

GUIDANCE TO ENABLE STATE SERVICES AGENCIES TO CONSISTENTLY MEASURE AND REPORT THEIR USAGE OF CONTRACTORS AND CONSULTANTS



PURPOSE

On 12 June 2018, the Cabinet Government Administration Expenditure Review Committee approved SSC's proposal to reduce State Services agencies reliance on purchasing external capability (GOV-18-MIN-0030). The Government's expectation is that State Services agencies invest more in building government core administrative capability in line with the Government's vision of a stronger public service, and reduce their reliance on purchasing external capability where this is appropriate to deliver value.

For public trust and confidence, government agencies need to provide clear and consistent reporting on their expenditure. This is scrutinised by the Parliamentary Select Committee process. There is currently inconsistency in how agencies are reporting their contractor and consultant expenditure. This guidance will provide a consistent way for agencies to report this information.

Further, SSC will specifically use agency estimates of **total cost of contractors and consultants** reported to select committees through Annual Review processes to collate a whole of Public Service report on usage of external capability.

APPLICATION OF THESE GUIDELINES

These guidelines apply for both the Select Committee Annual Review and Estimates processes, where the questions ask for information relating to contractors or consultants. Agencies are to supply this information to SSC (hrcsurvey@ssc.govt.nz) at the same time they supply it to Select Committee. Operating and capital expenditure should be reported separately.

These guidelines apply for all reporting, effective immediately. There is no expectation to apply the new guidelines retrospectively to recalculate expenditure for preceding years. Instead, agencies should provide a narrative for the 2017/18 Annual Review, noting how their reporting has changed from the previous year as a result of implementing these guidelines. This may include noting new categories that have been included (e.g. ICT projects and/or capital expenditure) and/or estimating the equivalent expenditure for the preceding year.

All Public Service departments should use these guidelines. Their use by Crown Entities and non-Public Service departments is also recommended.

Both the Chief Government Accountant and the Office of the Clerk have endorsed these guidelines.

CONTRACTOR AND CONSULTANT DEFINITIONS¹

A person is considered a contractor if **all of the following** apply:

- is engaged on a contract for service, either directly (self-employed) or via a third party (recruitment agency), and is not an employee; and
- is paid upon provision of a GST invoice through their own managed entity or third party recruitment agency; and
- is providing backfill or extra capacity in a role that exists within the agency or acts as an additional resource for a time-limited piece of work (project work); and

¹ Sourced from MBIE Procurement Policy, August 2016. As the policy notes, MBIE as the Procurement Functional Leader for Government must exemplify good procurement practice to other agencies.

- is under the direct supervision of the agency and the agency is responsible for ensuring that the required deliverables and performance standards are met

In addition, contractors generally:

- require access to the agency's IT systems to perform their duties and usually work onsite.
- charge on a time unit basis (e.g. by the hour or day).
- Are engaged via a Recruitment Service Order or a Government Model Contract.

A consultant:

- does not meet the definition of a contractor;
- is a company or individual engaged in a contract for professional advice or information either directly (self-employed) or through an organisation;
- provides expertise in a particular field and can demonstrate relevant skills and expertise not readily available from within the agency;
- is engaged to perform a specific piece of work or outcome with a clearly defined scope and often invoice by project or for delivering certain milestones;
- operates independently from the agency and is responsible for all the resources and managing the risks associated with delivering the piece of work;
- generally works offsite, but may be required to work onsite from time to time.
- generally carry the risk of payment being withheld for if the piece of work they are engaged to complete is not delivered or is not fit-for-purpose.
- are often engaged under a Consultancy Services Order.
- Note: Having the title of consultant doesn't automatically mean an individual should be considered a consultant. Nor does being engaged through the AOG consulting panel automatically qualify an individual as a consultant. It depends on the nature of the engagement with the agency.

INCLUSIONS

- All contractor and consultant operating expenditure², including those working on ICT projects
- All contractor and consultancy capital expenditure, including those working on ICT projects.

EXCLUSIONS

- Non-professional services outside of core business. For example, cleaning services, registered trades, building security.
- Audit fees, actuarial fees and legal fees paid to a firm of solicitors.
- Outsourced services - service providers that have been contracted to provide all or part of a business activity of function.
- Services received from other government agencies.
- Staff on secondment from other government agencies.

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As identified in 2018's review of MBIE's approach to answering parliamentary select committee questions about consultants and contractors
<http://www.mbie.govt.nz/publications-research/publications/mbie-corporate/mbie-select-committee-questions-on-consultants-and-contractors.pdf>

NOTES

- External capability does not include capability paid through payroll, including fixed-term and casual employees. Expenditure on voluntary employees is also excluded. Guidance on the distinction between employees and contractors is available [here](#).
- In providing detailed lists of contractors or consultants, agencies can exclude those where the cost was below a threshold (e.g. \$10,000 cumulative total across the financial year), but these amounts are to still be included in the overall total.
- Expenditure for Annual Review purposes must be for the full financial year.
- Operating and capital expenditure should be reported separately. Additional breakdowns can be used to explain expenditure.
- Include all contractors regardless of their hourly/daily rate.

EXAMPLES

- Person A is engaged through an AOG recruitment provider to backfill for a permanent employee while they are on parental leave. Person A is a contractor and therefore expenditure is included.
- Person B is contracted by an agency to develop some software, which will be capitalised once implemented. Person B is a contractor and therefore this expenditure is included.
- Person C is engaged through an AOG recruitment provider as an additional resource to help the HR team through a period of peak activity due to an organisation restructure. Person C is a contractor and therefore expenditure is included.
- Agency A has contacted XYZ Security to provide extra building security while the APEC conference is taking place in Wellington. XYZ Security is providing a non-professional service outside of core business and therefore expenditure is excluded.
- Agency A pays for specific science expertise, which is unable to be undertaken in-house. This is consultancy expenditure and should be included.
- Agency B owns a fleet of helicopters as helicopter transport is part of its core business. It engages private sector pilots to provide extra capacity. These pilots are contractors and the expenditure is included.
- Agency B subsequently decides to outsource helicopter transport to 123 Helicopters. It ends helicopter transport internally and sells its helicopters. Payments to 123 Helicopters are for an outsourced service and are excluded.
- Agency A moves to a shared services operating model and contract its corporate services from Agency B. This is excluded as this is outsourcing a business function. It is also excluded as this is a service received from another government agency.