



To: Leadership Team
From: 9(2)(a) Chief Procurement Officer
Cc: Zoe Griffiths, Deputy Secretary People, Capability and Resources
Date: 31 January 2017
Subject: **Contingent Workforce Engagement and Management**

Purpose

1. This memo provides options to improve the engagement and management of our contingent workforce and deliver savings back to the Ministry.

Recommendations

2. I recommend that the Leadership Team:
 - a. **Note** that the current engagement process for our contingent workforce is inconsistent and inefficient both in terms of cost and processes
 - b. **Note** that we have analysed a number of commercial options to mitigate risks and deliver savings to the ministry
 - c. **Agree** that the preferred option for engagement of contractors and temporary staff is to transfer to a Fully Managed Service Programme
 - d. **Note** that we will issue a tender to seek proposals from the market
 - e. **Note** that, if approved, we will go to the Investment and Finance Board with the actual costs when known and a provider has been identified together with a proposed change process
 - f. **Note** that, if approved, we expect to be able to move to a new model by September 2017.

Background

3. In 2014, the Ministry committed to reducing total contractor spend to under \$20m per annum by the end of 2018/19. There are a number of ongoing initiatives in place to support this which are targeted at reducing and controlling the internal demand for contractors.
4. We have explored the supply side to develop a way of working that could:
 - a. be applied consistently
 - b. deliver simplicity and efficiencies in the process
 - c. increase visibility of resource placement and expenditure
 - d. reduce spend
 - e. ensure we were engaging the best possible resourcing option at any point in time.
5. If this initiative is approved we will ensure that any change process will be closely aligned with the Manager Capability programme which is due to be formally launched in February 2017 and which will support managers to:

- a. Make better informed resourcing decisions and ensure these are the best possible engagement to deliver Ministry outcomes
- b. Support managers with good engagement documentation which will include deliverables for contractors
- c. Continue to reinforce to managers that regular performance conversations are needed with all resources (including contractors) to enable performance and engagement.

Problem definition

6. The review into the current processes is driven by the following factors:

Consistency	<ul style="list-style-type: none"> There are different sourcing pathways for contractors resulting in differing processes and procedures for signing timesheets and arranging payment across multiple vendors Contractor and vendor terms and conditions vary where they could be standardised in some areas Unclear policies, procedures and processes for contractors.
Spend	<ul style="list-style-type: none"> Contractors are a high spend area The Ministry has a large contractor base, 10% of the market share under AOG recruitment contract spend across government On-going placement and recruitment company fees are incurred, which vary between 9(2)(b)(ii) and 9(2)(b)(ii) %. For example, our largest spend is with GBL. GBL temporary staff margin is 9(2)(b)(ii) %. (See Appendix One) The current process in place does not reflect good value for money as contractors are engaged in an ad-hoc manner.
Visibility	<ul style="list-style-type: none"> Compiling reports is time intensive and requires sourcing information from multiple systems. There is limited visibility on past and future spend reporting, and numbers of contractors engaged We are required to answer Select Committee questions, currently the reports on contractors are difficult to compile as there is no central repository for information.
Efficiency	<ul style="list-style-type: none"> Repetitive engagement with multiple recruitment companies Multiple invoices received on a daily basis by various staff, causing high levels of administration for staff and senior managers. The number of individual invoices also heightens the risk of coding errors and therefore inaccurate reporting Burdensome administration requirements in regards to managing individual contracts (administration of new contracts, variations and expirations).
Agile	<ul style="list-style-type: none"> There are potential IP issues with turnover of contingent workforce Missed opportunity for retaining contractors and temps across the wider ministry with teams working in isolation.

7. We have consulted with a range of government agencies and providers to understand best practice models and alternative business processes. Appendix Two sets out the details of these discussions.

- a. MBIE – External Recruitment Centre of Excellence
- b. 9(2)(b)(ii) – Managed Service Programme Provider
- c. 9(2)(b)(ii) – Contractor payroll provider
- d. Inland Revenue – Recruitment Manager
- e. MSD – Recruitment Manager.

Current state

8. Contractors and temps are typically engaged for a fixed term or on a temporary basis (daily/hourly rate) and the engagement often extends further than the initial or agreed assignment term. The Ministry currently sources contractors and temps through multiple channels and providers. This activity is undertaken by numerous individuals (procurement, and or business group managers and admin staff) across the Ministry through:
 - a. All of Government (AoG) Recruitment Panel – 40 providers.
 - b. Direct Source
 - c. Various Ministry Panels (EIS and ICT).
9. MBIE houses the Centre of Excellence for External Recruitment Services. As a result of this they hold information about spend on temps and contractors across the Public Sector. The participating Market Share Report from MBIE indicated that the Ministry is the 3rd largest user of the AoG recruitment panel. The Ministry's spend under the AOG contract was \$28 million for contractors and temps in 2015/16. The Ministry total contractor spend was \$32.2m and \$8.45m on temps in 2015/16. Detailed information is set out in Appendix Three– MBIE report on market share.
10. While clearly there is an interest in cost savings we also identified the following current state pain points:
 - a. On-going placement and recruitment company fees are incurred, which vary between 9(2)(b)(ii) and 9(2)(b)(ii) % depending on provider selected
 - b. Burdensome administration requirements in regards to managing individual contracts (administration of new contracts, variations and expirations) and risk is present of contract extensions not being enacted in a timely fashion
 - c. Lack of centralised visibility in regards to past and future spend, or numbers engaged makes reporting very time consuming and often very reactive
 - d. Repetitive engagement with multiple recruitment companies by multiple managers missing all opportunities to seek a better deal
 - e. Multiple invoices received on a daily basis by various staff, causing high levels of administration for staff and senior managers
 - f. High degree of mis-coding resulting in inaccurate reports
 - g. Different sourcing pathways for contractors resulting in differing processes and procedures for signing timesheets and arranging payment (multiple vendors)
 - h. The different engagement options make it difficult to consistently ensure induction, pre-employment checks and other obligations are carried out
 - i. Contractor terms and conditions vary.

Options analysis

11. We considered two options that have the potential to realise both efficiency and cost benefits for the Ministry, these are:

- a. Preferred Provider Panel – This would give the Ministry a quick win with savings on provider's fees and centralising the engagement of temps and contractors as well as the relationship management with the selected recruitment providers
 - b. Fully Managed Service model - The Fully Managed Service model facilitates the acquisition and management of some or all forms of the contingent workforce by acting as a single staffing conduit for hiring managers. This delivers an oversight model and creates a single point of accountability consolidating billing, reporting, compliance, rate reviews and on-boarding and off-boarding.
12. The Preferred Provider Panel does not deliver the full range of benefits that could be obtained under a Fully Managed Service model.
13. The Fully Managed Service model is an outsourced solution where a provider oversees the management and administration of our contingent workforce. There are a number of providers in NZ that provide this service. This solution is used widely in the UK and Australia; however there are no Government agencies in NZ using the model. We understand that another Government agency is considering this option and NZ Post has recently implemented a similar model.
14. The Fully Managed Service model option offers a solution to all of the current state pain points we have identified. The key business benefits that could be expected from a managed service program are detailed below:
- a. Cost effective – by conducting spend analysis and developing rate savings with suppliers, rationalising supply where possible. Additional savings could be achieved through tenure or volume discounts (conservative estimates by potential providers estimate \$2m in the first year)
 - b. Visibility – this model would centralise reporting and would provide on demand visibility of how much managers are spending, rates they pay and how they are tracking against project/contract milestones across the Ministry
 - c. Compliance and risk mitigation – centralised point for all on-boarding and off-boarding of contractors (including health and safety and insurance)
 - d. Supply chain efficiency – includes sourcing and vetting candidates, negotiating terms and rates, ensuring regulatory compliance, tracking payments, auditing and reporting.
 - e. Employer branding – a partner in delivering our employment brand to the market and working with suppliers to ensure a consistent message
 - f. Administration – consistency in the collection and management of data. Accurate and timely reporting. Consolidated invoicing
 - g. Flexibility and sustainability – scalable to our changing needs with the ability to respond quickly as volume or complexity of our recruitment changes. Ability to provide specialist guidance across our diverse range of recruitment needs
 - h. Workforce management – Manages contractor end dates with hiring manager, keeping a holistic view across the Ministry for other potential needs the contractor could transition to so we retain the intellectual property.

How this investment will work

15. The Fully Managed Service provider will be the hub for the Ministry between hiring managers, direct contractors and the multiple providers on the AOG external recruitment supplier contract. The service provider will be the single point of contact for managers to source and engage contingent staff. The service will also facilitate the administration for on and off boarding, compliance requirements, contract management, spend analysis and reporting. The service provider will not be responsible for candidate selection, this role remains with the hiring manager to decide who is best for their role and team. Benefits to the hiring manager are:

Consistency	<ul style="list-style-type: none"> • Consistent approach when engaging vendors to source contractors and temporary staff • Consistent application of sourcing policies and procedures • Consistent collection and management of data • Central point for on-boarding and off-boarding of contractors.
Efficient	<ul style="list-style-type: none"> • 'One stop shop for sourcing, vetting, negotiating terms and rates, compliance, tracking payments, auditing and reporting.
Visibility	<ul style="list-style-type: none"> • Central point for invoice collection • Central point for on demand reporting • Central point for spend analysis.
Spend	<ul style="list-style-type: none"> • Rationalise spend and supply with vendors through sourcing fees, volume discounts, contract management and payroll only options ensuring value for money • Provide market updates and commentary to ensure the Ministry is achieving value from its contractors.
Best sourcing option	<ul style="list-style-type: none"> • Strong relationship with vendors to understand their specialization and ability to supply • Ministry wide visibility so can move contractors/temps with pending end dates to other requirements within the ministry therefore keeping IP • Ministry wide visibility so can identify high demand roles and create talent pipelines to mitigate future supply risks.

16. Appendix Four sets out the current process and the proposed new process under a Fully Managed Service.

Costs

17 The total costs will be unknown until we receive responses from the market, however the indicative costs below were provided by 9(2)(b)(ii):

- The 9(2)(b)(ii) MSP solution has a one off set up cost for the technology requirement which has been estimated at \$9(2)(b)(ii), however we know that other providers will supply this free of charge
- 9(2)(b)(ii) indicated a 9(2)(b)(ii) % management fee (based on \$20m p/a spend) which provides an on-site resource to manage the service provision
- It is expected this 9(2)(b)(ii) % cost could be recovered through volume based discount incentivizing our preferred provider to reduce recruitment provider margins
- Based on our \$20m p/a spend 9(2)(b)(ii) indicated total savings could be achieved through margin rationalisation, and rate benchmarking of between 8 and 12% (\$2m) p/a.

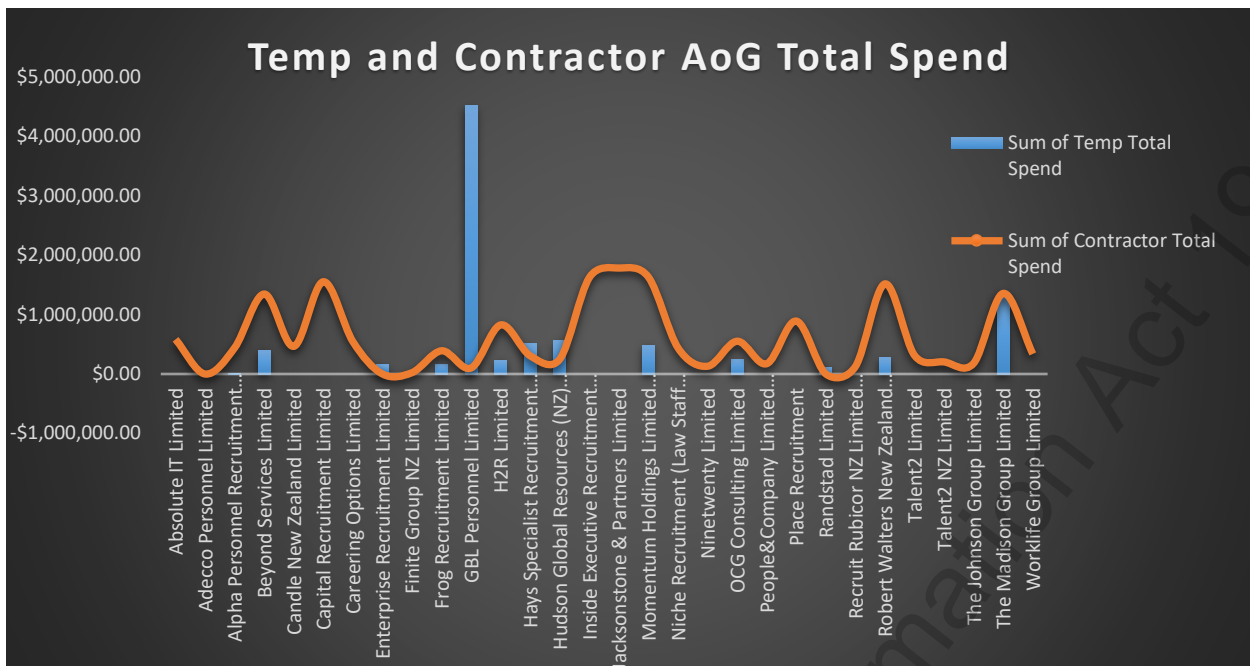
Next Steps

18 Subject to approval of the recommendation, we will instigate a procurement process to select a preferred provider. We would expect that if we proceed we would complete the following steps:

- a. Engage internal stakeholders from People Capability, Procurement and business groups who consume large numbers of contingent workforce (e.g. ICT/EIS) to develop a procurement plan and request for proposal (Jan 2017)
- b. Release documents to the Market (March 2017)
- c. Analyse Market responses and identify a preferred provider (June/July 2017)
- d. Develop business processes to ensure alignment with the objectives of the Manager Capability Programme (July/August 2017)
- e. Seek approval from the Investment and Finance Board (September 2017) on:
 - i. Preferred provider proposal (and negotiation plan)
 - ii. Proposed business models and Ministry processes
 - iii. Proposed change process and communications plan.

Released under the Official Information Act 1982

Appendix One - AoG Temp and Contractor Spend



Contractor Fee Rates and Spend

Provider/Supplier	Average Fee	Provider Fee Spend
The Johnson Group Limited	9(2)(b)(ii) %	\$28,671.96
Talent2 Limited	%	\$63,385.72
Careering Options Limited	%	\$70,337.11
Worklife Group Limited	%	\$43,602.42
Inside Executive Recruitment Limited	%	\$183,818.39
Momentum Holdings Limited	%	\$167,021.74
Alpha Personnel Recruitment Limited	%	\$41,022.70
Absolute IT Limited	%	\$58,654.87
The Madison Group	%	\$157,460.80
H2R Consulting Limited	%	\$93,785.77
Recruit Rubicor NZ Limited	%	\$12,979.34
Robert Walters NZ	%	\$153,725.31
People&Company	%	\$17,749.53
Place Recruitment Limited	%	\$80,200.90
Capital Recruitment Limited	%	\$135,861.78
Candle New Zealand Limited	%	\$41,891.65
GBL Personnel Limited	%	\$8,726.95
Ninetwenty New Zealand Limited (formerly Talentpoint Limited)	%	\$10,440.28
Finite Group NZ Limited	%	\$1,837.50
Frog Recruitment	%	\$34,566.99
Beyond Services	%	\$142,211.30
Hays Specialist Recruitment (Australia) Pty Limited	%	\$31,496.53
Hudson Global Resources	%	\$21,356.33
JacksonStone & Partners Limited	%	\$242,271.90
Niche Recruitment (Law Staff Limited)	%	\$49,768.45

Provider/Supplier	Average Fee	Provider Fee Spend
OCG Consulting Limited	9(2)(b)(ii) %	\$50,174.29
Total		\$1,943,020.52

Temp Fee Rates and Spend

Provider/Supplier	Average Fee	Provider Fee Spend
GBL Personnel Limited	9(2)(b)(ii) %	\$649,063.18
Frog Recruitment	%	\$18,619.08
OCG Consulting Limited	%	\$25,008.52
H2R Consulting Limited	%	\$25,300.22
Hays Specialist Recruitment (Australia) Pty Limited	%	\$48,353.24
Momentum Holdings Limited	%	\$49,483.41
Beyond Services	%	\$39,238.25
Randstad Limited	%	\$10,605.53
The Madison Group	%	\$130,497.18
Adecco Personnel Recruitment	%	\$735.69
Hudson Global Resources	%	\$53,643.25
Enterprise Recruitment	%	\$19,174.77
Robert Walters NZ	%	\$25,827.37
Alpha Personnel Recruitment Limited	%	\$873.68
Total		\$1,096,423.37

Appendix Two – Analysis of work groups findings

We met with other Government agencies and providers to determine what options were available to the Ministry. The following is a snapshot of our findings:

- Meeting with ^{9(2)(a)}, MBIE Recruitment Centre of Expertise

Discussion was held around a secondary procurement process to select a sub panel of providers, if this was an option the Ministry would be able to negotiate Volume Based Discounts or Fixed Fee Model. Efficiencies would be gained by improved reporting through a smaller supply base, visibility, and stricter controls and consolidated invoicing.

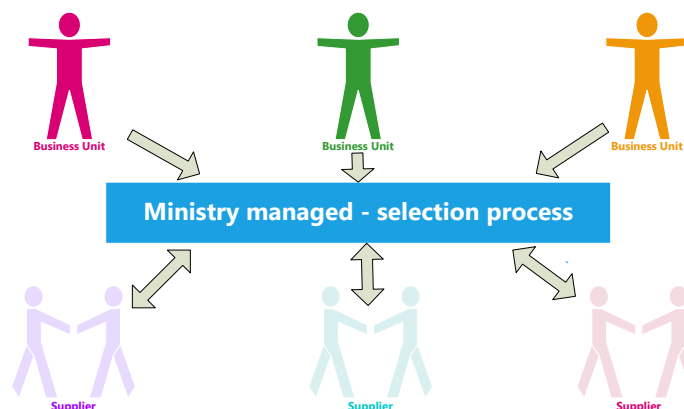


Fig 1 AOG Recruitment sub panel

However this would still require multiple selection processes to be run by the Ministry to the sub panel to select a preferred contractor/temp.

The AOG Recruitment Contract expires in September 2017.

- ^{9(2)(b)(ii)} - AOG Provider (Fully Managed Service Programme Provider)

The working group met with ^{9(2)(b)(ii)} to discuss a Managed Services Programme (MSP). The programme is an outsourced solution where a provider oversees the management and administration of our contingent workforce.



Fig 2 Fully Managed Service Programme(MSP)

There are a number of providers in NZ that provide this service. This solution is used widely in the UK and Australia; however there are no Government agencies in NZ using the model. We understand that another Government agency is considering this option and NZ Post has recently implemented a similar model. This solution could also work with contractors that we "Direct Source". This solution would not be a "quick fix" but should show significant cost savings once implemented fully.

- 9(2)(b)(ii) - AOG Provider (Payroll Only Provider)

A number of providers offer a Payroll Solution. 9(2)(b)(ii) are currently providing this service to other agencies, and some Ministry staff, at the cost of 9(2)(b)(ii) per hour per contractor. In this model the client has the ability to recruit contractors (directly or via established panels) or 9(2)(b)(ii) can recruit the contractor if required. (9(2)(b)(ii) is a provider under the AoG Recruitment Panel). Payroll Solution manages contingent staff requirements, including:

- On boarding process
- Compliant H&S processes and reporting
- In depth real time reporting (including number of contractors, hiring manager, roles etc.).

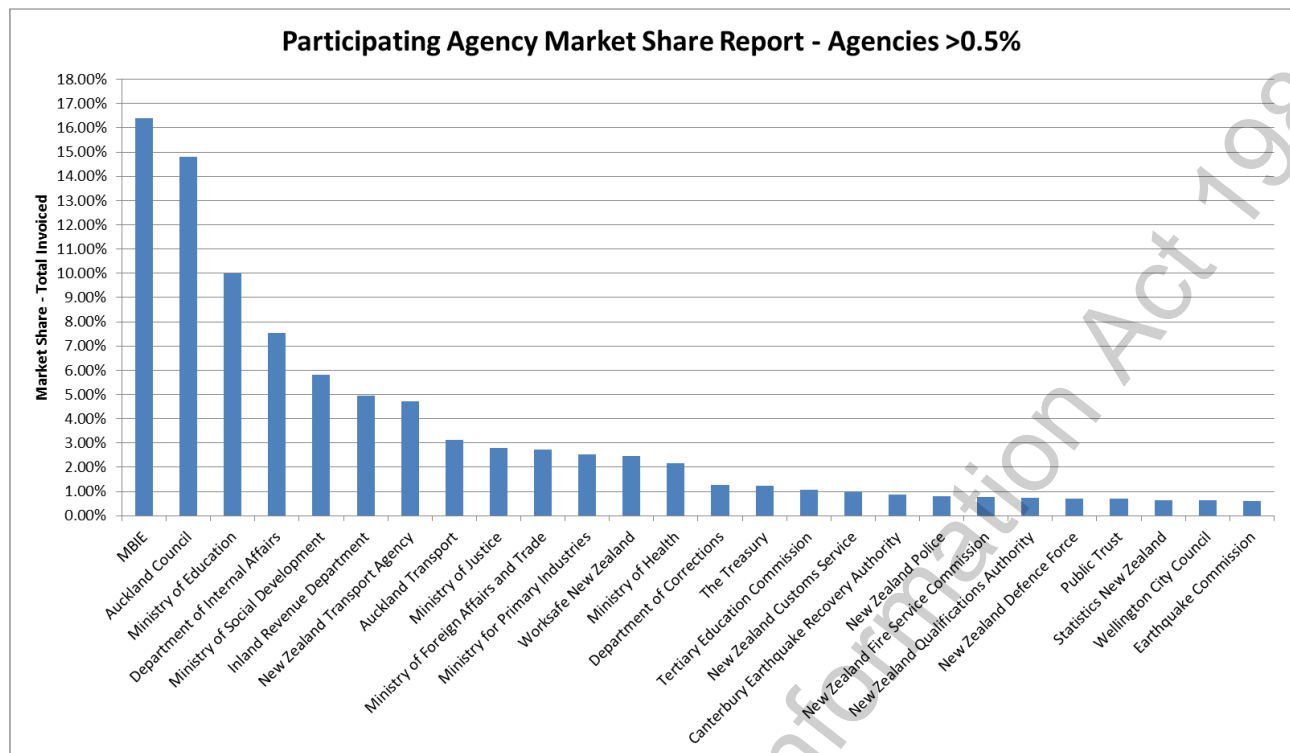
- IRD: Meeting with 9(2)(a) – Recruitment Manager. (Sub Panel in place and in house recruitment):

- Contingent workforce was the responsibility of the line manager but is being transitioned to recruitment team
- Recruitment team of 11 staff
- Primarily permanent and fixed term vacancies but have taken on some contracting with future plans to absorb all contingent workforce management
- Focused on quality candidates and centralised control
- Preferred provider panel in place based on quality, cost and performance
- Roles can also be advertised direct through their career web site
- No provider engagement with hiring manager – all centralised through recruitment team.

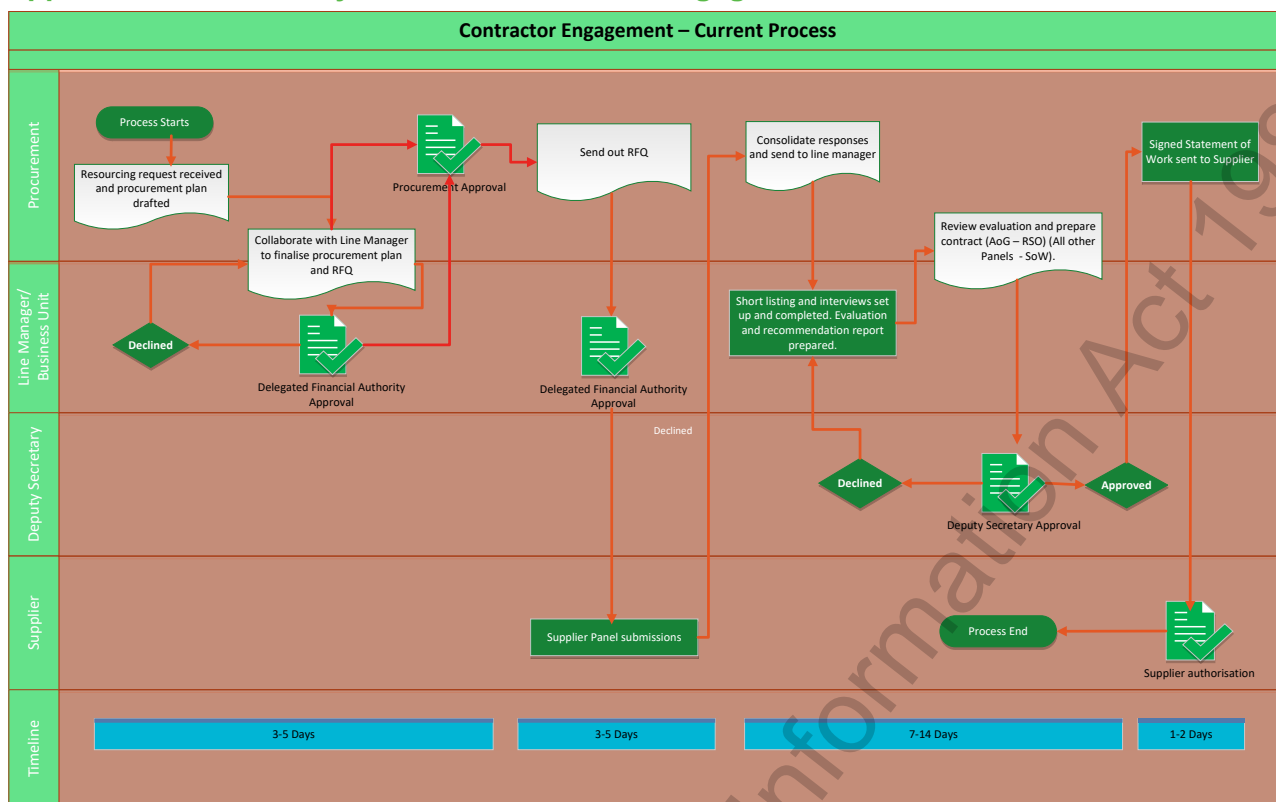
- MSD: Meeting with 9(2)(a) – Recruitment Manager. (Sub Panel in place and in house recruitment)

- Contingent workforce is the responsibility of the line manager. New technology will improve visibility and allow accurate and centralised reporting of contingent workforce
- Recruitment team of 14 including regions. Provides advice and guidance to line manager for temp/contractor sourcing
- Implementing SAP success factors technology as core HRIS and one stop solution for all recruitment (Permanent and contingent), on-boarding, succession and development, performance and compensation
- Preferred provider panel in place based relationship and performance.

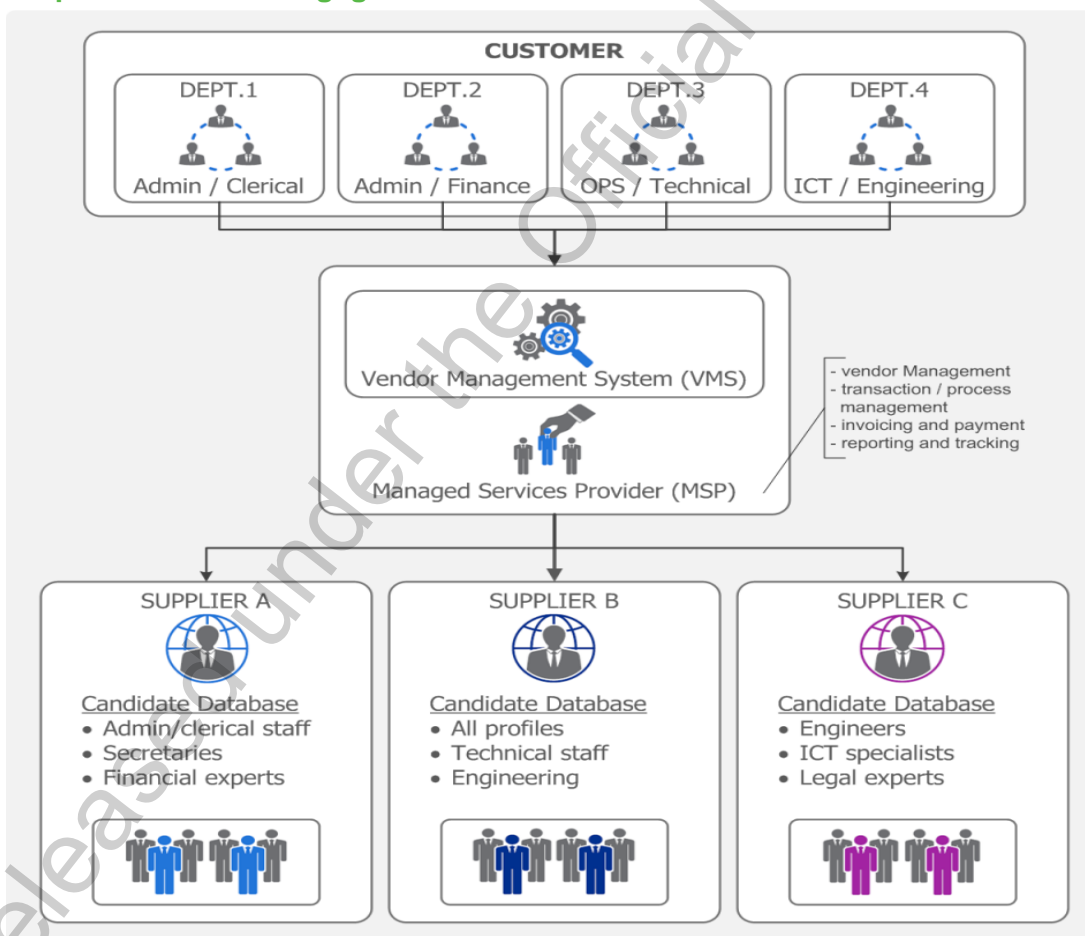
Appendix Three - MBIE report on market share



Appendix Four - Ministry's Current Contractor Engagement Process



Proposed Contract Engagement Process



To: Investment and Finance Board
From: 9(2)(a)
Date: 23 October 2019
Subject: Contractor and Consultant Expenditure for 2018/19

Purpose

1. To advise of the levels of expenditure the Ministry incurred on Contractors and Consultants using the expanded SSC definition during the 2018/19 year. The paper also highlights where we are positioned compared to published spend for other departments for the 2017/18 financial year.

Recommendations

2. It is recommended that you:

a)	Note that a revised definition for Contractors and Consultants was published in November 2018 by the State Services Commission (SSC). The expanded definition now includes contractors and consultants who work on capital projects. Temporary staff are also now included and the consultant definition was widened.	Noted
b)	Note that the revised definition applied from the 2017/18 year. In this year the Ministry of Education (MOE) incurred costs of \$132.1m for Contractors and Consultants. Only the Inland Revenue Department spent more (\$195m whilst undertaking a Business Transformation Programme). Expenditure for all Ministries was published by the SSC in September 2019.	Noted
c)	Note that the SSC require government agencies to build capability within the public sector. When the FTE cap was lifted in June 2018 there was a corresponding expectation of reduced reliance on consultants or contractors with the public service core capability increasing over time.	Noted
d)	Note that MOE has found it difficult to reduce expenditure on contractors and consultants. One of the key issues we have had to face is a significant increase in the capital plan. Furthermore our opex work programme has also increased significantly over the last couple of years.	Noted
e)	Note that the provisional costs for Contractors and Consultants in 2018/19 has increased to \$147.0m. We are likely to retain our place near the top of the agency table in 2018/19 accordingly.	Noted

Background

3. The Contractor and Consulting expenditure for 2018/19 is \$147.0m. This number has increased significantly (11%) from the corresponding amount of \$132.1m published for the 2017/18 year.
4. Expenditure on Contractors and Consultants will now be published annually by the SSC. For the 2017/18 year MOE incurred the second highest expenditure across all Ministries with only the Inland Revenue Department (IRD) spending more. The 2018/19 numbers for other Ministries will not be known until they are all lodged with SSC around the time of the Select Committee reviews.

5. MOE is a capital intensive agency. Our Capital expenditure spend on Contractors and Consultants of \$76m in 2017/18 was the highest number across all Ministries. For Operating expenditure we were behind IRD and the Ministry of Business, Innovation and Employment. The numbers published by SSC are raw numbers and there is no commentary relating to either Capital Expenditure or other factors being a driver of any agencies need to engage contractors.
6. Our expenditure on Capital Expenditure has grown significantly over the last few years. The table below gives a five year view of the growth. Whilst Land generally attracts a lower level of Contractor and Consultant spend we are seeing a large increase in Ministry developed Property, Plant and Equipment (mainly schools) expenditure and a smaller increase in software spend over a five year term.

All figures \$000	2014/15	2015/16	2016/17	2017/18	2018/19
Land	11,824	41,462	38,163	57,313	94,791
Property, Plant and Equipment - Ministry	635,529	616,536	761,594	782,090	816,113
Property, Plant and Equipment - PPP	-	97,813	110,291	147,002	88,617
Intangibles (Software)	17,180	16,649	21,054	24,313	25,937
Total	664,533	772,460	931,102	1,010,718	1,025,458
Total Excluding Land & PPP	652,709	633,185	782,648	806,403	842,050

7. With reference to Ministry developed school property the level of expenditure on consultants, particularly design, is higher in the early stages of projects prior to tendering for construction. As the portfolio of projects expands the level of expenditure on consultants is expected to be comparatively higher.
8. Please note that we don't get a split of what the costs are for contractors and consultants for PPP projects. These are hidden as we receive invoices for the total cost of the schools over the life of the agreed contract. If we move away from PPP contracts to managing more of the capital programme ourselves expenditure on contractors and consultants will increase further.
9. In addition whilst we are also seeing a significant increase in our operating expenditure over the last five years. The table below splits our operating expenditure into its main component parts. Our operating expenditure is increasing both at a total level and controllable level.

All figures \$000	2014/15	2015/16	2016/17	2017/18	2018/19
Capital Charge	946,500	997,311	962,029	1,046,158	1,079,515
Depreciation	481,395	510,282	580,650	621,473	658,709
PPP Payments	5,972	5,630	11,079	20,862	28,379
Controllable Spend	625,045	579,622	587,587	633,959	728,165
Grand Total	2,058,912	2,092,845	2,141,345	2,322,452	2,494,768

10. It is the expectation of the SSC that we reduce expenditure on contractors and consultants and replace it with in house capability. The difficulty facing MOE is that it is a lot harder to reduce during times of expansion in services. The current demand for new/upgraded school building is not going away and spending \$1 billion+ per annum on Capital Expenditure is now the new normal. The significant expansion on policy work and new funding for a number of initiatives has also led to an expansion of both our permanent and contingent workforce. This situation will make it incredibly difficult for the Ministry to meet the wishes of the SSC in the short term.
11. SSC calculated that across the public service the average OPEX spend on contractors and consultants expressed as a percentage of overall workforce spend was 13.3%. Around two thirds of all spend on contractors and consultants in the public service was opex facing. The MOE number is significantly higher at 18.2% for 2017/18 (\$56.1m of opex against \$308.6m of Personnel costs). For 2018/19 this dropped slightly to 17.7% (\$61.9m against \$348.8m of Personnel costs). The 13.3% has been set as an initial baseline. It is unclear at this stage as to what reductions will be expected here over time but we are

4.4% above it currently as a raw measure. In percentage terms we are one third over what is the average of all Ministries which is concerning.

12. No baseline percentage was set for Capital. The recent press release entitled Public Service Contractor and Consultant Expenditure noted that legitimate contractor and consultant expenditure for such as one off projects requiring skills which are not required on a long term basis would not be constrained.

Analysis by category for 2018/19

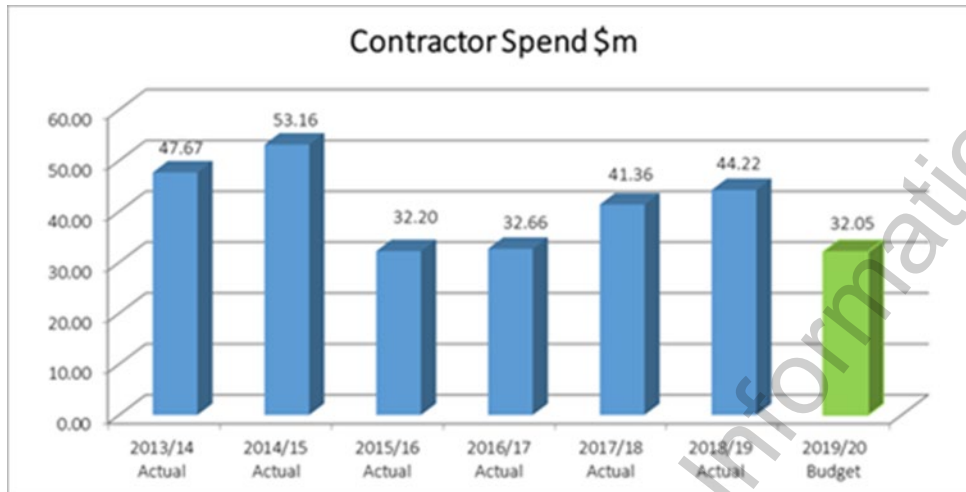
13. The tables below show our expenditure by category for 2017/18 and 2018/19.

Breakdown of Contractor and Consulting Spend	2017/18	2018/19
Schools Capital	64,840,368	71,198,717
ICT Capital	10,128,373	12,792,648
Property Non Schools Capital	915,240	1,183,878
Temp Staff	7,678,336	7,759,139
Contractors - Opex	41,356,265	44,220,827
Consulting and Professional Services	7,160,588	9,875,218
Grand Total	132,079,170	147,030,427

14. We have increased by \$15m when comparing 2017/18 to 2018/19. Around \$9.3m of this relates to capital expenditure increases with the remaining \$5.7m relating to opex increases.
15. Our total expenditure on Capital for 2018/19 equates to \$85.2m. Our operating expenditure on Contractors and Consultants is \$61.8m.
16. Whilst some contractor conversion has taken place the increases in total expenditure on opex of around \$85m and the demands of delivering a billion dollar capital programme led to additional demands being placed on the workforce which in turn led to increases in both FTE's and our contingent workforce.
17. It is worth noting that the Ministry has also increased its FTE count significantly. Over the last four years we have added 645 people. Over the 2018/19 financial year alone we added 349 FTE.
18. We have built capacity and capability in both our permanent and contingent workforce.
19. The largest component part of our Operating Expenditure relates to Opex Contractors. The table below breaks this down by each individual group.

Group	2018/19
SPG	1,499,709
CEO Office	1,440,527
Raukura	99,025
PICI	23,600
BE&S	12,589,452
EDK	3,597,834
GAVC	1,379,814
ESP	1,698,799
EIS	8,502,423
ELSA	8,362,108
SE&S	5,077,536
Grand Total	44,270,827

20. Furthermore the graph below shows how we have been slowly increasing expenditure on opex contractors over the last few years. The budget for 2019/20 is likely to be light. We generally budget to have employees filling positions but often require backfill contractors. We are already \$2.1m overspent on opex contractors at the end of the first quarter.



21. The largest component part of our Capital Expenditure relates to expenditure on Capital Works for schools. The table below breaks the \$71.2m of expenditure into categories.

Category	2017/18	2018/19
Architects/Designers and associated Professional Services	39,350,436	43,676,704
Project Managers and associated	6,520,476	4,751,188
Quantity Surveying/Surveys and associated	10,856,001	12,752,280
Grand Total	8,113,455	10,018,544
	64,840,368	71,198,716

SSC Press Release – Appendix 1



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.

Contractor and Consultant Expenditure for 2019/20

Date presented:	21 October 2020
To:	Investment Finance Board
Sponsor:	Zoe Griffiths
Author(s):	9(2)(a)

Purpose

1. To advise of the levels of expenditure the Ministry incurred on Contractors and Consultants using the expanded PSC definition during the 2019/20 year. The paper also highlights where we are positioned compared to published spend for other departments for the 2018/19 financial year. The 2019/20 figures for the remainder of the Public Service are not yet available.

Recommendations

2. It is recommended that you:
 - a) **Note** that a revised definition for Contractors and Consultants was published in November 2018 by the Public Service Commission (PSC). The expanded definition now includes contractors and consultants who work on capital projects. Temporary staff are also now included, and the consultant definition was widened. **Noted**
 - b) **Note** that a further adjustment of \$8.7m has been identified for the 2018/19 year relating to internal contractors associated with the schools build programme. This increases the number from \$147.0m to \$155.7m. **Noted**
 - c) **Note** that The Ministry has found it difficult to reduce expenditure on contractors and consultants. One of the key issues we have had to face is a significant increase in the capital plan. Furthermore, our opex work programme has also increased significantly over the last couple of years. **Noted**
 - d) **Note** that the provisional costs for Contractors and Consultants in 2019/20 has increased to **\$167.2m** from the 2018/19 number of \$155.7m. This increase took place despite a reduction in opex contractor and consulting spend. We are likely to retain our place near the top of the agency table in 2019/20 accordingly. **Noted**
 - e) **Note** In the 2018/19 year the Ministry of Education (MOE) incurred costs of \$155.7m for Contractors and Consultants. Only the Inland Revenue Department spent more (\$206m whilst undertaking a Business Transformation Programme). The 2019/20 numbers for other Ministries are yet to be published. **Noted**

Background

3. The Contractor and Consulting expenditure for 2019/20 is **\$167.23m**. This number has increased by 7.4% from the revised amount of **\$155.77m** (previously reported as \$147.0m.)
4. The increase in the 2018/19 numbers relates to the erroneous exclusion of internal contractors used to develop and deliver the schools capital works programme. This workforce comprises part of the Project

Managers and associated section of schools capital and we only reported external contractors and consultants last year. This number will need to be restated in the Select Committee Review for 2019/20 and the annual PSC report on Contractor and Consultant spend.

5. Capital Expenditure has grown significantly over the last few years. The table below gives a five-year view of the growth. Whilst Land generally attracts a lower level of Contractor and Consultant spend, we are seeing a large increase in Ministry developed Property, Plant and Equipment (mainly schools) expenditure and a smaller increase in software spend over a five year term.

All figures \$'000	2015/16	2016/17	2017/18	2018/19	2019/20
Land	41,462	38,163	57,313	94,791	72,032
Property, Plant & Equipment - Ministry	616,536	761,594	782,090	816,113	991,071
Property, Plant & Equipment -PPP	97,813	110,291	147,002	88,617	7,364
Software	16,649	21,054	24,313	25,937	21,502
Total	772,460	931,102	1,010,718	1,025,458	1,091,969
Total Excluding Land & PPP	633,185	782,648	806,403	842,050	1,012,573

6. For Ministry developed school property the level of expenditure on consultants, particularly design, is higher in the early stages of projects prior to tendering for construction. As the portfolio of projects expands the level of expenditure on consultants is expected to be comparatively higher.
7. There has also been a significant increase in our operating expenditure over the last five years. This trend is expected to continue into the 2020/21 financial year. The table below splits our operating expenditure into its main component parts. Our operating expenditure is increasing both at a total level and controllable level.

All figures \$'000	2015/16	2016/17	2017/18	2018/19	2019/20
Capital Charge	997,311	962,029	1,046,158	1,079,515	1,103,954
Depreciation	510,282	580,650	621,473	658,709	700,348
PPP Payments	5,630	11,079	20,862	28,379	36,704
Controllable Spend	579,622	587,587	633,959	728,165	813,343
Grand Total	2,092,845	2,141,345	2,322,452	2,494,768	2,654,349

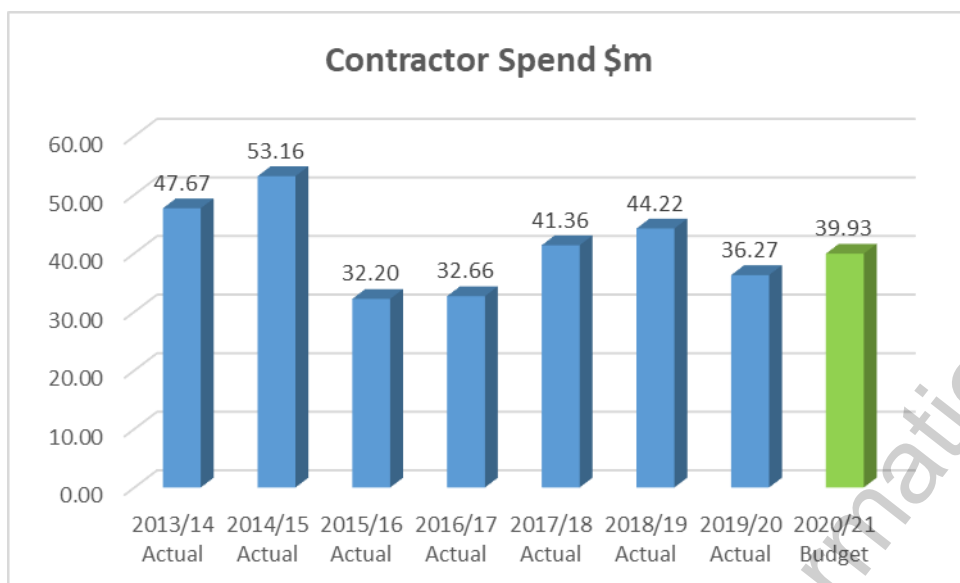
Analysis by category for 2019/20 and prior years

8. The tables below show our expenditure by category for 2017/18, 2018/19 and 2019/20.

Breakdown of Contractor and Consulting Spend	2017/18	2018/19	2019/20
Schools Capital	74,867,488	79,938,673	99,979,219
ICT Capital	10,128,373	12,792,648	9,170,114
Property Non Schools Capital	915,240	1,183,878	626,332
Sub Total Capital	85,911,101	93,915,199	109,775,665
Temp Staff	7,678,336	7,759,139	8,125,339
Contractors - Opex	41,356,265	44,220,827	36,271,335
Consulting and Professional Services	7,160,588	9,875,218	13,063,836
Sub Total Opex	56,195,189	61,855,184	57,460,510
Grand Total	142,106,290	155,770,383	167,236,175

9. We have seen reductions in our opex spend but the Capital costs have increased. It is likely the Alert level 4 lockdown assisted the Ministry in keeping the figures to a more modest increase. Our total expenditure on Capital for 2019/20 equates to \$109.8m. Our operating expenditure on Contractors and Consultants is \$57.5m,

10. The graph below shows how we have been slowly increasing expenditure on opex contractors(not temps or consulting costs) over the last few years. The increase stopped in the 2019/20 year and we are currently underspending to budget at the end of the first quarter of 2020/21.



11. Whilst some contractor conversion has taken place the increases in total opex baselines of around \$85m and the demands of delivering a billion dollar plus capital programme led to additional demands being placed on the workforce which in turn led to increases in both FTE's and our contingent workforce.
12. It is worth noting that the Ministry has also increased its FTE count significantly. Over the last three years we have added 854 FTE. Over the 2018/19 financial year alone we added 349 FTE and the increase in 2019/20 was 234.

Metrics	2016	2017	2018	2019	2020
Headcount	3,004	2,998	3,243	3,601	3,875
FTEs	2,607.30	2,631.90	2,904.20	3,252.80	3,486.50
Increase		24.60	272.30	348.60	233.70

13. We have built a level of capacity and capability in both our permanent and contingent workforce. However, the scale of our work programmes both opex and capex means that we will struggle to significantly reduce our reliance on Contractors and Consultants.
14. The largest component part of our Operating Expenditure relates to Opex Contractors. The table below breaks this down by each individual group. We have had a reasonable reduction this year and this would have been greater still but for the inclusion of costs related to the New Zealand Institute of Skills and

Group	2018/19	2019/20
SPG	1,499,709	1,129,993
CEO Office	1,440,527	901,184
Te Ao Maori	99,025	350,766
PICI	23,600	76,149
BE&S	12,589,492	6,946,591
EDK	3,597,834	3,194,435
GAVC	1,379,814	665,597
ESP	1,698,799	1,687,284
EIS	8,502,423	8,685,917
ELSA	8,362,108	8,032,200
SE&S	5,077,536	3,746,034
NZIST	-	855,085
Grand Total	44,270,867	36,271,235

Technology. However, for 2020/21 we will have a higher opex baseline and may not have the same level of Covid-19 interruptions which likely helped to suppress spend in 2019/20.

15. The largest component part of our Capital Expenditure relates to expenditure on Capital Works for schools. The table below breaks the \$99.98m of expenditure into categories. It also shows the growth over the last three years, which is largely associated with the overall increase in capital expenditure.

Category	2017/18	2018/19	2019/20
Architects/Designers and Associated	39,350,436	43,676,704	57,686,188
Project Managers and Associated	20,883,121	21,492,237	25,428,280
Quantity Surveyors/Surveys and Associated	8,113,455	10,018,544	10,937,817
Professional Services	6,520,476	4,751,188	5,926,934
Grand Total	74,867,488	79,938,673	99,979,219

16. The total of \$99.98m for 2019/20 represents 9.1% of the total property capital expenditure for the year, which is higher than the preceding two years. Whilst construction works were suspended during the Level 4 COVID-19 lockdown design was able to continue, which accounts for some of the increase.

PSC expectations and published information

17. The PSC expectation is that we reduce expenditure on contractors and consultants and replace it with in house capability. The difficulty facing The Ministry is that it is a lot harder to reduce spend during times of expansion in services. The current demand for new/upgraded school building is significant and spending \$1 billion plus per annum on Capital Expenditure is now normal. The significant expansion on policy work and new funding for a number of initiatives has also led to an expansion of both our permanent and contingent workforce.
18. PSC calculated that across the public service the average OPEX spend on contractors and consultants expressed as a percentage of overall workforce spend was 13.3%. Around two thirds of all spend on contractors and consultants in the public service was opex facing. The Ministry is above this average but has dropped from 18.2% in 2017/18 to 15.1% in 2019/20 (\$57.46m against \$381.33m of Personnel costs).
19. The 13.3% has been set as an initial baseline by PSC although it is unclear at this stage as to what reductions will be expected over time. We are currently 1.8% (\$6.8million) above this baseline but have been moving closer to the average over the last two years.
20. No baseline percentage was set for Capital. The recent press release referenced in Appendix 1, entitled Public Service Contractor and Consultant Expenditure noted that legitimate contractor and consultant expenditure for such as one-off projects requiring skills which are not required on a long-term basis would not be constrained.
21. Expenditure on Contractors and Consultants is now published annually by the PSC. For the 2017/18- and 2018/19-years MOE incurred the second highest expenditure across all Ministries with only the Inland Revenue Department (IRD) spending more. The 2019/20 numbers for other Ministries will not be known until around the time of the Select Committee reviews (see Appendix 2).
22. As a capital-intensive agency our capital expenditure spend on Contractors and Consultants of \$84m in 2018/19 was the highest number across all Ministries. For Operating expenditure, we were behind IRD and the Ministry of Business, Innovation and Employment. No commentary is provided in relation to published numbers apart from expressing the Contractor and Consultant opex spend as a proportion of total public sector opex spend.

Appendix 1 - Link to PSC Press release

<https://www.publicservice.govt.nz/our-work/workforce-data/contractors-and-consultants-expenditure/>

Appendix 2 – Published contractor and consultancy expenditure

Contractor and Consultant Expenditure (\$ million)	FY2017/18			FY2018/19		
Agencies	OPEX	CAPEX	Total	OPEX	CAPEX	Total
Inland Revenue Department	\$124.70	\$70.30	\$195.00	\$136.80	\$69.10	\$206.00
Ministry of Education	\$56.10	\$76.00	\$132.10	\$63.00	\$84.00	\$147.00
Ministry of Business, Innovation and Employment	\$80.70	\$14.30	\$95.10	\$76.50	\$22.20	\$98.70
Department of Corrections	\$12.10	\$32.10	\$44.20	\$18.40	\$41.10	\$59.50
Department of Internal Affairs	\$27.10	\$31.40	\$58.50	\$33.00	\$24.30	\$57.30
Ministry for Primary Industries	\$32.00	\$5.20	\$37.20	\$52.30	\$3.60	\$55.90
Others	\$255.20	\$82.80	\$338.30	\$237.40	\$52.50	\$289.60
Total Public Service	\$588.00	\$312.20	\$900.20	\$617.40	\$296.80	\$914.20