

**Scrutiny Inquiry Final report
Inquiry into Consultant Engagement
March 2010**



Introduction and Scope

Introduction

1. Leeds City Council uses the services of external consultants to deliver professional expertise, support and advice for a number of purposes. A major use of their services has been in the delivery of some major capital projects. They have also been utilised to provide specialist professional technical, financial and legal expertise in the development, negotiation and delivery of major PFI contracts.
2. Consultants have also been used to provide specialist services and to carry out a number of specific assignments, such as carrying out specific research projects and providing specialist advice on major transactions and operations. In some instances, these major transactions, including the expenditure on consultants, are funded from grants or other associated external income.
3. At its meeting on 8th June 2009 Scrutiny Board (Corporate And Central Functions) resolved to undertake an Inquiry into Consultant Engagement within the Council.
4. We wished to review the process by which consultants are engaged and how they are evaluated. We were concerned to ensure that engaging consultants provides a cost effective method of producing the required outcomes to a sufficiently high standard.
5. We make no judgement as to whether using consultants is right or wrong. Clearly, there will be a case for buying in the necessary skills at different times. However, Members did wish to establish whether there is a consistent approach to the use of consultants and whether there is regular evaluation of the Council's required skills base.
6. The purpose of the Inquiry therefore was to make an assessment of and, where appropriate, make recommendations on the following areas:
 - A definition of Consultants
 - The extent to which consultants are used (in the widest sense) in the Council and how this compares with other authorities
 - The reasons for the use of consultants
 - The methods of monitoring and evaluating the outcomes and the value for money provided by consultants
 - The differences in practice between departments and whether there is consistent information sharing across the council



Conclusions and Recommendations

7. There are no national data sets produced by or on behalf of local government analysing Councils' use of consultants and other external input to their work. It is not possible therefore to assess our spend on consultants relative to any of our usual comparator groups (Core Cities). This is mainly down to different definitions and accounting processes.
 8. However it is estimated that local authorities collectively spend £1.8bn per annum on external consultants. A saving of just 1% could release £18m. There is, therefore, a common interest in ensuring that the best value for money is achieved from consultancy use.
- schemes and contracts, so appropriate expenditure on other votes on PFI development cost centres is included in such analyses.
13. For capital expenditure, the designated code is

Cprh 7 (Other Costs), sub-code 62 (Other Consultants Fees)
 14. For both Revenue and Capital expenditure, a distinction is made between bought-in external professional services and broader consultancy services. The former would cover normal professional services such as engineers, surveyors, solicitors recruitment and IT specialists that are engaged regularly as part of the Authority's ongoing business. Such expenditure is charged to subjective accounting codes for professional services rather than to the consultancy accounting codes.

Expenditure and Cost Coding

9. For the purposes of financial analyses of the Council's use of external consultants, there is an assumption that such expenditure is appropriately charged to the specific designated revenue and capital subjective codes.
10. For revenue expenditure, the specific code is

Vote 259 Consultancy Services.
11. This vote was specifically created for this purpose in 2002/03 in order to facilitate monitoring and reporting of expenditure on consultancy services.
12. There is an awareness that substantive use of external consultants is made on developing and negotiating PFI
15. The table below details a summary of expenditure on consultancy services for 2007/08 and 2008/09



Conclusions and Recommendations

Expenditure on Consultancy Services – Summary

	Revenue Expenditure	PFI Schemes	Capital Expenditure	Total
2007/08	£000s	£000s	£000s	£000s
City Development	1,409	135	661	2,205
Environment & Neighbourhoods	288	457	96	841
Children's Services	127	706	707	1,540
Adult Social Services	14	268	0	282
Central & Corporate Functions	194	0	0	194
TOTAL	2,032	1,566	1,464	5,062
HRA	98	567	99	764
Grand Total	2,130	2,133	1,563	5,826
2008/09	£000s	£000s	£000s	£000s
City Development	550	104	1,014	1,668
Environment & Neighbourhoods	283	499	177	959
Children's Services	151	457	547	1,155
Adult Social Services	76	64	0	140
Central & Corporate Functions	55	0	0	55
TOTAL	1,115	1,124	1,738	3,977
HRA	23	858	750	1,631
Grand Total	1,138	1,982	2,488	5,608



Conclusions and Recommendations

16. We were advised that PFI related expenditure covers the use of professional and specialist services to formulate and finalise PFI contracts for the building of new facilities such as new schools. Professional services used include legal and financial advice, and architectural and other technical expertise.

17. Capital expenditure involves major infrastructure projects such as the new City of Leeds Museum, Leeds Arena, road building, major IT projects, refurbishment, extensions to or new builds of facilities such as schools, centres, libraries etc. External consultants may be used to provide expertise not available in-house or to supplement in-house capacity to allow certain stages of the work be carried out within specific timelines so that the overall project can stay on schedule (where the in-house providers are already working at full capacity) .

18. Revenue expenditure is other ad hoc use of Consultants, Such use can include research, delivery of specialist reports, and provision of specialist expertise, advice or services.

19. The Board has looked at the work undertaken by Internal Audit on the robustness of financial coding. This work included an analytical review on the expenditure codes within the Financial Management System to record external consultancy. In essence Internal Audit identified that there was a very strong possibility that external consultancy work was not being correctly coded.

20. The Board is of the view that the inconsistency of coding identified by

Internal Audit may be due to the lack of guidance on the correct expenditure code to use and the lack of a clear definition as to what consultants are and the type of work they undertake in relation to other bought in professional services and other hired services.

**Recommendation 1 –
That the Director of Resources and Assistant Chief Executive (Corporate Governance) develops a standard definition of what consultants are and what work they undertake. This definition should be adopted by all departments.**

**Recommendation 2-
That the Director of Resources issues guidance to all departments on the correct expenditure code (s) to use for Consultants**

21. In the light of the current economic climate we would recommend that Directorates review expenditure on consultants to assess the extent to which they are used.

**Recommendation 3-
That Directors/Assistant Chief Executives review expenditure on consultants within their Directorates to assess the extent to which they are used.**



Conclusions and Recommendations

What is best practice and what does it look like?

22. Throughout the country a number of Scrutiny reviews have taken place on this topic and there are a number of recurring themes emerging from them. The need to have a consistent definition of consultants is one, as identified in our recommendation 1. Another is the need for corporate guidance on the use of external consultants.
23. Internal audit has identified that there is no current policy or guidance on the use of external consultants. Although procurement arrangements are in place within Contract Procedure Rules, these do not specify any specific considerations to be given when procuring external consultants. Interestingly we were informed that two guidelines did used to be in place;
- An external consultancy guidance note issued by the Procurement Unit and
 - The Application to Engage Consultants process introduced by Financial Management in 2007/08 which, after review, was considered not to be productive.
24. We are aware that the Regional Improvement and Efficiency Partnerships (RIEPs) is working on ways to ensure greater improvement in the hiring of consultants. The RIEP is currently working on developing a set of organisational conditions they would consider constitutes best practice. We
- are aware that the Office of Government Commerce (OGC) together with representatives from RIEPs and wider Local Government have set up a 'Collaborative Category Board' (CCB) to examine this area of spend.
25. The Chief Procurement Officer represents the Council and the Yorkshire and Humber region on the 'Professional Services' CCB looking at the procurement of consultancy and agency staff. As well as identifying best practice and ways to control spend in these areas – known as 'Demand Management' – the Board also looks at opportunities for collaboration and efficiency/improvements in each area.
26. The Yorkshire and Humberside RIEP is currently working on developing a set of organisational conditions they would consider constitutes best practice. We have studied these and consider that many of the elements should be included within Contract Procedure Rules/ Guidance regarding the use and appointment of consultants and indeed the commissioning of all services.
27. We have discussed with Internal Audit the concept of such guidance and would concur with their view that guidance would be beneficial. We are of the view however that this guidance should be incorporated into Contract Procedure Rules/Guidance rather than introducing a further layer of bureaucracy. As a minimum we consider that the following should be included.
- A definition of consultancy work



Conclusions and Recommendations

- Circumstances under which the use of consultants may be necessary
- Guidance on setting outcomes and performance measures
- The need for a defined work scope with deliverables.

28. We would caution however against any guidance being unduly technical to the point where it is of no use to service managers.

**Recommendation 4-
That the Director of Resources and Assistant Chief Executive (Corporate Governance) incorporates within Contract Procedure Rules/Guidance clear guidance regarding the use and appointment of consultants**

29. We acknowledge that the majority of firms used will be on an approved list and there exists mechanisms for reporting poor performance. However we believe that it would be good practice if a database to record all details of consultants, including ratings, to be shared between departments and potentially with other authorities was set up.

**Recommendation 5-
That a database to record all details of consultants, including ratings, to be shared between departments and potentially with other authorities is set up.**



Evidence

Monitoring arrangements

Standard arrangements for monitoring the outcome of the Board's recommendations will apply.

The decision-makers to whom the recommendations are addressed will be asked to submit a formal response to the recommendations, including an action plan and timetable, normally within two months.

Following this the Scrutiny Board will determine any further detailed monitoring, over and above the standard quarterly monitoring of all scrutiny recommendations.

Reports and Publications Submitted

- Yorkshire and Humberside RIEP – Best Practice – Consultants
- Report of Head of Scrutiny and Member Development
- Expenditure on Consultancy services 2007/08 and 2008/09
- Survey of Core Cities – Definitions of Consultancy
- Correspondence from Internal Audit – External Consultants Review 2009/10
- Draft Internal Check list for the use of consultants – Internal Audit



Evidence

Witnesses Heard

Malcolm Foster – Deputy Chief Procurement Officer

Neil Hunter – Head of Audit

David Beirne – Senior Financial Manager

Dates of Scrutiny

September 7th 2009

December 7th 2009

January 11th 2010

29th March 2010

**Scrutiny Board (Central & Corporate Functions)
Inquiry into Consultant Engagement
March 2010
Report author: Peter Marrington**



www.scrutiny.unit@leeds.gov.uk