
RCN Policy Unit

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NHS expenditure on external consultants

A RCN Freedom of Information Report

May 2009

NHS expenditure on external Consultants – an RCN Freedom of Information report

In the Budget for 2009, it was announced that the Department of Health will be contributing £2.3bn in additional savings to the overall reduction in Government expenditure and borrowing.

Health Secretary Alan Johnson has said that “Better quality, safe health care goes hand in hand with better value for money...” and NHS Chief Executive David Nicholls has written to the NHS stating that “The value-for-money challenge will be met through delivering on our quality agenda, not instead of it”

However several reports are already suggesting that there will inevitably be cuts in front line services, training budgets, and investment in new facilities¹.

The RCN is constantly alerted to the impact of external financial factors on patient care in the NHS. In order to better understand how the NHS was using its resources in these uncertain economic times, the RCN wrote to over 550 NHS organisations across the UK under the Freedom of Information Act and asked for a breakdown of:

- The amount spent on consultancy services (individuals and/or companies) so far this financial year and also for the financial year 2007-08
- The projects/work undertaken by consultancy service providers (individual and/or companies) so far this financial year and also for the financial year 2007-08

The results

Out of the 550 NHS organisations across the UK that were contacted, 296 gave full responses (240 from NHS England).

Only a handful of respondents declined to respond stating that the work required to provide the answers may exceed the 18 hours / £450 threshold provided under section 12 of the Freedom of Information Act 2000. The RCN was invited to pay for the information to be retrieved but given the number of cases in which this occurred (n=7), the request was declined.

In 2008/9 the range of spends per episode of external consultancy was vast – between £500 and £6.5m with an average spend of £786,549 and a median spend of £411,061. In all £182,072,820 was spent in 2007/8 and £211,581,800 was spent in 2008/9 on external consultancy based on the 296 responses to the RCN's Fol request.

By extrapolating *average* spend to all NHS organisations in England, the total spend on external consultancy in 2008/9 was £350,801,051 – a rise of over 50% based on 2006 estimates from the

¹ <http://www.guardian.co.uk/society/2009/apr/27/nhs-training-cuts-patient-care>

NAO, previous FoI requests and other bodies^{2, 3}. According to industry data and surveys by various management consulting groups, the NHS remains the fourth largest market for external consultancy⁴

Analysis of the answers provided under question 2 of the FoI request shows that of the money spent on consultancy in 2007/8 and 2008/9, 22% was spent on direct patient care external consultancy. Examples of services provided on direct patient care include

- Clinical service reviews;
- Productive ward and related initiatives;
- Specialist advice on clinical pathway design;
- Patient environment improvement advice; and
- Quality of care initiatives such as benchmarking and audit

However 78% of it was spent on non patient care external consultancy. There was a wide range of consultancy services provided including Private Finance Initiative (PFI) advice; Information Management & Technology (IM&T); VAT and legal services; Specialist estates and facilities advice; and Board and Non-executive Director Coaching and mentoring

By conducting a simple content frequency analysis on data from respondents who gave sufficient detail (n=110) we also found that of the 78% spent on non-patient care consultancy, the percentage of spend on the most frequently occurring themes was:

- IM&T 4%
- Other 9%
- PFI 12%
- Provider separation (PCT only) 13%
- Foundation Trust application support 23%
- Market testing and development 39%⁵

Discussion

Added value for money?

It is widely recognised and accepted by the RCN that there are occasions when external consultants can add value to NHS services and processes. External consultants can bring in valuable capacity, skills and experience.

The RCN believes that the public would expect the main reasons behind spending on external consultancy should relate to the core purpose of the business. The outcome of the input of the external consultants should directly benefit the users of the service and should be recordable or evaluated in some way.

However, it would seem that a significant sum of money is being spent on setting up a framework for competition and markets in health services, and *not* on investing in patient care.

² NAO (2006) 'Central Government's use of consultants'. National Audit Office, London

³ Welwyn Hatfield MP Grant Shapps used the Freedom of Information Act to obtain figures from 76% of NHS trusts in 2006. It showed that £172m was spent on external management consultants - a rise of 83% in two years according the Conservative Central Office.

⁴ Joint survey by Accountancy Age and Management Consultancy.co.uk in 2006

⁵ By market testing we mean external commercial support to help providers and commissioners test multiple marketing scenarios to select the most profitable or sustainable solutions

According to RCN data, consultancy spends on 'Foundation Trust applications', 'Market testing' and 'Provider separation' together adds up to 75% of all external consultancy spends. This equates to approximately £204m spent just on developing a health care market across NHS England.

Lord Ara Darzi said in the Next Stage Review final report that "... *quality is at the heart of everything we do, it must be understood from the perspective of patients*"⁶. If quality and the patients' perspective is at the heart of spending decisions then some careful interrogation of the evidence for such large scale investment in creating a market is warranted. Further, a careful evaluation of the tangible benefits of such an approach should also take place.

To put the sums of money in context, £273m, the total amount spent on non-patient care consultancy, would staff over 330 28-bedded medical wards – some 9,900 health care staff. Alternatively it could provide an extra 9,160 Band 6 Registered Nurses across any setting of the NHS.

£273m could also buy over 584,000 bed days of level 1 care on a Coronary Care unit, or 3.1m ante and post natal community midwife visits or 10.5m School-based vaccination episodes⁷.

Or to put it into current political context, it could contribute around 11% of the £2.3bn reduction in the NHS budget being asked for in the 2009 Budget⁸.

Whilst it is easy to make such comparisons, perhaps unfairly, they are based on real costs for episodes of care or are actual demands on NHS services which could make a real difference to patient care. The opportunity costs of such spending decisions needs to more fully explained and understood.

Finding the answers

Judging by responses from the NHS there was wide variation in how organisations tracked their spending on external consultancy. The fact that many were not able to reveal easily how they had spent resources on external consultancy suggests that there is room for improvement in monitoring how NHS money is allocated in this respect.

During 2006, the National Audit Office undertook a review of Central government's use of consultants and stated that in many cases Government departments

- do not collect and aggregate adequate management information
- do not make proper assessment of whether internal resources could be used instead of external consultants;
- do not undertake and share post-project performance reviews; and
- do not regularly plan for and carry out the transfer of skills from consultants to internal staff

They recommended amongst other things that public sector bodies need to be "*much better at identifying where core skill gaps exist in relation to medium and long term programme requirements*" and "*should start with the presumption that their own staff are best fitted for their requirements*"⁹.

Whilst the NAO report relates to the function of national government departments, it is highly likely that lessons could and should have been learnt and shared throughout the public sector given the concerns raised.

⁶ Department of Health (2008) '*Next Stage Review Final Report*'

⁷ All cost data taken from the DH National Schedule of Reference Costs for NHS Trusts – 2005/6

⁸ Based on relevant extracts from sections on the HM Treasury 2009 Budget Report regarding health and efficiency savings, in particular para 6 onwards

⁹ Op cit (2006)

Guidance on how expenditure on consultancy already exists in the NHS Primary Care Trusts Manual for Accounts 2008/09 which states that “*Treasury requires data on expenditure on professional services and consultancy...where expenditure falls into the PES definition of consultancy*”¹⁰. It goes on to list the 5 sub codes which be used to should record expenditure on professional services:

- General Management Consultancy
- Legal
- Human Resources
- Financial
- IT Consultancy
- Property Services/Estates

Whilst this apparently only relates to PCTs it offers a useful consistent framework for analysis which could be adopted across the NHS.

The RCN would value such an approach particularly so that investment in consultancy for *patient care services* could also be recognised and tracked given the low amount of money apparently spent on it to date.

Such an exercise should also offer clear guidance on quality assuring the work done by external consultants and ensuring that poor practice is dealt with. The NAO suggests that “*Public bodies must be smarter when it comes to understanding how consulting firms operate and in sharing information about their performance.*”¹¹

Conclusion

Overall it should be a concern that the amount of money spent on external consultants and the reason for the expenditure is shrouded in secrecy and confusing and inconsistent terminology. The fact that the amount spent also seems to be rising year on year should also be a concern.

In light of on-going economic uncertainty and the comparatively heavy burden which has fallen particularly on the NHS to find significant savings, urgent steps need to be taken to restore public confidence. When combined together the aggregated NHS *total* external consultant spend from 07/08 to end of 08/09 could have contributed over £645m or 28% of the £2.3bn reduction in the NHS budget being asked for in the 2009 Budget.

Questions need to be asked not only about whether external consultancy offers value for money but should also address the issues of how it benefits patient care outcomes and can be more publicly accountable. Moreover without a clear understanding of the opportunity costs of such spending decisions, the significant progress being made on establishing quality care for all could be undermined.

From the data obtained under the Freedom of Information Act, the RCN is clear that there are likely to be several places to look for savings before cutting frontline services to patients and reducing training budgets.

**Royal College of Nursing
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¹⁰ Primary Care Trusts Manual for Accounts (2008/09). Para 7.127 - Consultancy services (sc260)

¹¹ Op cit (2006)