



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

**HC 488
SESSION 2010–2011**

14 OCTOBER 2010

Central government's use of consultants and interims

Summary

1 This report is a follow-up to the previous NAO and PAC reports on Central government's use of consultants.^{1,2} It focuses on the 17 central government departments, examining spending and the application of good practice to the use of consultants and interims.

2 For the purpose of this report, we have defined consultancy as always having two characteristics. First, that the work is project based, outside the client's 'business as usual' and there is a clear end point for the supplier's involvement. Second, responsibility for the final outcome, or ongoing service, largely rests with the client. We define interims as people fulfilling 'business as usual' roles within the current organisational structure that would otherwise be undertaken by a salaried permanent member of staff.

3 Consultants, when used correctly, can provide great benefit to clients. Using consultants can provide access to skills that it is not necessary, sensible or economic for the organisation to build or maintain itself. Organisations typically use consultants for one of three reasons:

- People – access to specialist skills.
- Process – knowledge on how to approach a task.
- Perspective – an independent view; new innovative thinking.

4 The use of interims is another non-permanent staffing option that, in the same way as consultants, organisations can utilise to build capability and address gaps.³ This report includes specific data on departments' use of interims to provide a wider view on the use of professional services across government. Using interims correctly can be a good way for an organisation to fill key roles on a short-term basis with skilled, experienced staff.

5 The use of consultants and interims is an area of significant discretionary spending. Our analysis shows that in 2009-10, departments spent £789 million on consultants and an estimated £215 million on interims. In May 2010 the Government announced immediate plans to save £1.1 billion on discretionary spending of which consultancy is to contribute an unspecified amount. New measures were introduced across government to control the use of consultants and the recruitment of interim staff. The Cabinet Office⁴ is now collecting monthly data on the use of consultants, and our initial analysis indicates

¹ Comptroller & Auditor General, *Central Government's use of consultants*, Session 2006-07, HC 128, National Audit Office, December 2006.

² House of Commons Committee of Public Accounts, *Central Government's use of consultants*, Thirty-first report of Session 2006-07, HC 309, June 2007.

³ Comptroller & Auditor General, *A framework for managing staff costs in a period of spending reduction*, National Audit Office, August 2010.

⁴ Prior to May 2010, the Office of Government Commerce (OGC) held central responsibility for improving the procurement of consultants and interims. OGC has since been absorbed into the Efficiency and Reform Group, part of the Cabinet Office. We use the term OGC to refer to activity undertaken prior to May 2010 and the Cabinet Office for activity post May 2010.

that the new measures are reducing the number and value of contracts being placed. Prior to 24 May 2010, 478 contracts were in place; a further 50 new contracts have been issued up to 13 August.

6 Reducing costs is only one part of getting value for money. It also requires spending to be undertaken within a controlled management cycle where organisations effectively assess their need for external resources as part of good workforce planning and then plan, procure, manage, report on, evaluate and continuously improve their use of consultants and interims.

Key findings

7 **Despite a concerted effort by departments and OGC there has been limited and inconsistent progress against the recommendations made in the previous NAO and PAC reports.** OGC and departments created the Consultancy Value Programme to implement the recommendations of the previous NAO and PAC reports. Strong progress has only been achieved where responsibility for action is owned by procurement teams within a department and in parts of the procurement process. There is limited evidence of the benefits delivered from the programme, as few departments can provide the required key performance information.

8 **Departments' spending on consultants fell between 2006-07 and 2007-08 but since then it has remained stable.** In 2006-07 departments spent an estimated £904 million on consultants. Spending fell by £126 million in 2007-08. Compared to 2006-07, spending in 2009-10 on consultants is higher in six departments and lower in ten. The overall fall in spending is mainly due to decreases at the Department of Health (£97 million) and the Department for Work and Pensions (£93 million). Some departments' fall in spending is due to increased accuracy in the recording of costs, rather than real reductions as a result of improved control. This suggests that some of the reductions in spending are not sustainable year on year. The need for improved control is highlighted by the annual pattern of increases in spending on consultants at the end of the financial year. Most departments only started collecting accurate figures for their spending on interims in 2009-10, but the available data suggest that spending is increasing.

9 **In general, the quality of departments' management information is poor.** There is little depth to management information on consultants, and incomplete information on interims. Few departments can provide accurate information on:

- classification of spending by type of consultancy service;
- the number of interims employed and their roles within departments; and
- the length of contracts.

Data on total spending on consultants are now routinely available across all departments but, prior to July 2010, it has often only been available many months after the financial year end. Accurate and timely data is required to plan effective future use of consultants and interims within individual engagements, departments and across government.

10 Departments are not smart customers of consultants and interims. They need to be skilful, knowledgeable customers to get full value from their use of consultants and interims. This means having the capability to set clear and appropriate expectations of consultants, and systems in place to define and measure the value from engagements. Typically we would expect staff managing interim and consultancy contracts to have previous experience of this, or otherwise have insight into what drives suppliers' performance. We have found a number of areas where departments have not been acting as intelligent customers. In particular:

- **Departments do not clearly define the service required from suppliers.** Departments do not adequately define the outputs and benefits that they want to achieve, which prevents them contracting with consultants on an outcome basis. The price for the majority of contracts is still based on the time that a consultant works on a project, rather than the price being fixed or incentive based on the delivery of pre-agreed outcomes. Time and materials contracts do not directly encourage a consultant to work efficiently. The Cabinet Office has developed a rate card for consultants which provides a benchmark across government on expected prices for different grades of staff. The rate card is one way of helping to reduce daily costs on time and material contracts, and provides a good reference point for other contracting methods, but a rounded judgement about value for money also requires departments to consider total cost and outcome.
- **Departments are not clear on how the suppliers' work will contribute to their objectives, and do not assess the benefits delivered.** Most departments do not assess the performance of consultants and whether the work done was used and was of benefit to the organisation. A standard Post Assessment Review is now being used but its focus is as much on the procurement process as the performance of suppliers and outcome of the work. Departments do not regularly capture information from buyers and project teams to evaluate the benefits that were delivered from the work. Even when suppliers have performed well it is important to assess whether the output was used and what benefits have been achieved – especially as the benefits may not be realised until some time later. Departments do not routinely assess whether the benefits are being delivered, whether the use of consultants was necessary or have a way to use this knowledge to inform decisions on future use.
- **Suppliers are not held to account throughout contracts.** There is very little evaluation of suppliers during projects. In general procurement teams do not have the capacity and expertise to monitor individual contracts. Suppliers expressed concern that projects continue without regular assessment of whether the work is still of value and likely to deliver the expected benefits.

11 More involvement is required from staff outside of procurement teams if departments are to make the difficult changes that deliver most value for money.

Procurement staff are working on improving the use of consultants and interims, but there has been less progress where input is required from other business areas. For example, understanding skills gaps and identifying internal staff requires the involvement of human resource staff; reporting and classifying spending accurately needs expertise from the finance function and input from the users of consultants in business teams.

12 Departments have not done enough to identify and plug core skill gaps by using more cost effective alternatives to consultants and interims.

Relying on consultants for basic skills is expensive and repeated use suggests poor value for money. Industry data for 2009 show that departments are still reliant on consultants for the same expertise as in 2005-06. Demand for the top two services, programme and project management and IT, has increased from 50 to 60 per cent of all consultancy. Departments say that not being able to identify suitable internal staff is a key driver behind their use of consultants, and that the processes for finding available staff are not working.

13 The knowledge generated from centrally collated information is not used to drive improvements in departments' use of consultants and interims.

Departments would benefit from insight into which organisations are buying similar types of consultancy services, the quality and value of the work delivered, and the types of projects commissioned. Departments need to provide the centre with better quality and depth of management information to achieve the benefits from sharing knowledge. Departments are concerned about the legality of collecting, sharing and using information on suppliers. However, information on day rates is already being shared and used to compare and challenge rates for similar types of work.

14 Departments' and OGC's focus has been on improving the use of consultants with work to improve the use of interims only initiated recently.

Using consultants is one external resource option. There is a risk that rigorous scrutiny of one category diverts spending to other professional services where there is less control. Cost reductions and improved value for money in one area could be offset by changes in another category of non-permanent staffing.

15 Departments' arms length bodies have not come under the same degree of scrutiny. Most departments find it difficult to understand spending on consultants and interims in their arms length bodies. We estimate that departments' arms length bodies account for at least £700 million of spending on consultants.

Conclusion on value for money

16 To demonstrate value for money, departments need to both control total costs and ensure that spending on consultants and interims takes place within a controlled management environment. Our work demonstrates that although total spending on consultants has fallen slightly since 2006-07, there has been inconsistent progress made by departments and the reduction has not occurred within an effective control environment. We conclude that government is not achieving value for money from its use of consultants and interims, because it frequently lacks the information, skills and strategies to manage them effectively and therefore cannot drive delivery.

Recommendations

17 The changes to the approval and sign-off process for the use of consultants and the restrictions on recruitment implemented in May 2010 have helped to challenge the use of consultants and interims. This is a short-term impact, but as a longer term strategy it could lead to the displacement of costs elsewhere and needs to be built upon to deliver a sustainable long term approach to structured cost reduction.⁵ Consultants and interims are an appropriate resource choice if organisations realistically differentiate why they need to use them and base their decisions on quality information and informed business cases. The approval of exceptions to spending thresholds cannot be an effective ongoing approach to managing spending, without a fully functioning control environment and the necessary data to support intelligent and strategic decision making.

18 There are four areas where further improvement is required if government is to ensure that it delivers value for money from its future use of consultants and interims. We recommend:

a **Management information is not accurate, complete or utilised effectively.**

Since July 2010, departments have provided monthly management information on their use of consultants to the Cabinet Office and annual information on their use of interims. Departments should ensure that buyers of consultants and interims, finance, human resource and procurement staff all contribute to improving the accuracy, completeness and timeliness of this management information including details on:

- the consultancy and interim services that are bought;
- the performance of suppliers;
- the value and benefits delivered; and
- contract management information, such as the length of engagements.

The Cabinet Office should systematically analyse, interpret and share departments' management information to help inform future buying decisions. For example, by identifying: top performing suppliers by service provided, the value delivered by past spending, trends in spending, and where existing work can be reused.

⁵ Comptroller & Auditor General, *A short guide to: Structured cost reduction*, National Audit Office, June 2010.

- b Workforce planning and decisions to use consultants and interims are not adequately integrated.** As a minimum, departments need to be sure there are no available in-house staff before deciding to hire consultants or interims. Departments' human resource and procurement staff should work together to assess demand and forward plan their use of consultants and interims. They should identify core skills gaps and decide the most cost effective resource options including when to train or recruit staff. Closer working is required between cross-government procurement and human resource initiatives (such as the Cabinet Office led Next Generation HR programme, the Professional Services Collaborative Category Board and shared services projects) to align approaches designed to improve the use of consultants and interims.
- c Departments need to strengthen their capabilities as customers. They do not define and contract for the delivery of outcomes and benefits, or assess whether they have been achieved.** Departments should define the expected outcome and benefits at the outset and make more use of incentive based and fixed price contracts to deliver these outcomes. Business cases should be assessed by people that understand how to use consultants effectively. Using time and materials contracts, and a focus on daily rates alone, can lead to cost overruns and unnecessary work. Performance assessments should include a review of the outcome of the work, and whether beneficial changes have been achieved.
- d Departments and the Cabinet Office should broaden out the management controls on professional services.** The principles of good management control apply equally to other professional services, such as administrative staff, clerical staff and specialist contractors, and to all public sector organisations. Departments need to be confident that appropriate controls are applied to all categories of professional services and to spending on these services within their arms length bodies. The Cabinet Office should continue to expand its focus across all professional services to ensure that costs are considered as a whole rather than pushed from one category of spending to another.