

<b>Subject</b>	<b>Policy change affecting local road controlling authorities: Professional services obtained in-house and administration</b>
<b>Circulation</b>	Asset Managers (all Approved Organisations) Highway and Network Operations (NZ Transport Agency) Local Government New Zealand Office of the Auditor General
<b>Circulated by</b>	Bob Alkema – National Manager Investment
<b>Date of Issue</b>	13 August 2014

## Purpose

This general circular advises policy changes effective from 1 July 2015 and discusses further work required to prepare more comprehensive guidance for approved organisations on the application of the new policies.

Please note that the policy changes do not affect all NZ Transport Agency funding partners. They will affect territorial authorities, Auckland Transport, the Department of Conservation, Waitangi Trust and all unitary authorities – namely local road controlling authorities (local RCAs). The policies discussed here have applied to regional councils and to the Transport Agency's Highways and Network Operations (HNO) group since 1 July 2012.

The policy changes for local RCAs are as follows:

1. The funding of administration is to be simplified. At present, local RCAs do not include the cost of administration in approved activity cost when claiming funding assistance, but are given an administration grant equal to 2.25% of the funding assistance paid for activities. This grant is to be replaced by funding assistance based on the full cost of activities, including the administration input costs required to deliver those activities.
2. This change in funding policy will take effect from 1 July 2015.
3. In preparing total cost estimates for activities that are to be considered for inclusion in the 2015-18 NLTP, local RCA's are required to include an estimate for the cost of administration.
4. For an activity which carries over from the 2012-15 NLTP, into the 2015-18 NLTP, claims for funding assistance from 1 July 2015 will be on the basis of the full cost of the activity including administration. The Transport Agency will make an adjustment to the approved allocation for the 2015-18 NLTP to allow for the inclusion of administration in the activity cost.

Further work required to guide all approved organisations<sup>1</sup> in the application of the new policies includes:

1. Preparing more detailed advice on how to determine the fair and proportional cost of administration, to be included in the full cost of an approved activity. The Transport Agency's intent is to simplify its funding assistance policy for administration. Determining the cost of the administration inputs should place no greater burden on approved organisations than exists by virtue of their status as public entities.
2. Advising changes to in-house professional services policies. The opportunity was taken to simplify in-house professional services policies when the changes to administration policies were implemented for regional councils and HNO.

---

<sup>1</sup> Reference to an approved organisation includes HNO where appropriate.

3. Amending the Planning and Investment Knowledge Base (PIKB) to align with the above policy changes.

Further guidance will also be given on the treatment of local RCA activities that carry over into the 2015-18 NLTP.

## **Background and context**

Policies around both administration and in-house professional services, as they apply to regional councils and HNO, were amended as a consequence of various changes in legislation, and changes in the activity classes, as defined by the Government Policy Statement on Land Transport (the GPS). These legislative and GPS changes did not affect local RCAs.

Policy options considered, for local RCAs, have included continuing with a separate administration grant. This option was rejected in favour of developing a simpler, streamlined, universally applicable, more efficient policy, which is better aligned with both planning and investing for outcomes and with standard accounting practice. It had been the Transport Agency's intention to propose application of this streamlined policy to local RCAs beginning 1 July 2012. However, the new policy took longer to develop than anticipated and insufficient time was left to consult with local RCAs. Consequently the new policies have applied to regional councils and HNO only since 1 July 2012.

Regrettably, this has meant that the efficiency gains through implementing these streamlined policies for local RCAs have had to be delayed until the 2015-18 NLTP.

The proposal to align administration funding policy for local RCAs, with the policy for regional councils and HNO, was consulted on during the Funding Assistance Rates (FAR) Review. The consultation process showed that there was a need to provide comprehensive advice to local RCAs during the transition process. Without adequate advice, the implementation process could be perceived or interpreted as imposing unnecessary compliance costs on local RCAs.

## **Scope of this policy**

This policy change affects both administration and professional services obtained in-house. Administration and professional services are defined below.

The Land Transport Management Act 2003 (the LTMA) establishes outsourcing and the use of approved procurement procedures as the 'default position' for obtaining the works and services needed to deliver activities in which the Transport Agency has agreed to invest - refer LTMA sections 24, 25 and 26. However, professional services obtained in-house, are exempt from procurement procedure requirements with the Transport Agency's approval under s26 of the LTMA. Administration, when approved under s26<sup>2</sup>, is exempt whether obtained in-house or outsourced.

Most approved organisations currently have approval from the Transport Agency, under s26(c) of the LTMA, to obtain professional services in-house. All approved organisations have formal approval, under s26(b) of the LTMA, to make payments for administration where those payments are part of the cost of delivering approved activities.

## **Definitions – professional services and administration**

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

---

<sup>2</sup> Section 26 also provides for other exemptions such as immediate response to an emergency.

- **Professional services** are integral to an activity approved under s20 of the LTMA. For Transport Agency 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 a project or activity that has been funded by the Transport Agency but nevertheless, must be provided by an approved organisation 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 they are outsourced or obtained in-house, are activities in themselves approved under s20 of the LTMA. They are inputs or overhead costs that make up part of the cost of approved activities<sup>3</sup>.

## Application of the procurement procedure exemption

Those approved organisations that have Transport Agency approval under s26 of the LTMA for in-house professional services or administration need to be aware of the extent of that approval.

- 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.

## In-house professional services and administration policy

The following is a summary only of the Transport Agency’s in-house professional services and administration policy as it will apply to local RCAs from 1 July 2015. This policy currently applies to regional councils and HNO. A complete statement of the policy will be included in the PIKB.

1. To claim Transport Agency funding assistance for services obtained in-house (professional services or administration or both), Transport Agency approval under s26 of the LTMA is required<sup>4</sup>.
2. Approved organisations are required to develop and document a strategic approach to procurement (refer Transport Agency Procurement Manual chapter 4) and seek Transport Agency endorsement of that strategy. The procurement strategy must address how professional services are to be procured including which services (if any) are to be obtained in-house. Note that the strategy must address the procurement of professional services, but there is no specific requirement for it to address how administration is resourced.
3. If a local RCA’s current endorsed procurement strategy does not address how professional services are to be procured, the NZ Transport Agency will expect the strategy to be amended and endorsement sought. If at any time the scope or scale of professional services obtained in-house changes significantly, the strategy would need to be amended and endorsement sought from the Transport Agency
4. All approved organisations must have a documented methodology covering how costs for in-house professional services including overheads, and administration, are to be determined and allocated to activities.
5. All approved organisations must have a formal, management structure for in-house services operations, both in-house professional services, and administration.

---

<sup>3</sup> Reference to “activities” includes “combinations of activities”.

<sup>4</sup> As previously stated most approved organisations currently have approval from the Transport Agency, under s26(c) of the LTMA, to obtain professional services in-house. All approved organisations have formal approval, under s26(b) of the LTMA, to make payments for administration where those payments are part of the cost of delivering approved activities.

6. The Transport Agency requires all approved organisations to manage their in-house services delivery in a way that ensures both efficiency and effectiveness. The Transport Agency does not specify how approved organisations should structure or organise themselves to do that, but expects them to be guided by the Standards NZ publication, Guide to Local Government Service Delivery Options (SNZ HB 9213:2003).
7. Note that acceptable options listed in the above Standards NZ publication, for managing the resources employed to obtain in-house professional services, are a department, or a semi-autonomous business unit. Other options (including a CCO or a CCTO) are not acceptable as their resources are not considered to be 'in-house'. This limitation on acceptable delivery options does not apply to administration.
8. Full documentation of the process for determining in-house services costs is to be made available to the Transport Agency on request for audit purposes.

## **Determining the full cost of services obtained in-house**

The Transport Agency 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 or administration, obtained in-house, the cost of those services must be determined in accordance with generally accepted accounting practice (GAAP)<sup>5</sup>.

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 will be different to that for administration given the differences between them set out in the above definitions.

Local RCAs will be expected to be able to account for, and report on, services obtained in-house. To allow audit of funding assistance claims by the Transport Agency, appropriate accounting records will need to be kept.

Further guidance on determining the cost of services obtained in-house will be developed and advised as soon as possible. The PIKB will be amended to include this policy.

## **Preparing total cost estimates for activities to be considered for inclusion in the 2015-18 NLTP**

The cost of administration must be included in the total cost estimates for activities that will be considered for inclusion in the 2015-18 NLTP.

If a local RCA currently excludes administration cost from its activity cost estimates then as an interim measure it could simply add 2.25% as an allowance for the added cost of administration.

## **Enquiries**

All enquiries relating to this circular should be directed to your local Transport Agency Planning and Investment Manager.



**Bob Alkema**  
National Manager, Investment

---

<sup>5</sup> Specific guidance on 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/Folder?Action=View File&Folder\\_id=130&File=Price\\_is\\_Right\\_November\\_2009.pdf](http://www.solgm.org.nz/Folder?Action=View File&Folder_id=130&File=Price_is_Right_November_2009.pdf) - The Price is Right - The Kiwi Version