



**SCRUTINY REVIEW OF
The Use of Consultants and
Advisors**

1.0 Scope of the Review

- 1.1 A scrutiny review of the use of consultants and advisors was included in the 2006/2007 Overview and Scrutiny Annual Work Programme.
- 1.2 The review fell within the locus of the Resources Overview and Scrutiny Committee and Councillors Bing (in the chair), Cooke and Stevens were appointed to carry out the review.
- 1.3 The agreed terms of reference for the review were to “Review the operating rules and procedures in place for employing consultants and advisors to ensure Hastings Borough Council is receiving best value”. A copy of the agreed project initiation document (PID) that contains the terms of reference is attached at appendix 2.
- 1.4 The PID also contains the objectives agreed by the Review Team;
 - To consider if the present rules and procedures on employing consultants and advisors meet required financial and auditing standards.
 - Compare the use of consultants and advisors by HBC with other East Sussex Local authorities and HBC audit family of authorities.
 - To consider the resource and service delivery implications of minimising the use of consultants and advisors, in favour of permanent employees.

2.0 Data and Research

- 2.1 During the course of the review it was agreed that two sets of data should be used to inform the Review Teams deliberations:
 - Details of expenditure on consultants and advisors in the years 2003/2004, 2004/2005 and 2005/2006.
 - Financial rules on the employment of consultants and advisors used by HBC and a sample of other authorities in the HBC audit family of comparable local authorities.
- 2.2 The Review Team were provided with copies of the HBC Financial Operating Procedures and HBC Financial Rules with the sections on the use of consultants drawn to the Review Teams attention.
- 2.3 After receiving the broad expenditure data requested, the Review Team agreed that the data should be edited to exclude any expenditure on consultants and advisors funded from external sources, and any entries that had been incorrectly miscoded as expenditure on consultants and advisors on the HBC financial system.

- 2.4 This data cleansing exercise provided the Review Team with a robust set of figures that were then used as a baseline reference point for discussion with the Director of Finance, Mr Dart.
- 2.5 The Review Team also agreed that the views of key members should be obtained and invited the Lead Member for Finance, Councillor Beaver, and the Chair of the Audit Committee, Councillor Smith to join the discussion with the Director of Finance.
- 2.6 To round off the fact finding stage, the Review Team noted that the Executive Manager of Finance, Mr Haydon, was reviewing of the financial operating procedures after their first twelve months of use. It has been confirmed with Mr Haydon that he is fully satisfied with the existing sections of the procedures concerning Consultants and Advisors.
- 2.7 The key findings, conclusions and recommendations in this report are drawn from the discussions held with Mr Dart, Councillors Beaver and Smith and from research completed as requested by the Review Team.

3.0 Key Findings

3.1 Definition of a Consultant and Advisor

The Review Team noted that the definition was agreed by Full Council on 14 December 2005 and is contained in paragraph 18 of the Councils Finance Operating Rules. The rules are publicly available on the HBC website.

The definition is;

“Consultancy means an engagement to advise the Council corporately or in respect of a particular service delivered by the Council, where the advice relates to the development of strategies, or the infrastructure, or the internal management of Council divisions, e.g., with a view to achieving better performance and service delivery. The consultant is to be distinguished from the contractor for professional services whose function is to be instrumental in the delivery of particular council services e.g. supervising architects on capital projects, locums and agency staff, counsel instructed by the Borough Solicitor in pursuit or defence of the Council’s interest.

- 3.2 It was confirmed by the Director of Finance that this definition was in full accord with national auditing standards. This was researched as the definition was drafted.

3.3 Rules and Procedure for Employing Consultants and Advisers

- 3.4 The Director of Finance, Lead Member and Chair of Audit Committee were asked if they considered HBC rules on employing consultants and advisors to be too restrictive on officers. This was particularly raised as research conducted on a sample of HBC audit family members and other East Sussex authorities found that most do not have any specific rules on employing consultants and advisors.

- 3.5 The Director of Finance responded that the HBC rules were a valuable tool in ensuring that expenditure on consultants and advisors was properly authorised and only after proper consideration had been given to the need to employ them. The Lead Member and Chair of Audit Committee agreed that the rules were necessary.
- 3.6 All three were asked if they considered that the existing rules and procedures were sufficient and if they met the required financial and auditing requirements.
- 3.7 The Director of Finance replied that Cabinet approved the Financial Rules and Procedures, with a review after 12 months. This would ensure that the procedures were fit for purpose, thus meeting the required financial and auditing requirements. The Executive Manager, Financial Services would be carrying out this review in the near future. Both the Lead Member and Chair of Audit Committee agreed that a review would ensure that the current rules and procedures we have were sufficient for our needs as a council.
- 3.8 The Director of Finance was asked what the key considerations taken into account were when considering authorising the use of consultants and external advisors.
- 3.9 The Director of Finance responded that best value procedures were taken into account, ensuring that Hastings Borough Council achieved value for money. The recruiting of consultants and external advisors were also subject to the council's tendering process, thus ensuring the correct expertise and skills base for a particular project.
- 3.10 The Director of Finance and lead Member were asked to explain the benefits, from their perspective of using consultants and external advisors, rather than employing additional specialist permanent staff.
- 3.11 The Director of Finance replied that it would be extremely difficult to employ someone as a permanent member of staff when their knowledge and expertise meant they could command higher fees as a consultant. It was felt that employing a consultant for a particular project was better value for the council than mounting a recruitment exercise for a permanent position or fixed term contract.
- 3.12 The Review Team agreed to recommend that the Director of Finance complete period reviews of HBC Financial Rules and Operating Procedures in respect of the employment of consultants and advisors. The reviews are recommended to ensure that the rules and procedures continue to meet national financial and auditing standards, deliver best practice in comparison with HBC Audit Family and other East Sussex local authorities. The reviews should include the definition of consultants, advisors and professional services with any changes made reported to the Resources Overview and Scrutiny Committee.
- 3.13 The Review Team also recommend that the Chief Executive and Director of Finance remain directly involved in authorising expenditure on consultants and advisors to ensure best value, consistency of application and best use of resources.

3.14 Recording of Expenditure on Consultants and Advisors

- 3.15 The Director of Finance was asked to comment on miscoded items listed in the original data that the Review Team had requested for expenditure on consultants and advisors.
- 3.16 The Director of Finance agreed that some items of expenditure had been coded incorrectly as spend on Consultants and Advisors.
- 3.17 The Director of Finance said that he would find it helpful if the Review Team made a specific recommendation on reminding officers of the need to code expenditure correctly. Further that he would bring this to the attention of the Executive Manager of Finance who was completing a review of the financial operating procedures.
- 3.18 The Director of Finance was advised by the Chair of the Review Team that he had discussed the miscoding with HBC Audit Division. The view of Audit was that there was not a general problem with mis-coding of expenditure in HBC and they saw no reason to investigate this.
- 3.19 The Director of Finance confirmed that this was his view too and emphasised that if there had been a general problem he would have been aware of it and would take the appropriate action.
- 3.20 The Chair of the Audit Committee was also asked to comment on miscoding. He confirmed that from an audit perspective large scale mis-codings would be of some concern. In this instance the amounts involved were of nominal value in respect of the overall HBC accounts and had no reason to express any particular concern.
- 3.21 It was also confirmed that budget holders meet their directorate accountants on a quarterly basis to review expenditure and that provides a timetabled opportunity to identify potential mis-codings.
- 3.22 The Review Team agreed to recommend that Director of Finance remind all staff about the need to correctly code all expenditure to maintain accurate budget records.

3.23 Research on other authorities rules on employing consultants and advisors

- 3.24 Eastbourne Borough Council, Rother District Council, Shepway District Council and Great Yarmouth District Council from HBC audit family of local authorities and East Sussex County Council had been contacted and of these only Rother had specific rules on the employment of consultants and advisors.
- 3.25 The Review Team noted that the rules used by Rother were less tightly drawn than those in place at HBC and with the other authorities having no specific rules or definitions in place, HBC definition and rules were therefore the benchmark.

3.26 Expenditure from HBC Funds on Consultants in 2003/04, 2004/05 and 2005/06.

3.27 In advance of the meeting with the Director of Finance, Lead Member for Finance and Chair of the Audit Committee, the Review Team requested that the top two items of expenditure from each of these financial years be identified and specifically noted in this report as having been discussed with the Director of Finance to get an understanding as to why consultants had been employed instead of using HBC personnel.

3.28 2003/2004

£19,000: Management advice during senior management restructure.

External advisers were employed to advise the council corporately on the senior management restructure in line with the definition in the financial rules of a consultancy.

External advisors were used to provide advice and expertise on the restructure based on best practice and experience from other public and commercial sector organisations. They were employed in line with the definition in the financial rules of a consultancy.

£ 54,765.99: Consultancy for establishing the boundaries of the Renewal Area for Central St Leonard's.

Consultants were employed as part of the strategy development of this major project in line with the definition of a consultancy in the financial rules as HBC does not have the expertise or capacity to complete this work. Also refers to the paragraph in 2004/2005 below on the same project.

3.29 2004/2005

£4,400: Review of Personnel Function

Consultants were employed to advise the council corporately on a review of HBC Personnel Function with a view to achieving better performance and service delivery in line with the definition of a consultancy in the financial rules. They provided advice, expertise and experience of best practice in other public sector and commercial sector organisations and were key to the successful restructuring of the Personnel Function.

£14,908: Further consultancy work for establishing the boundaries of the Renewal Area for Central St Leonard's.

See 3.28 above.

Consultants were employed as part of the strategy development of this major project in line with the definition of a consultancy in the financial rules.

3.30 2005/2006

£15,000: Consultation on the Introduction of the St Leonard's Controlled Parking Zone

Consultants were used in line with the definition in the financial rules, as HBC did not have the expertise or capacity to complete this work.

£35,000: Open Spaces Audit.

Consultants were used in line with the definition in the financial rules, as HBC did not have the expertise or capacity to complete this detailed work.

- 3.31 The Review Team agreed to recommend that the Director of Finance consider if the expenditure on consultants and advisors can be recorded differently to show where the funding for consultancies came from i.e. HBC finances, Government, County Council, the Lottery or other sources.

4.0 Minimising the Use of Consultants and Advisors in Favour of Employing Permanent Staff

- 4.1 The review had not been able to consider this area in any detail aside from the questioning of the Director Of Finance, Lead Member and Chair of the Audit Committee.
- 4.2 This was because the Review Team had concluded that the work involved in examining this issue would require a significant amount of members and officers time and would have extended this particular review beyond a reasonable reporting date. The Review Team considered that this issue might merit further investigation by a dedicated scrutiny review team at a future point.
- 4.3 The Review Team also recommend that if such a review was undertaken it should include consideration of joint working with other local authorities to maximise the use of public sector workers and share out skills against the use of commercial sector advisors and consultants. Also the cost implications of employing specialist officers on a permanent basis against using consultants and advisors on a project basis as required.

5.0 Conclusions

- 5.1 The aim of the review was to consider if the present rules and procedures on employing consultants and external advisors met required financial and auditing standards. Also to compare the use of consultants and external advisors by Hastings Borough Council with our Audit Family and to consider the resource implications of minimising the use of consultants and external advisors in favour of permanent employees.

- 5.2 The research completed shows that the present rules and procedures meet the required financial and auditing standards, however reviews of the Financial Rules and Operating Procedures were advisable to ensure the standard is still being met.
- 5.3 The research completed shows that Hastings Borough Council has stricter procedures than the rest of our Audit Family with the direct involvement of the Chief Executive and Deputy Chief Executive in authorising expenditure on consultants and advisors. For our Audit Family, only Rother District Council has specific mention of employing consultants in their financial rules and these deal with the general contractual procedures for appointments and contract management of consultants. The review team agreed to recommend that the Director of Finance and Chief Executive continue to be directly involved in authorising expenditure on consultants and advisors.
- 5.4 The Review Team were not able to consider in sufficient detail the minimising of the use of consultants in favour of the use of HBC or indeed other local authorities staff as highlighted in paragraphs 4.0 to 4.3 above.

6.0 Recommendations

- 6.1 The Director of Finance completes periodic reviews of HBC Financial Rules and Operating Procedures in respect of the employment of consultants and advisors. The reviews are recommended to ensure that the rules and procedures continue to meet national financial and auditing standards and deliver best practice in comparison with HBC Audit Family and other East Sussex local authorities. The reviews should include the definition of consultants, advisors and professional services and any changes made reported to the Resources Overview and Scrutiny Committee.
- 6.2 The Chief Executive and Director of Finance continue to be directly involved in authorising expenditure on consultants and advisors to ensure best value, consistency of application and best use of resources.
- 6.3 Director of Finance to emphasise the importance to budget holders of coding expenditure correctly to assist with accurate budget management.
- 6.4 Director of Finance to consider if the expenditure on consultants and advisors can be recorded differently to show where the funding for consultancies came from i.e. HBC finances, County Council, Government, Lottery Funds and other sources.
- 6.5 Overview and Scrutiny members to consider including in a future work programme, a review focussed on the implications of minimising the use of consultants and advisors in favour of employing additional permanent employees. This should include how HBC can work jointly with other local authorities to share out skills rather than using commercial consultants and advisors. Also the cost implications of employing specialist officers on a permanent basis against the use of consultants and advisors on a project basis.

Councillor Keith Bing (Chair)
Councillor Robert Cooke
Councillor Richard Stevens

APPENDIX 1: Action Plan

Priority	Recommendation	Action	Target Date
1	Periodic reviews of HBC Financial Rules and Operating Procedures in respect of the employment of consultants and advisors to be carried out. The reviews are recommended to ensure that the rules and procedures continue to meet national financial and auditing standards and deliver best practice in comparison with HBC Audit Family and other East Sussex Local Authorities. The reviews should include the definition of consultants, advisors and professional services and any changes made reported to the Resources Overview and Scrutiny.	Reviews of the financial rules and operating procedures to include comparative studies with national guidelines, audit family members and other East Sussex Local Authorities rules and operating procedures on employing consultants and advisors.	Periodic reviews.
2	The Chief Executive and Deputy Chief Executive to continue to directly authorise expenditure on consultants and advisors in line with HBC Financial Rules and Operating Procedures.	The rules regarding the direct authorisation of the Chief and Deputy Chief Executive for authorising expenditure on consultants and advisors are maintained.	On-going
3	All staff to be reminded about the need to correctly code all expenditure to maintain accurate budget records.	Reminder to be issued to all staff about the need to correctly code all expenditure.	Immediate.
4	Consideration to be given to recording expenditure on consultants and advisors differently to show where the funding comes from e.g. HBC, Government, County Council, Lottery funds and other sources	Consider recording expenditure on consultants and advisors differently to show where funding comes from.	By the end of the 2007/2008 financial Year.

5	<p>Overview and Scrutiny members to consider including in a future work programme a review focussed on the implications of minimising the use of consultants and advisors in favour of employing additional permanent employees. This should include how HBC can work jointly with other local authorities to share out skills rather than using commercial consultants and advisors and the cost implications of employing specialist officers on a permanent basis against the use of consultants and advisors on a project basis.</p>	<p>Overview and Scrutiny members to consider incorporating in a future annual work programme.</p>	<p>Future Overview and Scrutiny Work Programme</p>
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