

MCA

A POSITIVE FORCE
FOR THE ECONOMY

21st Century Government

Adding value, cutting the deficit



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About the MCA

The Management Consultancies Association (MCA) is the representative body for management consultancy firms in the UK. Our 55 member companies comprise around 70% of the UK consulting industry, estimated to be worth £9 billion in 2008, employ more than 40,000 consultants and work with over 90 of the top FTSE 100 companies and almost all parts of the public sector.

The MCA's tough entry criteria and rigorous Code of Practice mean that MCA member companies are widely acknowledged to provide high quality services to their clients. Many of their achievements are recognised in the annual MCA Awards.

The MCA informs and influences public debate on topical issues, and provides authoritative data on the industry. It commissions research and policy analysis and represents the industry in discussions with government and other stakeholders. The MCA also facilitates networking and the sharing of best practice within the industry through events, publications and initiatives such as the Young MCA.

FOREWORD



The new coalition government has one overriding objective: to reduce the cost of public services while continuing to improve their quality. In the words of the government's recent document, it now aims to "deliver a step change in public sector productivity and value for money."¹ This new MCA report helps explain how this can be achieved.

As it sets about its task, the government will certainly require clear political leadership and strong support from a high-quality civil service. But it will also need access to the best skills and experience that are available outside government in the private sector.

This report shows that the use of consulting by central government is driven primarily by the fact that specialist capabilities are not available within departments, particularly the sophisticated project and programme management skills that are needed to deliver complex and high-profile initiatives. And why

should they be? In a modern economy, it makes economic as well as practical sense to draw on outside expertise whenever it is cost-effective to do so; no organisation should or could use full-time staff to cover all their needs.

The use of management consultants by central government, however, remains controversial. Our industry must therefore explain what consultancy does and how it adds value. It is particularly important for us to help policy-makers to distinguish genuine consultancy from interim management or staff substitution. Confusion between the two is creating frustration within government and our industry and is short-changing the taxpayer.

We also look here at progress since the 2006 publication of the NAO's report on this subject. The results are mixed. We suggest a number of areas for further improvement. We want to see a much clearer focus on outcomes and the value that is delivered through engagement with consultancies. The scope for innovative payment mechanisms has also been significantly constrained in the public sector; if changes are wanted here then there needs to be much more debate and discussion with the industry by procurement departments and others, and a better mutual understanding of how reforms could work and where they would be most useful.

MCA members are ready and very well equipped to help the government. Many of the best and most radical approaches to public service provision originate in the consulting industry. There are real opportunities ahead.

A handwritten signature in black ink that reads "Alan Leaman".

Alan Leaman

Chief Executive

Management Consultancies Association

¹ HM Treasury, The Spending Review Framework, June 2010

Executive summary

Over the past decade, management consultants have played a vital role in the transformation of much of our public sector, providing the expertise to exploit new systems and management tools, and working alongside civil servants to strengthen their capabilities. Many of the changes we now take for granted, from submitting our tax return to applying for a pension online, have only happened because consultants have been on-hand to help deliver them.

However, the use of consultants by central government remains an object of intense public scrutiny. Rightly so: used wisely, consultants “can provide great benefit to clients – achieving things that clients do not have the capacity or capability to do themselves”, said the National Audit Office in its 2006 report on the subject.² Used incorrectly, they can absorb resources that might be better spent on full-time employees.

Public concern that consultants are over-used has also been fuelled by confusion between management consultants and contractors or interim managers. While consultants provide specialist skills not available internally, contractors and interim managers simply replace full-time staff at an inflated price. Our estimate is that more than £380 million is currently being spent each year by government departments on this type of “staff substitution”.

In its report, the NAO made a series of recommendations to government departments, proposing changes to the way in which consultants are bought and used. From our survey of MCA member companies, it is clear that these recommendations have been partially implemented at best. Consultants also question the usefulness of some of the original recommendations and think there are other steps Whitehall could take to ensure it maximises the value of consultants in the future:

- There should be a better understanding of the value of consulting.
- Procurement teams need to be measured on outcomes achieved and/or value delivered, not just costs saved.
- Shortlists need to be short so that the costs of bidding are reduced.
- Shorter deadlines should be set for delivery.
- Once completed, projects should be evaluated and lessons learned.
- Government statistics should distinguish between management consulting, other types of consulting, and the work done by contractors and interim managers.

Our estimate is that more than £380 million is currently being spent each year by government departments on “staff substitution”

² http://www.nao.org.uk/publications/0607/central_governments_use_of_co.aspx

What is consulting and why is it important?

This report explains what management consultants do in central government, how the services they provide add value and how government departments can ensure they get best value from them.

The MCA defines consulting as “the creation of value for organisations and the wider economy through improved performance, achieved by providing objective advice and implementing business solutions.” Management consulting covers a wide range of services from advice through to implementation, but the common thread is that it is focused on delivering a specific outcome, normally associated with improving organisational performance.

This is quite distinct from other professional services, such as legal advice or public relations. It is also different to staff substitution, the provision of individuals, often on long-term contracts, who replace line managers and whose focus is primarily on running a function or team, rather than achieving a specific outcome. Staff substitution comes in two forms: relatively junior people (contractors) and more senior executives (interim managers).

Management consultants, contractors and interim managers can all have useful, but different, roles to play in any organisation. Contractors and interim managers can provide a stop-gap when an organisation is finding it difficult to recruit full-time staff. Management consultants, by contrast, are better used on projects where speed of delivery is important and where it would not be cost-effective to hire in the expertise involved on a permanent basis. Both contractors or interim managers and management consultants offer good value for money but only when they're used correctly. Problems arise where there is confusion between the two.

“Quite rightly, the civil service isn't staffed to provide all the specialist skills involved in widespread change,” says Rob Garner at Tribal, “and it makes perfect sense to use consultants in this capacity. But consultants get a bad name when they're used as a substitute for full-time employees. This is not a good use of public money.”

The creation of value for organisations and the wider economy through improved performance, achieved by providing objective advice and implementing business solutions

Both contractors or interim managers and management consultants offer good value for money but only when they're used correctly

“Contractors and interim managers should be short-term solutions to resourcing problems,” agrees Richard Goodson at Hitachi Consulting, “but, unlike consultants, they can’t constructively challenge the requirements because they’re simply filling a pre-specified role”. A team of consultants also brings a mix of skills and a willingness to work immensely hard, “whereas a single person tends to work at the rate of the people around them”, Goodson continues. Furthermore, contractors and interim managers don’t come with the oversight and quality control of someone who works for a consulting firm.

“Consulting has suffered badly from the way the term has been abused because it’s been used to describe work that’s not consulting. Consultants are not meant to be part of an organisation’s operational structure.”

Quentin Vaughan, IBM Global Business Services

Why does central government hire management consultants?

In order to understand fully how and why management consultancy is used by central government, the MCA surveyed our member companies in April and May 2010. 41 companies who provide consultancy services to central government participated in the survey, all at a senior level. Combined with the MCA's own data on the industry's fee income, this provides a more detailed picture than we have ever had before.

Three-quarters of management consulting work in central government is commissioned because specialist skills are not available within departments (Figure 1). A further 15% stems from the need to complete projects quickly, and 10% from the desire to have an independent perspective. Only 3% is driven by staff substitution.

By contrast, only a third of consulting projects in the private sector are triggered by the need for access to specialist skills and a similar proportion by the need for help improving the efficiency and effectiveness of delivery.

“One of the reasons the government uses consultants is to handle difficult situations and crises”, Dave Allen at PricewaterhouseCoopers points out, citing the work it has done over recent years on data security at HMRC, MPs' expenses and, most recently, reviewing the capacity of the Student Loan Company to process applications and answer customer enquiries, following problems it experienced last year. “But we also play an important role taking innovative ideas to organisations, new ideas that simply wouldn't surface in environments where everyone is focused on day-to-day delivery. Such ideas can come from the private sector or overseas and are a result of the knowledge-sharing that can be delivered through larger consulting organisations.” “We are sometimes brought in to strengthen a client's own team”, says Vicki Chauhan at Detica. “Where a client is facing difficulties in resourcing a programme of work, we are often used to increase their capacity and capability.” “The best public sector managers use consultants when they want access to scarce specialist skills, ‘collective wisdom’ that does include some sound, often semi-proprietary methods and tools, that have been built up and proven in other clients and sectors, and to leverage practical experience that a client organisation does not have”, points out Simon Bates at Atos Consulting.

“If government had in-house and constantly available all the senior and skilled resources consulting firms provide, its costs would be much higher.”

Martin Cook, Ernst & Young

Figure 1 Breakdown of the reasons for hiring consultants in central government

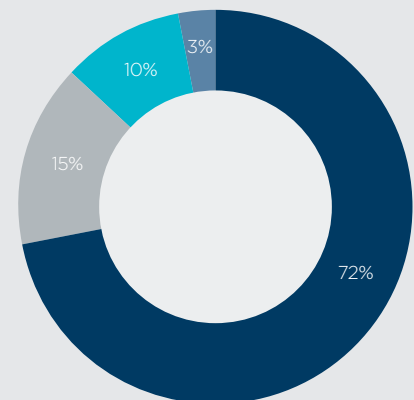
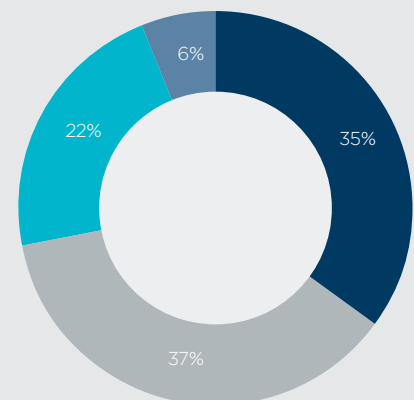


Figure 2 Breakdown of the reasons for hiring consultants in the private sector



- Access to specialist skills not available internally
- Help with execution and delivery (eg of projects)
- Gaining an independent, external perspective
- To fill gaps in the organisational structure

Adding value to central government: case studies

Recent research by the MCA has highlighted three key ways in which consultants add value to the organisations with which they work:

- Providing knowledge that helps clients take better decisions.
- Bringing experience in project delivery that helps clients execute their plans more effectively and efficiently.
- Having the skills to help improve the capability and teamwork of managers in client organisations.

The following are examples not only of the breadth of work consultants undertake, but also of all of these ways of adding value.

Nearly half of offenders in the UK are reconvicted within 12 months of release. At the same time, important video and paper-based archives are inaccessible and at risk through degradation. Serco Artemis is an innovative new service, developed by **Serco Consulting**, that provides a solution to both issues, employing and skilling prisoners to carry out certain activities for digitisation and metadata annotation of audiovisual, photographic and paper-based archive material. Artemis helps tackle archive holders' challenges by preserving valuable cultural heritage, improving public accessibility to archive content and optimising the commercial potential of material. Prisoners work with digital copies of archive videos, images or documents, capturing key information - or 'metadata' - to make archive material easily searchable online. The service brings the prison education and work regime together, making an impact on prisoner rehabilitation, skill development and digital literacy. In addition to developing IT and media-related skills, offenders can learn from the archive material and gain confidence in decision-making, teamwork and leadership.

The service brings the prison education and work regime together, making an impact on prisoner rehabilitation, skill development and digital literacy

Electronic borders may hold the key to efficient and effective security in the future, but the technology is still very new and the challenges posed considerable. **IBM** has been working on a pilot project with the Home Office.

“The impetus for using us has been twofold,” explains Jan Gower of IBM, “to access skills that aren’t and shouldn’t be available in-house and to ensure that the pilot could be up and running as quickly as possible. For example, the project relies on getting and integrating specific information from airlines, something that has required a combination of technical know-how and an ability to get decisions made quickly which would otherwise take a long time.”

Accenture has a long-standing relationship with the Department for Work and Pensions, providing IT consulting, systems integration and programme delivery. Most recently, it’s been helping to transform the way in which pensions are processed, installing new IT systems to support a long-term shift away from expensive, face-to-face form-filling to online transactions and using call centres to handle queries. “The result has been a dramatic fall in the time taken to process a new pension, for example,” says Accenture’s Robert Gibbs, “from more than two weeks to a twenty minute phone call.”

Digital Public has been working with the Families Unit at the Department for Education to transform information and support services for parents. The firm created an Innovation Fund to encourage and finance not-for-profit specialist providers to work with private sector partners to improve the effectiveness and efficiency of their services. “Our innovative approach has substantially driven down the cost per parent helped, while achieving a twentyfold increase in the number of parents helped. This is well ahead of both the original targets and schedule”, Clare McKittrick at Digital Public sums up.

When the Department of Health – the top green performer in the 2006/7 Sustainable Development Commission tables with a 97% score – was asked to find even greater carbon reductions it was always going to be a challenge. With over 4,000 desktops, 2,000 laptops and more than 600 servers, its annual carbon footprint for ICT alone was 2,700 tonnes, with paper usage adding a further 700 tonnes. The Department asked **CSC** to help devise a plan and provide recommendations in a number of areas: planning the green office for the future; building an environmentally friendly infrastructure; and developing a “green culture”. Not only was this plan delivered, but 30 high-impact initiatives able to reduce remaining emissions by almost 60% and save approximately £500,000 were identified.

When the Driver and Vehicle Licensing Authority saw the opportunity brought by new technology and the internet to become a digital business, it asked **IBM** to help develop and implement the new strategy. Hired under the DVLA’s PACT (Partners Achieving Change Together) programme, IBM brought public sector strategy and operations experience. “One of the most important things we were able to do was help the DVLA make the right choices and avoid the problems private sector companies had encountered”, says IBM’s Jan Gower.

Xantus has been working with a major central government department to find cost efficiencies right across its IT organisation. “We’re looking at how they buy and whether they’re buying in the right quantities”, says Dave Yip of Xantus.

The result has been a dramatic fall in the time taken to process a new pension, from more than two weeks to a twenty minute phone call

30 high-impact initiatives able to reduce remaining emissions by almost 60% and save approximately £500,000 were identified

“We’re also assessing the technology and systems they’re using, whether these are appropriate for delivering its strategic plan and how the efficiency of its internal IT processes could be further improved. What we’re bringing is the experience of helping private sector organisations do likewise.”

The National Offender Management Service, part of the Ministry of Justice, is tasked with commissioning services to “bridge the divide between custody and community” by reducing the level of reoffending. Buying in most services rather than providing them itself, balancing successful outcomes with cost-efficiency is clearly critical to the Service, and **PricewaterhouseCoopers** has been working with it to help apportion costs to different areas and understand how its money can be best invested for the best overall return. “The key here is to be able to make evidence-based decisions”, says Marcus Robinson at PricewaterhouseCoopers. “We used a combination of consulting and actuarial skills to identify where small changes in the way NOMS works would yield the biggest benefits.”

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Atos Consulting has worked extensively with the Department for International Development, using British and international expertise to help support post-conflict reconstruction across the world. It worked, for example, in the Balkans to implement a major programme to improve the systems run by the police, courts and prisons and the policies enacted by the Ministries of Interior and Justice. Atos Consulting put together a wide-ranging consortium to implement the programme. At its peak, this comprised nearly 100 people in 17 locations, working in four different languages. Atos Consulting first carried out high-level assessments of the justice and home affairs systems in Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, and Serbia. The team also designed a robust conflict assessment framework, identified three “fast-track” projects that were up and running within weeks, and were responsible for the full-scale roll-out of the new approaches over a three year period.

The Department for Communities and Local Government wanted to consolidate its central London office space, going from four buildings, initially to two then to one, something that could only be realised through the implementation of flexible desking and by simultaneously driving more adaptable, agile and collaborative working styles. **Turner & Townsend** provided critical management for the project, including support in developing the overall strategy, as well as in a whole host of niche areas of expertise. The result has been considerable cost savings and efficiency gains, as well as a workspace strategy that is seen as a model for other government departments to follow.

“At the moment, one of the most valuable things consultants can bring is experience from private sector companies that went through big cost-reduction exercises in order to withstand the recession.”

Steve Kirby, Ernst & Young

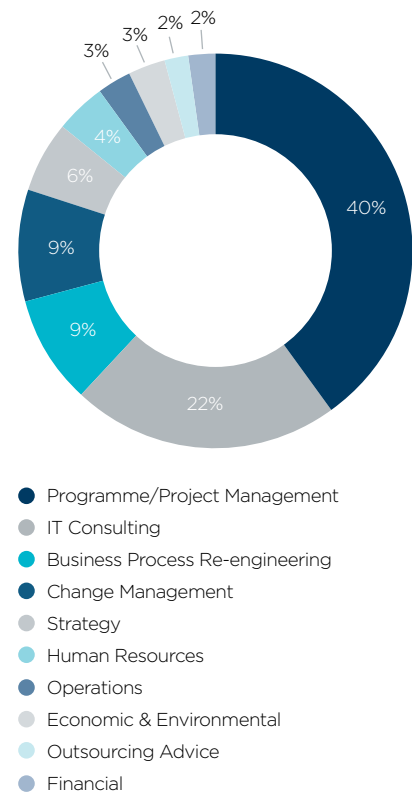
Analysing central government expenditure on consultants

According to data supplied by MCA member firms, central government departments spent just over £540 million on management consulting in 2009, down by around 8% on the previous year. We estimate that approximately a further £100 million was spent on larger consulting firms that are not MCA members, giving a total of £640 paid to consulting firms. The comparable figure published by the Office of Government Commerce³ is higher at just over £1 billion⁴ based on information supplied by departments (the MCA's data comes from suppliers).

The difference stems from the types of firms and, by extension, the type of work included. The MCA represents most of the UK's leading consulting firms; membership is only open to firms employing ten full-time consultants or more. Departmental data supplied to the OGC includes fees paid to a large number of very small consulting firms and independent consultants. Our analysis suggests that these fees amounted to £380 million, with Whitehall usually employing people as contractors or interim managers to do work that could often be carried out by full-time employees. This is on top of the £880 million that the OGC calculates was spent on temporary staff.

40% of spending on consultants by central government departments goes on programme and project management, twice the proportion elsewhere in the public sector. This should come as no surprise: the 2006 NAO report on central government's use of consultants commented on the scarcity of in-house programme management skills. Our figures suggest that the situation has not dramatically changed since then: indeed, demand for programme management continued to grow in 2009 while that for many other services fell back (Figure 4).

Figure 3 Breakdown of expenditure by central government departments on MCA firms in 2009



³ http://www.ogc.gov.uk/procurement_public_spending.asp

⁴ The OGC's figure for professional services consulting is £1.57 billion (08/09). However, this includes expenditure by executive agencies and non-departmental public bodies that is not included in the MCA's £540 million, together with other forms of consulting, for instance legal and public relations.

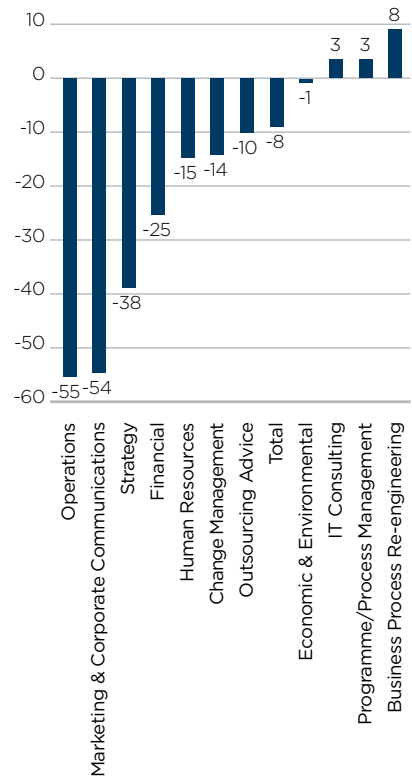
Why does Whitehall rely on consulting firms to provide programme management skills? Part of the explanation lies in a culture that historically put policy formulation above operational delivery. But the other problem is – ironically – that programme management skills are increasingly being viewed as a commodity. “These skills used to be scarce but they’ve been codified in recent years to a point where sometimes the use of project and programme staff has become a case of ticking boxes”, says Simon Bates at Atos Consulting. “The focus driven by the methodologies now ubiquitous across the sector is on compliance, not excellence.” As a result, there is still a shortfall when it comes to highly experienced programme managers who are able to take complex, often high-profile projects to a successful conclusion. “But we have had a lot of extremely complex programmes across the public sector in recent years, for which average and compliant would never have been enough. There are still many senior people in Whitehall who don’t think that programme management of this calibre is a core skill in the civil service, so there’s a legitimate debate about whether to breed that skill in-house or bring it in when needed”, says Bates.

Another factor is that, viewed in isolation, each department and agency probably does not have the volume of projects that justifies maintaining the most senior skills in house. “You really need a central function, such as the Cabinet Office, playing a role in providing the skills required to deliver the biggest, most complex programmes”, suggests Robert Gibbs at Accenture.

The only area where demand grew faster than programme management consulting was business process re-engineering, evidence that the public sector continues to turn to consultants to help it improve its own efficiency.

Recent research by the MCA⁵ suggests that, on average, management consulting creates benefits equivalent to £6 for every £1 spent. On this basis, MCA members will have delivered the equivalent of £3.2 billion in benefits to their central government clients in 2009.

Figure 4 % changes to expenditure with MCA firms by central government 2008-09



⁵ <http://www.mca.org.uk/news/value-consulting>

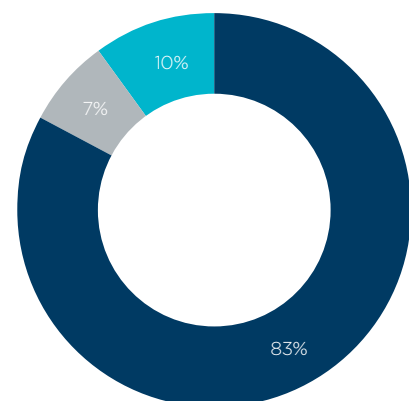
The impact of the 2006 NAO report on the use of consultants in central government

The NAO's 2006 report *Central government's use of consultants*⁶ observed: "Consultants, when used correctly and in the appropriate circumstances, can provide great benefit to clients – achieving things that clients do not have the capacity or capability to do themselves. On the other hand, when used incorrectly, consultants can drain budgets very quickly, with little or no productive results." While acknowledging that "there are examples where consultants have added real value and enabled departments to make improvements they would not have otherwise", the report went on to criticise the level of management information available, the extent to which departments failed to make a proper assessment of their existing capabilities before deciding to bring consultants in, the controls on awarding contracts by single tender, the lack of post-project reviews, the lack of engagement with key suppliers, and the failure to ensure the systematic transfer of skills from consultants to public sector managers.

The NAO report and subsequent hearings at the Public Accounts Committee⁷ produced a wide range of new initiatives, many of which have been orchestrated by the Office of Government Commerce (OGC). The result, according to four-fifths of the consulting firms surveyed for this report, has been a more intelligent approach to buying consulting services across government overall (Figure 5). Two-thirds of consulting firms rate the OGC's performance in improving the way government buys and uses consultants as "good" or "excellent", although a third say that it has been poor. Central government departments' procurement processes are also rated higher than other parts of the public sector (Figure 6).

Our survey indicates that progress (Figure 7) has been greatest when it comes to giving smaller, typically more specialised firms access to a market that, in the past, was dominated by a small number of large firms. To this extent, the various government framework agreements are, as hoped, opening up the market to greater competition. Just under two-thirds of firms also believe that government's use of consultants is more circumspect: decisions are more

Figure 5 Overall, there is a more intelligent approach to buying consulting services



● Agree
● Neither agree nor disagree
● Disagree

Two-thirds of consulting firms rate the OGC's performance in improving the way government buys and uses consultants as "good" or "excellent"

⁶ http://www.nao.org.uk/publications/0607/central_governments_use_of_co.aspx

⁷ <http://www.publications.parliament.uk/pa/cm200607/cmselect/cmpublic/309/309.pdf>

considered; projects tend to be shorter; and even small projects are subject to scrutiny. Some of this improvement may be down to government departments recruiting former consultants to help with procurement, something observed by just over half the firms that responded.

But other areas have seen less improvement. Only one in three firms said that they were more frequently asked to demonstrate the value they add or that the procurement process was less bureaucratic than it used to be. Only a fifth felt that senior people were more involved in the decision to hire consultants or that there was a reasonable opportunity for the consulting firms to discuss the requirements of a project with public sector managers before being asked to tender for it.

There seem to be more framework agreements, rather than fewer, as individual departments and agencies establish their own. "The centralisation of procurement isn't the problem here", argues Richard Goodson at Hitachi Consulting. "If, as consultants, we were advising government departments that is exactly what we'd tell them to do. The problem is that it hasn't been accompanied by consistent practices, better understanding of the marketplace and improved approaches to supplier management – so it hasn't yielded the benefits it should have done."

Inconsistency infects other areas too: consultants complain that many public sector organisations still don't understand the difference between consulting, IT delivery and outsourcing, and have differing interpretations of the NAO's recommendation about early engagement with suppliers. "Some organisations take a sensible approach to this," continues Goodson, "but there are many who keep suppliers at arm's length throughout the whole procurement life-cycle so that the only discussion of their requirements takes place electronically, via the documents we send."

Figure 6 % relative performance of different parts of the public sector in the procurement of consultants

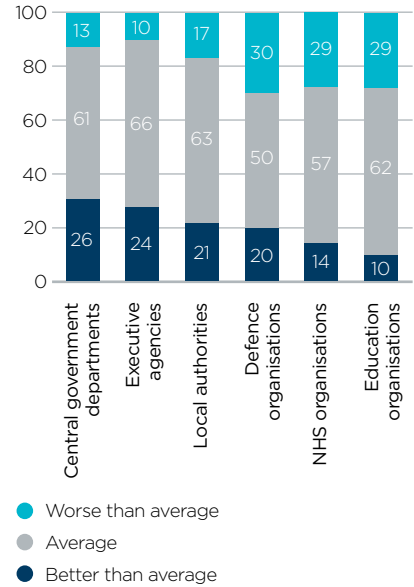
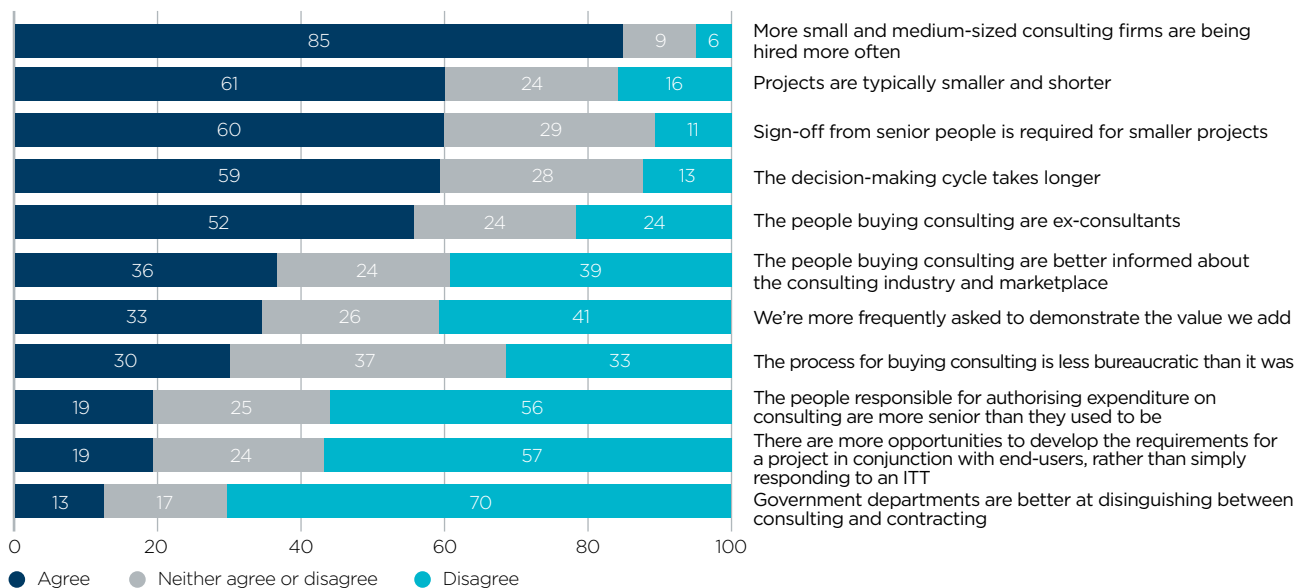


Figure 7 Perceived changes in central government's procurement and use of management consultants



Perhaps of greatest concern – and in spite of the efforts of the NAO and OGC – only 13% felt that the departments they worked with had an improved understanding of the difference between management consultants and contractors or interim managers. Some exceptions stand out. Dave Yip at Xantus has seen a change of mindset: “Some of the departments we’ve been working with are making a huge effort to get rid of contractors and interim managers, partly through recruitment campaigns.” Others are less sanguine. “Framework agreements don’t help clarify the distinction”, says Dave Allen at PricewaterhouseCoopers. “There is typically a mix of consulting firms and contractors, and the dominant means of rating them is price. This gives the contractor or interim manager an advantage and encourages departments to rely on long-term external support, rather than the short-term expertise provided by consulting firms.”

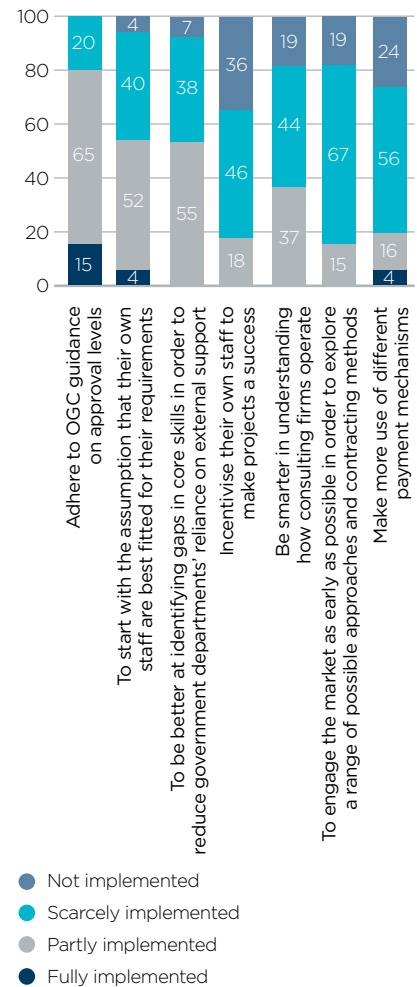
But the problem is not just one of clients’ making: some consulting firms have not been as clear as they could have been about the distinction. “Consulting should be transformational”, says Tim Williams at Navigant Consulting. “As an industry, we need to do more to put space between high-value consulting and commodity services.”

Asked to rate departments’ performance against the specific recommendations of the NAO’s 2006 report, the view is still less positive. Only one recommendation – the adherence of departments to OGC approval levels for the procurement of consulting – can be said to have been largely implemented. 15% of firms said this had been fully implemented and another 65% judged it had been partly implemented (Figure 8).

That government departments ought to start with the assumption that they have the staff to do projects, rather than immediately turning to consultants, is thought to have been partly or fully implemented by two-thirds of respondents. 55% of firms said that government departments have improved their ability to identify the core skills they need in order to reduce their long-term reliance on consultants. But only 18% thought that departments had even partly implemented the NAO’s recommendation that civil servants should be incentivised to ensure that the projects they are involved in are successful – the importance of which was first highlighted in an MCA report. More than a third could not see any sign that this recommendation had been implemented.

The three remaining NAO recommendations focused on departments having a better understanding of how consulting firms operate, engaging with them at an early stage in order to explore different contracting methods and making greater use of different payment mechanisms. Our survey suggests that the greatest improvements here have been in understanding how consulting firms work: 37% of firms said they thought this recommendation had been at least partly acted upon.

Figure 8 Extent to which the 2006 NAO recommendations have been implemented (%)



Extent of impact was calculated by assigning a value to the survey responses and expressing this as a percentage of the total possible score.

55% of firms said that government departments have improved their ability to identify the core skills they need in order to reduce their long-term reliance on consultants

Fewer than half as many respondents (just 15%) thought that the NAO's suggestion that Whitehall departments should engage with consulting firms at an early stage in the decision-making cycle had been acted on to any extent. Early engagement is important because it provides an opportunity for the ultimate client to debate the nature and objectives of the work with different consulting firms. Such a dialogue is crucial if the scope of the work is to be realistic and fully understood; it also provides a chance for clients to pinpoint exactly what kind of consulting support is required.

The suggestion that clients should engage in a dialogue with suppliers at the earliest possible stage, was rated as adding the greatest potential value to clients by 52% of firms. "Having a real and open conversation between ourselves and the people responsible for the project is essential as part of developing a deep and common understanding of the requirements", says Steve Kirby at Ernst & Young. "Mutual understanding is critical."

Richard Goodson at Hitachi Consulting used to work in the oil and construction industries and thinks there are lessons here that Whitehall could learn: "Key suppliers were treated as partners and there was a recognition of the people dimension", he recalls. "Before signing a contract with them, you'd meet the whole team and spend a decent amount of time with them. The idea of selecting consultants without seeing the whites of their eyes isn't good for clients or the consulting industry."

"There is often a strong transactional approach to engaging consultants", says Ann Gammie at ER Consultants. "This can result in a reluctance to engage in conversation about the issues, opportunities and risks. Where clients take the time to update and involve us in wider discussions about their situations, both ourselves and the client gain from it, but this isn't commonplace."

Improved understanding of the cost structure and operational imperatives of the consulting industry has not necessarily translated into widespread use of different contracting and payment methods. Although 4% of respondents felt that the use of different payment mechanisms had been implemented, 24% had seen no sign of a change. 51% of consulting fees are still paid on a traditional, time and materials basis and 43% in fixed-price contracts. Nearly 9 out of 10 firms said that the proportion of performance-related payment had stayed the same over the last three years, despite the NAO's recommendation that it be increased.

"It has become increasingly difficult to steer the conversation towards value, not price. People are trying to conform to a process, rather than get the right answer."

Jan Gower, IBM Global Business Services

Early engagement is important because it provides an opportunity for the ultimate client to debate the nature and objectives of the work with different consulting firms

Why does the level of performance-related pay remain at such comparatively low levels (the private sector pays for between 10% and 15% of its consulting expenditure in this way)? It does not appear to be a policy issue. “Increasingly, we are seeing that traditional time and materials is not the way the government wants to do business – they want something more innovative and cost-effective”, observes Vicki Chauhan at Detica. “We are starting to see some clever ways of paying for consulting,” agrees David Mathieson at Turner & Townsend, “but they’re still far from common.”

A third of firms surveyed by the MCA said that their attempts to use performance-related pay had been rebuffed “often” or “very often” by civil servants

However, a third of firms surveyed by the MCA said that their attempts to use performance-related pay had been rebuffed “often” or “very often” by civil servants, and a further third said they had experienced this “sometimes”.

Paul Connolly at Serco Consulting has done research into this issue: “Much of the NAO’s report was about extracting value from both sides of the equation, clients and consultants. There was a suggestion that government departments were lazy in their use of consultants; that their default position was to use consultants rather than recruit; and that they needed to shift towards outcome-based procurement. What we found was that there was comparatively little of the latter, which begs a lot of questions about whether the sorts of models the NAO proposed are appropriate and understood.”

There was a suggestion that government departments were lazy in their use of consultants

Price, not value added, continues to be the focus of much procurement. “If you benchmark prices on framework agreements across government, the average ‘blended’ rate (for consultants of all grades) has come down over the last ten years”, comments Rob Garner at Tribal. “Increased competition through frameworks has undoubtedly brought down prices.”

“Decisions based on price are the easiest to make and defend”, adds Dave Allen at PricewaterhouseCoopers. “A lot of people inside the civil service find this frustrating. We may have approached them with an idea that will save them money, but which they can’t take advantage of.” Part – but only part – of this may involve making more use of performance-related payment. “But it has to be appropriate to the project and simple to administer,” cautions Dave Allen at PricewaterhouseCoopers, “and consulting firms have to accept that, when they’re working in the public sector, the upside will be limited.”

Our survey suggests that the areas where implementation has been highest (adherence to OGC guidance and clients starting with the assumption that they can staff projects internally) are also those thought least likely to be of value to government departments buying and using consultants.

Scope for further improvements

From our consultations, it is clear that there is wide support in the consulting industry for a number of proposals to maximise the value central government departments get from using management consultants:

- **There should be a better understanding of value:** Both consulting firms and their clients need to be clear about why the consultants are necessary and what value they can bring. “It doesn’t have to be a big document,” says Hitachi Consulting’s Richard Goodson, “just a clear, crisp and confident statement of the project goals and the value expected from the consulting team. At the moment, this is usually much too vague.”
- **Procurement teams need to be measured on outcomes achieved and value delivered, not just costs saved:** Procurement teams are not the people with responsibility for completing the actual project. If procurement teams were measured on the basis of outcomes, or if the people responsible for the project were also responsible for the procurement, the results would unquestionably be better.
- **Shortlists need to be short:** Most frameworks have a limited number of small/medium-sized consulting firms on them that will often have to partner with larger consultancies to access the majority of opportunities. And in open procurement, shortlists for responding to ITTs seem to be getting longer, meaning the chances of winning the work are lower. “Because responding to an ITT is very costly, we have to be selective in choosing which to invest time and resources in”, says Clare McKittrick at Digital Public. “Even though it may be perceived that taking a large number of suppliers through to the ITT stage helps even the playing field for SMEs, this practice can be counterproductive. We are seeing shortlists of more than 10 suppliers for even low value requirements – making it harder for us to justify bidding.”
- **Shorter deadlines should be set for delivery:** “Time-boxing projects, where the emphasis would be on getting things done quickly, would focus attention on ensuring the best people were hired to do the work, not just the cheapest”, suggests Quentin Vaughan at IBM. “A smaller number of consultants will be involved for less time, but will add more value.”

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- **Once completed, projects should be evaluated and the lessons learned:** Meaningful post-project evaluation would be valuable to both sides. “Post-project evaluations by government departments remain rare”, David Mathieson at Turner & Townsend points out. “We have to ask for informal feedback: we see no evidence of any more formal reviews except where we plan and organise them.” The real benefits, argues Anna Kahn at Ernst & Young, will be to ensure the feedback translates into practical improvement: “There’s limited follow-through at the moment, even where the information exists”, she says.
- **Government statistics should distinguish between management consulting and the work done by contractors and interim managers:** “The sheer diversity of what is meant by ‘consulting’ is a problem in its own right”, says Accenture’s Robert Gibbs. “Is it referring to report-writing, advice or the implementation of large-scale change programmes?”

Part - but only part - of this may involve making more use of performance-related payment. “But it has to be appropriate to the project and simple to administer,” cautions Dave Allen at PricewaterhouseCoopers, “and consulting firms have to accept that, when they’re working in the public sector, the upside will be limited.”

“Framework agreements only have generic requirements: government departments still need to think harder about what they want from a consultant.”

Dave Yip, Xantus

“If the consulting industry is going to continue providing services to government, we need to be clear about the value being added, both in terms of project work and from the ideas we take to departments.”

Dave Allen, PricewaterhouseCoopers

“There have been too many cases of consultants and contractors being used as a substitute for permanent employees - to do jobs that civil servants should be able to do for themselves. Consultancy budgets will be under severe pressure, and they should be used wisely, to gain access to skills and expertise that are not available in-house. Greater scrutiny of consulting expenditure will be good for both civil servants and the consulting industry. The former will find themselves challenged to do things for themselves: some will rise to that challenge while others won’t. Consultants will be challenged to demonstrate that they deliver outstanding value for money, particularly in enabling government departments and agencies to tackle the huge financial challenge that lies ahead.”

Alan Downey, KPMG

Contributors

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