

CORPORATE RESOURCES OVERVIEW AND SCRUTINY

Date of Meeting	Thursday 17 March 2016
Report Subject	Use of Consultants
Portfolio Holder	Leader of the Council
Report Author	Chief Executive
Type of Report	Operational

EXECUTIVE SUMMARY

This report, provided at the request of the Chair of the Committee, explains Council practice in the use of consultants and how value for money is obtained from commissioned consultancies. The report is complementary to the recent report to the Audit Committee on the systems controls over the use of consultants (attached as Appendix A).

This report in explaining Council practice also provides the facts and figures on the number, types and costs of consultants currently being used by the Council according to our adopted definition of 'consultants'. The report sets out why consultants are used to bring expertise, capacity and independent advice to the organisation. Reference is also made to practice in the local government and wider public sector in the use of consultants, and comparative figures obtained from other Welsh councils are used where we have been able to obtain them.

It is important that the information presented in this report is used to inform debate where the use of consultants can be challenged for being unnecessary, of high cost and of limited value to the Council.

The following table is included in the report:-

Table 1: Consultants Engaged in 2015/16

RECOMMENDATIONS

1	That the Committee is assured by the explanations given over the purpose of using consultants, the control of total cost, and how value for money is obtained from current Council commissioning and contract management practice.
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REPORT DETAILS

1.00	BACKGROUND AND DEFINITIONS
1.01	<p>The use of consultants in the public sector is a high profile and at times controversial subject. This is no different locally. Elected members have kept the scale and costs of consultancies under scrutiny for some years; the Audit Committee has overseen the work of Internal Audit in advising on internal controls for the engagement and management of consultants; trade unions will routinely challenge whether consultancies should be used as an alternative to employing individuals to provide similar expertise and capacity for the organisation; the local media gives 'front page' exposure to the costs of consultancy whenever it is reviewed and debated.</p>
1.02	<p>It is important to start with definitions. A consultant is an organisation or an individual contracted to provide specific services to the Council for a limited period of time. These are services where the Council does not have the expertise 'in-house' to be self-sufficient or where the Council has some expertise but insufficient capacity. It is not possible for the Council to be wholly self-sufficient and it would be a poor use of resources to employ specialist individuals to maintain an internal expertise which is only required occasionally or indeed once. Members have discussed in the past the difference between 'core' and 'non-core' internal support services. Consultants should only be engaged where non-core support is needed to be purchased or where additional capacity is needed to supplement core support at a time of peak demand.</p>
1.03	<p>A consultant is different to an interim manager or an agency worker. An interim manager is an external person contracted to cover a temporary vacancy but not employed by the Council. An agency worker is an external person contracted through an employment agency to either cover a temporary vacancy or to work alongside employees during periods of peak demand or seasonal variations in service operations. The three can often be confused. The Council makes sparing use of interim managers. At the most senior level of chief officers the Council has not drawn on any interim appointments since 2009 and instead relies upon internal capacity in the extended absence of an employee, for example, in the case of serious illness. The Council makes regular use of agency workers and the numbers and total cost of agency workers is reported to this Committee within the regular workforce monitoring report. The Council has achieved improved value for money in securing agency workers through the use of the Matrix Contract. Further analysis of the use of agency workers will be reported to the Committee in the next monitoring report.</p>
1.04	<p>Consultants are normally employed to either (1) bring specialist expertise for example connected to the introduction of a complex information technology system or giving legal advice on the formation of Alternative Delivery Models (2) add capacity to core internal resources such as project management of major change projects or (3) bring independent challenge</p>

	and thinking, for example, in challenging the ambition of the business plans to achieve efficiencies in the People and Resources, Governance and Social Services Portfolios. When we refer to consultants we mean external contractors who are commonly known as 'management consultants'. These are professionals who work on major and higher profile projects and commissions alongside senior officers and members.
2.00	REPORT TO THE AUDIT COMMITTEE ON CONTROLS
2.01	<p>The recent review report of the Internal Audit Manager to the Audit Committee (Appendix A) concluded that there was limited assurance over the way in which the organisation applies the previously agreed controls to regulate the engagement and management of consultants. The report also explained that the annual costs of consultants held on the general ledger was inflated by the miscoding of other more routine expenditure for goods and services to the codes for consultants. The report shows that cumulative expenditure of £2.831M was coded as consultancy spend in 2014/15. The scope of the report of the Internal Audit Manager did not include a detailed analysis of the annual costs of consultants or any qualitative assessment of the reasons for engaging consultants or make a value of money achieved from their services. The report went on to quote the figures analysed as consultancy under the procurement classification codes for business and management consultancy and project management services, which showed a total of £0.433M for 2014/15. Although this figure was also subject to inaccuracies of coding it was considered to be more representative of the actual total of consultancy spend for the year under the new definitions for consultants. The majority of costs on the general ledger codes, over and above this figure of £0.433M, were the routine payment of operational professional and technical and fees, and other goods and services which, whilst all legitimate, should not have been coded to consultancy as explained further in 2.02 below. On further analysis the spend of £0.433M only included four consultancies which would certainly meet the new definitions of consultancy and were above or close to the £25,000 contract value. These were Newton Weir (£50,980), Hay Consulting (£73,233), Integra (£50,200) and Northgate (£20,677). Further expenditure of approximately £110,000 was made by Flintshire for significant regional projects for which the Council is the lead with the costs being met by a combination of contributions from all partner councils and a Welsh Government.</p>
2.02	<p>The previous definitions of consultants were too general in their wording leading to a range of expenditure, which would not be recognised as consultancy, being allocated to the consultancy codes in the general ledger. For 2016/17, the Purchase to Pay system will check all entries to consultancy codes and recode them where necessary. The following types of expenditure, whilst legitimate in their own right, have incorrectly been coded to consultancy codes in recent years.</p> <p>The remaining £2.398M of expenditure in 2014/15 was used for these types of fees, goods and services:-</p> <ul style="list-style-type: none"> • Food Safety and standards testing • Occupational Health contract

	<ul style="list-style-type: none"> • Mediation services • IT system implementation • Software support • Asbestos monitoring • Technical services • Provision of training • Architects fees • Health and Safety advice and services • Energy conservation advice and services • Site investigation contractors • Legal fees
2.03	<p>In presenting the report to the Committee the Internal Audit Manager did clarify that no evidence had come to light of significant financial loss in the course of this review. The Committee was concerned and frustrated that previously adopted controls had not been applied consistently and rigorously across the organisation, and that an accurate figure of actual consultancy spend could not be given due to the miscoding of other costs for fees, goods and services to the consultancy codes on the general ledger. New and more exacting controls have since been introduced such as the approval of the Chief Executive being required for the business case for any new consultancy of a value of £25,000 or more, and a technical project group now realigning general ledger codes and cost allocation to reduce and avoid miscoding. The Committee acknowledged that the complexity of the working definition of a 'consultant' would have contributed to the miscoding of costs to the consultancy codes in the general ledger. The Committee was advised that a simplified definition of consultants was now being used, as follows:-</p> <p><i>'Retained consultant: with a contract in place for the periodic provision of advice; and Project consultant: to work on defined and time limited projects on strategy, structure or management.'</i></p> <p>A further report on the implementation and effectiveness of the controls is due to be made to the Audit Committee in July.</p>
2.04	<p>At the recent meeting of the Audit Committee explanations were given on the total number of new consultancies of a value of £25,000 or more which had been appointed in 2015/16, and how consultancies are funded. A consultancy can be funded from a service budget held by a Chief Officer, from allocated Invest to Save corporate resources or a reserve which is set aside, or from an external source such as Government Grant. All such expenditure is recorded and accounted for. If a new consultancy is to be funded from an in-year budget variation it will be funded according to Financial Procedure Rules and be recorded in the monthly budget monitoring report. The Corporate Finance Manager has been invited to make a formal statement on cost control in his capacity as Section 151 Officer. His statement is as follows:-</p> <p><i>'Processes and procedures are in place to ensure strict budgetary control. The annual budget is approved each year by County Council which is then used as a basis for reporting in-year variances through the monthly budget</i></p>

	<p><i>monitoring report. Any in-year budget changes are done in compliance with Financial Procedure rules and tracked by the Accountancy Team.</i></p> <p><i>All council spend is processed through the Council's core financial system, projected to the year end and compared with the available budget. Difficulties with accurate reporting on consultancy spend arose from the way in which the costs of consultancy were categorised in the financial system. This has now been reviewed and simplified to aid future reporting requirements.</i></p> <p><i>Irrespective of where costs were categorised (coded) they would still be subject to monitoring and reporting in the same way as all other costs incurred by the Council. Any significant variations to the available budget are reported to members through the monthly report.</i></p> <p><i>I am comfortable that there is adequate financial control and reporting arrangements in place for the Council's budget.'</i></p>
3.00	RECENT USE OF CONSULTANTS BY THE COUNCIL
3.01	<p>The Committee was given an explanation at its special budget 'mop up' meeting on 18 December on the use of consultants to support the Council through a period of major and intensive organisational change. The explanation was given because the use of consultants had been questioned by one of the other Overview and Scrutiny Committees in the course of scrutinising the annual budget proposals for 2016/17. It was explained that the Council's transformation programmes at corporate and service level are principally designed and implemented within our own resources and that consultants are engaged sparingly. The two types of consultancy used are 'fee based' or 'risk and reward'. The Committee was advised that there were 'live' consultancies in Streetscene and Transportation (risk and reward), Social Services (fee based) and Corporate Services (fee based) to support organisational change. The business case for these engagements was as follows:-</p> <ul style="list-style-type: none"> • Streetscene and Transportation: the need for commercial expertise and the additional capacity to drive through ambitious efficiency plans to meet targets; • Social Services: the service is the second largest Council spender and there is a need to test out whether our existing programmes of service reform and efficiencies could go further; and • Corporate Services: external and expert challenge to our adopted business plans to reduce costs by 30% over 3 years.
3.02	The Committee was satisfied with the explanation given at its December meeting.
3.03	The following is a list of consultancies of £25,000 or more in value which have been engaged in 2015/16 using the correct definitions and as summarised verbally to the Audit Committee.

Table 1: Consultants Engaged in 2015/16

Consultancy	Project	Value £
Capita	Specialist advice and support for Alternative Delivery Model development	94,748
Integra	Project management of the introduction of a major new software system for management accounting	25,800
J Parkes-Newton	The procurement of a housing development partner for the SHARP programme and procurement of a fleet vehicle provider project in Streetscene (<i>costs charged to both Housing Revenue Account and General Fund</i>)	104,853
P A Group	Review of Corporate Services Business Plan	48,380
JMP Group	Review of transport policies and operational costs as part of the new Integrated Transport Unit	18,345
To be appointed	Review of Social Services Business Plan	50,000
Yewbarrow	Project management and technical implementation of the Proactis e-procurement and e-invoicing system	89,780
Total		431,906

Footnote 1: the above figures show costs accrued in-year to date

Footnote 2: the above figure for the JMP Group is the core fee to which a risk and reward fee will be added later

Footnote 3: the procurement for Social Services is not yet complete and the figure quoted is a guideline estimate

3.04 There is strong evidence that past and current consultancies of scale have been well managed internally and contributed to significant organisational achievements. Skills and knowledge have also been transferred from the consultants to the Council to make us more self-sufficient for the future. Examples are the effective project management of the later stages of the Single Status project leading to the adoption of a Single Status Agreement in 2013 and a self-governing arrangement for pay and grading maintenance for the future (as reported to the Committee in the Single Status Closure Report in 2015) (consultants J Cooke and Integra); the introduction of a new corporate operating model and streamlined management structure in 2014 (consultants Hay Consulting); the procurement of a housing development partner for the SHARP Programme (consultant J Parkes-Newton); the review of fleet management which contributed significant efficiencies in Streetscene and Transportation (Newton Weir).

3.05 In previous meetings of this and other Committees, and full Council, members have shared their understandable concerns at the risks posed to the organisation by the loss of experience and expertise as management capacity is reduced over time to save cost. Members have also acknowledged that the scale, pace and complexity of organisational change and service reform needed to meet the cost saving imperatives of the Medium Term Financial Plan is unprecedented. In such circumstances there will be an urgent need for external support to bring expertise, capacity and independent advice and challenge to guide and assist the

	organisation. The use of the right consultants for the right tasks at the right time is an occasional business need of the Council.
3.06	Whether 'value for money' is obtained from a consultant is a judgement best made by weighing up whether a competitive price for the work was obtained from the procurement, whether the consultancy project was completed on time and budget to task, and whether the Council achieved its organisational objectives by engaging the consultant.
4.00	COMPARATIVE USE OF CONSULTANTS BY OTHER COUNCILS
4.01	The use and the costs of consultants has had a similar profile in some other Welsh councils. Some councils have introduced controls not dissimilar to those introduced within this Council. Obtaining reliable comparable annual cost figures from other councils has proved difficult. Of the five peer councils which were able to supply information one reported similar challenges with coding as experienced within Flintshire and that they too had difficulty in extracting an accurate figure for consultancy or management consultancy from a miscellany of expenditure on professional and technical fees and specialist goods and services. One council could not provide a meaningful figure for comparison as they did not distinguish consultancy spend from other spend on professional and technical fees.
4.02	Four Welsh councils were able to supply a total figure for all expenditure coded as consultancy as follows. These figures have limited use for comparability given differing definitions and coding arrangements but provide some form of benchmark:- Council A (North Wales): £1.300M (2014/15) Council B (South Wales): £2.230M (2014/15) Council C (South Wales): £1.476M (2013/14) Council D (North Wales): £0.586M (2014/15)
4.03	An increasing number of Welsh and English councils have engaged large consultancy companies to run major change programmes on their behalf for a 'risk and reward' fee. Typically, this work will involve the consultancy in reviewing current operations through a form of diagnostic, setting out and agreeing a programme of change and efficiency targets with the client authority, and then moving into an operational phase of jointly implementing the agreed change programme. The term 'risk and reward' comes from the arrangement whereby the consultancy receives a fee for its work where the change programme has proven to be successful. The fee is set as a proportion of the efficiencies actually achieved and can typically be 10-15% of the total sum of the efficiencies. The risk lies with the consultancy i.e. they may not receive any payment if the programme is unsuccessful. This type of work is lucrative to consultancies in the marketplace and client authorities, whilst receiving the benefit of external expertise and assistance, can be accused of paying-over substantial sums of public money for work that they could arguably have done in-house themselves. This Council has only made selective use of risk and reward consultancies, and not to any large scale, and has largely relied upon its own internal capacity to design and deliver its own change programmes.
4.04	To keep the costs of consultancies in perspective, should the Council

	instead opt to employ an individual rather than appoint a consultant, a £50,000 consultancy is equivalent to the annual costs of employing a Grade J officer such as a solicitor or an architect, and £25,000 is the cost equivalent of an operational worker such as a Cook in Charge or a Streetscene operative.
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5.00	RESOURCE IMPLICATIONS
5.01	Consultancies are funded through one of several sources as set out in the report at 2.04. All spend on consultants is subject to Procurement Rules, and Finance Procedure Rules.

6.00	CONSULTATIONS REQUIRED / CARRIED OUT
6.01	All Chief Officers, the Corporate Finance Manager and the Internal Audit Manager have been consulted in the preparation of this report.

7.00	RISK MANAGEMENT
7.01	The risks of excessive expenditure on consultants is being managed through the controls explained in Appendix A and through the exercise of careful business planning.

8.00	APPENDICES
8.01	Appendix A: Report of the Internal Audit Manager to the Audit Committee <i>Use of Consultants</i> January 2016.

9.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
9.01	Background papers held by the Corporate Finance Manager and the Internal Audit Manager. Contact Officer: Colin Everett Telephone: 01352 702101 E-mail: chief_executive@flintshire.gov.uk

10.00	GLOSSARY OF TERMS
10.01	Fee Based: The payment of a pre-agreed contract fee for a commissioned piece of consultancy work. Risk and Reward: The payment of a fee to a commissioned consultant which is a pre-agreed percentage of the actual efficiencies achieved through the implementation of a mutually agreed change plan.

<p>SHARP: Flintshire County Council House Building Programme under the title of the Social Housing and Regeneration Programme.</p> <p>Matrix: A procurement framework for accessing agency workers from approved Employment Agencies at controlled placement and salary costs.</p>
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