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Dr Tony Wright MP
Public Administration Select Committee
Committee Office
House of Commons
7 Millbank
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Dear Tony,

In my letter of 24 November 2008 I committed to providing you with an update on the consultancy spend figures in the NAO 2006 report on Central Government's use of Consultants that related to consultancy spend per employee and consultancy spend as a % of operating costs.

Following the NAO report the OGC established the Consultancy Value Programme to support implementation of the NAO recommendations, including an improvement in departments' ability to accurately identify and report consultancy spend against a common definition. As part of this wider activity the OGC has recently concluded an exercise to update consultancy spend across key departments, spend per head, and as a % of operating costs (based on 2007/8 spend).

Overall, consultancy expenditure across the 16 top spending departments has reduced since the NAO report in 2006. As I mentioned in my letter to you last week, this is equivalent to a reduction in spend of 31%. I am now able to provide you with further detail. Excluding an exceptional shift in spend at DfID (due to more accurate classification of consultancy spend) Central Government spend has reduced by £392m between the period 2005/6 and 2007/8.

This has subsequently had the following effect on the ratios. As the above spend exercise focused on the core consultancy spend of 16 departments only, the NAO figures have been restated to allow a direct comparison.

Restated 2005/6 NAO figures:

Average of departments spend per head: £13k

Average of departments % of operating cost: 15%

General average across totals:

Spend per head: £2k



% of operating cost: 2%

2007/8 figures:

Average of departments spend per head: £8k

Average of departments % of operating cost: 10%

General average across totals:

Spend per head: £1k

% of operating cost: 1%

Work is ongoing in both the OGC and Cabinet Office to better understand the use of all contingent labour in the public sector (not just consultants) and to identify opportunities to optimise the balance of internal and external resources to ensure value for money is achieved.

I have attached the 2007/8 spend by the 16 largest spending departments. I trust this letter provides you with the information you need but please let me know should you require anything further.

Yours ever,

Gus

Gus O'Donnell



EMBARGOED UNTIL 13:00 11 March 2009

Consultancy Value Programme

OGC has announced that Central Government spend on consultancy has decreased by 31% over three years, from 2005/06 to 2007/08. The 31% decrease is against the spend figure published by the NAO in their 2006 report, Central Government's Use of Consultants. The figures are based on spend data gathered from 16 Central Government Departments audited by the NAO in 2006, and has been obtained using the same methodology used by the NAO in compiling their report.

This data collection exercise has been carried out by OGC as part of the Consultancy Value Programme and demonstrates that the programme is assisting departments in driving greater value from Government's use of consultants.

How much does Government spend on Consultancy?

The table below sets out the 2007/8 spend by the 16 largest spending departments.

Department	NAO 2005/6 (£m)	2007/8 (£m)	%variance 2005/6 - 2007/8
BERR	54	22	-59%
CLG	36	35	-3%
CO	51	19	-63%
DCMS	1	1	0%
DCSF	22	61	177%
DEFRA	160	37	-77%
DFID	255	21	-92%
DFT	60	58	-3%
DH	126	132	5%
DWP	76	33	-57%
FCO	22	30	36%
HMRC	106	59	-44%
HMT	6	6	0%
HO	138	96	-30%
MOD	213	107	-50%
MOJ	24	56	133%
Total	1,350	773	-43%
Calculation for total Central Government (using NAO methodology)	1,583	909	-43%
Calculation for total Central Government, excl. DFID (using NAO methodology)	1,276	884	-31%

Notes on figures:

- All numbers rounded to nearest £million
- Consultancy spend figures are for the core department only to provide a comparator to the NAO 2006 report figures
- The calculation for a total CG spend figure is the same as that used by NAO in their 2006 report. (details available in the NAO methodology paper from 2006)
- To align DFID with other government departments, the consultancy figure for 2007/08 reflects spend on services provided direct to DFID. This now excludes expenditure on behalf of and for the benefit of developing countries. As this change significantly reduces DFID's spend figure, a separate calculation has been provided for 2007/08 to remove any distortion in overall reporting. DFID's future reporting of expenditure will also reflect the re-classification of expenditure to align with the central government definition of consultancy.
- The £1.8bn total figure reported by NAO was based on spend in the above departments, plus some larger agencies. (full details are available in the NAO methodology paper from 2006) If indicative 2007/8 spend from these agencies is included in the calculation the estimated total CG 2007/8 consultancy spend figure is £1.1bn.