Reaching the Peak?
Getting Value for Money from Management Consultants
The Audit Commission

...aims to be a driving force in the improvement of public services. It promotes proper stewardship of public finances and helps those responsible for public services to achieve economy, efficiency and effectiveness.

District Auditors were first appointed in the 1840s to inspect the accounts of authorities administering the Poor Law. Auditors ensured that safeguards were in place against fraud and corruption and that local rates were being used for the purposes intended.

The founding principles remain as relevant today as they were 150 years ago. Public funds need to be used wisely, as well as in accordance with the law. The task of today’s auditors is to assess expenditure not just for probity and regularity but for value for money as well.

The Audit Commission was established in 1983 to appoint and regulate the external auditors of local authorities in England and Wales. In 1990 its responsibilities were extended to include the National Health Service. For more information on the work of the Commission, please contact Andrew Foster, Controller, The Audit Commission for Local Authorities and the National Health Service in England and Wales, 1 Vincent Square, London SW1P 2PN. Tel: 071 828 1212.
Reaching the Peak?
Getting Value for Money from Management Consultants

LONDON: HMSO
Preface

The Audit Commission is responsible for the external audit of local authorities and National Health Service bodies in England and Wales. As part of this function the Commission's auditors are required by law to examine local arrangements for securing economy, efficiency and effectiveness in health and local authorities.

This report, *Reaching the Peak?: Getting Value for Money from Management Consultants*, summarises for health service and local government managers the main issues identified by District Audit while reviewing the use of management consultants at health and local authorities. It has been written for senior officers with the purpose of reporting findings and describing standards of good practice.

The study was carried out by auditors at 17 locations in England and Wales and managed by Lindsay Brown under the direction of Trish Longdon, both Project Officers for the District Audit Service in London (Region 7).

The report concludes with a checklist of good practice designed to be of practical assistance to project managers when commissioning and managing consultants.
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Introduction

1. A number of health and local authorities have recently been subject to bad publicity over their use of consultants and there have been several instances of large-scale consultancy projects that have failed to deliver what they promised. Earlier studies by the District Audit Service showed that some authorities have a poor record of implementing consultants' recommendations. Others revealed weaknesses in the procedures used to select consultants and in the management of consultant contracts.

2. At the same time authorities have increasingly looked to consultants to help them prepare for the many challenges they have faced such as the council tax, care in the community and applications for trust status in the NHS. Indeed, several of the managers interviewed during this study said that without consultants they would not have been able to meet the legislative deadlines.

3. Poor management of consultancy projects is a waste of a very expensive resource. The Management Consultancies Association estimates that total spending on management consultants in the NHS and local authorities in 1992 was in the region of £120 million. In addition, where proper procedures for the selection and appointment of consultants are not followed, officers and members can find themselves facing serious criticism.

4. The purpose of this study was to review the use of management consultants at health and local authorities throughout England and Wales, to identify strengths and weaknesses in local practices and to develop a guide to good practice. In developing recommendations for this report, it was not the intention of the Commission to increase the amount of bureaucracy faced by officers when they engage consultants. Indeed, some of our recommendations should have the effect of reduc-
ing unnecessary red tape. Rather, it is to improve the level of accountability in the appointment of consultants and to help authorities get better value for money from consultancy projects.

METHODOLOGY

5. As part of the 1992/93 audit of health and local authorities, the District Audit Service carried out audits of the use of management consultants at eight health authorities (purchasers and providers) and nine local authorities in England and Wales. Each local audit was designed to:

- assess the extent of the use of management consultants in the authority;
- review existing policies governing the selection and management of consultants;
- identify the strengths and weaknesses of procedures used by departments to select and manage consultants; and
- recommend new policies and procedures to help the authority obtain better value for money from consultants.

6. Following an audit guide, auditors used a standard approach at each authority. Chief officers were asked to provide details of all consultancy projects commissioned since April 1989. Auditors reviewed standing orders and other written procedures and interviewed key officers in each department to find out the procedures used in selecting and managing consultants. Each auditor also examined a sample of consultancy projects in detail.

7. It proved difficult to find agreement on the type of work that constitutes management consultancy. Consultancy firms are continually adding new areas of expertise and the needs of their public sector clients are changing all the time. In order to provide consistent comparative data for this study auditors were provided with a definition of management consultancy which appears at the end of this report.
This specifically excluded the use of consultants or contractors to cover for staff vacancies and the use of professionals such as architects and lawyers.

**ORGANISATION OF THE REPORT**

8. This report is based on an analysis of data collected in the local audits and the reports produced for each health and local authority (Exhibit 1, overleaf). It is organised in four sections as follows:

1. **SETTING THE SCENE** An analysis of the types of consultancy projects commissioned by authorities and reasons for using consultants.

2. **PROCEDURES FOR SELECTING AND MANAGING CONSULTANTS** A description of good practice for each stage in the process of commissioning and managing a consultancy project, together with detailed findings and recommendations.

3. **THE WAY FORWARD** The steps senior managers, Members and Non-Executive Directors should take to promote the effective use of consultants.

4. **CHECKLIST OF GOOD PRACTICE FOR PROJECT MANAGERS** A series of checklists for use by officers responsible for selecting and managing consultants.

Appendix A to the report gives the definition of management consultancy which was used throughout this study.
STRUCTURE OF THE REPORT

Exhibit 1
Part 1: Setting the Scene

The Scope and Extent of the Use of Management Consultants

9. Authorities should know how much they spend on consultancy projects, what consultants are used for and how that use varies from year to year. Our survey shows that few authorities are able to answer these basic questions. Very few authorities keep records on consultants at a central level or by department. Because of variations in coding it is generally impossible to find out the extent of the use of consultants from the financial accounting system. For these reasons, the data we collected on consultant expenditure at each authority is probably unreliable and has been omitted from this report.

TYPES OF CONSULTANCY PROJECTS

10. The types of projects for which management consultants have been used reflect the preoccupation of health and local authorities in recent years with improving service, reorganisation, competitive tendering and information technology (IT). Box A (overleaf) shows some of the most common types of consultancy projects identified in the study. Consultants have been used, for example, to develop assessment procedures for mentally- and physically-disabled patients in preparation for care in the community. They have assisted authorities in evaluating software for the council tax, helped them to develop total quality programmes and advised on the needs of schools for support services in the light of local management of schools.
Box A

MANAGEMENT CONSULTANTS ARE FREQUENTLY USED FOR THE FOLLOWING:

11. Authorities hire management consultants for many reasons. An analysis of 63 projects examined in detail at the study sites is presented in Exhibit 2. This shows that the most common reason for hiring consultants was a lack of in-house skills. Other reasons include the need for an independent view, short timescales and a shortage of staff within the department. On many projects consultants were hired for two or more of these reasons.

six
The most common reason for hiring consultants is a lack of in-house skills. Note: Based on an analysis of 40 local authority and 23 health authority projects.

12. Short timescales for work to be done was a much more important reason for taking on consultants in local authorities than for health authorities. This reflects the time pressures that local authorities have been under to introduce the council tax and new programmes such as local management of schools and care in the community.

13. Many authorities have their own in-house management consultancy groups. Some of these are autonomous business units which have to compete for work within the authority. In one London borough, standing orders require departments to invite in-house agencies, including the in-house management consultancy group, to bid for consultancy work. In other authorities, use of in-house consultants is left to the department’s discretion.

HEALTH AND LOCAL AUTHORITY SPENDING ON CONSULTANTS

14. In most authorities it proved to be very difficult to obtain accurate figures on spending on consultants from the financial system. This is
because consultants' fees are charged to a great variety of account codes including unused salaries, training, supplies and services and individual programme budgets. In order to collect data on spending for this study, therefore, auditors had to rely mainly on the memory of individual project managers, most of whom were only familiar with their own projects. Many project managers had 'moved on' to new jobs or other authorities.

15. There was a great deal of variation in the level of spending on management consultants. Spending at individual authorities in 1992/93 ranged from a high of £1.3 million at one of the largest authorities to a low of £65,000 at one of the smallest and we found no link between population size and spending.

16. Problems in obtaining expenditure data made it difficult to identify trends. Of the 17 authorities included in the study, only eight were able to provide information on spending over a three-year period. Total spending on management consultants for those authorities between 1990/91 and 1992/93 showed no marked change.

17. Auditors collected detailed information on more than 200 consultancy projects. Project fees ranged from £200,000 for an information systems project to a few hundred for a management training exercise with an average of £11,800 per project. The cost per day ranged from £60 to £1000 with an average of £400 per day. Health authority projects took an average of 15 weeks from start to finish while local authority projects took slightly longer at 19 weeks.

**CONCLUSION**

18. The use of management consultants is well-established throughout the NHS and local government and is in many cases essential to the effective running of the organisation. Although it proved difficult to quantify, the sums of money spent on consultants are significant. Increasingly management and budgets are being devolved to more eight
junior staff without experience of commissioning consultants. It is therefore important that all authorities have in place systems to ensure that value for money is being obtained. The next section describes current practice.
Part 2

Procedures for Selecting and Managing Consultants

19. This section describes good practice for each phase of the process of commissioning and managing a consultancy project together with findings from the 17 audit sites and detailed recommendations. The section is organised under the following headings:

It is, of course, important at this stage to be clear about the reasons for hiring an external consultant. As shown in the previous section, the most often cited reason for hiring external consultants was a lack of in-house skills, followed by the need for an independent view and the short timescale involved. Whatever the reason, before beginning the process of hiring an outside firm, authorities should have determined that in-house resources are not sufficient and that the extra expense involved in hiring a firm of management consultants is clearly justified.
PREPARATION OF PROJECT BRIEF

20. Departments should always prepare a detailed project brief well before selecting a consultant. If necessary, it can be refined later to take account of the consultants' ideas. The brief then becomes the consultants' terms of reference.

21. The discipline of preparing a detailed project brief is helpful because it forces officers to consider what they want to achieve from the project. It also helps them to assess the extent of the commitment they will need to make to the project in providing data to the consultant, attending meetings, reviewing results etc. A clear project brief is also necessary in order to evaluate the project upon completion.

22. The lack of a clear project brief can lead to misunderstandings between consultant and client. One department had to redo completely the work of a consultant and concluded, with hindsight, that the fault was its own for not having a more precise brief. It was powerless to withhold payment from the consultant who argued, correctly, that he had met (literally) the terms of reference.

23. 30% of local authority projects and 57% of health authority projects did not have an adequate project brief or terms of reference (Exhibit 3, overleaf). Common omissions included project objectives, timetable, monitoring arrangements and a detailed description of project deliverables. Terms of reference are frequently prepared by the consultant after discussions with the client. Sometimes this will add value to the project but, in general, it is no substitute for careful thinking on the part of the client department.

24. There should be corporate guidelines on preparing a project brief or terms of reference. These can be as simple as asking officers when they write a project brief, to consider who, what, why, where, when and how (see Box B). In good practice authorities these guidelines are included in a code of practice.
While 84% of projects had clearly stated objectives only 60% had an adequate project brief.

**ITEMS TO INCLUDE IN THE PROJECT BRIEF:**

- background to the project;
- project objectives;
- expected product or deliverables;
- project timetable;
- the department’s own contribution to the project;
- reporting requirements;
- relevant source documents available for inspection;
- proposals submission requirements;
- timetable for submitting proposals;
- contact name and number for enquiries.
25. Standing orders and financial regulations relating to contracts should be clear and easy to use. They should specifically state which regulations apply to professional services such as management consultancy and they should address competitive tendering, member approval and selection criteria. The absence of clear rules exposes officers and members to the risk of charges of improper practice, especially when projects go wrong.

26. In fact, auditors found widespread confusion among officers about how, or even if, contract standing orders and financial instructions apply to consultancy projects. In many authorities rules about competitive tendering were originally designed to apply to building contracts or the purchase of supplies and it is difficult to see how they apply to professional services such as consultancy. In one authority even legal staff were unsure whether standing orders applied to consultancy projects.

27. In many authorities guidance on contracting and tendering is found in several places including standing orders, financial instructions, purchasing guidelines and other documents, some produced many years ago. Finding out what the rules are can involve considerable effort on the part of contracting officers, many of whom are commissioning consultants for the first time.

28. Even when standing orders specifically apply to consultancy projects, they often leave many questions unanswered including: over what level must a contract be formally tendered and how is this done; when can they appoint consultants with no competitive process at all; do they always have to select the firm with the lowest price; and when should a contract be referred to members?

29. Many of the regulations relating to contracts reviewed during this study were complicated and difficult to interpret and, as a consequence,
frequently ignored. Some officers, concerned to follow some sort of competitive process, make up their own.

30. All organisations should review their standing orders and financial regulations to ensure that they:

- clearly indicate which regulations apply to professional services such as consultancy;
- are clear and easy to follow; and
- are complete, i.e. include guidance on board approval, tendering and selection criteria.

Where existing regulations are unclear and difficult to interpret, they should be revised. Several authorities have developed a code of practice for using consultants which provides a summary of the authority's contract regulations.

BOARD/COMMITTEE APPROVAL

31. While board members or councillors may not wish to be involved in approving all consultancy projects, it is good practice to involve them in approving large or expensive projects. The threshold level above which board or committee approval is required should be set by each authority.

32. The circumstances under which a consultancy contract should go to members for approval are often unclear. In some authorities standing orders require special member approval for waiving formal tendering or when officers select other than the lowest tender. In one authority, where members were concerned at the high level of spending on consultants, all contracts had to be approved by the appropriate service committee. In authorities requiring member approval, the threshold expenditure level varied from £10,000 at one city council to £1,000,000 at a district health authority.

33. Financial regulations should contain clear guidelines on the limit above which board or committee approval is needed to enter into a
contract and on the specific circumstances where special authority should be sought (e.g. waiver and competency).

**COMPETITIVE TENDERING**¹

34. Standing orders should specify the level at which competitive tendering is required. In addition, they should specify the type of tendering required including informal price testing, semi-formal competition and formal competitive tendering and relate these to the amount of the contract. They should also address the basis upon which consultants are selected to include other factors in addition to price.

35. The level at which competitive tendering is required varies from £5,000 to £25,000 (Exhibit 4, overleaf).

36. While the level at which competitive tendering is required is usually clearly laid out in financial regulations, there is confusion about whether or not they apply to management consultancy projects. In practice, consultants are frequently commissioned without any competitive process at all (Exhibit 5, overleaf). 35% of the local authority projects examined involved neither formal nor informal competition. The figure for health authorities was much higher at 70%. There is considerable variation between authorities and between departments in the same authority. For example, of the 13 projects listed by one

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¹ The legal position on this is as follows: in the absence of a legislative requirement, a local authority or NHS body is not obliged in every case to conduct a competitive tendering exercise prior to awarding a contract for the provision of services. However, the local authority or NHS body would be in breach of fiduciary duty if it were to proceed without competition unless there were cogent reasons for doing so. In that event, the local authority or NHS body would at least have to be able to demonstrate that the price under the contract was not in excess of the market price and that it obtained best value for money. Also, the EC Public Service Directive requires that contracts within the scope of the directive are let in competition, in accordance with the requirements of the directive.
The level at which competitive tendering is required is normally specified in financial regulations, but there is considerable variation in the amount.

Source: District Audit Service

Consultants are frequently commissioned without any competitive process at all.

Source: District Audit Service
local authority department, in only one did officers consider more than one firm for the job.

37. Often for the best of reasons, consultants are sometimes selected because they are personally known to the officers in charge or because they have already performed well for the department. This means that officers know they will get a good product. It may also mean that they are contravening tendering regulations and run the risk of being accused of corrupt practices. In one authority, for example, councillors and officers faced more than two years of newspaper attacks and investigations by police, fraud squad and the District Auditor, all of which could probably have been avoided had they followed a competitive selection process.

38. Officers can protect themselves by documenting the efforts made to identify other firms, such as contacting other authorities and professional societies. They should also follow any procedures laid down in standing orders to obtain a waiver of the authority's tendering rules.

39. Standing orders usually describe procedures for competitive tendering which involve a number of formal stages including advertising the tender, opening the tenders in the presence of certain officials and selecting the lowest bidder. In many cases, these are very time-consuming and inappropriate for consultancy work, especially for smaller projects. As a result, standing orders are frequently ignored for commissioning consultants and, as we have seen, consultants are hired with no competition at all.

40. Authorities sometimes break the spirit, if not the letter, of tendering rules by tendering the first part of a project and then awarding significant subsequent work to the same firm without further tendering. In one case, for example, an authority tendered a contract for £25,000 and then subsequently paid the same firm almost £200,000 in fees for related work.
41. Authorities should develop a range of procedures for ensuring competition in the appointment of consultants which matches the degree of formality to the size of the contract. This will increase the level of accountability in selection decisions while minimising the amount of unnecessary bureaucracy involved in starting up a project.

42. Exhibit 6 suggests three types of competition suitable for small, medium-sized and large projects. The type of competitive procedure used for a particular consultancy project should be determined by the estimated value of the contract. Threshold levels for each type of tendering should be set by each authority and revised periodically to take account of inflation.

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eighteen
SELECTION CRITERIA

43. Officers should specify in advance the criteria on which consultants will be selected and record the reasons for the final decision in the contract file. Contract standing orders normally require departments to select the firm with the lowest price. However, for professional services such as management consultancy, the lowest price does not always represent the best value for money. Other factors affecting the success of a project include:

- experience and qualifications of team members;
- understanding of client's needs;
- feasibility and credibility of proposed approach;
- ability to complete the project on time.

44. In practice, the requirement to select the firm with the lowest price is frequently ignored. Of the projects examined for this study that were tendered, less than half of the winning firms offered the lowest price. Only a few project managers were able to provide documentation of the reasons for the final decision.

45. It can sometimes be helpful to specify a price range in advance at the stage of inviting tenders. This makes it easier for consultants to assess the scope of the study. The final decision can then be made on the quality of the team and their approach.

46. Authorities should review their standing orders and financial regulations to ensure that, when selecting a consultant, departments can take several factors including experience and qualifications into consideration, in addition to price.

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1 Although local authorities or NHS bodies are not obliged in every case to accept the lowest tender, they must do unless there are cogent reasons to the contrary. Where a contract is within the scope of the EC Public Services Directive, the decision to award that contract must be taken in accordance with the requirements of the directive.
47. The criteria used, the reasons for making the final decision and, in particular the reasons for not accepting the lowest tender should be recorded and documented in the project file.

AGREEMENTS

48. Before the project starts the authority and the consultant should agree in writing what work will be performed and the fees to be paid. Wherever possible, agreements should be for a fixed price with payments linked to the successful completion of project tasks and they should specify what types of expenses will be reimbursed. A standard agreement ensures that important issues are not overlooked.

49. Agreements between consultants and authorities take many forms ranging from an oral or 'gentlemen's agreement' to a formal, written document under the seal of the authority drawn up by legal staff. Most commonly, agreements take the form of an exchange of letters between the department and the consultant. Sometimes the consulting firm will attach a copy of their own standard terms and conditions to their letter of acceptance. These, of course, are designed to protect the consulting firms and not their clients.

50. Almost one-third of the projects examined had no written agreement of any form (Exhibit 7). In some of these cases, officers claimed that there was at one time an agreement but that it was lost or misplaced. The absence of a written agreement makes it very difficult to obtain redress in the event of a conflict with the consultant.

51. While it is not always necessary to have a formal contract prepared by legal staff, one of the drawbacks of relying on an exchange of letters is that important items are often left out. As shown in Exhibit 8, common omissions include a detailed schedule, cost, and invoicing and reporting arrangements and named staff contributions. It is important to agree with the consultancy firm how much of each person's time will

twenty
30% of projects had no written agreement of any form.

Note: Based on an analysis of 23 health authority and 40 local authority projects.
be devoted to the project and the mix of senior and junior staff. Wherever possible, therefore, the agreement should specify the hours (or days) budgeted for each of the team members. Over half of the projects reviewed failed to specify the contribution of consultant staff.

52. Less than 40% of projects linked payments to the successful completion of tasks. This is the best way to ensure that a project is completed on time, to budget and without unpleasant surprises at the end.

53. Most agreements are fixed price agreements in the sense that authorities agree to pay the consultant a rate per day for a certain number of days. However, in many cases, departments ended up spending more than expected because they failed to specify in the agreement what expenses would be reimbursed. In addition to travel and subsistence, consultants sometimes claim for postage, reproduction, printing and other costs.

54. Contracts should normally be fixed price, link payments to the completion of tasks and specify what types of expenses will be reimbursed. Authorities should provide guidance on the basic elements to include in consultant agreements (Box C). Alternatively, authorities may develop a standard form of contract for consultants into which the project’s terms of reference can be slotted.

**Box C**

**ITEMS TO INCLUDE IN ALL CONSULTANT AGREEMENTS:**

- description of project deliverables;
- project schedule with key milestones;
- fees, including definition of reimbursable expenses;
- how payments will be made;
- reporting arrangements;
- arbitration/termination arrangements.

*twenty-two*
MONITORING PROGRESS

55. Officers managing consultancy projects on behalf of the authority have two sets of responsibilities. The first is that of project management. These responsibilities include drawing up terms of reference for the project, meeting with the consultant on a regular basis to resolve any issues related to project tasks and reviewing deliverables such as draft reports as they are received. The second set of responsibilities is for managing the contract. This involves ensuring that the initial agreement is properly approved, that tendering procedures have been followed, that payments under the contract are correct and that proper documentation is maintained in a contract file.

56. Most consultancy projects are managed by a designated project manager (Exhibit 9). Authorities also appear to be quite good at...
forming steering groups to monitor progress on a regular basis. More than two-thirds of projects were overseen by a steering group, usually comprised of senior managers.

57. While officers may be clear about their responsibilities as project managers, in many cases they are less clear of their responsibilities as contract managers. In the case of one large consultancy project, for example, the project manager argued that he spent a great deal of effort planning the project and co-ordinating all the parties involved. As a result, he felt that the quality of project management was excellent. That the consultant's work went on for far longer and cost much more than originally intended was not his fault, he argued, because no-one had explained his responsibilities for contract management.

58. Officers in charge of consultancy projects should be clear about their responsibilities for contract management (Box D). If the authority decides to develop a code of practice, it should include a description of these responsibilities.

**Box D**

**CONTRACT MANAGEMENT RESPONSIBILITIES:**

- ensuring that each stage of the selection process is carried out correctly and documented;
- setting up and maintaining a contract file;
- monitoring progress against the contract;
- keeping a payment schedule;
- making sure that payments are properly approved; and
- ensuring that the project is evaluated upon completion.

*twenty-four*
BUDGETARY CONTROL

59. Managers should ensure that invoices for consultants' fees are charged to the correct account codes so that payments to consultants can be tracked in the financial system.

60. As discussed earlier in this report, budgetary control of spending on consultants at most study sites was very poor. It proved very difficult, and in most cases impossible, for auditors to track spending on consultants through the financial system because consultants’ fees are charged against many different account codes including unused salaries, training and individual programme budgets. Indeed, expenditure under one contract was charged to separate account codes on different occasions. This makes it impossible to use the financial system to monitor or control the cost of individual contracts. Many authorities fail to make a distinction between management consultants, temporary staff, contract staff and trainers, all of whom may be lumped together in the financial system under the general heading of 'consultants'. As a result, few authorities have an accurate record of how much they are spending on management consultants.

61. Organisations should use separate budget codes for management consultants, contractors and temporary staff and for individual consultancy contracts. If funds need to be transferred from elsewhere, they should be recoded.

RECORD-KEEPING

62. Authorities should consider setting up a central register of consultancy projects. In addition to improving the quality of management information and the overall level of control, a central register of projects encourages 'cross-fertilisation' by allowing one department to benefit from work done by another department with similar needs. It can also serve as a corporate repository of information...
about consultants that performed particularly well and prevent departments from rehiring firms who performed badly.

63. In most authorities, project files are kept by individuals within each department and not centrally either for the authority as a whole or by department. This makes it difficult to track the use of consultants, and, at a time of high staff turnover, difficult to find out the details of an individual project. At the level of the authority, the lack of central records makes it impossible to monitor the extent to which consultants are used by the organisation as a whole.

64. Authorities should consider setting up a central register of consultancy projects. This register should include a brief description of the project, name of the consultancy firm, client department and estimated cost. It should also include an evaluation of the project once completed.

65. Project managers need to keep complete documentation of each stage of the consultancy contract from the initial project brief to final evaluation.

66. For many consultancy projects the quality of record-keeping is very poor. In some authorities, project managers were unable to produce the basic elements of a contract file including the terms of reference, documentation of the selection process or the agreement. In one authority, for example, where seven projects were examined in detail, three project managers were unable to produce a project brief, four had not documented the selection process and four were unable to produce evidence of an agreement. Poor record-keeping results in poor accountability and the absence of contract documents can cause serious problems in the event of a dispute with the contractor.

67. Project managers should set up and maintain a contract file for each consultancy project which should include documentation of all stages of the contract from the initial project brief to final evaluation (Box E).

twenty-six
REVIEWING PERFORMANCE

68. A formal evaluation should be carried out for all but the very shortest consultancy engagement. This should include details of whether the work was completed on time and to budget and, if not, why not. It should also state the extent to which project objectives were achieved or implemented and describe any difficulties with in-house project management.

69. Most authorities do not have guidelines for evaluating consultancy projects upon completion. Although one council requires departments to carry out a formal evaluation of consultancy projects every three months and to file this with contract monitoring staff, in most cases, post mortems are only carried out when projects go wrong and then only informally. This means that valuable lessons about the performance of the consultant and in-house project management are lost.

70. On the whole, the majority of project managers were pleased with the performance of their consultants, but at each authority auditors identified several projects which had failed to meet expectations.
Consultancy projects went wrong for many reasons including the department’s failure to be clear about project objectives and the failure of client and consultant to communicate effectively and often enough.

71. In only 43% of health authority projects were the consultants’ recommendations either implemented in full or largely implemented. This means that in nearly 60% of cases, recommendations were not implemented. In some of the examples examined this represented poor value for money and could have been avoided. Also, over 70% of local authority projects checked during the survey were not evaluated (Exhibit 10).

72. Officers need to be aware, of course, of the tension between impartiality and commercial interests inherent in the consultants’ role since their reports often conclude with recommendations for further evaluation.

Exhibit 10
PROJECTS MEETING STANDARDS OF GOOD PRACTICE
Only 28% of local authority projects were evaluated on completion.
work. This practice is contrary to the codes of conduct of the Management Consultancies Association and the Institute of Management Consultants.

73. Departments should carry out an evaluation of all but the very shortest consultancy project. It may be helpful for the authority to provide departments with a brief, standard evaluation form (Box F, overleaf). Completed project evaluation forms should be lodged in the contract file and in the authority's central register of consultants.

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1 In recognition of this tension, the Audit Commission Code of Audit Practice for Local Authorities and the National Health Service in England and Wales explains that 'An appointed auditor may not undertake any work in addition to that relating directly to the discharge of an auditor's duties for that authority.' The two exceptions are:

(a) Where the cost of the additional work does not exceed £10,000 in each financial year.

(b) Where the authority and the appointed auditor are able to satisfy the Commission both that such additional work will not run the risk of impairing the auditor's independence and also that it should be performed by the firm in which the auditor has an interest, rather than by any other firm, to ensure economy and efficiency in the utilisation of the authority's resources.

twenty-nine
ITEMS TO INCLUDE IN PROJECT EVALUATION:

- Was the project completed on time and to budget? If not why not?
- Were project objectives achieved?
- Was the quality of work satisfactory?
- Will recommendations be implemented?
- Description of any problems, including in-house project management
- Assessment of individual consultant staff
The Way Forward

74. Some examples of good practice described in this report are found at a few of the study sites. But many organisations still fail to secure value for money from the consultants they employ. In order to improve the overall level of control over the use of consultants, authorities should:

– ensure that contract standing orders are clear and easy to follow;
– monitor spending on consultants through the financial system;
– ensure that departments understand their responsibilities for managing contracts and, if necessary, develop a code of practice for selecting and managing consultants (Exhibit 11, overleaf).

The first key step is for members and senior officers to recognise the importance of using consultants effectively and the risks involved in poor control of projects.

75. Increasingly, the management and budgets of health and local authorities are being devolved to individual departments. However, this does not mean that accountability can be devolved. When projects go wrong, fingers will point at senior managers, board members and councillors. It is their responsibility to ensure that corporate standards are set and put into practice.
Certain key steps are necessary to improve the use of management consultants.
The Use of Management Consultants

CHECKLIST FOR PROJECT MANAGERS

This checklist is designed to provide project managers with a summary of good practice in commissioning and managing consultants.

Identification of Need

- Identify the objectives of the project and what the recommendations are to achieve or change.
- Consider the availability of potential in-house resources before seeking to engage external management consultants.
- Assess and document the benefits of employing consultants in the light of probable cost.
- Identify costs of department's contribution, i.e. time of project manager, steering group and staff.
- Agree a budget.
- Obtain approval of department head, and board, if appropriate.
- Ensure that any committee report seeking approval for consultants specifically addresses the justification for commissioning consultants.

Preparation of project brief

- The project brief includes:
- background to the project
- project objectives
- expected product or deliverables
- project timetable
- department's own contribution
- reporting requirements
- relevant source documents available for inspection

Request for Proposals or Invitation to Tender

- The request for proposals or invitation to tender includes:
  - basis upon which tenders are sought (fixed price or daily rate)
  - specification of minimum number of tenders
  - timetable for submitting proposals
  - contact name and telephone number for enquiries
  - details of any pre-bid conference

- These documents include what the department requires in each consultants' proposal. This might include:
  - an outline of the consultants' approach or understanding of the project
  - summary of the firm's relevant experience

thirty-four
– cost, including proposed hours for each team member and rate/hour
– references

Selection of Consultants
• Form selection committee if appropriate. On larger projects, consider including representative from neighbouring authority.
• Set comprehensive criteria against which proposals will be evaluated, including:
  – price
  – experience and qualifications of team members
  – understanding of client's needs
  – feasibility and credibility of proposed approach
  – ability to complete the project on time
• Check references.
• Establish what previous work has been done for the authority by the consultants and how successful it was.
• Clearly document why tenders were chosen and rejected.

Employment of Consultants
• Draft agreement ensuring that it contains the following elements:
  – Description of all project deliverables
– Project schedule with key milestones
– Fees, including definition of reimbursable expenses
– How payments will be made
– Reporting arrangements
– Arbitration/termination arrangements
– Involvement of named staff

• Terms of reference agreed between the authority and the consultants should be attached to the agreement and incorporated by reference.

• Agree clear end-point and procedures for 'signing-off' project when complete.

• Once the contract is signed, give consultants official notification to proceed in writing. This can include information to the consultants on the authority's preferred format for invoices.

**Monitoring Progress**

• Appoint a named project officer and, where justified, steering group responsible for overseeing progress.

• Monitor consultants' progress against key milestones.

• Monitor costs against budget, ensure that invoices are charged against correct account codes.

• Arrange regular progress meetings.

• Scrutinise invoices and obtain necessary approvals.

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Record-keeping

• Set up and maintain contract file which should include:
  – project brief or terms of reference
  – minutes showing member approval, if needed
  – agreement between authority and consultant
  – any variations, amendments to the agreement
  – documentation of the selection process
  – record of payments made under the agreement
  – implementation plan
  – project evaluation form

Reviewing Performance

• Establish formal review process when project is finished.
• Complete project evaluation form, put in contract file and submit to central register of projects

Implementation of Project Findings and Recommendations

• Set clear responsibilities and schedule for implementing any accepted recommendations.
• Set date to report back on progress.
• After implementation, verify that actions have had desired effect.
Appendix A

Definition of Management Consultancy

For the purpose of this study, management consultancy was defined to include the following types of work:

– advice on compulsory competitive tendering, and evaluating tenders;
– policy and strategy review;
– review of organisational and departmental structures;
– job evaluation;
– financial planning;
– feasibility studies;
– marketing and business planning;
– public relations;
– computer and IT strategy (but not advice on specific hardware or software);
– managing change;
– total quality management;
– senior staff recruitment and selection;
– individual service management, e.g. community care, local management of schools;

The definition specifically excludes the use of consultants or contractors to cover temporary staff vacancies and the normal work of professionals such as architects, surveyors, engineers and lawyers.
Appendix B

Further Reading

Authorities may find the following related publications helpful:


3. *The Procurement and Management of Consultants Within the NHS*, to be published by the NHS Executive shortly.