

Opposition policy costing – Halving the number of consultants – Labour

Description of policy
<p>Labour would ‘slash consultancy spending’. ‘Second, we will slash government consultancy spending, which has almost quadrupled in just six years. Consultants can play an important role, but taxpayers must get value for money. So, we will introduce tough new rules. If a government department wants to bring in consultants, they must demonstrate the value for money case. And if they cannot, then that request will be denied’ (Rachel Reeves, Speech at Labour Conference 2023, 9 October 2023, link).</p> <p>Labour would slash consultancy spend in ‘half’ and create ‘a full business case’ where the Civil Service wanted to employ consultants. ‘Ms Reeves promised to halve the amount that government spends on hiring external consultants, saving £1.4 billion a year, by forcing Whitehall departments to make a full business case whenever they want to bring in a team from outside’ (iNews, 9 October 2023, link).</p>
Additional policy assumptions
<p>Assumptions from Special Advisors</p> <ul style="list-style-type: none">● Should apply across UK wide government departments and arm-length bodies.● Assume all existing consultancy contracts would be reviewed.● The total spend on external consultants would be halved.● The policy applies exclusively to consultancy spend and excludes contingent labour.● The policy would remain in place for a 5-year period.
Additional technical modelling assumptions or judgements required
<p>We model the costs of two consequences from this policy:</p> <ol style="list-style-type: none">1. The cost of reviewing all consultancy spend as full business cases.2. The saving of halving consultancy spend. <p>1. <u>Reviewing all consultancy spend as full business cases</u></p> <ul style="list-style-type: none">● Estimated costs of full business case review in sample departments range from £2,035 to £11,323, per business case. This varies by department governance and case complexity.● This cost includes the time-cost of staff per Civil Service grade during business case review, plus a 48% non-salary staff cost (e.g. pensions, National Insurance, etc) applied to Civil Service FTE costs.● All costs for reviewing business cases are in-house staff resourcing costs, so are therefore classified as RDEL.● We assume the current processes for business case review, and associated cost, remain unchanged.● We assume the review is implemented with immediate effect.● We assume the review is a one-off cost.● We assume all consultancy contracts are reviewed. As of December 2023, this entails 439 consultancy contracts live across all government departments.

- The cost of a comprehensive review of all current consultancy spend is therefore estimated to be between the upper- and lower-bound of unit cost multiplied by 439.

2. Consultancy spend would halve.

- We assume that a review would successfully identify a means to halve consultancy spending.
- Annual spend on consultancy across Whitehall is reported through Annual Report and Accounts.
- We assume that future consultancy spend would follow trends from the past six years, in the absence of the policy.
- We estimate future consultancy spend in the absence of the policy as equivalent to the average consultancy spend from the past six years, with the [GDP deflator](#) series applied to future years.
- We have assumed that all consultancy spend is RDEL.

Caveats

- We assume the current costs for reviewing consultancy business cases is negligible, and the policy is wholly additional cost.
- We assume the policy applies to all consultancy spending in government and ALBs which is currently monitored by central government. We do not capture costs or savings from a wider application of the policy.
- Review costs do not include wider contributors to business case development (e.g. business partners advising business units) through to senior clearance (e.g. Ministerial clearance time, secretariat for panels) as they are difficult to estimate accurately.
- Review costings do not reflect the significant variation in complexity of requests for consultants and related time required for adequate scrutiny. Some bids would be extensions to already approved bids, or low value and with much shorter review routes. Others will be of high value and require significant input from commercial, project management and finance colleagues taking longer periods to develop and process.
- Annual consultancy spending varies significantly. It has varied from £992m to £1.6bn from 2017-2023. We have taken the average spend, and increased it in later years in line with the [GDP deflator](#) series. Forecasted consultancy spend should be taken as low confidence. This may not be reflective of actual costs for a range of reasons, including that spend is driven by the project pipeline which will be varied.
- We do not include any estimates of future costs which arise through increased scrutiny of new cases as there is no adequate proxy for the pipeline going forward.
- We do not model the potential costs of reducing consultancy spending, for instance:
 - Increased delivery costs from delays due to lack of consultant work.
 - Potential lower quality decision-making due to lack of outputs from consultants.
 - Potential Civil Service FTE cost if the government must now deliver the work in-house.
 - Any associated implementation costs, except for the initial cost of reviewing business cases as outlined above.
- Neither do we monetise potential benefits of reducing consultancy spend, for instance:
 - Institutional memory
 - Any efficiency benefits that may come from delivering work in-house.

Cost/Revenue to the Exchequer over five years

Costs for reviewing all consultancy business cases

£ millions, RDEL	Lower estimate	Upper estimate
Review cost per case	0.002	0.011
Total Cost	0.893	4.971

Savings from halving consultancy costs

£ millions, RDEL	Past Average	24-25	25-26	26-27	27-28	28-29	Total
Forecast Spend	1,156	1,175	1,196	1,215	1,236	1,260	6,082
50% Saving	-	588	598	607	618	630	3,041

Net savings (savings – costs of policy)

£ millions, RDEL	24-25	25-26	26-27	27-28	28-29	Total
Cost Saving	588	598	607	618	630	3,041
Review Cost	0.893-4.971	-	-	-	-	0.893-4.971
Net Saving	583-587	598	607	618	630	3,036-3,040

Comparison with current system (if applicable):

The extrapolated costings above are based on the current system.

Other comments (including other Departments consulted):

This costing was completed by the Cabinet Office.

To be completed by Permanent Secretary's Office Date costing signed off: 20/03/2024

[If applicable] Date revised costing signed off