

Office of the Minister of State Services

Chair, Cabinet Government Administration and Expenditure Review Committee

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

Proposal

- 1 I propose to use existing mechanisms and also issue clear expectations to ensure that State services agencies reduce reliance on purchasing external capability following removal of the cap on government administration staff.

Background

- 2 On 1 May 2018, the Cabinet Government Administration and Expenditure Review Committee [GOV-18-MIN-0014 REVISED]:
 - 2.1 **agreed** to remove the cap on core government administration and stop annual reporting of staffing numbers, effective from June 2017;
 - 2.2 **agreed** that the State Services Commissioner conveys the Government's expectations 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; and
 - 2.3 **invited** the Minister of State Services to report back to GOV by the end of July 2018 on existing and/or additional mechanisms for ensuring that State services agencies reduce their reliance on purchasing external capability over the next three years.
- 3 The Committee also noted that, given the long term nature of building capability, there is likely to be a lag between increased internal capability and reduced expenditure on contractors and consultants.

Existing mechanisms to ensure the value of government expenditure

- 4 The main mechanisms that the government has for demonstrating fiscal responsibility are its fiscal strategy and fiscal management approach, which currently includes fixed nominal baselines and setting allowances for additional expenditure on top of these baselines in the Budget. This creates incentives for agencies to seek efficiency savings or requires the agency to seek new funding by demonstrating why it can no longer manage within existing baselines. Select Committees also scrutinise expenditure.
- 5 Specific mechanisms include:
 - 5.1 *Budget initiatives* include information on what success will look like, how this will be measured and how the agency will know when the initiative has been successful.
 - 5.2 *Performance discussions*: There is a long established expectation that departments have regular discussion with their Minister(s) about performance of the agency, including how agency resources have been deployed to achieve outcomes. The documents these discussions are

based on depend on what the Minister requires, typically including output plans, strategic plans or quarterly progress reports.

- 5.3 *Estimates*: All appropriations are required to set out how performance will be assessed.
 - 5.4 *Annual Reports (reporting on appropriations)*: Annual reports are a key source of information on what has been achieved over the last year, based on outcome and output measures.
 - 5.5 *Strategic intentions and supporting plans*: Strategic intentions (often produced in Statements of Intent) outline an agency's strategic objectives over the medium-term. This public document is supported by internal strategic plans such as workforce plans.
 - 5.6 The Finance and Expenditure Committee, through the *Standard Estimates Questionnaire*, asks departments to advise the total budget of expenditure on external resources such as consultants and contractors; the purpose of any significant expenditure; and why internal resources could not be used. There are often supplementary questions asking for previous year comparisons, numbers of contractors and use of contestable selection processes. The quality of data that agencies provide in response to the questionnaire has been variable, and central agencies are currently working on guidelines to provide greater clarity about expenditure categories and improve consistency in how agencies answer questions.
- 6 I expect that Ministers would use each of these mechanisms to ensure that, in making investment decisions, agencies are considering the value of building their own capability rather than buying in external resources, when it makes sense to do so.

Conveying expectations for agencies to invest more in building government core administrative capability

- 7 Our Government has a vision of a stronger public service. This can be achieved, at least in part, by restoring the balance of investment between 'growing our own' capability, and relying on the use of external expertise. The previous government's policy to cap government core administrative staffing shifted the balance towards greater reliance on external capability.
- 8 I have asked the State Services Commissioner to convey this Government's expectations that when making resourcing decisions, agencies will consider taking opportunities to develop the capability of their own staff and reduce reliance on contractors and consultants.
- 9 I have also asked the State Services Commissioner to monitor existing data collections to ensure that, over time, a balance between the use of external and internal capability is restored.
- 10 The State Services Commissioner will have ongoing discussions with chief executives about their response to Government expectations, alert me to any concerns he may have, and provide an annual report on progress.

Consultation

- 11 The Treasury has been consulted on the proposals in this paper. The Department of the Prime Minister and Cabinet has been informed.

Financial Implications

- 12 Nil

Human Rights

13 Nil

Legislative Implications

14 Nil

Regulatory Impact Analysis

15 Not Applicable

Gender Implications

16 Nil

Disability Perspective

17 Nil

Publicity

18 SSC will develop a communications package for the Minister of State Services to announce the removal of the cap, and information about how workforce pressures will be managed in the future, including expectations of reduced reliance on contractors and consultants.

Recommendations

19 The Minister recommends that the Committee:

1 **note** that On 1 May 2018, the Cabinet Government Administration and Expenditure Review Committee [GOV-18-MIN-0014 REVISED]:

1.1 **agreed** to remove the cap on core government administration and stop annual reporting of staffing numbers, effective from June 2017;

1.2 **agreed** that the State Services Commissioner conveys the Government's expectations 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; and

1.3 **invited** the Minister of State Services to report back to GOV by the end of July 2018 on existing and/or additional mechanisms for ensuring that State services agencies reduce their reliance on purchasing external capability over the next three years.

2 **note** that Ministers will use existing financial management mechanisms to ensure that, in making investment decisions, agencies are considering the value of building their own capability rather than buying in external resources, when it makes sense to do so

3 **note** that the State Services Commissioner will convey Government expectations that when making resourcing decisions, agencies will consider taking opportunities to develop the capability of their own staff and reduce reliance on contractors and consultants

- 4 **note** that State Services Commissioner will have ongoing discussions with chief executives about their response to Government expectations, and provide an annual report on progress

Authorised for lodgement

Hon Chris Hipkins
Minister of State Services

Date:

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