



Contractor or Consultancy – the difference

The difference between contractor hire and consultancy services can be confusing and difficult to define.

The aim of this guidance is to highlight the differences between hiring a contractor via the AoG external recruitment services agreement, or through a consultancy firm, IT vendor or other consultancy supplier.

Definition – a contractor hire

A contractor is an individual who is either hired directly or via a third party to perform duties that would normally be provided by an existing staff member. The contractor is under the direct supervision of the client and the client is responsible for managing any risks associated with the contractor’s work.

Contractor hire example

A government agency is undertaking a software upgrade and a permanent team member is seconded to oversee the project. The permanent position is back filled by a contractor to cover the permanent member’s normal day to day duties.

Definition – a consultancy service

A consultancy service is where a client is paying a consulting company for the delivery of an outcome. A consultant is an expert in a particular field, who can demonstrate relevant skills and experience not readily available from within a government agency. In this case, the consulting company is responsible for all risks as well as the outcome.

Information on the AoG Consultancy Services solution can be found [here](#).

What are the differences in costs?

The Centre of Expertise (CoE) has seen a number of examples where a participating agency has not received value for money by sourcing a contractor from somewhere other than an external recruitment services provider.

Below is an actual example:

Assumptions	
Contractor hired from 28 January 2013 to 30 June 2014 (17 months).	
A total of 6 weeks annual leave and 15 Statutory days; total charge weeks of 65 weeks.	
40 hours per week worked.	
Non AoG Fee	Totals
Contractor base pay (per hour)	\$80.00
Consultancy margin charged at 25% (per hour)	\$20.00
Charge rate to agency (per hour)	\$100.00
Total cost to Agency per week: \$4,000 x 65 weeks	\$260,000.00

Cost to Agency if contractor was transacted under AoG External Recruitment Services contract	Totals
Contractor base pay (per hour)	\$80.00
AoG mark up as per agreement at 11.5% (per hour)	\$9.20
Charge rate to agency exclusive of AoG admin fee (per hour)	\$89.20
Plus AoG admin fee at 1.0% (per hour)	\$0.892
Total cost to Agency: \$3,603.68 x 65 weeks	\$234,239.20
Difference in costs for Agency	-\$25,760.80

What is the best way to source a contractor?

The external recruitment services agreement enables participating agencies to hire a contractor via a recruitment provider.

The external recruitment services agreement ensures best value for money is achieved through full transparency of the fees paid to the provider, and the contractor's base pay rate.

When a contractor has been hired via an IT vendor, consultancy company, or professional services firm, it does not always represent best value for money. The CoE has seen examples where the provider margin and base pay rate to the contractor is not disclosed. There have also been instances when the contractor is sourced by the IT vendor, consultancy company or professional services firm, from an AoG Recruitment Provider, and then on sold to the government agency. This means the government agency is effectively paying a margin on top of a margin to secure a contractor.

More information of the capability of the panel can be found in the buyer's guide located [here](#).

What are the guarantees?

The AoG external recruitment services agreement provides assurances to agencies, that the resource provided is fit for purpose and has the skills required. The contract has comprehensive warranty and protection clauses to minimise any risks to you as a participating agency.

Background checks, including references, Ministry of Justice checks, and credit checking (where applicable) are also part of the service that is required from a recruitment provider.

What about a contract for services?

The recruitment services order is the linking document between the recruitment provider, the participating agency, and the services agreement. The services agreement contains warranties and obligations including confidentiality and intellectual property rights. If you need a copy of the agreement that MBIE holds with the providers please access [InSource](#).

The CoE is aware of participating agencies using a contract for services agreement with the individual contractor. This is acceptable.

Contact Us

Additional information is available through [inSource](#) and on the [External Recruitment Services page](#).

In addition you can seek assistance from the Recruitment Centre of Expertise by contacting Recruitment.Coe@mbie.govt.nz