



National Audit Office

Central government's use of consultants

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 128 Session 2006-2007 | 15 December 2006

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Supporting Paper I: Building client and consultant commitment

Supporting Paper II: Market analysis

Supporting Paper III: Methodology

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13 December 2006

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SUMMARY

1 Consultants, when used correctly and in the appropriate circumstances, can provide great benefit to clients – achieving things that clients do not have the capacity or capability to do themselves. On the other hand, when used incorrectly, consultants can drain budgets very quickly, with little or no productive results. For the purpose of this report we have defined ‘consulting’ as always having two characteristics. First, individuals or companies are engaged to work on specific projects that are outside the client’s business as usual, and there is an end point for their involvement. Second, responsibility for the final outcome of the

project (for example achieving cost savings or improving quality of service) largely rests with the client. As such, consulting is distinct from ‘outsourcing’ or ‘staff substitution’. For example the Cabinet Office used consultants to help develop the Capability Review programme¹ and the Home Office used consultants to get advice on procurement for the eBorders programme.²

2 The table of key data (**Figure 1 on page 6**) shows central government spent £1.8 billion on consulting in 2005-06 which is more than previously reported. The table also shows a decline in spending by central

1 The Reviews consider capability in the Civil Service in three key areas – leadership, strategy and delivery and aim to identify where departments need to improve.
2 The eBorders programme is looking to deliver timely data, information, intelligence and risk assessments to relevant government agencies on all passengers seeking to enter or leave the UK.

government, from a high of £2 billion in 2003-04, which can be attributed to three departments³ rather than a wider trend. We estimate that spend across the Public Sector increased by 33 per cent between 2003-04 and 2005-06, taking it up to £2.8 billion, largely due to a rise in spending in the National Health Service.

3 It is not possible to make an overall assessment of the benefits that have arisen from the money spent on consultants, in part because departments rarely collect any information on what has been achieved. In any case there are significant challenges in assessing value for money from consulting projects. For example it can be hard to identify useful measures that are suitable for all types of projects and attributing cause and effect is not always easy, even where performance has improved.

4 There are examples where consultants have added real value and enabled departments to make improvements they would not have otherwise. For example the Ministry of Defence is saving on its procurement having used consultants to help implement a new approach and develop internal procurement capabilities. Nevertheless we conclude that, while there have been some important improvements in using consultants, for example procuring them more economically and efficiently by using framework agreements,⁴ there is some way to go before central government overall is achieving good value for money from its use of consultants. Furthermore, the Treasury has indicated in the Pre-Budget Report 2006 that “Government will continue to drive value for money” in this area.⁵ The basis for our value for money assessment is the lack of progress we found in implementing good practice as recommended by the Committee of Public Accounts,⁶ the National Audit Office,⁷ and the Office of Government Commerce.⁸ More specifically, based on our detailed review of five departments (**Figure 2 on page 8**)⁹ (including the review of individual consultancy projects) and OGC, we have found that, for the most part, departments:

- **do not collect and aggregate adequate management information** on their use of consultants (such as types of services purchased and procurement route used) to better understand over time their use of consultants and the benefits they bring. OGC has collected spend information on consultants in the past as part of an exercise looking at government expenditure. However this activity is no longer carried out as the information received from departments was inconsistent and incomplete, diminishing the value of the exercise. OGC makes available to departments financial, contract and strategy information on key consulting suppliers.¹⁰
- **do not make proper assessment of whether internal resources could be used instead** through taking a medium to long term view to the division of work between internal and external resources. This strategic view will help them plan their recruitment and training, as well as their use of consultants (including the skills that should be transferred to internal staff). The Ministry of Defence, for example, has a relatively well-developed process for comparing using internal staff versus consultants on projects. As an illustrative example, the average daily cost of a Ministry of Defence internal consultant is £550 and an external consultant is £1,245.¹¹
- **do not have adequate controls on awarding contracts by single tender** which means departments do not get the benefits of competition such as better prices and a broader range of ideas;
- **do not undertake and share post-project performance reviews** to inform future buying decisions. The performance of consultants is not regularly assessed and the information is not shared amongst buyers in the department;
- **do not actively engage with and manage the relationships with key consultancy suppliers** to better understand how they work and align objectives. Most departments do not know all the consultancy projects that are done by their key consultancies within their department. Departments also need to be aware that consultants may tend to target public sector business when there is a downturn in their private sector income (Figure 1e).

3 Department for Work and Pensions, Department for Trade and Industry, Ministry of Defence.

4 A framework agreement is a general term for agreements with providers which set out terms and conditions under which specific purchases (call-offs) can be made throughout the term of the agreement.

5 *Pre-Budget Report 2006*, paragraph 6.30.

6 *Better Value for Money from Professional Services* (2002).

7 *Purchasing Professional Services* (HC 400, 2001).

8 *Delivering World Class Consultancy – A Statement of Best Practice* (2002). OGC distributed this guidance on the use of consultants in 2002, however the impact of the guidance was not quantified. OGC is now communicating an updated version. OGC is an independent Office of the Treasury reporting to the Chief Secretary of the Treasury. It is responsible for a wide-ranging programme which focuses on improving the efficiency and effectiveness of public sector procurement.

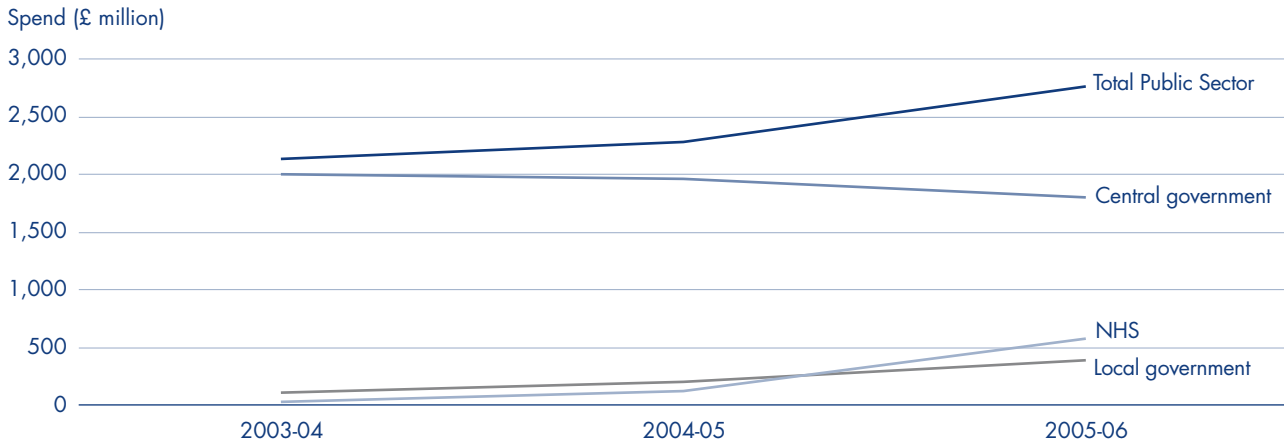
9 Part Three and Appendix 1 provide a full assessment of progress in our case study departments.

10 Six suppliers are currently regarded as key consultancy suppliers: Deloitte, KPMG, PWC, PA Consulting, Hedra and Tribal.

11 The Ministry of Defence internal consultant average daily rate assumes 150 working days in a year and includes direct and indirect staff costs (for example pension costs, provision of IT, rent and property management) and an overhead to cover strategic support to the consultancy practice. It does not include the cost of travel and subsistence. The external consultant cost is the benchmark average of a management/business consultant from a study commissioned by OGCbuying.solutions and undertaken by 4C Associates into consultancy pricing across the public sector in February 2005. The benchmark does not reflect OGCbuying.solutions S-Cat pricing.

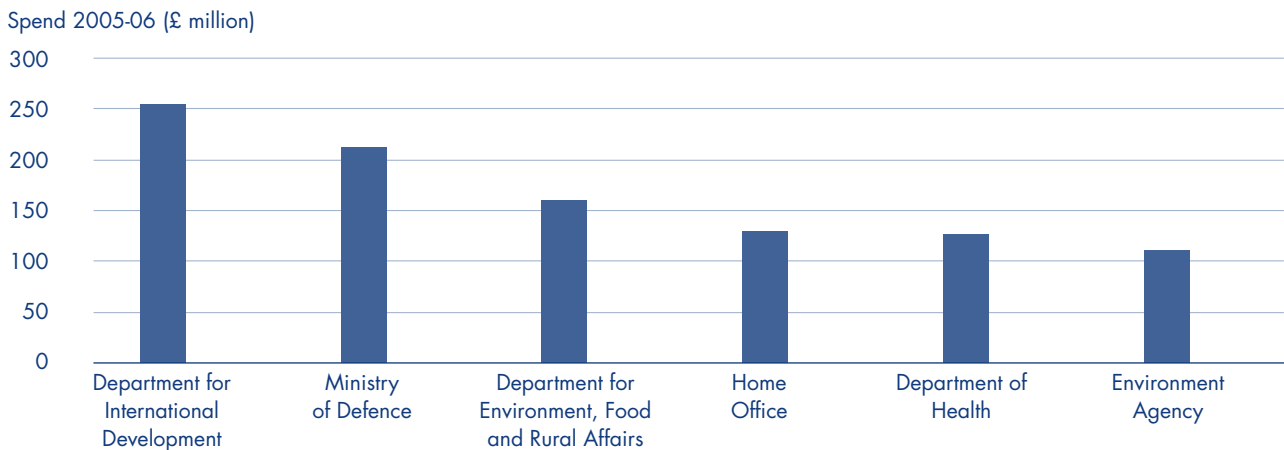
1 Government's use of consultants – key facts

1a. How much is spent?



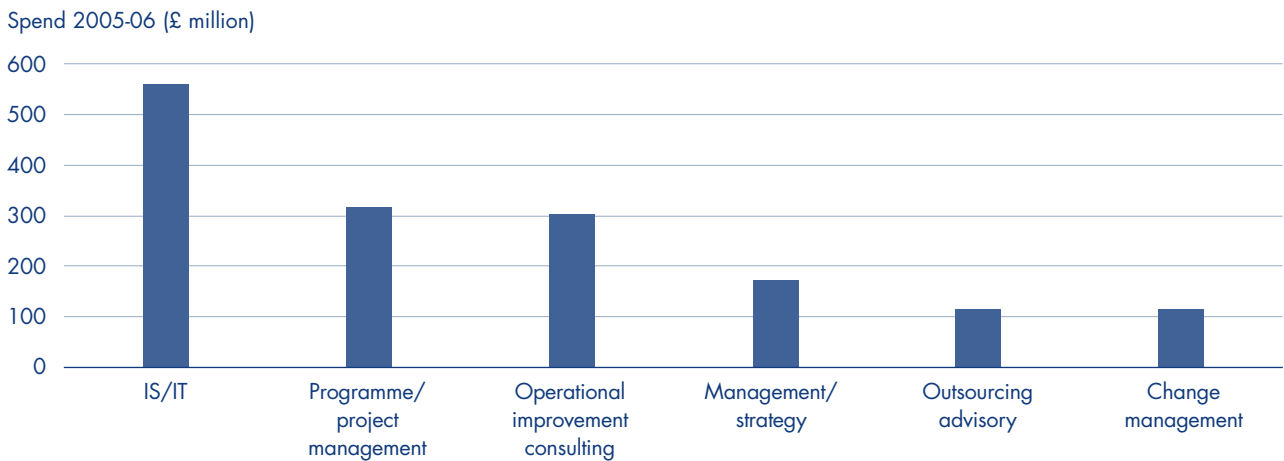
Source: Central government spend from National Audit Office survey 2006. Local government and NHS spend are NAO estimates based upon industry data

1b. Which central government organisations spend most?



Source: National Audit Office survey 2006

1c. What type of services are bought?



Source: National Audit Office estimates based upon National Audit Office survey 2006 and industry data

1 Government's use of consultants – key facts *continued*

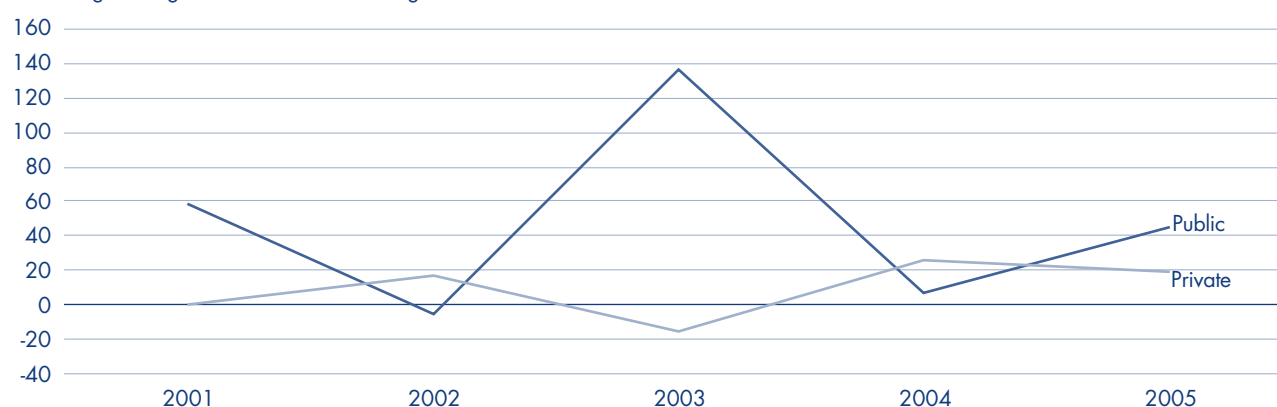
1d. Which are the top suppliers?

Supplier	Spend 2005 (£ million)	Supplier	Spend 2005 (£ million)
IBM	275	Mott MacDonald	77
LogicaCMG	175	PWC	65
Accenture	130	Atos	59
PA Consulting	102	KPMG	57
Capgemini	85	Deloitte	50

Source: National Audit Office estimates based upon National Audit Office survey 2006 and industry data

1e. What are the trends in public and private sector supply?

Percentage change in fee income of Management Consultancies Association member firms






Source: Management Consultancies Association (MCA)

- **do not regularly plan for and carry out the transfer of skills from consultants to internal staff** to build internal capabilities. Although the transfer of skills is often encouraged in departmental guidance, it is not consistently carried out by project teams.
- 5 In other areas many departments have made better progress:
- **the involvement of procurement staff in the buying process** to provide commercial expertise and enforce organisational policies on procurement. For example, at the Department for Communities and Local Government procurement staff review the business cases for all consulting projects.
 - **the use of framework agreements.** The use of framework agreements generally reduces procurement costs and provides better prices. Departments are making good use of framework agreements. For example in 2005-06, the Cabinet Office used framework agreements for 85 per cent of spend on consultants. Thirty four per cent of total central government spend in 2005-06 on consultants went through OGCBuying.solutions framework agreements. OGCBuying.solutions has estimated that its consultancy framework agreements have generated savings of £111 million in 2005-06 based on the £740 million that was spent through these agreements across the public sector.

2 Summary of progress made by Departments against PAC, NAO, and OGC recommendations

Recommendation	Home Office	Ministry of Defence	Cabinet Office	Department for Education and Skills	Department for Communities and Local Government
PAC recommendations					
Departments to improve the quality of information on spend on professional services	Amber	Amber	Amber	Amber	Amber
Departments to make either the Finance Director or head of procurement responsible for ensuring that management information is collected, analysed, and acted upon	Green	Green	Green	Amber	Amber
Departments to assess how best to divide work between internal and external staff	Amber	Green	Amber	Red	Amber
Departments to reduce the number of contracts awarded by single tender	Amber	Amber	Amber	Red	Amber
Departments to make more use of framework agreements	Green	Amber	Green	Green	Green
Departments to share consulting contract information, in particular volume, value, services, and suppliers with other departments and across their own department to help identify opportunities for collaborative purchasing	Amber	Amber	Amber	Amber	Amber
Departments to undertake post-engagement reviews and share this information with other departments and across their own department. Departments to use this information and seek references when assessing suppliers	Red	Red	Red	Red	Red
Departments to ensure that qualified procurement staff are involved in procurement decisions	Amber	Green	Green	Amber	Green
Other NAO and OGC guidance					
Business cases and detailed requirements specifications should be routinely written for the use of consultants	Amber	Green	Green	Amber	Green
Skills transfer should be encouraged, where appropriate, to increase departmental capacity	Red	Amber	Amber	Red	Red
The relations with key consulting suppliers should be managed to understand the drivers for the Department and suppliers	Amber	Amber	Amber	Amber	Green
Consultants' expenses such as travel costs should be monitored to ensure compliance with departmental procedures	Amber	Green	Amber	Amber	Green

-  Red: The Department has made minimal or very patchy progress at implementing the recommendation.
-  Amber: There is evidence to suggest that the Department has made some progress.
-  Green: The Department can show evidence that it has consistently applied the recommendation across the majority of its consulting projects. A full description of the assessment criteria is in *Supporting Paper III – Methodology*.

Source: National Audit Office, Quarter 2, 2006-07

Recommendations

6 Our analysis has identified a number of areas where central government (and indeed the wider public sector), guided by OGC, can improve the way they assess the need for, procure and use consultants. These recommendations will help reduce costs further and improve the effectiveness of consultancy projects. We consider that annual efficiency gains (achieving the same results by spending less or better results by spending the same) in the region of 15 per cent in the first year, rising to 30 per cent by the third year can be made by central government. These gains are estimated after taking account of the investment costs, for example of enhancing the internal skill base.¹² To improve value for money we highlight seven priority areas below.

- i Public bodies need to be much better at identifying where core skill gaps exist in relation to medium and long term programme requirements.** This knowledge should be used to plan for recruitment, training, and using consultants. Recruitment of full-time personnel and training of existing personnel can provide better value for money than continued use of consultants. The external recruitment process and structures (such as salary bands) need to provide public bodies with a genuine alternative to using consultants.¹³ Public bodies should do more to define and measure the transfer of skills¹⁴ from consultants to internal staff as this will reduce future reliance on them by increasing internal core capabilities. There is an important connection to be made between this need for strategic resource planning, and the Capability Review and Professional Skills for Government initiatives.
- ii Public bodies should start with the presumption that their own staff are best fitted for their requirements.** While it will often be the case that they need to purchase specific expertise from consulting firms¹⁵, more generalist requirements can be met more cost-effectively by internal resources. Public bodies need to have improved mechanisms to find appropriately skilled internal staff (from within the organisation or from other public bodies), understand the costs of internal staff, and make

firm commitments to resource these posts on time. Internal staff should hold key programme roles to ensure that the public body maintains accountability and control of the work. Michael A. Noll (professor at Annenberg School for Communications at University of Southern California) has commented that, “[Customers] are afraid to stick [their] neck out ...you are punished if you are wrong, so you don’t want to do that... The net result of this is the fear of making a mistake. So bring in the consultants... We are just doing what [the consulting firm] suggested.”¹⁶ OGC should look to incorporate the review of how key project roles are allocated between internal staff and consultants into the OGC Gateway Review process.

- iii Public bodies should adhere to OGC guidance on the recommended threshold levels requiring Ministerial or Permanent Secretary approval of consultancy contracts.** Guidance on approval levels was issued by OGC in 2002 and then re-issued in March 2006.¹⁷ Public bodies should ensure that this guidance is communicated throughout their organisation and enforced, with regular compliance checks performed. Approvals should be based on a robust business case. Adhering to the guidance will ensure that senior management has full sight of the larger consulting contracts, promoting better accountability for this spend.
- iv Public bodies need to engage with the market earlier to explore a range of possible approaches and contracting methods.** Early contact with suppliers during the procurement process improves both the supplier and client’s understanding of the requirement. Public bodies would get more tailored and innovative responses to their invitations to tender. OGC should communicate the good practice on early supplier/client discussions to make public bodies aware of what can and cannot be done under European Union procurement rules.
- v Public bodies should make more use of different payment mechanisms such as fixed price and incentivised contracts instead of the standard time and materials.** Different payment mechanisms can help control costs and formalise the joint objectives

¹² Further information on the potential efficiency gains is detailed in *Supporting paper III – Methodology*.

¹³ “Departments may offer starting salaries above the Progression Target Rate when, in seeking to recruit externally, they consider that the Progression Target Rate does not allow them to attract candidates with the necessary skills. In these cases departments may agree a rate for the job with the Cabinet Office in the light of market evidence”, Review Body on Senior Salaries 28th Report on Senior Salaries 2006 (Cm 6727, March 2006), paragraph 2.9.

¹⁴ For the purpose of this report the transfer of skills (skills transfer) also includes the transfer of knowledge (knowledge transfer).

¹⁵ In cases where the department’s requirements are met by individual consultants rather than teams, some of the benefits of engaging a consulting team (such as the quality assurance provided by more senior consultants) may not be included.

¹⁶ *Dangerous Company*, James O’Shea and Charles Madigan (1997), Nicholas Brealey Publishing, p. 9.

¹⁷ OGC guidance states that Ministerial or Permanent Secretary approval is required at the tendering stage in respect of: (1) all non-competitive procurements of any external professional service with a likely value in excess of £50,000; (2) all competitive procurements of any external professional service with a likely value in excess of £250,000.

between clients and consultants. The different payment options require a strong understanding of the project's objectives, scope, risks, and approach. For example, in fixed price arrangements, public bodies need to be clear on how to deal with changes to scope; in incentivised ones, they may need to incorporate potential price variations into their financial planning. OGC can help public bodies by developing and communicating its guidance on the conditions when fixed price and incentivised contracting are appropriate.

- vi **Public bodies must be smarter when it comes to understanding how consulting firms operate and in sharing information about their performance.** Public bodies should have regular, senior-level discussions with their consultants to openly discuss medium to long-term objectives and plans. Public bodies should also use their understanding of suppliers' objectives to maximise their purchasing advantage. Public bodies need to have a clear understanding of who their key suppliers are, how they are organised (such as the archetypal consulting firm's pyramid structure¹⁸), their incentive mechanisms (which might focus on selling further work), and commercial practices. For example, consulting firms may obtain travel and accommodation rebates while working on client projects and public bodies need to be more astute to ensure that these rebates are shared. Public bodies should collect and share information on the performance of consultants to inform buying decisions. OGC should work with public bodies to identify key information and then look to aggregate this information to provide a pan-government view. OGC can also aid public bodies by communicating guidance on managing suppliers, market intelligence, and co-ordinating cross-government supplier meetings to help the government act as a single customer to its key consultants.

- vii **Public bodies need to provide sufficient incentive to staff to make the consultancy project a success.** Recent research¹⁹ has shown that the further removed someone is from the decision to use consultants the more likely they are to feel confused about project responsibilities and accountabilities, frustrated because they don't know what the consultants are doing, complain of poor communication and be cynical about the consultants involvement. *"Supporting Paper 1 – Building client and consultant commitment"* highlights how public sector organisations can work most effectively with consultants and makes practical recommendations for public sector managers involved in consulting projects.

18 In a typical pyramid structure, the expensive time of a small number of people at the apex of the pyramid is spread across a large number of projects which are run by experienced project managers and staffed with more junior, less experienced consultants.

19 Source: Ensuring Sustainable Value from Consultants, Management Consultancies Association, 2006.

PART ONE

The Public Sector Consulting Market

Here is an infallible rule: a prince who is not himself wise cannot be wisely advised... good advice, whoever it comes from, depends on the shrewdness of the prince who seeks it, and not the shrewdness of the prince on good advice

Niccolò Machiavelli, *The Prince* 1513

The scope of the study

1.1 The objectives of this report are to provide accountability to Parliament on the use of public funds on consultants and to help central government become a better buyer of consulting. This report addresses the issue of whether central government is making appropriate use of consultants and focuses on four main topics:

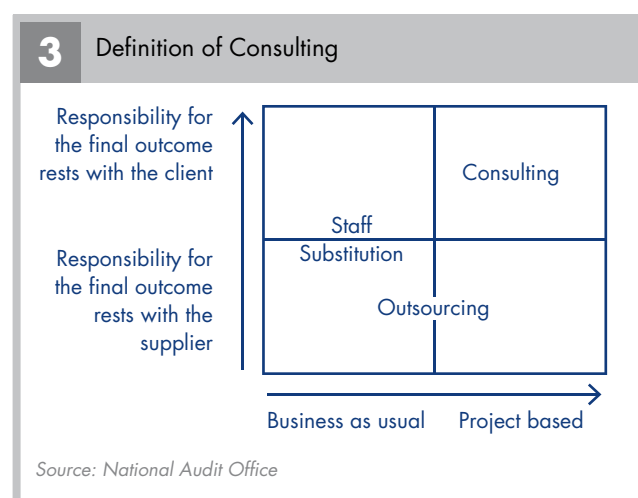
- an analysis of the spend by central government (Part Two);
- a follow-up of the recommendations from the 2002 Committee of Public Accounts report *Better Value for Money from Professional Services* (Part Three and Appendix 1);
- how to maximise client and consultant commitment (Supporting Paper I); and
- an analysis of the UK Public Sector consulting market (Part One and Supporting Paper II).

1.2 The main strands of our methodology were: the detailed review of five case study departments²⁰ and the Office of Government Commerce, a survey of the top 28 spending central government bodies, interviews with suppliers and the consultancy trade bodies, and a detailed literature review. We triangulated these different sources of data to establish the profile of central government spending, to assess whether the use of consultants currently delivers value for money and to determine what more needs to be done. Details of our methodology, including how we collected spend data, selected case study departments and with whom we conducted interviews, are set out in Appendix 3 and Supporting Paper III.

1.3 Getting value for money from the use of consultants is dependent upon defining and justifying the need for consultants, astute procurement and project management of the consultancy project, tight governance and accountability structures, and a thorough assessment of the benefits achieved. For example, like in all procurements, price should not be the sole decision criteria; the overall fit with requirements is more important. A summary of general findings from other National Audit Office reports and recommendations on procurement, project and risk management, and partnership working are in Appendix 2. Our report, meanwhile, focuses on aspects of these themes that are specific to the use of consultants.

What is consulting?

1.4 'Consulting' is a term which has been interpreted in different ways. We have defined consulting as adhering to the following two characteristics (**Figure 3**):



²⁰ Home Office, Cabinet Office, Ministry of Defence, Department for Communities and Local Government, Department for Education and Skills.

- **the work is project-based** – individuals or companies are engaged to work on specific projects that are outside the client’s business as usual, and there is an end point for their involvement. If people are required as part of business as usual operations then it is staff substitution or outsourcing.
- **responsibility for the final outcome rests with the client** – for example responsibility for achieving cost savings or improving quality of service rests with the client.

1.5 This definition of consulting, which is closely aligned to the definition issued to departments by OGC in February 2006, includes a range of services provided; for example, operational and process improvement, management and strategy, or information technology (other common services are listed in footnote²¹) as well as all sizes of firms, ranging from sole practitioners, to small to medium-sized enterprises, and large firms²². Examples of consulting, staff substitution, and outsourcing are provided in **Figure 4**.

Why are consultants used?

1.6 There are three fundamental reasons why organisations use consultants²³ (**Figure 5**) and using them is oftentimes not an easy decision to make - around 40 per cent of clients admit they have used consultants when they did not need to and around 25 per cent say there have been occasions

when they should have used consultants but did not.²⁴ The rationale for using consultants will affect how they are used. For example, if consultants are brought in to put in place a proven system that the buyer will need to manage after the consultants’ departure, it is likely to be suitable to have mixed project teams with clients and consultants working side by side and to put an emphasis on transferring skills from the consultants to the client team. Conversely, if consultants are brought in to provide an independent perspective, then transferring skills and having mixed teams may not be the best approach for the project.

Why has the public sector consulting market grown?

1.7 The public sector consulting market has grown by 33 per cent in the past three years from a value of £2.1 billion in 2003-04 to £2.8 billion in 2005-06. Based on our dialogue with customers, suppliers, and a review of literature and industry data the main drivers for growth in the public sector consulting market appear to be:

- **Large-scale and complex initiatives:** there are 15 key programmes and some 100 mission-critical ones currently underway. Many of these are highly complex and the increased focus on citizen-orientated services and use of IT-enabled services require additional capability and capacity that may not exist internally within public sector organisations.

4 Examples of resource options

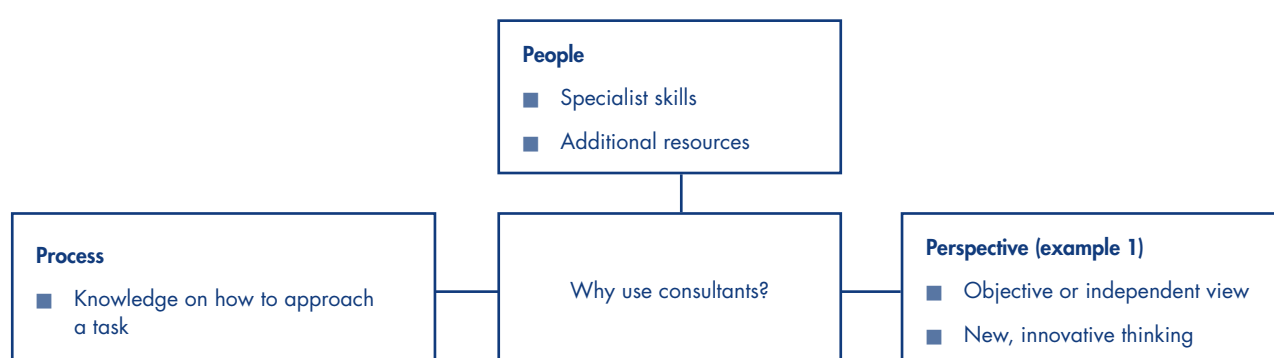
Description	Responsibility rests with the client	Project based	Classification
A web designer is employed to design the organisation’s new intranet. This job is not accountable for the overall provision of the intranet as a service. This job is within the ‘intranet project’ which is owned by the client. This is a specific project, not part of business as usual.	Yes	Yes	Consulting
Advice is sought for a specific Private Finance Initiative deal. This is for a specific piece of work, not business as usual. The client is responsible for the overall deal.	Yes	Yes	Consulting
The day-to-day maintenance of an organisation’s IT systems (for example, email and intranet) is performed by an external company. The client is paying for their IT systems to be available within certain service standards and payment is linked to these standards.	No	No	Outsourcing
A job is required to maintain the organisation’s intranet. The organisation is responsible for running its intranet and this job is a part of the intranet team.	Yes	No	Staff Substitution

Source: National Audit Office

21 Other common services include: property and construction, legal, human resources, market research, financial management, change management, economic and environmental, marketing and corporate communications, programme/project management, risk management, and outsourcing advisory.
 22 The 2001 National Audit Office report, *Purchasing Professional Services* (HC 400) covers consultancy and some staff substitution. Our report, in particular the follow-up of the recommendations from the 2001 report (and its accompanying Committee of Public Accounts report) focuses specifically on consultancy services.
 23 *Ensuring Sustainable Value from Consultants* (Management Consultancies Association/Management Today, 2006).
 24 *Perceptions of Consultancy in 2005* (MCA, 2005).

- **Lack of in-house skills:** particularly scarce are the skills that are in demand for these programmes – large-scale project and programme management and information technology expertise as well as experience of working in comparable programmes elsewhere. The Capability Review and Professional Skills for Government initiatives are likely to highlight the key skill gaps that need to be filled.
- **Excess supply:** Public Sector consulting has tended to grow when demand in the private sector is depressed (**Figure 6 overleaf**). Conversely, Public Sector consulting has appeared to grow more slowly, or shrink, in periods when the private sector consulting market is expanding rapidly.
- **A wider acceptance of greater private sector involvement in the public sector:** this acceptance is largely as a result of two factors – the increased contestability of services²⁵ and the gradual increase in the number of public sector buyers who are used to working with consultants. In many cases, buyers will have worked with consultants in the past when they were in more junior positions and now have risen to more senior positions where they have more opportunity to influence the decision to use consultants. It has become second nature to them to look to the market to provide additional skills or advice. In some cases departments, with increased self-confidence, could come to see that they possess the necessary skills themselves.

5 The three main reasons why organisations use consultants



Source: National Audit Office based on *Ensuring Sustainable Value from Consultants (MCA/Management Today, 2006)*

EXAMPLE 1

Using consultants' independent perspective to help make and communicate a difficult decision

The Ministry of Defence chose to use consultants to help them make a sensitive decision. The Department created the Business Management System to define the roles, processes and working relationships necessary to take the Department forward. A decision was required to improve the probability of successfully implementing the new ways of working. The Department anticipated that this would lead to reducing the initial scope of the project which would disappoint many senior staff members. Because so many Department staff had already been involved in the project, the Department felt it needed an independent view

on the issue. Therefore, the Department employed consultants to undertake a short study and recommend a route forward. The consultants interviewed and, crucially, gained the confidence of all the key stakeholders during the research process including senior staff. The consultants' recommendations for the future direction of the project were met with little resistance and on the back of these, the Department decided to significantly reduce the number of processes included in the first wave of the change programme.

The Department believes that the decision would not have been made without the independent review and that the Business Management System would not have progressed as far as it has without the consultants' involvement.

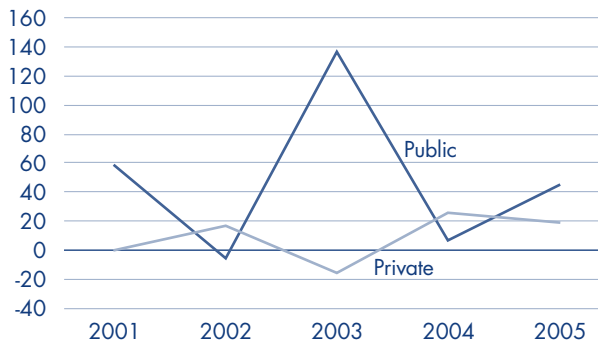
Source: National Audit Office examination of the Business Management System in the Ministry of Defence

25 "Providers must be allowed to contest provision and commission from different sources where they believe it to be in the interests of the user," Tony Blair, *21st Century Public Services*, 6 June 2006.

6

The percentage of consulting industry income from Public Sector sources tends to increase when Private Sector income declines

Percentage change in fee income of MCA member firms



Source: MCA and industry data

What makes purchasing consultancy particularly difficult?

1.8 Our analysis identifies substantial challenges for managers who are seeking to hire or work with consultants. Further detail on these challenges is provided on the National Audit Office's website in *"Supporting Paper II – Market analysis"*.

- **clients find it difficult to differentiate between consulting firms.** In addition to the different terms used to describe their services, the range of work undertaken by consultants also makes it hard to make comparisons. A recent survey by the Management Consultancies Association (MCA, the industry trade body), found that fewer than half of clients felt consulting firms provided adequate information about themselves, and 40 per cent thought firms could benefit from adhering to a common code of practice;²⁶
- **clients find it hard to assess whether they are getting value for money.** The range of consulting activity makes it difficult to identify meaningful metrics for all types of projects. Also, it is not always easy to attribute cause and effect, even where performance has improved. As a result, almost half of all organisations do not attempt to quantify the return on investment from using consultants.²⁷

- **the relationship between a client and a consultant must balance objectivity, perspective, and potentially divergent objectives.** A blurred line between consultants' advisory work and their implementation and outsourcing work can compromise a firm's ability to provide independent advice. Long-term relationships can be beneficial; however when consultants perform a role for too long, they may lose their independence, accountability may become blurred, and clients may become overly dependent on them. Clients need to know that consultants are working in their (the client's) best interests; however, consulting firms have their own commercial interests to serve;
- **the way a consulting firm is structured, and how consultants are incentivised, can focus on the supplier's rather than the client's needs.** The archetypal consulting firm has a pyramid structure in which the expensive time of a small number of people at the apex of the pyramid is spread across a large number of projects. More junior, less experienced staff often provide the majority of the resource on the project. Clients may receive less input from the senior people whose time they thought they were buying. Consultants may also be encouraged or incentivised to sell more work, even where it is not necessary.²⁸

1.9 Furthermore concerns have been aired about the lack of transparency in some aspects of consultants' charges. For example, in the book *"Plundering the public sector"* David Craig lists "techniques [that consultants] have used when working in the British Public Sector": not passing on travel rebates to clients; charging for the relocation of staff; billing clients for time not worked; adding overheads to charges; charging flat rate expenses and keeping what is not spent; charging for people at a grade above their level; and tax avoidance.²⁹

²⁶ *Perceptions of Consultancy in 2005* (MCA, 2005).

²⁷ *The impact of the difficulties in measuring the impact of consulting* (MCA).

²⁸ "There are consulting firms ... who pay their consultants 50 per cent more than their basic salary if they sell goods and services. That means there is absolutely no incentive for their consultants to turn round to a client and say, 'I'm not making a difference, I wish to leave'... They will do everything in their power to keep the meter running." (Richard Granger, *Connecting for Health*, quoted in Toppin and Czerniawska, *Business Consulting: A Guide to How it Works and How to Make it Work*).

²⁹ *Plundering the public sector*, David Craig with Richard Brooks, p94–105.

PART TWO

An analysis of central government spend on consultants

2.1 This part of the report examines in detail the profile of central government expenditure on consulting. We have used three sources of information: our survey of the top 28 spending central government organisations,³⁰ data from the MCA, and our discussions with suppliers. Full details of the methodology and the calculations we made can be found in “*Supporting Paper III – Methodology*”.

What is the total spend on consulting across the public sector?

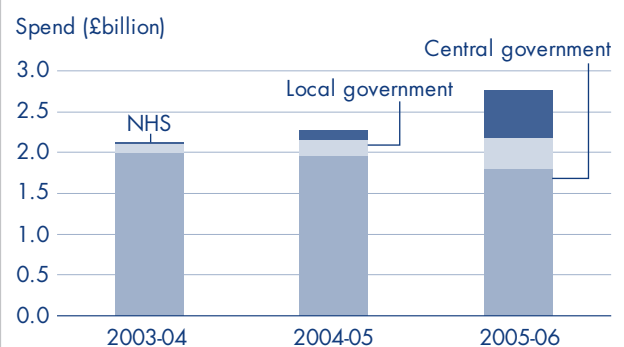
2.2 We estimate that the Public Sector spent £2.8 billion on consultants in 2005-06 (**Figure 7**). The majority of this spend (£1.8 billion) is accounted for by central government, with local government and the National Health Service spending £0.4 billion and £0.6 billion respectively.³¹ The 21 per cent increase between 2004-05 and 2005-06 is due to a rise in spending in Local Government and the National Health Service. We estimate that in total the Public Sector has spent £7.2 billion on consultants between 2003-04 and 2005-06 (£2.1 billion in 2003-04 and £2.3 billion in 2004-05).

What are the trends in central government spend on consulting?

2.3 Central government spent £1.8 billion in 2005-06. While across the public sector as a whole expenditure on consulting has increased over the last three years, spending in central government has reduced. Expenditure remained relatively flat between 2003-04 and 2004-05 (at £2 billion) and fell by eight per cent, in 2005-06.

2.4 The fall in spending in central government in 2005-06 was mainly accounted for by departments, whose spend fell by some 10 per cent. In particular the

7 Public Sector spend on consultants increased by £0.7 billion between 2003-04 and 2005-06



Source: National Audit Office survey, data from the MCA and industry data

Department for Work and Pensions and the Department for Trade and Industry significantly reduced their spending on consultants, by £51 million and £32 million respectively. Other departments also contributed to the decrease in 2005-06, but in each case the decrease followed rises in spending on consulting the previous year. For example, although the Department for Communities and Local Government reduced its spend on consultants by 35 per cent in 2005-06 this reduction only brought it back to spending levels in 2003-04. Our survey also suggests that spending by agencies and other sponsored bodies increased by approximately six per cent in 2005-06.

2.5 Our analysis suggests that the average central government organisation, when compared to our private sector comparators,³² spends more on consultants per employee (£10,000 compared to £2,000) and as a proportion of operating costs (11 per cent compared to four per cent).

³⁰ Based on total procurement spend reported in 2004 National Audit Office report *Improving Procurement*.

³¹ Central government spend gathered directly through our survey. Base data for local government and NHS taken from industry data. We then applied a multiple to the local government and NHS data to provide a more accurate and complete figure. The multiple reflects the difference in central government spend between the more comprehensive information we collected from our survey, and industry information which did not include all suppliers. For full details of the calculation see “*Supporting Paper III*”.

³² Taken from interviews with eight private sector organisations (sectors included software, pharmaceutical, business services, retail, energy, technology, insurance, banking).

Which departments spend the most?

2.6 The Department for International Development, the Ministry of Defence and the Department for the Environment and Rural Affairs were the top spending departments in 2004-05 and 2005-06 (**Figure 8**). Although the picture is less complete for 2003-04 as spend information is missing from some departments,³³ data suggests the Department for Work and Pensions was the third largest spender in that year behind the Ministry of Defence and the Department for International Development. However, the Department for Work and Pensions has significantly cut back in recent years; its 2005-06 spend was £174 million lower than its spend in 2003-04 and the department is currently ranked as the eighth highest spender on consulting.

2.7 It is important to consider this level of expenditure in the context of the size of the organisations. While the Ministry of Defence is a high spender, it is also the largest central government department in terms of operating costs and number of employees.³⁴ In comparison, the Department for International Development spends proportionately more

as it has decided to use to a larger extent the specialist skills and experience of consultants to support its development programme. Consultancy services are generally used to support partner governments rather than the Department itself to allow the Department to obtain a range of specialist skills and experience not readily available internally.

How is this money being spent?

2.8 In 2005-06, the top three types of consulting service accounted for 66 per cent of spend compared to 83 per cent in 2003-04. This suggests a diversification in consulting needs across central government. **Figure 9** shows that although IT remains the most popular, its relative strength of demand compared to other services is decreasing, falling from around 47 per cent of all spend in 2004-05 to 31 per cent in 2005-06. Programme/project management has also appeared among the top three consulting services over the three year period and remains in consistent demand. In 2005-06, Management/strategy services fell from the top three, where it had been the two previous years.

8 Changes in spending on consultants by the top central government organisations between 2003-04 and 2005-06

Of the top spenders, only the Department for Work and Pensions and Department for Trade and Industry have shown a consistent decrease in consulting spend between 2003-04 and 2005-06

Department/agency	Spend (£ million)		
	2005-06	2004-05	2003-04
Department for International Development	255	276	270
Ministry of Defence	213	203	254
Department for Environment and Rural Affairs	160	180	160
Home Office	129	139	(N/A)
Department of Health	126	111	(N/A)
Environment Agency	110	114	107
HM Revenue & Customs	106	136	95
Department for Work and Pensions	76	127	250
English Partnerships	67	68	41
Department for Transport	60	65	58
Department for Trade and Industry	54	86	112
Total	1,356	1,505	1,347

Source: National Audit Office survey

NOTE

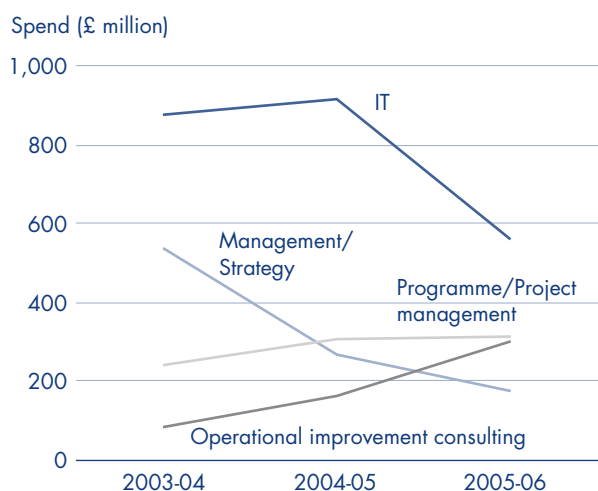
Department of Health (because of a change in accounting systems) and Home Office were unable to supply data for 2003-04.

³³ Home Office, Dept of Health and HM Prison Service were unable to provide data for 2003-04 within the timelines of the NAO survey due to the lack of central management information.

³⁴ Civilian and military employees. When civilian posts only are included the MoD is the second highest employer (102,970 civilian posts as at 1 July 2006).

9 The change in demand for the top four consulting services in 2005-06

Demand has increased for operational improvement and programme and project management services while demand has decreased for information technology and management/strategy



Source: National Audit Office estimates based on industry data

2.9 There is increasing demand for operational improvement consulting services; 17 per cent of consultancy expenditure was spent on these services in 2005-06 compared to just four per cent in 2003-04. Change management is also becoming more popular with spending in this area more than doubling between 2003-04 and 2005-06 (from £44 million to £116 million).

Which are the biggest suppliers to government?

2.10 Our analysis shows that IBM and LogicaCMG have been the top two suppliers to central government over the past three years (Figure 10). There was an increase in the value of central government business for the top 15 suppliers in 2004 and again in 2005. Between 2003 and 2005 central government reduced its total spend on consultants, indicating that the top 15 suppliers have increased their share of the central government consulting market.

2.11 Estimations based upon the results from our survey suggest that currently almost half of the average large central government spender's consulting projects are with small and medium sized firms.³⁵ As with services supplied by all suppliers, information technology is the most popular service bought from small and medium sized

10 Top suppliers to central government according to expenditure in £ million 2003 to 2005¹

The value of spend with the top suppliers increased between 2003 and 2005

	2003	2004	2005
IBM	225	249	275
LogicaCMG	111	145	175
Accenture	90	130	130
PA Consulting	97	104	102
Capgemini	75	75	85
Mott MacDonald	63	84	77
PWC	34	54	65
Atos	55	72	59
KPMG	27	31	57
Deloitte	32	46	50
Xansa	33	38	49
Tribal ²	21	21	42
McKinsey	25	30	38
Booz Allen Hamilton	31	14	24
Hedra	13	15	20
Total	932	1108	1248

Source: National Audit Office estimates

NOTES

1 The central government organisations in our survey were unable to provide a reliable level of information on spend by supplier. We have therefore made estimates based on supplier data which is recorded by calendar year.

2 Tribal estimates for 2003 and 2004 are pre-consolidation of the Tribal Group.

consulting firms. Operational improvement consulting and management/strategy services are the next most popular. **Examples 2 and 3 overleaf** demonstrate how the Cabinet Office and a large UK-based media company have approached the use of small and medium sized consulting firms.

How are consulting contracts awarded?

2.12 Many organisations in our survey do not hold readily available information detailing how consulting contracts have been awarded. Of those that do, there is great variation regarding procurement methods and types of contracts used.

35 Small and medium sized suppliers are defined as firms with 250 or fewer employees.

EXAMPLE 2

Use of single practitioners/small firms to access specialist skills at a competitive price

The Electronic Records Management project at the Cabinet Office had a tightly defined resource need for their project – deep technical skills and implementation experience in electronic records management. The Electronic Records Management project sought to implement a computerised system to create, edit, and store records. The project team discussed their need with other departments who have undertaken similar projects and based on a strong reference from one, chose an independent consultant. In this case, the team needed his specific skills and it was of less importance to have the support provided by a big firm (for example, knowledge management, a network of experts, and account management). The team was therefore able to secure the consultant at a lower rate than his counterpart would have been at a big firm. The project team was very pleased with his performance and contribution to the pilot implementation of the new system.

Source: National Audit Office examination of the Cabinet Office's Electronic Records Management project

EXAMPLE 3

The main benefits of using smaller suppliers as identified by a large media company

A large UK-based media company has found that an increasingly large proportion of its spend on consultants is with small and medium-sized firms.

The benefits the company sees from using smaller suppliers are:

- acquiring a consulting team that is more experienced and focused on the customer requirements, with fewer junior or generalist team members. This company interviews candidates focusing on their individual experience as relating to the requirement, as opposed to the firm's experience in an area;
- ease of getting continuity of staff enabling deeper knowledge of the client's business and reducing the initial learning curve for projects;
- potentially more competitive pricing as smaller firms may not have as significant 'overhead' or 'corporate' costs. The media company generally puts less weight on some of the benefits publicized by larger firms, namely brand, quality assurance processes, and access to a network of experts; and
- their flexibility and speed of decision-making and action.

Nonetheless, it is worth noting that this company, like the public sector organisations we interviewed, finds it difficult to measure quantitatively the value delivered by consultants, as separate from the value of a project or programme in its entirety.

Source: National Audit Office examination of a large UK-based media company

2.13 While some organisations reported that almost all invitations to tender were issued to multiple suppliers, others largely issued invitations to single suppliers. Results from our survey also suggest that, for the average organisation in this survey, around 50 per cent of invitations to tender that were issued to a single supplier, were issued to suppliers not on a framework agreement.

2.14 Data reported by OGCBuying.solutions shows that £740 million was spent on consultancy through their frameworks in 2005-06, some 26 per cent of the total Public Sector spend. Central government accounted for approximately £612 million of spending through OGCBuying.solutions, 34 per cent of its total spend.

How is central government paying for work?

2.15 The survey also showed significant variation in the number of consultants paid using time and materials³⁶ as opposed to fixed price contracts.³⁷ While time and materials contracts were found to be a popular form of payment among many participating central government organisations, risks with its use do exist (**Example 4**).

2.16 Very few central government organisations are using incentivised contracts.³⁸ The average participating organisation in our survey commissioned approximately one per cent of their consulting projects through incentivised contracts. **Examples 5 and 6** show how the Home Office and Connecting for Health are using incentivised contracts.

What benefits are consultants delivering?

2.17 Obtaining an accurate assessment of the benefits of using consultants is difficult because of the sheer range of work that consultants do and therefore the ability to have useful measures for all types of projects. Furthermore, it is hard to attribute cause and effect, even where performance has improved, as, in many instances, consultants' work is within the context of wider departmental projects or programmes. Nevertheless it is important to assess the benefits consultants bring by judging performance against individual project business cases.

³⁶ Time and materials refers to contracts whereby payment is based on the time worked rather than on the production of specific output.

³⁷ Fixed price refers to contracts whereby the supplier receives payment based on a fixed price agreed at the project outset.

³⁸ In incentivised contracts a proportion of the payment is based upon their performance. For example payment may be linked to delivery of products against an expected timeline throughout the project or linked to the final cost and time taken to complete the project.

EXAMPLE 4

Risks of escalating costs when using time and materials contracts

The Home Office contracted with their consultants who are providing expertise in programme and project management and procurement using a time and materials payment structure as part of its Identity Programme. The Identity Programme seeks to provide UK residents with a secure method to prove who they are. The Department chose the time and materials payment structure for two main reasons: to allow for a degree of flexibility and because responsibility for work streams was planned to lie with civil servants. Both of these factors made it more difficult to set up fixed price contracts – the flexibility made it difficult to define detailed outputs and responsibility residing with civil servants reduced the amount of leverage the supplier would have over outputs. With the time and materials payment structure, the client (now the Identity and Passport Service) bears the costs for increases in project duration. The Service paid the consultants some £2 million a month in 2005-06, with a peak of £2.9 million in March 2006. Some of the programme's key deadlines (for example the issuance of the invitation to tender) were rescheduled due to a variety of internal and external factors. This situation (where a project duration increases and payment is by time and materials) makes it more important to move consultants off the project, while being aware of the risks of losing momentum and knowledge.

Source: National Audit Office examination of the Home Office Identity Programme

2.18 We asked departments if they collected this information as part of the information they collect about the performance of consultants. Our survey results show that fewer than half of central government organisations collect information on how the consultants have performed against what they were intended to do as stated in the business case. Moreover, fewer than half of our survey respondents collect information from the responsible senior manager on their satisfaction with the consultants and only 64 per cent collect this information from project staff.

2.19 From our interviews with project teams at departments, we did find examples of where consultants have delivered clear benefits. For example, the Ministry of Defence is making savings on procurement having used consultants to help implement a new approach and develop internal capabilities. Similarly, consultants were important in building and communicating the assessment framework for Capability Reviews for the Cabinet Office. The key characteristics of the successful use of consultants, particularly around building client and consultant commitment to the consulting project are expanded on further in *“Supporting Paper 1 – Building client and consultant commitment”*.

EXAMPLE 5

Linking of payments to delivery to provide incentives to consultants

The Home Office used consultants as part of its Process Improvement Programme. The aim of this programme was to trial changes in processes in different parts of the Department to produce efficiency savings. Consultants, for example, were used to improve policy development processes, in particular within the Specialist Crime and Policing Policy directorates. These consultants put 20 per cent of their fees at risk dependent on achieving a series of targets. The targets were agreed at the outset and their successful completion would be assessed by a team made up of Home Office staff and consultants. A selection of the targets used in the Specialist Crime Directorate are below:

- develop and agree specific, individual learning plans for relevant Home Office team members;
- deliver team training sessions around core skills/techniques;
- develop the detailed implementation plan;
- ensure clear accountabilities and develop a framework for governance.

Source: National Audit Office examination of the Home Office's Process Improvement Programme

EXAMPLE 6

Use of payment by results by the Connecting for Health programme

Connecting for Health is a ten year programme in the National Health Service which presents an opportunity to use Information Technology to reform the way the NHS in England uses information, and hence to improve services and the quality of patient care.

NHS Connecting for Health bought the [IT] systems at a fixed competitive price transferring financial and delivery risk to the suppliers, and it does not pay suppliers until services are proven to be delivered and working. So, although there have been delays in delivering the NHS Care Records Service, the suppliers have borne the cost of overcoming difficulties in delivering the software and not the taxpayer.

Source: National Audit Office report, “The National Programme for IT in the NHS”, HC 1173 (Summary, paragraphs 1 and 5g)

PART THREE

Progress in improving value for money in the use of consultants

3.1 In the past five years, there have been three cross-cutting examinations into the use of consultants containing recommendations and guidance to improve value for money in this area:

- *Purchasing Professional Services* (HC 400, 2001), National Audit Office;
- *Better Value for Money from Professional Services (2002)*, Committee of Public Accounts (PAC);
- *Delivering World Class Consultancy – A Statement of Best Practice (2002)*, jointly produced by the Office of Government Commerce, the MCA, and the Institute of Management Consultants.

Overall assessment of progress

3.2 Central government has made good progress in implementing some of the recommendations from these examinations. However, there is still much work to be done. This report looks specifically at OGC and five departments – Home Office, Ministry of Defence, Cabinet Office, Department for Education and Skills, and Department for Communities and Local Government. Progress can be summarised against five main headings:

- **use of good procurement practices:** departments are making good use of framework agreements (either their own, other government departments', or OGCbuying.solutions') and qualified procurement staff are regularly involved in the buying process to provide commercial expertise and enforce organisational policies;

- **collection and use of management information:** although some action was led by OGC to collect information on the use of consultants by central government departments, on the whole, data is not regularly or rigorously collected and shared across government. For example, performance assessments are rarely done and when they are, they are not shared with others across a department or with other organisations; and
- **resource planning:** in general departments do not have adequate information about the capacity and capabilities that are available within the department when they are looking to staff projects. This lack of information leads them to turn to consultants. At a more strategic level, we have found little evidence of departments taking a medium to long term view of what capabilities will be required and feeding this information into plans for training, recruitment or transferring skills from consultants to internal staff. **Example 7 overleaf** shows how the Home Office replaced consultants with full-time staff for their long term need for experienced people. **Example 8** shows how two departments have focused on transferring skills from consultants to their staff. The need to consider full lifetime project requirements is illustrated in **Example 9**. In **Example 10** we see that the Home Office used consultants for key programme roles, but has now replaced them with civil servants to regain greater control and accountability for the Identity programme.

EXAMPLE 7

Replacing consultants with full-time staff to get better long term value for money

The e-Borders programme is looking to deliver timely data, information, intelligence and risk assessments to relevant government agencies on all passengers seeking to enter or leave the UK. The programme initially used two consultants to provide support on the implementation plan and engagement with the ports and carriers. The programme forecast that these skills would be required for at least the next two years and therefore looked to replace the consultants with full-time staff. The programme was able to do this and estimates that recruiting full-time staff instead of using consultants has saved just under £1million over the two years, whilst maintaining the level of expertise.

Source: National Audit Office examination of the Home Office's eBorders programme

EXAMPLE 8

How skills transfer can affect the selection and use of consultants

One of the key decision criteria for the Home Office in selecting consultants for its Process Improvement Programme was the consultants' ability to transfer skills to department staff. The aim of this programme is to trial changes in processes in different parts of the Department to produce efficiency savings. The four initial 'trial' projects within the Programme were designed to be the first steps with similar projects possibly to follow, depending on the findings of the four trials. As such, the Department recognised that certain skills would be required for the duration of the Programme (i.e. after the completion of the initial trial projects). The Department planned to use consultants for the trial projects working alongside a group of civil servants who would then lead any subsequent projects. Consultants' ability to coach their civil servant counterparts and their approach to skills transfer were key criteria in selecting the consultancy companies.

A key output from the Ministry of Defence's Procurement Reform Programme, which was written as a requirement into the contract, was the transfer of skills from consultants to permanent employees. The programme's objective was to implement a department wide approach to category management for the procurement of certain commodities. This was a new concept within the Department and required the recruitment and training of over 250 full time civil servants to undertake the new roles. A key success factor for the project was the transfer of skills from the consultants to the new internal teams. A maturity model was used to assess the capability of the new teams. Department staff were assessed at various stages to see if they had attained the desired level of competence. The final assessment happened when the consultants were due to leave the team. The success of the skills transfer was improved by including it as a measure to trigger a part of the consultants' payments.

Source: National Audit Office examination of the Home Office's Process Improvement Programme and the MoD's Procurement Reform Programme

EXAMPLE 9

Understanding the need for people across the full project lifetime to help decide whether to use consultants or other resource options

The Department for Communities and Local Government FireLink programme aims to deliver a new radio system to support the Fire Service. Highly specialist engineering skills were required which the Department did not possess. In 2002 the Department decided to employ engineering consultants believing that the requirement would be short term and for specific expertise. The programme delivery timetable has extended beyond the Department's initial expectations and, while using consultants has enabled the Department to employ a flexible approach to staffing requirements, with hindsight alternative resourcing options could have been used for some of the long term expertise required which could have represented better value for money.

Source: National Audit Office examination of the Department for Communities and Local Government FireLink Programme

EXAMPLE 10

The need to replace consultants with civil servants to regain control and accountability

Consultants were engaged on the Identity Programme to work with the Home Office (and latterly the Identity and Passport Service) to help define the programme and manage the procurement phase. The Identity Programme seeks to provide UK residents with a secure method to prove who they are. The roles and responsibilities of the consultants compared to civil servants evolved as the programme progressed. At times key roles were held by the consultants where it would have been preferable to have Department or Service staff. For example, in May 2005 the procurement, marketing, business requirements, resilience and security teams were all led by consultants. The Service recognised that the successful implementation of the Programme would be more likely by having civil servants in these key roles and is working to replace the consultants. So far it has been successful in replacing consultants with civil servants who now fill the roles of overall Chief Information Officer in charge of the Programme, Chief Executive Officer (programme Senior Responsible Owner), Chief Business Architect, Programme Controller and two Senior Civil Service project directors.

Source: National Audit Office examination of Identity and Passport Service

- **supplier management:** departments rarely identify their key consultants and have regular, open communications to discuss pricing strategies, the capabilities of their suppliers, and their performance. Discussions often take place at project level, but departments rarely act as a single, joined-up customer when dealing with their consultancy suppliers. In effect, in some cases, suppliers are better informed about the consultancy work done at a department than the department itself. **Example 11** shows how projects at the Home Office and the Cabinet Office have used their understanding of consultants' objectives to improve their contract negotiations. **Example 12** shows how AstraZeneca approaches these challenges.

EXAMPLE 11

Understanding the value that suppliers place on working with government to improve contract negotiations

The e-Borders programme understood the strategic importance of the programme to its consultancy suppliers. The e-Borders programme is looking to deliver timely data, information, intelligence and risk assessments to relevant government agencies on all passengers seeking to enter or leave the UK. It has used consultants, for example, to provide procurement and project management expertise. The programme was able to negotiate discounts within the OGC buying solutions framework agreement rates by understanding the benefits that working on the programme would bring to their consultants. Another, more innovative, and partnering approach involved the use of new graduates that were brought onto the project following discussion between the Programme Manager and the consultancy supplier. Both parties realised that these new graduates would be getting valuable 'on-the-job' training whilst also aiding the programme and therefore agreed discounts for their work.

The Prime Minister's Delivery Unit identified the need for additional expertise, experience, and capacity for the development and communication of the framework for departmental Capability Reviews. The Reviews consider capability in the Civil Service in three key areas – leadership, strategy and delivery and aim to identify where departments need to improve. The project team understood that consultants were needed to provide deep experience and expertise in organisational capability diagnosis and, importantly, in engaging stakeholders. The team recognised that there was scope to obtain value for money in the consultancy contract because of the importance that prospective consultants would place on being involved in a key government initiative. Using this benefit, the project team was able to gather an exceptionally senior team from their consultancy supplier while remaining within their budget.

Source: National Audit Office examination of the eBorders programme and of the Prime Minister's Delivery Unit's development of the Capability Reviews framework

- **being more astute in their use of consultants:** departments are having mixed success in using business cases and requirements specifications to justify, specify and track their use of consultants.

Summary of progress in the Home Office, Ministry of Defence, Cabinet Office, Department for Education and Skills, and Department for Communities and Local Government

3.3 Our five case study departments all still have much work to do in implementing the recommendations from previous PAC, NAO, and OGC work. Figure 2 (Summary) summarises their progress against a Red/Amber/Green assessment model and Appendix 1 provides full details of progress against each recommendation.

EXAMPLE 12

Supplier management and use of management information at Astra Zeneca to inform buying decisions

AstraZeneca, a large multi-national pharmaceutical company, is a significant user of consultants. In some ways, the challenges in getting value for money from consultants are the same at AstraZeneca as those encountered by the public sector (such as getting internal business colleagues to liaise with the procurement function and measuring the value of consultants). Two of the key areas the company has been recently looking at improving are better supplier management and use of management information.

Firstly, AstraZeneca has done some work to understand who its key global consultancy suppliers are. It is now putting in place regular, senior-level meetings to review spend, performance, and future demand with these suppliers.

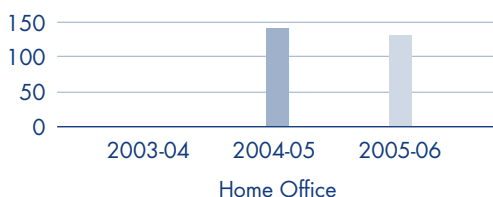
The collection of management information has been another area of increased focus. The global category management team for consultancy collects information (covering for example, spend, services purchased, supplier information, and market intelligence) and importantly is looking to collect post-project performance information. The post-project 'scorecard' seeks to capture information on: behaviour, skills, administration, and an opinion on overall value for money. This information is used to inform future buying decisions.

Source: National Audit Office examination of Astra Zeneca

Department: Home Office

Spend profile:

Spend (£ million)



Source: National Audit Office survey (spend data is based on Home Office's Adelphi consultancy account codes; and is subject to management information accuracy improvements as outlined in Appendix 1).

Note: The Department was unable to provide information for 2003-04.

Top 3 suppliers: PA Consulting, Capgemini, Hedra.

Distinctive characteristic: The Department's top two suppliers accounted for nearly 28 per cent of spend in 2005-06.

Examples of the use of consultants:

- Programme management and procurement for the Identity and eBorders programmes.
- Project and change management and process improvement for the Process Improvement programme.

Progress in improving value for money:

The Department has used the implementation of its 'No Purchase Order No Pay' policy (in January 2006) to put in place good practice in procuring consultants; however there remains work to improve value for money in this area. Consultants are heavily involved in the delivery of some key programmes, such as

eBorders and Identity Cards, and these would have made less progress without the specialist skills and experience brought to bear by consultants.

The Department makes good use of framework agreements with a substantial amount of its spend going through them. The Department is in the early stages of a programme to improve its use of consultants, focusing initially on collecting management information, managing demand, and then developing and implementing a strategic sourcing strategy which it believes will make it well placed to address many of this report's recommendations. The Department currently makes limited use of fixed price and incentive based payment mechanisms. It should tighten its processes for moving consultants after completion of the initial task. There are also instances where consultants, rather than civil servants, are in key decision-making roles.

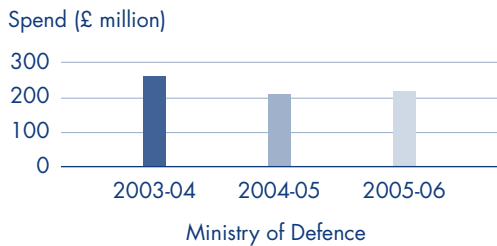
The Department does not have a firm view of its medium to long-term portfolio of programmes and projects from which to develop a department-wide view of required capabilities. The Department needs to translate this set of requirements into its strategy for recruitment, training, and use of consultants including transferring skills from consultants to internal staff. Hence, the Department is continually buying in consultants to do procurement, programme and project management, and business analysis. The Department should also look to use its management information systems to inform its department-wide relationships with key consultancy suppliers to communicate needs and develop joint objectives and plans.

Our key **recommendations** for the department:

- To identify core skills required to support medium and long term programme requirements and plan recruitment and skills development accordingly.
- To collect more, and better, post project performance information to inform future buying decisions.

Department: Ministry of Defence

Spend profile:



Source: National Audit Office survey

Top 3 suppliers: Atos, IBM, McKinsey

Distinctive characteristic: The Department has reduced its spend on consultancy by £41 million as compared to 2003-04.

Examples of the use of consultants:

- Procurement process expertise and training in a new centralised approach to buying goods and services on the Procurement Reform Programme.
- To review the proposed scope and approach to implementing new ways of working across the Department for the Business Management System.

Progress:

The Department has put in place category management³⁹ teams to manage its spend on consultants. The programme aims to get better value for money by implementing new procedures and processes across the Department. The new processes should improve the consistency and appropriateness of resourcing and buying decisions.

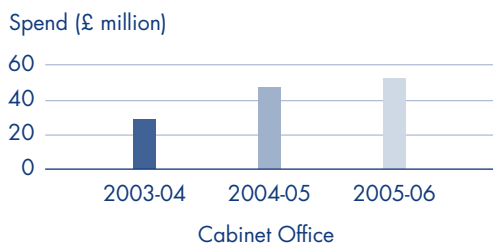
The new way of working was implemented in April 2006. Although it may be too early to regard it as a success there is evidence that purchasing behaviours are changing and the Department believes that the new ways of working will successfully address many of the areas identified in this report. For example there is some evidence that alternative resourcing options (such as the use of the internal consultancy function) are being considered and used more often. The Department has not set up measures to monitor the take up of alternative resource options. In April 2006 the Department implemented a new system to collect and share management information and restated the need to complete post project evaluations. This should improve future demand planning, lead to better deals with suppliers and help the Department to make more informed buying decisions.

Our key **recommendations** for the department:

- To collect more, and better, post project performance information and ensure that it is used to inform future buying decisions.
- To implement across the whole department a commonly understood strategic approach to supplier relationships.

Department: Cabinet Office

Spend profile:



Source: National Audit Office survey

Top 3 suppliers: EDS, Xansa, Atos Origin

Distinctive characteristic: Total spend increased from £28 million in 2003-04 to £51 million in 2005-06.

Examples of the use of consultants:

- To develop the framework and build departmental commitment for the Capability Reviews programme.
- Technical implementation experience for their Electronic Records Management programme.

Progress:

Procurement good practice guidance and processes are largely in place using the finance system to manage and monitor the Department's spend on consultants.

The Department does not take a departmental view on the capabilities it currently has and aims to have to inform decisions on whether procuring consultants (versus full-time recruitment or training) is the best route to filling departmental needs. The Department should do more to collect and analyse its management information (such as post-project reviews) to help make informed choices on how to improve the procurement and use of consultants.

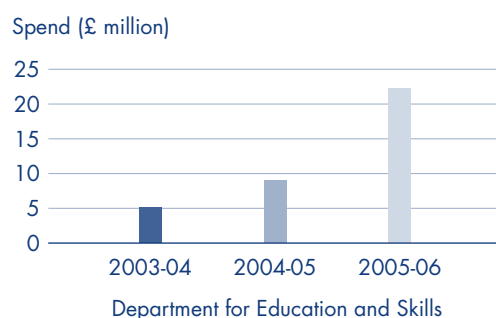
Our key **recommendations** for the department:

- To collect more, and better, post project performance information and ensure that it is used to inform future buying decisions.
- To identify core skills gaps in supporting medium and long term programme requirements and plan recruitment and skills development accordingly.

³⁹ Category Management is the continual monitoring of expenditures and supplier performance in specific buying categories, with the intention of reducing total lifetime costs and making continuous improvement in supplier management and performance.

Department: Department for Education and Skills

Spend profile:



Note: Profile above covers only spend via the Department's framework agreements because the Department was unable to provide details of total spend. The Department has indicated that spend through framework agreements may account for approximately 50 per cent of total spend.

Source: National Audit Office survey

Top 3 suppliers: Capgemini, Alpine Consortium, KPMG

Distinctive characteristic: Management and Strategy (77 per cent) and Programme and Project Management (21 per cent) account for 98 per cent of the spend through the Department's consultancy frameworks.

Examples of use of consultants:

- Programme and project management and process design skills on the Academies Transformation programme.
- Project management, design of the information technology architecture and business analysis on the eCommon Assessment Framework programme.
- Programme and project management including programme planning, risk analysis and business analysis on the Bichard Implementation programme.

Progress:

Over the past two years the Department has taken steps to better understand and improve its use of consultants. The findings from this work have provided the Department with a good understanding of areas for improvement. For example, a joint internal audit and NAO report completed in March 2005 identified that, in the main, a sound system of control is in place

but that compliance is inconsistent. In response, the Department and the NAO jointly published a good practice guide on the engagement and use of consultants.⁴⁰ In July 2006 the Department implemented a series of process and accountability changes which it expects will improve its use of consultants and address the areas raised in this report. For example, during the course of this study there has been some improvement in the Department's management information, analysis and reporting arrangements to underpin enhanced senior management accountability for progress in improving the management and use of consultants.

The Department's central procurement team has developed some good practice for engaging consultants, collecting management information and managing suppliers that are on centrally-managed framework agreements; however their influence is limited within the Department's highly devolved governance model. The Department does not have strong historical senior accountability for the use of consultants, but recent reforms have placed the Permanent Secretary and his senior management team at the forefront of improvements with a new monthly reporting system providing a focus for change.

Applying good practice to the buying process is not done consistently across the Department. About a quarter of the Department's tenders are via single tender and too many consultancy projects lack an adequate business case. The Department does not have a robust system to identify appropriately skilled internal staff when considering alternative resourcing options. Improved management information is required to better understand the Department's demand for consultancy and to plan alternative resourcing strategies.

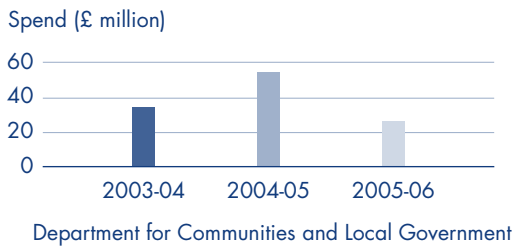
Our key recommendations for the department:

- To review the effectiveness of its new processes aimed at ensuring senior accountability for consultancy spend and adherence to good practice.
- To build on current improvements aimed at collecting improved management information on consultancy spend. The Department is able to provide an accurate figure for its spend through its consultancy frameworks, however cannot do so for its spend outside of these contracts.
- To identify core skills required to support medium and long term programme requirements and plan the use of consultants and skills development accordingly.

40 Good practice guide: Engagement and use of Consultants, Department for Education and Skills and National Audit Office. April 2005.

Department: Department for Communities and Local Government

Spend profile:



Source: National Audit Office survey

Top 3 suppliers: PA Consulting, Serco Government Consulting, Mott MacDonald

Distinctive characteristic: The top three suppliers account for 43 per cent of spend on consultancy. Fifty-nine per cent of the Department’s consultancy spend is on Management and Strategy services.

Examples of use of consultants:

- Technical engineering skills to design specialist equipment for the emergency services and programme and project management expertise on the New Dimension programme.
- Communication technology expertise to design business requirements and commercial expertise to strengthen the project and contract management of the Department’s suppliers on the FireLink programme.

Progress:

In April 2006 the Department implemented a new process to improve the control of its spend on consultants. It is too early to conclude whether value for money has been improved as a result, however the revised approach should ensure that greater consideration is placed on the availability and suitability of internal staff to undertake work currently performed by consultants. The Department routinely produces business cases to justify the procurement of consultants and involves the central procurement team in all procurement above £20,000. The Department makes good use of framework agreements and uses OGCbuying.solutions frameworks as its preferred procurement route.

There is some evidence that consultants are in key positions on projects and programmes. In general, the Department does not adequately identify future skill requirements nor take effective steps to fill skill gaps with alternative resource options. The Department does not collect and use management information to improve the management of its longer term planning and management of consultancy suppliers.

Our key **recommendations** for the department:

- To identify core skills required to support medium and long term programme requirements and plan skills development accordingly.
- To collect and use improved information from post project reviews to inform future buying.

Progress made by the Office of Government Commerce

3.4 OGC has taken specific action in response to the 2002 Committee for Public Accounts recommendations including working with 17 central government departments to set up action plans to implement the departmental recommendations and achieving the savings target of £65 million.⁴¹ Only eight departments complied with the first request to report progress against the action plan, however this increased to 13 for the second return and 15 for the third return following which OGC was no longer involved and responsibility for completing plans was passed to individual departments. OGC identified from the final consolidated review of the returns that departments had significant gaps in their management

information and forward planning which was generally due to difficulties in extracting appropriate data from their internal financial systems. This report shows that those gaps still exist. The review also identified limited use of incentivised contracts and a departmental desire to engage early with the supply market, points which OGC has sought to address through the Professional Services Forum. OGC does not currently gather or share data specific to consulting such as total spend, key suppliers, and services because of the difficulties it faces in collating accurate information from departments. However previously, OGC has collected consulting spend as part of a general review across all goods and services spend. OGC makes available to departments financial, contract and strategy information on key consultancy suppliers.⁴²

41 Cumulative savings between 2002 and 2004.

42 Six suppliers are currently regarded as key consultancy suppliers: Deloitte, KPMG, PWC, PA Consulting, Hedra and Tribal.

3.5 OGC set up the Professional Services Forum (a joint industry and public sector body) in May 2004 to address the need for better client and supplier engagement and to better understand the consultancy market. The Professional Services Forum has had mixed success. It has delivered five outputs:

- **a common definition of consultancy.** OGC issued the Professional Services Forum definition of consultancy to departments in February 2006. OGC has received informal feedback on the definition including requests for clarification of the particular types of services that fall within it.
- **restatement of tender evaluation criteria.** In response to concerns from the consulting industry that departments are not using common assessment criteria when reviewing tenders, OGC restated the existing assessment guidance. This guidance has been made available through the OGC website.
- **revised statement of best practice.** OGC published an updated best practice guide for the use of consultants in October 2006. The original guidance was issued in November 2002 although its impact was not assessed. OGC intends to communicate this revised guidance to customers and suppliers and plans to collect feedback from members of the Professional Services Forum to monitor adherence to the guidance.
- **work to improve early market engagement.** OGC has existing guidance, including case studies and examples, of how to engage with the supply market. This information is referred to in the statement of best practice and is available on the OGC website.
- **guidance on how to assess the value of consultancy.** OGC is producing information to describe the reasons why people buy consultancy. This information should be available on the OGC website from January 2007. The information is referred to in the best practice guidance and will be available through the Professional Services Forum web pages.

3.6 The Professional Services Forum is also developing guidance on the use of incentivisation mechanisms in consultancy contracts. This will be available from early 2007.

3.7 OGC has not yet assessed the impact of these Professional Services Forum initiatives. The Forum has now reached the end of its first phase, and both the scope and format are being reviewed with attendees to identify the right focus for the future.

3.8 OGCBuying.solutions manages centrally available framework agreements. Over a third of central government spend on consultants in 2005-06 was through OGCBuying.solutions framework agreements. OGCBuying.solutions figures indicate that its consultancy framework agreements have generated savings of £111 million in 2005-06 based on total public sector spend of £740 million. Of that savings figure, £92 million was saved in central government.⁴³ Recently OGCBuying.solutions' customers have expressed concerns that a re-tendering exercise has weakened the consultancy framework agreements available to government. In particular concerns have been raised on the quality of consultancy available for major business change projects. OGCBuying.solutions has reviewed the nature of the concerns, the customer requirements for major change driven projects and considered whether a new category is required. As a result of the review OGCBuying.solutions has initiated two new Framework Agreements to meet the concerns expressed.

3.9 **Figure 12 overleaf** details the progress made by OGC against the Committee of Public Accounts report.

⁴³ £612 million was spent in central government (including defence) through OGCBuying.solutions frameworks in 2005-06. The 15 per cent savings figure overall was applied to the central government spend.

12 Progress made by OGC against the 2002 PAC recommendations

Recommendation area	Recommendation	Progress	NAO assessment of progress
To improve the purchasing of professional services	OGC to develop an action plan with departments to achieve the target of £65 million efficiency gains.	Following the NAO report, OGC worked with 17 departments to set up action plans to achieve the target efficiency savings. ⁴⁴ All departments had action plans in place by September 2001. Progress against the action plans was centrally tracked by OGC on three occasions until 2003 after which time, responsibility for tracking passed to departments. Only 8 departments provided a progress report against the action plan for the first request, 13 for the second and 15 for the third.	OGC worked with departments to set up action plans and monitored progress against them for three years. In 2003 responsibility for tracking implementation was passed to departments
The need for better management information on professional services	OGC to work with departments to ensure that their methodology to measure value for money gains is used consistently and is underpinned by reliable information	The value for money measurement methodology was used initially by OGC as part of their tracking of action plans. Currently OGC does not gather value for money gains information specific to consultancy, rather these gains might be inputs to departmental Efficiency Programme returns.	OGC collected some spend information from some departments (as part of a wider expenditure data gathering exercise). OGC discontinued the exercise in 2003.
To improve value for money	OGC to work with departments to introduce controls to reduce the number of single tender actions and to monitor progress	In 2002 OGC issued guidance to Accounting Officers on recommended spend levels requiring Permanent Secretary or Ministerial sign off. The recommendations covered both single tender (approval required for spend above £50,000) and competitive procurements (approval required for spend above £250,000). The guidance was re-issued in 2006. Since then, no systematic central collection of spend information has been undertaken.	OGC distributed guidance on controls for single tender actions; however the impact of this guidance has not been assessed

44 The seventeen departments: Cabinet Office, Department for Culture Media and Sport, Department for Education and Skills, Department for Environment Food and Rural Affairs, Department for International Development, Department for Transport, Department of Health, Department for Trade and Industry, Department for Work and Pensions, Foreign and Commonwealth Office, HM Customs and Excise, HM Prison Service, HM Treasury, Home Office, Inland Revenue, Department for Constitutional Affairs, Office of the Deputy Prime Minister.

12 Progress made by OGC against the 2002 PAC recommendations *continued*

Recommendation area	Recommendation	Progress	NAO assessment of progress	
To improve value for money <i>continued</i>	OGC to encourage greater use of framework agreements	<p>Use of frameworks is encouraged through the availability and use of OGCBuying.solutions and other departmental frameworks.</p> <p>In 2005-06 34 per cent of central government consultancy spend was through OGCBuying.solutions framework agreements. Our interviews with suppliers and departments identified a lack of engagement by OGCBuying.solutions with both the supplier and client community. Departments also identified the limited suitability of the frameworks for their business needs and the availability of competitive alternatives as both a frustration and a reason for using other procurement routes.</p> <p>Over the past year OGCBuying.solutions has re-tendered many of its consultancy framework agreements. Customers have expressed concerns that the re-tendered frameworks may have weakened the quality of advice available on major business change projects. OGCBuying.solutions has completed a review to examine the nature of the concerns and the customer requirements for major change driven projects and will consult both customers and suppliers. This review has led to the initiation of two new framework categories.</p>	OGCBuying.solutions has set up framework agreements to support consultancy procurement (which account for 34 per cent of total central government spend on consultancy); however, the most recent re-tendering of the frameworks has met with some customer and supplier dissatisfaction.	
	OGC to facilitate the sharing of consulting contract information, in particular volume, value, services, and suppliers across departments to help identify opportunities for collaborative purchasing	The information (amount of spend with key suppliers from the top-spending 22 departments) collected between 2000 and 2003 was shared back with departments. However, this information did not include details on the types of services purchased. Since 2003, the data collection has not been done.		OGC only collected information on spend – not specific contract information. However this activity is no longer carried out as the information received from departments was inconsistent and incomplete diminishing the value of the exercise.
	OGC to facilitate sharing of supplier performance across departments	<p>OGC's Supplier Relations Division makes available via its website regular supplier briefs that cover key consultancy suppliers and key IT and construction suppliers some of whose services may also include consultancy. This includes financial, contract and strategy information.</p> <p>OGCBuying.solutions collects performance information on its framework suppliers, but does not share it outside the organisation. The information is used to manage the framework contracts.</p>		OGC has produced general guidelines (available on its website) on managing supplier performance, and the importance of this is emphasised in the revised best practice. However, there is no standard performance reporting approach so performance information is not available to collect and share.

Source: National Audit Office

APPENDIX ONE

Progress of departments against the 2002 PAC recommendations and consultancy good practice

Detailed assessment of progress made by the Home Office against the 2002 PAC recommendations and National Audit Office and OGC consultancy good practice guidance

Recommendation	Progress of the Home Office	NAO assessment
PAC recommendations		
Departments to improve the quality of information on spend on professional services	The amount of management information kept on consulting spend has been improved since the implementation of the 'No Purchase Order, No Pay' policy in January 2006. Previously, information was gathered by aggregating the contract information of the larger consulting suppliers. If, however, the supplier offered additional services to consulting (such as hardware or outsourcing), this delineation was not picked up. Since January 2006, more focus has been put on account codes for consulting; however the Department is looking to improve how staff use the codes so that they more accurately record spend. A data collection exercise was undertaken in Q3 2006-07 to produce a snapshot of information on current consulting projects. Furthermore, the approvals process for consulting projects has recently (Q3 2006-07) been centralised, which will also improve the quality of management information. As part of the Category Management initiative, the Department is deciding exactly how and what additional information will be collected.	Although the Department has made some progress in this area, it needs to collect and analyse more detailed information on its use of consultants.
Departments to make either the finance director or head of procurement responsible for ensuring that management information is collected, analysed, and acted upon	The Finance Director and Commercial Director are responsible for ensuring that the management information is collected. The responsibility for entering the information via compliance with the 'purchase to pay' system is devolved across the various Home Office business units.	The Department has sufficient senior management responsibility for collecting this data.
Departments to assess how best to divide work between internal and external staff	Project teams are encouraged to use the Human Resources department to find internal resources before looking to use consultants, however this is rarely a successful route because a) the HR department does not hold a skills register of staff b) staff of appropriate experience and expertise are rarely available when required (or so it is believed based on anecdotal evidence by requestors) c) internal recruitment timescales do not fit with resource requests. The Department is expecting this to improve as the HR department takes responsibility for implementing a department-wide skills audit (as defined through the Professional Skills for Government initiative) and will formally be involved in the process of engaging consultants. HR will then have a better understanding of project requirements and existing capabilities. This understanding will help the Department staff project roles and plan for recruitment, training, and the use of consultants. Improved programme planning and portfolio management (in particular the identification of	The Department does not currently understand the skill profile that is in demand now and in the medium term to assess resourcing options. The internal staffing process is rarely used because staff availability and skills information is not accessible. Work is in progress to address these issues. It is important that the Department uses the project requirements, skills and availability information that it is collecting and keeps it up-to-date.

Detailed assessment of progress made by the Home Office against the 2002 PAC recommendations and National Audit Office and OGC consultancy good practice guidance *continued*

Recommendation	Progress of the Home Office	NAO assessment
PAC recommendations <i>continued</i>		
	capabilities required across projects and programmes) will feed into the Department's assessment of skills gaps. A skills audit is also underway within the Identity Programme at the Identity and Passport Service, so that appropriate staff can be identified to fill vacancies. When dividing the work between consultants and internal staff, it is critical that the Department retains responsibility and decision-making roles.	
Departments to reduce the number of contracts awarded by single tender	The Department does not currently know how many of its consulting contracts are awarded by single tender actions, however the Department estimates that in the majority of cases they are done within framework agreements. Individual business units are responsible for monitoring single tender action policies where the proposed spend is within their financial delegation threshold. When that delegation amount is exceeded, the central procurement team will check that good procurement practice is followed. Where single tenders are for more than £100,000, ministerial approval is required. The Department is putting in place processes and systems for contract management which will facilitate monitoring of single tenders.	The Department is not able to accurately identify which of its single tender actions relate to consulting.
Departments to make more use of framework agreements	A large proportion of spend on consultancy is through OGCBuying.solutions' framework agreements. The Department spent £96 million on IT and professional services in 2005-06 through OGCBuying.solutions. It is not possible to extract how much of that spend is 'consultancy', however it can be assumed that it forms a large proportion of the Department's £129 million spend on consultancy in that year.	The Department is making good use of its own and OGCBuying.solutions framework agreements.
Departments to share consulting contract information with other departments and across their own department to help identify opportunities for collaborative purchasing	The Department shares high level information with other organisations through the OGC Commodity Steering Group, which it leads. For example, this group is looking to collect information about all consulting frameworks held by central government organisations including suppliers, rates, and capabilities. The Department is looking to improve internal knowledge sharing through its 'purchase to pay' system, extranet, consulting user group and a recent (Q3 2006-07) data collection exercise. Prior to these recent initiatives, there was minimal contract information sharing across the Department.	The Department has not systematically and pro-actively used this information to identify collaborative purchasing opportunities within the Department or with others; however the Department expects that recent initiatives will improve information sharing.
Departments to undertake post-engagement reviews and share this information with other departments and across their own department. Departments should use this information and tend to seek references when assessing suppliers.	Post-project reviews are done rarely and there is no compliance check that they are completed. There is no ongoing central repository of this information. Procurement guidance recommends that references are taken up where appropriate. A recent (Q3 2006-07) data collection exercise sought to gather supplier performance information on current consulting projects. Supplier performance is also starting to be shared through the consulting user group and extranet. The Department is looking to implement a contract management system in Q4 2006-07 that will hold performance information.	The Department does not regularly collect and share this information, however recent steps have been taken to put in place a system and process to gather this information. The Department will need to ensure that this information is kept up-to-date and acted upon to inform buying decisions.

Detailed assessment of progress made by the Home Office against the 2002 PAC recommendations and National Audit Office and OGC consultancy good practice guidance *continued*

Recommendation	Progress of the Home Office	NAO assessment
PAC recommendations <i>continued</i>		
Departments to ensure that qualified procurement staff are involved in procurement decisions	The central procurement team is involved in the procurement process where the proposed spend exceeds the business unit's financial delegation threshold. The process implemented through the 'purchase to pay' system ensures that invoices are not paid if approval has not been given by the business unit or central commercial team. The procurement process was updated in Q3 2006-07 to get the procurement team involved at an earlier stage.	Procurement staff are largely involved at the correct stage in the process, however at times, their involvement is too late – i.e. after the spend has been committed. The Department expects to address this issue with the updated procurement process.
NAO and OGC guidance		
Business cases and detailed requirements specifications should be routinely written for the use of consultants	Business cases and detailed requirements are required for the procurement of consultants as enforced through the 'purchase to pay' system. The Department updated the procurement process in Q3 2006-07 to get a view of requirements aggregated across the department. Examples of good practice exist, for example, the Programme Control Office of the Identity Programme at the Identity and Passport Service reviews each team's request for consultancy, in particular the outputs, skill requirements, and expected duration.	Business cases and requirements specifications are regularly used, as enforced by the 'purchase to pay' process, however this is not always adhered to and the learnings from business case reviews are not collected and disseminated.
Skills transfer should be encouraged, where appropriate, to increase departmental capacity	The approach to skills transfer is part of the central procurement team's review of business cases and the recently (Q3 2006-07) updated procurement process makes this more explicit.	The Department does not track how skills transfer from consultancy projects is helping to fill its department-wide capability gaps; however it expects that its new procurement process, skills audit, and programme and portfolio planning will address this recommendation.
The relations with key consultancy suppliers should be managed to understand the drivers for the Department and suppliers	The Department does not have a pan-departmental view of projects with consultancy suppliers, and in some cases, their suppliers know more about the Department's use of consultants than the Department does. The Department expects that the recent data collection exercise (Q3 2006-07), updated procurement process (Q3 2006-07), and contract management system (to be implemented in Q4 2006-07) will produce a better picture of who within the Department is working with which suppliers.	The Department does not have a single, joined up face to its suppliers. Supplier management is done per project, rather than across the department. The Department expects its recent and planned initiatives will address this recommendation.
Consultants' expenses such as travel costs should be monitored to ensure compliance with departmental procedures	Departmental guidance is to challenge the need for expenses for 'local' projects (e.g. regular travel and accommodation expenses should not be paid for these projects), else consultants should adhere to the Home Office expense policy. The Department also looks to purchase travel and accommodation itself to build up its volume discounts and enforce expense policy. Individual contract managers are responsible for monitoring adherence to expense policies.	There are few compliance checks done on adherence to expense policies.

Source: National Audit Office

Detailed assessment of progress made by the Cabinet Office against the 2002 PAC recommendations and National Audit Office and OGC consultancy good practice guidance

Recommendation	Progress of the Cabinet Office	NAO assessment
Departments to improve the quality of information on spend on professional services	The Department centrally collects information on the spend on consultants such as total spend, with whom, and by which management unit through its finance system. The Department has initiated a project to review its use of consultants as part of its Efficiency Programme which will include analysis of spend information.	The Department has a good grasp of its spend on consultants and can now do more work to analyse this spend from which to make procurement decisions.
Departments to make either the finance director or head of procurement responsible for ensuring that management information is collected, analysed, and acted upon	Heads of management units are responsible for ensuring that information is entered in the finance system. The Investment and Procurement team within the Finance department is responsible for the pan-departmental analysis of the information.	The Department has in place adequate procedures to ensure the collection of management information.
Departments to assess how best to divide work between internal and external staff	A process is in place to assess the use of departmental and other civil service staff using the Priority Talent Pool and the Services-wide Talent Pool, however there is rarely a match between the skills required and those available. The time taken for internal recruitment often exceeds the timeline required by the project. For example, the Prime Minister's Delivery Unit took between four and six months to recruit project team members from other departments, whereas they were able to engage the consultancy support they required within two months. The Department has identified that project management skills are regularly bought in from consultants and therefore has set up increased training on the subject.	The internal staffing route is rarely used. The Department does not have a clear view of as-is internal capabilities and capacity when staffing projects. The Department also does not have a plan to put in place training and recruitment programs to fill their medium and long-term staffing needs, although as part of implementing Professional Skills for Government, the Department is rolling out an audit of skills.
Departments to reduce the number of contracts awarded by single tender	The Department awards about a quarter of its tenders though single actions, representing a steady increase over the past three years. The central procurement team, as part of the approvals process, reviews the use of single tender actions for proposed spend over £5,000.	The Department is monitoring the use of single tender actions.
Departments to make more use of framework agreements	The majority (85 per cent) of the Department's spend on consulting in 2005-06 has been through the Department's, OGCbuying.solutions, or other government departments' framework agreements.	The Department is making good use of its own and OGCbuying.solutions framework agreements.
Departments to share consulting contract information, in particular volume, value, services, and suppliers with other departments and across their own department to help identify opportunities for collaborative purchasing	The Department is putting in place a contracts database to collect this information with others or within the Department. Currently, the information is shared via requests to the central procurement team who use the finance system to gather the information.	The Department responds to ad-hoc requests to share this information, but has in place plans to implement a database to allow improved sharing of contract information.
Departments to undertake post-engagement reviews and share this information with other departments and across their own department. Departments should use this information and tend to seek references when assessing suppliers.	Post-project reviews are done on an ad-hoc basis and, if done, are rarely shared with others. References are generally taken up as part of the selection process.	The Department does not regularly perform post-project reviews.
Departments to ensure that qualified procurement staff are involved in procurement decisions	The central procurement team is involved in the review of business cases and inputs to the procurement process. Procurements over £25,000 require Finance Director approval at the business stage and those over £50,000 also require approval at contracting stage.	The Department has in place processes to ensure that the procurement function is involved in the use of consultants, however it does not have a compliance check to monitor adherence to these processes.

Detailed assessment of progress made by the Cabinet Office against the 2002 PAC recommendations and National Audit Office and OGC consultancy good practice guidance *continued*

Recommendation	Progress of the Cabinet Office	NAO assessment
Good practice recommendations from NAO report and OGC guidance		
Business cases and detailed requirements specifications should be routinely written for the use of consultants	Business cases and requirements specifications are routinely produced (as outlined in the procurement guidance that is published on the department's intranet) and reviewed by the central procurement team for proposed spend on consultants over £25,000.	Business cases and requirements specifications are required.
Skills transfer should be encouraged, where appropriate, to increase departmental capacity	The approach to skills transfer as outlined in each business case is reviewed by the central procurement team.	The Department does not plan and track how skills transfer from consultancy projects is helping fill their department-wide capability gaps.
The relations with key consultancy suppliers should be managed to understand the drivers for the Department and suppliers	There are no central supplier managers to deal with key consulting firms. The Department is looking to set up a strategic procurement forum to aid knowledge sharing.	The Department does not have a co-ordinated approach to its key consultancy suppliers.
Consultants' expenses such as travel costs should be monitored to ensure compliance with departmental procedures	Individual contract managers are responsible for monitoring adherence to expense policies.	Compliance checks on whether project managers are checking consultants' expenses are not done.

Source: National Audit Office

Detailed assessment of progress made by the MoD against the 2002 PAC recommendations and National Audit Office and OGC consultancy good practice guidance

Recommendation	Progress of the MoD	NAO assessment
Departments to improve the quality of information on spend on professional services	On 1 April 2006 the Department implemented a process to centrally collate spend information on consultants. Prior to this date information was collected on the amount spent on consultants, and predicted to be spent, at six monthly periods.	The Department established a process on 1 April 2006 to collect information and report spend on consultants. The data currently collected includes procurement route taken, contract value, supplier and saving reported. The information collected on type of service is largely aligned with NAO service categories (as defined in the NAO survey). The Department uses an online system to support the collection, storage and manipulation of this data. From April 2007 the Department intends to use this information to assess future consultancy requirements.
Departments to make either the finance director or head of procurement responsible for ensuring that management information is collected, analysed, and acted upon	Budgeting and spend is devolved under specific delegated authorities. Each budget holder is individually responsible for collecting management information on the spend on consultants.	The top level budget holder is responsible for collecting management information. Total consultancy spend information is collated centrally by the Department of Management Consultancy Service. Until 1 April 2006 the Department did not consistently collect or hold consultancy management information across all budget holders. A new shared central system is now used to collate management information.

Detailed assessment of progress made by the MoD against the 2002 PAC recommendations and National Audit Office and OGC consultancy good practice guidance *continued*

Recommendation	Progress of the MoD	NAO assessment
Departments to assess how best to divide work between internal and external staff	The Department has seven (three of which are large and four small) internal consultancy units. Six of the units primarily support specific business functions and the seventh is a central resource used across the whole department. A process was implemented in April 2006 to ensure that internal consultancy capability is checked before employing external staff. Compliance with the process is checked by the category manager before placing a consultancy order. Since April 2006 around 25 per cent of requests for assistance have been met by the central consultancy service.	While still relatively new, there is evidence that the process has reduced the number of requests for consultancy. However, the Department has a finite capacity to resource consultancy requests internally. There is no pan-departmental understanding of the future need for consultancy. The Department does not currently hold a view on which types of consultancy expertise it should grow; which is required to plan for skills transfer from consultants to staff: But in April 2007 it plans to analyse future consultancy requirements to inform this decision making process.
Departments to reduce the number of contracts awarded by single tender	For consulting contracts prior to 1 April 2006, the Department cannot provide information on the procurement route used across all consultancy projects. Data is now collected on the procurement route used.	The Department implemented a new category management team and process in April 2006. The process requires all consultancy requests to pass through the category management team to check that process and procedure has been followed. This new process should ensure a reduction in the number of single tender actions. The Department also now collects management information on the contracting method used.
Departments to make more use of framework agreements	Prior to 1 April 2006, the Department was unable to provide a central account of the procurement route used across all consultancy projects. The Department uses framework agreements as the preferred procurement route and has tended to use the Department for Work and Pensions framework agreement rather than OGCBuying. solutions' as it meets their needs better.	Since April 2006 the Department has begun to collect information on the procurement route used. This information is held on a single, shared database. The department has negotiated its own terms and conditions when using the Department for Work and Pensions' CIPHER framework agreement.
Departments to share consulting contract information, in particular volume, value, services, and suppliers with other departments and across their own department to help identify opportunities for collaborative purchasing	The Department's management information on consultancy purchases is available to staff involved in the day to day process. The Department will consider making the data available to a wider set of stakeholders. Knowledge is not formally shared with other departments. The Department is part of a cross government group which is looking at the issues in consulting projects across government and opportunities for improved value for money.	The Department collects and shares contract information between those involved in the purchasing process. Contract information is not easily accessible and searchable by other teams when they are making procurement decisions. Contract information is not shared with other departments.
Departments to undertake post-engagement reviews and share this information with other departments and across their own department. Departments should use this information and tend to seek references when assessing suppliers.	The MoD's Department for Management Consultancy Services are aiming to collate post project assessments on all projects over a £100,000 threshold. At present the Department for Management Consultancy Services is not aware of the extent to which assessments are consistently done across all areas of the Department. The Department estimates that only some five per cent are reported centrally. Some areas complete more assessments than others – for example projects that provide consulting advice for PFI projects. Time pressure is cited as the main reason for not sending completed reviews to the Department for Management Consultancy Services. The new management consultancy category team are also doing work in this area and are aiming for all engagements over £100,000 to have a post engagement assessment and to be collected centrally.	Post-engagement reviews are not consistently completed across all areas of the Department. The Department is not aware of the extent to which post engagement reviews are completed. When post engagement reviews are completed, the information collected is not centrally stored in a searchable form.

Detailed assessment of progress made by the MoD against the 2002 PAC recommendations and National Audit Office and OGC consultancy good practice guidance *continued*

Recommendation	Progress of the MoD	NAO assessment
Departments to ensure that qualified procurement staff are involved in procurement decisions	Qualified procurement staff are distributed across the Department and are routinely involved in consultancy purchases. From April 2006, the consultancy category management team and commercial team will be involved in all consultancy purchases.	The Department has appropriately qualified procurement staff involved in consultancy procurement decisions. The Department plans to reconcile its central records of spend on consultancy with devolved budget information quarterly.
Good practice recommendations from NAO report and OGC guidance		
Business cases and detailed requirements specifications should be routinely written for the use of consultants	A business case is required for each external consultancy request. There are centrally issued guidelines for developing requirements.	The Department implemented a new process on 1 April 2006 which requires a business case to be completed for all consultancy requests. Compliance is checked by the consultancy category manager.
Skills transfer should be encouraged, where appropriate, to increase departmental capacity	There is a policy for skills transfer and it is strongly encouraged for each individual consultancy project. But due to practical reasons it is limited, for example there is often no available internal staff to benefit from skills and knowledge transfer. There have been some examples of good practice and assessment of the success of the skills transfer achieved.	The Department does not currently know which skills it needs to build. The Department cannot appropriately plan the transfer of key skills nor monitor to ensure that it happens. In April 2007 the Department intends to examine internal skill requirements as part of assessing its future need for consultants. The Department is using 'skills champions' to identify skills required in the medium to longer term.
The relations with key consultancy suppliers should be managed to understand the drivers for the Department and suppliers	There is no strategic management of the relationship with consultancy suppliers.	The Department does not strategically manage key consultancy suppliers. Responsibility for strategically managing suppliers is ill-defined.
Consultants' expenses such as travel costs should be monitored to ensure compliance with departmental procedures	The MoD uses a standard set of rates for consultant travel and expense costs. These are detailed within the contract. Responsibility to check consultants costs is held by the designated officer who holds the line management role for the contract. The Department does not check whether suppliers benefit from annual rebates.	Responsibility for checking costs is held by line management. There is no external compliance check for individual contracts.

Source: National Audit Office

Detailed assessment of progress made by the Department for Education and Skills against the 2002 PAC recommendations National Audit Office and OGC consultancy good practice guidance

Recommendation

Departments to improve the quality of information on spend on professional services

Departments to make either the finance director or head of procurement responsible for ensuring that management information is collected, analysed, and acted upon

Progress of the Department for Education and Skills

Individual policy directorates are responsible for spend on consultancy. Each individual directorate is also responsible for collecting its own individual management information. Since November 2005 the Department has prescribed the content of the management information to be collected. Until September 2006 there remained some variations in information provided by policy directorates due to the fact that, whilst required information was defined, methods were not. These inconsistencies should be ironed out via the introduction of a new spreadsheet based system.

Good management information is collected on spend through the Department's frameworks managed by the central procurement unit but it is unclear how much of the Department's consultancy spend this represents. Spend through frameworks may account for less than half the Department's total consultancy spend.

The use of consultancy programme job codes in 2005-06 became mandatory from 28 November 2005. However, this has not been consistently applied, suggesting difficulties in accurately identifying the total of programme consultancy spend through the 'purchase to pay' system.

Responsibility is at individual directorate level to report to Corporate Services Directorate on consultancy usage. This is in line with the Department's governance model. Each directorate has the delegated authority to conduct its procurement in a manner that is deemed appropriate, supported by central procurement resources.

Some directorates adopt a central "gatekeeper" model, reviewing and maintaining key documentation, some taking the information on trust and others are in the process of developing their approaches to validation. As a result the Department now expects to be well placed to provide the Accounting Officer with a completely convincing ongoing assurance over the validity and accuracy of its management information.

NAO assessment

Whilst practice continues to improve, the Department inconsistently collects consultancy management information across Directorates. The Department recently implemented a system which it expects to provide an authoritative single system to support the collection and analysis of consultancy management information.

In line with the Department's governance model there was no central responsibility for the collection of Department wide management information; however recent reforms have placed the Permanent Secretary and his senior management team at the forefront of improvements with a new monthly reporting process providing a focus for change.

Detailed assessment of progress made by the Department for Education and Skills against the 2002 PAC recommendations National Audit Office and OGC consultancy good practice guidance *continued*

Recommendation	Progress of the Department for Education and Skills	NAO assessment
Departments to assess how best to divide work between internal and external staff	<p>There is little evidence that internal expertise is considered first. It is assumed that policy teams consider internal resources first but there is no compliance check. The Department does not have an internal consultancy division. There is no evidence in 2006-07 that management information has been used to plan resourcing and fill skill gaps.</p> <p>The Department launched a skills framework for grades Senior Executive Officer and below in Spring 2006. This was derived from the Professional Skills for Government framework which identifies the core skills required for members of the Senior Civil Service. Individuals are then expected to assess themselves against the core skills and relevant professional skills for their role and grade. In Spring 2007 the Department intends to launch a skills audit which will enable this information to be gathered and analysed at a Departmental level. The information will be used to support the Department's learning and development strategy and to support more flexible use of resources across the Department.</p>	<p>Most buying is done within individual directorates. There is little understanding of the work undertaken by consultants in other parts of the organisation. The internal staffing route is rarely used, partly because the Department does not hold adequate information on skills and availability of staff. The Department does not make use of consultancy management information, for example, to build a profile of the future skills requirement and assess skills transfer opportunities or alternative resourcing options such as full-time recruitment or training.</p>
Departments to reduce the number of contracts awarded by single tender	<p>It is the responsibility of each directorate to assure the best route is chosen. Divisional managers are required to sign off single tender actions and may do so up to a value of £250,000. There is clear guidance provided by the Department's Central Procurement Services that single tenders should be the exception. That guidance is supplemented by practical Central Procurement Services support.</p> <p>However, the Department has identified that about a quarter of tenders are via single tender. These are now monitored through the new monthly management reports.</p>	<p>The Department has a high approval limit for single tender actions that is above the OGC recommended levels. The Department has used single tender actions for contracts of significant value and without taking specialist advice.</p>
Departments to make more use of framework agreements	<p>The Department has increased use of its own, OGCbuying.solutions's, NDPB's and Other Government Department's framework agreements.</p> <p>The procurement unit has engaged over 40 suppliers under framework contracts to provide the different types of consultancy that may be required by the Department. However there is no requirement to use frameworks or the procurement unit.</p> <p>The Department believes that many of its programme and policy consultancy requirements are unique to the education sector and therefore little opportunity exists for collaboration.</p>	<p>The Department does not mandate the use of framework agreements made available by the procurement unit. The Department's management information did not clearly identify the overall spend on consultancy, but framework agreements were estimated to be used for approximately 50 per cent of the Department's purchases.</p>
Departments to share consulting contract information, in particular volume, value, services, and suppliers with other departments and across their own department to help identify opportunities for collaborative purchasing	<p>The Department has taken some steps to improve the quality and consistency of consultancy management information. For example the Department records information on the volume and type of consultancy bought through its own framework agreements. There is no active collaboration with other departments.</p>	<p>The Department does not have a single system to collect and share all consultancy management information. The Department does not actively collaborate with other Departments or OGC to improve collective knowledge on consultancy projects across government.</p>

Detailed assessment of progress made by the Department for Education and Skills against the 2002 PAC recommendations National Audit Office and OGC consultancy good practice guidance *continued*

Recommendation

Departments to undertake post-engagement reviews and share this information with other departments and across their own department. Departments should use this information and tend to seek references when assessing suppliers.

Departments to ensure that qualified procurement staff are involved in procurement decisions

Progress of the Department for Education and Skills

Reviews are done at the programme or project level rather than for the consultancy engagements within the programme or project. There is no compliance check to ensure reviews take place. The consultancy specific information collected as part of the reviews is not shared across the Department.

Ratings are collected for those suppliers on the Department's framework agreements. The ratings are shared internally but not with other departments.

No process exists that requires procurement staff in the central procurement function to be involved. Most staff procuring consultants work within policy directorates. Within the Department's devolved governance structure, there are no checkpoints or compliance checks to ensure procurement staff are used.

NAO assessment

The Department centrally collects an overall satisfaction rating for those consultancy engagements procured through the Department's framework agreements (which accounts for some 50 per cent of all engagements). The post-engagement assessments do not incorporate additional supplier information including cost, service supplied and satisfaction with the value for money provided. Supplier ratings are not easily searchable to inform future buying decisions. Supplier performance information is not gathered for suppliers that are not on the Department's framework agreements.

The central procurement function has little outward influence and acts as a central point for guidance on an as requested basis. The Department does not, as standard, use the experience of the central procurement function, or appropriately qualified procurement staff, to help make buying decisions.

Good practice recommendations from NAO report and OGC guidance

Business cases and detailed requirements specifications should be routinely written for the use of consultants

Business cases are rarely done explicitly for the use of consultants, rather they are included as part of the project business case. The person with delegated authority at directorate level could place an order without a business case as there is no additional central compliance check.

The Central Procurement Service has a specification template which it recommends be used. Consultancy requirements are most likely to be included as part of the project business case. The person with the delegated authority could place an order without a detailed specification as there is no independent compliance check.

Following a joint internal audit and NAO report in March 2005, the Department's Finance Directorate established a revised framework of delegated authorities, setting out limits for approvals. The aim of the new approval process was to provide greater assurance that there are clear business justifications for the consultancy engagement, supported by justifications for the use of a single tender and use of programme funding if applicable. However, there is evidence that, in some instances, business cases to support the engagement of consultants were absent or inadequate.

The Department does not routinely produce a separate business case for the use of consultants.

There is no compliance check, reporting process or system support to assure that business cases and requirements' specifications are being produced.

Detailed assessment of progress made by the Department for Education and Skills against the 2002 PAC recommendations National Audit Office and OGC consultancy good practice guidance *continued*

Recommendation

Skills transfer should be encouraged, where appropriate, to increase departmental capacity

The relations with key consultancy suppliers should be managed to understand the drivers for the Department and suppliers

Consultants' expenses such as travel costs should be monitored to ensure compliance with departmental procedures

Progress of the Department for Education and Skills

The Department's policy on skills transfer is available on its the Procurement website and has recently been re-promulgated within the context of the Permanent Secretary's change programme. The change programme responds to the requirements of the Department's recent Capability Review.

The Commercial Policy Team, has developed guidance on skills transfer. This additional guidance and examples of good practice will be applicable to all customers who commission consultants (where skills and knowledge transfer is appropriate), not just those customers who use the Department's consultancy framework contracts. The Department's model contract for consultancy prompts consideration of whether skills transfer is an appropriate requirement and provides links to further guidance published on the Department's procurement website.

The Department does not have a strategic relationship with key consultancy suppliers across the Department.

Suppliers on the over 40 Central Procurement Service framework agreements are briefed on the expected consultancy needs every six months. Monthly bulletins are issued to describe how prospective work has changed. Feedback is encouraged from the suppliers.

Policy on expenses (travel and other) is stated in the Department's framework contracts. The rates applied for consultants are capped at the same amounts as for internal staff. Invoices are authorised locally and should be checked for policy compliance by the budget officer or contract manager. There is no separate, independent compliance check to ensure that this is done.

Suppliers on the Framework agreement have tried to charge additional costs to those agreed.

Where the local delegated authority has used their own contracting method there is scope for variation in the costs charged for expenses.

NAO assessment

The Department does not identify which consultancy skills are in most demand across the Department. There is no specific objective to ensure that, where appropriate, in-demand skills are transferred from consultants to departmental staff to narrow existing and future capability gaps. The Department does not measure the success of skills transfer and the impact that this has on their reliance on consultants.

The Department does not produce a full list of their key suppliers. The Department does not plan and manage the ongoing relationship with suppliers that are strategically important.

There is good control for centrally managed framework contracts. Beyond the centrally controlled framework agreements, the Department does not check individual contracts for compliance with the agreed rates.

There is no compliance check or independent sample review to compare invoices against the agreed rates.

Source: National Audit Office

Detailed assessment of progress made by Department for Communities and Local Government against the 2002 PAC recommendations National Audit Office and OGC consultancy good practice guidance

Recommendation	Progress of the Department for Communities and Local Government	NAO assessment
<p>Departments to improve the quality of information on spend on professional services</p> <p>Departments to make either the finance director or head of procurement responsible for ensuring that management information is collected, analysed, and acted upon</p>	<p>The Department records all consultancy contracts on its financial system. The system can be interrogated to provide details on new contracts added including supplier, value and predicted end date.</p> <p>Responsibility for spend on consultants is held at directorate level. Individual directorates are responsible for maintaining management information to predict future consultancy demand and to use this information to plan spend.</p> <p>The Central Procurement Department and the Local Management Accounting Teams are responsible for recording contractual information on the finance system when orders are raised. The Central Procurement Department is responsible for the procurement of all consultancy in excess of £20,000. Local management accounting teams are responsible for spend of less than £20,000.</p> <p>In August 2006 the Department introduced a new process that requires the Finance Director to approve all consultancy spend with a value above £2,500.</p>	<p>The Department records some management information but does not include details on the procurement route or type of consultancy services provided.</p> <p>Responsibility for consulting spend is held at directorate level. There is minimal understanding of future demand for consultancy aggregated across all of the Department's directorates. Buying decisions are not based on collaborative demand across the Department.</p>
<p>Departments to assess how best to divide work between internal and external staff</p>	<p>Project teams must check an internal skills and availability list before procuring consultants. This procedure was implemented in April 2006. Previously there was no procedure to check for internal staff.</p> <p>The Department has implemented requisition forms to track compliance with this procedure; however there is no central compliance check. Senior staff (Head of Directorate) endorsement is required to bypass reviewing the use of internal staff. No key performance indicators have been implemented to assess take up of internal staff so the Department does not know the frequency of this resourcing option.</p> <p>The Department has a very small internal consulting function consisting of just four persons.</p>	<p>There is no strategic planning of the demand for consultants.</p> <p>There is minimal use of management information to assess the future needs of the Department and the alternative resourcing options to fill skill gaps.</p> <p>The Department does not measure the degree to which internal staff are used in preference to consultants and it is too early in its implementation to even get much anecdotal evidence.</p>
<p>Departments to reduce the number of contracts awarded by single tender</p>	<p>Prior to financial year 2006-07 the Department did not record procurements where single tender action had been used. The Department has now implemented a system to record the procurement strategy for each project.</p> <p>Single Tender Action can only be used if:</p> <ul style="list-style-type: none"> ■ there is only one framework supplier, or, ■ if there is a framework and the total contract value is less than £5,000, you may look outside the framework if it is cost-effective to only invite one quotation. 	<p>The Department only began recording management information on the number of single tender actions in 2006-07.</p> <p>Since August 2006, all consultancy requests above £2,500 must now be approved by the Finance Director.</p>

**Detailed assessment of progress made by Department for Communities and Local Government against the 2002 PAC recommendations
National Audit Office and OGC consultancy good practice guidance *continued***

Recommendation	Progress of the Department for Communities and Local Government	NAO assessment
Departments to make more use of framework agreements	<p>The Department's strategy is to use OGCBuying.solutions frameworks as the first choice procurement route. The main procurement route used by the Department is OGCBuying.solutions framework agreements. Expenditure through S-CAT has increased over the past three years from 28 per cent of expenditure to 58 per cent. The Department cannot provide full details on the procurement route used for every consulting project.</p> <p>The Department is implementing a new procurement product which should ensure the collection of better pre-contract management information from quarter one of 2007.</p>	<p>The Department began recording information on the procurement route used for all consultancy contracts in 2006-07. Historic data on spend through OGCBuying.solutions frameworks was provided by OGCBuying.solutions.</p> <p>The preferred procurement route is OGCBuying.solutions.</p>
Departments to share consulting contract information, in particular volume, value, services, and suppliers with other departments and across their own department to help identify opportunities for collaborative purchasing	<p>The Central Procurement Department does not routinely share information on the use of consultants across the Department. Information is shared reactively.</p> <p>Collaboration with counterparts in other departments is not a standard procedure; any contact is informal.</p>	<p>The Department does not routinely make management information readily available.</p>
Departments to undertake post-engagement reviews and share this information with other departments and across their own department. Departments should use this information and tend to seek references when assessing suppliers.	<p>There is no routine requirement for post-project assessments. It is the responsibility of the line manager for the individual contract to assess consultant output against the specifications.</p> <p>Centrally, the Department does not collect specific performance data other than whether the consultant has completed the assignment.</p> <p>Information that is collected is not shared across the Department or with other departments.</p>	<p>Post-project assessments are not mandatory. The information collected from post-project assessments is not routinely made available or used to inform future buying decisions.</p>
Departments to ensure that qualified procurement staff are involved in procurement decisions	<p>80 per cent of the Central Procurement Department are, as a minimum, qualified to certificate level of the Chartered Institute of Purchasing and Supply. Consultancy contracts that are predicted to be in excess of £20,000 must be passed to the Central Procurement Department. Below £20,000 the Local Management Accountant Teams are responsible.</p> <p>The Central Procurement Department runs a check on the finance system every week to ensure that they have been involved as appropriate in the procurement process. The Local Management Accountant Team does a similar task for spend under £20,000.</p> <p>In August 2006 the Department introduced a new process that requires the Finance Director to approve all consultancy spend with a value above £2,500. The Central Procurement Department will not progress requests for consultancy contracts without the Financial Director's approval.</p> <p>The Department has implemented a good practice guide, workshops, and an internet based e-learning programme that includes guidance on consultants, all designed to improve contract management.</p>	<p>Procurement staff are appropriately involved.</p> <p>The financial delegation limit of £2,500 imposed in August is low. Virtually all consultancy requests now require Financial Director authorisation.</p>

Detailed assessment of progress made by Department for Communities and Local Government against the 2002 PAC recommendations National Audit Office and OGC consultancy good practice guidance *continued*

Recommendation	Progress of the Department for Communities and Local Government	NAO assessment
Good practice recommendations from NAO report and OGC guidance		
Business cases and detailed requirements specifications should be routinely written for the use of consultants	<p>A business case is required. The department is developing a simplified business case for the employment of consultants.</p> <p>The Department has a template to be used for specifying consultancy requirements. The requirements template includes sections on the objectives of the work, the outputs, the approach and the proposed payment method. The outputs required from consultants are mapped to those specified in requirements template.</p>	The procurement team check that all consultancy requests have the appropriate financial justification.
Skills transfer should be encouraged, where appropriate, to increase departmental capacity	Skills transfer is a suggested component of the outputs section of the requirement template. There is no specific requirement for evidence that the skills transfer requirement has been considered. There is limited evidence that skills transfer is a planned activity to increase future capacity.	The Department does not forecast which skills will be required in the future and use it to plan the transfer of skills from consultants to permanent staff. The Department does not record the number of consultancy requests that are filled internally or have suggested measures or method to ensure that skills transfer takes place.
The relations with key consultancy suppliers should be managed to understand the drivers for the Department and suppliers	The procurement team meet with the top 20 key suppliers to the department by spend. This list includes only three consultancy firms and has resulted in patchy supplier information. As supplier management is prioritised by spend, only these three firms are met regularly. Meetings with consultancy firms not on the top 20 list are instigated by the suppliers rather than the Department.	The Department has decided to have a structured engagement process with their top 20 suppliers (based on spend). In this group, three are consultancy firms.
Consultants' expenses such as travel costs should be monitored to ensure compliance with departmental procedures	Consultants costs are approved by line, contract or programme and project managers within the directorate. The Local Management Accounting Teams also check compliance with Department policy.	Expense claim compliance checks are undertaken by line management and Local Management Accounting Teams.

Source: National Audit Office

APPENDIX TWO

Findings and recommendations on related subjects from previous National Audit Office reports







Theme	Findings and recommendations	How it applies to consulting
<p>Procurement Source: (c), (d), (e)</p>	<p>Departments need to have better management information to identify and tackle poor procurement performance.</p> <p>Departments need to work more closely with each other to maximise their collective buying power and secure better deals.</p> <p>Departments need to be more proactive in their management of suppliers so that purchasing requirements are clearly understood and communicated.</p> <p>The basic procurement philosophy as regards ensuring competition, properly evaluating bids and controlling the costs of the procurement must be followed.</p> <p>Departments should clearly state their strategic aims when procuring and using external assistance.</p>	<p>Procurement good practice such as supplier management, use of management information, and clear customer requirements and aims need to be applied when procuring consultants. Some of the challenges specific to the procurement of consultants, as described in Part One, arise because customers are purchasing knowledge-based services (people), rather than physical products.</p>
<p>Project Management Source: (a), (g)</p>	<p>Departments need to be realistic about the time, resources and management effort needed when delivering change projects.</p> <p>Departments need to create clear project structures and boundaries for decision making authority and action.</p> <p>Departments need to measure progress and make decisions that are focused on successful project delivery.</p> <p>Characteristics of high project management performance:</p> <ul style="list-style-type: none"> ■ Motivation and incentives for project teams support effective project delivery ■ The organisation evaluates the success of project management and implements improvements based on lessons learned ■ The organisation has a strong track record of project success linked to the realisation of planned outcomes 	<p>When using consultants, ineffective project management becomes highlighted, as costs can very quickly escalate.</p>


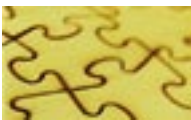



Theme	Findings and recommendations	How it applies to consulting
Risk Management Source: (a), (f)	Departments need to be alive to project risks and their capacity to deal with them Responsibility and accountability for risks need to be clear, backed up by scrutiny and robust challenge to provide assurance. Sufficient time, resource and top level commitment needs to be devoted to handling risks.	The use of consultants can sometimes be a way of minimising delivery risks as the consultants can bring experience and expertise. Programme and project risks must be clearly identified, monitored, and shared with consultancy suppliers.
Partnership Working Source: (b)	Departments and contractors should always seek to understand each other's businesses and establish a partnership approach based on a common vision. Authorities should regularly re-assess the relationships with contractors and the value for money their projects are delivering, to identify ways in which relationships can be improved.	Departments need to understand the business model of consultancy suppliers in order to construct an approach that is beneficial to both parties.
<p>Source: a) <i>The Passport Delays of Summer 1999</i> HC 208 1999-00; b) <i>Managing the relationship to secure a successful partnership in PFI projects</i> HC 375 2001-2002; c) <i>Getting the Evidence: Using Research in Policy Making</i> HC 586i and HC 586ii 2002-2003; d) <i>Delivering better value for money from the Private Finance Initiative</i> HC 764 2002-2003; e) <i>Improving Procurement</i> HC361-I 2003-2004; f) <i>Managing Risk to Improve Public Services</i> HC 1078 2003-2004; g) <i>Driving the successful delivery of major defence projects</i> HC 30 2005-2006</p>		

APPENDIX THREE

Methodology

The diagram below shows how we used our strands of research to examine our four scope areas.

Scope area	Approach	Commentary
Spend Analysis	 <p>Survey of 28 central government organisations</p>  <p>Telephone research and face to face interviews with industry</p>  <p>Review of existing industry spend data</p>	<p>There is no definitive source of information on public sector spend on consultants. We used a combination of our survey, existing data and consultation with industry to collect spend data. Our financial audit teams validated survey returns of selected departments.</p>
Good Practice follow up	 <p>We reviewed existing documents to collate the key good practice recommendations</p>  <p>The Office of Government Commerce and five case study departments (Ministry of Defence, Department for Education and Skills, Cabinet Office, Department for Communities and Local Government, Home Office)</p>  <p>Examination of two to three different projects at each case study organisation</p>	<p>We followed up progress with OGC and the five case study departments. The five departments were selected to represent a range of spend on consultants and types of organisation. We selected two to three projects at each department to cover a range of project cost, suppliers and types of consultancy service.</p>

Scope area	Approach	Commentary
Building Commitment	Review of academic thinking	We developed a framework of questions to understand how organisations and their consultancy suppliers can build the required commitment for a successful project. We used an independent consultant to help develop the framework and tested it with academic experts. The framework was then applied on each of our case study projects.
	Construction of a framework to assess key elements required to build client and consultant commitment	
	Project interviews at case study departments	
	Market Analysis	
	Review of existing literature	We commissioned market research from an independent consultant to provide a review of past, current and potential future trends in the consultancy market.
	Commissioned independent research	