



National Audit Office

Report

by the Comptroller
and Auditor General

Cross-government

Use of consultants and temporary staff

Key facts

**£1.0bn–
£1.3bn**

departmental spending on consultants and temporary staff, 2014-15

£1.5bn

approximate fall in annual spending by departments on consultants and temporary staff between 2009-10 and 2014-15

47

number of temporary staff in central government being paid more than £1,000 a day, in May 2015

- 6% to 8%** percentage of the cost of permanent staff that departments spent on consultants and temporary staff, 2014-15
- £700 million** departmental spending on consultants and temporary staff, 2011-12
- 76%** average annual share of consultancy work (procured through Crown Commercial Service agreements) won by the largest 6 suppliers, 2009-10 to 2014-15
- 28%** share of consultancy work (government overall) won by the largest 6 suppliers, 2014-15
- 9%** share of consultancy work (procured through Crown Commercial Service agreements) won by small and medium-sized enterprises, 2014-15
- 5%** share of consultancy work (government overall) won by small and medium-sized enterprises, 2014-15
- 18%** increase in the average daily rate paid to temporary staff, 2011-12 to 2014-15
- 2 times** cost of employing temporary specialist staff compared with employing the equivalent grade of permanent staff
- 57%** percentage of consultancy contracts (procured through Crown Commercial Service agreements) awarded on a fixed-price basis

Summary

1 Government departments make extensive use of consultants and temporary staff (C&TS). C&TS can be a flexible and cost-effective part of an organisation's workforce, for example when providing specialist skills or dealing with peaks in workload, and can bring a useful external perspective. However, in some cases they can be more expensive and may lack the detailed organisational knowledge of permanent staff.

2 Since 2010, the Cabinet Office has required departments to operate additional spending controls before approving C&TS appointments and to comply with a central procurement strategy. The Crown Commercial Service (CCS), set up as an agency of the Cabinet Office in 2014, aims to save money and improve the quality of common goods and services by bringing together policy, advice and direct buying of common goods and services on behalf of central government and the public sector. The Cabinet Office operates central spending controls over long-term consultancy appointments, and the CCS offers procurement agreements for common types of C&TS and manages relationships with key suppliers.

The scope of this report

3 This report examines the progress made by central government since our 2010 report on consultants and interim staff.¹ It focuses on three questions:

- Have departments reduced their spending on C&TS?
- Do departments let and manage C&TS assignments cost-effectively?
- Does the centre of government, primarily the Cabinet Office in this case, effectively manage and support the use of C&TS by departments?

4 This is a cross-government report that also focuses on three case study departments – the Cabinet Office, the Department for Environment, Food & Rural Affairs (Defra) and the Home Office. The report does not cover the use of C&TS within the wider public sector. It also does not cover services provided by consultancy firms that are not classified as consultancy, such as the management of outsourced services.

¹ Comptroller and Auditor General, *Central government's use of consultants and interims*, Session 2010-11, HC 488, National Audit Office, October 2010.

Key findings

Central government spending on consultants and temporary staff

5 Better scrutiny of proposals within government has helped to reduce spending on C&TS. Since 2010, departments must operate internal approval processes and obtain Cabinet Office approval before they appoint consultants for assignments that extend beyond 9 months (and cost more than £20,000). Departments say that this process has encouraged them to assess their proposals more rigorously, including providing reasons for using C&TS rather than permanent staff. Although the Cabinet Office refused only 1 application in 2014-15, a further 18 out of 162 (14% by value) were withdrawn by departments, and 90 (70% by value) were approved with conditions. The Cabinet Office is not involved in any spending controls on temporary staff. Instead, approvals come from within the departments (paragraphs 3.2 to 3.4 and Figure 12).

6 Departments have substantially reduced their spending on C&TS since 2009-10. In 2010, the Committee of Public Accounts recommended that the Cabinet Office should require departments to record spending consistently. The overall level of spending on C&TS is uncertain because departments apply different definitions of C&TS for different information systems and this information is not coordinated centrally. However, all the sources we examined suggest that departments have significantly reduced C&TS spending. In 2014-15, the main 17 departments spent between £1.0 billion and £1.3 billion on C&TS compared with around £2.7 billion in 2009-10. This was a reduction in annual spending of around £1.5 billion. These totals do not include other areas where consultancy firms are active. In these areas, spending also reduced in cash terms: for example, spending on professional services, management of outsourced services, some legal and financial advice, and research reduced by £430 million (8%) in 2014-15 compared with 2009-10 (paragraphs 1.4 to 1.8, Figure 3 and Figure 4).

7 Reported spending has, however, increased since 2011-12 and there will continue to be upward pressure on C&TS spending. Departments spent around £700 million on C&TS in 2011-12. Since 2011-12, departments have increased their annual spend on C&TS by between £400 million and £600 million, while reducing their permanent workforce. Following the 2015 Spending Review, departments will have to invest further in transformation projects, which generally require support from C&TS, while cutting overall spending. Significant skills shortages remain in the areas needed to transform government, including project management and, ICT which are common specialisms of C&TS. Departments will need to address the risk that managers will increasingly use potentially higher-cost C&TS resources to bypass their department's controls over recruitment as a way of paying market rates for the necessary skills. For example, the Cabinet Office is proposing to introduce new pay bands for staff with specialist skills (paragraphs 1.8, 1.13, 3.13, Figure 3, Figure 4 and Figure 7).

Departments' use of consultancy and temporary staff

8 Strategic workforce planning is critical in managing cost pressures, but is under-developed in departments. This leads to short-term decision-making on the use of C&TS. In 2014-15, departments spent an average of 6% to 8% of the cost of their permanent staff on C&TS, with individual departments ranging from 1% to 35%. To use these resources effectively alongside permanent staff, departments should use strategic workforce planning to determine how best to fill skills gaps and manage peaks in workload across the groups. However, in our recent report *Central government staff costs*² and the 3 case study departments covered in this report, none of the 7 departments examined had plans that covered their entire organisation. The case study departments reviewed their workforce as part of the 2015 Spending Review, which was completed in November 2015, and plan to develop improved strategic workforce plans in the light of the Review outcome. However, while departments often considered alternatives to the use of C&TS in individual cases, none had yet analysed their applications to assess their overall skills requirements and identify common reasons why permanent staff could not be deployed or recruited (paragraphs 1.7, 1.9, 1.11, 1.14, 1.15 and Figure 5, Figure 8 and Figure 9).

9 Compliance with departmental approval processes is weak in some departments. The Cabinet Office recommends that departments use 'resource boards' to review requests for C&TS. However, Defra's central function only set up this board in May 2015. The Cabinet Office, the department with policy responsibility, did not follow its own internal procedures: in 2 of the 10 cases we examined from 2014-15, the Cabinet Office's resource board had not considered requests for C&TS as required by its approvals systems. It has now developed simplified procedures that are intended to ensure compliance with its internal procedures and rules. In all 3 departments, requests for consultancy must be accompanied by a formal business case. In our sample of 10 Cabinet Office assignments, 5 cases had been approved without a formal business case. There was little evidence in the 3 departments' that their C&TS requests compared in-house costs with the proposed external costs (paragraphs 2.2 to 2.4, 2.7 and Figure 9).

10 Departments are generating limited competition for both consultancy and temporary staff assignments. Departments chose to use single tender action, or extend existing contracts for 43% of consultancy work in 2014-15. This is usually because of a lack of time or because they think only one supplier has the skills needed. The largest 6 consultancy firms win three-quarters of the work let through the CCS consultancy agreement, and 28% of all government consultancy work. The comparable share of CCS agreement business given to small and medium-sized enterprises (SMEs) rose to 9% in 2014-15, while across all consultancy work only 5% is won by SMEs. For temporary staff appointed through CCS's Contingent Labour One agreement, 41% are appointed without competition as departments fill posts with their chosen appointee (paragraphs 2.12 and 2.14).

² Comptroller and Auditor General, *Central government staff costs*, Session 2015-16, HC 79, National Audit Office, June 2015.

11 Although some elements of the way departments manage consultancy assignments have improved since 2010, problems remain. The Cabinet Office recommends that consultancy assignments be paid according to a fixed price or on delivery of pre-agreed outcomes, rather than on a daily rate. The proportion of assignments on fixed prices increased from 30% in 2010 to 57% in 2014-15. However, suppliers commented that in practice contracts are priced on the basis of daily rates, which undermines the fixed-price approach, and that these are often extended once the fixed price is reached. Suppliers also consider that departments are not clear about how the assignment will contribute to their objectives and do not assess the benefits achieved (paragraphs 2.5, 2.15 to 2.18, Figure 11, Appendix Four).

The role of the centre of government

12 The centre of government is now acting to help departments reduce their dependence on C&TS, but it is not yet clear whether departments have used less C&TS as a result. The Cabinet Office expects the development of 10 core Civil Service functions will help to recruit, develop and retain specialist and professional skills across government, while the Civil Service Resourcing service provides help to departments with recruitment and redeployment more generally. However, we saw limited evidence so far of departments reducing their dependence on C&TS as a result. The Home Office and Defra have used some staff flexibly between bodies within their departmental group. There are some examples of teams of permanent staff being deployed flexibly between departments, including HM Revenue & Customs' (HMRC) 'surge team' of 200 staff, which has supported several departments. The Cabinet Office itself makes extensive use of staff on loan. HM Treasury is also piloting flexibility on pay, which should allow departments to offer more attractive salaries where these are needed to recruit and retain staff (paragraphs 3.16 to 3.18).

13 Departments appoint only about half of their consultancy and temporary staff through the CCS's agreements. The Cabinet Office has instructed departments to use CCS agreements whenever possible. But appointments made through these agreements still account for only about half of the total departmental spending on C&TS. Departments are still using long-standing and local arrangements, which in some cases are more expensive than the agreements. This reduces CCS's ability to negotiate fees by using government's spending power (paragraphs 3.7 to 3.8, Figure 14 and Figure 15).

14 The cost of some C&TS can be significantly higher than for comparable in-house staff. CCS has reduced the daily rates paid to temporary staff and consultants through setting target daily rates below existing rates, which it estimates has saved £79 million in 2014-15. However, it does not compare these rates against the direct costs of equivalent permanent staff. While temporary administrative staff cost a similar amount on a daily basis to permanent staff, our analysis suggests that specialist staff are generally paid twice as much as their nearest permanent equivalent. Even so, departments sometimes have difficulty recruiting temporary specialists and go outside the CCS agreement to pay higher rates. Although average daily rates paid *within CCS agreements* have fallen since 2011-12, data suggest that rates paid by departments for temporary staff overall have increased by some 18% since then. This increase was due to increases in the proportion of expensive interim managers and technical contractors and in market rates for these skills (paragraphs 1.13, 3.11, 3.12 and 3.14, Figure 16 and Figure 17).

15 The Cabinet Office monitors temporary staff across government paid more than £1,000 per day. CCS infrequently monitors temporary staff paid more than £1,000 a day, which is a higher equivalent salary than all 17 main permanent secretaries (although 5 of them have a higher-value package). Departments are expected to explain how they plan to replace these staff with permanent employees. As at 1 May 2015, 47 temporary staff were engaged on a daily rate of more than £1,000, compared with 30 senior civil servants with comparable pay. However, neither CCS nor 2 of our case study departments, the Cabinet Office and Defra, actively manage the numbers of other temporary staff who have been in post for extended periods. In addition, 94% of specialists engaged through the Contingent Labour One agreement are contracted through personal service companies. In 2012, the Committee of Public Accounts expressed concern that too many staff were paid off-payroll for too long.³ Most departments now report that they obtained assurance from these staff that tax has been paid (paragraph 3.12, 3.15, Figure 18 and Figure 19).

³ HC Committee of Public Accounts, *Off-payroll arrangements in the public sector*, Twelfth Report of Session 2012-13, HC 532, September 2012.

Progress made against the recommendations made in 2010

16 In December 2010, the Committee of Public Accounts made 8 recommendations relating to the use of C&TS.⁴ The government agreed with 3 of the Committee's recommendations and partially agreed with the remaining 5. In December 2012, the government reported to Parliament that it had taken action on relevant aspects of the recommendations it had agreed or partially agreed, and so considered those implemented. Our assessment is that the Cabinet Office and other departments had partly implemented 5 of these recommendations by October 2015, limited progress had been made with 2 recommendations and 1 recommendation had not been implemented. This slow implementation is unsatisfactory, and has implications for the value for money achieved from C&TS spending. The Cabinet Office accepts that more action is needed on the Committee's recommendations to manage down spending on C&TS (Appendix Three).

Conclusion on value for money

17 Used well, consultants and temporary staff can be an important source of specialist skills and capabilities that are uneconomic for departments to maintain in their permanent staff. Since 2009-10, the government has used spending controls to reduce its use of consultants and temporary staff, and by 2014-15 spending had fallen by £1.5 billion. However, spending has increased by between £400 million and £600 million since 2011-12, suggesting that this was more of a short-term reduction than a sustainable strategy. Departments must now manage significant further cuts in their budgets. They will have to make major changes to achieve the required cash savings and to deliver services in new ways.

18 The skills needed to manage and deliver change are essential to making that transformation successfully. In the short term, departments will need to draw on consultants and temporary staff to make up for shortages in these skills in the Civil Service. In the longer term, departments will need to develop workforce, skills and capacity plans to reduce their dependence on external skills. They will need to improve their strategic workforce planning to determine where they can deploy existing staff, where they need to recruit, and where they need to engage temporary resources. Without this, departments cannot demonstrate that they are achieving value for money from the use of consultants and temporary staff.

⁴ HC Committee of Public Accounts, *Central government's use of consultants and interims*, Twelfth Report of Session 2010-11, HC 610, December 2010.

Recommendations

19 We have a number of recommendations aimed at improving the value for money on the use of C&TS.

- a** Departments should develop a strategic plan that covers all bodies within their group, identifies their current skills and expected 'skills gaps', and determines how best to fill those gaps, including likely future demand for C&TS.
- b** Departments should draw more on existing good practice to improve the way they let and manage C&TS assignments, including to:
 - strengthen approval processes so that all C&TS assignments are based on business cases that are rooted in the strategic workforce plan;
 - use CCS agreements as the default option for procuring C&TS;
 - carry out regular reviews of the 'pipeline' of requirements for consultancy, and of the ongoing need for temporary staff as is currently done by the Home Office; and
 - review all significant assignments and feed back lessons into the planning and approval systems.
- c** The Cabinet Office should:
 - examine whether its spending controls on C&TS are continuing to have an impact and, in particular, whether they need to be refocused to address the upward trend in spending;
 - resolve the long-term problem of inconsistent information on the use of C&TS in government, including whether some C&TS costs are wrongly coded as other professional services, which prevents the government from making well-informed decisions; and
 - identify and resolve the causes of a lack of competition for C&TS assignments and domination of consultancy work by the largest suppliers, including through redesigning new procurement agreements in 2016.
- d** Civil Service Human Resources should:
 - support departments in developing workforce plans that fully consider the use of C&TS;
 - help departments identify opportunities for sharing staff, including through the Civil Service Resourcing service;
 - support the progress of civil service professions in developing, retaining and flexibly deploying specialist skills within government; and
 - develop a strategic workforce plan for the whole of the civil service that enables the government to plan for C&TS more strategically after considering reallocating staff within the civil service.