

Capital Expenditure

Policy Responsibilities and Authorisation

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Position Responsible for Policy	Capital & Fixed Asset Lead
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Capital Expenditure

Policy Review History

Version	Updated by	Date Updated	Summary of Changes
05	Erica Clarkin	June 2011	
06	Michael Gore	February 2017	Updated to include capitalisation of specific pooled assets

Capital Expenditure

Contents

1.	Introduction	5
2.	Abbreviations	5
3.	Definitions	6
4.	Policy Processes	6
5.	Legislative Requirements	7
6.	Associated Documents	7
7.	Authorisation	8
	Appendix A	9
1.	Capital Expenditure Process	9
1.1	Capital expenditure planning.....	9
1.2	Capital expenditure prioritisation and approval process	9
1.3	Capital expenditure management and reporting.....	9
1.4	Capital expenditure post implementation review	10
1.5	Post Expenditure process	10
2.	Capital Expenditure Prioritisation and Approval Process	10
2.1	Capital Expenditure for items less than \$2,000 and where not covered by the asset pooling criteria as detailed in Appendix B.....	10
2.2	Capital Expenditure for items greater than \$2,000 and less than \$50,000 or less than \$2,000 and where covered by the asset pooling criteria as detailed in Appendix B.....	10
2.3	Capital Expenditure for items greater than \$50,000	11
3	Capital Expenditure Procurement Process.....	11
3.1	Expenditure item/s for items less than \$2,000 and where not covered by the asset pooling criteria as detailed in Appendix B.....	11
3.1	Capital Expenditure greater than \$2,000, or less than \$2,000 and where covered by the asset pooling criteria as detailed in Appendix B	12
4	Capex funding and Budget	12
4.1	Budget Reviews	12
4.1	Rollovers	13
5	Post implementation review (PIR)	13
5.1	Objective	13
5.1	Responsibility for completion	13
5.2	Composition of PIR team	13
5.3	Timing of PIR report completion.....	13
5.4	Format of PIR	14
5.5	Reporting / authorisation	15
6	Success Indicators.....	15

Capital Expenditure

Appendix B 16

 1.1 Criteria 16

 1.2 Items to apply 16

Capital Expenditure

1. Introduction

1.1 Purpose

The objective of the policy is to ensure that Capital Expenditure is undertaken to maximise health care delivery and improve service efficiency in a manner that:

- is consistent with the organisation's strategic and business plans
- preserves or enhances the financial stability of the organisation
- represents optimal use of the organisation's resources
- is properly managed from inception to completion, with post implementation reviews to enhance future capital expenditure projects
- complies with legislative requirements.

1.2 Scope

Capital Expenditure includes all activities that result in obtaining assets for the organisation. Accordingly, all arrangements that result in the organisation being given the use of assets (such as lease, rental, hire purchase, or purchasing offsets) are to be included in the capital expenditure policy.

This document specifies the capital expenditure processes for the planning, approval and post implementation review and management of capital expenditure.

2. Abbreviations

AMP	Asset Management Plan
BRRG	Business Resource Review Group
Capex	Capital Expenditure
CFO	Chief Financial Officer
DAP	District Annual Plan
DHB	District Health Board
DOA	Delegation of Authority
EG	Executive Group
EPO	Enterprise Portfolio Office
IProc	Online Procurement Tool
ISSP	Information Systems Strategic Plan
ITC	Information Technology and Communication
LTIP	Long Term Investment Plan

Capital Expenditure

NSWR	Non Standard Work Request
Opex	Operational Expenditure
P&I	Property and Infrastructure
PIR	Post Implementation Review
RAP	Regional Asset Plan
RAMP	Regional Asset Management Plan
RSP	Regional Strategic Plan

3. Definitions

Capital Expenditure	<ol style="list-style-type: none"> 1. Any item for use in the organisation that is of a durable or permanent nature i.e. not a consumable item, that provides a benefit or service beyond one year and: <ol style="list-style-type: none"> a) has individually a purchase value greater than \$2,000 exclusive of GST, or b) the group of items meet the asset pooling criteria as detailed in Appendix B (1.1) of this document. 2. A NSW generated item, where the NSW creates an asset that provides a benefit or service to Waikato DHB beyond one year i.e. not a consumable item and where the costs of the total NSW exceeds \$20,000. <p>Capital expenditure includes leased items defined as assets under relevant accounting standards, including meeting the above criteria, and where:</p> <ol style="list-style-type: none"> a) ownership of the asset is transferred by end of lease term, or b) the lease term is for the major part of the asset's economic life
Independent	Shall mean person having no direct or indirect involvement in project and project outcomes. Ideally a person employed outside of relevant department.

4. Policy Processes

Waikato DHB will follow defined processes, including appropriate planning and approval, to manage capital expenditure to optimise application of funds towards Waikato DHB objectives, as outlined in Appendix A. These may include:

- EPO processes
- BRRG processes
- Guidelines for the Preparation of a Business Case
- Template for the Preparation of a Business Case

Capital Expenditure

Capital expenditure planning will occur in the context of the organisations core planning documents including:

- Waikato DHB Strategic Priority Programme Plans
- Waikato DHB Long Term Investment Plan (LTIP)
- Regional Strategic Plan (RSP)
- Waikato DHB District Annual Plan (DAP)
- Regional Annual Plan (RAP)
- Information Services Strategic Plan (ISSP)
- Asset Management Plan (AMP)
- Regional Asset Management Plan (RAMP)
- Service Delivery Plans

5. Legislative Requirements

Waikato DHB must comply with the following legislation (this list is not exclusive):

- Crown Entities Act 2005
- Health and Safety at Work Act 2015
- Human Rights Act 1993
- Privacy Act 1993
- Employment Relations Act 2000
- Treaty of Waitangi Act 1975
- Financial Reporting Act 2013 (for Public Benefit Entities)
- Public Finance Act 1989
- New Zealand Public Health and Disability Act 2000

6. Associated Documents

6.1 External documents

- MoH Capital Assessment Guidelines
- MoH Business Case Guidelines for Investment in Information Technology
- MoH Guidelines for Capital Investment

6.2 Associated Waikato DHB Documents

- Waikato DHB [Delegations of Authority](#) policy (2175)
- Waikato DHB [Financial Accounting](#) policy (1813)
- Waikato DHB Asset and Equipment Management policy (1839)
- Waikato DHB [Project Management](#) policy (1044)
- Waikato DHB [Procurement and Contracts](#) policy (0170)
- Waikato DHB [Intellectual Property](#) policy (1036)
- Waikato DHB Change Planning Form
- Capital Expenditure Request Form

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Document Owner:	Capital & Fixed Asset Lead			Department:	Finance		
IF THIS DOCUMENT IS PRINTED, IT IS VALID ONLY FOR THE DAY OF PRINTING							Page 7 of 16

Capital Expenditure

7. Authorisation

As signed above on behalf of the Chief Executive Officer.

Capital Expenditure

Appendix A
1. Capital Expenditure Process
1.1 Capital expenditure planning

The planning process identifies the capital expenditure budget for the organisation in accordance with the priorities established through long-term strategic plans, the 10 year LTIP, the medium-term service delivery business plans and the annual budgeting process. The collation of the capex budget will be based on an extract at the relevant point in time from the Capital Expenditure Plan which is being maintained as an active document and being updated whenever relevant. This Capital Expenditure Plan is the indicative future direction of capital expenditure priorities and does not reflect approval to spend.

The Board shall annually approve the Capital Expenditure Plan and the Capex Budget as part of the Annual Plan approval process. Any amendments/additions for items greater than \$500,000 requires prior Board approval. Between these Board approvals, management is authorised to amend, add or delete items on the Capital Expenditure Plan and/or Capex Budget providing such amendment/addition/deletion item is less than \$500,000 and that the total Capex Budget will not be exceeded and providing visibility of such amendments/edits/deletions is provided to the Board at the next Board meeting.

Authorisation for actual spend is subject to the internal capital expenditure prioritisation and approval processes and the Delegations of Authority Policy. *See section 1.2 and section 2 below.*

1.2 Capital expenditure prioritisation and approval process

The Capital Expenditure Plan is based upon high level information to indicate the future direction of capital expenditure priorities and does not take into account the relevant merits of each item, the relative prioritisation compared to other items, nor does the Capital Expenditure Plan provide a view of affordability. Accordingly, before a particular capital expenditure item can proceed it requires a more detailed application, prioritisation and approval process; this starts with the completion of a Capital Expenditure Request form. Depending upon the nature and quantum of the capital expenditure request, supporting documentation such as a business case may be required as defined in the EPO and BRRG processes. The relevant prioritisation and approval processes are outlined within this policy document - *see Appendix A3*. The relevant procurement processes are outlined within the policy document – *see Appendix A4*.

1.3 Capital expenditure management and reporting

Following approval of a capital expenditure request in accordance with this Policy and the Delegations of Authority Policy, the expenditure on the item will be managed and reported on through the projects module in the Oracle Financial Information System and monthly Capital Expenditure Report.

Doc ID:	0034	Version:	06	Issue Date:	1 April 2017	Review	1 April 2017
Document Owner:	Capital & Fixed Asset Lead			Department:	Finance		
IF THIS DOCUMENT IS PRINTED, IT IS VALID ONLY FOR THE DAY OF PRINTING							Page 9 of 16

Capital Expenditure

1.4 Capital expenditure post implementation review

Following completion of a capital expenditure item, the project sponsor is responsible for ensuring that a post implementation review is completed in accordance with the enclosed guidelines if requested by the Audit and Risk Management Committee, the CEO, the CFO or a Level 3 Executive Director (via BRRG) - see *Appendix A5*.

1.5 Post Expenditure process

For all details regarding ongoing asset management and disposals please refer to the Waikato DHB Asset and Equipment Management Policy.

2. Capital Expenditure Prioritisation and Approval Process

Prior to approval for all items, the following must be complied with:

- IT Impact - All planned item/s with an IS component on the list must be reviewed by IS to ensure they are consistent with the ISSP and contemplated in the context of IS resources.
- P & I impact - All planned item/s with a P&I component must be reviewed by the P&I department to ensure they are contemplated in the context of P&I resources.
- Biomedical Engineering - All medical device items must be reviewed by Biomedical Engineering to ensure that are confirmed as appropriate and conform to Biomedical Engineering processes and procedures.

2.1 Capital Expenditure for items less than \$2,000 and where not covered by the asset pooling criteria as detailed in Appendix B

Services shall adopt their own processes for the identification and prioritising of less than \$2,000 asset expenditure. Funding will be considered as part of and constrained by the allocated operating cost budgets, with allocated operating expenditure (opex) budgets approved as part of the annual budget process. Items can be purchased singularly or in bulk.

2.2 Capital Expenditure for items greater than \$2,000 and less than \$50,000 or less than \$2,000 and where covered by the asset pooling criteria as detailed in Appendix B

Services shall be allocated a proportion of the annual Board approved under \$50,000 capex budget as calculated by the CFO and in agreement with EG.

Services shall adopt their own process for the identification and prioritising of Capital Expenditure items within their allocated under \$50,000 capex budget.

1. Funding will be considered as part of and constrained by the allocated under \$50k capex budget – any expenditure beyond such under \$50k capex budget must have BRRG prior approval.

Doc ID:	0034	Version:	06	Issue Date:	1 April 2017	Review	1 April 2017
Document Owner:	Capital & Fixed Asset Lead			Department:	Finance		
IF THIS DOCUMENT IS PRINTED, IT IS VALID ONLY FOR THE DAY OF PRINTING							Page 10 of 16

Capital Expenditure

2. All items are expected to be able to demonstrate that purchase of the item is required (validated by either Biomedical Engineering certifying that such item being replaced is beyond its used by date from a clinical safety perspective, or by a simple cost/benefit analysis for all other cases).
3. All items to be signed off by Finance Advisory who will validate satisfaction of 2 above.

2.3 Capital Expenditure for items greater than \$50,000

1. Proposals ideally to be included in the Annual Board approved Capital Expenditure Plan and Capex Budget. If not then the overriding criteria is that the proposal relates to an asset that is validated as required either in the context of a current asset requiring replacement, or that a new asset is required which is to be justified on the basis of a value proposition.
2. The list of proposed capital expenditure items shall be requested and prioritised in accordance with the EPO and BRRG processes relevant at the time.
3. All items in this category shall be submitted to the Finance Advisory team for review.
4. Approval for items in this category will be in accordance with the Delegations of Authority Policy.

3 Capital Expenditure Procurement Process

3.1 Expenditure item/s for items less than \$2,000 and where not covered by the asset pooling criteria as detailed in Appendix B

All purchases are to follow the Waikato DHB Procurement and Contracts Policy and procurement procedures.

Requisitions are completed as follows:

- All requests for IT expenditure under \$2,000 must be raised through the IS Portal
- All Non-IS approved purchase requests are to be requisitioned through Oracle iProc.

When completing an iProc requisition, all items must be coded and described in such a manner that would allow them to be identified in an Internal Audit review. This is achieved by including in the iProc request a clear description and correct coding to the appropriate "minor purchases" P&L account as detailed below:

- 4340- Clinical equipment
- 5150- P&I (Property & Infrastructure)
- 5225- Vehicles
- 5325- IS Hardware
- 5335- IS Software
- 5380- Telecommunications equipment
- 5620- Other equipment

Approval of requisitions shall follow the Delegation of Authority policy.

Doc ID:	0034	Version:	06	Issue Date:	1 April 2017	Review	1 April 2017
Document Owner:	Capital & Fixed Asset Lead			Department:	Finance		
IF THIS DOCUMENT IS PRINTED, IT IS VALID ONLY FOR THE DAY OF PRINTING							Page 11 of 16

Capital Expenditure

3.1 Capital Expenditure greater than \$2,000, or less than \$2,000 and where covered by the asset pooling criteria as detailed in Appendix B

All purchases are to follow the Waikato DHB Procurement and Contracts Policy and procurement procedures.

Business units must complete the relevant documentation as defined by the EPO and BRRG processes.

The following departments must be contacted for notification and approval on the 'Capital Expenditure Request form' (Capex form) as appropriate for the type of asset being purchased:

- Bio-medical – for validation of the need for replacement where the item being replaced is a clinical item and for new items to be recorded for maintenance and support
- IS approval – for all IS related expenditure in accordance with general IS procedures
- P&I approval – for all Property & Infrastructure items that attach or impact any building fabric.

The service shall provide the Capital and Fixed Asset team with the completed and signed off original Capex form when requesting a project number and task numbers. All approved purchase requests are to be raised through IProc and shall be managed through the Oracle project management module.

When completing an IProc request all items must be coded in accordance with the project coding constructs and described in such a manner that would allow items to be identified in an Internal Audit review, and be uploaded into the projects module in preparation for capitalisation. This can be achieved by the IProc request including a clear description of what is being purchased and include both the project number and task numbers.

Sign off of the Capital Expenditure Request Form shall follow the Delegation of Authority policy.

4 Capex funding and Budget

4.1 Budget Reviews

The integrity of the capex process is reliant on the correct identification of the asset replacement program and investment in new assets. This results in an annual capex budget, created for named assets. As for any budget, the actual expenditure may vary to the budget. This variance requires careful management to avoid overspend. Accordingly, residual balances on any particular project shall not be accumulated and reallocated to other capex items or projects. The prioritisation and business case approval processes will contemplate the overall rate of capex spend in the context of the capex budget in order to manage the balance between capex demand and affordability.

Doc ID:	0034	Version:	06	Issue Date:	1 April 2017	Review	1 April 2017
Document Owner:	Capital & Fixed Asset Lead			Department:	Finance		
IF THIS DOCUMENT IS PRINTED, IT IS VALID ONLY FOR THE DAY OF PRINTING							Page 12 of 16

Capital Expenditure

4.1 Rollovers

Similarly, there is not an automatic rollover, between financial years, of uncommitted capex budget. These items, if still required, should be included within the prioritisation process for the upcoming year. This will ensure that funds available for each capex programme are correctly prioritised and allocated based upon the most recent information available during each budget planning round. Bulk capex allowances (i.e. for non-specific items) will also not be carried forward.

Projects already commenced prior to year end (in terms of expenditure committed and activity levels) but not completed at year end, shall be carried forward to the following financial year.

5 Post implementation review (PIR)

5.1 Objective

The objective of a PIR is to review the success of capital investment and learn from this experience. A PIR is required to be undertaken for all projects requested by the Audit and Risk Management Committee, the CEO, a Level 3 Executive Director (via BRRG), or the CFO (via BRRG). The PIR must include review of the actual outcomes/deliverables with those specified in the capex expenditure request/business case.

5.1 Responsibility for completion

Project Leaders, in conjunction with their Level 3 Managers, are responsible for ensuring that a PIR is completed.

5.2 Composition of PIR team

The PIR team must comprise at least one representative from each of the following groups:

- The key customers, normally the department(s) incurring the costs and/or benefit from the capital expenditure.
- The Finance Department.
- The Project Leader or Manager responsible for the capital expenditure.

The PIR Manager cannot be the Project Leader or Manager responsible for capital expenditure and must be a suitably experienced and qualified independent person.

5.3 Timing of PIR report completion

The Capex Request Form has a section regarding "Who will undertake post implementation review and when?" and the PIR is expected to be completed in accordance with this information.

PIR reports are normally required to be completed within six months of project completion. Within this timeframe, the completion of the PIR reports will depend on the availability of sufficient sample data to form a reliable statistical inference of pre versus post

Doc ID:	0034	Version:	06	Issue Date:	1 April 2017	Review	1 April 2017
Document Owner:	Capital & Fixed Asset Lead			Department:	Finance		
IF THIS DOCUMENT IS PRINTED, IT IS VALID ONLY FOR THE DAY OF PRINTING							Page 13 of 16

Capital Expenditure

implementation performance. Should the project have a long implementation period, or require a greater time period of implementation data to complete, then the PIR may be completed up to 12 months following project completion.

5.4 Format of PIR

The PIR is a comparison of actual project events compared with those specified in the Capex Request/Business Case. Accordingly, the PIR Report should be based upon the parameters specified in the business case and should include topics such as:

- Project Description – per approved Capex Request Form
- Period covered by PIR - Specify the date range of the post-implementation period under review.
- Capex Justification Parameters – Covers quantitative and non-quantitative justifications. For quantitative issues, comparison is to be made between the projected benefits with actual benefits. The financial justification, should compare documented present and projected performance levels per the Capex request form, against actual.
- Variances – Covers reasons for variances in capital cost, financial benefits and non-financial benefits. Commentary to include a forecast on how the overall benefits proposed would be achieved, and any new actions that can be undertaken to maximise the benefits where these are not reached. It Includes any further analysis on the variance or capex process.
- Project Specifications - This covers whether the supply specification was in accordance with the required application and performance of the asset, thus facilitating maximum utility / benefit. Comment should be made as to whether the specifications made adequate or excessive provision for asset functionality.
- Asset Performance - This covers whether the asset(s) has performed to the required clinical and non-clinical safety and capacity standards. Feedback will provide useful information for the Purchasing Department as well as for future requestors of capital expenditure.
- Lessons learned - This covers what has been learned from the project for the future. This information will enable valuable lessons learned to be built into revised procedures or capital purchase decisions by services and the Procurement department.
- Improvements in systems and procedures - Successful capital expenditure often involves modifications to clinical and non-clinical systems and procedures to maximise their effectiveness. Comment on improvements or changes in linked systems and procedures from the asset purchased.
- PIR Team sign-off - Details of who comprised the PIR team and sign-off from the PIR team.

Doc ID:	0034	Version:	06	Issue Date:	1 April 2017	Review	1 April 2017
Document Owner:	Capital & Fixed Asset Lead			Department:	Finance		
IF THIS DOCUMENT IS PRINTED, IT IS VALID ONLY FOR THE DAY OF PRINTING							Page 14 of 16

Capital Expenditure

5.5 Reporting / authorisation

Projects costing from \$100,000 to \$499,999 - All completed post PIR's are to be signed off by the CFO and Level 3 Manager and be formally reported to the EG - normally within six months (but up to 12 months) of PIR completion.

Projects costing more than \$500,000 – PIR to be additionally reported to the Audit and Risk Committee unless the Board determines otherwise for specific projects.

PIR's will be reviewed by Internal Audit on a sample basis.

6 Success Indicators

- Waikato DHB asset requirements are clearly understood, planned, prioritised and funded.
- Capex documentation is completed ensuring the efficient procurement of the most appropriate asset at the lowest cost.
- All assets purchased are correctly authorised, identified and recorded.
- All post implementation reviews contain the required information and are completed within specified timeframes.

Doc ID:	0034	Version:	06	Issue Date:	1 April 2017	Review	1 April 2017
Document Owner:	Capital & Fixed Asset Lead			Department:	Finance		
IF THIS DOCUMENT IS PRINTED, IT IS VALID ONLY FOR THE DAY OF PRINTING							Page 15 of 16

Capital Expenditure

Appendix B

1. Pooled Capital Expenditure items

1.1 Criteria

Items that meet the following criteria:

- There is value in consistency across similar assets to run operations
- There is value in managing such similar assets collectively where common benefits exist regarding operation and maintenance
- Individual items have a value greater than \$500 and total pool has a value greater than \$2000.

Examples:

- There would be value in assets of the same nature (e.g. ECG units from the same supplier) and there would be operating or maintenance benefits to be derived from pooling the assets.
- There may be some procurement benefits in standardising all desks purchased, as opposed to there is unlikely to be any material benefit in managing all desks collectively – thus should NOT be treated as a “pool.”

1.2 Items to apply

The following items are considered likely to fit the criteria for being managed through the pool arrangement:

- ITC items
 - Personal computer, if part of the Waikato DHB network
 - Desktop computer, if part of the Waikato DHB network
 - Computer monitor, if part of the Waikato DHB network
 - Tablet, if part of the Waikato DHB network
 - Computer printer, if part of the Waikato DHB network
 - Mobile phone, if part of Waikato DHB network
- Clinical items
 - Analysers
 - Aspirators
 - ECG units
 - Pumps
 - Humidifiers
 - Nebulisers
 - Ophthalmoscope/Otoscopes
 - Airway devices

In the event of debate regarding whether an item should be managed as a pooled item, the CFO shall arbitrate and decide based on a request from either the service wishing to purchase the item(s) or a purchase request reviewer. The decision would be determined using the criteria above.

Doc ID:	0034	Version:	06	Issue Date:	1 April 2017	Review	1 April 2017
Document Owner:	Capital & Fixed Asset Lead			Department:	Finance		
IF THIS DOCUMENT IS PRINTED, IT IS VALID ONLY FOR THE DAY OF PRINTING							Page 16 of 16