MASSEY UNIVERSITY

CAPITAL BUDGET CARRY FORWARD PROCEDURES

Section	Finance
Contact	Chief Financial Officer
Last Review	October 2022
Next Review	January 2028
Approval	October 2022
Effective Date	October 2022

Purpose:

This procedure outlines the rationale for sustainable management of the University's financial assets committed to capital programmes including the process for carrying forward of capital budgets from one financial year to the following year.

Rationale:

Massey University's capital plans are funded from net surpluses, debt, depreciation, and asset sales. The level of funding available from these sources is directly aligned with annual budgeted operating revenue and expenses (which can vary as environmental conditions change). The timing of project cash flows and new approved capital projects also affects the management of cash flow and total commitments.

To manage the variability of capital funding, commitments and timing of expenditure, the University must adjust its total commitments and retime projects to meet minimum liquidity requirements and financial performance metrics agreed with external agencies.

This document outlines the underlying principles and procedures for the carry forward of capital budgets to support sustainable financial management of capital at Massey University.

Procedures:

1. Underlying Principles

The underlying principles for carry forward of unspent capital funding from one year to the next are:

a. Funding allocated to a capital project and unspent in any financial year will be retained and carried forward into the subsequent financial year. There are restrictions on the carry forward of funding for Group One recurrent programmes and these are outlined in Procedure 2 below.

b. Funding allocated to approved projects will not be reallocated for some other purpose without consent in line with the Delegations Policy.

c. New un-budgeted capital commitments or over-budget spending on any programme or project may result in budget reductions to Group One discretionary programmes to sustainably manage the University's financial resources. Any budget reduction or transfer requires approval in line with the Delegations Policy.

d. If the primary sources of capital funding are not achieved in any one year, carry forward of unspent budget might be restricted. This will ensure the University does not commit more capital each year than is prudently available.

e. If at any time the University's available capital funding resources are found to be insufficient to fund the approved Ten-Year Capital Plan (TYCP), reforecasting the TYCP and deferral of some projects might be necessary.

f. The Capital Budget Carry Forward Procedure forms part of the Asset Investment Policy.

2. No Carry Forward of Funding for Group One Recurrent Programmes

The Asset Investment Policy states in relation to Group One projects that; "*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*". The DVC US may at their discretion allow the carry forward of Group One budgets. The rationale for restricting the carry forward of recurrent programme funding is:

a. Restricting the carry forward of prior years' funding does not restrict the completion of any work in progress as projects can continue across financial years. However, portfolio owners must operate within the funding envelope allocated for the current financial year (i.e., the total amount spent on any Group One programme in any financial year must not exceed the annual approved budget). This is regardless of prior year project budget allocations or the year the project commenced.

b. Restricting carry forward of Group One funding limits the uncontrolled growth of an uncommitted fund and provides an incentive to plan and achieve annual objectives.

c. Unspent Group One funding will not be automatically carried forward. The retained funding may be reallocated to other project/s that are better aligned with the University's strategic direction, and or give the flexibility to address funding shortfalls in other areas.

3. The Procedures

a. In January of each year, after completion of year end accounting, the University finalises the previous year's project expenditure to date, new capital commitments and capital funding sources including net surplus, depreciation, asset sales and external revenue sources against budget.

b. This confirms the amount of budget available to carry forward for projects and programmes. Unspent funding in any year for approved Group Two, Three and Four projects will be carried forward, subject to constraints with available funding that may arise. Funding may be brought forward into the current financial year or re-phased into out years, consistent with contractual obligations, project milestones and available financial resources.

c. Group Three and Four projects that are not fully approved are subject to reforecasting, rather than accumulating carry forward budgets.

d. External funding provided for specific Group Four projects will only be used for those projects and will not be reassigned.

e. Delays in delivery/cash flow of Group Two and Three projects may allow other programs in subsequent years to be brought forward: this is achieved by reforecasting the Ten-Year Capital Plan rather than the carry forward of budgets.

f. Annual expenditure and total expenditure to date is compared with annual and project budgets and out-year forecasts. This process determines the balance of any unspent prior year's budget to be carried forward.

g. A carry forward budget proposal is prepared for the Chief Financial Officer and sent to the DVC US for approval. Once approved this is distributed to sponsors, directors, and project managers.

h. Capital reports including any carry forward budgets are updated from the February month end report to SLT and Council, and during the remainder of the financial year.

Definitions:

Annual Expenditure
The financial amount spent on a project within one financial year. The amount spent is prepared on an accrual's basis.

Accruals Basis
Financial reporting and transactions are recorded when the expense is incurred and is required under PBE IPSAS.

Cash Basis
Financial reporting and transactions are recorded when payment occurs from the University bank account to the creditors account. This is used for university cash flow reporting, forecasting and treasury management.

Carry Forward Budget
The amount of unspent capital budget in a financial year, that transfers to the following financial year. As determined by the procedure above.

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 capital projects where a formal Business Case has been approved by SLT or by University Council, consistent with the delegation's policy and procedures.

Group Three – Projects Approved in Principle
These are capital projects that have received SLT approval-in-principle to proceed to business case, consistent with the delegation's policy. Group Three 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 capital projects 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.

Audience:

- Massey University Senior Leadership Team
- Capital Programme and Project Managers
- Budget Centre Managers

Relevant legislation:

Public Benefit Entities' International Public Sector Accounting Standards (PBE IPSAS)

Legal compliance:

Nil in relation to this procedure

Related procedures / documents:

University Accounting Policies
Asset Investment Policy
Business Case Policy
Delegations of Authority Policy
Financial Monitoring and Control Policy

Document Management Control:

Prepared by: Chief Financial Officer
Authorised by: DVC University Services
Date issued: October 2022
Last review: October 2022
Next review: January 2028