



CAPITAL INVESTMENT POLICY

Section	Finance
Contact	National Capital Manager
Last Review	November 2015
Next Review	November 2018
Approval	SLT 16/06/111

Purpose:

To ensure that capital investment requests, planning and approvals are aligned with Massey University's (the University) strategic, financial and risk planning frameworks. These include: Road to 2025 Strategic Plan and sub-strategies, Investment Plan, Capital Asset Management Plan, Campus Development Plans, Information Services Strategic Plan, the University Annual Plan and University policies. This policy applies to Major Capital Projects, Minor Capital Requests, Information and Communication Technology (ICT) Projects, Library Capital Purchases and Equipment Purchases.

The Crown expects tertiary education institutions to adopt and apply good practice in the management of investments, in accordance with Cabinet Office Circular (15) 5, *Investment Management and Asset Performance in the State Services*. Investment choices and decisions need to be informed by disciplined processes that optimise the value generated from new and existing capital assets and enable investment in capital assets to achieve stated objectives.

Policy:

The University will:

1. Identify as early as possible all significant capital intentions in multi-year investment plans and in its reporting processes.
2. Assess and prioritise investments according to the value of the proposal.
3. Make investment decisions that create the best value investment.
4. Monitor and control the implementation of an investment.
5. Review the performance of specific investments against expectations.
6. Continually review asset benefits and performance in relation to current and emerging needs.

In applying this policy, the University will comply with the relevant legislative frameworks, including adherence to its obligations under any Borrowing Consent approved by the Secretary for Education, and will follow best asset management practices in accordance with Capital Asset Management (CAM) Policy and Framework (in development).

Legislative Frameworks, Borrowing Consents & Financial Covenants

In making its investment and borrowing decisions, the University is bound by various legislative frameworks, borrowing consents and financial covenants (more fully explained in the sections: Relevant Legislation and Legal Compliance). The Minister of Tertiary Education, via the Tertiary Education Commission (TEC), is also able to set and review parameters that give effect to government policy. From time to time, the TEC will re-assess the materiality levels and types of investment or borrowing mechanisms that are subject to TEC or ministerial approvals.

TEC Financial Monitoring Framework and Capital Intentions Reporting

The Financial Monitoring Framework (FMF) was adopted by TEC in 2010 to monitor the financial performance of tertiary education institutions (TEIs) in accordance with s.159KBA of the Education Act 1989. FMF utilises a series of financial assessments to determine an overall TEI risk assessment. The overall FMF risk rating is a key component in



determining the level of reporting and associated financial monitoring and contact between the TEC and the TEI over the following year.

The Capital Intentions Report is submitted annually as part of FMF, and requires a 10-year forecast of major capital intentions match to affordability.

Ten Year Capital Plan

The Ten Year Capital Plan (TYCP) is the planning process the University employs to ensure that capital investment is targeted to meet business needs, capital assets are appropriately replenished, the capital programme is within the overall affordability of the University and that borrowing covenants and financial covenants are complied with.

Following submissions from across the University, an annual ten year rolling programme of capital projects is compiled by the National Capital Manager for approval by SLT and University Council. Approval is for Year One of the programme only, notwithstanding major capital project contracts that are approved over multiple years. Subsequent years' planning is also noted. Projects include buildings, infrastructure, utilities, equipment and ICT activities.

The ten-year capital programme is underpinned by a forecast of capital plan affordability over the same period, so that a fiscally balanced, compliant and sustainable capital programme is presented.

Capital intentions are included in the TYCP through the following channels:

1. Major Capital Proposals (exceeding \$250,000 in capital cost):
 - Funding proposals that have received SLT approval-in-principle to proceed to business case (based on the University's business case scoping, risk assessment and strategic assessment processes), and are able to be funded within capital plan affordability, are included as Group Three – Approval in Principle projects.
 - Proposals that are able to be fully externally funded, from sources over and above capital plan affordability, are included as Group Four – Externally Funded Projects
 - Other major capital proposals can be submitted for inclusion as Horizon projects
2. Minor Capital Proposals (\$2,000 - \$250,000 in capital cost)
 - Proposals can be funded through one of the existing Group One – Recurring Projects funding channels

In addition, the Vice-Chancellor, subject to relevant delegations, can initiate new capital works up to \$500,000, beyond the total annual capital work programme shown in the University Council approved Capital Plan.

Major Capital Project Proposals and Approvals

Major Capital Projects are individual new development, capital renewal and refurbishment projects over \$250,000 in capital value, as listed in the approved TYCP, Groups Two, Three and Four.

Funding proposals that have received SLT approval-in-principle to proceed to business case, based on the University's business case scoping, risk assessment and strategic assessment processes, are included as Group Three – Approval in Principle projects.

Following SLT approval-in-principle, funding requests exceeding \$250,000 in capital cost require a business case to be prepared in accordance with the University's Business Case Policy.

Thereafter, funding requests are submitted to SLT for approval of projects with a Total Project Value up to \$1.0M, or to University Council for projects greater than \$1.0M in Total Project Value. Approval is conditional on funding sources being confirmed: either funding from within capital plan affordability, or funding from external sources. On approval, the project is reported as a Group Two – Approved Project or Group Four – Externally Funded Project.



Minor Capital Requests and Approvals

Minor Capital Requests are individual new development, capital renewal and refurbishment projects that have an individual value between \$2,000 and \$250,000 and are within the annually approved capital programmes. They include, but are not limited to Group One funding lines for Campus Infrastructure, Minor Capital Works, Building Renewal, IT Refresh & Infrastructure programmes, Library Books, Capital Equipment Committee programme, and minor equipment.

Group One funding pools also exist for a range of minor equipment categories, including scientific equipment, aircraft, farm equipment and utility vehicles.

SLT Members with responsibility for Group One programmes will prioritise the annual requests for their portfolio within the Council approved funding budgeted in the TYCP. The SLT Member will ensure these programmes align with University strategy and the plans listed in this Policy. To release the funding SLT Members will submit an itemised schedule of projects to Finance for project financial establishment, cash flow management and to ensure compliance with accounting standards and University accounting policies.

SLT Portfolios are also allocated annual general equipment funds for items of minor equipment which are not subject to an itemised submission. The AVC SFIC will annually, via memorandum, issue the minor equipment budgets to reporting lines incorporating guidance and conditions associated with this budget allocation. The funding is provided for SLT members to manage their respective equipment portfolios.

Capital Equipment Committee Annual Programme

The University Capital Equipment Committee shall be responsible for the annual allocation of capital equipment funding as defined in the TYCP. The Committee will conduct the annual prioritisation of equipment bids through the Capital Equipment Round (CER) process as established through its terms of reference.

Project Risk Management

Project sponsors and managers shall ensure project governance structures and risk management practice are in place to proactively identify and manage project risks, in accordance with the University's Project Management Policy and Risk Management Policy.

This should include, but is not limited to, the use of project control groups, project steering groups, change management and approval procedures, contract variation, project assurance processes, valuation and payment processes.

Planning, Procurement and Financial Management

Capital investment shall be planned, procured and financially managed in accordance with the 'Related Procedures and Documents' listed in this policy.

In particular, where the investment is in any plant or structure asset, health and safety is to be included in any planning and procurement processes in accordance with both legislative requirements and University policy.

Capital funded projects will be guided and supported by the Procurement Office and the Strategic Project Management Office (SPMO), whose primary responsibility will be to ensure the aspects of the project management framework are implemented across the University.



Financial Authority

No financial activity of any kind (planning, construction or procurement) is to commence against a project or work without an approved Financial Authority (RFA). Financial authority documentation is to be completed in accordance with Capital Planning Framework and Procedures, Request for Financial Authority (RFA) Procedure and the Delegations of Authority Policy.

Independent Cost Consultant

All projects over \$2.0 million in total project value shall utilise an Independent Cost Consultant to financially value the work completed, including variations to the contract, prior to approval of the payment certificate or invoice. A valuation statement shall accompany the payment certificate or invoice through the approval and creditors process.

Reporting to University Council

Project Managers of major capital projects will provide a progress report quarterly to the National Capital Manager on the approved reporting template. The Assistant Vice Chancellor, Strategy, Finance, Information Technology and Commercial Operations (AVC SFIC) will provide University Council with a bi-annual summary report for all projects over \$1.0 million in total project value. This report will be additional to the monthly financial reports provided to the University Council.

Definitions:

Capital Plan Affordability

The ability to finance the proposed capital programme from the University's funding sources: net surplus, annual depreciation, unallocated reserves, property sales, external funding partnerships and external borrowing (subject to the University's debt capacity and borrowing consent conditions).

Group One – Recurrent Projects

Recurrent capital projects are those which require annual approval and funding. Funding allocated in any one year must be spent in the year it is allocated and is not intended to be carried over to the next year.

Group Two – Carry Forward/Committed/Approved Projects

These are projects with a capital value over \$250,000 where a formal Business Case has been approved by SLT or by University Council, consistent with the delegations policy and procedures.

Group Three – Projects Approved in Principle

These are projects with a capital value over \$250,000 that have received SLT approval-in-principle to proceed to business case, consistent with the delegations policy and procedures. Group 3 project approval is subject to capital plan affordability.

The projects will require completion of a business case, in accordance with the University's Business Case Policy.

Group Four – Externally Funded Projects

Group 4 covers projects with a capital value over \$250,000 that are fully externally funded. They require completion of comprehensive business cases in accordance with the University's Business Case Policy and they may also require Ministry of Education and TEC approval for external borrowing where funding requirements exceed the current approved borrowing consent.



Horizon Projects

A capital proposal or intention (over \$250,000 in value) that is in the early stages of development: a business need has been identified, and there has been an initial high-level estimate of scale and cost, but one or more of the following steps have yet to be completed:

- SLT portfolio assessment.
- Risk profile assessment.
- Business case scoping.
- Business case strategic assessment.
- SLT approval-in-principle.

Generally minor capital proposals are expected to be funded from existing Group One funding channels and would not be separately noted on the Horizon list. However exceptions may be made at the discretion of SLT or the AVC SFIC (within delegated authority), which would allow minor capital proposals to be identified as Horizon items during the TYCP process.

Independent Cost Consultant

The purpose of an independent cost consultant is to critically assess the financial value of work completed, including variations to the contract, prior to payment being made. This ensures there are no advanced payments, should the main contractor face financial difficulties and be unable to complete the project.

- “Independent” means the appointment of a company or person, who shall;
 - Be a suitably qualified and experienced quantity surveyor, or ICT estimator
 - Not be an employee of the University
 - Not be a company or person that is the main contractor, a design build contractor, project managers, architects or software vendor, to the project for which payments are being made.

Investment

The commitment of capital or balance sheet resources to the delivery of services with the expectation of receiving future benefits. Resources are typically committed through projects or programmes or portfolios.

Pre-Project Operating Costs

A cost that is incurred during the feasibility and scoping stages of a proposal, before a business case is approved, is a pre-project operating cost and is not included in Total Project Value. These costs are typically identified during the Strategic Assessment stage, prior to the project receiving approval-in-principle to proceed to business case. SLT approval-in-principle can also include one-off approval for an operating budget allocation to cover these costs.

Total Project Value

The financial value of all works and fees related to the implementation and completion of an approved project, including but not limited to, design, contract documentation, procurement, consents, development contributions, construction, software, configuration, implementation and training. Total Project Value can include both operating and capital costs and is used to determine if the project can be approved by SLT or requires University Council approval.

A cost that is incurred during the feasibility and scoping stages of a proposal, before a business case is approved, is a pre-project operating cost and is not included in Total Project Value.



Total Project Capital Value

Costs can be included in capital value where the goods or services being supplied materially add to the fair market value of an asset (either as an addition to an existing asset or in the establishment of a new asset). Costs that do not meet this test must be treated as operating expenses. Refer to Capital Planning Framework and Procedures for examples of project capital or operating expenses.

Audience:

All Staff

Relevant Legislation:

Crown Entities Act 2004 and amendments
Public Finance Act 1989 and amendments
Education Act 1989 and amendments
Financial Reporting Act 1993 and amendments
Financial Transactions Reporting Act 1996
Construction Contracts Amendment Act 2015
Health and Safety at Work Act 2015 (effective 4 April 2016)

Legal Compliance:

Crown Entities Act 2004 and amendments:

Crown entities are bodies corporate established by law in which the Government has a controlling interest but which are legally separate from the Crown. The Crown Entities Act 2004 establishes that tertiary education institutions (TEIs) are Crown entities, and that TEC is a crown agent, and the Act goes on to provide a framework for TEI governance and operation.

The TEC is empowered under the Crown Entities Act and Education Act to ensure that government policy in respect of crown entities is adhered to. In particular, the Minister for Tertiary Education and the Minister for Education are able to direct TEC on how certain policies are to be applied to the tertiary education sector. An example of this are the policies contained in Cabinet Office Circular (15) 5, *Investment Management and Asset Performance in the State Services*.

Specific obligations for TEIs are also to be found in the following legislation:

Public Finance Act 1989 and amendments:

The Education Act 1989, s. 203, states that every tertiary institution is a “Crown Entity” for the purposes of the Public Finance Act 1989. The Public Finance Act 1989, s. 45, requires that financial accounts be prepared in accordance with generally accepted accounting practice and must contain statements as to the financial position, cash flows, financial performance to be achieved, commitments, contingent liabilities, accounting policies and financial operations for the financial year.

Education Act 1989 and amendments:

Where debt finance is required to undertake capital projects/works, s. 192 (4) of the Education Act 1989 requires written consent from the Secretary for Education to:

- sell or dispose of assets or interest in assets
- mortgage or charge assets or interests in assets
- grant leases of land or buildings
- to borrow, issue debentures or raise money

S.194 (4)(d) states that an institution shall not exercise the right to borrow, issue debentures, or otherwise raise money without the consent of the Secretary for Education. The term borrowing includes any form of borrowing and



includes such items as bank loans, finance leases, and arrangements with another party for the deferral of payments for the purchase of material assets and expenditure. The term finance lease includes any Public Private Partnerships (PPPs).

S.192 (5) allows the Minister for Education to set certain parameters in relation to: the sale of assets, the granting of leases and borrowing.

Borrowing Consent and Financial Covenants:

The Secretary for Education has delegated authority from the Minister (under s.194 (5)) to consent to a limit within which an institution may borrow without seeking individual approvals. The Secretary for Education has issued such a borrowing consent to the University, subject to the University maintaining minimum levels of financial performance in relation to the following ratios: Net Surplus, Cash Flow from Operations, Liquidity, Interest Cover and Debt to Equity.

A further condition requires the University Council to concur with an Affordability Test prior to the commencement of any individual capital project that has a total project value of \$10 million or greater. The test must provide the rationale why, on reasonable grounds, the University Council is satisfied that it will, both during and after completion of the project, remain within its covenants. The Affordability Test is to be available for TEC inspection if requested.

Financial Reporting Acts:

All external reports must comply with generally accepted accounting practices as defined in the Financial Reporting Act 1993 and amendments, and the Financial Transactions Reporting Act 1996.

Construction Contracts Amendment Act 2015:

Payment procedures and payment timing shall comply with the Construction Contracts Amendment Act 2015, Part 2 Payments.

Health and Safety at Work Act 2015 (effective 4 April 2016):

S. 43 applies to a PCBU (*person conducting a business or undertaking*), meaning Massey University, who installs, constructs or commissions plant or a structure that is to be used, or could reasonably be expected to be used, as or at a workplace. The PCBU must, so far as is reasonably practicable, ensure that the way in which the plant or structure is installed, constructed, or commissioned ensures that the plant or structure is without risks to the health and safety of persons—

- (a) who install or construct the plant or structure at a workplace; or
- (b) who use the plant or structure at a workplace for a purpose for which it was installed, constructed, or commissioned; or
- (c) who carry out any reasonably foreseeable activity at a workplace in relation to the proper use, decommissioning, or dismantling of the plant or demolition, or disposal of the structure; or
- (d) who are at or in the vicinity of a workplace and whose health or safety may be affected by a use or an activity referred to in any of paragraphs (a) to (c).

Related Procedures and Documents:

Investment Management and Asset Performance in the State Services, CO (15) 5
Ministry of Education Consent to Borrow under s192 (4) (d) and (7) of the Education Act 1989 (advised 30 March 2015, for expiry on 31 March 2018)
Capital Asset Management (CAM) Policy and Framework (in development)
Capital Planning Framework and Procedures
Treasury Policy and Framework
Risk Management Policy and Framework
Business Case Policy, Framework and Procedures
Project Management Policy and Framework
Request for Financial Authority (RFA) Procedure
Capital Equipment Committee Terms of Reference



Capital Budget Carry Forward Procedure
Procurement Policy and Procedures
Tenders Board Terms of Reference and Procedure
Delegations of Authority Policy and Documents
Contracts Management Policy and Procedures
Health and Safety Policy
Capital Development Post Completion Review Policy
Financial Monitoring and Control Policy
Asset Financial Procedures
Asset Disposal and Write Off Policy
University Campus Development Plans
Information Services Strategic Plan

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Prepared by: National Capital Manager

Authorised by: Assistant Vice-Chancellor, Strategy, Finance, Information Technology and Commercial Operations

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