



National Audit Office

Central government's use of consultants

This volume has been published alongside three supporting papers which are available on the NAO website.

Supporting Paper I: Building client and consultant commitment

Supporting Paper II: Market analysis

Supporting Paper III: Methodology

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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.

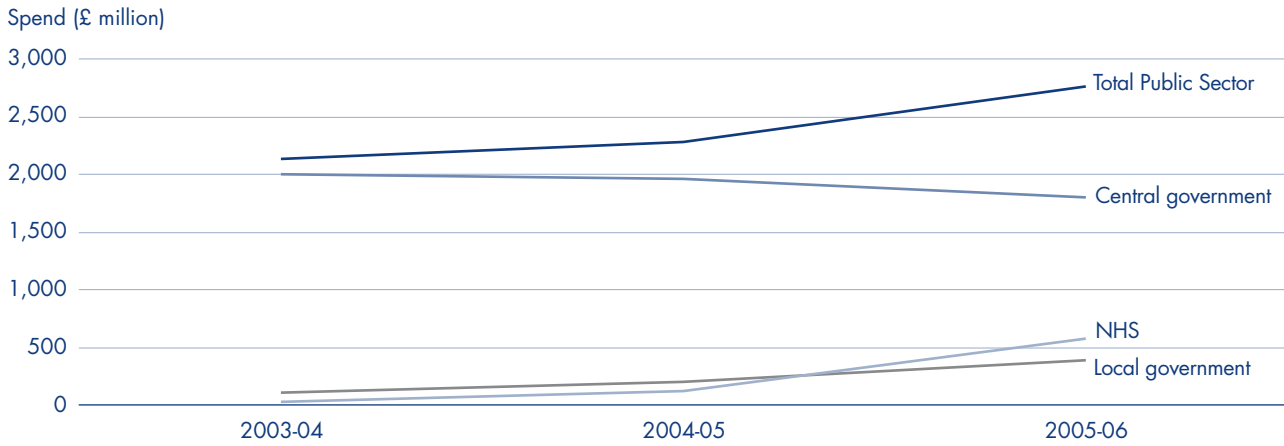
9 Part Three and Appendix 1 provide a full assessment of progress in our case study departments.

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.

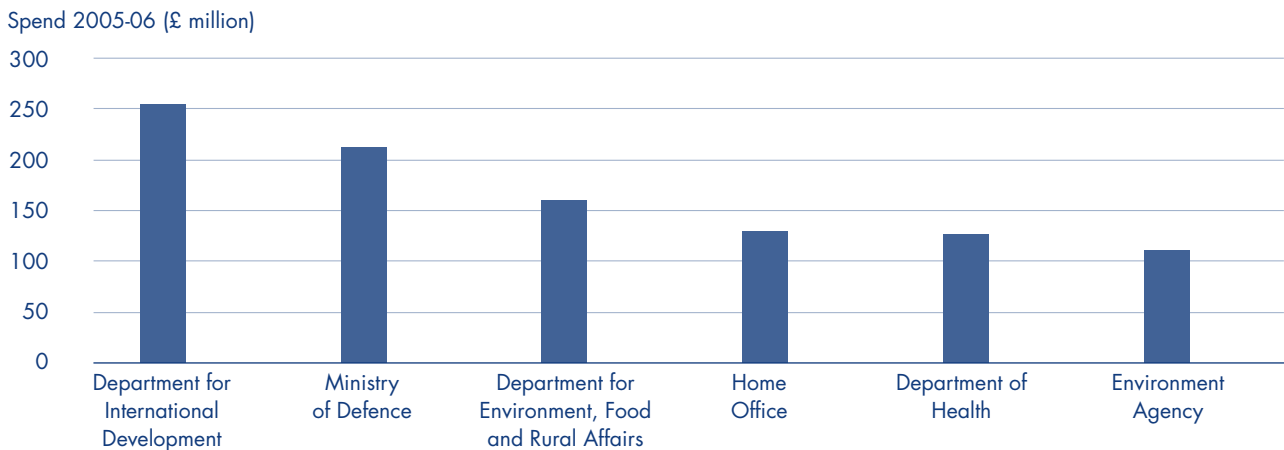
1 Government's use of consultants – key facts

1a. How much is spent?



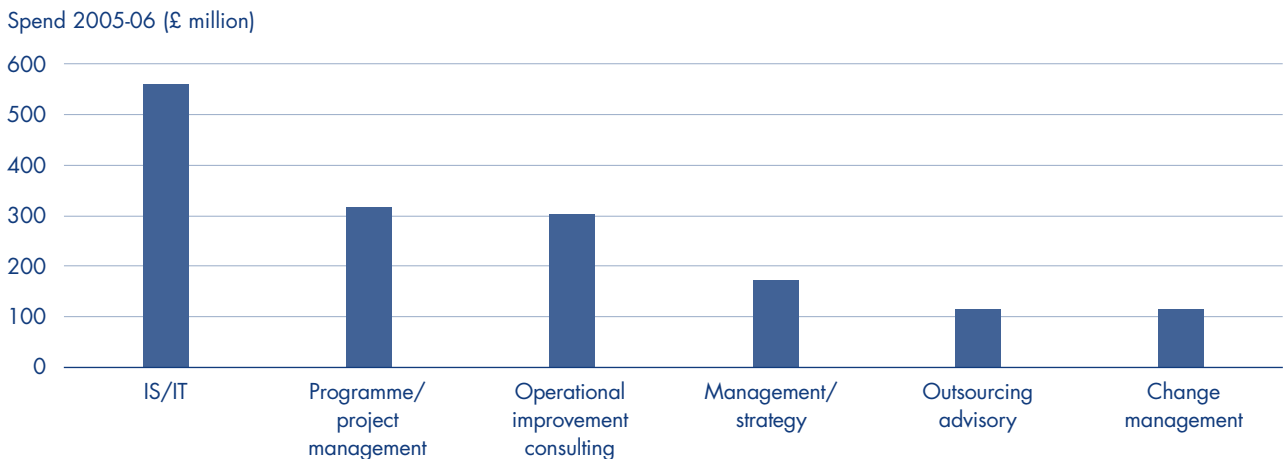
Source: Central government spend from National Audit Office survey 2006. Local government and NHS spend are NAO estimates based upon industry data

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*

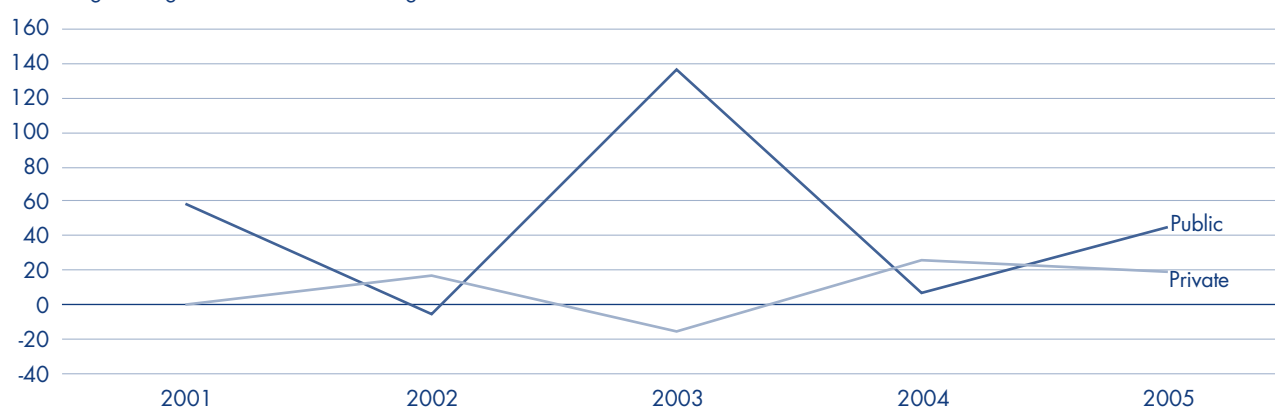
1d. Which are the top suppliers?

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.