

Key messages

# Central government's use of consultancy services

How government works



Prepared for the Auditor General for Scotland  
January 2009

# Auditor General for Scotland

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- NHS bodies
- further education colleges
- Scottish Water
- NDPBs and others, eg Scottish Enterprise.

## Acknowledgements:

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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

# Key messages

## Background

**1.** Central government uses consultancy services for many reasons. If used correctly, public sector bodies can use consultants' knowledge, skills and resources to help deliver new services and initiatives quickly and expertly. But if not well managed, consultants can be an expensive way to improve public services while also limiting the opportunity for public servants to use existing skills or gain new knowledge and skills.

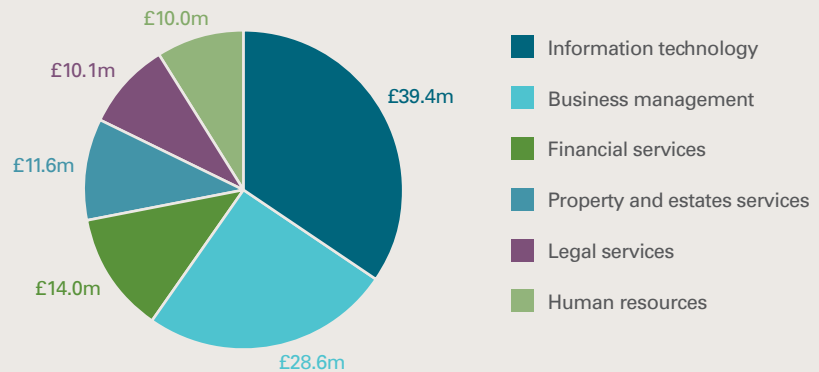
**2.** Central government bodies in Scotland spent around £114 million on consultancy services in 2006/07. Of this total, £41 million (36 per cent) was spent by Scottish Government directorates, non-departmental public bodies (NDPBs) spent £38 million (33 per cent), and agencies spent £35 million (31 per cent).

**3.** These bodies used over 1,200 different consultancy suppliers in 2006/07. Around a third was spent with information technology (IT) suppliers (£39 million). Central government also spent large amounts with suppliers of business management consultancy (£29 million), some of which will include other services such as IT ([Exhibit 1](#)).

**4.** These estimates are the best available and are derived from a database created for the Public Procurement Reform Programme in Scotland, in 2007.<sup>1</sup> The database combines spending information from public bodies and classifies it into standard categories such as IT consultancy. But it does not provide information about the actual services purchased from suppliers. Some suppliers may provide a mix of consultancy and other goods and services but the database cannot distinguish between these different elements. Consequently, the database

## Exhibit 1

### Analysis of consultancy spend by type of supplier



Source: Scottish Government Procurement Information Hub

can provide only broad estimates of consultancy spending. Planned developments should allow central government to monitor spend on consultancy services more accurately and in more detail.

## The study

**5.** Audit Scotland assessed how central government ensures value for money from its use of consultancy services. Our definition of consultancy included staff substitution, management consultancy and some contracted-out services as the risks for each are similar and all require careful management ([Exhibit 2, overleaf](#)).

**6.** We examined:

- what central government uses consultants for
- how central government plans, buys and manages its use of consultants
- what potential savings might be made by improving practice.

**7.** In the course of the study we:

- interviewed central government staff

- analysed information on consultancy spend from the Scottish Government's database
- reviewed 18 recent projects involving consultants, interviewing the project team and consultants. These projects cost £20 million in total and included different services, contract types and sizes<sup>2</sup>
- surveyed 103 project managers and 83 consultants.<sup>3</sup> The total cost of the projects included in the survey is £36 million.

## Key messages

**1** The public sector is strengthening the way it buys goods and services.

**8.** Changes introduced as part of the Public Procurement Reform Programme have created five new centres of expertise to support more efficient procurement across the Scottish public sector ([Exhibit 3, page 3](#)). Two of these specialist centres are developing ways to improve how central government buys consultancy by, for example, developing national or sector-specific contracts for some purchases. However, the scale of change achieved in this area to date is limited.

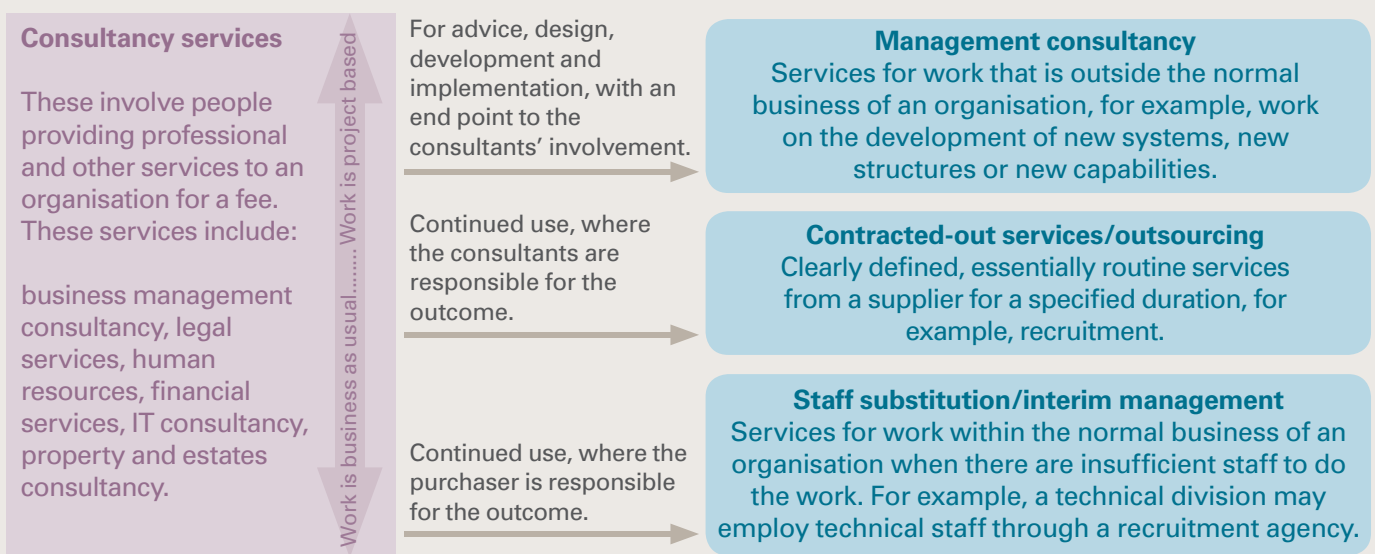
<sup>1</sup> The programme was established in response to the McClelland report; *Review of Public Procurement in Scotland*, Scottish Executive, March 2006. Audit Scotland will publish a report on the Public Procurement Reform Programme in 2009.

<sup>2</sup> This includes the yearly total value for three framework agreements covering IT, legal services and business advice (see page 3 for our definition of a Framework agreement).

<sup>3</sup> Where percentage figures are quoted in the remainder of this document, they are from these surveys.

## Exhibit 2

### Defining management consultancy and other consultancy services



Note: The Scottish Government has recently developed revised guidance on the use of consultancy for professional services. This defines consultancy as management consultancy and excludes contracted-out services and staff substitution.  
Source: Audit Scotland

**2** Central government does not have a clear strategy for its use of consultants or for linking use to its priorities or financial and workforce plans.

**9.** Central government bodies generally decide to buy consultancy services on an individual project basis. Use of consultants is rarely linked to any wider plan or strategy about when and how to get the services needed and the best way to purchase them across the organisation as a whole.

**10.** Central government has not collected or shared enough information on what consultancy skills or knowledge it is buying and why. This makes it difficult to plan future spending on consultancy services and get the right balance between using consultants and staff. If central government had better information on the skills, knowledge and services it is buying, it could find other ways to fill these skills gaps, for example, through using framework agreements to purchase more cost-effectively (Exhibit 4) or recruiting and training staff.

**11.** Consultants are used most often because staff do not have the skills or expertise needed. Other reasons include getting the work done quickly;

getting an outside perspective; because staff are too busy; and completing work to a higher standard than might otherwise be achieved.

**12.** We found that five per cent of our survey projects could have been completed without consultants with little risk to the outcome. This reinforces the need for public bodies to combine plans for using consultants with their workforce plans. We highlight later that better planning in this area could produce significant savings.

**3** In most cases, central government buys consultancy services well but some improvements can be made.

**13.** Generally, central government bodies follow key aspects of good practice when buying consultancy services. In particular:

- Most managers buying consultancy services have support and advice from procurement staff and from published guidance.
- Terms of reference are clear.
- Invitations to tender request specific information.

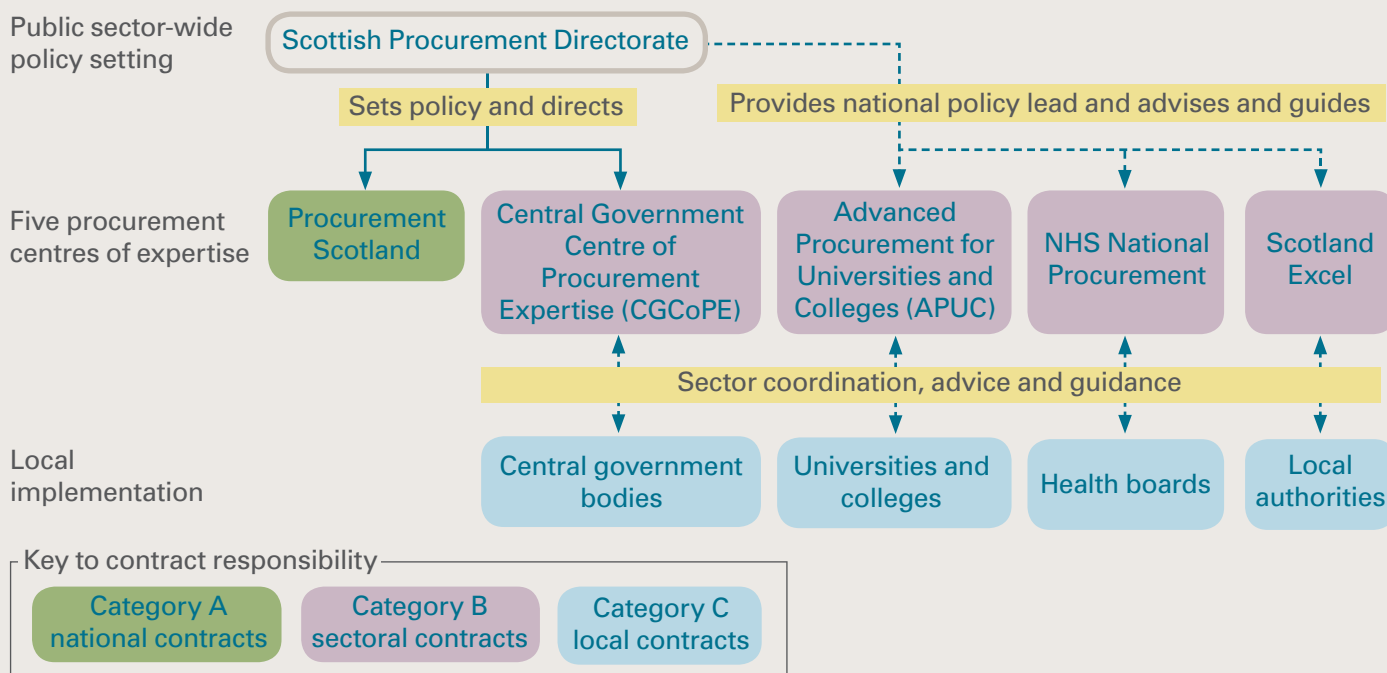
- The competition route chosen is usually appropriate to the value and complexity of the project.
  - Competitions allow a mix of consultancy suppliers to bid for contracts.
  - The tender evaluation process is systematic and fair.
- 14.** However, there are opportunities to improve tender quality and competitions.
- 15.** Central government can improve the quality of the tenders it receives by communicating better and earlier with consultants. Although projects are generally well specified, consultants suggest they could improve their tenders if they could talk directly with project managers and are consulted when developing project specifications.

**16.** Central government does not have good information to allow it to set budgets for consultancy projects. This can lead to inefficiency, such as a need to re-tender if the budget is set too low. Scottish Government guidance is not to disclose budgets to consultants during a tender but there are occasions when budgets should be disclosed.<sup>4</sup> Four-fifths of consultants

<sup>4</sup> For example, under European competition law estimated spend for projects with a value of more than £90,319 currently should be disclosed.

### Exhibit 3

#### Public procurement in Scotland



Source: Audit Scotland

said that lack of information on project budgets restricts the quality of the tenders they provide.

**17.** Central government could make efficiency savings by ensuring it uses the most cost-effective and appropriate form of competition (Exhibit 4).

**18.** Competition helps reduce spending on consultancy while ensuring quality. Almost half the consultants in our survey had reduced their daily rates to improve their chances of winning a contract.

**19.** Most projects involve competition of some type. Twenty per cent were awarded through framework agreements; 43 per cent after a restricted or closed tendering competition; and 21 per cent through open competition. Fifteen per cent of the projects in our survey were awarded by single tender, but two-thirds of these were for low-value projects (costing less than £10,000).

**20.** It may cost more to run an open competition than other competition types (Exhibit 5, overleaf).

### Exhibit 4

#### Competition types

- **Open competition:** the contract is advertised and the invitation to tender (ITT) is sent to all consultants who ask for it.
- **Restricted competition:** used where a large number of bidders is expected. The contract is advertised and a tender list is drawn up, based on preliminary submissions that detail experience and capacity. Only shortlisted consultants receive the full tender documents.
- **Closed tendering:** for low-value contracts where the contract is not publicly advertised. The ITT is sent only to shortlisted bidders.
- **Framework agreement (also known as a shared, common or call-off contract):** these are used when there is a need to buy similar knowledge and skills on a repeated basis. It covers the essential terms for a series of specific contracts to be awarded during a given period. Its terms may include the duration, pricing, conditions of performance and services envisaged. When setting up a framework agreement, a competition takes place to identify one or more potential suppliers of the service over the lifetime of the agreement. Once the agreement is in place, contracts for specific services can be agreed faster and at lower cost. This can involve further mini-competitions between the framework contractors.
- **Single tender (also referred to as non-competitive actions):** only one supplier is invited to tender. The use of single tenders should be strictly controlled and based on justifiable and objective grounds, for example, when the consultant is the only possible supplier.

Source: Audit Scotland

**21.** Around nine per cent of the contracts awarded in our survey could potentially have used a less costly procurement route, given the nature of the requirement and the number of bidders. For these projects, restricted competitions or closed tendering could have been used to limit the cost and time taken to procure the consultants.

**4** Central government could improve how it manages consultancy projects through more consistent and formal evaluation of consultants' work and learning more from them.

**22.** Project managers should understand how consultants work and be aware of their project management responsibilities when hiring and working with consultants.

**23.** Less than a quarter of project managers had used published guidance when managing consultants. Instead, most rely on the experience of colleagues (71 per cent) or general project management training (54 per cent). Twenty-nine per cent of project managers want training on aspects such as project planning to help improve how they buy and manage consultants.

**24.** For all projects it is good practice to evaluate the work on completion to ensure it meets the business requirements and provides value for money.

**25.** Project managers carried out a formal evaluation at the end of the project less than half the time and a third of the projects were not evaluated at all. For the remainder, some informal evaluation was made as the project progressed. More consistent and formal evaluation would improve project management. Without evaluating the work of consultants it is difficult to assess if value for money is obtained and there is limited opportunity to improve consultants' work in the future.

**26.** Guidance states that staff should take advantage of opportunities to learn new skills from consultants. However, skill transfer from consultant

### Exhibit 5 Estimated staff cost of different competition routes for a notional project with a value of £25,000

Open competitions are likely to be more costly than other methods.

Competition type	Scenario	Staff cost to run this competition
Open competition with a high level of interest	Advertising produces a high level of interest. Subsequently 33 bidders receive the tender document and 17 submit tenders	£8,600
Open competition with a lower level of interest	Advertising results in 14 companies which receive the tender document. Eight submit tenders	£5,200
Restricted competition	Advertising produces 14 companies which complete a pre-qualification exercise. Five companies receive the tender document. Three submit tenders	£4,800
Closed tendering	Advertising is not used. A shortlist of five companies is generated and invited to tender. Three submit tenders	£3,500
Use of a framework agreement	Five companies on a framework agreement are invited to tender and four do so	£3,400
Single tender	Only one company is approached to complete the work because, for example, they are the only possible supplier	£1,700

#### Key assumptions:

- Staff costs are based on current internal Scottish Government costing rates at an average of £200 per day.
- Time allocations are based on estimates for competitions with this value. Time includes procurement staff and other project team members where they are involved in different stages of the competition. Bidders' costs are excluded.

Note: Public bodies should ensure the use of single tenders is justifiable and properly controlled. We expect that the use of a single tender approach for a £25,000 contract would be rare.  
Source: Audit Scotland and Scottish Procurement Directorate

to staff occurred in only a fifth of projects in our survey, and only one in ten project managers asked for this at the tendering stage. This may be a missed opportunity as consultants are often employed because they offer additional knowledge and skills.

**27.** Central government can improve opportunities for skill transfer through closer working with consultants. Project managers rarely use approaches which

allow this. For example, only 37 per cent of projects in our survey had joint project teams and only 16 per cent had central government staff working with or shadowing consultants as part of the work.

**5** Central government could make savings of up to £13 million a year through better planning and buying of consultancy services.

**28.** Our review identifies three areas where central government can make savings by:

- arranging for staff to take on some of the consultancy work, where appropriate
- selecting more cost-efficient competition routes
- making greater use of framework agreements.

**29.** With better planning, some of the work completed by consultants could have been carried out in other ways, most notably by using existing staff. We estimate this could give savings of up to £10 million a year. This potential saving depends on the ability to replace consultants with staff and this requires careful planning to ensure that it does not affect other commitments.

**30.** Our estimate allows for the cost of employing staff against the saving in consultancy fees, but does not take account of the impact this might have on other duties. We were unable to estimate the opportunity cost of using staff to avoid the need for consultants as this will vary from project to project. Public bodies need to consider the opportunity cost and effect on work programmes before deciding whether to use current staff, a secondment or consultants.

**31.** Central government can also make savings by changing the way it buys consultancy services.

**32.** Based on current spending levels, central government can make savings of £1.6 million annually by ensuring it uses the most cost-effective and appropriate competition route given the nature of the requirement and the potential number of suppliers. These savings will arise if:

- more consistent use is made of pre-qualification stages to restrict the number of bidders asked to submit tenders

- closed tendering is used more for low-value projects.

**33.** Overall, central government could save a further £1.3 million a year if it made greater use of existing and new framework agreements. It can take up to a year to develop and introduce a complex framework agreement and so the expense in developing them must be justified by the expected use. But once established, these can bring savings through:

- less staff time spent buying services
- lower project costs, from reduced daily consultancy rates. On average, consultants on a framework agreement said they would give a saving of eight per cent on normal daily rates.

**34.** A number of framework agreements are currently in place across central government and we estimate £1.8 million savings are already made through their use. But there is room to increase use. Procurement Scotland and the Central Government Centre of Procurement Expertise are developing common contracts for some professional services for 2008/09 which will, among other benefits, be suitable for a wider range of users.

### Key recommendations

Central government bodies should:

- confirm they have clear processes for approving and recording the use of consultants and monitoring progress, and reinforce these as required
- plan their use of consultancy services when developing their forward work programme to ensure that consultants are used where their knowledge and skills bring greatest value for money
- always evaluate the option to use consultants against the option to use their own staff

- gather and share consistent information on the consultancy skills bought and why consultants are used

- improve the quality of their invitations to tender through better and earlier discussion with consultants about their consultancy needs

- increase the use of framework agreements where possible by ensuring that existing agreements are used and new ones developed as appropriate

- select and use the most economical competition routes by using framework agreements, restricted competitions and closed tendering approaches when appropriate

- evaluate the work of consultants more systematically and share findings from these reviews

- work closely with consultants to increase assurance on quality and make use of opportunities to learn from consultants and ensure knowledge transfer, where appropriate.

The Scottish Government through the Scottish Procurement Directorate, Procurement Scotland and the Central Government Centre of Procurement Expertise should:

- continue to develop framework agreements for the public sector
- continue to support the work of procurement specialists by collecting more detailed information on public sector spending and making this available to central government bodies
- develop the annual supplier registration system to improve public sector procurement and make it available through the Public Contracts Scotland portal.<sup>5</sup>

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