

How Government Works: central government's use of consultancy services

Project Brief, January 2008

Audit Scotland is undertaking this study on behalf of the Auditor General for Scotland (under the Public Finance and Accountability (Scotland) Act 2000 Section 23, 'Economy, efficiency and effectiveness examination').

Audit Scotland is a statutory body set up in April 2000. It provides services to the Accounts Commission and the Auditor General for Scotland. All of Audit Scotland's work in connection with the NHS is undertaken for the Auditor General who reports to the Scottish Parliament.

Introduction

1. The Auditor General published his first report in the How Government Works series in November 2002. This was a major reference work mapping out the responsibilities and accountabilities of public bodies in Scotland. A series of reports is planned to examine different aspects of management in government. This report, on how central government uses consultancy services, is a further study in the How Government Works series.
2. The use of consultants in government is an area of current concern at the UK level. In March 2007, a Cabinet Office letter stated that *'there has been enormous growth in the public sector's use of consultants in recent years and that we may too often be using consultants in circumstances where civil servants could do the same job at much less cost'*. This letter followed a report published by the National Audit Office (NAO) which showed that UK central government spent £1.8 billion on consulting services in 2005/06.
3. The Scottish Government has carried out some initial work which suggests that central government in Scotland could be spending up to £200 million on consultancy services, of which probably around one-third (£60-65 million) relates to management consultancy and the rest is on outsourcing and staff substitution (see Exhibit 1).

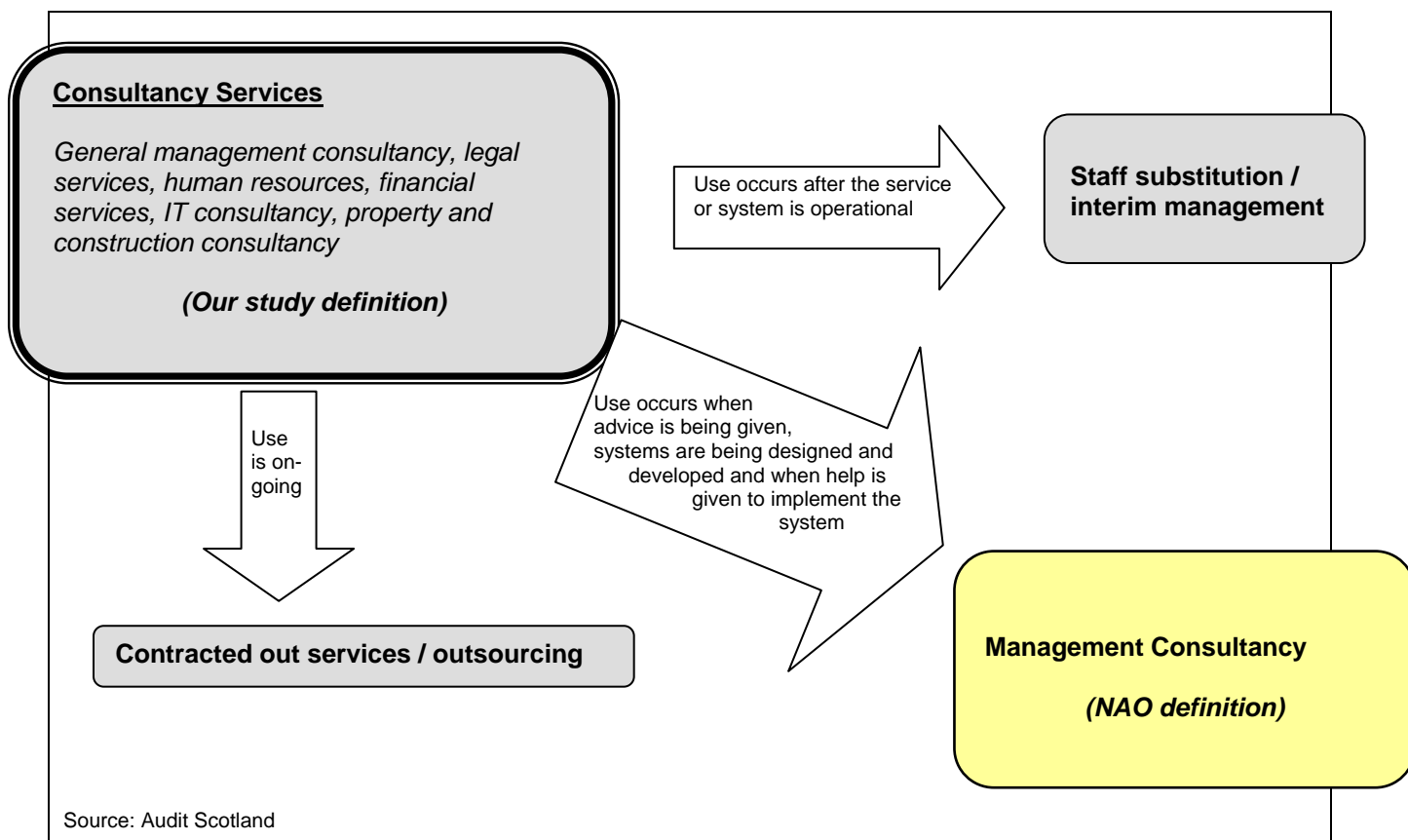
Management consultancy and other consultancy services

4. The Public Services Forum defined consultancy services within government to include general management consultancy, legal services, human resources, financial services, IT consultancy, and property and construction consultancy.¹
5. The NAO study defined consulting further in terms of these two characteristics:
 - **the work is project based.** Individuals or companies are engaged to work on projects that are outside the client's usual business and there is an end point for their involvement. (*Where the requirement is part of business as usual, this is staff substitution or outsourcing*)
 - **responsibility for the final outcome rests with the client.**
6. Specifically, the NAO study used the term 'consultants' to refer only to the management consultancy element of the work completed by consultancies. Therefore, their review excludes work done by consultants that involved staff substitution and outsourcing (see Exhibit 1). We propose to use the wider definition of consultancy services, covering all work completed by consultants, including

¹ Research by non-commercial bodies such as universities is excluded from consultancy services. The Public Service Forum enabled dialogue between Government, public service employers and trade unions on public service and workforce reform. It was set up in 2001 and was chaired by a Cabinet Office Minister. Its work is now being taken forward as a part of a wider programme of work by the Cabinet Office.

outsourcing, management consultancy and staff substitution as there is potential for resources to be used inefficiently in each of these areas.

Exhibit 1: Defining management consultancy and other consultancy services



The public sector is increasing its use of consultants

7. The last ten years have seen a rapid growth in the use of consultants in the UK. The UK consulting industry grew from £3.7 billion in 1998 to £8.7 billion in 2005. At the end of the 1990's, increased use by the private sector was behind this growth. However from 2001 to 2005 the public sector began using consultants more, creating an average growth in demand for consulting by the public sector of 58 per cent per year.
8. Reasons why the public sector are using consultants more include:
 - Government initiatives to modernise and improve the quality and efficiency of public service delivery
 - a lack of in-house skills in the public sector allied with budgetary pressures, making recruitment difficult

- a wider acceptance at a policy level of greater private sector involvement in the public sector
- excess supply – falling demand for their services from the private sector has encouraged consultancies to find work elsewhere.²

Why should Audit Scotland undertake this study?

9. The Scottish Government and its agencies use a wide range of consultancy services, yet there is little information on how much is spent, how consultants are used and what services they are providing. Without this information it is difficult to get assurance that the use of consultants delivers value for money. This study will identify the changes needed to the procurement of consultancy services and provide estimates of the potential savings to be made. This is particularly important in the light of the recent Spending Review, which set a target of 2% efficiency savings to be made across the public sector. Better and cheaper procurement of consultancy services could contribute to these efficiency targets.

How much is spent on consultancy services in Scotland?

10. Historically the Scottish Government has not had good information on consultancy expenditure across central government and, until recently, estimates of spend were low.³ However, work undertaken this year by the Scottish Procurement Directorate (SPD) suggests that total expenditure by central government could be much higher, up to £200 million per year, of which just under half (£96 million) is accounted for by NDPBs, £61 million by agencies and £43 million by Scottish Government directorates.
11. The SPD developed a database in 2007 which collates 2005/06 information on expenditure on consultancy services across the public sector in Scotland.⁴ The database uses the name of the supplier to categorise the type of good and service procured. With regard to the central government sector, the database currently contains information on spend from all Scottish Government core directorates and from 26 of the highest spending agencies and NDPBs.
12. SPD plans to improve the database by expanding coverage of the number of agencies and NDPBs and updating to 2006/07 data. A number of other agencies and NDPBs have now been asked to submit data on their spend on consultancy services in 2006/07. Information from these bodies will be added to the data from the 26 highest spending agencies and NDPBs to produce a revised estimate of spend across central government. The revised figure is likely to be available by August 2008 at the latest.

²National Audit Office, *Central Government's use of consultants: market analysis*, Fiona Czerniawska, December 2006

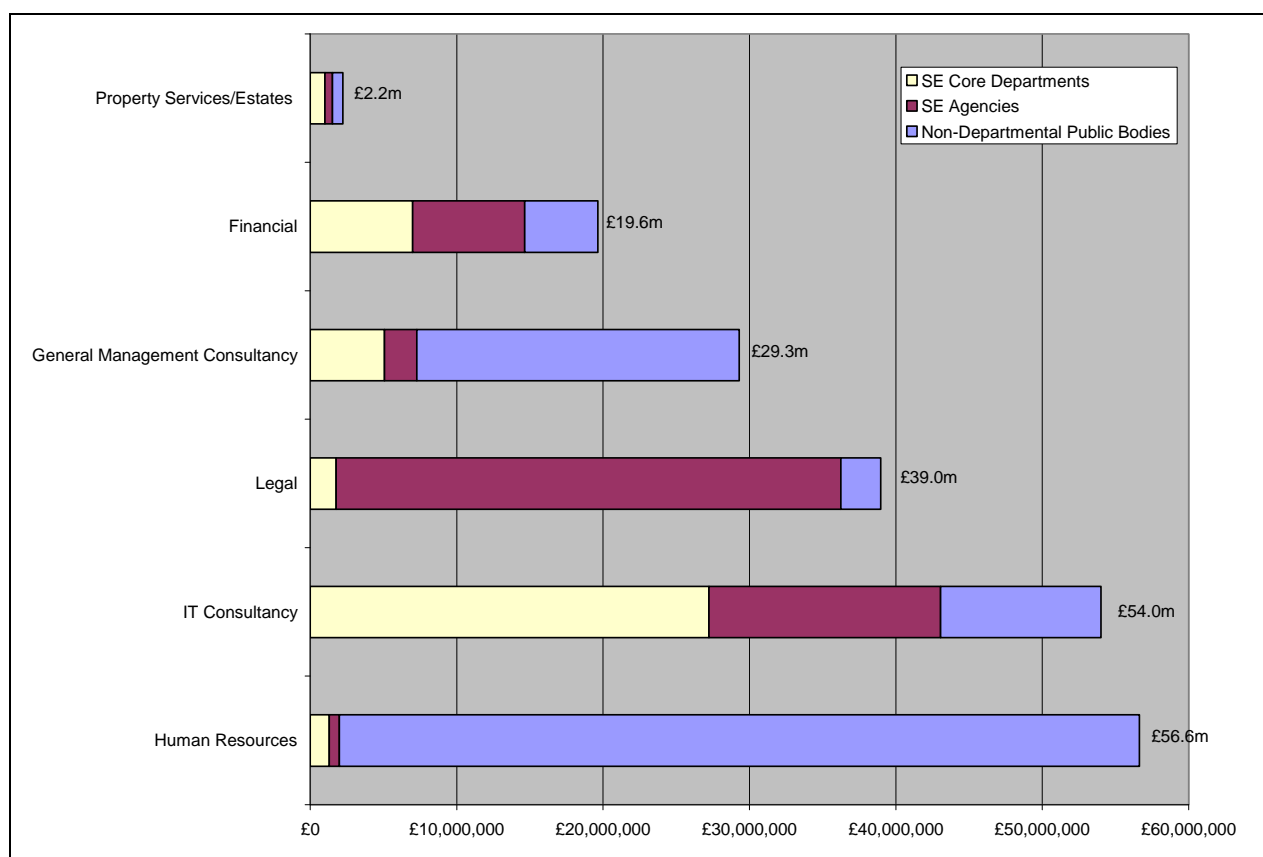
³A parliamentary question provided an estimate of £2.7 million for 2004/05. The precise definition used of 'external consultancy' is unknown, nor is it clear which departments provided this information. Source: *S2W 18755*; September 2005

⁴The contract for the database is with Spikes Cavell.

What consultancy services are used?

13. Provisional information from SPD shows that the two highest areas of consultancy spend by Scottish core directorates, agencies and NDPBs are IT consultancy and human resources. Significant amounts are also spent on legal services, general management consultancy and financial services. There are also differences in the mix of consultancy services bought by core directorates, agencies and NDPBs (Exhibit 2). For example, IT consultancy is a major area of expenditure for core directorates and agencies; and agencies also record high levels of expenditure on legal services. However, amongst NDPBs over half of expenditure is on human resource advice and assistance.

Exhibit 2: Expenditure on external consultant fees by central government, 2005/06



Source: SPD database of core directorates and 26 high spending agencies and NDPBs, 2005/06 data.

14. If Scottish public bodies had better information about which consultancy skills are in demand and where, they could improve their recruitment and training policies to ensure these skills are available in-house, improving the economy and efficiency of their operations. This information could also help identify secondment opportunities as well as supporting the drive to collaborative purchasing.

Is good procurement practice followed for consultancy services?

15. The nature of consulting creates challenges for those hiring or working with consultants:

- **It is often hard to understand what consultants do.** The term itself covers a huge variety of work and consultancies often operate in a way that makes it difficult for clients to see what they do.
 - **It is also difficult to assess if consultants are providing value for money.** Because it is difficult to understand what consultants do, it is hard to determine if this represents value for money. The range of activities undertaken and the difficulty of separating cause and effect complicate attempts to quantify the benefits from using consultants. A Management Consultancies Association (MCA) study found that almost half of organisations have not attempted to quantify the return on investment from using consultants.⁵
 - **It can be difficult to separate the roles played by consultants and clients.** Successful projects are likely to require close working relationships between consultant and client. There are benefits arising from the development of these relationships but it can be difficult to maintain independence, objectivity, ownership and accountability.
 - **Consulting firms have commercial drivers as well as meeting their clients' needs.** Clients need to be aware of potential conflicts of interest when they seek advice from consultants. For example, consultants may be rewarded by their employers based on the amount of revenue they earn and this could influence the advice they provide.⁶
16. Good procurement is at the heart of government's efforts to manage budgets and respond to resource pressures. SPD has developed guidance on purchasing consultancy designed to ensure those involved '*act with integrity and honesty, pursue value for money and encourage continuous improvement and innovation*'. This guidance is consistent with wider UK guidance from the Office of Government Commerce (OGC).⁷
17. There is no information available on the methods employed to procure services from consultancies in Scotland. Based on its survey work the NAO report comments '*there is great variation regarding procurement methods and types of contracts used*.' The NAO found that not all organisations have adequate controls on contracts awarded by single tender, the use of framework agreements is limited and incentivised contracts are rarely used (reported by one per cent).⁸ Our study will identify if this pattern is repeated across Scotland.
18. The use of good procurement approaches can help public bodies derive financial and other benefits from their use of consultants. For example:

⁵MCA 2006 – quoted in National Audit Office, *Central Government's use of consultants: market analysis*, Fiona Czerniawska, December 2006

⁶National Audit Office, *Central Government's use of consultants: market analysis*, Fiona Czerniawska, December 2006

⁷Office of Government Commerce and Management Consultancies Association, *Delivering Value from Consultancy – a guide for public sector clients and suppliers* and [http://www.scotland.gov.uk/Publications/Recent, The Scottish Procurement Directorate's Policy Manual](http://www.scotland.gov.uk/Publications/Recent/The_Scottish_Procurement_Directorate's_Policy_Manual), May 2006

⁸In incentivised contracts a proportion of the payment is based upon performance. For example, payment may be linked to the delivery of products against an expected timeline throughout the project, or linked to the final cost and time taken to complete the project.

- a well designed and executed tender competition will help in getting good prices, a range of ideas and high quality proposals
- framework agreements can help reduce procurement costs and prices
- incentivised and fixed price contracts can help control costs and formalise joint objectives between clients and consultants.

Is the public sector improving its purchasing of consultancy services?

19. The McClelland report on public procurement in Scotland recommended that an appropriate emphasis was placed on public sector procurement and adequate support provided to procurement practitioners.⁹ John McClelland described his vision for procurement in Scotland in terms of seven critical success factors of organisation and practice (Exhibit 3).

Exhibit 3: Ideal model for procurement – critical success factors

- Procurement activity which recognises and implements the principles of good governance and accountability
- Organisational structures which recognise good procurement as a high priority
- A procurement function which is adequately resourced and skilled and investments in this are seen as yielding a financial return
- Procurement functions are underpinned by sound practice and processes which address their needs
- Effective information systems
- Good leadership which provides adherence to policy, accountability and best practice and supports staff development
- Through all of the above, the development of advanced and effective capabilities, supporting collaborative procurement, best value performance and a competitive but fair and transparent environment for suppliers.

Source: Buying solutions magazine 'The Hot Seat', May 2007

20. The report identified collaboration and aggregation as key to building buying power and this led to the development of a national centre of procurement expertise and four sector-based centres: for health, local authorities, universities and colleges, central government.
21. These centres of expertise aim to stimulate, facilitate and deliver improved procurement across the public sector using a collaborative approach. However, individual bodies can decide how they will engage with the centres of expertise.
22. Professional services procurement (consultancy services) is within the remit of the National Procurement Centre of Expertise (NPCoE). NPCoE plans to introduce framework agreements for the procurement of ICT and management consultancy with cross-sectoral stakeholder engagement taking place throughout 2008. Other expected outputs include best practice guidance and a consultancy projects database.
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⁹ Scottish Executive, *Review of Public Procurement in Scotland*, March 2006

23. Audit Scotland will conduct a wider study on procurement in 2008/09. However, this study will look at how change is being implemented for consultancy services procurement and will feed into the later study.

Aims and objectives

24. The overall aim of the project is to identify if central government in Scotland is getting value for money from its use of consultancy services and to identify good practice and potential savings where they can be made.
25. The objectives of the project are to:
- identify how central government uses consultancy services and current levels of activity
 - establish if central government procures and manages consultancy services in line with good practice
 - identify the potential savings that can be made from improved practice.
26. The issues to be covered in the study are detailed in appendix 1.

Project scope, methodology and potential impact

Scope

27. The study will review Scottish central government's (defined to include core directorates and high spending agencies and NDPBs) use of consultancy services. The use of consultancy services in local government and health will be excluded, but we expect the good practice and areas for improvement identified from this review to be transferable to other public bodies.
28. The project will review how Scottish central government directorates and the highest spending agencies and NDPBs make use of consultancy services and for what purpose. It will detail the level of expenditure on consultancy and provide an analysis of what specific services are used, who provides these services and reasons for use. We will review the guidance provided to central government buyers of consultancy services in Scotland and assess levels of adherence to this guidance amongst a sample of projects, to determine if maximum benefit at minimum cost is being obtained.

Diversity and equalities issues

29. It is not anticipated that diversity and equalities issues will emerge as a significant factor for this study.

Methodology

30. The study will have a number of components:
- **Analysis of the SPD (Spikes Cavell) database** to provide details on levels and patterns of spend in terms of reasons for use, area, purchaser and supplier.

- **A review of documents** including the McClelland report, organisational strategies and guidance on procurement in Scotland and elsewhere and project documentation such as business cases, invitations to tender, consultants proposals, contracts and project management reports.
 - **Surveys of consultants and buyers in government organisations** – to establish patterns of use and attitudes to public sector procurement practice and to using consultants.
 - **Face-to-face interviews with heads of service, contract managers, procurement specialists and consultants for a sample of contracts** – to establish approaches used, attitudes to new ways of working, best practice and evidence of savings from new approaches, and links with other organisational strategies.
 - **Interviews with interested parties** such as the NAO, Northern Ireland Audit Office (NIAO) NPCoE, Office of Government Commerce (OGC) and SPD – to help identify examples of good practice and expected changes.
31. The SPD database, surveys and document reviews will build a detailed picture on levels of use of consultancy services and the approaches that should be followed. Other elements of the fieldwork will help us to understand why different approaches are used and which approaches bring maximum benefits.
32. Face-to-face interviews will be conducted with those involved in procuring and managing a sample of the contracts awarded across central government, NDPBs and agencies in the last two years. A sample of 20 contracts from up to 10 different public bodies (including some directorates). The contracts included in the sample will cover a range of values, completed and on-going projects, fixed price contracts and those awarded by other mechanisms and a mix of those awarded as single tenders, through framework agreements and competitive tenders.

Potential impact

33. It is anticipated that the findings from the study will provide assurance to Parliament that the use of consultancy services by central government represents value for money. It will reveal how the changes envisaged by McClelland are being implemented and help identify future challenges for central government and other public bodies when purchasing consultancy services. Further, our work should lend support to the work that the NPCoE is undertaking by building compliance with NPCoE initiatives.
34. In addition the study will:
- provide a comprehensive review of how and why central government directorates, agencies and NDPBs use consultancy services
 - highlight the extent to which central government's expenditure on consultancy services is delivering maximum benefit at minimum cost
 - identify good practice in Scotland and, by reviewing practice in (selected) other countries, highlight ways in which central government can improve its use of consultancy services

- identify potential savings to be made
- allow development of performance indicators on how consultancy services are procured and managed which could be used to measure improvement.

Links to other work

35. The study has links with other Audit Scotland activities and other organisations:

- In December 2003, Audit Scotland published a special audit examination of Scottish Enterprise which, amongst other things, looked at Scottish Enterprise's use of external consultants to develop its operations.
- Audit Scotland is currently planning a cross cutting study on procurement in the public sector to be published in 2009 - scoping is due to begin in 2008. Lessons from this study will help inform the wider study on strategic procurement.
- The study will refer to the work of the NAO on the use of consultants and its web-based assessment toolkit.

Project staffing and resources

36. The project will be managed by Andra Laird, Project Manager with support from Gill Miller and Sally Thompson, Performance Auditors and Gareth Dixon, Project Officer. The project sits within the portfolio of Dick Gill, Portfolio Manager (Central Government). The project will require the following input from Audit Scotland staff:

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|--|-----------------|
| ▪ Dick Gill, Portfolio Manager | 0.2 WTE |
| ▪ Andra Laird, Project Manager | 0.5 WTE |
| ▪ Gill Miller and Sally Thompson, Performance Auditors | 0.3 WTE (total) |
| ▪ Gareth Dixon, Project Officer | 0.1 WTE |

37. The services of an external organisation will be used to assist with the proposed surveys of central government buyers and consultants.

Project outputs and target timescales

38. We plan to publish a report and present it to the Scottish Parliament Audit Committee in summer 2008. Additional outputs will be considered as the study progresses, for example, a web-based self-assessment toolkit for public bodies after publication of the national report. The draft timetable for the project is as follows:

- Project brief: December 2007

- Developing the methodology (including completion of 3 pilot studies): December 2007 – January 2008
- Fieldwork (document review, interviews, surveys and data analysis): January – April 2008
- Key messages: May 2008
- Report drafting: May – July 2008
- Report published: September 2008
- Toolkit available: October 2008
- Project review / follow-up work / monitoring impact: by November 2008

The timetable will be kept under review as the scope and audit approach are finalised in consultation with the project advisory group.

Project Advisory Group

39. A project advisory group will be set up which will meet at key intervals during the project and will include individuals from a cross-section of stakeholders (see below). The role of the advisory group is to provide independent advice and feedback to the project team to help them ensure the work is relevant and meets the needs of stakeholders. Advisory group members sit in a personal capacity and do not formally represent their organisations.

Stakeholders

40. The study will have a number of stakeholders:
- Scottish Parliament
 - Scottish Government representatives including those from core directorates who use consultancy services, SPD and Centres of Expertise
 - NDPBs and Scottish Government agencies
 - Other public sector procurers of consultancy services
 - Management Consultancy Association in Scotland
 - Institute of Management Consultancy
 - Office of Government Commerce

Further information

41. If you have any questions about this project brief please contact Andra Laird at alaird@audit-scotland.gov.uk on 0131 625 1826, by fax on 0845 146 1009 or in writing at the address below.

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