancy provided in-house or by other departments.

³ A small number of potential suppliers are for example, telephoned to obtain an informal indication of the typical price they might charge.

⁴ A framework agreement is a contract awarded competitively which allows departments to call on one or more suppliers included in the contract without having to retender each (more detail is provided in paragraphs 2.12 and 2.13).

⁵ Procurement Policy Guidelines, published by HM Treasury in November 1998.

and a desire to renew existing arrangements in deciding on procurement methods, rather than a full consideration of value for money. Our discussions with private sector suppliers and the results of a survey of its members by the Institute of Management Consultancy also suggested that departments are driven by minimum cost rather than best value.

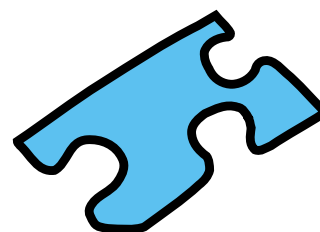
- **Fee rates and the potential to achieve financial savings.** One of the keys to getting a good deal from professional advisers is for the departments to have a clear understanding of the economic drivers of the supplier's business. Some suppliers will be driven by the need to keep teams occupied, others will want repeat business or to maximise fee rates charged for specialist staff, or be interested in the total price for the work. Firms will quote prices in different ways for example a fixed overall price, a fee rate for hours worked, or capped rates based on the amount of work done. To ensure departments get a good deal they need up-to-date and reliable information on prices paid to share this information and negotiate better deals when the fees which suppliers quote appear high in relation to that information. Professional purchasers in departments have a key role to play in advising on negotiation strategies.
- The average fee rate (covering all staff from partner to research assistant) which departments pay for management consultancy services is less than the consultancy industry average.⁶ But this average conceals a wide range in the fees which departments pay. While some of the range can be explained by the variety of services consultants provide, it suggests departments need to have a clear understanding of the skills and experience of the consultants they are purchasing. Suppliers informed us that they could have more room to negotiate and provide better value for money if departments concentrated less on the grade of the consultant and more on matching the service to the specific skills and experience required. Suppliers have standard rates, but in practice these are always negotiable if a firm wants to work for a particular client. If departments could reduce the extent of the range, so fees at the top end of the range were much closer to the average in our survey this would result in an 8 per cent reduction in overall average fees paid by departments - a saving of £45 million. Further savings could be achieved by developing partnerships with key suppliers, and by developing a better understanding of suppliers' costs and negotiating to reduce these or get the full benefit of any discounts the

⁶ Consultancy industry average fee rates as published by the Management Consultancy Information Service which is an independent organisation which conducts surveys on fee rates and salaries.



supplier achieves: for example, costs such as the printing and binding of reports and travel and subsistence, which are passed on to the customers and also incur an administrative charge. Departments also need to negotiate with suppliers the intellectual property rights of any product used or developed in carrying out the work, taking account of whether it will be used again and its commercial value.

- 9 Departments collectively put large amounts of professional service work out to contract non-competitively. Awarding work without competition makes it difficult for departments to compare suppliers' prices to ensure they get the best price. The wide range of fees paid also suggests that there are opportunities for departments to get better deals from suppliers. To do this departments need to have a better understanding of suppliers' costs and to drive up the amount of work awarded through competition.



- **Quality of departments' information and analysis of requirements.** The responses to our survey revealed considerable variation in the quality of departments' information on their expenditure on professional services. While departments know how much they spend in total on professional services many do not have sufficiently detailed breakdowns of expenditure on the different types of external assistance which they purchase. There is also a lack of data on the amount of business awarded to different suppliers and their fee rates, and also on the quality of service delivered by suppliers. This detail is needed to manage the contract and the supplier effectively. The lack of consistent classifications of departments' expenditure on professional services also does not facilitate information sharing within and across departments. Such information would be useful for identifying areas of collaboration in the purchase of common services.
- Our discussions with departments also showed a wide variation in the extent to which they analysed their requirements. There is evidence that departments now require business cases for proposed expenditure on professional services, but the extent to which these test whether the services have already been provided to that department or another is limited. The most common approach is ad hoc consideration of each requirement as it arises rather than a requirement based on a sound assessment of business need.





- 10 Departments' lack of sufficiently comprehensive analysis and information has major consequences. Firstly, it is more difficult for them to determine the value they are getting from their expenditure on professional services for example, by comparing prices and fees paid and also by undertaking evaluations of the performance of suppliers. Secondly, it makes it difficult for them to identify opportunities to collaborate and harness their collective purchasing power to get better deals for example, by packaging their requirements into one contract, or identifying the amount of business individual suppliers are receiving from departments collectively and negotiating lower fees and prices. Thirdly, it reduces the opportunities for departments to disseminate lessons learnt and ensure good practice is implemented.

Unlocking the potential to improve value for money (Part 3)

- 11 The National Audit Office report Modernising Procurement (HC 808 1999) emphasised the need for top-level commitment, better management information, active management of high-value contracts, the involvement of more professional procurement staff and collaboration with suppliers to achieve value for money. The 1994 Efficiency Scrutiny recommended a range of good practice to improve how departments purchase and manage consultants to achieve significant improvements in value for money. It also recommended that each department should prepare an action plan to monitor implementation and produce a report on progress by 1996. In some departments such as the Ministry of Defence, Department of Social Security and the Lord Chancellor's Department action plans were prepared and procedures changed, for example the Lord Chancellor's Department developed and issued guidance to purchasers of professional services and required an annual report on expenditure to be made to senior management. In departments generally there is little evidence that the Scrutiny's other recommendations have been implemented such as mounting collaborative projects between departments and use of performance-linked fees.
- 12 Some departments such as the Department of Social Security and Ministry of Defence have kept their procurement approach to professional services under constant review since 1994 and taken action to improve their approach as appropriate. Departments generally have not monitored progress or questioned why implementation has been slow. Organisational changes have made it difficult to track expenditure on professional services and responsibility for the Scrutiny's recommendations was often delegated to line managers who lacked the skills or expertise to implement them. Other powerful incentives to encourage implementation appear to have been lacking since the Efficiency Scrutiny report in 1994. Apart from the Treasury issuing a statement of Best Practice on establishing effective working relationships, jointly with the Institute of Management Consultancy, and the Management Consultancies Association in 1999 and the Office of Government Commerce's proposed Code of Good Customer Practice which will be issued later this year and sets out core values for working with suppliers such as fairness, honesty, efficiency and professionalism, we found little evidence of follow-up from central departments to implement the recommendations. For instance there are no communication networks for departments to share best practices and information. We held a focus group of departmental staff who commented that this was the first opportunity they had had to talk to staff in other departments and share experience and good practice in purchasing professional services. Departments commented that achieving better value for money depended on more guidance on good practice backed up by concrete examples of what worked well and what had been achieved.

Why the recommendations of the 1994 Efficiency Scrutiny of the Government's use of external consultants were not fully implemented

- lack of follow-up by departments to monitor progress and to question why implementation was slow;
- greater priority was given to other initiatives;
- organisational changes within departments made it difficult to track expenditure; and
- responsibility for expenditure on professional services was delegated to line managers who lacked the expertise or detailed understanding to implement the Scrutiny's recommendations.

Source: NAO interviews with six departments

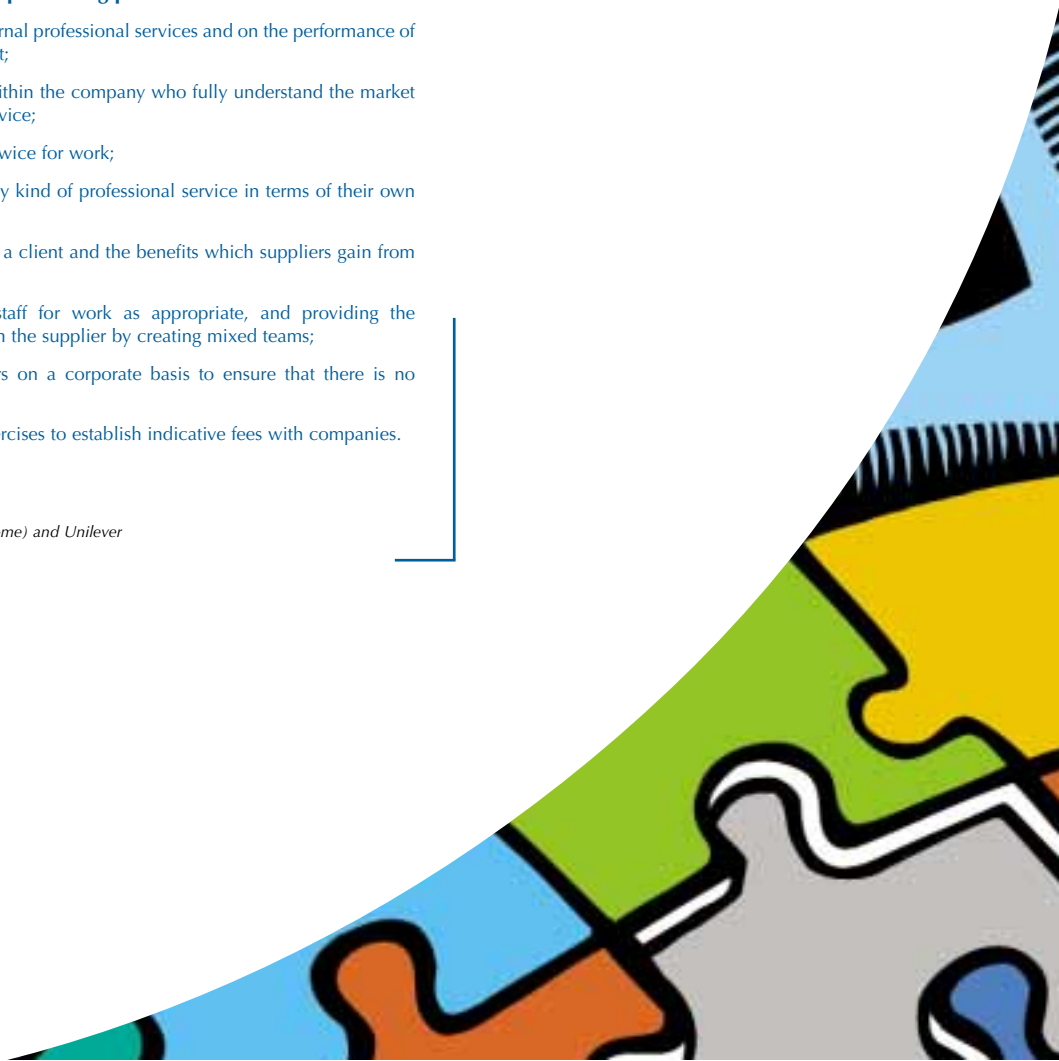
Incentives needed to identify savings

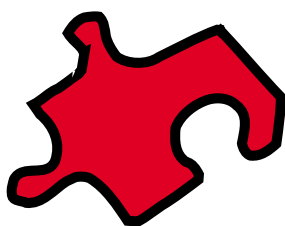
- 13** Incentives can help departments to identify savings through negotiating better deals individually or collectively and thereby uncap their potential purchasing power. Private sector firms recognise the need for incentives to encourage staff to identify savings and implement good practice. They also have a clear profit motive for identifying savings through collaboration or more astute negotiations and ensuring good procurement practice is adopted. Although the private sector do not have to operate under the same procurement rules as central government departments, their approach involves developing a more effective working relationship with suppliers - for example by involving them in framing the work and ensuring good procurement practice is disseminated to staff involved in purchasing external assistance such as on a company's intranet. In the private sector good performance is often rewarded by the continued use of the supplier without the need for tendering. That can be done in the public sector through the use of panels of advisers who are appointed competitively.

Private sector companies' approach to purchasing professional services

- maintaining a database on recent external professional services and on the performance of suppliers using the company's intranet;
- nominating "gurus" or "champions" within the company who fully understand the market for particular types of professional service;
- avoiding duplication and not paying twice for work;
- being aware of the internal cost of any kind of professional service in terms of their own staff's time in providing information;
- being aware of their own strengths as a client and the benefits which suppliers gain from working with them;
- ensuring that they use their own staff for work as appropriate, and providing the opportunity for their staff to learn from the supplier by creating mixed teams;
- managing relationships with suppliers on a corporate basis to ensure that there is no duplication of work; and
- conducting regular benchmarking exercises to establish indicative fees with companies.

Source: GlaxoSmithKline (previously Glaxo Wellcome) and Unilever





- 14** Developments in the public sector provide new incentives for departments to apply good procurement practice and thereby achieve value for money. The creation of the Office of Government Commerce provides a central focus for driving forward and monitoring improvements in procurement practices. The Spending Review 2000⁷ has provided departments with an incentive by allowing them to retain any value for money improvements generated from their own or the Office of Government Commerce sponsored initiatives related to better purchasing during the Spending Review 2000 period. This should have the added benefit of encouraging effective planning of the use of all resources including external professional services. The Office of Government Commerce is well placed to raise departments' awareness of incentives. It has involved departments' senior management in the development of better procurement practice, negotiated better deals (for example in September 2000, the Office of Government Commerce announced the re-negotiation of an existing arrangement with Vodafone which will lead to an estimated £38 million of value for money improvements from departments and the wider public sector's use of mobile phones) and promoted better training of procurement staff through conferences and seminars.
- 15** There is considerable potential to secure improvements in the value for money from the purchase of professional services. Our discussions with departments suggest that the full benefits of the Efficiency Scrutiny's recommendations have not been realised. Incentives for departments to secure savings exist but are not being used. Staff at all levels in departments need advice on how incentives can be used so that in purchasing professional services they follow good practice as set out in this report and so realise the significant potential to improve value for money. The Office of Government Commerce is best placed to work with departments to help secure the significant potential value for money gains. Departments also need better networks for sharing good practice and practical examples of how value for money can be improved.
- 16** In the Annex to this executive summary we have set out some of the questions which departments need to consider to ensure that in purchasing professional services they are getting value from their expenditure.

⁷ www.hm-treasury.gov.uk :Spending Review 2000: New Public Spending Plans 2001-2004 Paragraph 2.11 (18 July 2000).

Recommendations

- 17 The recommendations of the 1994 Efficiency Scrutiny into their use of external consultants identified the potential to achieve savings in consultants' fees of up to £65 million. This report confirms that value-for-money improvements of at least £60 million are achievable. To realise this potential we recommend:

For the Office of Government Commerce

1 Work with departments to take advantage of their considerable buying power

This report shows that in purchasing professional services one of the ways in which departments can achieve better value for money is by co-ordinating their purchasing and exercising their considerable buying power to negotiate better deals (**paragraphs 8, 9 and 10**). There is some evidence of departments starting to do this internally but nothing to support that it is happening between departments. The Office of Government Commerce are well placed to help make this happen by:

- a) developing a central database which can be accessed through the Government Secure Intranet which holds details of departments' expenditure on professional services detailing the type and value of projects, the suppliers and a contact point who can supply more information;⁸
- b) using this database to identify:
 - i) key suppliers to government so that the Office of Government Commerce can take the lead in managing the relationships to negotiate better deals for example with those suppliers who get a significant amount of business from departments (paragraph 8); and
 - ii) common requirements and opportunities for departments to collaborate.
- c) ensuring departments achieve value-for-money gains by requiring them to report on savings achieved for example using methodologies developed by the Office of Government Commerce to do so (**paragraph 8**); and
- d) encouraging departments to develop more effective working relationships with suppliers by reviewing the Statement of Best Practice and the Office of Government Commerce's proposed Code of Good Customer Practice which will be issued later this year (**paragraph 12**) and considering how both can be strengthened through the use of practical examples and development of good practice networks to change client behaviour so that better value for money can be achieved, for example by setting up a group of procurement professionals from departments to assess the opportunities for collaborative purchasing.



⁸ In developing any database which includes comments on supplier performance departments must have due regard to the Freedom of Information Act 2000, the Data Protection Act 1998, civil tort on negligent misstatement (House of Lords 1963) and any confidentiality clauses within individual contracts.

How departments can exercise their considerable buying power to secure the best service and price, for example by collaboration within and between departments

Illustrated by: Ministry of Defence

The Ministry of Defence have recently reviewed external assistance purchased by the whole of the department and its agencies. At present external assistance is purchased locally by 11 budget commands within the department and in over 40 agencies. The review has concluded that there is evidence of the same external services being purchased by different parts of the department and there are opportunities to collaborate on the purchase of external services across the department and share the outputs from external advice. To address this the department is creating a central unit which will monitor expenditure and build up a data-base of the department's usage of external assistance. All units purchasing assistance through projects over £100,000 will have to submit copies of their business case to the unit and supply post-project evaluations. The unit will also consider how in-house specialists can work with external suppliers to ensure skills transfer takes place and thus reduce the need for repeat work.

Benefits:

The information collected will identify: who buys external services; the types of services purchased; the outputs from these services; the value of contracts; and the department's key suppliers. This will allow the department to encourage collaboration between end users in developing solutions to external assistance requirements; take steps to manage the relationship with key suppliers; aggregate requirements and negotiate better deals with suppliers.

For departments

2 Carry out robust and thorough analysis and definition of their requirements for professional services

Ineffective analysis of requirements leads to unnecessary expenditure for example, through different business units purchasing duplicate work or not using available internal resources (paragraphs 9 and 10). It also leads to poor specification and briefing which lessens the value that professional service providers can add. Departments must analyse and define their requirements at:

- i) departmental level to ensure that long-term and departmental-wide requirements are identified and met appropriately; and
- ii) individual project level to ensure the need cannot be met internally or has not already been met; the requirement is clearly defined and expressed to potential suppliers; the mechanisms are set up for skills transfer so that departments gain maximum value from the suppliers' expertise; and all parties have a clear understanding of the intended outcomes.

How departments can analyse their needs for professional services to make the most of the services bought and to achieve savings

Illustrated by: Department of Social Security

In 1999 the Department of Social Security carried out a study of its requirements for external professional resources. This enabled the Department to identify its key requirements, develop a plan for how those requirements could be met from either internal and external suppliers, develop a procurement approach for the purchase of external services, and determine what skills, expertise and information it needs to manage cost effective procurement of professional services. The Department has set up an External Resources Unit to monitor and co-ordinate its spend on external resources and keep the procurement approach relevant to operational needs. The Unit's responsibilities include working with end-users to define the requirement, checking with internal providers of services and with Human Resources whether the requirement can be met internally, and where external services are required ensuring that a clear specification is drawn up and that staff adequately brief suppliers about the Department's needs.

Benefits:

By carrying out the review and developing a procurement approach to meet its needs cost effectively, the Department estimates that it has made a one-off saving of £86,000 and is saving £136,000 each year in internal costs through economies of scale and the better use of work. The Department believe that further savings can be achieved through:

- not purchasing unnecessary professional services by checking whether internal resources could be used instead before external services are sought; and
- deriving maximum value from those services that are purchased as the Unit will be able to direct end-users to existing reports and users who have similar needs.



3 Use the most cost-effective form of procurement which is appropriate for the types of services they are purchasing

Departments still make too much use of single and informal tendering, largely because they want to appoint suppliers quickly or want to reappoint existing suppliers. The absence of appropriate forms of competition in appointing suppliers can put value for money at risk (**paragraph 8**). Departments should ensure that they use the appropriate form of procurement with decisions on the procurement method based on:

- i) improving value for money for example by packaging together requirements into one contract to negotiate a better fee rate;
- ii) ensuring the procurement processing costs are proportionate to the cost of the contract;
- iii) enabling departments to identify potential opportunities to build partnerships with key suppliers while ensuring through competition that the price they pay is reasonable compared to market rates and that propriety is maintained; and
- iv) choosing a contract which meets operational needs for example for services which are required regularly at short notice a call-off contract or term consultancies panel would be more appropriate and cost-effective than letting individual contracts each time. Such contracts still require testing with regular competition. Putting them out to tender every two to three years helps to ensure this.

How different procurement strategies are used to reduce internal processing costs and prices

Illustrated by: English Partnerships

English Partnerships require a broad range of ad hoc professional advice including legal; engineering; property; economics and business appraisal. To meet these needs it has set up a series of term consultancy panels in each professional area which run for two to three years. Each panel consists of a small number of suppliers selected through competition, who collectively provide the full range of services required across all the department's regions. Managers can draw upon the most appropriate panel member (by specialism or location) as required. The rates charged for services are agreed at the start of the contract. Lead contacts for each panel within the department monitor the quality of service received and the amount of work placed with suppliers. Managers are required to keep the lead contact informed of any work they propose to give to panel members.

Benefits:

English Partnerships has found that the panels:

- facilitate access of managers to required services;
- reduce processing costs; and
- allow better control of costs as suppliers are required to provide information on a monthly basis.





4 Hold up-to-date and reliable management information on what they spend on professional services and disseminate this information with guidance on best practice to purchasers

Departments need to ensure that they have in place systems for collecting, analysing and disseminating information to manage all purchasing expenditure including that on professional services for example by the intranet. Comprehensive information is needed by departments to determine the value they are getting from their spending by benchmarking prices and fees paid and evaluating suppliers' performance and to assess the amount of business suppliers are receiving from departments collectively.⁹ Once such information is available and easily accessible departments can identify opportunities to collaborate to secure better prices and reduce the need to use external assistance where similar advice has already been supplied and paid for. Much of the information on prices, suppliers and services is already held in departments but it is not routinely collected and analysed nor is it readily accessible to purchasers. More effort also needs to be put into specifying and collecting information on suppliers' performance so that this can be monitored and used in future decisions about which suppliers to appoint. This information can then be used by departments to report on a regular basis to the Office of Government Commerce progress in achieving value-for-money improvements (paragraphs 9 and 10).

How robust management information supports purchasing decisions by tracking expenditure and providing purchasers with information on the success of projects taking account of the performance of both the supplier and the department

Illustrated by: GlaxoSmithKline and Unilever

Both companies have invested in developing intranet based information systems to support their purchasing on professional services. For example, Unilever's intranet based information system cost under £100,000 to develop and gives details of projects over £50,000, including the suppliers, expenditure, resource days used, commentary on the work done, and a named contact who can give more information.

GlaxoSmithKline have introduced a number of different mechanisms to evaluate its performance and that of its suppliers. These are aimed at assessing not just the quality of the output from the service provider but also how well the project is managed by both parties. For example on large projects, both client and supplier project leaders give a joint quarterly presentation on the running of the project to senior managers in the client and supplier organisation.

Benefits:

At a corporate level the companies now have information about what they are buying, who buys it and from whom and the amount of money spent. This enables them to manage the relationship with key suppliers, ensure that duplicate work is not carried out and that proper protocols and procedures are being followed. Individual managers buying professional services have access to more information and contacts which can help them to make better-informed decisions.

GlaxoSmithKline appraisal of performance has the added benefit of providing information to both the client and suppliers so that they can improve their performance whilst the project is being carried out and so prevent problems afterwards as well as providing lessons which can be applied to future projects.

⁹ In developing any database which includes comments on supplier performance departments must have due regard to the Freedom of Information Act 2000, the Data Protection Act 1998, civil tort on negligent misstatement (House of Lords 1963) and any confidentiality clauses within individual contracts.

5 Develop a more effective working relationship with key suppliers

Departments developing a better working relationship with suppliers and their skills as intelligent customers would allow both departments and suppliers to promote maximum value from the assignment for example, by identifying opportunities to reduce costs and adopt innovative approaches for mutual benefit. Departments should identify their key suppliers and manage the relationship so they achieve good value for money. This could involve departments nominating senior managers with responsibility for programmes which regularly need external professional assistance as "procurement champions" to deal with key suppliers, and encouraging more discussions with suppliers before they put forward proposals. It does not necessarily mean increasing the risk of financial impropriety if appropriate oversight mechanisms are in place for example for clear specification of requirements and proper monitoring of supplier performance (see recommendation 3 above) and the involvement of procurement professionals is sought at an early stage. Departments should also take opportunities to incentivise suppliers by linking their remuneration to their performance when appropriate (paragraph 10).



How to use incentives to improve suppliers' performance

Illustrated by: the Defence Procurement Agency

- 1 The Defence Procurement Agency has a contract with KPMG consultancy to assist them in developing client service plans and identify potential for financial savings through efficiency improvements. The Agency also lacked in-house resources and skills to implement the major change programme they wished to achieve.
- 2 The Agency negotiated a variable fee contract based on risk sharing dependent on KPMG achieving a baseline level of performance such that any payment above the baseline fee would require substantially greater savings in operational costs to be achieved. The Agency's aim was to have a firm price assignment with no scope for the terms of reference to expand beyond what was agreed at the outset.

Benefits:

Linking remuneration to carefully monitored performance has achieved:

- a reduced fee-initially KPMG offered a fixed fee for the development programme. Following negotiations it was agreed that a fee within a set range (the lower end being less than the original fixed fee offered) would be applicable, depending upon results; and
- fee was dependent upon results-KPMG receives their "fixed fee" price if the Agency can develop plans which show aggregate operating cost savings of a certain per cent greater than the existing budget savings. If the aggregate savings identified are less than existing budget savings, KPMG's fee will be reduced. If even greater savings are achieved KPMG earns a bonus up to the maximum of the range if savings are above a set level.



6 Sharpen their approach to negotiations to ensure that they get a good deal from suppliers

The key to getting a good deal from suppliers is to negotiate from a position of strength while understanding the market from which the services are being purchased. Professional procurement staff can play a key role in this. Departments should act as intelligent customers by discussing constructively with suppliers all the elements of the contract price they are to be charged, including the level of service, the timescale for the assignment, the proposed skills mix of the supplier's team and the intellectual property rights of any product of the work which all impact on price and how associated costs such as travel and subsistence are to be remunerated. This means at the post-tender stage clarifying what the price includes and specifying for suppliers exactly what is expected from them. Departments would then be in a better position to negotiate appropriate deals which meet their needs in the most cost-effective way. Departments should avoid discussing at the post-tender stage the scope and nature of the work and fee rates. (paragraph 8).

How purchasers' understanding of the market and suppliers' cost base supports a more astute and robust approach to negotiations with suppliers

Illustrated by: GlaxoSmithKline

GlaxoSmithKline has found that understanding the costs involved in providing professional services is essential for clients who want to pay an appropriate price for the services they receive and to get maximum value from the money paid. GlaxoSmithKline negotiate fee rates with its main suppliers annually and do not negotiate further on these when individual contracts are being agreed. Instead they concentrate on reducing other costs which suppliers pass onto customers such as travel and subsistence, administrative costs and printing of reports. For example they insist that GlaxoSmithKline make all travel and hotel bookings for consultants using its own deals which are cheaper and have the added advantage of avoiding the fifteen per cent administrative charge usually made by consultants.

Benefits:

GlaxoSmithKline aim to save seven per cent on the costs of professionals services through concentrating on reducing the suppliers' costs. It also seeks to increase the value gained from use of such services by insisting that suppliers only use good quality and experienced staff on its projects.

Annex 1

Key questions for departments to consider to promote value for money in their expenditure on professional services

- 1 **Are the department's requirements for external professional services clearly identified and specified?**
 - has the need for professional services been rigorously assessed and checked that it cannot be properly met internally?
 - if the need is justified, has the need been clearly defined?
 - have all those invited to tender been briefed about what the work will involve?
 - are both the department and the appointed supplier clear on the intended outcomes from the work and when the work has to be delivered?
 - is payment of suppliers based on achievement of key milestones?

- 2 **Is the department using the most appropriate and cost-effective form of procurement?**
 - is the form of procurement appropriate to the department's business needs, taking account of the intended outcomes and the volume, value and urgency of the requirement?
 - have the internal processing costs been taken into account in determining the appropriate form of procurement?
 - does the form of procurement provide sufficient competition and comply with European Communities' regulations and rules?

- 3 **Are opportunities for internal and external collaboration with other departments being taken?**
 - does the department regularly identify and review their likely requirement to purchase professional services over the coming six months to a year?
 - is information on what professional assistance and advice has been provided readily available throughout the department on its Intranet and easily accessible?
 - has the department emphasised to its staff the advantage of taking opportunities for joint purchasing of similar services with other departments and sharing of information with them to get better deals?
 - has the department questioned the justification for repeat business when the results and advice arising from earlier assignments are available within the organisation or another department?

4 Is the department's approach to negotiations astute and robust?

- are discounts negotiated for high-volume work or where there are opportunities to carry out repeat work?
- does the department question whether and how much travel and subsistence costs are to be reimbursed?
- has the supplier been consulted about how the service it is providing might be delivered more cost-effectively (for example, by changing the mix and cost of the staff which it allocates to assignments)?
- is the trade-off between cost, time and quality reviewed (for example where work is not time critical taking a little longer to complete can improve quality)?
- has the ownership of intellectual property rights been considered and negotiated?
- are professional procurement staff involved in negotiations with suppliers?

5 Does the department have management information on suppliers' and departments' performance?

- is the information which is needed to assess suppliers' performance determined at the beginning of the assignment?
- are regular evaluations of the suppliers' and the department's performance undertaken once an assignment has started?
- has the department considered linking suppliers' remuneration to achieved performance where this is cost-effective (while ensuring that reliable and unbiased data will be available to demonstrate performance)?
- are the lessons learned from evaluations disseminated within the department and to other departments and implemented by staff?

6 Is the department disseminating good practice and guidance to those responsible for procurement?

- are staff aware of good practice and the tangible benefits it can achieve?
- has the department considered appointing 'champions' - senior managers whose responsibilities involve using professional services-to promote improvements in procurement practice and to liaise with key suppliers?
- has the department established or have access to an electronic database of good practice which includes practical examples to which staff can refer?
- does the department monitor its compliance with good practice and investigate when this does not happen?
- does the department maximise the opportunities offered by government wide arrangements to achieve value for money from expenditure on professional services?
- what steps has the department taken to ensure that its agencies and non-departmental public bodies are implementing good practise and guidance?

Part 1

Why departments purchase professional services

1.1 This part of the report explains:

- what professional services are and why departments use them;
- how departments purchase professional services; and
- why we undertook the examination and how we set about it.

What are professional services?

1.2 The term "professional services" can cover a wide range of suppliers who offer professional and specialist expertise not only through providing advice but also through the delivery of projects and the management of services such as internal audit or maintenance and filling skills shortages which departments may encounter. For the purposes of this study we define professional services as any external organisation engaged to provide professional advice and assistance for a finite period covering: financial support and advice; legal services; human resource advice and assistance; and management consultancy (**Figure 2**). We focus on these services because they are in demand across departments and there are many suppliers and so have the greatest potential to yield price and efficiency savings.

1.3 The use of professional services for the development of IT systems and on construction projects, delivery of contracted out services and research is not included as this has been covered by other National Audit Office reports. For example, the Committee of Public Accounts report *Improving the Delivery of Government IT projects* (HC 65, 1999/00) highlighted the need for a high degree of professionalism in the definition, negotiation and management of IT contracts, and for a post-implementation review to learn lessons from the projects and to establish the extent to which organisations have secured the business benefits anticipated. In response the Government set up a review team based in the Cabinet Office Central IT Unit (CITU) to improve the handling of IT projects and has accepted its recommendations which include requiring that

suppliers provide detailed plans of how they will deliver a project; making IT suppliers the top priority for the work on strategic management of suppliers to be conducted by the new Office of Government Commerce; and establishing systems for collecting and sharing information across government about the progress and experiences of major projects.

Why do departments use professional services?

1.4 The work of departments is now much more complex (**Figure 3**) requiring departments to consider new ways of carrying out their business and to draw on a much wider range of skills.

3 The work of departments is now much more complex because of, for example:

- growth in public private partnerships and commercialisation;
- drive for much more electronic service delivery and electronic procurement;
- introduction of resource accounting and the requirement for better performance management and reporting; and
- The Modernising Government Programme's commitment to more joined up services delivery.

To do so departments often seek expert external advice and assistance because of the specialist expertise, broader perspective and independence of view which they can bring to issues (**Figure 4**). Advice and assistance usually falls into four categories:

- **Large or long-term assistance in implementing programmes** intended to bring about major changes in the way in which departments deliver services or manage their resources. For example, the Child Support Agency is using consultants over a two-year period to ensure that the Agency is properly resourced and structured to deliver the Child Support Reforms' change programme. Other examples include: undertaking a major marketing campaign such as the Environment Agency's flood warning awareness campaign; or

2 Professional services covered by this report

Legal

For example, the Millennium Commission has a contract with a legal firm to provide advice on drafting of grant agreements and legal matters.



Accounting

For example, the Research Council have a contract with Ernst & Young to provide internal audit services.



Management Consultancy



For example, Ordnance Survey have a contract with a consultancy firm to provide marketing consultancy and services which gives it access to specialist skills not available in-house.

Human Resources



For example, PricewaterhouseCoopers were contracted by the Court Service to provide search and selection services for the appointment of the Chair and members of the Legal Services Commission which replaced the Legal Aid Board.

What do departments use professional services for

- Technical and project management advice on major projects, such as introducing new information technology
- Assistance with key initiatives such as Investor in People and Resource Accounting and Budgeting
- Transfer of skills, staff training, development and recruitment
- Financial, accountancy and legal advice
- Restructuring
- Strategic and manpower planning
- Quality management
- Technical advice in public private partnership deals
- Checking contracts

Source: National Audit Office

designing and implementing a new training programme to improve a department's skill base, for instance the British Library has engaged external assistance with a development programme for senior managers.

- **Major projects** requiring specific technical and legal advice not available in departments. An example of these are the Ministry of Defence's contracts with PricewaterhouseCoopers (value £7 million excluding VAT up to signature of the Private Finance Initiative contract) and Herbert Smith (value some £2 million excluding VAT) to provide Private Finance Initiative advice for the redevelopment of the Ministry of Defence's Main Building. Other examples include providing advice on projects such as the British Gas Trading-Price Control Review on which Arthur Andersen advised OFGEM through a contract worth £650,000.
- **Feasibility and project scoping work** such as considering options for introducing new staff

remuneration systems, assessing the environmental impact of different rural development schemes, and evaluating the likely economic consequences of different options for supporting industry.

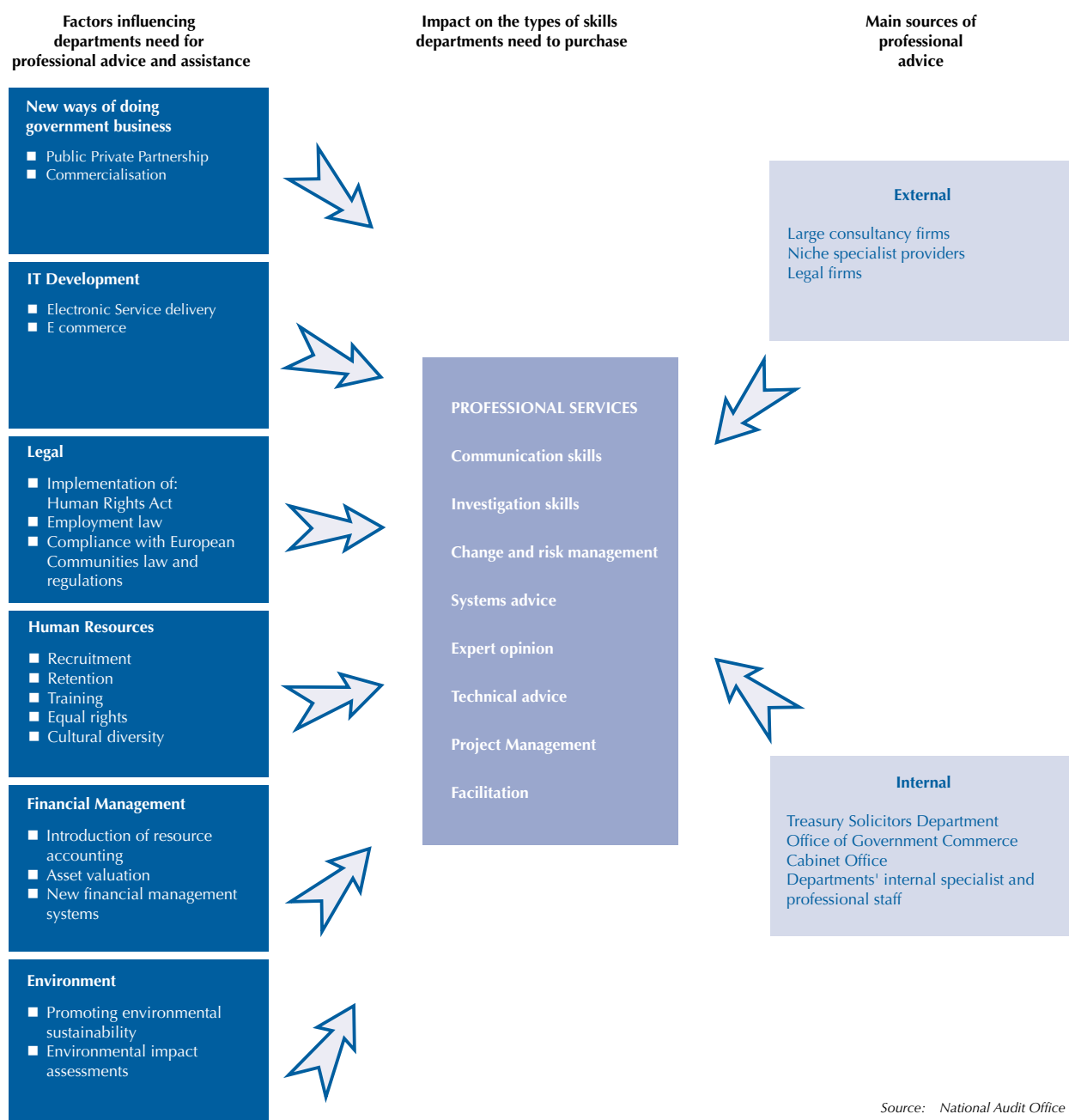
- **Small pieces of ad hoc work** such as legal advice as to whether a particular departmental programme is likely to comply with European Communities' regulations.

- 1.5 The growth in the management consultancy industry means that there is a much larger and more diverse market from which departments can purchase professional services. It is estimated that between 19,000 to 60,000 consultants work in the sector, whilst many are employed by the big firms,¹ this means that there are also a large number of small and medium sized consultancy firms in the market. Departments are also a significant source of business for consultancy firms accounting for 17 per cent (£437 million) of their revenue in 1999.²

¹ The 40 firms represented by the Management Consultancies Association.

² Source: Management Consultancies Association 31 December 1999 Annual Report. The figure includes departments' expenditure on outsourced services and covers just expenditure with the Association's members.

4 Departments' need for professional services is increasing and becoming more complex



Source: National Audit Office

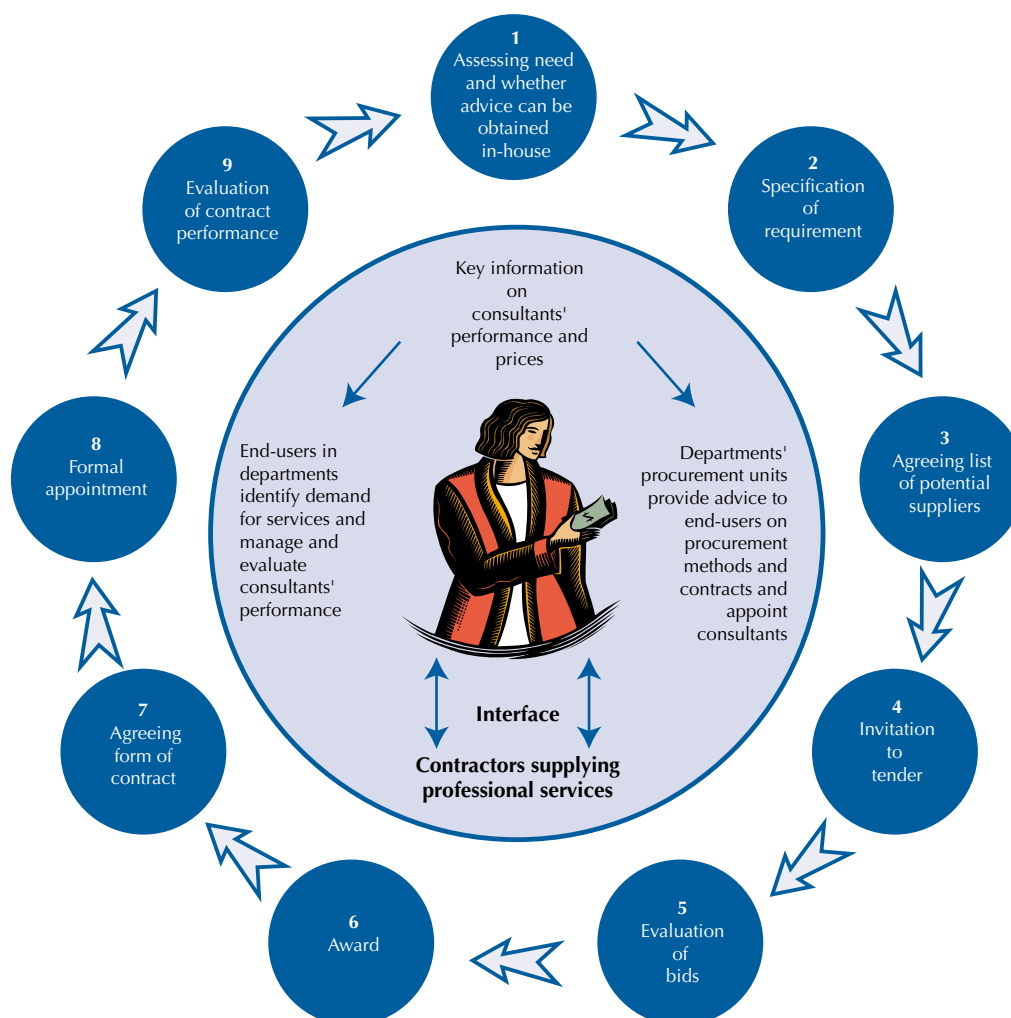
How departments purchase professional services

1.6 Departments are responsible for determining their need for professional advice and assistance and how they will acquire it. They generally have two options they can call upon (i) internal expertise either available in-house from directly employed economists, legal advisers or human resource specialists or available centrally for example, from the Treasury's Solicitors Department or the Government Actuary's Department (**Figure 5**); or (ii) they can purchase externally. The standard approach which all departments should follow in purchasing professional services is set out in **Figure 6**.

5 Departments can seek advice from within the Civil Service from:

- 1250 lawyers;
- 38 actuaries;
- 518 economists ;
- 467 operational researchers;
- 287 social researchers;
- 532 statisticians; and
- 18 internal management consultancy units.

6 Typical stages in procuring professional services



Source: National Audit Office

1.7 Departments seeking advice on purchasing professional services can consult the Office of Government Commerce which was established in April 2000. The Office's remit is to improve the efficiency and effectiveness of the estimated £13 billion which departments spend annually on civil procurement and so promote the achievement of an overall value-for-money improvement target of £1 billion by April 2002-03. The Office of Government Commerce is seeking to do this in a number of ways including helping departments secure value-for-money through the use of best practice techniques and by facilitating the sharing and exchange of knowledge about government commercial activity.

1.8 One source of advice in purchasing professional services is the 1994 Efficiency Unit Scrutiny into Government's use of external consultants. This established that departments spent £508 million on consultants annually and made a series of recommendations as to how their procurement and management could be improved (See Opposite). Another source is the Statement of Best Practice which gives guidance on how to establish an effective working relationship with external consultants and was issued jointly by the Treasury, the Management Consultancies Association and the Institute of Management Consultancy in 1999. The Office of Government Commerce's proposed Code of Good Customer Practice which will be issued later this year, also sets out the core values for working with suppliers such as fairness, honesty, efficiency and professionalism.

Why we carried out the examination and how we set about it

1.9 We undertook this study for two main reasons:

- the 1994 Efficiency Unit Scrutiny into the Government's use of external consultants estimated that if its recommendations for adopting good procurement practice were implemented departments could save, mainly on consultancy fees, £65 million a year. There has been no independent assessment to determine the extent to which these savings have been achieved or whether departments are applying the good practice recommended by the Scrutiny. There is also a lack of reliable information on what departments spend on professional services; and
- the Office of Government Commerce as part of its strategy to promote the achievement of the £1 billion value-for-money improvement target has identified areas of procurement expenditure where there is potential to achieve price and efficiency gains quickly. These areas are referred to as "quick wins" and a number of independent reviews have been completed to assess the value-for-money potential and how it might be achieved. "Quick wins" have included the negotiation of a contract for mobile phones which the Office of Government Commerce say has the potential to save £38 million over the next two years. Professional services have good potential as a quick win because collectively departments have considerable buying power; there are large amounts of repeat business allowing departments' to negotiate better prices; and there is scope for much more implementation of good procurement practice.

1.10 This report supports the "quick wins" strategy by looking at ways in which value-for-money from professional services can be improved by departments:

- undertaking a more robust analysis of their requirements for professional services both at a strategic and operational level for example, combining requirements for advice on similar issues within and across departments and pooling advice already obtained to reduce the need for new work;
- using different procurement strategies which reduce internal processing costs and prices;
- collecting and using information on expenditure on professional services and on the performance of suppliers to help select the most cost-effective consultants for new work;
- identifying where departments could exercise their considerable buying power to secure the best price; and
- where appropriate negotiating reduced fees and expenses with the major consultancy and professional firms.

1.11 The report focuses on three issues:

- why departments purchase professional services (Part 1);
- what departments spend on professional services and how they purchase them (Part 2); and
- unlocking the potential to improve the value-for-money of professional services (Part 3).

The methodology which we used in undertaking the study is set out in [Figure 7](#).

7 The NAO's approach and methodology

What we examined

Departments' expenditure on professional services



What we did

Survey of 152 departments, agencies and non departmental public bodies to find out:

- how much they spend on professional services in total and by category of work (accountancy, legal, human resource and management consultancy);
- suppliers of professional services who earn the most business from departments; and
- example of specific projects involving significant expenditure on professional services.

How departments purchase professional services



Interviews with eight departments including three of the biggest spenders (Ministry of Defence, Department of Social Security and Department of Trade and Industry), as well as small departments with more specialist needs to identify their procurement strategies and processes, examples of good practice and areas where performance could be improved.

Institute of Management Consultancy undertook a survey of its member organisations seeking their views of departments' performance as clients. The Institute received 26 replies.

Interviews with ten leading providers of professional services² to obtain their views on departments' performance as clients, examples of good client practice and how performance might be improved.

Potential for better value for money



Benchmarking and comparisons between different departments' approaches to identify good practice.

Interviews with two private sector companies - GlaxoSmithKline and Unilever to determine how they purchased and managed professional services to identify good practice.

Focus group of staff from six of the departments interviewed to discuss our findings and how value for money from professional services could be improved.

Notes: 1. Departments interviewed as part of the study: Department of Trade and Industry; Ministry of Defence; Department of Social Security; English Partnerships; Engineering and Physical Sciences Research Council; Competition Commission; Lord Chancellor's Department; and Northern Ireland Purchasing Agency.

2. Providers of professional services interviewed: KPMG; PricewaterhouseCoopers; Accenture (formerly known as Andersen Consulting); McKinsey; Deloitte & Touche; Clifford Chance; WS Atkins; Hay and PA Consulting. We also spoke to the Management Consultancies Association, Institute of Management Consultancy and Treasury Solicitors.

Part 2

What departments spend on professional services and how they purchase them

2.1 In order to ensure that they get value for money from their procurement of goods and services departments need reliable and up-to-date information on what they are spending, the prices they are paying, who their key suppliers are and their performance, and the amount of business which suppliers are getting from departments. The need for such information applies as much to professional services as any other goods and services which departments purchase (**Figure 8**).

8 Departments need reliable management information on:

- **total expenditure on professional services** to monitor trends and if expenditure is increasing to determine whether this is justified;
- **who purchases professional services within departments** to ensure that they have appropriate skills and access to guidance and information, and their expertise can be used;
- **prices and fee rates paid** to compare or benchmark these with those paid for similar services or with the current market average to determine if there is scope to get a better deal;
- **key suppliers** and the amount of business which they are receiving from a department; and
- **main categories of professional advice** for example human resource services or where there is significant demand for repeat services to assess the potential for negotiating more appropriate contracts with key suppliers which meet their actual needs, reduce internal administrative costs and secure better prices.

2.2 The 1994 Efficiency Unit Scrutiny of Government's use of external consultants found that there was considerable scope for improving departments' information on the consultancy services which they purchased. Information on expenditure was not easily accessible; a common definition of external consultancy services was not often used making it difficult to determine or monitor how much departments were spending on consultants; and a lack of reliable information on prices and fees meant that it was not easy to compare the cost of similar services to determine whether the prices paid by departments were reasonable or whether there was scope to get a better deal.

2.3 To find out whether the position had improved, we carried out a survey of 152 departments, executive agencies and large non-departmental public bodies (referred to as departments)³ in October 2000. This part of the report summarises the results of our survey focusing on (i) departments' spending on professional services and the expertise purchased; (ii) who the main suppliers providing professional services are; (iii) the methods which departments use to purchase services; and (iv) the quality of departments' information on the professional services which they purchase.

Departments' expenditure on professional services and the expertise they purchase

2.4 Our survey found that in total departments spent £610 million⁴ on professional services in 1999-2000, a seven per cent increase in real terms compared to 1993-94 when the Efficiency Unit Scrutiny of the use of external consultants estimated that consultancy expenditure was £508 million (£570 million at 1999-2000 prices). Individual departments have confirmed this growth in expenditure, such as the Ministry of Defence which has monitored its expenditure on professional services since 1994 and has reported a 10-15 per cent increase each year in real terms. Several of the departments which we interviewed said that their expenditure on legal services had increased because of a general growth in litigation and new legislation such as the Human Rights Act which impacts on their responsibilities as employers.

³ 140 departments replied to the NAO survey: a response rate of 92 per cent. All the major departments and agencies replied, those which did not were small agencies which spend very small amounts on professional services.

⁴ The £610 million includes £21 million 'hard-charging' - for the purchase of management consultancy provided in-house or by other departments.

2.5 Departments are less clear, however, as to what their professional services expenditure is spent on. Departments attributed 38 per cent of their expenditure to management consultancy; 11 per cent to legal services; 5 per cent to financial; and 3 per cent to human resources consultancy. Departments were unable to allocate the remaining 43 per cent of their expenditure to any particular category (Figure 9). Departments gave two reasons to explain this:

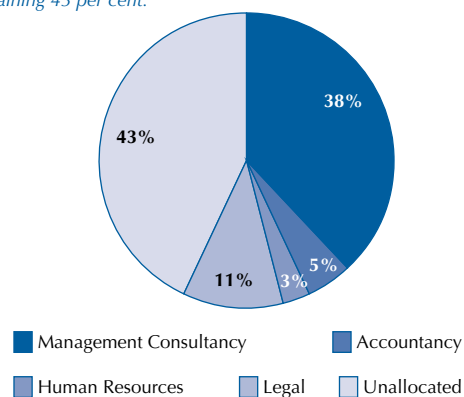
- most departments have delegated responsibility for purchasing professional services from their central procurement units to line managers who identify the need for external expertise and who are likely to be most closely involved in working with the suppliers. This means that detailed information on expenditure is not readily available at the centre and is difficult to collect. For example, the Department of Trade and Industry can provide data on expenditure on particular suppliers from its finance and accounting system but does not hold centrally any details as to the type of work purchased. This meant that in responding to our survey the Department could not say precisely what £115 million of its total annual expenditure on professional services of £125 million was spent on. They are looking to develop the system further to improve the management information and to monitor more closely contracts placed throughout the Department; and
- departments found it difficult to decide how to categorise large complex projects which can include all four types of expertise - management consultancy, legal, financial and human resource advice, as well as assistance with project implementation. The lack of a consistent categorisation of different types of expertise does not facilitate information sharing between and within departments.

2.6 The top five departments spending the most on professional services in 1999-2000 were: Ministry of Defence⁵, Department of Trade and Industry, Inland Revenue, the Department of Social Security and Customs and Excise which account for 53 per cent of total government expenditure. Together these accounted for 56 per cent of all departments' expenditure on professional services (Figure 10).

2.7 Fifty-five per cent of departments' expenditure for professional services was for contracts individually worth more than £149,000. Only six per cent of contracts were worth less than £10,000 (Figure 11). The most frequent reason given for engaging professional services was the need for specialist skills not available within departments (Figure 12).

9 The main types of professional services purchased by departments

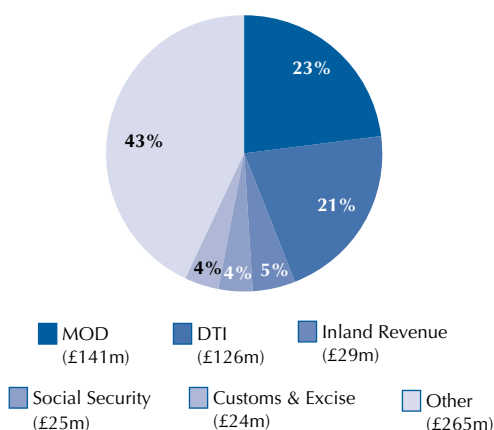
Departments' total expenditure on professional services in 1999-2000 was £610 million. They can allocate 57 per cent of this to specific categories of assistance but are not able to do so precisely for the remaining 43 per cent.



Source: National Audit Office survey October 2000

10 Departments spending the most on professional services

Five departments account for 56 per cent of expenditure on professional services

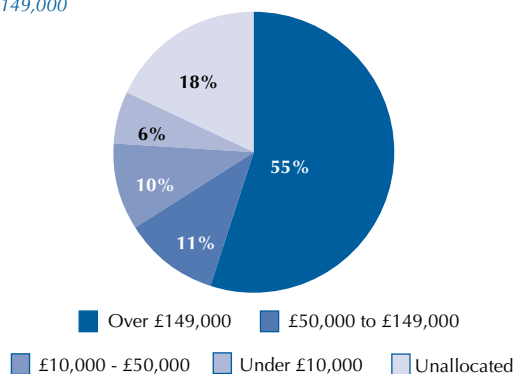


Total expenditure £610 million.
The largest 5 spenders make up 56% of total expenditure, with MOD and DTI making up the largest proportion.

Source: National Audit Office Survey

11 The value of departments' contracts for professional services 1999-2000

55 per cent of expenditure was on contracts with a value of over £149,000

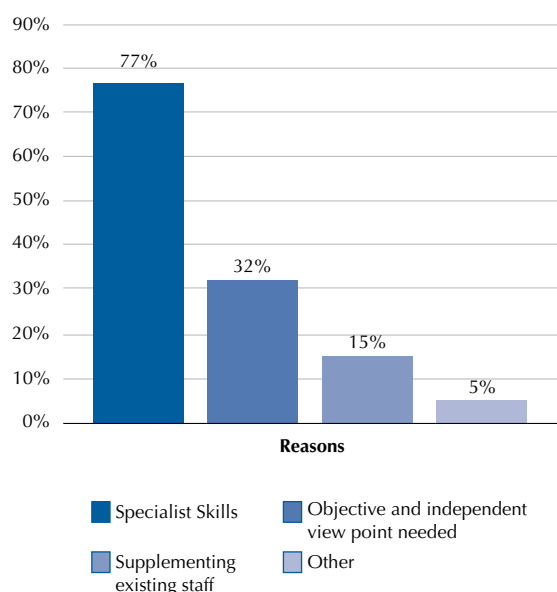


Source: National Audit Office Survey, October 2000

⁵ To be consistent with the definition used for this report the Ministry of Defence figure differs from its own published figure of £210 million as we have excluded expenditure on the provision of IT services.

12 Reasons most frequently given for using professional services

The need for specialist skills is the main reason for using professional services



Source: National Audit Office Survey, October 2000

The main suppliers of professional services.

2.8 We asked departments which suppliers providing professional services had secured the most business from them in 1999-2000. Departments' total expenditure on the top 25 suppliers was £227 million (Figure 13). This represents 37 per cent of total expenditure on professional services in 1999-2000.

2.9 In large departments it is possible that different parts of the organisation may appoint the same supplier of professional services and not know that it is already doing work elsewhere in the organisation, may have recently done so, or over a number of years may have undertaken significant amounts of work or repeat business. Similarly, a supplier may be providing the same service or advice to a number of departments. Collectively this may represent a substantial amount of business to a supplier and in such cases departments may be able to use their buying power to secure a better price. This can only happen, however, if departments monitor centrally expenditure by supplier and that those awarding contracts have access to such information so that they know independently the amount of business suppliers bidding for new work have previously received from the department. The Department of Social Security, for example, now monitors expenditure with leading suppliers, reports on this every six months to ministers and holds regular meetings with suppliers to discuss the department's relationship with them. Our survey indicated, however, that few other departments routinely adopt such an approach.

13 Who are the leading Suppliers of professional services to Government departments in 1999-2000

Departments' expenditure on Professional services by supplier: £ million ¹	
PricewaterhouseCoopers	69.8
Ernst & Young	30.6
KPMG	19.2
PA Consulting	13.5
WS Atkins	12.8
AEA Technology plc	8.3
Accenture	
(formerly known as Andersen Consulting)	7.9
Central Office of Information ³	7.5
Deloitte & Touche	6.0
Logica plc	5.4
NM Rothschild & Sons Limited	5.2
McKinsey	5.1
Treasury Solicitor	4.9
Hedra Limited	4.8
Hay	3.4
Capita	3.4
DSS Solicitors	3.3
Berwin Leighton	2.2
Nabarro Nathanson	2.1
Eversheds	2.1
Bird & Bird	2.1
Central Computer and Telecommunications Agency	2.0
Caminus	1.9
Further Education Development Agency	1.9
Denton Wilde Spate	1.8
Total	227.2

represents 37 per cent of the total spending (£610 million) by departments on professional services in 1999-2000

- Notes: 1. Where IT consultancies are included the figure quoted by departments is for the amount spent on assistance with IT strategy development and does not include system development work.
2. This table is based on figures supplied by departments and checked with the companies listed.
3. This figure is for services purchased by the Central Office of Information on behalf of other departments.

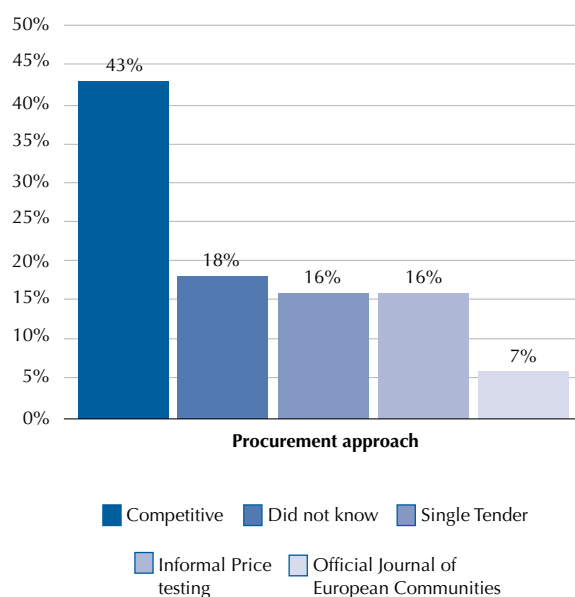
Source: NAO Survey October 2000

Methods used by departments to purchase professional services

2.10 Departments purchase professional services in different ways. In responding to our survey departments provided details about 468 contracts that they had awarded in 1999-2000 or which were still ongoing. Of these 50 per cent (234 contracts) were awarded following full competition - 7 per cent were advertised in the Official Journal of the European Communities; 16 per cent (75 contracts) were awarded on the basis of a single tender; a further 16 per cent used informal price tendering - for example, a small number of potential suppliers are telephoned to obtain an informal indication of the typical price they might charge; and for the remaining 18 per cent (84 contracts) the contracts were either not tendered because the work was carried out by an in-house team or a member of a term consultancy panel, or the procurement method was unknown due to organisational change because departments had taken on contracts previously let by another department (Figure 14).

14 Methods used by departments to award contract for professional services

Fifty per cent of 468 contracts were awarded competitively



2.11 The Procurement Policy Guidelines⁶ require that all public procurement of goods and services are based on value for money. They also make clear the need to ensure that services are acquired through competition. In selecting the most appropriate form of competition departments need to consider the requirements of the public procurement law; the costs of tendering; the number of potential suppliers; and the nature of the work. Unless expenditure is very small, appointing suppliers through competition is the best means of ensuring that departments achieve value for money and compare the services offered by different suppliers. It is surprising, therefore, that given that twelve per cent of contracts were under £10,000 the percentage awarded non-competitively through single tenders or through informal tendering was as high as 32 per cent. The 1994 Efficiency Scrutiny similarly found that there was too much reliance on single tendering by departments in appointing consultants. Our discussions with departments'

procurement officers and the Office of Government Commerce suggested that staff requiring professional services were often driven more by time pressures and a desire to renew existing arrangements, rather than a full consideration of value for money in deciding procurement methods.

2.12 A number of departments are, however, taking steps to improve this (see below) and adopting procurement approaches which have good potential to improve value for money. Departments may need access quickly to professional skills at short notice for example, legal or financial advice or small pieces of technical advice on a specific project. Departments may not have the time to tender the business and the work may be of short duration and individually not of significantly high value. It is, therefore, unlikely to be effective to incur the administrative cost of tendering the work each time. One solution is to have a call-off contractual arrangement whereby one supplier is appointed through competition to provide advice when called for at fee rates agreed when the contract was awarded (Figure 15). A framework agreement goes one step further and includes a number of suppliers, all appointed through competition, which departments can call upon to carry out work within the fee rates agreed when the agreement was established. The advantages are that departments do not have to retender every time they need to seek professional services; competition to be included in the framework agreement provides an incentive for firms to offer better prices; and the processing costs of having to organise a large number of competitions for relatively small packages of work are reduced. When the need for external advice arises end-users identify the most appropriate service provider from the agreement, and if there is more than one hold a mini-competition to determine which supplier can provide the most cost-effective solution. As with any relationship with a supplier, these arrangements must be established with due regard for propriety issues and mechanisms for subjecting the agreement to regular competitions at intervals of 2 to 3 years.



OFGEM's initiative to increase the number of consultancy contracts awarded competitively

OFGEM found recently that it only awarded 50 per cent of its consultancy contracts competitively. It has set itself a target of increasing this to 95 per cent and has introduced new procedures to facilitate this.

Source: External Efficiency Review of the Utility Regulator - W.S. Atkins

⁶ Procurement Policy Guidelines issued by HM Treasury in November 1998.

15 Circumstances when call-off arrangements are likely to be most appropriate

- advice and assistance is not available in-house;
- high-volume but relatively small packages of advice and assistance are needed;
- there is a large amount of repeat business of a similar nature;
- professional skills are needed quickly, often at short notice;
- it is clearly more cost-effective to have a call off arrangement than to tender each time advice is needed; and
- the arrangement would not breach European Communities' Procurement Rules and Regulations.

2.13 The European Commission are considering the formal recognition of framework agreements for the purchase of services as part of a wider review of European Communities' procurement regulations. Until this review is completed, the Office of Government Commerce advise departments to examine each contract to ensure that it complies with the requirements of public procurement law.⁷ Examples of departments which are successfully using framework agreements to purchase professional services are:

- the Northern Ireland Government Purchasing Agency which estimates that it has secured fee rate discounts, some as high as 40 to 50 per cent and has avoided the processing cost of about £1000 incurred every time a new contract is tendered (see overleaf);
- the Central Computer and Telecommunications Agency Managed Services Division (now part of the OGCbuying.solutions have extended their IT services catalogue (called S-CAT) to include provision of general management consultancy services with a number of suppliers. Within the terms of this agreement, suppliers quote maximum daily fee rates for different levels of staff and some offer discounts depending on the amount of work placed with them. These rates are subject to annual review. It is up to departments to decide how to engage suppliers. 64 government customers, spending £19.3 million between August 1999 to March 2000 and 77 government customers, spending £50.1 million in the period April 2000 to February 2001 have used this service since August 1999; and
- the Department of the Environment, Transport and the Regions has let a departmental framework contract for Private Public Partnerships/Private Finance Initiative advice. This has been used for 15 commissions to date

with a total value of £2.7 million. The department estimates the savings generated by using this approach as £290,000 (10.7 per cent).

Potential to achieve financial savings

2.14 Securing value for money in the way consultancy services are purchased requires that departments carefully consider the prices which suppliers charge them to consider whether they are reasonable for the work being undertaken and whether they reflect the current market rate for such work. This requires departments to have an understanding of the economic drivers of suppliers' business. Some firms will be driven by fees rates, others by increasing their market share or developing a new service. Some firms will want to maximise the amount of work for their specialist staff, others will be interested in the total fee. This also requires departments to have an understanding of the possible restrictions on competition within the profession from which the services are purchased for example the report by the Director General of Fair Trading "Competition in Professions" in March 2001 followed a review of competition in the legal, accountancy and architecture professions in England and Wales and found there are numerous restrictions on competition in the professions for example restricted access (most clients cannot see a barrister without a solicitor), professional rules preventing multi-disciplinary partnerships and dampening of price competition by fee guidance for some professional work. The report recommended that professions should be fully subject to competition law and that unjustified restriction and competition should be removed.

2.15 Firms will quote prices in different ways for example a fixed overall price, a fee rate for hours worked or capped rates based on the amount of work done. To ensure departments get a good deal they need up-to-date and reliable information in prices paid and services received, to share this information and use it to negotiate better deals when the fees which suppliers quote appear high in relation to that information. Professional purchasers in departments have a key role to play in advising on negotiation strategies. Although suppliers quote standard rates all fees are negotiable. To test whether fees paid by departments reflect the market rate we asked departments to provide examples of the typical fee rates which they were currently paying the suppliers of consultancy services receiving the most business from them. Departments provided information on 291 different fees and we used this to calculate the average rate which all departments were paying for each

⁷ Central Unit on Procurement Guidance Note 51: Introduction to the European Community Procurement Rules July 1995. Legal services are defined as Part B services under the rules and therefore are not subject to their full rigour. There are other differences in the procurement of legal services. For example, departments should refer to the Attorney General's Guidelines which give advice on when external legal services cannot be used and lists barristers who can be used by government.

⁸ The Management Consultancy Information Service is an independent organisation which conducted its 2000-01 survey on fee rates and salaries in association with the Institute of Management Consultancy.

What are framework agreements?



Most departments use framework agreements. This is an umbrella term for both framework arrangements and framework contracts. Framework arrangements form part of the process for awarding contracts and the EC Directives would not normally apply until an order is placed, payment is promised and a contract is established. On the other hand, framework contracts are binding on at least one of the parties and fall within the definition of a contract for the purposes of the directives.

What are the benefits of framework agreements?

Framework agreements

- provide rapid access to professional skills and expertise that are likely be required on a regular basis but are not available internally
- are easy to use if they are supported by guidance for end users
- reduce internal processing costs and time by avoiding the need to go through the full European Communities procurement process for individual service specific requirements
- use standard terms and conditions and so help to ensure best practice is followed
- aggregate demand and can result in more competitive fees for users than if they are negotiated individually. Mini-competitions within the frameworks can help ensure fee rates remain competitive

Legal position - the current European Communities rules covering the purchase of services by public bodies do not specifically mention framework agreements. There is, however, a different set of rules for the utilities which formally recognise the use of framework agreements which are let competitively. These provisions were included at the UK's request to reflect an understanding that existed for public authorities but which was not written on the face of the Directives. The European Commission has put forward proposals to clarify, simplify and modernise the Directives. These are under discussion in the Council. One of the Commission's proposals is to recognise the use of framework agreements by public bodies and to regulate many competitions between framework agreements. At the same time, the Commission announced that it proposed to refer a case to the European Court of Justice concerning framework agreements. The Office of Government Commerce is continuing to discuss the case with the Commission and it remains to be seen whether the case will be closed in the light of developments or the revision of the Directives. The Office of Government Commerce will be issuing guidance to all departments on the use of framework agreements when the outcome of the European Court of Justice case and the legislative process is known. The National Audit Office welcomes this. In the meantime the advice to all departments from the Office of Government Commerce is "business as usual" taking care to ensure that the use of framework agreements does not "hinder, burden or distort competition" as is required for utilities.

Example - the Northern Ireland Government Purchasing Agency set up framework agreements competitively in 1999. Under these agreements departments in Northern Ireland can draw on 106 consultancy firms who were successful in bidding to be included without having to retender each time they use them, although end users are encouraged to hold mini-competitions between them to generate further competition. As part of the agreements consultancies set out fixed daily rates they will charge departments. The benefit of this approach is that processing costs of about £1000 each time a contract is individually tendered are avoided and competition to be included in the Framework Agreements was such that the Purchasing Agency was able to secure discounts as high as 40 per cent. This is also a form of collaborative procurement insofar as it aggregates demand from many Northern Ireland Departments.

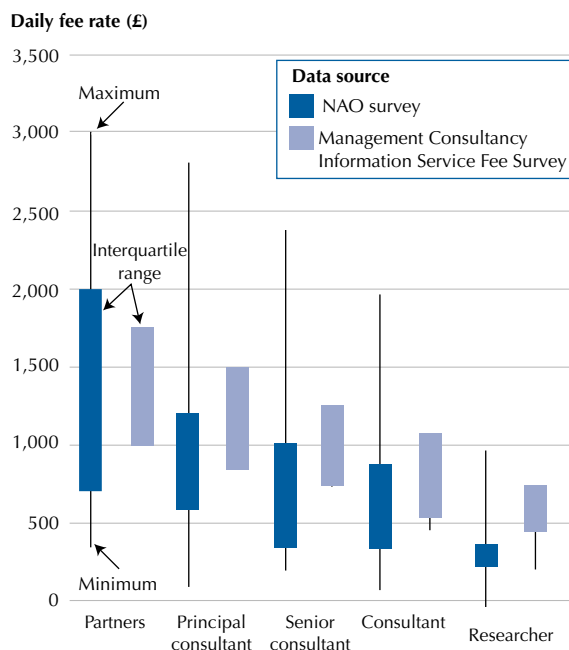
Source: National Audit Office and Northern Ireland Government Purchasing Agency

grade of staff from partner to basic researcher. We then compared these with the current market average for each grade as published in the Management Consultancy Information Service⁸ fee survey for 2000-2001 which is generally accepted by the consultancy industry as being representative of the typical rates which they charge. Our analysis showed that:

- departments are paying an average fee below the market average (covering all grades of staff) as established by the Management Consultancy Information Services survey; and
- there is, however, a wide range in the fees which departments pay (Figure 16) and if for example, they could reduce the extent of the range so fees at the top end of the range were much closer to the average (within the inter-quartile range - the middle 50 per cent of the data) this would result in an 8 per cent reduction in the overall average fees paid by departments - a saving of £45 million. To achieve this would for example, require negotiating lower fees for 64 (22 per cent) of the 291 fees recorded in our survey. One way of doing this would be to identify opportunities for combining requirements for similar services so that lower fees could be obtained from putting out a high volume of work under a single contract.

16 The range in fee rates which departments pay for consultancy services

The wide variation in fee rates suggests potential for savings



Notes: 1. The fees used excluded fees for legal services.

2. Where the hourly rates were given by departments daily rates were calculated on the basis of a 7.5 hour day.

Source: NAO survey and Management Consultancy Information Service's Fee Survey for 2000-01

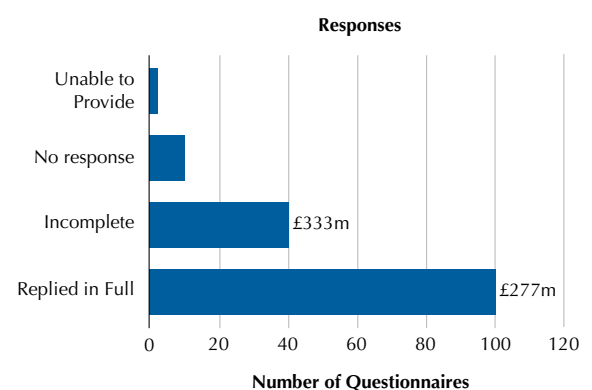
2.16 In some cases the quality of advice, degree of expertise and experience, or the highly technical nature of the assistance needed might justify fee rates which are significantly above the current market average. The analysis does highlight, however, the importance of departments carefully considering the fees which they are charged, having a clear understanding of the level of experience of the consultant whose advice they are purchasing; monitoring how they compare with rates charged for similar work, and challenging them when they appear unreasonable. Suppliers told us that they could have more room to negotiate and provide better value for money if departments concentrated less on the grade of the consultant and more on matching the service to the specific skills and experience required. Further savings can be achieved by developing partnerships with key suppliers for example prices can be more easily negotiated down by departments when suppliers are on panels and are therefore more likely to receive regular work. The selection of professional service suppliers as with all other procurement, however, must have due regard to propriety with departments ensuring that their selection process is transparent with clear selection criteria and audit trail.

The quality of departments' information

2.17 The responses to our survey revealed considerable variation in the quality of departments' information on their expenditure on professional services (Figure 17). Some departments have more comprehensive

17 How departments' respond to the NAO survey

There is considerable variation in departments' databases on professional services



Definitions

Unable to Provide: Respondents were not able to provide information due to economic or time constraints.

No Response: There was no provision of any information.

Incomplete: Respondents have completed questionnaire but there were gaps in the data.

Replied in Full: These were full responses.

The respondents returning incomplete information had an expenditure of £333 million, and those giving a full response had an expenditure of £277 million.

Source: National Audit Office survey, October 2000

information for example, the Ministry of Defence, Department of Social Security, Lord Chancellor's Departments and the Foreign and Commonwealth Office carry out annual surveys of their expenditure on consultancy services. More generally, however, while departments know how much they spend in total on professional services many do not have sufficiently detailed breakdowns of expenditure on the different types of external assistance which they purchase. There is also a lack of key data on what they spend it on, on the amount of business awarded to different suppliers, the fee rates charged and also on the quality of services delivered. The lack of sufficiently comprehensive information has two major consequences.

- it is not possible to determine whether the £65 million savings in consultancy fees which the 1994 Efficiency Scrutiny recommended have been achieved; and
- it is more difficult for departments to determine the value they are getting from their expenditure on professional services for example, by comparing prices and fees paid and also by undertaking evaluations of the performance of their suppliers.

2.18 In the autumn of 2000 the Office of Government Commerce in consultation with departments and with assistance from the National Audit Office developed a methodology for measuring and quantifying improvements in value of money from better procurement.⁹ This methodology is appropriate for all types of procurement including professional services and is intended to assist in monitoring the achievement of the overall value for money improvement target of £1 billion which the Office of Government Commerce is working with departments to achieve by the end of 2002-2003. To be able to calculate value for money improvements, departments need baseline information on the prices they have paid, what they have received in return in terms of the volume and quality of work, current market prices for the same work and the internal cost of purchasing and managing the contract.

2.19 Some departments are making the evaluation of suppliers' performance mandatory. For example, from January 2001 the Ministry of Defence is requiring all projects over £100,000 to have a formal evaluation which must be sent to a central monitoring unit. The Department of Social Security introduced a similar requirement in 1999. Evaluations based on reliable information are important both to assess contractors' performance (did they deliver what they were contracted for and was this of appropriate quality) and the performance of the department as client (was the need for the external assistance clearly specified, did they get the best deal from the supplier, did they minimise changes to the specification once the contract was signed to avoid cost increases and how well did they manage the supplier to deliver what they wanted).

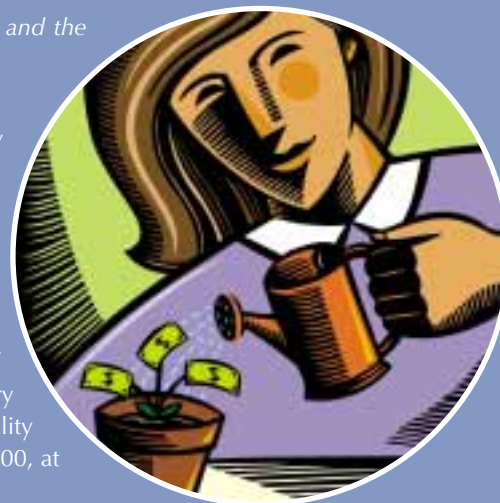
2.20 A good example of evaluation being used to assess both the supplier's and the client's performance is the approach adopted by the Office of Water Services (OFWAT) - [see opposite](#). OFWAT uses evaluations to develop and refine criteria on which to base the future selection of consultants and identify ways in which work can be done in-house rather than to have to purchase external assistance. In general, however, we found that there is a need for more departments to carry out evaluations and for this to be accepted as a basic requirement of good project management.

⁹ Office of Government Commerce Business Guidance: Value for Money Measurement - November 2000. This describes four main categories of value for money gains from procurement activity and outlines methods for calculating the gains from each. The categories are: individual departments negotiating an improved deal with a supplier; aggregating demand across departments to exert leverage on suppliers; reducing process costs; and improving project, contract and asset management.

Office of Water Services (OFWAT)

This example shows the value of post-contract evaluation to improve client and the consultant performance. What did OFWAT do?

1. OFWAT routinely carry out post-contract evaluation on all consultancy contracts. One example of how this works is a contract let to develop OFWAT's staff and organisational structure. The aim was to improve its delivery and quality of services and provide advice to the Director General of Water Services. They issued a competitive tender (advertised in the OJEC) and the overall value of the contract was around £2.5 million. OFWAT awarded the contract on the basis of criteria covering cost and overall value for money, the consultant's demonstration of understanding OFWAT's requirement, relevant experience of regulatory issues, level of commitment to deliver outputs, technical expertise, quality systems and financial standing. The contract ran for over 4 years until 2000, at which point a post contract evaluation was carried out.
2. The post-contract evaluation review included some useful questions to evaluate the consultant's and OFWAT's performance



On the consultant's performance

- Did the work meet the agreed objectives and deliver specified outputs? (Answer: yes)
- Was the assignment within the agreed timescales and costs? (Timescales were met and contract ran to budget)
- How well did the consultant interact with OFWAT staff? (Consultant provided advice to Director General and worked closely in supporting and coaching other staff in the Office)
- What difficulties arose and why? (None)
- Did the assignment provide added value? (Value was achieved in the quality and timelines in delivery of main outputs and reports)
- Are there any lessons for the future? (Part of consultant's project management role will transfer to Director of Operations)
- Would you recommend using the company again? (Yes)

Benefits secured

The evaluation assessment provided information on which to base the future selection of consultants and identified the scope to do more work in-house rather than purchase external assistance:

- the consultants delivered what the end-users needed - good advice, reports, project plans and memoranda, support and coaching of staff. The main outcome was the development and implementation of the project planning and control mechanisms for OFWAT's 1999 periodic review. The overall conclusion was that OFWAT would use the consultant again; and
- OFWAT decided to bring some of the work (project management) in house as it could be carried out by OFWAT's own people.

On OFWAT's performance

- Was the decision to call in the consultants the correct one? (Yes)
- Was OFWAT's participation active enough? (Yes)
- Did OFWAT assign people of the right calibre to work with the consultants? (Yes)
- Was every opportunity to learn from the consultants taken? (Yes)
- Was effective feedback provided to the consultants? (Yes every two weeks)
- Did OFWAT waste any of the consultants' time? (No)
- Was the consultant required to carry out work that could have been done by OFWAT's own people? (In some cases which is being addressed by bringing some of the work in-house)
- How do OFWAT know that value for money has been achieved? (Quality of outputs and success of the Periodic Review project)

Source: National Audit Office and the Office of Water Services

Part 3

Unlocking the potential to improve value for money

3.1 The 1994 Efficiency Scrutiny of the Government's use of external consultants identified considerable potential to improve value-for-money, and in particular to achieve savings in the region of £65 million in the fees which departments pay consultants. Our survey supplemented by discussions with departments indicates that this improvement in value-for-money has yet to be realised (Figure 18). It is not unreasonable, therefore, to expect financial savings of at least 10 per cent (£60 million) of the £0.6 billion which departments are currently spending annually on professional services to be achievable. The benefits are potentially, however, much greater than this and better procurement and management of professional services could make a contribution to departments' drive to improve service delivery for citizens and their own internal efficiency as part of the Modernising Government programme.

18 Why the recommendations of the 1994 Efficiency Scrutiny of the Government's use of external consultants were not fully implemented

- lack of follow-up by departments to monitor progress and to question why implementation was slow;
- greater priority was given to other initiatives;
- organisational changes within departments made it difficult to track expenditure; and
- responsibility for expenditure on professional services was delegated to line managers who lacked the expertise or detailed understanding to implement the Scrutiny's recommendations.

Source: NAO interviews with six departments

3.2 This part of the report sets out six key areas where there is scope for the wider application of good practice to enable departments to unlock the potential to improve value for money from professional services.



A Better identification and specification of departments' requirements at a strategic and operational level;



B Use of the most appropriate and cost-effective form of procurement;



C Consideration of how departments can make better use of their considerable purchasing power, for example through better collaboration in purchasing professional services;



D A more astute and robust approach to negotiations with suppliers;



E Better management information on expenditure and on suppliers' and departments' performance; and



F Better dissemination and implementation of good practice.

A Better identification and specification of departments' requirements

Why it is important

- 3.3 Unless the need for external advice and assistance is rigorously assessed and reviewed at the outset both at departmental and project level there is a risk that unnecessary expenditure will be incurred. If the need for the work has not been proven and the specification is not clearly defined there is a risk that: unnecessary work is carried out; suppliers will be uncertain as to what they are contracted to deliver; work may subsequently not meet what is required and the cost of completing the assignment may be understated leading to cost increases; opportunity to transfer skills to in-house teams are not taken, and suppliers will have opportunities to charge for additional work which was never anticipated.
- 3.4 The nine leading suppliers¹⁰ of professional services we spoke to said that while there were good examples of departments' clearly specifying their requirements this was an area where improvements were needed. Suppliers' specific concerns include insufficient detail on the assignment when invitations to tender were issued - more detail was given on contractual requirements than the problem which the external expert would have to address; and once appointed suppliers often found that the assignment was significantly different to that which they had tendered for. The Institute of Management Consultancy's survey of its members carried out on our behalf in September 2000 raised similar concerns (Figure 19).
- 3.5 There are examples, however, of good practice and some of the departments which we interviewed recognise the importance of rigorously assessing whether external

assistance is really needed. Some do this by requiring business cases to be prepared for larger contracts to justify the need for professional services in a systematic and rigorous way, and by having clear delegated limits above which departments such as the Department for Social Security (A1) require a review to ensure that the professional assistance being purchased cannot be met internally. Others such as the Engineering and Physical Sciences Research Council look closely at new contracts which follow on from previous work to ensure that professional services are not being procured "by stealth" incrementally and that consultancy is not being used as a substitute for staff shortages. Discussions with two private sector companies Unilever and GlaxoSmithKline indicated that they adopted a much more proactive approach to purchasing and managing professional services (A2).

What departments need to do

- 3.6 Departments need to ensure that:
- they rigorously assess the need to purchase professional services and prove that the need cannot properly be met internally;
 - if the need is justified, the requirement is defined clearly and unambiguously (A3);
 - large consultancy proposals are given prior approval by senior Officials/Ministers;
 - all those invited to tender are appropriately briefed and understand what the work will involve; and
 - both the department and the appointed supplier are clear on the intended outcomes from the work including transfer of skills to in-house teams, when they have to be delivered and that payment of suppliers is based on the achievement of key milestones.

19 Survey of members of the Institute of Management Consultancy on good practice in purchasing professional services

Areas for Improvement

- poor and conflicting terms of reference making it difficult for suppliers to know exactly what assistance was required;
- more thought up front is needed by departments in agreeing the specification to reduce waste and duplication;
- departments need to learn from past experience;
- too much emphasis on day rates (a few days of a senior manager's time may be more valuable than weeks of a junior member of staff);
- process driven by minimum cost rather than best value.
- lack of joined-up approach with departments protecting their own interests;
- consultants being brought in too late when a problem has become serious;
- insufficient use of performance indicators to measure the value of consultants' work;
- risk-averse culture which rewards compliance with process not delivery and benefit achieved - the process is often more important than results; and
- poor management of projects.

Good Practice Suggestions

- pre-proposal discussion to ensure that real needs are addressed;
- more smaller scale-studies to clarify what is needed;
- more post-project evaluations to learn lessons;
- avoiding more procedural guidelines and simplifying those in use;
- knowing the right internal resources to deploy on work alongside the consultant;
- involving consultants in evaluating project performance and identifying lessons; and
- use Statements of Best Practice developed by the Treasury, Institute of Management Consultancy and Management Consultants Association which emphasise:
 - the need for stronger working relationships between consultants and government clients;
 - the objectives of both parties in procuring consultancy services need to be agreed up front;
 - the roles and responsibilities of each party at each stage of procurement and during the subsequent project; and
 - the need for post project evaluation.

Source: Institute of Management Consultancy survey of its members carried out on behalf of the National Audit Office, September 2000



A1: Department of Social Security: Strategic analysis of requirements

In 1999 the Department of Social Security reviewed its requirements for external professional resources. The review identified: its key requirements; a strategy for meeting those requirements which considered both internal and external resources; a procurement strategy for external resources; and the skills, expertise and information it needs to manage cost-effective procurement of these resources. The department has set up an External Resources Unit to monitor and co-ordinate the department's expenditure at an operational level and keep the strategy relevant to the department's developing needs. The unit's responsibilities include: working with end-users to define the requirement; checking with internal providers of services and with Human Resources whether the requirement can be met internally; and where external services are required ensuring that a clear specification is drawn up and staff are ready to provide potential suppliers with more information.

Source: Department of Social Security

A2: Private sector companies' approach to purchasing professional services

Private sector companies put emphasis on:

- **maintaining a database on recent external professional services** using the company's intranet to ensure that it is kept up-to-date and evaluations of finished assignments are completed so that the company has good information on the performance of suppliers should they tender for future work;
- **nominating "gurus" or "champions" within the company for particular types of professional service or subject areas** such as strategy development, who fully understand the company's requirements, know the market for these services outside the company, understand latest thinking, and know what work has been done within the company in the area both by the company's own staff and external professional suppliers. The "gurus" or "champions" role is to signpost potential clients of these services to work already done, or suitable providers and monitor the quality of the work received;
- **avoiding duplication and do not pay twice for work** provided by external professional services;
- **being aware of the internal cost of any kind of professional service** in terms of their own staff's time in providing information and managing the relationship and to ensure that this cost is taken into account in any proposed project.

- **being aware of their own strengths as a client and the benefits which suppliers gain from working with them.** For example, working with a supplier to develop a leading edge business tool for use within the company allows the client to benefit from the supplier's expertise, but also provides the supplier with an opportunity to develop a product they can market elsewhere;
- **being aware of the respective strengths of their own staff and the professional service provider.** Ensuring that they use their own staff for work as appropriate, and providing the opportunity for their staff to learn from the supplier by creating mixed teams which are equally matched. This also ensures that acquired knowledge about the company remains in-house;
- **managing relationships with suppliers on a corporate basis to ensure that there is no duplication of work** and no wasted marketing effort on the part of the supplier which is disruptive for the client, and ultimately costly as it feeds into the suppliers' overheads; and
- **conducting regular benchmarking exercises to establish indicative fees with companies** and on individual assignments concentrate on controlling the extra costs which suppliers may try to claim reimbursement for such as travel and subsistence, the number of meetings necessary and the printing of reports for example.

Benefits Secured

- **improves client's ability to derive maximum benefit from expenditure on professional services;**
- **better control of costs;**
- **engenders a more effective working relationship with suppliers; and**
- **greater success in transferring skills to own staff.**

Source: Unilever and GlaxoSmithKline

A3: Identifying and justifying the need for professional services

A further education college identified a project which it believed would require assistance from a design consultancy. A firm of consultants was invited to discuss the project.

At the first meeting, it became clear that the college had not identified clearly what it wanted to do. The consultants started work with the estate manager to define what was required. In doing this it became clear that there was no need for external assistance.

This case illustrates the importance of assessing carefully the need for professional advice and the value of discussing the service with suppliers before tenders are invited.

Source: The Further Education Funding Council - Professional Advice and Services - a good practice guide.

10 KPMG, PricewaterhouseCoopers, Accenture (formerly known as Andersen Consulting), McKinsey, Deloitte Touche, Clifford Chance, WS Atkins, Hay and PA Consulting. We also spoke to the Management Consultancies Association and to the Institute of Management Consultancy which carried out a survey of its members on our behalf.

Using the most appropriate and cost effective form of procurement

Why it is important

3.7 Choosing the best purchasing method and contract for professional services is important because it can influence:

- **value-for-money** - for example, fixed price contracts will give greater certainty over costs than simply agreeing day rates, competitive rather than single tendering encourages suppliers to offer the best value for money, and contracts which clearly specify the outputs required and offer incentives for efficiency gains and quality enhancements are more likely to ensure that professional assistance delivers the intended benefits;
- **speed of delivery** - for example, departments may need regularly small pieces of highly technical advice at short notice. Having to obtain such advice through formal competition each time is likely to be time consuming and not cost effective;
- **internal processing costs** - for example, holding formal competitions to appoint suppliers involves considerable administrative effort and can be costly in terms of the time departments' staff have to devote to managing the process;
- **compliance with rules and regulations** - for example, ensuring that the form of contracting complies with UK and European Communities Procurement Rules and Regulations; and
- **cost to suppliers** - for example, suppliers incur an internal cost in tendering for work which affects the level of prices which they charge departments.

B1 shows how one department sought to address these issues in choosing to use Term Consultancy Panels.

3.8 Our survey of departments (part 2) found that departments use single and informal tendering quite extensively (32 per cent of contracts) and do not generally consider different procurement approaches which might improve value for money and reduce internal processing costs. There are some exceptions, however, which demonstrate a greater appreciation of good practice which might be more widely applied. For example, English Partnerships uses Term Consultancy Panels to improve the speed with which professional assistance can be obtained and to reduce costs on complex projects (primarily government procurement contracts). The Treasury Solicitors Department (**B2**) normally engages external legal advisors, and where appropriate the agreement with such advisors may include a cap on fees; and the United Kingdom Atomic Energy Authority uses fixed price contracts and staged payments to control costs and to ensure that the supplier delivers the service required (**B3**).



B1: English Partnerships - Term Consultancy Panels

English Partnerships has a regular requirement for input from external advisors in a number of specialist areas. To meet this need they have set up a number of Term Consultancy Panels to cover services in areas such as legal advice, strategic planning and business advice. These have the advantage of:

- allowing line managers quick and easy access to professional services as required, whilst ensuring the relationship with the supplier is monitored and managed;
- reducing internal processing costs by removing the need to conduct individual procurements;
- aggregating the department's spend with each supplier so that it can negotiate better rates;
- complying with procurement rules as each panel member is selected by competition to provide a clearly defined service, and the contracts are regularly re-tendered; and
- reducing costs to suppliers, as they do not have to tender for each piece of work.

Source: English Partnerships



What departments need to do

3.9 In determining the most appropriate form of procurement and contract departments need to consider their business needs for example:

Business need

The requirement for advice is known and is capable of being quantified. Key delivery dates are known in advance.

The outcome is uncertain. Advice is regularly needed on the appropriate course of action before proceeding with next stage of work.

Service is known, provided on a regular basis by a specific supplier and may lead to follow-up work.

The requirement is high volume, known and is capable of being quantified.

The requirement is known and time critical.

The requirement is high value, specific with key deliverables that can be measured.

The requirement is small value, low volume with a supplier in a niche market with proven track-record in service quality.

Variety of different technical or other specialist advice required at short notice.

Possible form of procurement/contract

- fixed-price contract which pays supplier when either the whole work or key stages are completed;
- fee caps can be used to control and manage costs, or regressive fee rates whereby discounts are given once certain ceilings in the fees charged are passed;
- call-off contract with a specific supplier to provide a clearly defined service at agreed rates;
- contract with volume discounts for example, fee rates reduce as specific amounts of work are given to the supplier;
- contract with incentives for early delivery for example one-off bonus payment for early delivery;
- competitive tender advertised in Official Journal of the European Community to identify best supplier in terms of cost and quality;
- single tender but negotiate on price to ensure procurement provides value for money; and
- Term Consultancy Panels.

B2: Treasury Solicitors - Fee Caps

Complex projects pose particular problems in keeping control of costs. This is a common problem when legal advice is required. Treasury Solicitors have found fee caps a useful mechanism. These provide a review point when a pre agreed level of fees has been reached (for example £100,000), at which all parties to the project meet to discuss project progress, the remaining tasks and the requirement for further legal advice, which is agreed and can be costed into the project.

Source: Treasury Solicitors

B3: United Kingdom Atomic Energy Authority (UKAEA)'s use of fixed price contracts to control costs

The United Kingdom Atomic Energy Authority has two contracts totalling in excess of £1 million to undertake option studies to provide methodologies for the removal of breeder fuel elements from a reactor vessel. The contracts were let on the basis of competitive tender (advertised in the Official Journal of the European Communities). Seven tenderers were invited and four companies tendered.

A fixed price contract included staged payments dependent upon delivery - the payments under the contract were made when key milestone/stages (seven) were achieved such as survey report, mock up design report, design proposals for element removal, draft final report and final report completion. The contracts provided for a report on the options with recommendations for breeder fuel removal and a mock-up showing how the proposed solution would work, which are being used to decide the best way forward.

Benefits Secured

The contract provided UKAEA with control over costs and ensured that the service delivered what they wanted at each payment stage.

Source: UKAEA



C1: Unilever - Use of an Intranet database

Unilever is a global company with a highly decentralised structure in which individual departments and corporations are responsible for their own expenditure. In recent years it has implemented a major programme of shared buying of many goods and services to achieve better value from its combined purchasing power.

For professional services one of the key elements of this programme has been an intranet based information system which cost under £100,000 to develop, on which users enter details of projects over £50,000, including the suppliers, expenditure, the resource days used, commentary on the work done, and a named contact who can give more information.

At a corporate level Unilever now have information about what they are buying, who buys it and from whom and the amount of money spent. This enables them to manage the relationship with key suppliers, ensure that duplicate work is not carried out and that proper protocols and procedures are being followed. Individual managers buying professional services have access to more information and contacts which can help them make better informed decisions.

Source: Unilever

C Better collaboration

Why it is important

3.10 Spending some £600 million a year on professional services gives departments collectively considerable buying power to help them negotiate better prices. It is, however, not as simple as this because departments contract with a wide range of suppliers all of which receive varying degrees of business from them. Also some departments spend considerably less than others, although some such as the Ministry of Defence (£141 million) and the Department of Trade and Industry (£125 million) are significant purchasers in their own right (paragraph 2.6). Departments often need the same sort of professional assistance such as in implementing new financial accounting or personnel systems. There is, therefore, not only often a common requirement but a wealth of knowledge of the professional services market spread across departments. This suggests that if departments collaborated more both internally and with one another to share such knowledge and combine their purchasing whenever practicable the potential to improve value for money through better prices would be considerable.

3.11 Some departments are collaborating, for instance by using contracts negotiated by other departments to meet their needs. English Partnerships are intending to use the Central Office of Information's contract for media advice and the Engineering and Physical Sciences Research Council use the Department of Trade and Industry's contract for legal services. Such arrangements enable departments to obtain professional services on more favourable terms than they would have done if they had negotiated them separately.

3.12 This practice is not, however, widespread. For example, the Ministry of Defence completed a review of its use of external assistance in December 2000 which concluded that there is a need to improve collaboration between different parts of the Ministry and between its agencies to avoid professional assistance being commissioned to address similar issues and to avoid "reinventing the wheel". For example the review recommended that as all parts of the department have an increasing need for a number of professional services such as legal advice on employment issues, there would be benefit in setting up a number of framework agreements which all the department could use.

3.13 One of the reasons why departments do not collaborate more internally or with one another is the lack of reliable up-to-date information on the sorts of professional services which are purchased across all departments. For example, if a manager decides that some form of external professional assistance is needed it is rarely possible for him or her to find out quickly and simply if similar assistance has previously been sought elsewhere in the department or in other departments, who provided the assistance, its quality, and what it achieved. As Unilever's experience shows (C1) the provision of such information in an easily accessible format would enable departments to identify opportunities for joint purchasing; to benchmark the cost of similar professional assistance; and to have independent data on suppliers' performance. Departments should ensure that they have due regard to the provisions of the Freedom of Information Act 2000, the Data Protection Act 1998, civil tort on negligent misstatement and any confidentiality clauses (Office of Government Commerce advice is that departments should avoid signing the latter as this will prevent sharing of information between departments). Care must be taken in keeping and sharing information on supplier performance to ensure that any comments are factually correct, there is evidence to substantiate them and they are not personalised. A database which covered expenditure on professional services across government would provide the optimum opportunity for departments to harness their purchasing power and share their accumulated knowledge. Developments in technology and the availability of departmental and government intranets¹¹ makes it easier now to collate, update and disseminate such information.

What departments need to do

3.14 Departments need to:

- regularly identify and review their likely requirement to purchase professional services over the coming six months to a year if practicable;
- ensure that such information is readily available throughout the organisation on its intranet and is easily accessible;
- emphasise the importance to staff of taking advantage of opportunities for joint purchasing and sharing of information to get better deals; and
- question the justification for repeat business when the results and advice arising from earlier similar assignments are available within the organisation or another department.



More astute and robust approach to negotiations

Why it is important

3.15 Competition should promote value for money in the procurement of professional services because potential suppliers know that if they are to win business they will have to demonstrate that they can deliver a better quality and more cost effective service than their competitors. But having selected a preferred supplier departments still need to consider very carefully before signing a contract whether the price they are to pay for the service is reasonable and whether there is scope in post-tender clarification discussions to agree a better outcome, provided this does not involve discrimination between tenderers. For example:

- with professional services departments are most often purchasing human resource skills and in some cases suppliers may set out the fee rates they would charge for each of the staff they could deploy on the work. The mix of skills needed and the total time it will take to complete the assignment are agreed following further discussion with the client. In such cases departments can improve value for money by following GlaxoSmithKline's example (D1) by rigorously questioning for example:
 - i) the mix of staff the supplier proposes to use - senior staff may be more expensive but they may complete the work more quickly and the quality may be better, conversely if the work is less technical or more routine junior staff may be more than adequate;
 - ii) how the supplier proposes to schedule work - organising tasks in the most efficient way can save money;
 - iii) how many meetings are needed with the supplier to review progress, who should attend and whether the cost should be additional or included in a fixed fee;
 - iv) The same applies to the cost of reports for which the supplier may have included costs for printing and distribution, which could be reduced or avoided by asking for stage reports or documents in electronic form; and
 - v) asking the supplier to suggest ways in which the service might be delivered more cost-effectively.
- professional services often have associated costs such as the supplier's travel and subsistence and we found that many departments simply accept that these are costs which they will inevitably have to cover in addition to the fee for the work. We found, however, that the private sector's and the Department of Social Security's, the Inland Revenue's and the Ministry of Defence's experience is that suppliers are often willing to negotiate on these sorts of expenses; and

- departments need to consider and agree with suppliers the intellectual property rights of any product used or developed in carrying out the work, taking into account their current and future needs for the product and its commercial value.

3.16 The importance of departments adopting a robust approach to negotiating prices with suppliers is demonstrated by the approach taken by departments such as Department of Social Security, Inland Revenue and the Government Purchasing Agency who have found that suppliers are willing to negotiate from their 'standard' fees. For example, all three departments normally insist that suppliers include travel and subsistence charges within the day rate but have still achieved reductions on maximum day rates quoted in their own framework agreements or in catalogues such as the Central Computer and Telecommunications Agency Managed Services Division (now part of the OGCbuying.solutions) by further negotiation once an actual project is specified. Negotiating from a position of strength is also important when seeking better deals from suppliers. For example the Department of Social Security undertake individual price negotiation for all single tender contracts to secure reductions in the prices quoted by suppliers (D2).

What departments need to do

3.17 There is potential to improve value for money by departments adopting a more astute and robust approach to negotiations with suppliers and using experienced or qualified procurement staff in these negotiations. Aspects which they should focus on include:

- mix and cost of staff which suppliers allocate to assignments;
- linking fees to suppliers' performance;
- negotiating discounts for high-volume work or opportunities to carry out repeat work;
- intellectual property rights;
- challenging maximum fee rates included in framework agreements - suppliers may be prepared to offer more competitive rates for a certain level of business;
- reviewing the trade-off between cost, time and quality. For example, where work is not time-critical taking a little longer to complete can reduce costs;
- questioning how travel and subsistence costs are to be reimbursed; and
- consulting suppliers on how the service they are to provide might be delivered more cost-effectively.



D1: GlaxoSmithKline - A better understanding of suppliers' costs can help to get better deals

GlaxoSmithKline has found that understanding the costs involved in providing professional services is essential for clients who want to pay an appropriate price for the services they receive and to get maximum value from the money paid. GlaxoSmithKline negotiates fee rates with its main suppliers annually and does not negotiate further on these when individual contracts are being agreed. Instead they concentrate on reducing other costs which suppliers pass onto customers such as travel and subsistence, administrative costs and printing of reports. For example they insist that GlaxoSmithKline make all travel and hotel bookings for consultants using its own deals which are cheaper and thus avoiding the 15 per cent administrative charge usually charged by consultants.

Source: GlaxoSmithKline

D2: Negotiating reductions in fee rates

Approach adopted by the Department of Social Security

The Department of Social Security have adopted a number of strategies to negotiate discounts in fee rates. These include:

- negotiating volume discounts as part of framework agreements; and
- undertaking individual price negotiations for all single tender contracts.

Benefits Secured

- for one framework agreement, the department secured a two per cent discount on fee rates if the number of days commissioned exceeded 40; and
- on a single tender contract which was agreed because of the contractor's specific skills and track record, a reduction of just over four per cent of the total value of the contract was negotiated, along with the added service of two further consultants at no extra charge.

Source: Department of Social Security

Better management information on expenditure and on suppliers' and departments' performance

Why it is important

3.18 Evaluating the performance of suppliers is important for two main reasons:

- i) it should provide assurance that the work contracted for is completed as intended, to appropriate quality standards and achieved its planned outcomes; and
- ii) it allows lessons to be learned which might improve future performance. Equally important is evaluating departments' performance in how they determine the need for external assistance, purchase it, and monitor its delivery.

3.19 There are, however, a number of factors which currently mean that performance evaluation is less widely implemented. Firstly, as discussed in Part two, departments' management information on the professional services which they purchase requires improvement. Secondly, we found that departments do not often use indicators to measure suppliers' performance or carry out post completion evaluations. This was confirmed by the survey carried out by the Institute of Management Consultancy of its members on our behalf - consultancy organisations were surprised that they are rarely asked by departments to comment on how well they thought the assignment was carried out.

3.20 There is growing awareness by some departments such as the Ministry of Defence and the Department of Social Security of the importance of having reliable and comprehensive information with which to assess the performance of suppliers providing professional services. Progress is, however, not uniform across all departments and the reason for this most often given is the reluctance of managers to devote time to completing evaluations and providing information on performance. Information technology makes it much easier to provide and communicate information quickly and for it to be easily accessible. Some departments are considering how to improve their approach by using new technology. For example English Partnerships have identified record keeping and sharing information as an area it can improve and is exploring how to develop its own intranet with access to the Government Secure Intranet to give access to a wide range of procurement information. In the private sector, we found examples where such opportunities have been taken, GlaxoSmithKline and Unilever have introduced intranet based systems to monitor their expenditure on professional services and suppliers' performance. With GlaxoSmithKline this approach is part of a larger initiative to improve the value-for-money which the company receives from its suppliers of professional services based on a balanced score card approach for assessing performance (E1).



3.21 Establishing indicators to monitor the performance of suppliers is important to ensure that they deliver what they are contracted for. Such indicators can also be useful in incentivising suppliers if payment is linked to performance. A good example of this is the approach adopted by the Defence Procurement Agency which has resulted in fee reductions (E2).

What departments need to do

3.22 Evaluation of suppliers' and departments' performance is important for ensuring the achievement of planned improvements in value-for-money and for learning lessons for future implementation. For performance evaluation to become an effective management tool departments need to:

- determine at the beginning of a professional service's assignment the information which is needed to assess the supplier's performance and how this is to be collected;
- undertake more regular evaluations once an assignment is completed;
- consider more frequently linking suppliers' remuneration to achieved performance (while also ensuring that reliable and unbiased data will be available to measure performance); and
- disseminate and implement lessons learned from evaluations.

E1: GlaxoSmithKline's approach to managing and assessing performance

GlaxoSmithKline spends around £0.5 billion on external professional services. The company has a target to deliver £60 million Group - wide savings and procurement is expected to provide a contribution to this target. GlaxoSmithKline uses a balanced scorecard approach for reporting progress against the target and how the company is getting better value from procurement.

GlaxoSmithKline balanced scorecard

Business performance	Internal efficiency and effectiveness
Financial Savings For example: <ul style="list-style-type: none"> ■ GlaxoSmithKline require consultants and other third party service providers to book GlaxoSmithKline travel through Hogg Robinson; ■ savings from contract renegotiations for example estimated savings from modified advertising agency contracts are 10 per cent (£1.3 million); and ■ fixed and reduced rates. 	Improving Value delivered For example: <ul style="list-style-type: none"> ■ adopting of new processes such as umbrella contracts and guidelines for consultancy selection; and ■ frameworks for specification of bought-in services, for example all advertising agency contracts were standardised, and all media purchasing was removed from agency contracts (£100 million annually) and consolidated into one central contract (saving £7 million).
Organisational vigour and innovation	Customer and partner performance
Improving Procurement Competency For example: <ul style="list-style-type: none"> ■ purchasing groups set up and supported by purchasing professionals; ■ standard contracts introduced to ensure best practice followed; and ■ new procurement competencies and training developed and agreed by Human Resources as part of core management competencies. 	Improved Co-operation in Procurement For example: <ul style="list-style-type: none"> ■ benefits from increased co-operation across organisational units and geographical areas for example: <ul style="list-style-type: none"> - coordination of air travel deals reduce costs by £2 million; and ■ taking opportunities for supplier partnerships, principles of supplier partnerships defined and applied for example determining supplier and supply market characteristics which make partnerships appropriate to add value.

Benefits Secured

The balanced scorecard promotes a co-ordinated approach to meeting different objectives - improved business performance, financial savings etc and has contributed to a series of improvements in performance as set out above.

Source: GlaxoSmithKline

E2: Defence Procurement Agency - Use of incentives to improve suppliers' performance

1. The Defence Procurement Agency has a contract with KPMG consultancy to assist them in developing client service plans and identify potential for financial savings through efficiency improvements. The Agency also lacked in-house resources and skills to implement the major change programme they wished to achieve
2. The Agency negotiated a variable fee contract based on risk sharing dependent on KPMG achieving a baseline level of performance such that any payment above the baseline fee would require substantially greater savings in operational costs to be achieved. The Agency's aim was to have a firm price assignment with no scope for the terms of reference to expand beyond what was agreed at the outset.

Benefit achieved

Linking remuneration to carefully monitored performance has achieved:

- a reduced fee - initially KPMG offered a fixed fee for the development programme. Following negotiations it was agreed that a fee within a set range (the lower end being less than the original fixed fee offered) would be applicable, depending upon results; and
- fee was dependent upon results - KPMG only receives their "fixed fee" price only if the Agency can develop plans which show aggregate operating cost savings of a certain percentage greater than the existing budget savings. If the aggregate savings identified are less than existing budget savings, KPMG's fee will be reduced. If even greater savings are achieved KPMG earns a bonus up to the maximum of the range if the additional savings are above a set level.

Source: Defence Procurement Agency



F1: Examples of guidance on good practice in procuring professional services

Seeking help from Management Consultants

Treasury, 1990

Choosing and Using a Consultant

Department for Education and Employment (formerly Employment Department), 1991

The Government's use of external consultants

Efficiency Unit, Cabinet Office 1994

Appointing and Managing Advisors and Providers of Professional Services

Chartered Institute of Public Finance and Accountancy, 1996

The Essential Guide to Buying and Using Consultancy

Department of Social Security, 1996

How to appoint and manage advisers to Private Finance initiative projects

Treasury Private Finance Taskforce, 1999

Professional Advice and Services: A Good Practice Guide

Jointly produced by the Further Education Funding Council and the National Audit Office, 1999

Management Consultancy Statement of Best Practice

Jointly produced by Treasury, the Management Consultancies Association, and the Institute of Management Consultancy, 1999

The External Resources Procurement Guide

Department of Social Security, 2000

F2: Unilever

Unilever ensure that good practice is disseminated not only through its intranet based database, which contains practical examples of good practice but also by asking managers who are at the forefront of implementing best practice to run masterclasses to explain the techniques they used and the benefits secured.

Better dissemination and implementation of good practice

Why it is important

3.23 Much guidance already exists on good practice in managing professional services (**F1**) based on the extensive experience of procurement departments and the private sector. Complying with this good practice and developing it to take account of new innovative approaches which are successful in improving performance are essential if departments are to ensure that the procurement of professional services delivers value-for-money. We found, however, through our survey and discussions with departments that the extent to which good practice was being implemented was variable. Some departments such as the Further Education Funding Council actively promote good practice and monitor their staff's compliance with it and others are taking action to improve their procurement approach (**Figure 20**). Unilever (**F2**) uses other techniques such as masterclasses to aid dissemination. There is, nevertheless, scope for much wider implementation of good practice with a role for the Office of Government Commerce in developing a network of purchasers of professional services who can provide practical examples of the benefits in applying best practice. Moreover, the unmonitored implementation of the Efficiency Unit's Scrutiny which has resulted in an inability to assess whether the identified savings have been made, shows the need for some form of central monitoring both within departments and more widely in government by the Office of Government Commerce.

20 Extent to which a sample of departments are implementing good practice in purchasing professional services

<div>Extent</div> <div>Organisation</div>	Arrangements in place to ensure		Extent to which it uses different forms of procurement	Effective Collaboration		Extent to which departments conducts robust negotiation	Good management information is available	Disseminate good practice and guidance
	Clear definition of requirement	Use of external advisers is justified		Internally	Externally			
Department of Social Security								
Ministry of Defence								
Lord Chancellor's Department								
Engineering and Physical Science Research Council								
English Partnerships								
Department of Trade and Industry								

Evidence that it does this well
 Evidence of taking steps to improve this area
 No evidence of progress

Source: NAO interviews with departments

What departments need to do

3.24 The Spending Review 2000 provided departments with an incentive to make savings by allowing them to retain any value-for-money improvements generated by their own or Office for Government Commerce sponsored initiatives related to better purchasing during the Spending Review 2000 period. This should provide departments with a lever to secure savings from better procurement practices for example savings in expenditure in professional services from departments collaborating on deals can free up resources which can be used in other areas.

3.25 Ensuring commitment to and compliance with good practice is essential for achieving improvements in the procurement of professional services. To achieve this departments need to:

- raise their staffs' awareness of good practice and the tangible benefits it can achieve;
- appoint "champions" to promote improvements in procurement practice (some private sector companies have successfully done this);
- involve professional procurement staff in purchasing professional services;
- establish electronic databases of good practice which staff can consult and contribute to;
- monitor compliance with good practice and investigate when this does not happen; and
- maximise the opportunities offered by government-wide incentives to use savings in expenditure in professional services.

References and Websites

Publications

The Government's Use of External Consultants: An Efficiency Unit Scrutiny - Cabinet Office

Choosing and Using Management Consultants - Roger Bennett

Management Consultancy Fee Rate Survey 2000-2001 - Management Consultancy Information Service

Performance Improvement in Public Service Delivery: A Toolkit for Managers - Lynton Barker and Rom Rubycz

External Efficiency Review of Utility Regulators -W.S Atkins Management Consultants

Report into the use of management consultants by Government - Institute of Management Consultancy

Websites

Department of Trade and Industry - www.dti.gov.uk

Institute of Management Consultancy - www.imc.co.uk

Management Consultancies Association - www.mca.org.uk

Office of Government Commerce - www.ogc.gov.uk

Treasury - www.hm-treasury.gov.uk

Management Consultancy Information Service - www.mcis.mcmail.com



Glossary

Call Off Contracts	A contract with a supplier or service provider where there are specified quantities of goods or services called off at predetermined levels.
Framework Agreements	Arrangement under which a department enters into an agreement with a supplier or service provider(s) for goods and services which may be called off as individual contracts over a period of time as and when the need arises.
Management Consultancy	For the purposes of this study a wide definition was used covering the provision of professional, technical or specialist advice in areas ranging from management issues such as procurement, project management and performance measurement to economic analysis and technical analysis for grant applications or investigations.
Human Resources	
Consultancy	<p>The provision of advice on personnel issues such as:</p> <ul style="list-style-type: none"> ■ Development of personnel strategies ■ Manpower planning ■ Recruitment including search and select ■ Remuneration ■ Training and development
Accountancy	The provision of advice on accountancy issues including audit, corporate finance, financial accounting and management accounting.
Legal Services	The provision of legal advice including: drawing up and checking contracts; employment law; consultations with counsel; engaging legal representatives for court cases.