



PUBLIC SERVICE CONTRACTOR AND CONSULTANT EXPENDITURE

"We need to build and maintain a strong and capable Public Service, purchasing external capability when there is a legitimate need to do this. To help us achieve the right balance between investing in our people and engaging external resources we provide consistent and transparent public reporting on contractors and consultants." - Peter Hughes, State Service Commissioner

The cap on the numbers of public servants who were employed was removed at the end of 2017/18. This was replaced with the expectation that we instead invest in public servant roles and that over time we build the optimal mix of public servants, contractors and consultants.

In November 2018, SSC published [new guidance](#) to enable State Services agencies to consistently measure and report their usage of contractors and consultants. The guidance includes a single definition of 'contractor and consultant' in the public service.

This page presents public service expenditure on contractors and consultants and sets a measure that shows the level of operational expenditure on contractors and consultants as a share of overall workforce expenditure. This measure represents the balance between using external resources and building capacity and capability in the public service. We will release information on this basis annually.

2017/18 is our benchmark year

Internationally, there is no benchmark for the right size of contractor and consultant expenditure.

In 2017/18, agencies spent a total of \$899.3 million on contractors and consultants, of which approximately two-thirds (\$585.8 million) was operational expenditure (OPEX) as shown in the table below. This figure is taken directly from agency submissions to the Select Committee Annual Review processes and uses the new guidance on how to report contractor and consultant expenditure.

We have calculated the share of OPEX to total workforce expense for 2017/18 at 13.3% and we are setting that as our benchmark. We have focused on OPEX. Large one-off projects or investments that capital expenditure (CAPEX) represents are likely to have a different mix of public servants and contractors and/or consultants given their fixed term nature.

Comparing our benchmark figures with the preceding years is not sensible as the definition changed for 2017/18 and we did not ask the agencies to apply the new guidance retrospectively.

For the first time the agencies are reporting total cost comprising Opex and Capex

Before the new guidance, there was inconsistency in how agencies were reporting their contractor and consultant expenditure. The new approach calculates the total costs of contractors and consultants and covers both operational and capital expenditure.

Contractor and consultant OPEX – this is the money spent for contractors and consultants that are not for the purpose of acquiring or developing assets.

Contractor and consultant CAPEX – this is the money spent to acquire resources to develop assets, tangible and intangible, through procurement of contractors and consultants. Examples of these are the online life-events services (e.g. SmartStart and End of Life Service) developed by the Department of Internal Affairs.

The new approach will give information to enable the right mix of public servants and contractors and consultants

It will take a couple of years to achieve the optimal mix of expenditure as the public service re-orientates to a different business footing – one where it has right-sized the number of public servants.



We will not constrain legitimate contractor and consultant expenditure, especially where this expenditure is appropriate to deliver value. There will be some areas where it may make best business sense to use contractors and consultants rather than employ public servants. These include one-off projects that require specialist skills and knowledge that are unavailable within the agencies but are not required on a long-term or on a full-time basis.

Major projects will continue but we expect agencies to review their options and procurement policies to align with the expectation to invest in public servants.

From time to time there is a need to respond to disasters and one-off events and may require external capability. Our strong responses to the Christchurch earthquakes and the terror attack are examples of this.

Contractor and Consultant Expenditure, FY 2017/18 (\$million)

| Agencies | Expenditure (\$million) | | |
|---|-------------------------|----------------|----------------|
| | Operational | Capital | Total |
| Crown Law Office | \$1.1 | none | \$1.1 |
| Department of Conservation | \$11.5 | \$1.2 | \$12.8 |
| Department of Corrections | \$12.1 | \$32.1 | \$44.2 |
| Department of Internal Affairs | \$27.1 | \$31.4 | \$58.5 |
| Ministry of Business, Innovation & Employment | \$80.7 | \$14.3 | \$95.1 |
| Department of Prime Minister & Cabinet | \$3.2 | none | \$3.2 |
| Education Review Office | \$0.9 | \$0.0 | \$0.9 |
| Inland Revenue Department | \$124.7 | \$70.3 | \$195.0 |
| Land Information New Zealand | \$26.3 | none | \$26.3 |
| Ministry for Children, Oranga Tamariki | \$23.9 | none | \$23.9 |
| Ministry for Culture & Heritage | \$1.3 | none | \$1.3 |
| Ministry for the Environment | \$17.7 | \$0.0 | \$17.7 |
| Ministry for Primary Industries | \$32.0 | \$5.2 | \$37.2 |
| Ministry of Defence | \$2.2 | none | \$2.2 |
| Ministry of Education | \$56.1 | \$76.0 | \$132.1 |
| Ministry of Foreign Affairs & Trade | \$17.1 | \$5.8 | \$22.9 |
| Ministry of Health | \$26.7 | \$1.1 | \$27.9 |
| Ministry of Justice | \$25.4 | \$11.2 | \$36.6 |
| Ministry for Pacific Peoples | \$0.6 | none | \$0.6 |
| Ministry of Social Development | \$15.0 | \$54.0 | \$69.0 |
| Pike River Recovery Agency | \$0.5 | none | \$0.5 |
| Ministry of Transport | \$5.6 | none | \$5.6 |
| Ministry for Women | \$0.7 | none | \$0.7 |
| New Zealand Customs Service | \$11.6 | \$7.6 | \$19.3 |
| Serious Fraud Office | \$1.2 | none | \$1.2 |
| Social Investment Agency | \$5.7 | none | \$5.7 |
| State Services Commission | \$1.4 | none | \$1.4 |
| Statistics New Zealand | \$30.7 | \$0.7 | \$31.4 |
| Ministry of Māori Development | \$14.6 | none | \$14.6 |
| Treasury | \$8.1 | \$2.4 | \$10.6 |
| Total Public Service | \$585.8 | \$313.4 | \$899.3 |

Note: \$585.8 million as a proportion of the total workforce spend (\$4,402.0 million) is 13.3%. Total workforce spend is defined as the sum of salary expenditure for permanent and fixed-term employees, and operational expenditure on contractors and consultants.