

*TRANSCRIPT OF "FILE ON 4" – MANAGEMENT CONSULTANTS*

*CURRENT AFFAIRS GROUP*

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THE ATTACHED TRANSCRIPT WAS TYPED FROM A RECORDING AND NOT COPIED FROM AN ORIGINAL SCRIPT. BECAUSE OF THE RISK OF MISHEARING AND THE DIFFICULTY IN SOME CASES OF IDENTIFYING INDIVIDUAL SPEAKERS, THE BBC CANNOT VOUCH FOR ITS COMPLETE ACCURACY.

“FILE ON 4”

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URRY: The Government says NHS Trusts can't sort out their failing finances themselves. Last week, the Secretary of State for Health announced special measures for the most critical.

NEWS EXTRACT OF PATRICIA HEWITT

HEWITT: What we're doing is sending in the additional help to support our managers and our doctors and nurses in making the decisions to get not just the best care for patients, but the best value for the patients' money.

URRY: But these turnaround teams are a small part of a much bigger shift across Government to throw open the doors to management consultants. They're supposed to pep up performance and make public services more efficient. But no-one seems to know what it's all costing. MPs who've been asking questions in Parliament believe they are being fobbed off.

MITCHELL: What we need is to know how much is being spent, how much this is a drain on the taxpayer, what value we're getting for it. There's nobody there overseeing all this.





CHERYOWSKA: No, I think managers are there to run a business, to run an organisation. They get caught up in the everyday running of that business, they get tied into seeing their everyday job, to making it all work. Most of these managers are extraordinarily busy already. They're already working sort of seven till seven. If a large project comes along, how are they supposed to find the time to work on that project? And bringing in a team of dedicated consultants, who are focused on delivering the project, makes perfect sense.

URRY: But some on the Trust Board at Surrey and Sussex had questions. Mr McKeever was a director of Quo Health Limited. According to the Trust's annual report, he had a 25% stake in the firm. One of the Trust's directors, Robin Eve was concerned about the potential for a conflict of interest.

EVE: You could not have a Chief Executive who was also part of the firm of consultants. That was a conflict of interest and we were not prepared to accept that.

URRY: What sort of problems could you foresee arising from that conflict of interest?

EVE: Well, there could not be the dispassionate treatment of the consultants. How is he supposed to discipline or control a firm if they are not performing well – what is he supposed to do?

URRY: The Chief Executive, how much money did he make?

EVE: Mr McKeever, he was being paid at the rate of £1,200 a day, plus expenses, so that equates to something over £300,000 a year.

URRY: Anthony McKeever wouldn't be interviewed for this programme, but the Trust has confirmed he made a formal declaration of interest on his appointment last February. By which time, Robin Eve had taken over as acting chairman. His bigger concern was the need for a business plan. Mr Eve is an accountant by profession, and a city banker. He wanted to see what Quo were proposing to do.



READER IN STUDIO: As a result of the many changes that took place in 2005, the Trust has begun to make significant progress under its new management team.

URRY: But for Zena Dodgson, the union representative who had high hopes of better times under Mac and Quo, it's left a bitter taste.

DODGSON: We're in a worse financial position now, though whether or not that would have still been the case if Mac had stayed on, I don't know. Once you're in that position, the debt just compounds the whole time, so has the process improved? No, I don't think so. But I don't know if they can stop the slide or not. I haven't seen anything that convinces me things are going to get better.

URRY: You haven't seen any evidence of a turnaround?

DODGSON: I haven't personally, no. And in fact, I don't think anyone else has, because we've just employed a new Director of Turnaround, so perhaps that's the person who's going to sort it all out.

URRY: And, while all this has been going on, there were more consultants looking into the Trust's failing finances. This time it's been studied as part of a broader piece of work analysing the bigger crisis in the local health economy. We've discovered the Strategic Health Authority commissioned McKinseys, a leading management consultancy, at a cost of nearly half a million pounds. It too has been recommending ways for the Trust to make savings. In a statement the SHA said the work involved:

READER 2 IN STUDIO: A holistic financial and activity diagnostic and a root cause analysis of the current underlying financial deficit across the entire health economy in the SHA. A vision was then developed of how patients could flow through an ideal healthcare system, which would be both clinically and financially stable.

ACTUALITY IN STREET

URRY: Part of the end product of this consultancy exercise apparently took the form of a slide show. So, while we've been here in the area, we asked to see it. The Authority said we wouldn't understand it. We told them File on 4 had an acknowledged expert in health service management standing by to help review it, and then we were told that it was, after all, confidential and for NHS senior people only. So we're leaving empty handed, heading for the Midlands, where this issue of confidentiality has also raised its head at another hospital, which has had yet more management consultants installed to help run a Trust.

#### ACTUALITY IN SUTTON COLDFIELD

URRY: We've arrived in Sutton Coldfield, where Good Hope Hospital ran into big trouble just over three years ago. Auditors found irregularities in waiting list figures. It went from three stars to zero in the annual hospital inspection, and it too has been struggling with its finances. By August of 2003, managers from a private company, Secta, had taken over in a novel arrangement drawn up by the Department of Health called franchising, the first time consultants had been brought in to run a Trust. Central to the process was the appointment of a new Chief Executive. The contract was worth £1.3 million to Secta and should have run until August of this year. Instead it's ended early, leaving some to question the wisdom of the arrangement. Sir Bernard Zissman, a prominent business and political figure in the region, was Chairman of the Trust Board at the time. He remembers being summoned by the Department of Health, who made him an offer he couldn't refuse.

ZISSMAN: It was made very clear to us, in language which was not capable of being misunderstood, that this is what you will have, we will go through this franchise process, there will be a fairly long process, but that's what'll happen, and if you don't do it, then you'll all go.

URRY: You'd have been sacked?

ZISSMAN: We'd have been sacked. What happened, there was a tender process, whereby a number of companies bid for the franchise opportunity. When that was won, they then had to produce a Chief Executive. There was again went through

ZISSMAN cont: a process of individual assessment and interview. It took many many months. At one stage I do recall there were three sets of quite high powered lawyers working on this – one at the Department of Health, one for the hospital and certainly one for the company who was bidding – and I said to the Department of Health, ‘For goodness sake, we are on the same side, you and us are supposed to be on the same side,’ so we got rid of one. But they weren’t the cheapest lawyers in town.

URRY: The Trust was already in the red, so these extra costs from the public purse were shared with the Department and the Strategic Health Authority. But at least a new Chief Executive, Anne Heast, provided through Secta, was appointed. But once again the finances appear to have worsened since. The Trust is facing a deficit of £11.5 million for the end of this financial year. No-one would be interviewed, but a spokesman told us it was hoped a number of measures it had put in place would significantly reduce that figure. For Sir Bernard Zissman, the former chairman, there’s little cause for celebration.

ZISSMAN: I took over Good Hope Hospital at a time when it had a deficit of £3 million. It was going through a process to try and cure this, and I’m pleased to say that we did cure it. And by the time I came to leave, we were back again in some difficulty, owing £1 million. But I think that pales into insignificance compared with what the position is today. If it’s got into that mess under the management of a private sector company, it doesn’t say much for the whole process. We could have got into that mess without the help of a private sector company, and I suspect we wouldn’t have got into that mess. The whole process of the franchise failed completely. The whole of the idea failed, and I am one who would, in principle, accept that not all the knowledge and wisdom is within the NHS, plenty outside, but obviously this didn’t work.

URRY: No one from Secta would be interviewed but in a statement they told us:

READER IN STUDIO: Achievements for targets for outpatient appointments, inpatient procedures and accident and emergency waiting times outperformed the national average. Services were substantially improved.

URRY: The statement also pointed out that:

READER IN STUDIO: Within weeks of starting the contract, it became clear that the potential deficit for the year was £7 million.

URRY: Those representing patients say they too have been trying to make sense of some of then finances at Good Hope. Mark Oley is the vice chairman of a Patients Forum, the statutory body set up to provide independent scrutiny.

OLEY: At the initial meeting with Anne Heast, I questioned her and said would she make sure that all the information which Secta would be using in the NHS and their management would be made public, and she said yes at that point in time.

URRY: That was a commitment from the start?

OLEY: That was a commitment from the start to openness and transparency.

URRY: Mr Oley and colleagues on other forums in the area became deeply concerned when it became clear to them last summer that the Trust was in serious financial difficulties. They used the Freedom of Information Act to ask for figures, and then went to a public meeting to quiz senior executives

OLEY: We were given evasive answers essentially.

URRY: What do you mean by evasive answers?

OLEY: Well, one of the questions I asked at the 12<sup>th</sup> October of the Patients Forum was about the amount of money spent on sending patients for private sector operations, and at that point we'd had back a figure of £150,000. When the Freedom of Information request came through after the meeting, it showed in fact there had been about £2.8 million spent. There's a massive difference between £150,000 and £2.8 million.

URRY: It may have been an honest mistake, mightn't it?

OLEY: May have been an honest mistake, yes. But certainly at that point I got quite concerned.

URRY: Anne Heast, who's since left her post as Chief Executive of Good Hope Hospital Trust wouldn't be interviewed for this programme. By the end of last year, the management company Secta and the Trust had also parted company ahead of schedule, by mutual consent. Mark Oley tried to find out whether there was any cost to the Trust in terminating the contract.

OLEY: We did a Freedom of Information request for any information on the termination costs, because it was terminated early by mutual consent. We wanted to know how much money they had to pay. Severance pay basically. What happened, of course, is that Good Hope had come back. They had to consult with Secta under the Freedom of Information, because it's called a third party disclosure, and Secta, of course, have used the two famous words 'commercial confidentiality'.

URRY: You don't know really whether there was any form of severance arrangement, financial arrangement, do you?

OLEY: We don't, but there is this kind of growth of a commercial culture within the management of the NHS, which excludes the public, it stops democracy, it stops democratic accountability, which means in essence that the public do not know where their money is going.

URRY: Although the Patients Forum has not been given the answers, following enquiries by File on 4, Secta has now told us that no severance payment was made in respect of the termination of the contract. Again though, no-one would be interviewed. And, in a statement the Trust said:

READER 3 IN STUDIO: We have always been open about our financial problems. Our finances are laid out in standing reports to the Trust Board every two months that are available for any member of the public to see.



URRY: So, using the Freedom of Information Act, File on 4 requested the total value of payments they'd made to ten leading companies known to provide various forms of consultancy. We did get answers. The figure for last year alone was more than £200 million. But there was a big caveat. Information relating to the big NHS computer project was not available in full. We were informed that:

READER 2 IN STUDIO: The residual body responsible for the finalisation of accounts is unable to provide the information within the relevant cost limit.

URRY: And that another part of the system was:

READER 2 IN STUDIO: Unable to access sufficiently detailed records that could be used to collate the information.

URRY: The difficulty in getting meaningful information is troubling MPs. Mike Penning, the Conservative member for Hemel Hempstead, who sits on the Health Select Committee, accuses the Department of Health of being evasive.

PENNING: We haven't got the truth. They've told us some bits. They go around in circles to try and make sure you do not get the facts. I think the government are determined that they are going to continue to push in more and more consultants. Early on they were making the Trusts pay for the consultants themselves. The government are now saying, 'Okay, we'll share some of the costs with you,' but they're still ploughing more and more and more into Trusts to kind of oversee the management, which we're already paying for in the first place.

URRY: It's clear that some Trusts were in an awful lot of financial difficulty.

PENNING: Yes, but the Trusts, the management of the Trusts were appointed by the Secretary of State. If she's not confident in the way they're running the Trust, then she can remove them at any time she wishes. What she seems to be doing is keeping on the management structure within the NHS, which is failing in some areas,



OUGHTON: It's not just buying in of management consultancy, advice, it's the buying in of professional specialist skills and expertise.

URRY: So what's the figure for that then?

OUGHTON: Well that figure runs into several hundred million pounds across Government.

URRY: But those figures don't tally with our Freedom of Information answers from each Government Department, asked to provide spending details on ten of the leading consultancies. The amounts we've received come to around a billion pounds on them alone in one year. Part of the confusion seems to be that there are different forms of consultancy. But Fiona Cheryowska of the Management Consultancies Association puts the cost even higher.

CHERYOWSKA: Well from MCA members and that represents, we estimate, round about 65% of the UK consulting industry, the overall spend in the public sector, it was £1.9 billion in 2004.

URRY: £1.9 billion – almost £2 billion?

CHERYOWSKA: Almost £2 billion in the public sector.

URRY: Yes, because the Office of Government Commerce says, well it's hundreds of millions rather than billions, so I wonder why there is daylight between the two figures.

CHERYOWSKA: I can't answer for where the OGC gets its figures obviously. I'm sure they'll say they can't answer for where we get our figures. What we do is do a survey of all our members, getting them to tell us where they earn their fees from which sectors, and we aggregate all of that to produce an overall result. It may be that ...

URRY: So your figure you'd expect to be an accurate one, wouldn't it, because different Departments, as I understand it, within Government, calculate these matters in different ways, so your figure would tend to be the more accurate one.

CHERYOWSKA: We like to think it's an accurate figure. Consulting is a broad church and people have different definitions of it, so what may be consulting to one Department may be interim management or contractors to another, and I think that's one of the difficulties here, there are different definitions.

URRY: So, with all that spending in a climate of job cuts and efficiency savings in the Civil Service, it's easy for some to be cynical about the use of private advisers. Some claim Departments which are shedding staff are backfilling with expensive consultants simply to get the work done. One man, whose voice we've agreed to disguise, told us in his section of HM Revenue and Customs, they're doing the same job as he is on much more money.

MAN: Basically we help sort of design IT systems for HMRC and we sit down as business analysts and we go through the work that needs to be done. But what happens, these guys come in doing exactly the same job from the private sector, as private sector consultants, doing the same work.

URRY: Exactly the same work?

MAN: Exactly the same work.

URRY: Could this be described as a temporary measure? I mean, is it a short term thing to bridge the gap?

MAN: I'm not sure it is a temporary measure. I understand some people have been there five or six years doing this work.

URRY: You know people who have been there five or six years?

MAN: Yes.

URRY: Doing that same work?

MAN: Yes. It is quite interesting when you look on the car parks that we have, you see rather expensive cars and clearly they can't belong to civil servants – you know, Mercedes, BMWs and Porsches.

URRY: Flash cars parked outside may let you know they are in the building, but how is their value assessed once they get started? Fiona Cheryowska of the MCA, the trade body for consultants, accepts it's not something that's easy to measure.

CHERYOWSKA: Value for money is a complex thing where consultants are concerned, because in a sense people aren't buying a consultant. A manager doesn't wake up in the morning and say, 'I must have a consultant.' What they wake up and say is, 'I must get this thing fixed and how best should I fix it?' A manager's first port of call is to go to their own business and say, 'Well, have we got the skills internally?' Where they've not got that, they'll then turn to an outside supplier like a consulting firm to say, 'What is it that we should do?' The value a consultant brings who is working on a strategy for an organisation is quite different to that where they are implementing a big IT system. I think Government Departments are in the forefront of trying to work out how they come up with a clear but intelligent way of looking at that value.

URRY: So it hasn't been done yet?

CHERYOWSKA: There is no overall methodology or standard in the way that there's an accounting standard for looking at the value that consultants add.

URRY: It's difficult to measure then really, isn't it?

CHERYOWSKA: It's a difficult thing to measure, because business is complicated, and there is certainly work to be done in ensuring that people in the private and public sector understand fully why they can use consultants and where they should use them most effectively.

URRY: And there's a further hindrance to any checks and balances. Professor Andrew Sturdy from Warwick University Business School, sits alongside top level civil servants and senior management consultants on the Professional Services Forum. The Forum is a government initiative, set up to identify ways to improve relationships, delivery and performance to the public sector. Professor Sturdy says there's every incentive to keep quiet if things go wrong.

STURDY: I think that both sides in situations where projects go wrong, both sides have an interest in not dwelling on that outcome and giving a positive spin on consultancy projects. The very fact that there are very few publicised cases of consultancy projects failing both in the private and the public sector suggests that these things are kept secret from the public, and the difficulties of accessing what goes on should be a concern to people.

URRY: Does it concern you?

STURDY: It does concern me, yes. I think that consultants are highly influential in a number of regards and their activities are largely invisible to the public, and that's to the disadvantage of consultancies themselves, in the sense that people are suspicious of consultants when very often they're doing perfectly legitimate and professional job, and yet people assume the worst.

URRY: But John Oughton, the Chief Executive of the OGC, says the Government's careful in who it selects to be on its approved lists.

OUGHTON: We do this by looking at the track record and capability of both the companies and of the individuals. What we're buying is intellectual capital, we're buying skills and experience of people, so we want to look at both the organisations and the particular people that we are selecting.

URRY: And how often are those lists reviewed?

OUGHTON: We do this periodically, about once every three years.

URRY: Has anyone ever been taken off a list for something like poor performance?

OUGHTON: Not during the course of a listing, but of course, if a company performs badly on a contract with Government, it's extremely unlikely that they would be selected to work on future business.

URRY: So there are companies that, in effect, don't have that approval renewed after three years because of poor performance?

OUGHTON: We take performance, we take capabilities, we take everything into account when we are selecting for the new list.

URRY: I'm still not clear whether there are companies whose approval has not been renewed.

OUGHTON: And I'm telling you that we take account of performance. I'm not going to start talking about individual companies, that's not appropriate in the context of this discussion.

URRY: I'm not asking you for individual companies, I'm just asking you to say whether or not there are companies who, after this three year assessment, who've simply not been put back on the Government list.

OUGHTON: There will be companies on the new lists who may not have been there on the old lists. There will be companies who were on the old lists who may not be on the new lists. That could be for a number of reasons. It could be because of performance, it could be because skills are no longer appropriate to the needs we have, it could be for all sorts of reasons.

URRY: While Mr Oughton is reluctant to criticise consultants, we've discovered strong criticisms of a Government Department's use of them. File on 4 has obtained a copy of a review conducted by the National Audit Office on the Department for Education and Skills. It's an internal audit, assisted by those within the Department. It contains examples of failures to follow guidelines. It warns of a wider reputation risk for the Department, noting the interest of MPs and the media in trying to find out what's going on inside the apparatus of State. The report makes it clear that good practice was present only in the minority of cases it reviewed. Areas of non-compliance with Government guidelines included:

READER 2 IN STUDIO: Inappropriate use of programme budgets to fund consultants.

URRY: Meaning money supposed to be spent on frontline services was skimmed off to buy in private advisors. Not only that, the review found:

READER 2 IN STUDIO: 34% of contracts where we considered skills should be available in the Department.

URRY: Expensive consultants brought in for jobs competent civil servants could have done. In addition, management was so poor that there were:

READER 2 IN STUDIO: Lack of business cases to support the engagement of consultants. Continuing extension to contracts with no clear exit strategy. Absence of formal contracts.

URRY: And key risks identified by the National Audit Office included warnings that:

READER 2 IN STUDIO: Consultants engaged are not managed correctly, leading to ineffective outcomes, cost overruns, poor value for money and lack of propriety.

URRY: All this is in stark contrast to the sort of values and practices the Office of Government Commerce is trying to promote. However, its Chief Executive, John Oughton, says the audit process is the ultimate safeguard.

OUGHTON: This spending is no different from any other spending in Government Departments. It is properly audited. The National Audit Office will look at the end result. The safeguards here, the audit safeguards are exactly the same as they are for any other part of Government spending.

URRY: And have you had critical audit reports then?

OUGHTON: Not on my use of consultants, no. For Government Departments more generally, I cannot think of a report that specifically targets consultancy as an issue. The National Audit Office have written reports on consultancy as a generic issue.

URRY: It's just that I've got a report here, which is called 'Engagement and use of consultants in DFES' – Department for Education and Skills. It's published nine months ago and speaks of a lack of business cases to support the engagement of consultants. The absence of formal contracts. Are you saying you haven't seen any of it?

OUGHTON: No, I'm very familiar with that report and very familiar with the issues. Those are generic issues. They are issues that have occurred in our contracting for the consultants. It's what the NAO report talked about in relation to DFES, they've talked about it more generally for Government. It's what we ourselves in Government have identified as being issues. That's why we're working with Departments to improve their ability to contract with consultants in a better fashion. I absolutely agree ...

URRY: Absence of formal contracts is a pretty fundamental thing, isn't it?

OUGHTON: I absolutely agree with the National Audit Office that you need to have a sound business case and absolutely proper procedures before you contract for consultants.

URRY: Why is it that a Department like DFES does not have a sound business case, does not appear to have a sound business case, according to this audit report?

OUGHTON: The point I was making before was that in this case, contracting for consultancy, procuring consultancy is no different from procuring any other goods or services that we require from the private sector. You need to have proper procedures in place and you need to pin those down.

URRY: That may be the case, but the internal audit division has written a report which specifically targets the engagement and use of consultants.

OUGHTON: Yes, and I ...

URRY: So it's clearly perceived as an issue.

OUGHTON: And I would expect a normal way for the Department to react to that and deal with the issues that are raised in this audit report.

URRY: The Department for Education told us that a minister was not available for interview. But, in a statement which appears in direct conflict with criticisms raised by the National Audit Office, a spokesperson said:

READER IN STUDIO: Consultants are only used when it is clear they can bring expertise not available in the Department. There has to be a strong business case and they are recruited according to strict and well established procurement rules.

URRY: Labour's Austin Mitchell, a member of the Public Accounts Committee asked DFES last year how much it was spending on consultants. He got a written reply on the 21<sup>st</sup> July, four months after the date of the final report of the Audit, a document he was refused.

MITCHELL: Their initial answer was that they spent about £4.4 million a year on consultants. I found then, there was an internal report by the internal audit division of the Department. I asked if I could have that, they said no, it was only available to the Department.

URRY: So we showed Mr Mitchell how much the auditors estimate The Department for Education and Skills is spending annually - not £4 million, but between £20 to £30 million.

MITCHELL: The estimate they gave me was really untrue and they were trying to con me. They lied. They'd done the usual civil service dodge of giving you an answer which is true for its purposes but not true overall, so I'm furious really, because what we need is to know how much is being spent and what value we're getting from it. Here I've got a thriving industry which is getting richer and bigger each year, which Governments are turning to because they like the approval of outside business, which is using that opportunity primarily in the Government's service rather than as consultancies to private companies, to grow, to flourish, to aggrandise itself and to take on the functions of Government. It is an amazing spectacle.

URRY: Mr Mitchell has asked each Government Department for costings, but claims he's not getting proper answers. He's now demanding that the Public Accounts Committee, of which he's a member, conducts a full investigation of both Whitehall and local government.

MITCHELL: We are, as a Government, obsessed with measuring things, particularly value. We've never measured value for consultants, we've just accepted it as a given, and that's why we need someone to look at it more impartially than I can. I do want an opportunity for consultants to prove their value, but let's first know what the achievements are and what the value of it all is. Any industry which has grown up that suddenly and that quickly to that degree of wealth and power has to be audited and has to be accountable.

SIGNATURE TUNE