



The Government's Response to the
Health Select Committee's
report on the use of
management consultants in the NHS
and the Department of Health

Presented to Parliament by
the Secretary of State for Health
by Command of Her Majesty
October 2009

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Government Response to the Health Select Committee report on the use of Management Consultants in the NHS and Department of Health

Introduction

This Command Paper responds to the Conclusions and Recommendations of the Health Select Committee's report into the *use of management consultants* published on 4 June 2009.

Responses to the Conclusions and Recommendations

The numbering of these responses corresponds to the conclusions and recommendations (pages 8 and 9) of the Committee's report.

1. We recommend that the Government collect centrally lists of

- **The management consultants employed by the Department of Health, SHAs, PCTs and acute, ambulance and mental health trusts, indicating the projects they are employed on, their duration, cost and purpose;**
- **The top ten daily rates paid by each category of organisation.**

We will ask for this information annually and publish it in the PEQ. Monitor, the regulator of Foundation Trusts, should collect similar information for Foundation Trusts which we will also publish in the PEQ.

As stated in the report (paragraph 11), the Department of Health collects information about its own use of consultants. The Department of Health will also commit to collate and report the overall expenditure by NHS organisations on management consultancy each year with effect from the financial return for 2009/10, which will be published in summer 2010. The department recognises the concerns of the Select Committee and has set in place a programme of work with the specific goal of enabling the collection of more detailed information on NHS expenditure and use of management consultancy in the future.

The department implemented a new business management IT system in July 2008 which collects enhanced details on the categorisation and value of orders. This has given the department the scope to be more specific about the nature of its consultancy commissions. The complete breakdown of the 2008/09 consultancy spend information with this new level of detail has been published in the Library of the House of Commons and on the Department of Health website.

This is part of wider and more extensive work that the department is undertaking to ensure that it achieves value in its own use of management consultancy. As well as improving the transparency of its expenditure, the department is improving its own procurement using revised business processes to bring consistency to the way in which it scopes, manages and measures the performance of external advisers. Through these new processes, it is the department's intention to ensure that the checks and challenges are in place to verify that each commission is required, appropriate and specified correctly.

Although the Department of Health (along with other departments) collects data on the use of management consultants, at present, it does not collate and report detailed information on the use of consultants by NHS organisations for national aggregation and publication. The department does not lead on the day-to-day running and organisation of health services. The statement of NHS accountability makes clear that all organisations that provide care for NHS patients are responsible for ensuring that their services meet appropriate levels of safety and quality. These principles underpin the Government's vision for the NHS set out in Lord Darzi's NHS Next Stage Review Final Report – 'High Quality Care For All'.

Nevertheless, the Government accepts the case made by the Health Select Committee and recognises the need to understand the overall expenditure on management consultancy by the NHS. Currently, as part of NHS trust financial returns there is scope for NHS organisations to report their use of management consultancy expenditure. However, at present, the level of reporting is neither consistent nor complete across organisations. It is therefore the Department of Health's intention to issue guidance to NHS organisations as part of the financial reporting manual for 2009/10 to bring consistency to this reporting. Based on this, the Department of Health will collate and report the overall expenditure by NHS organisations on management consultancy each year with effect from the financial return for 2009/10, which will be published in summer 2010.

Data collection for the use of management consultants across such a broad spectrum of organisations, and at the level of detail in the recommendations, is complex and potentially inconsistent thereby making it difficult to interpret and aggregate meaningful details at a national level. For instance, audit or legal advice is often classified as management consultancy even though there is a clear duty for organisations to engage such services. Paradoxically, it is also not true to say that all such advice is part of organisation's governance duties. It may also be the case that, in some instances, there is a reliance on financial or legal consultancy where such services could or should be provided in house. This is true of many consultancy services, for example: training, facilitation or external reviews. At this stage, it is the Government's proposal that the overall expenditure is collected at the national level for the financial year 2009/10 whilst further effort will be undertaken to understand how it is possible to categorise and disaggregate and classify the usage of external advice on a consistent basis.

The Government is committed to demonstrating the value achieved on all expenditure and is continuing to look at ways to improve the transparency of all NHS expenditure, including management consultancy. Through this work, it is the Government's intention to improve the detail provided on management consultancy expenditure at the forthcoming and subsequent Public Expenditure Inquiries (PEI).

It would be extremely difficult to collect and publish accurate and consistent daily rate information at a national level. In a typical commission, there may be several daily rates for individual consultants that make up different proportions of the total cost, with the majority going on staff with low daily rates. For example, having one day of a senior partner's time devoted to QA, sense checking and the like could offer value as it represents a small proportion of the total cost. Furthermore, it is preferred practice to negotiate costs for a whole piece of work rather than agreeing individual day rates. This process provides protection from the financial risks being exposed if day rate based contracting is used. This makes provision of day rates impossible to provide. However, at the forthcoming PEI, it is the Government's intention to list the daily rates listed under the department's own management consultancy framework agreement available to the department and the NHS. Whilst these are not actual daily rates paid, they give an indication of the maximum rates chargeable on procurements undertaken through these agreements. In many cases, discounts will be secured as part of these procurements either on the day rates or across the basket of days and rates that make up a typical commission.

The Government believes that individual NHS organisations should continue to manage and monitor their expenditure on management consultants. It is at this level that the government believes that the most effective challenges to the need and the scope of management consultancy commissions can be made. NHS organisations should make particular use of the experience likely to be found in its non-executive board members. To demonstrate this, individual organisations should recognise the spending and benefits from the use of management consultants in their annual report and accounts.

The Government is also continuing to invest in programmes which seek to develop the skills of NHS Organisations and to make better use of the wealth of skills already available within the NHS. Notably, the NHS IMAS initiative that pulls together the expertise that exists throughout the NHS and coordinates it to focus on specific assignments or problems.

2. We recommend that a sample of contracts with management consultants agreed by all categories of NHS organisation and the Department should be subject to external peer review. This should include an assessment of the value of consultants' output. The external peer review might be put out to tender through the National Institute for Health Research which the Department uses in respect of R and D contracts.

The NHS is working hard to ensure that its non-executive board members are in a position to ensure value in the work of the organisations they represent. NHS board chairs are accountable to the Secretary of State, through the Strategic Health Authority Chair and the Appointments Commission, for giving leadership to the NHS trust boards and delivering value for money for NHS resources in terms of quality of service and financial balance. Decisions on the appropriateness and value of external peer group reviews therefore rests with the boards of each NHS trust. Nevertheless, as part the Government's ongoing drive to improve the transparency of NHS expenditure, it will examine steps organisation should be taking to understand the value that is being achieved through the expenditure on management consultancy.

The Department has recognised the need for the improved management and assessment of value from the consultancy services it uses. It is therefore in the process of implementing procedures that allow individuals who used to work in consultancy, but now work directly for the department to manage the commissioning and management of consultancy contracts. The aim of this work is to develop civil service skills that ensure consultants used by the department are commissioned correctly and properly supervised throughout their commissions and deliver quality outcomes at the best price.

The department will also investigate the sharing and publication of best practice in terms of contracts and commissions from and across the NHS.

The department has also been in discussion with management consultancies through the Management Consultancy Association (MCA). Through these discussions, there is a clear desire on both sides that the NHS is able to show the value that can be achieved using management consultancy. Notably, the MCA has agreed to work with the department to develop a code of conduct for its members that sets out how it engages with NHS organisations.



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