



# AIDE-MEMOIRÉ

[IN-CONFIDENCE]

## Approach to ensure that State services agencies reduce reliance on purchasing external capability

**Date:** 6 June 2018

**For:** Hon Chris Hipkins, Minister of State Services

**Report No:** SSC2018/601

## Approach to ensure that State services agencies reduce reliance on purchasing external capability

**Purpose** Cabinet paper for Government Administration and Expenditure Review Committee (GOV)

**Date of meeting** 12 June 2018

**Minister** Hon Chris Hipkins, Minister of State Services

**Proposal** The cabinet paper proposes to

- issue expectations that State services agencies reduce reliance on purchasing external capability following removal of the cap on government administration staff; and
- use existing mechanisms to monitor the response.

We recommend that you support the proposal.

**Key issues** Last month Cabinet agreed to remove the cap on core government administration and invited you to report back to GOV on existing and/or additional mechanisms for ensuring that State services agencies reduce their reliance on purchasing external capability over the next three years.

The paper recommends reliance on existing expenditure controls, rather than replacing capping with another distortionary input control.

After issuing clear expectations to reduce reliance on consultants, the State Services Commissioner will monitor existing data to ensure the expectations are met, and reinforce these expectations with individual agencies if necessary.

Financial information on the use of contractors and consultants is provided by agencies in response to the Finance and Expenditure Committee *Standard Estimates Questionnaire*. The recent Ministry of Business, Innovation and Employment review into its alleged misleading response to these questions has asked for policy guidelines to provide greater clarity to how agencies answer them. These guidelines would improve the quality and consistency of the information. SSC will work with Treasury and the Office of the Clerk to provide this guidance.

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**Our advice**

The capping regime introduced incentives to game the numbers and to make decisions that were not necessarily the best value for money. Our advice is to introduce a light-touch, high trust model that supports agencies investing more in their own people and relying less on external capability.

Current inconsistencies in the way agencies categorise expenditure on consultants and contractors makes monitoring difficult. SSC is confident that improved agency response to Select Committee questions under new guidelines will enable us to monitor changes to agency dependence on external capability reasonably effectively. However, there remains a risk that the quality of the data will be contested when the annual monitoring report proposed in the Cabinet paper becomes public.

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**Proactive Release**

We recommend that you release this aide-memoire in full following consideration of the Cabinet paper on 18 June, together with the earlier (May) Cabinet paper and aide-memoir associated with removing the cap on core government administration staff.

*Agree/disagree.*

Hon Chris Hipkins  
**Minister of State Services**

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