



National Audit Office

Using consultants appropriately in the States of Guernsey

REPORT BY THE NATIONAL AUDIT OFFICE FOR THE PUBLIC ACCOUNTS COMMITTEE | MARCH 2007

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Sir John Bourn, is an Officer of the House of Commons. He is the head of the National Audit Office, which employs some 850 staff. He, and the National Audit Office, are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work saves the taxpayer millions of pounds every year. At least £8 for every £1 spent running the Office.

Greencoat is produced using 80% recycled fibre,
10% TCF virgin fibre and 10% ECF fibre



National Audit Office

Using consultants appropriately in the States of Guernsey

This review was undertaken by Richard Eales
with the assistance of Dr Susan Bacon.

**For further information about the
National Audit Office please contact:**

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Email: enquiries@nao.gsi.gov.uk

© National Audit Office 2007

CONTENTS

DEFINITIONS	4	PART THREE	
EXECUTIVE SUMMARY	5	Engaging and evaluating consultants	18
Scope of the NAO report	5	The purchasing guidelines on tendering and contracting are often not followed	18
Main findings	5	There is very little documented post-project evaluation	21
Possible savings	8	APPENDICIES	
NAO Recommendations	9	1 Critical success factors in using consultants	23
PART ONE		2 NAO Methodology	24
Expenditure and guidance on consultants	10	3 Case examples	25
The States spent £7.3 million on consultants in 2005	10	4 Departmental expenditure on consultants	29
Monitoring of overall States expenditure on consultants is difficult because Departments use a wide variety of SAP codes for recording this expenditure	12	5 States guidance on selecting consultants	30
Guidance for Departments on using consultants needs to be more widely available	13		
PART TWO			
Assessing the need for consultants	15		
Most expenditure on consultants is to meet a specific skills need that is not available in-house	15		
Assessment of need is generally informal and not well documented	16		
In non-technical areas, many projects are poorly specified	16		

DEFINITIONS

1 The term “consultant” is subject to many different interpretations. For the purposes of this review, we have defined a consultant as a “**professional person or organisation who provides expert advice and charges a fee for doing so**”.

2 In some circumstances, it can be quite difficult to distinguish between a consultant providing advice and a contractor providing a service. In particular, there is a grey area between consultancy work and contracted-out work. To distinguish between these two areas, we have adopted the following classification:

- Included within the definition of consultants: time limited or ad hoc work:
 - i.e. the use of external advisors when a project, system, initiative or programme is in the advisory, design, development or implementation phase.

- Excluded from the definition of consultants: steady state work:
 - i.e. the use of external parties when a project, system, initiative or programme has passed into the operational or steady state phase.

3 For example, where a Department engages a private sector firm to provide advice during the course of a new project or to provide advice in helping to solve a one-off problem or for an ad-hoc specific piece of work, such expenditure would count as **consultancy**. However, where a whole Departmental function is outsourced to the private sector for a significant period of time, such expenditure would count as **contracted-out work**.

EXECUTIVE SUMMARY

1 The States of Guernsey has made much use of the private sector in recent years and has become a major purchaser of consultancy services. Although management and public relations consultants often spring to mind when people discuss or express concern about expenditure on consultants, consultants in fact provide a wide range of other services and operate in many different fields. In the States of Guernsey, consultants are also employed in construction, finance, human resources, information technology, legal work and marketing.

2 Buying in consultancy support has a number of potential advantages. Consultants may have specialist skills and expertise not available within the States of Guernsey; they may bring fresh and independent thinking to bear on a problem; they often have wide experience of how particular jobs are effectively managed elsewhere; and they may have access to specialist data bases and other sources of information.

3 But there are risks as well as opportunities in employing consultants. Consultants can be expensive and they should only be used on matters of real importance where they can bring positive benefits which outweigh the extra costs involved. Value for money will not be achieved if the wrong consultants are selected, if consultants are used inappropriately or if their work is not monitored and assessed. The factors critical to the successful use of consultants are set out in **Appendix 1**.

4 This Report identifies how much is being spent on consultants by the States of Guernsey. It then examines whether consultants are being used appropriately by States of Guernsey Departments. The Report was commissioned by the Public Accounts Committee.

Scope of the NAO Report

- 5** The Report is in three parts:
- Part 1 of the Report examines and analyses States expenditure on consultants in 2005. It also considers whether appropriate guidance is available to Departments on the use of consultants.
 - Part 2 of the Report examines whether the need to use consultants is properly assessed and whether the specification of requirements is clearly set out in line with accepted best practice.
 - Part 3 of the Report examines whether appropriate methods are used to select and appoint the most suitable consultants. It also considers whether the use of consultants is evaluated after assignments are completed.
- 6** **Appendix 2** sets out the methodology we used on this work. **Appendix 3** gives some case examples where consultants have been used by States of Guernsey Departments.

Main findings

7 Our overall **conclusion is that consultants are generally being used on appropriate work in the States of Guernsey but projects need to be more clearly specified and contracting and evaluation need to be improved**. In most cases consultants are used to meet a genuine skills need that is not available in-house. However, the specification of requirements is often poor and good practice in tendering and contracting is not always being followed. Value for money is therefore at risk and financial savings may be secured by tightening up procedures.

- 8 In particular we found that:
- the States of Guernsey spends substantial sums on consultants each year but guidance on how consultants should be selected has not been widely disseminated;
 - consultants are generally employed because of a particular skills need, rather than as a substitute for in-house staff, but the justification for using consultants is rarely set out in a clear business case; and
 - best practice in tendering and contracting for consultants is often not achieved and documented reviews of consultancy projects after they have been completed are rare.

Expenditure and guidance on consultants (Part 1 of the Report)

9 The States spent £7.3 million on consultants in 2005. Education, Treasury & Resources, Public Services and Health & Social Services were the four biggest

spending Departments; and the largest amounts spent on consultants were in the property and construction, IT, management and legal areas (Figure 1). A breakdown of the figures by Department is given in Appendix 4. As Guernsey Departments vary widely in size and range and type of activity, it is only to be expected that the level of expenditure on consultants will also vary widely between Departments.

10 It is difficult to monitor expenditure on consultants (by Departments and by the States as a whole) because Departments use such a wide variety of SAP codes for recording this expenditure. Many of the codes do not refer to “consultants” in their titles and the total amount spent on consultancy is not logged or recognised. Without full and accurate information on consultancy costs it is hard for the States to monitor this expenditure. The problem is exacerbated by the fact that there is no clear and generally accepted definition of what should be classed as consultancy expenditure.

1 Departmental expenditure on consultants in 2005 (£000)

Department	Property and Construction	IT	Management	Legal	Other ¹	Total
Commerce and Employment	–	6	133	31	51	221
Culture & Leisure	21	–	7	–	1	29
Education	2,740	539	30	8	–	3,317
Environment	12	4	1	23	87	127
Health & Social Services	541	–	35	21	22	619
Home	–	19	36	–	30	85
Housing	60	32	–	6	61	159
Public Services	564	80	147	203	91	1,085
Social Security	–	7	–	–	31	38
Treasury and Resources	738	265	82	170	259	1,514
Policy Council	–	–	–	–	70	70
Total	4,676	952	471	462	703	7,264

Source: National Audit Office analysis of Departmental data

NOTES

1 “Other” comprises Financial (£261,000), Human resources (£157,000), Scientific and research (£140,000), Media and communications (£115,000) and Marketing (£30,000).

2 The figures shown include expenditure from general revenue, capital and specific funds.

11 It is important that Departmental staff using consultants have access to appropriate guidance and are aware of the standard contracts available. An explanatory guidance note on selecting consultants was issued in April 2003 by the States Treasurer to all Chief Officers. The guidance note is a supplement to the States Tendering Procedures Guidelines. In our discussions with Departmental staff, very few people outside of the construction area were aware of this guidance or that the Law Officers have produced a number of standard contracts for employing consultants.

Assessing the need for consultants (Part 2 of the Report)

12 In the great majority of cases in 2005, consultants were employed to meet a specific skills need that was not available in-house. In a small number of cases, however, consultants had been used because there were insufficient resources in-house to carry out the work even though the necessary expertise existed in-house. We estimate that these cases amounted to £339,000 or 5 per cent of total expenditure on consultants in 2005. There is no doubt that in some of these cases the consultants provided added value that would not have been obtained by using in-house staff. The use of consultants may also have prevented disruption to other workstreams and projects. We recognise also that there may be times – during severe shortages of staff, where recruitment of staff with key skills is particularly difficult or where deadlines are very critical – when Departments have no realistic option but to use consultants.

13 Business cases for consultancy assignments – setting out need, costs and benefits, and possible alternatives – were prepared in only a minority of cases. Any assessment of need was generally done informally, usually in internal discussions, and would sometimes be followed by Board level approval. It is understandable that Departments will wish to avoid introducing burdensome procedures, particularly where consultancy assignments are small. The States may therefore wish to set a threshold, say £10,000, below which a formal business case is unnecessary. The case made for assignments below this threshold could be relatively brief. But in all cases the decision to use consultants needs to be properly documented and approved.

14 Our examination of consultancy assignments managed by States of Guernsey Departments showed a considerable variation from project to project in the quality with which requirements were specified. In technical areas, projects were generally well specified. In non-technical areas specifications were often poor and did not set out clearly what the consultants were expected to achieve.

Engaging and evaluating consultants (Part 3 of the Report)

15 It is generally accepted that competition in procurement offers the best means of securing value for money. Competition should be achieved by using competitive tendering or quotations unless there are strong reasons to justify a different approach. Single tendering should only be used in a limited number of circumstances and needs to be properly authorised.

16 In our examination of consultancy assignments managed by States of Guernsey Departments in 2005, we found that 42 per cent of those over £500 in value had not been based on competitive quotes or tenders. The value of consultancy assignments where no competitive prices had been obtained was £1,226,000, representing 17 per cent by value of all consultancy assignments worth more than £500. The main reasons for not obtaining competitive quotes or tenders were because of on-going relationships with consultants or because the consultants were the only ones in their field with the necessary expertise or reputation to undertake the work. In some cases, the original contract had been extended time after time without any competitive prices being obtained. Although extending a contract can be acceptable in the first instance it should not be done over and over again without competitive quotations or tenders being sought.

17 For many new consultancy assignments, the supplier's contract had been used rather than a States contract. Many consultants, particularly those in ongoing relationships with Departments, had been employed in 2005 without any formal contract at all. It is storing up trouble for the future if there is no contract or the contract is on the supplier's terms. The States will then be in a weak position to get the supplier to change course or to seek redress if the assignment does not go as the States intended. There will undoubtedly be some occasions – for example because of extreme urgency or delays elsewhere outside of Departmental control – where work must start without a contract or where the contract is on the supplier's terms. But these instances should be few and far between.

18 Framework agreements have been used successfully in other jurisdictions for consultancy services and have been shown to produce significant savings compared with traditional procurement methods. The Education Department has set up framework agreements with certain design team consultants as part of the Education Development Plan. The Treasury & Resources Department (States Property Services) has also been piloting a framework agreement for construction consultancy services, which is now in place and operational.

19 It is important for accountability purposes that, for all but very minor assignments, there is a documented review which assesses the performance of consultants against pre-determined criteria. We found, however, that there was very little post-project evaluation of consultancy assignments. Except in construction, documented reviews of consultants' performance were hardly ever undertaken.

20 A common-sense approach should be adopted as regards the extent of post-project reviews. A small assignment might merit only a very brief assessment; whereas a large assignment might involve a meeting of the project team with a minute taken of the results and conclusions. The lessons from reviews need to be retained and shared with others so that they are available to those embarking on similar contracts. Without such reviews, there are risks that opportunities to improve processes and the use of consultants will be missed.

21 When consultants bring particular skills, which are of continuing relevance to Departments, the potential for skills transfer should always be considered. Putting in place arrangements to ensure skills transfer from consultants to in-house staff can help to avoid the need to use consultants in future. Most States of Guernsey Departments considered that there was generally little scope for skills transfer because consultants tended to have specialist, often technical, skills which Departments were not in a position to replicate. Some skills transfer did occur in non-technical areas but skills transfer was not seen as a central part of consultancy assignments and was rarely written into contracts as something consultants were required to facilitate.

Possible savings

22 A review by the NAO of UK government consultancy expenditure has suggested that, in the UK, efficiency gains in the region of 15 per cent or more are achievable by improving the way that UK departments assess the need for, procure and use consultants.¹ Because of the lack of scale, Guernsey may be unable to achieve the levels of savings in consultancy expenditure obtainable in larger jurisdictions. Worthwhile savings may still be achievable, however.

23 The States Property Services has been piloting a framework agreement for construction consultants, which is likely to reduce costs. Better assessment of need, improved project specifications, ensuring that prices are competitive and using framework agreements elsewhere where practicable would all be likely to deliver efficiency gains. Any estimate of possible future savings is speculative, however, because they depend on the course of future events.

¹ National Audit Office - Central government's use of consultants (2006).

NAO Recommendations

- 1** The Treasury & Resources Department should review the suite of general ledger codes to identify any simplification and rationalisation that may be possible. This review should be undertaken in conjunction with Departments (paragraph 1.11).
- 2** Central training and guidance should re-emphasise to staff the importance of using the appropriate general ledger codes for recording all types of expenditure. This message should be reinforced by Departmental senior finance managers (paragraph 1.12).
- 3** The guidance on selecting consultants should be updated and revised in the light of the findings in this Report. The guidance should encompass non-construction consultants as well as construction consultants and should be supplemented by the standard contracts developed by the Law Officers. The guidance and contracts should be readily accessible by all Departmental staff who need to use consultants (paragraph 1.19).
- 4** Consultants should only be used where they would clearly add value and meet a genuine skills need that is not available or not cost-effective to maintain in-house. Save in exceptional circumstances where the workload requires, consultants should not be used to substitute for internal staff as a way of dealing with staff shortages or heavy internal workloads (paragraph 2.8).
- 5** Consultants should not be engaged without a clear assessment of need and documented approval. The business case should be tailored to the particular assignment and be proportionate to the scale of expenditure involved. It could be relatively brief for small assignments. However, assignments costing above a certain threshold, say £10,000, should require a properly formulated and approved business case. The business case must demonstrate that there is no better alternative to using consultants and that the quantified benefits of using consultants outweigh the costs involved (paragraph 2.14).
- 6** A clear specification of requirements should be drawn up for all consultancy assignments before firms are invited to quote or tender (paragraph 2.18).
- 7** Departments should ensure that they follow the purchasing guidelines on tendering and contracting when purchasing consultancy services. All consultancy assignments should be subject to competition in line with the States tendering thresholds unless there are strong reasons for not doing so. Any exceptions should be documented and authorised at a senior level within the Department (paragraph 3.8).
- 8** Consultancy contracts should not be repeatedly rolled over without competitive quotations or tenders being obtained (paragraph 3.9).
- 9** Except where there is no sensible alternative, consultancy assignments should not start until a firm contract is in place between the States and the supplier (paragraph 3.16).
- 10** Departments should make use of the standard contracts for employing consultants prepared by the Law Officers. They should not rely on suppliers' contracts, which may not afford due protection to the States' position (paragraph 3.16).
- 11** If the initiative to use a framework agreement for construction consultancy services is successful, the use of such agreements should be considered for other types of consultancy services purchased by the States. Framework agreements may be advantageous for similar types of consultancy services that are used by more than one Department (paragraph 3.20).
- 12** Departments should ensure that post-project evaluations of consultancy assignments are undertaken in all appropriate cases. The extent of the post-project review should be tailored to the size of the assignment. The lessons to be learned need to be captured in good time and used to improve the use of consultants in the future (paragraph 3.25).
- 13** Corporate Procurement Services of the Treasury & Resources Department may have a useful role in receiving and collating the information from post-project reviews and disseminating the results to Departments (paragraph 3.25).
- 14** The scope for skills transfer from consultants to in-house staff should be considered at the planning stage for every consultancy assignment. Where skills transfer is considered feasible and desirable, the requirement should be written into the project specification (paragraph 3.29).

PART ONE

Expenditure and guidance on consultants

1.1 This Part of the Report examines and analyses States expenditure on consultants in 2005. It also considers whether appropriate guidance is available to Departments on the use of consultants.

1.2 Our main conclusion is that **the States of Guernsey spends substantial sums on consultants each year but guidance on how consultants should be selected has not been widely disseminated.** In particular we found that:

- The States spent £7.3 million on consultants in 2005 including expenditure on consultants for capital projects (paragraphs 1.3 to 1.7).
- Monitoring of overall States expenditure on consultants is difficult because Departments use a wide variety of SAP codes for recording this expenditure (paragraphs 1.8 to 1.12).
- Guidance for Departments on using consultants needs to be more widely available (paragraphs 1.13 to 1.19).

The States spent £7.3 million on consultants in 2005

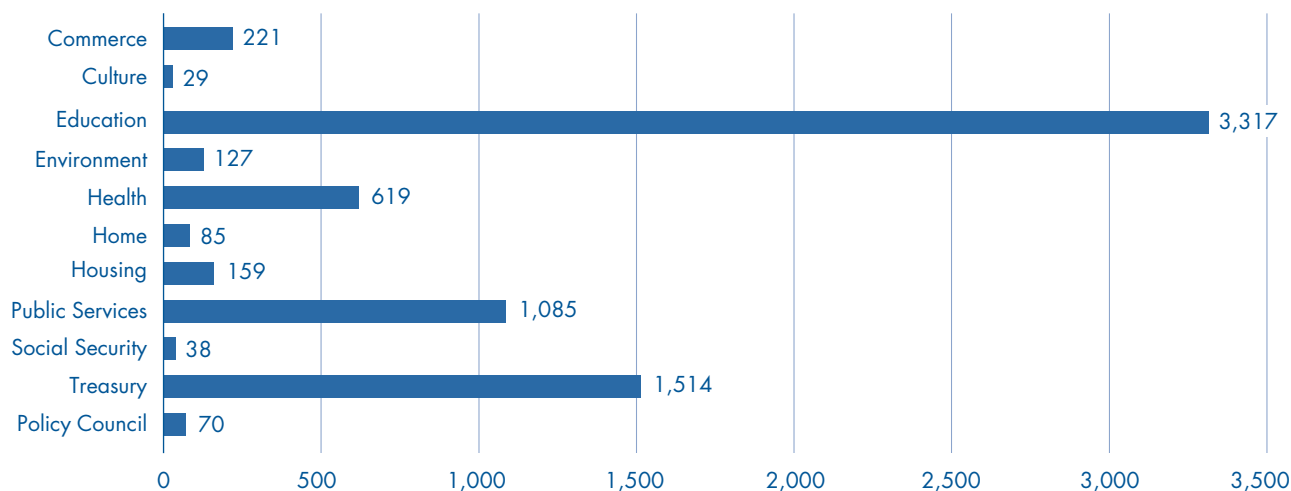
1.3 Total expenditure on consultants in 2005 amounted to £7,264,000.² This level of expenditure needs to be seen in the context of Guernsey being a small island with limited access to technical and specialist expertise locally.

Expenditure analysed by Department

1.4 Four Departments spent over half a million pounds on consultants in 2005 (**Figure 2**): Education (£3,317,000), Treasury & Resources (£1,514,000), Public Services (£1,085,000) and Health & Social Services (£619,000). The other six Departments and the Policy Council spent £729,000 in total. As Guernsey Departments vary widely in size and range and type of activity, it is only to be expected that the level of expenditure on consultants will also vary widely between Departments.

2 States expenditure on consultants in 2005 by Department

Expenditure on consultants 2005 (£000)



Source: National Audit Office analysis of Departmental data

2 The total includes expenditure from general revenue, capital and specific funds.

Expenditure analysed by type of consultant

1.5 Some £4,676,000 was spent on consultants in the property and construction field, such as architects, engineers, project managers and surveyors (**Figure 3**). This amount represented 64.4 per cent of total States expenditure on consultants in 2005. Other areas of significant spend were IT (£952,000 or 13.1 per cent of the total), management (£471,000 or 6.5 per cent of the total) and legal (£462,000 or 6.4 per cent of the total).

Expenditure analysed by supplier

1.6 A total of 20 suppliers of consultancy services each received more than £100,000 from the States in 2005 (**Figure 4**). These suppliers represented only 12 per cent of

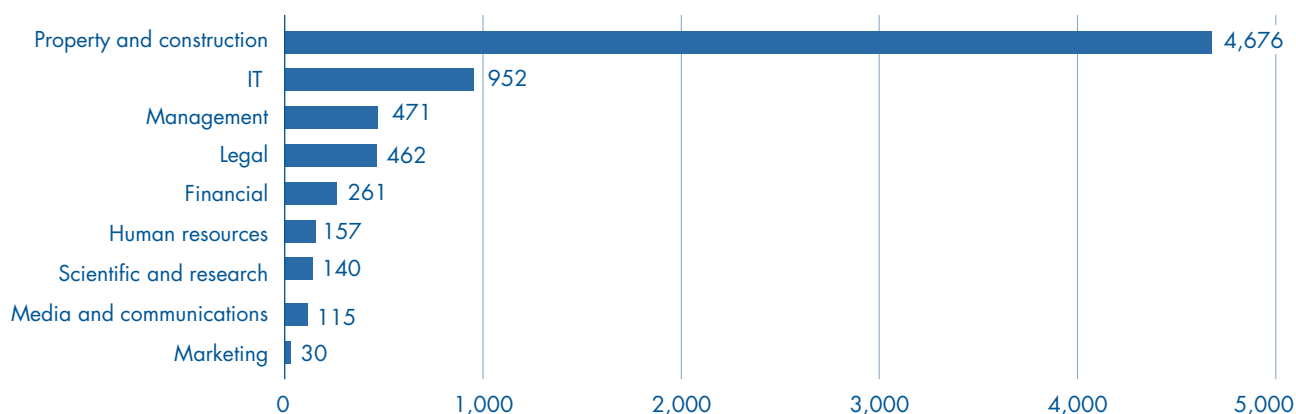
the total number of suppliers used by the States but received 65 per cent of the total amount spent. A further 15 suppliers received between £50,000 and £100,000 and 21 suppliers received between £25,000 and £50,000.

Expenditure analysed by location of supplier

1.7 Departments spent a total of £1,080,000 on Guernsey-based consultants in 2005, representing 15 per cent of total consultancy expenditure (**Figure 5**). A further £163,000 (two per cent) was spent on Jersey-based consultants and the remaining £6,021,000 (83 per cent) was spent on consultants based outside of the Channel Islands, predominantly in the UK.

3 States expenditure on consultants in 2005 by type of consultant

Expenditure on consultants 2005 (£000)



Source: National Audit Office analysis of Departmental data

4 States expenditure on consultants in 2005 by supplier

Total amount received by supplier in 2005	Number of suppliers	Proportion of total number of suppliers	Amount received by suppliers £000	Proportion of total amount received
Over £100,000	20	12%	4,680	65%
Over £50,000 and up to £100,000	15	9%	997	14%
Over £25,000 and up to £50,000	21	13%	803	11%
Over £10,000 and up to £25,000	33	21%	512	7%
Over £5,000 and up to £10,000	24	15%	167	2%
Up to £5,000	48	30%	105	1%
Total	161	100%	7,264	100%

Source: National Audit Office analysis of Departmental data

5 States expenditure on consultants in 2005 by location of consultant

Department	Expenditure in 2005 on consultants				Total (£000)	Proportion spent on Guernsey-based consultants
	Based in Guernsey (£000)	Based in Jersey (£000)	Based in the UK (£000)	Based elsewhere (£000)		
Commerce and Employment	52	6	147	16	221	23%
Culture and Leisure	<1	0	29	0	29	1%
Education	139	144	3,034	0	3,317	4%
Environment	52	0	69	6	127	41%
Health and Social Services	52	0	567	0	619	8%
Home	33	0	52	0	85	39%
Housing	41	0	118	0	159	25%
Public Services	151	13	921	0	1,085	14%
Social Security	5	0	33	0	38	12%
Treasury and Resources	526	0	988	0	1,514	35%
Policy Council	29	0	41	0	70	42%
Total	1,080	163	5,999	22	7,264	15%

Source: National Audit Office analysis of Departmental data

Monitoring of overall States expenditure on consultants is difficult because Departments use a wide variety of SAP codes for recording this expenditure

1.8 The SAP³ system was introduced in 2002 to manage States of Guernsey finances and purchasing. When raising a purchase order or paying an invoice, Departmental staff are required to assign a general ledger code, which identifies the type of expenditure involved. This enables the SAP system to be interrogated to identify all expenditure of a particular kind for budgeting, monitoring, accounting and other purposes.

1.9 We identified eight SAP general ledger codes which refer to consultants (Figure 6). Just over half the consultancy expenditure in 2005 had been allocated to these codes. However, we found that many other codes were also used, which are not specific to consultancy expenditure (Figure 6 also).

1.10 The use of so many different SAP codes makes it difficult to identify what Departments and the States as a whole have spent on consultants. Without such information, it is hard for the States to monitor such expenditure. This difficulty has arisen in part because there is no clear and generally accepted definition of what should be classed as consultancy expenditure. The definition used by the NAO for the purposes of this review is set out at the beginning of this Report.

1.11 The Treasury & Resources Department manages the chart of accounts, including the general ledger codes. Now that the SAP system has been in operation for a number of years, it may be timely to look again at these codes and how they are used. Having too many codes for similar types of expenditure can create confusion and make it harder to monitor and control spending. **We therefore recommend that the Treasury & Resources Department should review the suite of general ledger codes to identify any simplification and rationalisation that may be possible. This review should be undertaken in conjunction with Departments.**

3 SAP is the acronym for "Systems, Applications and Products in Data Processing", the company who provided the technology for the project.

6 SAP codes used for recording expenditure on consultants in 2005

SAP codes referring to consultants

30210	Advertising and promotion – consultants	31270	Consultants – public relations
31220	Consultants – health	31280	Consultants – research
31240	Consultants – legal	32605	IT costs – consultancy
31260	Consultants – other	35016	Project – cost consultancy

Other SAP codes used

30020	Administration – general expenses	34085	Staff – travel and subsistence
30060	Administration – security fees and charges	34670	Vehicles – repair/maintenance
30205	Advertising and promotion – advertising	35110	Project manager
30865	Communications – other	35112	Architect
31300	Contracted out work – contacts	35114	Mechanical & electrical
31605	Finance – audit fees	35116	Structural engineer
31800	Furniture, equipment and bedding	35118	Quantity surveyor
32445	Insurance – other	35120	Planning supervisor
32615	IT costs – contracts	35122	Landscape architect
32645	IT costs – other	35124	Highways engineer
32655	IT costs – server software	35126	Fire engineer
33019	Operational cost – inspections	35128	Checking engineer
33065	Operational cost – services	35130	Other advisors (non survey)
33210	Pay – basic pay non established staff	35155	Client (post contract)
33620	Postage, stationary and printing – other	35160	Topographical
33830	Property – estate agent fees	35164	Geotechnics
33855	Property – maintenance	35174	Other surveys
33860	Property – other	35184	Legals
34080	Staff – training charges/expenses	45010	Investment management fees

Source: National Audit Office analysis of Departmental data

1.12 The Treasury & Resources Department also provides training for staff in how to use the SAP system. With a few exceptions, the training is compulsory for all staff who wish to use the SAP system. Although the training provides information and guidance on which general ledger codes to use, it is clear that there is some lack of awareness amongst staff about which codes to use and why using the correct code is important for monitoring and accounting. Finance managers in Departments have an important role to play here in ensuring that the correct codes are used so that departmental accounts and budget forecasting are accurate. **We therefore recommend that central training and guidance should re-emphasise to staff the importance of using the appropriate general ledger codes for recording all types of expenditure. This message should be reinforced by Departmental senior finance managers.**

Guidance for Departments on using consultants needs to be more widely available

1.13 The States Tendering Procedures Guidelines were issued by the former Advisory and Finance Committee in June 1995. They cover the procedures to be adopted when tendering for the purchase of goods and services, but do not include any specific details relating to the use of consultants. In September 2004 the financial threshold that determines whether a purchase is defined as low value (when written quotations are generally required) or high value (when open tendering is the appropriate method) was increased from £10,000 to £25,000.

1.14 A procurement handbook is currently being prepared by Corporate Procurement Services of the Treasury & Resources Department. The handbook will provide practical advice to encourage best practice in procurement to be applied throughout the States of Guernsey. It will incorporate, update and expand upon the 1995 States Tendering Procedures Guidelines and will cover all procurement expenditure, including expenditure on consultants.

1.15 In the absence of a States-wide document relating specifically to the use of consultants, an explanatory guidance note on selecting consultants was prepared by the Strategic Property Unit (now States Property Services) and issued in April 2003 by the States Treasurer to all Chief Officers (see Appendix 5). The guidance note is a supplement to the States Tendering Procedures Guidelines. It covers a number of areas such as demonstrating the need for a consultant; the selection and assessment process; tender evaluation; monitoring the appointment; and post-implementation review.

1.16 The guidance note on selecting consultants is not mandatory but represents accepted good practice. It is aimed essentially at consultants employed in property and construction projects and has been distributed to those Departmental staff that purchase this category of consultancy. In our discussions with Departmental staff, very few people outside of the construction area were aware of this guidance.

1.17 The guidance note also refers to a number of additional guidance notes, which were in fact never issued. References in the guidance note are to the old Committee structure before the Machinery of Government changes of May 2004. The guidance note needs to be updated and revised and either expanded to cover non-construction consultants or supplemented by additional guidance on non-construction consultants.

1.18 In recent years the Law Officers have produced a number of standard contracts for employing consultants. These have been produced following ad hoc requests for assistance from Departments. However, we found that many of the Departmental staff employing consultants were not aware that these documents existed. These contracts need to be made more widely available throughout the States. In most cases Departments had used contracts provided by the supplier, which is not generally a satisfactory practice since such contracts will tend to protect the position of the supplier rather than that of the States (see Part 2 of this Report).

1.19 It is important that Departmental staff using consultants have access to appropriate guidance and are aware of the standard contracts available. **We therefore recommend that the guidance on selecting consultants should be updated and revised in the light of the findings in this Report. The guidance should encompass non-construction consultants as well as construction consultants and should be supplemented by the standard contracts developed by the Law Officers. The guidance and contracts should be readily accessible by all Departmental staff who need to use consultants.**

PART TWO

Assessing the need for consultants

2.1 This Part of the Report examines whether the need to use consultants is properly assessed and whether the specification of requirements is clearly set out in line with accepted best practice.

2.2 Our main conclusion is that **consultants are generally employed because of a particular skills need, rather than as a substitute for in-house staff, but the justification for using consultants is rarely set out in a clear business case.** In particular we found that:

- Most expenditure on consultants is to meet a specific skills need that is not available in-house (paragraphs 2.3 to 2.8).
- Assessment of need is generally informal and not well documented (paragraphs 2.9 to 2.14).
- In non-technical areas, many projects are poorly specified (paragraphs 2.15 to 2.18).

Most expenditure on consultants is to meet a specific skills need that is not available in-house

2.3 Consultants are generally used by the public sector to obtain one or more of the following benefits:

- to provide specialist skills, knowledge or expertise which do not exist in-house or are not cost-effective to maintain in-house;
- to provide a wider experience or broader perspective by drawing on external experience;
- to be an independent facilitator of change within the organisation; and
- to provide an independent view of current key issues.

2.4 It is unlikely to be cost-effective to use consultants as a direct substitute for in-house staff. They are likely to be more expensive than the Department's own staff and in such circumstances employing them is unlikely to deliver value for money. As an example, the UK Ministry of Defence has a relatively well-developed process for comparing the cost of using internal staff and consultants. It has estimated that the average daily cost of using an internal consultant is £550 compared with £1,245 for an external consultant.

2.5 We examined the reasons why consultants had been used by States of Guernsey Departments in 2005. We found that, in the great majority of cases, consultants had been employed to meet a genuine skills requirement that was not available in-house.

2.6 We noted that, in a small number of cases, however, consultants had been used because there were insufficient resources in-house to carry out the work even though the necessary expertise existed in-house. We estimate that these cases amounted to £339,000 or five per cent of total expenditure on consultants in 2005.

2.7 There is no doubt that in some of these cases the consultants provided added value that would not have been obtained by using in-house staff. The use of consultants may also have prevented disruption to other workstreams and projects. We recognise also that there may be times – during severe shortages of staff, where recruitment of staff with key skills is particularly difficult or where deadlines are very critical – when Departments have no realistic option but to use consultants. Nevertheless, such cases should be the exception. In all other cases, it is important that Departments satisfy themselves that where consultants are to be used, the additional costs of doing so will be more than off-set by the benefits expected to be secured.

2.8 We recommend that consultants should only be used where they would clearly add value and meet a genuine skills need that is not available or not cost-effective to maintain in-house. Save in exceptional circumstances where the workload requires, consultants should not be used to substitute for internal staff as a way of dealing with staff shortages or heavy internal workloads. Consultants are almost always likely to be more expensive than using in-house staff even if those staff are being paid at overtime rates.

Assessment of need is generally informal and not well documented

2.9 Good practice recommends that the use of consultants should be fully justified after proper consideration of other options. The reasons for using consultants rather than in-house staff in each particular case should be clearly assessed and documented. The assessment should establish that external skills are really needed rather than doing the work in-house.

2.10 Good practice also recommends a clear, documented business case for the engagement. The business case serves two purposes:

- to provide the justification to approve the assignment; and
- to establish a framework for managing the consultancy once it goes ahead.

The key elements of a thorough business case are set out in **Figure 7**.

2.11 In Northern Ireland, departments must prepare a business case for each consultancy assignment greater than £10,000. The business case should appraise the need for the consultants, the costs and benefits, possible alternatives to using consultants, performance review and implementation arrangements. The effort put into the appraisal should be proportionate to the scale of expenditure involved.

2.12 We found from our discussions with States of Guernsey Departments that business cases for consultancy assignments were prepared in only a minority of cases. Any assessment of need was generally done informally, usually in internal discussions, and would sometimes be followed by Board level approval.

2.13 It is understandable that Departments will wish to avoid introducing burdensome procedures, particularly where consultancy assignments are small. The States may therefore wish to set a threshold, say £10,000, below which a formal business case is unnecessary.

The case made for assignments below this threshold could be relatively brief. But in all cases the decision to use consultants needs to be properly documented and approved. Failure to do so could lead to funds being wasted and desired outcomes not being achieved.

2.14 We recommend that consultants should not be engaged without a clear assessment of need and documented approval. The business case should be tailored to the particular assignment and be proportionate to the scale of expenditure involved. It could be relatively brief for small assignments. However, assignments costing above a certain threshold, say £10,000, should require a properly formulated and approved business case. The business case must demonstrate that there is no better alternative to using consultants and that the quantified benefits of using consultants outweigh the costs involved.

In non-technical areas, many projects are poorly specified

2.15 The preparation of a clear specification is a key element in planning the procurement of consultancy services. There must be a thorough definition of the service to be provided, which should derive from the business case. Consultancy contracts should normally be for a well-defined, time-limited piece of work.

7 The key elements of a business case for a consultancy assignment

The business case should:

- identify the objectives and intended outcomes of the assignment;
- assess options for meeting the objectives and providing the outcomes;
- recommend a preferred option and identify estimated costs, benefits and risks;
- confirm that funds are available from an appropriate source;
- assess and recommend the preferred method for the procurement, for example, whether there is a suitable framework agreement that can be used;
- set out how the engagement (including the risks identified) will be managed and evaluated; and
- be approved at a level consistent with the internal delegated authority framework.

Source: Department for Education and Skills and the National Audit Office – Engagement and use of consultants good practice guide (2005)

2.16 The specification should be outcome or output based and avoid being too specific about how the work should be done so as not to stifle innovation. The specification sets the quality and performance standards for the assignment. An inadequate brief can lead to difficulties with a project throughout its life. The specification should therefore include the key elements set out in **Figure 8**.

2.17 Our examination of consultancy assignments managed by States of Guernsey Departments showed a considerable variation from project to project in the quality with which requirements were specified. In technical areas, projects were generally well specified. But in non-technical areas specifications were often poor and did not set out clearly what the consultants were expected to achieve.

2.18 The specification of requirements needs to contain all the relevant information that will be required by the supplier. It is essential that sufficient time, resources and skills are allocated for its development. Without a proper specification, the supplier will not understand what is expected, the contract cannot be satisfactorily managed, and there are high risks of not getting the outcomes required and of cost and time overruns. **We therefore recommend that a clear specification of requirements should be drawn up for all consultancy assignments before firms are invited to quote or tender.**

8 The key elements of a project specification for a consultancy assignment

The project specification should:

- define the Department's role;
- describe the requirement and set out the objectives;
- list any interfaces with existing services and processes;
- specify the expected deliverables, including the required quality and how it will be measured;
- set out a timetable – including milestones, deadlines and the required completion date; linking deliverables to payment where appropriate;
- identify the qualities needed in the consultants: the specific knowledge, skills and experience required, including the importance of such things as interpersonal skills;
- make it clear that bidders should declare any potential conflicts of interest for the Department to consider;
- define the mechanisms through which skills transfer will be achieved;
- define the ownership of knowledge generated by the assignment; and
- determine an exit strategy for what happens when the contract expires, or if it needs to be terminated early.

Source: Department for Education and Skills and the National Audit Office – Engagement and use of consultants good practice guide (2005)

PART THREE

Engaging and evaluating consultants

3.1 This Part of the Report examines whether appropriate methods are used to select and appoint the most suitable consultants. It also considers whether the use of consultants is evaluated after assignments are completed.

3.2 The procurement of consultancy services requires the same discipline and controls as any other procurement of goods and services. Competitive tendering and robust contract management are just as important for consultancy contracts as for other types of contract. It is also important to recognise the unique situation that working for the States as a consultant poses, and that the learning curve for States projects may be much greater than for mainstream UK projects. This factor needs to be considered when bringing in consultants from off-island.

3.3 Our main conclusion is that **best practice in tendering and contracting for consultants is often not achieved and documented reviews of consultancy projects after they have been completed are rare.** In particular we found that:

- The purchasing guidelines on tendering and contracting are often not followed (paragraphs 3.4 to 3.20).
- There is very little documented post-project evaluation (paragraphs 3.21 to 3.29).

The purchasing guidelines on tendering and contracting are often not followed

Ensuring competition

3.4 It is generally accepted that competition in procurement offers the best means of securing value for money. Competition should be achieved by using competitive tendering or quotations unless there are strong reasons to justify a different approach. Single tendering should only be used in a limited number of circumstances and needs to be properly authorised.

3.5 The States Tendering Procedures Guidelines of 1995 set financial thresholds for determining when quotations or tenders are required for the purchase of goods and services. In September 2004 the financial threshold that determines when open tendering should be carried out was increased from £10,000 to £25,000. The current thresholds are set out in **Figure 9**.

9 States thresholds for determining when to obtain competitive quotes or tenders when purchasing goods or services

Contract value	Approach to be adopted
Up to £500	Obtain verbal quotations.
From £500 to £25,000	Obtain a minimum of three written quotations.
Over £25,000	Issue an invitation to tender to a minimum of three suppliers.

Source: Corporate Procurement Services, Treasury & Resources Department

3.6 In our examination of consultancy assignments managed by States of Guernsey Departments in 2005, we found that 97 (42 per cent) of those over £500 in value had not met the guidelines in terms of obtaining competitive quotes or tenders (**Figure 10**). The value of these consultancy assignments where no competitive prices were obtained was £1,226,000, representing 17 per cent by value of all consultancy assignments worth more than £500 in 2005.

3.7 Departments told us that the main reasons for not obtaining competitive quotes or tenders were because of on-going relationships with consultants or because the consultants were the only ones in their field with the necessary expertise or reputation to undertake the work. We also found that where the relationship with the consultants was new, the guidelines were more likely to be followed and competitive quotations or tenders obtained as appropriate. However, where there was an ongoing relationship, there were often no competitive quotations or tenders. In some cases, the original contract was subsequently extended time after time without any competitive prices being obtained. Although extending a contract can be acceptable in the first instance it should not be done over and over again without competitive quotations or tenders being sought.

3.8 We recommend that Departments should ensure that they follow the purchasing guidelines on tendering and contracting when purchasing consultancy services. All consultancy assignments should be subject to competition in line with the States tendering thresholds unless there are strong reasons for not doing so. Any exceptions should be documented and authorised at a senior level within the Department.

3.9 Contracts should not be extended repeatedly without competition. Contracts which are repeatedly extended can easily accumulate to a value which brings

the arrangement above the thresholds which necessitate competitive tendering. Repeated contract extensions are often non-competitive in nature and can therefore hinder the achievement of value for money. **We therefore recommend that consultancy contracts should not be repeatedly rolled over without competitive quotations or tenders being obtained.**

Using the right form of contract

3.10 As with other types of procurement, it is important that the purchasing of consultancy services should be governed by the right type of contract with appropriate terms. As a general rule, consultancy contracts should:

- use standard forms of contract, including any special clauses that may be relevant to the particular assignment;
- have clear work schedules and clearly set out the commitments and obligations of both parties, so that there can be no misunderstanding on standards of performance, expected results, and deadlines (including monitoring and review arrangements);
- stipulate the information which the client requires at each stage of the assignment;
- state who owns the output and how the consultant can use it in future assignments;
- clearly define notice provisions for termination and contract expiry strategy;
- have clear invoice and payment schedules, and clearly set out payment arrangements, linking payments to deliverables; and
- detail all allowable expenses and arrangements for booking travel.

10 Consultancy assignments in 2005 awarded with and without competitive quotations or tenders

Action taken	Number	Proportion by number	Value £000	Proportion by value
Full tender process followed	102	45%	5,198	71%
Quotations requested	16	7%	199	3%
Ongoing work	14	6%	636	9%
No competitive prices obtained	97	42%	1,226	17%
Total	229	100%	7,259	100%

Source: National Audit Office analysis of Departmental data

NOTE

Excludes consultancies of £500 and under in value.

3.11 The States Tendering Procedures Guidelines of 1995 stipulate that the States' own standard terms and conditions should normally be applied rather than those of the supplier. In some circumstances, such as building works, other approved industry terms can be used. Where a supplier requests that the supplier's own conditions or industry standard terms of trade should be applicable, the Department or Committee should ensure that these are acceptable for its purposes.

3.12 In our discussions with States of Guernsey Departments we found that, for many new consultancy assignments, the supplier's contract had been used rather than a States contract. This is not generally a satisfactory practice since such contracts will tend to protect the position of the supplier rather than that of the States. Some Departments had sought to prepare a contract which married the States standard form with the supplier's contract. Some had also consulted the Law Officers about contract terms.

3.13 As already noted in Part 1 of this Report, in recent years the Law Officers have produced a number of standard contracts for employing consultants. These have been produced following ad hoc requests for assistance from Departments. However, many of the Departmental staff employing consultants were not aware that these documents existed.

3.14 The States Tendering Procedures Guidelines state that the successful tenderer must not be allowed to start work without a formal legal contract. However, we found that many consultants, particularly those in ongoing relationships with Departments, had been employed in 2005 without any formal contract at all.

3.15 It is self-evident that suppliers should not be engaged to provide consultancy services without the work being governed by a firm contract in the right form between the States and the supplier. It is storing up trouble for the future if there is no contract or the contract is on the supplier's terms. The States will then be in a weak position to get the supplier to change course or to seek redress if the assignment does not go as the States intended.

3.16 There will undoubtedly be some occasions – for example because of extreme urgency or delays elsewhere outside of Departmental control – where work must start without a contract or where the contract is on the supplier's terms. But these instances should be few and far between. **We recommend that, except where there is no sensible alternative, consultancy assignments should not**

start until a firm contract is in place between the States and the supplier. Departments should make use of the standard contracts for employing consultants prepared by the Law Officers. They should not rely on suppliers' contracts, which may not afford due protection to the States' position.

Framework agreements

3.17 A framework agreement is a contract with one or more firms for the supply of a range of supplies or services in which the prices (or a pricing formula) and terms and conditions are all agreed for the duration of the period of the agreement. The contract is awarded competitively, which allows the client to call on one or more suppliers included in the agreement without having to re-tender with each. **Figure 11** sets out the main benefits of framework agreements.

3.18 Framework agreements for consultancy services are in use in other jurisdictions. By way of example, details of how such a framework operates in Northern Ireland are given in **Figure 12**. The use of framework agreements generally reduces procurement costs and provides better prices. The UK Office of Government Commerce has estimated that its consultancy framework agreements have generated savings of £111 million in 2005-06 based on the £740 million that was spent through these agreements across the UK public sector.

11 The benefits of framework agreements

Framework agreements:

- provide rapid access to professional skills and expertise that are likely to be required on a regular basis but are not available internally;
- are easy to use if they are supported by guidance for end users;
- reduce internal processing costs and time by avoiding the need to go through a full procurement process for individual service specific requirements;
- use standard terms and conditions and so help to ensure that best practice is followed; and
- aggregate demand and can result in more competitive fees for users than if they are negotiated individually. Mini-competitions within the frameworks can help ensure that fee rates remain competitive.

Source: National Audit Office Report on Purchasing professional services (2001)

3.19 Outside of the construction area, framework agreements have not so far been used for consultancy services in the States of Guernsey. In 2003, as part of the Education Development Plan, the Education Department set up framework agreements with certain design team consultants that are “called off” by each construction project design team as required. The Treasury & Resources Department (States Property Services) has also been piloting a framework agreement for construction consultancy services, which is now in place and operational. The framework covers professional services such as quantity surveyors, architects, engineers and project managers. The framework agreement sets out terms and conditions and hourly rates for a list of providers. With the framework agreement in place, a mini-tendering exercise involving a selection of the framework providers will be carried out for each piece of consultancy work. It is expected that using the framework will be a much simpler process than a full tender exercise as the expressions of interest stage will no longer be necessary and potential bidders will already have been signed up to hourly rates and terms and conditions.

3.20 Framework agreements have been used successfully in other jurisdictions for consultancy services and are now being pioneered in Guernsey in the construction area. **If the initiative to use a framework agreement for construction consultancy services is successful, we recommend that the use of such agreements should be considered for other types of consultancy services purchased by the States. Framework agreements may be advantageous for similar types of consultancy services that are used by more than one Department.** Although – because of the lack of scale – Guernsey may be unable to achieve the levels of savings obtained in larger jurisdictions, it is possible that worthwhile savings could still be achieved by aggregating demand in this way.

There is very little documented post-project evaluation

Post-project reviews

3.21 A timely review of how the assignment went is essential to determine whether the objectives were met, whether expected benefits have been achieved, and what lessons there are for future contracts. The lessons from reviews need to be retained and shared with others so that they are available to those embarking on similar contracts. Without such reviews, there are risks that opportunities to improve processes and the use of consultants will be missed. **Figure 13** sets out the key questions to be asked in post-project evaluations.

12 The use of a framework agreement for procuring consultancy services in Northern Ireland

A framework agreement has been developed with external consultancy suppliers in line with EU procurement regulations. The agreement provides a list of all consultancy providers interested in working with Northern Ireland departments, agencies and non-departmental public bodies and is available for use by all Northern Ireland public sector organisations.

Protocol arrangements govern the use of the framework. Departments seeking to employ a consultant from the framework must provide a specification to all consultants who expressed interest in the area involved. Consultants provide details of the estimated completion date together with an estimate of the total number of days required to produce the specified outputs. Fees are charged in line with those quoted in the framework agreement. The tender panel select the most economically advantageous bid.

It has been calculated that fees offered in the framework represent an average saving of 14.5 per cent on those obtained through traditional procurement methods.

Source: Northern Ireland Audit Office Report on the Use of Consultants (2004)

13 Questions to be asked in post-project evaluations

Questions to be asked should include:

- whether the assignment has been successful in meeting the objectives set out in the business case;
- whether the specified deliverables were produced and are of the required quality;
- whether the contract was completed to planned time and cost;
- the reason for any changes which may have occurred during the course of the assignment and whether they could have been avoided with better planning;
- which processes went well and which did not;
- whether the business case, specification and contract could have been better written; and
- whether there are any other lessons which may be of use for future contracts.

Source: Department for Education and Skills and the National Audit Office – Engagement and use of consultants good practice guide (2005)

3.22 The States Tendering Procedures Guidelines of 1995 do not say anything about the need for post-project evaluations as the guidance is largely directed at the tendering and contracting stages of procurement. However, the procurement handbook currently being prepared by Corporate Procurement Services of the Treasury & Resources Department will stress the need for post-implementation reviews to be completed. The explanatory guidance note on selecting consultants issued by the Strategic Property Unit (now States Property Services) in April 2003 also emphasises the need for post-implementation reviews to be carried out (see Appendix 5 – section 11).

3.23 In our discussions with States of Guernsey Departments we found that, except in construction, documented reviews of consultants' performance were hardly ever undertaken. Any post-project evaluations of consultancy assignments tended to be unstructured and very informal. Feedback on performance was usually given only if there was a problem. One Department stressed the importance of communications between Departments. It knew of instances where two or more Departments had employed the same consultants on different rates and terms, unbeknown to each other.

3.24 It is important for accountability purposes that, in all appropriate cases, there is a documented review which assesses the performance of consultants against pre-determined criteria (for example, identifying their strengths and weaknesses, assessing their capability for undertaking particular types of project and recording the extent to which recommendations have been accepted). In the absence of reviews of this nature, it is not possible for Departments to demonstrate that they have achieved value for money in their use of consultants. A common-sense approach should be adopted as regards the extent of such reviews. A very minor assignment might not justify such a review; a small assignment might merit only a very brief assessment; whereas a large assignment might involve a meeting of the project team with the questions in Figure 13 as the agenda and a minute taken of the answers and conclusions.

3.25 We recommend that Departments should ensure that post-project evaluations of consultancy assignments are undertaken in all appropriate cases. The extent of the post-project review should be tailored to the size of the assignment. The lessons to be learned need to be captured in good time and used to improve the use of consultants in the future. Corporate Procurement Services of the Treasury & Resources Department may have a useful role in receiving and collating the information from post-project reviews and disseminating the results to Departments.

Skills transfer

3.26 When consultants bring particular skills, which are of continuing relevance to Departments, the potential for skills transfer should always be considered. This should be addressed explicitly in defining the assignment and planning and managing it.

3.27 The scope for skills transfer depends on the nature of the assignment. For example, if consultants are to put in place a new system that the client will need to manage after the consultants' departure, it will probably make sense to have a mixed project team with the client and consultants working side by side, and to put an emphasis on transferring skills from the consultants to the client team. Conversely, if consultants are brought in to provide an independent perspective, having mixed teams and transferring skills may not be suitable.

3.28 Most States of Guernsey Departments considered that there was generally little scope for skills transfer because consultants tended to have specialist, often technical, skills which Departments were not in a position to replicate. Some skills transfer did occur in non-technical areas but skills transfer was not seen as a central part of consultancy assignments and was rarely written into contracts as something consultants were required to facilitate.

3.29 Putting in place arrangements to ensure skills transfer from consultants to in-house staff can help to avoid the need to use consultants in future. The possibility of skills transfer needs to be considered for each assignment, although we recognise that it will not be feasible in all cases. **We recommend that the scope for skills transfer from consultants to in-house staff should be considered at the planning stage for every consultancy assignment. Where skills transfer is considered feasible and desirable, the requirement should be written into the project specification.**

APPENDIX ONE

Critical success factors in using consultants

1 In 1994 the Efficiency Unit published a report on the UK government's use of consultants. The report concluded that the cost-effective use of consultants depended on nine critical success factors. We consider that these success factors remain very relevant today and would be applicable within the States of Guernsey as a checklist of best practice.

2 The nine critical success factors are as follows:

- seeing consultants as a potentially valuable, if costly, resource;
- using them only on matters of real importance to the organisation;
- using them only where management is committed to bringing about change;
- being clear why they are being used, and identifying the work that needs to be done;
- making sure that the problem cannot be solved in-house or in some other less expensive way;
- selecting the right individuals, at the right price;
- managing the consultants effectively, and working closely with them;
- implementing the results of their work; and
- assessing the value-for-money derived, and implementing any lessons learnt, at the end of the assignment.

APPENDIX TWO

1 This Appendix sets out the audit methodologies we used during the course of this study.

Issues examined

2 The study has sought to answer the following top level question:

- Are consultants being used appropriately in the States of Guernsey?

3 This top level question has been broken down into five main issues:

- Is there appropriate guidance on how consultants should be used?
- Is the need to use consultants properly assessed in practice?
- Are appropriate methods used to select the most suitable consultants?
- Are consultants properly managed and monitored during the course of the assignment?
- Is the use of consultants evaluated after the assignment is completed?

Fieldwork

4 The first stage of the study was to interrogate the SAP system to identify how much is spent on consultants across the States. This was not an easy task as Departments use a variety of different SAP codes for recording this expenditure and there was no simple way to identify what had been spent.

5 The second stage was to provide Departments with the results of our interrogation of SAP, to get them to confirm the figures, and to let us know of any other expenditure on consultants that the interrogation of SAP had missed.

NAO Methodology

6 The third stage was to discuss with each individual Department how they assess the need for consultants, how they select and appoint suitable consultants, and how they manage consultants' work.

Good practice sources

7 We drew on a range of good practice sources on the use of consultants, including the following:

- Efficiency Unit – the Government's use of external consultants (1994);
- National Audit Office – Purchasing professional services (2001);
- Office of Government Commerce, Management Consultancies Association and Institute of Management Consultancy – Delivering world-class consultancy services to the public sector, a statement of best practice (2002);
- Northern Ireland Audit Office – Use of consultants (2004);
- Department for Education and Skills and the National Audit Office – Engagement and use of consultants good practice guide (2005); and
- National Audit Office – Central government's use of consultants (2006).

APPENDIX THREE

Case examples

1 **Figure 14** provides some examples of where consultants have been used by States of Guernsey Departments. The case examples illustrate a number of the points discussed in this report, as indicated at the end of each example.

14 Examples where consultants were used in 2005 by States of Guernsey Departments

Commerce & Employment Department: Employment of finance consultants

The Commerce & Employment Department engaged a Guernsey-based firm, at a cost of £13,600, to undertake a high level review of the current extent of fulfilment activities in the Island and to quantify the primary and secondary benefits of the various sub sectors so that informed discussions could be held with the UK Government. There was also an urgent need to review policy on the development of the fulfilment industry in the light of the changing circumstances. Whilst Departmental staff may have been able to undertake some of the work, the review required the assessment of sensitive commercial information and it was felt that businesses would be more comfortable providing access to such information to someone at arm's length from the States with commercial and business experience.

Points illustrated: Consultants used because of the sensitive nature of the assignment; no competitive quotations obtained.

Culture & Leisure Department: Use of leisure industry consultants

The Culture & Leisure Department has a long-standing relationship with a major UK leisure management firm and engaged this firm in 2005, at a cost of £6,800, to provide specific advice and assistance to ensure that the Department's health and safety procedures were in line with best practice within the leisure industry and that the Beau Sejour Leisure Centre achieved a high standard in the Quest quality scheme for leisure centres. The firm was initially recommended in 1999 by the States of Jersey's Sport Leisure and Recreation Committee who had used the firm for advice in leisure related areas for a number of years and has similarly advised Beau Sejour in a number of areas over that period. There is no formal retainer or contract, as the Department prefers to be able to "dip into" the firm's management expertise on an ad hoc or as required basis and pay an agreed daily rate for its services. The Department considers that this relationship is extremely effective and economic and that the rate is substantially lower than would be obtained by using other providers of such services on a formally contracted basis. The Centre was duly assessed by Quest as being in the top ten centres in the UK.

Points illustrated: informal assessment of need; no competitive quotations obtained; no contract.

Culture & Leisure Department: Engagement of concrete corrosion consultants

The Culture & Leisure Department engaged a UK firm, at a cost of £4,700, to report on concrete corrosion at Vale Mill. Three firms were invited to tender and each tender was given a weighted score based on each firm's experience of historic structures, staged proposals, timing/availability and cost. The contract was awarded to the firm with the highest score.

Points illustrated: competitive bids obtained.

14 Examples where consultants were used in 2005 by States of Guernsey Departments *continued*

Education Department: Employment of IT consultants

The Education Department engaged a Guernsey IT firm, at a cost of £46,900, to provide project management services for a service-wide upgrade involving 26 new local area networks.

The tender documentation comprised:

- The letter of invitation including the contract reference, indexed documentation, return address labels for the acknowledgement of receipt letter and proposal response, due date for confirmation of intention to tender, due date for return of tender.
- Tender response instructions including timetable for submission, evaluation, approval and commencement; company and customer details; capability to deliver each element of the statement of requirements with examples; details of major customers who may be approached for reference; conditions applying to the tender.
- Statement of requirements providing the objectives and scope of the project which the consultancy will be required to project manage together with full technical specification of the proposed plant; the consultancy requirement; organisation within which the consultancy will work; critical success factors; time scale; consequences of not proceeding; planning and monitoring process; documentation guidance; problem handling; response dates.
- The draft agreement summarising the work to be undertaken and including the obligations of both parties; payment schedules; termination; liability, copyright and other legal issues.

The Department believes that working within this framework provides clarity for both employer and contractor regarding scope of work, assumption of risks, reporting and payment arrangements.

Points illustrated: well-specified statement of requirements.

Education Department: Employment of quantity surveyors

The Education Department used a Jersey-based company, at a cost of £127,400, to provide quantity surveying services in connection with the Education Development Plan. The Department considered that an important factor in completing a project within budget and on time was to select a group of consultants who it believed would work as part of a team. The success of the team would be built through regular monthly meetings, with minutes circulated shortly after the meeting. Performance was monitored on an ongoing basis by the Project Manager. The Project Education Operations Director reviewed performance through the project meetings and by an overview of outputs.

Points illustrated: ongoing monitoring of consultants' performance.

Environment Department: Employment of a geotechnical consultant

The Environment Department engaged a Guernsey-based firm, at a cost of £1,100, as an independent consultant for geotechnical and engineering advice at Petit Port Steps, as well as a number of other projects including slope/cliff face stabilisation works at Fort George Lower Lines, Petit Bot, Moulin Huet and Soldiers' Bay. A consultant was used because the States of Guernsey does not employ anyone with the technical knowledge to advise in this capacity.

Points illustrated: Consultants used to meet a skills need not available in-house; no competitive quotations obtained.

Health & Social Services Department: Employment of management consultants

The Health & Social Services Department used a UK-based firm, at a cost of £14,800, to review its stores function, including the supply chain and stores operation and management for Guernsey hospitals.

The Department asked the consultants to review the process used in the stores function, concluding with recommendations for a more efficient and cost saving procedure, together with a timetable for implementation. Implementation of the new procedure was to include staff training at appropriate levels.

Points illustrated: limited specification – the supplier defined the scope of the project and the supplier's contract was used.

14 Examples where consultants were used in 2005 by States of Guernsey Departments *continued*

Home Department: Employment of a consultant on CCTV security

The Home Department engaged a UK company, at a cost of £14,100, for technical and engineering advice in relation to Closed Circuit Television Systems and building security. A consultant was used because the States of Guernsey does not employ anyone with the technical knowledge to advise which systems or contractors should be engaged on Home Department contracts. The firm was also on a list of consultants in this field approved by the UK Home Office for police work. In addition, it was considered prudent for security reasons to obtain advice from an off-island consultant.

Points illustrated: Consultants used to meet a skills need not available in-house; no competitive quotations obtained as ongoing work from a previous project.

Home Department: Employment of specialist consultants

The Home Department engaged a company, at a cost of £5,100, for consultancy services.

The contract was for £25,000 but the contract was terminated because the Department was not satisfied with the standard of the work produced. The consultants felt that the original expectations of the Home Department had not been made clear to them and the work that they had been required to do was considerably different from the original brief. Only £5,100 was in fact paid.

Points illustrated: full tender process used but project poorly specified.

Housing Department: Employment of a specialist consultant

The Housing Department was required by the States to commission a report into the feasibility of a self build scheme in Guernsey. The former Board of Industry assisted the Department to establish that there was only one consultant in the UK with the expertise and knowledge in this field to undertake this project. In view of this, and to avoid the unnecessary expense of a formal tendering process, the following procedure was adopted with the agreement of the Treasury and Resources Department:

- a detailed terms of reference scoping out the full detail of the project was prepared;
- the consultant was then invited to submit a tender based on that document; and
- the resulting tender price of £17,950 for 40 days work to carry out the study and submit a written report was evaluated and considered to represent value for money.

The Department considers that this was the most cost effective and efficient method of dealing with the procurement of a specialist consultant where a formal tendering process could not be used.

Points illustrated: Consultants used to meet a skills need not available in-house; no competitive quotations obtained as only one consultant available with the necessary expertise.

Public Services Department: Appointment of legal advisers

The Public Services Department engaged a UK legal firm, at a cost of £130,700, to provide legal advice on the new jetty project. The appointment was a two stage process. The initial stage was the preparation of a select list of firms from whom proposals would be obtained. Proposals were then sought from these firms and they were each subsequently interviewed by a multidisciplinary panel, each member of which marked the firms against pre-agreed criteria. As a result of this process the preferred firm was retained to provide legal advice for the project.

Points illustrated: Competitive bids obtained.

14 Examples where consultants were used in 2005 by States of Guernsey Departments *continued*

Social Security Department: Employment of an independent adviser on investment strategy

The Social Security Department engaged a consultant, at a cost of £18,900, to advise on its investment strategy.

The Social Security Department has a contract with fund managers for day to day investment activities and has a contract with a global custodian for the safe custody of the investments and for the recording and monitoring of the fund managers' investment transactions and reporting on their investment performance. Over the last few years, there has been a discernible change of approach by fund managers, whereby the fund manager now looks to the owner of the fund to set the investment allocations, known as the benchmark. The fund managers are willing to contribute to a dialogue on the benchmark, but are keen to ensure that the final allocations are the decision of the owner of the investments and not the fund manager.

The setting of the benchmark, which typically includes asset classes of equities, bonds, cash and other investments, is a crucial function where expert advice is needed. It is no easy task to find an expert who has the trust of the elected members of a States Department who will ultimately be accountable for good or bad performance. The Department considered that seeking an expert by competitive tender was not appropriate as taking the advice of a cut-price expert could lead to poor investment performance. Trust and past performance were considered to be far more important criteria in this area than the price of the consultancy.

The Department has a long association with the investment adviser concerned and, from time to time, contracts with him for independent advice on a discrete topic.

Points illustrated: informal assessment of need; no competitive quotations obtained.

Treasury & Resources Department: Appointment of IT specialists

In support of its existing project and SAP support infrastructure, the Treasury & Resources Department employed the services of its implementation partner, at a cost of £55,800, for specialist SAP application, configuration and project knowledge. Whilst the Department has established a small SAP support team that provides daily user support services for SAP modules currently used by the States, from time to time the Department has to rely on the expertise of its SAP implementation and support partner for certain project services.

Points illustrated: Consultants used to meet a skills need not available in-house; competitive tenders obtained.

Treasury & Resources Department: Appointment of legal advisers

States Property Services engaged a Guernsey-based legal firm, at a cost of £43,800, to provide legal advice on various commercial transactions, agreements and leases. An outside legal firm was used because the Law Officers did not have the capacity to carry out this type of work within the time scale required.

Points illustrated: Consultants used because of a shortage of in-house staff to do the work; competitive quotations obtained.

Source: Departmental information provided to the National Audit Office

APPENDIX FOUR

Departmental expenditure on consultants

1 **Figure 15** shows the detailed expenditure on consultants for each Department in the States of Guernsey.

15 States expenditure on consultants in 2005 by Department and type of consultant (£000)

	Financial	Human resources	IT	Legal	Management	Marketing	Media and communications	Property and construction	Scientific and research	Total
Commerce and Employment	1	12	6	31	133	14	–	–	24	221
Culture and Leisure	–	1	–	–	7	–	–	21	–	29
Education	–	–	539	8	30	–	–	2,740	–	3,317
Environment	–	–	4	23	1	–	46	12	41	127
Health and Social Services	–	14	–	21	35	8	–	541	–	619
Home	–	22	19	–	36	8	–	–	–	85
Housing	–	–	32	6	–	–	38	60	23	159
Public Services	6	5	80	203	147	–	28	564	52	1,085
Social Security	31	–	7	–	–	–	–	–	–	38
Treasury and Resources	194	62	265	170	82	–	3	738	–	1,514
Policy Council	29	41	–	–	–	–	–	–	–	70
Total	261	157	952	462	471	30	115	4,676	140	7,264

Source: National Audit Office analysis of Departmental data

NOTE

The figures shown include expenditure from general revenue, capital and specific funds.

APPENDIX FIVE

States guidance on selecting consultants

This Appendix reproduces current States guidance on selecting consultants, which was issued by the States Treasurer and the Strategic Property Unit in April 2003. References are to the old Committee structure before the Machinery of Government changes of May 2004.

Selecting Consultants

1 Introduction

The purpose of this Explanatory Guidance Note is to provide Committees and their staff with clearer and more comprehensive guidance when selecting Consultants.

It is a supplement to the States Tendering Procedures Guidelines issued by the Advisory and Finance Committee in June 1995.

These guidance notes are not mandatory. However, the notes represent good practice, and if they do not seem reasonable in a particular case please seek further direction from the States Treasurer. Deviation from these guidelines should not be the norm.

Please Note, for capital projects the approval of the Advisory and Finance Committee is required prior to any feasibility studies being commissioned. Please seek further advice on this matter from the States Treasurer.

What is a consultant?

An individual or an organisation engaged:

- To provide expert analysis and advice to help with decision making (purchasing additional intellectual assistance).
- To perform a specific, one-off task or set of tasks.
- To perform a task involving skills or perspectives not available from established staffing (specialist expertise).
- To be external and impartial where this is essential to the success of the project.

Demonstrating the need for a Consultant:

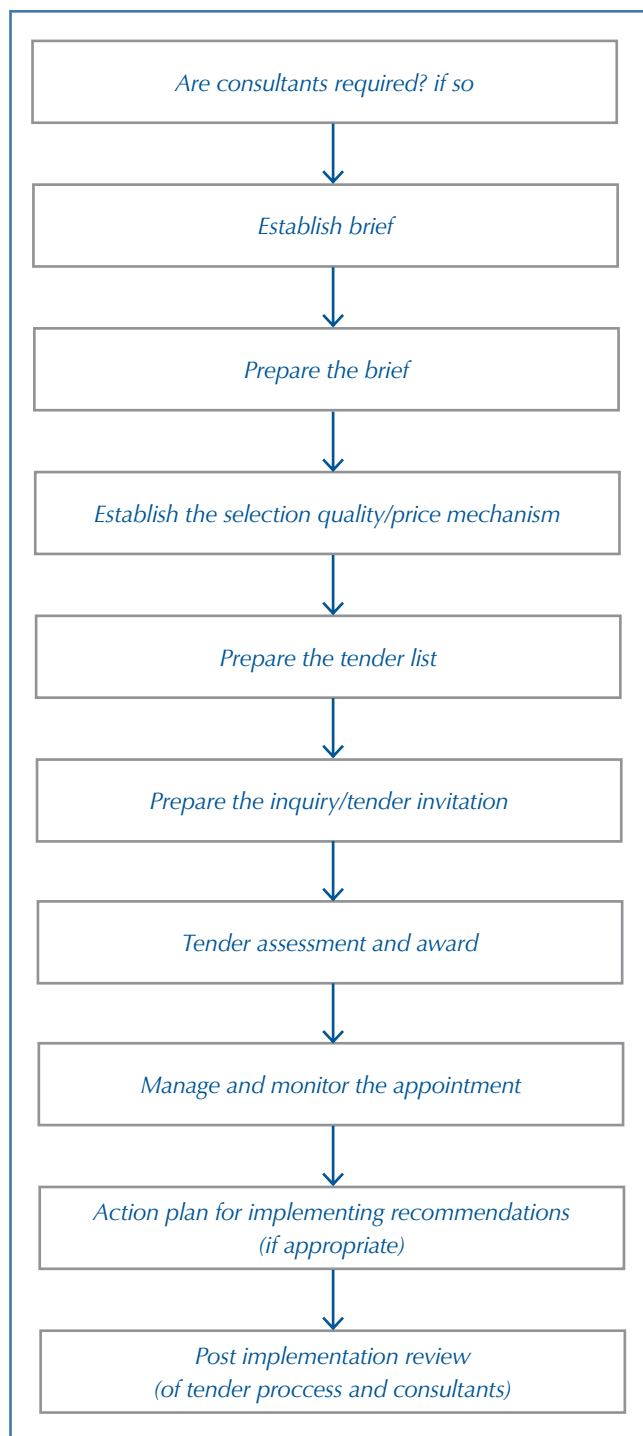
In evaluating the need for a consultant due consideration should be given to:

- Linking the appointment/project to a specific aim, objective or States Resolution.
- If the work is essential.
- Other options of sourcing the work.
- In what context they will be used.
- Establishing the reasons for the consultancy.
- Ensuring the anticipated benefits and outputs outweigh the cost of appointing versus not appointing the consultant (cost benefit analysis).

N.B. Do not forget to evaluate the hidden administrative costs of appointing, managing and evaluating consultants.

2 The Selection and Assessment Process – Methodology

The flow chart below illustrates an outline of the process that is an accepted and proven course of action leading to the choice and appointment of Consultants. Please note that the process presented here is intended to show the sequence of events for medium to large Projects – either costly, lengthy, complex, or, as is more often the case nowadays, all three!



3 Establishment of the Brief (To be the subject of an additional Guidance Note)

This is the fundamental basis of a project and individual elements should be drawn from a Committee's wider overarching plan for the long-term future. Assistance with compiling a brief is often required, an inadequate brief can lead to difficulties with a project throughout its life, and the project may not then fulfil its strategic and operational objectives. Specifying each task serves as a planning and control mechanism and sets out the results to be achieved by the consultant.

The brief normally includes work to:

- Establish client needs and resources.
- Identify the project needs and resources.
- Appoint an advisor to assist in developing the client brief.
- Develop the client brief.
- Develop the project brief.

Of course client and project needs must take account of corporate objectives and strategies, funding and long-term requirements, including revenue implications and the link these demonstrate.

4 Establishment of the Quality/Price Mechanism

This phase covers work to:

- Develop the client and project needs into relevant criteria on which the selection of a consultant to the project can be based.
- Determine the quality/price ratio itself.
- Weight the relevant criteria.
- Establish a marking system against which the tender responses can be assessed.
- Establish a quality threshold.

The quality price mechanism is established by a formally constituted and fully accountable selection panel before tenders are invited. Help with establishing the correct make up of this panel can be given by the Strategic Property Unit for Construction and related projects.

The quality/price ratio is decided by the selection panel at the beginning and represents the percentage weighting to be given to quality and price. The more complex the project and greater degree of innovation and flexibility that is likely to be required for the consultants, the higher the ratio is, e.g:

Type of Project	Indicative Quality /Price Ratio
Feasibility studies and investigations	85/15
Complex projects	70/30
Repeat projects	20/80

Quality criteria are usually grouped under four main headings, which cover many specific matters, and are then weighted. These are suggested to be (but are not exhaustive, particularly in the case of project specific requirements):-

Quality Criteria	Suggested Weighting Range
Practice or company (including local knowledge, relevant experience etc)	20–30%
Project organisation (the team, authority levels, planning)	15–25%
Key project personnel (qualifications, experience of key personnel, commitment, references)	30–40%
Project execution (programme of work, method and approach, management control)	20–30%

A quality threshold is established and tenderers must achieve this minimum quality score before final interviews are held (e.g., 65 out of 100).

5 Preparation of the Tender List

In exceptional circumstances there may be sufficient information to complete a final tender list without further measures being necessary, but normally the preparation includes:

- Initial selection of appropriate consultants to tender, e.g. a long list.
- Shortlisting of appropriate consultants via a stated method of a marked questionnaire or pre-selection interview.

A long list of Consultants can be obtained by either advertising for Expressions of Interest in a Trade Journal and the Guernsey Press, contacting appropriate professional bodies and/or for construction and related projects from the Strategic Property Unit, who can advise on the companies' track records and from experience of similar requests.

Reducing the number of tenderers to a short list needs to take into account common criteria, so pre-selection can be made on common information often obtained from a questionnaire, or response to a letter of invitation. It is of great importance to select organisations that can work co-operatively as a team.

6 Preparation of the Tender Documents (To be the subject of an additional Explanatory Guidance Note)

- Prepare the tender documentation (which must be precise and unambiguous) on the basis of the previously established criteria.

The usual time for this preparation is three weeks. The tender process can include pre-tendering briefing and mid-term reviews.

7 Issue of Tender Documents (To be the subject of an additional guidance note).

8 Tender Evaluation, Assessment and Award

This includes:

- Quality assessment of tenders and the calculation of the overall quality scores by determining weighted marks, and by the application of the quality threshold.
- Price assessment.
- Final balancing of quality and price.
- Decision and award.

Submitted tenders can be assessed for quality by marking each of the 4 quality criteria out of 100, multiplying each mark by the respective weighting percentage, and then adding them together to give a total quality score out of 100.

Consultants (ideally only two or three) passing the quality threshold are then interviewed. Their quality scores should be reviewed and prices examined and marked. The lowest compliance bid score is 100 and other score 100 minus a percentage figure above the lowest price, e.g. a bid 25 per cent above the lowest score is 75.

The final quality/price assessment is achieved by multiplying the quality and price scores by the respective weightings set by the quality/price ratio and adding them together to give a total score out of 100. For example, if the quality/price ratio is set at 70/30, the quality score is 80 and the price score is 75, the total score 80×70 per cent plus 75×30 per cent which equals 78.5.

The highest scoring consultant should (unless good, well documented and robust reasons are put forward and agreed) be awarded the contract.

When appointing Consultants the interests of the States must be paramount and protected. It is essential to ensure that adequate insurances, in particular Professional Indemnity Insurance, are carried and up-to-date.

9 Manage and Monitor the Appointment

A system for managing consultants should include clear guidelines on:

- The role and responsibilities of the Project Manager. If Consultants are to be authorised to take decisions and enter into transactions on the States' behalf the contract terms and conditions of employment must clearly set out the boundaries of that authority.
- The project management methodology which covers:
 - project planning;
 - setting performance standards;
 - reviewing progress;
 - monitoring and controlling expenditure;
 - the establishment of a collaborative relationship; and
 - appropriate actions if things go wrong.

This system should be subject to yearly review.

10 Action Plan for implementation of Recommendations

This is subject to individual circumstances, but the plan must be recognised and supported by all interested and affected parties, carried out by action managers, with effective arrangements for monitoring the implementation.

11 Post Implementation Review

At the end of a project an assessment should be made of whether the project objectives have been achieved, anticipated benefits realised and if the use of consultants has been justified. This can apply equally to the tender process and the consultants performance. For the tender process:

- assess the use and help of the quality/price mechanism, and provide for the fact that;
- there needs to be feedback on the quality of the consultants against rating given in the scoring. Consultants are likely to require this feedback (taking into account the issues of confidentiality in all cases).

For the consultant Project Managers should evaluate performance and determine whether all contractual obligations have been fulfilled. This provides a judgement of the competence of the consultant, on the performance of the individual personnel who carried out the work and whether the overall or individual performance justifies re-engagement in the future.

12 Conclusion

This document is intended to explain some of the factors involved in the process, and is not exhaustive, particularly in regard to the details for each stage. It illustrates a structured and objective method of appointing a consultant giving due regard to quality and price.