

Subject

**Policy Review: professional services obtained in-house and
administration for regional authorities and the NZTA**

Circulation

Regional Authorities
NZTA Chief Executive, Group Managers and Chief Financial Officer
NZTA Regional Managers Planning & Investment
NZTA Principal and Senior Programme Advisors
Local Government New Zealand
Audit New Zealand

**Circulated
by**

Bob Alkema, National Manager Investment

Date of issue

8 December 2011

Purpose

To advise of policy changes, effective for 2012-15 NLTP, relating to professional services obtained in-house and administration for regional authorities and the NZTA.

Background and context

The Land Transport Management Act 2003 (LTMA) removed the restrictions on regional authorities and the NZTA obtaining professional services in-house. This and other changes to activity classes (as defined in the Government Policy Statement on land transport - the GPS) have caused the NZTA to review its policies for the treatment of in-house professional services and administration.

A further factor influencing this review is the NZTA's move to investing for outcomes and its desire to streamline its policies around the funding of activities¹ and that the full cost of undertaking those activities is identified.

During November 2011 comments on the proposed changes was sought from affected approved organisations and the NZTA. Such comments that were received have been taken into account when finalising this policy change

Scope of this policy

This policy covers professional services obtained in-house and administration for regional authorities and the NZTA². Both (professional services and administration) are defined below. This policy does not affect territorial authorities who will continue to be covered by the current policy for the 2012 - 15 NLTP. The NZTA's Knowledge Base will be updated to incorporate the changes set out in this General Circular.

The LTMA (refer sections 24, 25 and 26) requires outsourcing and the use of approved procurement procedures as the 'default position' for obtaining the works and services required for activities which the

¹ Reference to "activities" includes "combination of activities".

² The policy for territorial authorities will be reviewed during the period of the 2012-15 NLTP as part of the NZTA's wider review of FARs.

NZTA has agreed to invest in. However, professional services, with the NZTA's approval under s26³ of the LTMA, are exempt from procurement procedure requirements when obtained in-house. Administration, when approved under s26, is exempt whether obtained in-house or outsourced.

Definitions – professional services and administration

The following definitions are intended to be used in relation to land transport activity in which the NZTA invests. They may not be relevant in any other context.

- **Professional services** are integral to an activity approved under s20 of the LTMA. For NZTA funding purposes these are treated as an input and the cost is charged directly to the activity. They are services provided by a person (or persons) skilled in the particular field for which they are engaged.
- **Administration** is not integral to an individual project or activity that has been funded by the NZTA but nevertheless must be provided by an approved organisation⁴ to support the delivery of activities, such as management of a land transport programme. The cost of administration is an overhead cost incurred in the delivery of activities.

Neither professional services nor administration (whether these are outsourced or obtained in-house) are activities in themselves (approved under s20 of the LTMA). They are either inputs or overhead costs which make up part of the cost of approved activities.

Determining the full cost of services obtained in-house

The NZTA requires activities (approved under s20 of the LTMA) to be fully costed. Where the full cost of an activity includes the cost of professional services obtained in-house or administration, then the cost of those services or administration must be determined in accordance with generally accepted accounting practice (GAAP)⁵.

The manner in which an approved organisation allocates in-house services costs (either professional services or administration) to approved activities must also be consistent with GAAP. It is up to the approved organisation to determine a rational method for doing this. The allocation methodology for professional services may be different to that for administration given the differences between them set out in the above definitions.

The full cost of in-house services is not to include profit. (The NZTA's current policy, which will continue in the interim to apply to territorial authorities, allows an approved organisation to include profit as a component of the cost of in-house professional services).

Approved organisations (and the NZTA) will be expected to account for services obtained in-house. To allow audit of funding assistance claims by the NZTA, appropriate accounting records are to be kept.

Application of the procurement procedure exemption

Approved organisations that have NZTA approval under s26 for professional services and administration need to be aware of the extent of that approval.

³ Section 26 also provides for other exemptions such as short term PT services contracts in certain circumstances and first response to emergency works

⁴ Reference to an approved organisation includes the NZTA itself where appropriate.

⁵ Specific guidance which may assist with the determination of the cost of services (by public bodies) is available from The Office of the Auditor General (the OAG) and from the Society of Local Government Managers (SOLGM).

<http://www.oag.govt.nz/2008/charging-fees> - Charging fees for public sector goods and services

http://www.solgm.org.nz/site/Resources/Dollars_and_Sense.aspx#H4063-1 – The Price is Right – The Kiwi Version

- Expenditure on professional services is exempt from procurement procedure requirements only when they are obtained in-house. When outsourced the expenditure is subject to procurement procedure requirements and the services must be purchased using an approved procurement procedure.
- Expenditure on administration is exempt from all procurement procedure requirements – regardless of whether the services are obtained in-house or outsourced.

NZTA approval of an in-house services operation

Approved organisations are required to develop and document a strategic approach to procurement (refer NZTA Procurement Manual chapter 4) and seek NZTA endorsement of that strategy. The Procurement strategy must, amongst other things, address how professional services are to be procured including which professional services (if any) are to be obtained in-house and the rationale for that decision. There is no requirement to address how the approved organisation will obtain the administration it requires.

Approval for in-house professional services will usually be achieved through the procurement strategy endorsement process but can be applied for separately.

An application for NZTA approval must address the following:

- **Procurement strategy** – reference to an endorsed procurement strategy or an undertaking from the approved organisation that it will, over the period 2012 to 2015, amend its procurement strategy to incorporate that component. If an approved organisation does not have an endorsed procurement strategy which includes in-house professional services then it must seek the NZTA’s approval by setting out, as part of its “undertaking” the scope of those services and the rationale for the decision to provide them in-house.
- **Cost allocation methodology** - provide a brief description of how costs (both professional services and administration) are to be determined and how these costs will be allocated to activities.
- **Management of in-house services** – provide a brief description of how the approved organisation intends to manage its in-house professional services operation(s).

The NZTA requires approved organisations to manage its in-house services delivery in a way that ensures both efficient and effective delivery. However, the NZTA does not specify how an approved organisation should structure or organise itself to do that, but expects approved organisations to be guided by the Standards NZ publication, Guide to Local Government Service Delivery Options (SNZ HB 9213:2003).

Full documentation of the process for determining in-house services costs is to be made available to the NZTA on request for audit purposes.

Applications for approval

Applications for approval to obtain services in-house are to be made to the NZTA’s Regional Manager, Planning and Investment, who may approve the application under delegations. The NZTA’s regional program advisors will assist approved organisations to develop an application for in-house services approval. They will also assist in ensuring that the costs are charged or allocated to the correct activities.

Bob Alkema

National Manager, Investment

