

Essay for Institute for Government

Raymond Kennedy

Abstract

Any organisation depends on the quality of its staff. Whilst comparisons in pay between civil service and private sector are complicated, it is undeniable that the most experienced senior civil servants earn vastly less than their counterparts in the private sector. This gap has widened over time. There is growing evidence that this is hindering civil service efforts to recruit and retain the best people. Yet it is politically infeasible to propose raising salaries for those at the top of the civil service.

At the same time, politicians frequently argue that the civil service needs to be less reliant on expensive management consultants. Yet in office they find the reality of a consultant-free workplace problematic. Whilst government has often failed to get value from consultants- clearly there is a value to having external, short-term support particularly from those with relevant experience.

This essay argues that these two problems have a linked solution. Rather than seeking to ban consultancies or restrict their use through bureaucratic hurdles, we need a Government Consultancy Company (GCC).

The GCC would offer short term secondments for civil servants and pay a premium on top of their existing salaries. It would compete with private sector consultancies for government work and undercut them. It would also market its expertise to carefully chosen foreign governments with the profits flowing back to the UK. The experience and skills gained from working on a demanding short-term project would be retained within the public sector. Talented civil servants seeking a new challenge, or an increment to their earnings, would no longer be forced to leave. A culture of civil servants working across departments and breaking down silos would be encouraged.

Introduction

The incoming government in the May 2015 election will face significant fiscal challenges. Central government spending will remain under tight scrutiny. There will be little to no room for increases in civil service pay particularly for those at the top. As the table below shows, senior civil service pay lags well behind the private sector and even the wider public sector.

Table 3.3: Comparison of median base pay and total remuneration of SCS, wider public and private sectors (April 2011)

Pay band	SCS median (£000s)		Wider public sector median (£000s)		Private sector median (£000s)		SCS total remuneration as % of	
	salary	total remuneration	salary	total remuneration	salary	total remuneration	wider public sector	private sector
1	71.7	94.1	82.4	102.8	93.0	141.5	92	67
1A	80.5	105.7	100.0	121.7	109.9	169.7	87	62
2	98.0	128.5	146.3	191.4	168.3	290.6	67	44
3	130.0	167.0	n/a*	n/a*	299.3	659.3	n/a*	25

* There are too few jobs of this weight in the database for reliable figures to be cited.

Source: Cabinet Office, using data from Hay for wider public and private sector posts matching SCS job weights.

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Mark Lowcock, as permanent secretary for the Department for International Development (DFID) is responsible for a budget of approximately £10bn per annum. His organisation is expected to work in some of the most challenging, war-torn environments in the world. Yet at £165,000 per year he earns approximately one third of a FTSE 100 finance director's basic salary (not including bonus)².

Clearly it is politically difficult for politicians to improve the pay of those at the top end of the civil service. Indeed there has been something of a recent campaign by certain media organisations to highlight what are seen to be excessive civil servant and public sector salaries.³⁴⁵

What have been the effects of this pay restraint?

Already the National Audit Office has highlighted it is "increasingly difficult for the Senior Civil Service to recruit and retain the best people".⁶ Similarly the Government's own Review Body on Senior Salaries states "We are increasingly concerned that the Government is taking the loyalty and commitment of our remit groups for granted."⁷ As the economy recovers, the situation is only likely to deteriorate.

Peter Smith, Director of the Hay Group- a global management consultancy company, has argued that the public private pay differential is directly contributing to an over-reliance of expensive, external consultants.⁸ Similarly the authoritative Normington report states that "increasing spend on consultant and contingent labour to fill skills gaps" has come at "considerable cost to Government."⁹

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/226944/SSRB_2013_report_14.3.13.pdf

² <http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Documents/PDF/Tax/guide-directors-remuneration-2013.pdf>

³ <http://www.mirror.co.uk/news/uk-news/ministry-defence-fatcats-200million-bonuses-4847016>

⁴ http://www.taxpayersalliance.com/hutton_on_public_sector_fat_cats

⁵ <http://www.dailymail.co.uk/news/article-2021562/Government-save-10m-cutting-50-civil-servants-Prime-Minister.html>

⁶ <http://www.nao.org.uk/wp-content/uploads/2013/06/10167-001-Full-Report.pdf>

⁷ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/226944/SSRB_2013_report_14.3.13.pdf

⁸ <http://www.theguardian.com/public-leaders-network/2014/mar/05/civil-service-earn-half-private-sector>

⁹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/366646/Sir-David-Normingtons-report-scs-reward.doc

Government use of consultancy

Government, and indeed the wider public sector, is frequently criticised for failing to get value for money from its consultancy and failing to use its considerable market power to get a good deal¹⁰¹¹. Government officials have even confessed they do not even know how much consultancy they use.¹²

On entering office in 2010 Francis Maude promised to reduce the use of management consultants. Whilst spending has reduced according to official figures, observers have noticed a rebound in spending, particularly as major projects such as Universal Credit and High Speed Rail 2 fall into difficulties.¹³

To date most efforts have been focused on simply reducing the amount of spending on consultants without truly considering what benefits the consultancy model can bring. That consultants can add value is hard to dispute. Almost all major private sector organisations use consultants.

The problem is that government has been misusing consultancy and mismanaging its talent. The civil service has run down staff capacity in key areas and left itself dependent on consultants. The public accounts committee found in 2007 that three of the five departments examined had made only limited progress in transferring skills which would reduce the need for consultants in future.¹⁴

This is perhaps best demonstrated by the dearth of IT skills within government. Digital skills are a top priority in the civil service reforms¹⁵ but in the meantime departments are dangerously over-reliant on major private sector companies. The Efficiency and Reform Group at the Cabinet Office has been breaking up major IT contracts to encourage smaller providers. However when the IT system crashed they discovered that test case departments such as Department for Energy and Climate Change simply didn't have the skills to determine which providers were to blame.

At the same time, the civil service has developed staff skills in other areas but failed to adequately compensate them and as a result loses its investment to the private sector. At present in the civil service the route to promotion clearly incentivises generalists who move jobs relatively frequently, zig-zagging their way up to senior positions. This is not an inherently bad thing. But it does mean that those who wish to become expert in an area are undervalued and often unable to go beyond a certain point of seniority.

How would a government consultancy work?

The government consultancy would offer short-term secondments to staff at different grades to work on consultancy projects. The staff would be paid an increment on their existing salary which would enable them to boost their earnings whilst at the same time gaining valuable experience they could bring back to their work. Any excess profits from the GCC should flow back to the department that released the secondee. The enhanced earning potential for civil servants would increase the attractiveness of the overall benefit package.

It is often neglected that private sector consultancies gain through projects both in financial revenue terms, but also in terms of the experience gained. This additional experience is a valuable

¹⁰ <http://www.publications.parliament.uk/pa/cm200607/cmselect/cmpubacc/309/309.pdf>

¹¹ Lapsley, I. *New Public Management: The Cruellest Invention of the Human Spirit* Abacus, Vol 45, No. 1 2009 Available online here: <http://onlinelibrary.wiley.com/doi/10.1111/j.1467-6281.2009.00275.x/pdf>

¹² <http://www.publications.parliament.uk/pa/cm200809/cmselect/cmhealth/28/28.pdf>

¹³ <http://www.bbc.co.uk/news/uk-politics-23707328>

¹⁴ <http://www.publications.parliament.uk/pa/cm200607/cmselect/cmpubacc/309/309.pdf>

¹⁵ <http://www.civilservice.gov.uk/wp-content/uploads/2012/06/Civil-Service-Reform-Plan-acc-final.pdf>

commodity. It makes it more likely that they will win future contracts and it helps them to perform better.

Under a government consultancy model- the benefits of this additional experience would be retained within the public sector. For example, the aspiring Director of Human Resources who works on a three-month change management project in a different department will return to their post with a wealth of additional experience.

The civil service has been moving towards a project based structure, with examples from government departments such as Defra¹⁶, DfE¹⁷ and DCMS¹⁸¹⁹. This shift towards 'flexible ways of working' is largely premised on the need to deliver more with less. It is also particularly conducive to shorter-term projects, which would suit the Government Consultancy Company well.

Foreign opportunities

The British civil service frequently provides inspiration to other governments²⁰ and provides models for other governments to learn from- for instance recent reforms such as the Prime Minister's Delivery Unit.²¹ The author of this essay has presented to officials from the Middle East, from South Korea and a number of African countries in a short civil service career. The civil service provides the benefit of its expertise largely for free to these external governments. Why not charge a commercial rate and help partner governments to implement the changes?

The Japanese government (amongst others) are very interested in the ongoing capacity market reform that DECC²² are undertaking. The team in DECC have built up a huge wealth of experience looking at these issues- experience that will largely be wasted once the project is complete. Several members of the team have immediately left to work in the private sector. This experience is of considerable value to many countries around the world²³- so why not try to realise its value in a way that offers enhanced earnings for civil servants but also better value for money for the tax payer?

The Government Consultancy Company (GCC) would obviously need safeguards to ensure it didn't work with unsuitable clients. The recent scandal of the Ministry of Justice advising the Saudi Arabian government on prisons illustrates that there is a demand for these services, but also highlights the dangers of taking an overly commercial approach.²⁴

Could a public sector consultancy compete with private sector rivals?

Considering the cost structure of a major consultancy firm demonstrates how GCC could compete. There are certain functions within a consultancy company that would not be required within the GCC and certain savings that could be made.

Consultancy firms use junior staff to do much of the work on projects. These are young, bright people with little to no subject experience. In the GCC these individuals could be civil service fast streamers on one of their six-month rotations. Further up the chain, senior consultants, managers

¹⁶ Department for Environment, Food and Rural Affairs

¹⁷ Department for Education

¹⁸ Department for Culture, Media and Sport

¹⁹ <http://www.civilserviceworld.com/education-department-review-signals-25-job-cuts>

²⁰ <http://www.civilserviceworld.com/articles/interview/interview-ngaire-woods-blavatnik-school-government>

²¹ <http://www.instituteforgovernment.org.uk/sites/default/files/publications/260314%20CSRW%20-%20final.pdf>

²² Department for Energy and Climate Change

²³ <http://opentoexport.com/article/japan-uk-electricity-market-reform-dialogue-january-2014/>

²⁴ <http://www.theguardian.com/world/2015/jan/25/ministry-justice-contract-saudi-arabia-prison>

and senior managers have experience in the relevant industry. They drive the project and arguably are where the greatest value is added. These would be the staff seconded from government departments that have deep subject expertise/technical skills.

Finally we have the partners. Despite what they tell their clients- the focus of their role is on winning business. They are judged on the contracts they bring in and the relationships they have. They also play a role in quality assurance of products. They are also by far the most expensive layer- with salaries in excess of £300,000 a year.

The role of business generation however is largely unnecessary for the GCC. Staff would only be taken on seconded in when a project was needed, and the GCC easily be given a preferred provider status to reflect the non-monetisable benefits to keeping work in-house. At present departments are expected to only hire external consultants in exceptional circumstances when the skills are not present within government. There is no way of knowing what skills are present in the civil service however- what is needed is a central GCC which tracks down the people it needs and sets out what the civil service as a whole can offer.

Conclusion

The Government Consultancy Company would address two key problems. Firstly it would help the civil service recruit and retain the best staff in a difficult fiscal environment. Realistically there is no prospect of a conventional rise senior civil service pay under the next parliament. Secondly it would achieve better value for money for the taxpayer by ensuring that the benefits of consultancy are still realised but at a lower financial cost and a lower cost in terms of lost skills. It would also encourage civil servants to work across departments and learn from the experiences of other departments. This idea has the potential to be welcomed across the political spectrum and would genuinely represent a new way of working for the UK civil service.