



# THE SCOTTISH OFFICE

National Health Service in Scotland  
Management Executive

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NHS  
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St. Andrew's House  
Edinburgh EH1 3DG

Dear Colleague

## USE OF MANAGEMENT CONSULTANTS BY SCOTTISH HEALTH AUTHORITIES

21 February 1994

### Summary

1. This letter is to advise Health Boards and Trusts of the results of a review of the placing and controlling of contracts for Management Consultants.

### Background

2. The Scottish Office Audit Unit has carried out a review of the procedures for placing and controlling contracts for management and information technology consultancy assignments. The review was carried out as a reaction to criticisms made by the National Audit Office of 2 Regional Health Authorities in England over their use of external consultants. A copy of the report is enclosed.

3. The report identified a number of weaknesses in the contractual arrangements with consultants, the payment of expenses and reviewing the service received. In particular it was frequently the case that Standing Financial Instructions were not followed in seeking tenders for such assignments. Although Standing Financial Instructions allow a dispensation on the approval of senior officers, often this approval was poorly documented or not documented at all.

4. It is important to bear in mind that not only do we have to act with due probity but we may have to demonstrate that this is the case. Accordingly it is vital that important decisions are adequately documented.

### Action

5. Management consultants should only be used when benefit will accrue to the health body or to the health service. For major assignments the decision to use management consultants should be documented as the conclusion of an option appraisal.

6. In choosing a management consultant, a health body will wish to ensure that the management consultant is capable of carrying out the assignment, that value for money is obtained and

### Addressees

For action:  
General Managers,  
Health Boards

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Common Services Agency

General Manager,  
Health Education Board  
for Scotland

General Manager,  
State Hospital

Chief Executives and  
Chief Executive  
Designate, NHS Trusts

For information:  
Director of Finance;  
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that due probity is demonstrated in awarding the contract. Engagement of management consultants should normally be by competitive tender. The reasons and approval for waiving the requirement to tender should be clearly documented and there should be a process whereby such dispensations from standing financial instructions are communicated to the Board. Where it is likely that there will be successive assignments, these should also be subject to tender arrangements. Where it is expected that there may be follow on assignments, it may be more appropriate for the tendering exercise to appoint one management consultant under a call-off arrangement.

7. Health bodies should use their own standard form of contract when engaging management consultants. Variations from standard terms and conditions should be justified.

8. The agreement should explicitly cover the payment of expenses and should normally place a limit on the amount payable. Claims for expenses should, where possible, be supported by invoices.

9. At the conclusion of the assignment a review and evaluation of the assignment, the benefits achieved and the management consultant's performance should be carried out and documented.

Yours sincerely



A J CUMMING  
Acting Director of Finance

SPECIAL INVESTIGATION  
USE OF MANAGEMENT CONSULTANTS  
BY  
SCOTTISH HEALTH AUTHORITIES

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SCOTTISH OFFICE AUDIT UNIT  
SPECIAL INVESTIGATION - USE OF MANAGEMENT CONSULTANTS

MANAGEMENT SUMMARY

This review was carried out in 9 Scottish Health Authorities as a direct result of criticisms made by the National Audit Office (NAO) of 2 English Regional Health Authorities RHAs) on their use of external consultants. The amount of expenditure incurred at the 9 Health Authorities amounted to almost £2.5 million. This figure, although substantial in terms of administrative expenditure, is not on the scale of that which was the subject of the NAO's report.

Our review covered a total of 63 separate Management Consultancy engagements spread over 9 Health Authorities. This spread of consultancy work reduced the potential for the waste of large sums of money which was the focus of the NAOs' criticisms. Our enquiries did reveal some weaknesses in the way Management Consultants were engaged, controlled and reimbursed for both fees and expenses. There was also an absence of formal reviews of the Management Consultant's performance. The recommendations made in this report are aimed at addressing those weaknesses.

The findings show that many of the Management Consultants were appointed by senior management of Health Authorities with little regard to Standing Financial Instructions. In particular, there was a failure to take competitive tendering action for much of this work with only 34% of the engagements, which were in excess of the tender limits, being let through the tender process. A further 23% were subject to competitive quotation. By not adhering to the requirements of their Standing Financial Instructions, Health Authorities are not clearly demonstrating that Value for Money is being considered and that the appointment of Management Consultants is made at "arms length".

The criticisms made of English Health Authorities show that problems can arise in the use of Management Consultants. The findings there, and those of this review, suggest that this is an area where the probity aspect associated with the expenditure of exchequer monies must be emphasised, observed and demonstrated. We recommend that the Management Executive should consider the introduction of guidance to Health Authorities on the use of Management Consultants which takes account of Treasury advice and the findings and recommendations made in this report.

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INTRODUCTION

1. In their report to the Public Accounts Committee (PAC) on Advances to Health Authorities in England (1991-92) the National Audit Office criticised 2 Regional Health Authorities on the placing and controlling of contracts for Management and Information Technology Consultants. The purpose of this review was to establish whether Scottish Health Authorities are also vulnerable to criticism in this area of expenditure.

OBJECTIVES

2. The objectives of the review were to :-

2.1 establish whether any guidance is available on the best practice to be employed in engaging Management and Information Technology Consultants;

2.2 examine the Health Authorities' systems for placing and controlling contracts with Management and Information Technology Consultants; and

2.3 establish whether procedures call for an evaluation of the economy, efficiency and effectiveness of the service received.

SCOPE

3. The review focussed only on the use of Management and Information Technology (IT) Consultants. For the purpose of this report the term Management Consultant is used to cover both types of consultancies. Specifically excluded was the engagement of consultants for building and engineering purposes. Enquiries on the best practice were made to the Scottish Home and Health Department Management Executive (ME) and the Scottish Office Purchasing and Supply Unit.

4. Interviews and examination of documentation was carried following Health Authorities :-

Argyll and Clyde HB  
Ayr and Arran HB  
Borders HB  
Common Services Agency  
Dumfries and Galloway HB.

Forth Valley HB  
Lothian HB  
The State Hospital  
Tayside HB

The sample of engagements was confined to those for which either full or partial payment was made during the 1992-93 financial year.

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## FINDINGS

### Guidance

5. Enquiries to the ME showed that there had been no specific guidance issued to Health Authorities on the engagement of Management Consultants. However in 1990 the Treasury published a booklet titled "Seeking help from Management Consultants". While primarily aimed at Central Government Departments and Executive Agencies, the guidance given is also appropriate for other bodies funded from the public purse. Health Authorities also have available their Standing Financial Instructions (SFIs) for the purchase of goods and services. None of the SFIs examined made a specific reference to Management Consultants.

### Expenditure

6. The expenditure on Management Consultants at 8 of the Health Authorities during 1992-93 was in excess of £1.9 million. The review examined 58 separate engagements at these Health Authorities to a value of £1.2 million, 63% of the spend. At the Common Services Agency (CSA), in the time available, it was not possible to establish the 1992-93 expenditure. However, the review did examine 5 separate CSA projects with an in-year spend of almost £400,000. The value of individual engagements at all 9 Health Authorities ranged from £1,100 to £2 million, the latter figure is in respect of a contract awarded by the CSA spanning more than one financial year.

7. Where possible the daily rate charged by Management Consultants was also identified, this ranged from £250 to £1,000. Typically the amount charged was £600.

### The need to use Management Consultants

8. Enquiries at the 9 Health Authorities showed that Management Consultants had been used for a variety of tasks. Some reported increased activity in this area over the past 12 months. The prime reason was Directly Managed Units (DMUs) requiring assistance with the preparations for, or actual, Trust applications. In total, 19 (30%) of the engagements were directly associated with this subject.

9. As the employment of Management Consultants is expensive enquiries were made to establish why internal resources were not utilised. The reasons given were threefold; lack of internal expertise, urgency and the need for an independent view. None of those asked, even with the benefit of hindsight, volunteered that any of the tasks could have been carried out internally to the same standard and within the given timescale.

10. There were 3 engagements identified where there is doubt over whether any benefit would accrue. Two of these concerned an approach made by Ernst and Young to identify any areas of expenditure where paid VAT could be reclaimed. Their fee for this was 15% of the amount recovered.

11. Instructions in the Scottish Accounting Manual indicate that prior year credits, of which a refund of VAT would be an example, have to be surrendered as income. Although confirmation of this is awaited from the ME, the conclusion to be drawn is that individual allocations would be adjusted accordingly. Similarly the amount of the Health Vote will reflect the receipt of direct credits from Customs and Excise. The overall effect is that the only gainers are the Management Consultants who have taken 15% of the underclaim. At the 2 Health Boards (HBs) this amounted to £72,000. It is known that Ernst and Young have approached and been engaged by other HBs.

12. The third example concerned the Trust application of a DMU, Management Consultants were engaged to assist at a cost of £35,000. The application was rejected by the ME on the basis that the unit was too small, a factor that could reasonably have been known prior to the engagement.

Recommendation - Management Consultants should be engaged only when benefit will accrue to an individual HB or the Health Service.

### Choosing the Management Consultant

12. In purchasing the services of Management Consultants, as with any other service, Health Authorities should ensure certain objectives are met :-

- 12.1 the Management Consultants are capable of carrying out the task,
- 12.2 value for money is obtained, and
- 12.3 probity is demonstrated in awarding the contract.

One method of helping to ensure these 3 objectives are met is to seek competitive tenders for the service to be provided. Although SFIs are written to suit a particular Health Authority's needs, those examined recognise that tender action will not always be appropriate. Usually the exceptions for not taking tender action are :-

- if the anticipated amount is below a certain figure,
- where the need is urgent or
- the service to be provided is of a specialised nature.

In the case of the latter exceptions, approval should be given by senior management with the reasons clearly documented.

13. This review examined 63 separate engagements, 53 (84%) were in excess of the tender limits as specified in the various SFIs. Of those over the tender limit, tender action was taken in 18 (34%). Competitive quotations were obtained for a further 12 (23%) engagements.

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14. In many cases where tender action was not taken, the appointment of the Management Consultants was made by senior managers with the authority to waive the requirement for competitive tendering. For other engagements the decision not to seek competitive tenders was said to have been taken with the full knowledge and agreement of senior management. Generally such approvals were poorly documented.

15. In seeking assistance from Management Consultants some Health Authorities approached ME for advice. Invariably Management Consultants were appointed on the basis of that advice and without the benefit of competitive tender. Again such decisions were poorly documented. Recommendations should be used in drawing up lists of potential tenderers and in post-tender evaluations. They do not absolve Health Authorities from the requirement to follow SFIs in respect of seeking competitive tenders or quotations and in documenting decisions. It would seem prudent where senior managers have the ability to waive the requirement for competitive tendering for such decisions to be placed before the Board or an appropriate Committee of the Board. Two sound reasons exist for this view :- firstly there is potential sensitivity in the practice; and secondly the Board will surely have a legitimate interest in monitoring the frequency and nature of the use of this dispensation.

Recommendation - The decision to waive the requirement to seek competitive tenders and the reasons for doing so should be clearly documented.

16. The examination also found 2 examples of Management Consultants, having been awarded an initial contract, being invited back to carry out further, sometimes separate studies. In neither the initial nor subsequent engagements were competitive bids sought despite each of the individual engagements being in excess of the tender limits.

17. At one HB the initial contract led to a further 6 engagements with a total value in excess of £130,000 without the benefit of a competitive bid. At a second HB a similar situation occurred with a further 4 engagements with a total value in excess of £78,000.

18. There may on occasions be sound reasons why the same Management Consultants could be re-engaged. Not least, in having gained a knowledge of a Health Authorities' structures, systems and personnel, any "learning" during future engagements will be significantly reduced. This is an important factor, however it is one which should be considered at the tender evaluation stage and is not an over-riding reason for not taking tender action at all.

19. In their guidance the Treasury suggest that "call off" contracts with Management Consultants could be negotiated. At neither of these boards did such an arrangement exist. The problem Health Authorities may find is anticipating all their consultancy needs over a future period and finding Management Consultants able to meet those needs. There would also have to be a periodic review of such contracts to ensure they are not self-perpetuating, thus losing the benefit of commercial competition.

## Contracts

20. In our examination of documentation supporting the engagement of Management Consultants we found that many of the agreements were made through an exchange of letters rather than contract. Where contracts were entered into, there were examples of Health Authorities signing to accept the conditions in the consultants' contracts. The CSA were an exception in requiring Management Consultants to sign up to the standard CSA contract. General advice on contracting with Management Consultants is available from the CSA Supplies Division and legal advice is available from the Central Legal Office, but limited use seems to be made of these facilities. By accepting contracts drawn up by the service provider, Health Authorities may find they have agreed to conditions which are not acceptable or are not legally enforceable.

Recommendation - Health Authorities should use their own standard contracts when entering into agreements with Management Consultants.

## Control of Management Consultants

21. The engagement of Management Consultants is expensive, upto £1,000 per day. It is important, therefore, that they are monitored to ensure that the Terms of Reference are discharged and the contracted input is received. In the majority of the engagements examined the contracts were short-lived, those over an extended timescale do pose more of a control problem. An example is a contract for public relations work covering a 2 year period. Invoices examined covering a 9 month period June 1992 to February 1993, amounted to £35,000 for professional fees alone; the contract is for £25,000 per annum. The General Manager of the HB personally examines and certifies the invoices, but clearly there is a problem in controlling the costs.

22. A second example which indicates a possible weakness in controlling Management Consultant fees is the engagement of Ernst and Young to identify under-reclaimed VAT. The agreed fee, 15% of VAT recovered, provided easy pickings. Having done the basic groundwork at one HB that knowledge can be applied elsewhere. In subsequent engagements the Management Consultants can "home in" on the previously identified areas of expenditure which will allow them to claim their 15% for little extra effort.

23. These were the exceptions to the method by which fees were agreed. Generally a figure was given for the work to be done and that was the amount paid. Many felt they had received input over and above the agreed number of days without incurring any additional charges. None of the boards visited reported problems in the Management Consultants discharging their Terms of Reference.

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## Expenses

24. In their report on the English Health Authorities the NAO made particular comment on Management Consultants' expenses as an area of questionable expenditure. In our review enquiries were aimed at establishing whether any limit was placed on the amount of expenses Management Consultants could claim. Invoices were also examined to identify whether there were any examples of unreasonable expense claims. In 33 of the 63 engagements examined a limit was placed on the amount reclaimable. A variety of methods was used :-

- \* inclusive of the basic fee
- \* limited to Whitley Council conditions and rates subject to a fixed maximum
- \* a fixed sum
- \* a fixed percentage of the basic fee

25. In 8 of the engagements there was no reference at all to expenses and none were paid. In the remaining 22 there was no documentation to show that a limit had been placed on the amount reclaimable.

26. Examination of the invoices showed that, where the amount was limited by either a fixed sum or fixed percentage, the maximum was invariably claimed. The payment for expenses not subject to limitation varied greatly, in one example amounting to 17% of the basic fee. This was significantly in excess of most expense claims which were subject to limitations.

27. Many of the expense claims, limited or not, and including the example in paragraph 26, were not supported by receipted bills or a breakdown of expenditure. In some circumstances receipts will not always be available or required, however Health Authority officers certifying expense claims will need to ensure that the expenditure has been incurred.

28. Where invoices for expenses were supported by a breakdown of expenditure, there was no evidence to suggest that any unreasonable or lavish claims were being made.

Recommendation - In entering a agreement with Management Consultants expenses should be subject to limitations.

Recommendation - Claims for expenses should, where possible, be supported by receipted invoices.

## Reviewing Management Consultant's Performance and Evaluation

29. In their guidance the Treasury recommend that at the conclusion of an engagement an overall review of Management Consultants' effectiveness should be carried out. This can be useful in helping to select Management Consultants for future work and to improve the Health Authorities' own performance. There are a number of specific issues which should be addressed in any review :-

- \* was the work completed on time
- \* were costs contained within the contracted figure
- \* did the consultants carry out all their contractual obligations
- \* were the Terms of Reference discharged
- \* how did the consultants' key people perform
- \* were effective solutions proposed
- \* did the engagement represent value for money

30. The review should also be used to address internal concerns :-

- \* did the Health Authority handle the selection and control arrangements well
- \* did the Health Authority effect the proposed solutions
- \* have the hoped for benefits been received

31. Although, at the time of enquiry, some of the engagements were not concluded, there was little evidence to show that formal reviews had been undertaken. Some of those asked were content that the outcome of the engagement, ie a successful Trust application or a presentation to a steering group provided an adequate review. Others said they had gained an overall impression of the Management Consultant's performance for use on future occasions but without a formal record having been made. A possible result of not undertaking a formal, structured review is that any shortcomings may not be identified and therefore repeated on future occasions.

Recommendation - At the conclusion of an engagement, a formal review of the Management Consultant's performance should be carried out and documented.

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## CONCLUSION

32. The expenditure on Management Consultants in 1992-93 at the 9 Health Authorities reviewed was almost £2.5 million. The figure for Scotland as a whole is likely to be significantly higher. Even in "minor" projects the daily rate charged can result in substantial payments being made. It is for these reasons that Management Consultants should be engaged only when all other options have been considered and there is some certainty that benefit can accrue to the employing authority. The option appraisal process should be adequately documented as should the essential reasons for engaging Management Consultants where this is the result of such an option appraisal.

33. This review did identify examples where there is doubt whether benefit has accrued. It has also been established that Health Authorities were appointing Management Consultants without seeking competitive tenders. While many of the SFIs examined contain exception clauses which permit this approach, it may be one which is used too readily, particularly when the actual approvals and decisions are poorly documented. Through not taking competitive tendering action boards are not demonstrating economy in expending public funds or in the probity of transactions.

34. There were also weaknesses identified in the contractual arrangements with consultants, the methods of reimbursing consultants expenses and reviewing the services received.

35. While the amount of the expenditure is small when compared to that incurred by the criticised English RHAs, and it is spread over a number of relatively small engagements thus reducing the scope for waste, there are still weaknesses to be addressed. It is considered that this is best taken forward by the ME who should write to all Health Authorities summarising the findings and recommendations made in this report.

## ACKNOWLEDGEMENT

36. The Scottish Office auditors involved in this review wish to thank all Health Authority staff for the assistance and co-operation received.

