



[IN-CONFIDENCE]

## Moving beyond the cap

**Date:** 18/05/2018      **Security Level:** Cabinet Sensitive  
**For:** Hon Chris Hipkins , Minister of State Services  
**Report No:** SSC2018/509

## Moving beyond the cap

<b>Purpose</b>	Sets out options for the report back to Cabinet by end of July on ensuring agencies reduce their reliance on purchasing external capability. For discussion at the State Services Commission's agency meeting on 22 May.
<b>Date of meeting</b>	Before end of July to GOV
<b>Key issues</b>	<p>On 1 May, the Cabinet GOV Committee considered proposals to remove the staffing cap on core government administration, and address the resulting distortion to the contractor and consultant market.</p> <p>GOV agreed to remove the cap, however sought additional advice on existing and/or additional mechanisms for ensuring that State service agencies reduce their reliance on purchasing external capability.</p>
<b>Our advice</b>	<p>The Cabinet paper will set out existing mechanisms, and a proposal to set expectations that the State services are to reduce reliance on external resources and how we may administer that.</p> <p><i>Existing mechanisms</i></p> <p>Cabinet could agree that existing mechanisms are sufficient to bring reliance on external capability back into balance with personnel expenditure. There should be some natural recalibration over time simply from removing the cap.</p> <p>Cabinet have already noted that there are fiscal mechanisms in place to manage the risk of increased overall spending, including the government's fiscal management approach, and commitment to fiscal responsibility.</p> <p>Existing mechanisms include:</p> <ul style="list-style-type: none"><li>• Fiscal management controls that provide mechanisms for managing expenditure and incentivising agencies to deliver services by the most efficient and effective means.</li><li>• Section 32 of the State Sector Act makes chief executives responsible to Ministers for the efficient and economical delivery of the goods or services provided by their departments, and how effectively those goods or services contribute to intended outcomes.</li><li>• Existing work on workforce capability, including sector strategies</li></ul>

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(Education & Health), and Functional and Head of Profession work to build specific workforce capability (e.g. policy, procurement, data).

- SSC led initiatives around Spirit of Service, diversity and inclusion, and leadership and talent, all of which encourage staff recruitment and retention instead of contractor/consultant use.

#### *Expectation Setting*

Cabinet through the State Services Commissioner could issue expectations to reduce reliance on external resources now that the cap has been removed.

Setting of expectations will place responsibility on agencies. This will play out at Select Committee where expenditure, including contractor and consultant expenditure, is scrutinised. Select Committee scrutiny enables agencies to put their use of external resources in context. It also encourages the responsible Minister to maintain awareness of this expenditure.

Unfortunately, the quality of the Select Committee information varies because agencies report information differently. MBIE's review into its reporting to Select Committee suggests further guidance would help clarify how this information should be reported. SSC will work with Treasury and the Office of the Clerk to produce this guidance.

With improved quality of Select Committee information, SSC will be able to track contractor and consultant expenditure.

If a reduction in reliance in external resources does not occur then other mechanisms can be explored.

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