

**TITLE OF REPORT: USE OF CONSULTANTS****REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT****1. SUMMARY**

- 1.1 The purpose of this report is to inform the Finance, Audit & Risk Committee on the use of consultants within NHDC, particularly what they are used for, and the current level of expenditure on their engagement.

**2. BACKGROUND**

- 2.1 At the Finance, Audit & Risk Committee meeting on 6<sup>th</sup> June 2011, it was resolved “That the Head of Finance, Performance and Asset Management be requested to present a report on the ‘Use of Consultants’ to the meeting scheduled for Monday 19 September 2011”. “The report should also include: the Consultants used, the fees paid, measurement of value for money, if any former members of staff were re-appointed as consultants and the time between cessation of employment and commencement as a consultant.”
- 2.2 Furthermore, the Chairman proposed, and it was agreed, to request a report to the next meeting which would clarify in detail all procedures and findings behind the Consultants Audit and include a description of audit procedure.

**3. ISSUES**

- 3.1 The Council employs consultants for three primary reasons:
- For additional resources or specialist skills
  - For expert knowledge
  - To provide an objective or independent view or new and innovative thinking
- 3.2 Because of the relatively small size of the authority, the often unanticipated variations in workload caused by external factors, and the difficulties in resourcing specialist professional expertise in-house, it remains the case that this Council will need to engage a variety of consultants.
- 3.3 Consultants are utilised across the Council, in all directorates, for a variety of different services including planning, legal and property services and capital enhancement schemes. Annual expenditure varies between years and the detailed areas where they are used also changes year on year. Spending in the last three financial years is summarised in Table 1, with further detail in Appendix A1 –A3:

**Table 1 – consultants costs over the past three years**

description	2010/11 £000's	2009/10 £000's	2008/09 £000's
consultants	488	875	772
Consultants capital	101	738	421
Legal fees	66	3	45
<b>total</b>	<b>655</b>	<b>1,616</b>	<b>1,238</b>

3.4 One of the primary reasons for the use of consultants is the lack of specific in-house professional expertise that a District Council cannot retain within its permanent staffing levels because they are only called upon in specific instances, such as specific projects or in relation to external factors such as the Hitchin Rail Curve issue. Another is unanticipated variations in workload caused by external factors, requiring some short-term additional expertise. Some of the more significant areas of revenue spend in 2010/11 are shown in Table 2:

**Table 2 – Examples of spend on the Consultants code in 2010/11**

Company	Description	Amount £000's
Legal Advice: Chambers, Eversheds, Bevan Brittan, Keating Chambers, Oldhams Solicitors, Wilkin Chapman	Legal Advice, professional fees	65
Wormald Burrows Partnership, DLA Town Planning Ltd, Southdowns Env Consultants Ltd	Hitchin Rail Curve	60
Stevenage Homes	Charges for Choice Based Lettings	35
Traypahu Ltd, Entec Ltd, Martin Cranfield Associates	Environmental Protection, inspections, food hygiene	22
Idox Software consultancy	Software training	11
Eversheds LLP	Churchgate costs	10
The Power Service	Building Inspections	6
Bone Wells Associates	Planning: employment land review	5
Nathaniel Lichfield Partners	Town centre retail study	4
Total of this sample		<b>218</b>

3.5 FAR Committee also requested information regarding whether any former employees were re-appointed as consultants. This has occurred on two occasions (total annual cost £54k). One individual (£43k) was funded by a specific grant that is only confirmed on an annual basis. Therefore this funding stream is not guaranteed in the longer-term, which is why a substantive appointment has not been made. There was a gap of nearly three years between the individual leaving NHDC employment and then returning. The other case involved provision of short term cover for a staff shortage. In both instances permission was gained from the Strategic Director.

3.6 Expenditure is incurred in accordance with delegations and the Contract Procurement

3.7 Rules do require that reports are made to the relevant Head of Service for any consultancy with an expected value over £5k, as outlined in Appendix B.

3.8 The need to utilise external expertise as outlined in 3.1 to 3.4 is also experienced by many other councils and this represents a potential opportunity for sharing resource going forward as it may be more cost-effective for authorities to jointly procure particular skill-sets.

### **3.9 Audit Procedures and Findings.**

3.9.1 FAR Committee also requested a description of audit procedure and clarification of all procedures and findings behind the Consultants Audit. Appendix C provides an extract from the CIPFA Audit Manual that details the audit process from beginning to end and gives some indication of the approach taken for all audits. For each assignment, a brief is prepared, discussed and agreed with the relevant line manager(s). These briefs establish the objectives, scope and timing for the assignment, and its resource and reporting requirements. Audit preparation comes in four stages: Research, Audit Brief, pre-Audit meeting and Audit Scope control matrix and test schedule preparation.

3.9.2 In terms of the consultants audit specifically, the Audit Scope Control Matrix and Test Schedule is attached at Appendix D. This outlines the Key Control Objectives and Risks identified for this audit.

3.9.3 Following an analysis of the General Ledger to ascertain the amounts coded as consultant's expenditure, further drill down to individual payments was undertaken and from this a sample of appointments were selected for more detailed examination, covering as many different types of consultant and departments as possible.

3.9.4 For each appointment, the commissioning officers were interviewed and documentation relating to the appointment was collected as evidence. Each appointment was tested against the Key Control Objectives.

3.9.5 The key findings of the Audit are provided in Appendix E, along with a summary of the agreed actions and some additional comments for clarification purposes for this report. The agreed actions are centred on provision of further training to staff, monitoring of consultants expenditure reports by the Contracts & Procurement Group and application of proportionate project management controls for significant appointments.

3.9.6 The assessment for this report has also shown that the expenditure recorded in the original Audit report is over-stated. There are a number of reasons for this, such as the mistaken inclusion of balance sheet codes in the figures reported (for which the balance is brought forward year on year on each separate code - £350k in 2010/11) and also including some expenditure more appropriately classed under other headings, e.g. training.

### **3.10 Procurement Rules**

3.10.1 As referred to previously, an extract of the Council's Procurement Rules are attached at Appendix B to provide further context to the agreed approach to Consultancy appointments. Because of the uniqueness of the process when engaging consultants, and following the observations of a previous audit review, a section of the guide was produced exclusively on consultants.

3.10.2 The Council's Procurement Rules give clear advice on engaging and managing consultants. This includes management and monitoring of the consultants' performance and clear definition of the requirements from the appointment.

3.10.3 The selection process for consultants must be in accordance with the Council's Contract Procurement Rules. The Contract Procurement Rules have been specifically designed to ensure that there is sufficient scope for flexibility in selecting particular specialist consultants, provided always that a robust case is made and authorisation obtained.

### **3.11 Value for Money**

3.11.1 As mentioned in para 3.4, consultancy support is engaged due to a lack of specific in-house professional expertise that a District Council cannot retain within its permanent staffing levels because they are only called upon in specific instances. This situation becomes progressively more acute as year on year funding constraints are applied. Consultancy support is most often applied in instances where the costs will be charged to the specific project or scheme requiring their expertise.

3.11.2 In incurring expenditure, budget managers must comply with the requirement of the Financial Regulations, with respect to budgetary control, acquiring good value for money and remaining within budget allocations. The Regulations have been written to support managers in fulfilling their duties regarding devolved financial responsibility and are an integral part of the District Council's control framework.

3.11.3 Some feedback received from Heads of Service on being posed the question regarding VFM from consultancy appointments is given here by way of illustration:

*"Any consultancy spending is subject to the contract procurement rules thresholds i.e. we would need to tender for any interventions that exceed the £5k threshold. Our procurement arrangements have been discussed quite extensively with Audit, Legal and the Procurement Officer."*

*"The Consultant concerned has produced work of a very high standard and with very high output. We were able to secure his services at reduced rates by contracting directly with him, rather than through an Agency. The appointment was approved by the Head of Service and the correct procurement procedures were followed, including advice from Legal Services. I am totally confident that we are getting very good value for money".*

## **4. LEGAL IMPLICATIONS**

4.1 There are no specific legal implications arising from this report. Contract Procurement Rules must be adhered to when engaging consultants and any letter of appointment or contract must set out the consultants legal obligations to the Council.

## **5 FINANCIAL AND RISK IMPLICATIONS**

5.1 Key risks are being managed as follows:

- Contract Procurement Rules include a section on consultants and are periodically updated and revised, accessible to all staff and the subject of regular training sessions
- The Council's Procurement Guide includes detailed advice and guidance on the appointment of consultants
- Experienced professional staff are available within Finance and Legal Services, who are able to provide advice and guidance on the commissioning of consultants when requested.

## **6. HUMAN RESOURCE AND EQUALITIES IMPLICATIONS**

6.1 There are no direct human resource or equalities implications arising from this report.

## **7. RECOMMENDATIONS**

7.1 That the Committee notes the contents of this report, which is provided as requested by this Committee on 6<sup>th</sup> June 2011.

## **8. APPENDICES**

Appendix A1-A3: Expenditure on Consultants codes 2008/09 to 2010/11

Appendix B: Extract from Contract Procurement Rules

Appendix C: Audit Manual Extract

Appendix D: Audit Scope Control Matrix and Test Schedule

Appendix E: Audit key findings

## **9. CONTACT OFFICERS**

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## **10. BACKGROUND PAPERS**

Internal Audit report, Contract Procurement Rules and Council's financial ledger 2008/09 to 2010/11.