

Circular No: 51/93
Date: 22 October 1993

Contact:
Distribution:

Regional Offices
Public Hospitals

Subject: New policy on equipment funding

Purpose:

1. The policy statement, Casemix Funding for Hospitals, indicated that further work was required on capital funding. In the Technical Analyses released simultaneously with the policy, it was suggested that capital should be distinguished into two major components: land/buildings and equipment.
2. This circular describes the new policy on equipment funding. Policy on land and buildings will be subject to further policy development and consultation.

Policy:

3. It is important that hospitals have the incentive to make relevant decisions about the mix of capital and operating outlays to be used in their activities. The general policy direction should be, in capital as in other areas, to devolve responsibility as far as possible to hospitals. Casemix funding provides the framework to allow hospitals to make policy tradeoffs between capital and operating costs.
4. The government will transfer full responsibility to public hospitals for the adequacy of capital equipment in 1995-96. At that time annual grants under the Works and Services Program will cease. Hospitals will be required to assess their equipment priorities and strategies in the light of their own funds.
5. The Department proposes to include a contribution towards equipment in its payment for services under the casemix system from 1993-94. Equipment will be defined broadly to include all items covered under Fixed Equipment (Building Services Equipment, and other Fixed Equipment) and Moveable Equipment, as listed in the Recommended Depreciation Schedule (Appendix 2 of the Finance and Accounting Manual for public hospitals, released in July 1993).
6. In 1993-94 the government will provide an additional contribution towards equipment as an adjustment to casemix payments at the end of the financial year. In future years, the casemix payment for services will be adjusted to reflect this equipment contribution from the beginning of the financial year. Issues still to be decided on the scope and mechanism for incorporating equipment funding into casemix include:
 - * whether certain high-cost items of equipment will be excluded from this policy; and
 - * the method of allocating equipment costs across inpatient and outpatient services, public and private patients, government funded entities and business units of the hospital.

7. It is recognised that there is variability across hospitals in existing sinking fund arrangements. Therefore annual equipment allocations will continue to be provided in 1993-94 and 1994-95 as a transition arrangement to allow hospitals who have not already done so time to establish sinking funds for equipment purposes. Regions will shortly be seeking proposals from public hospitals under the 1993-94 Works and Services Program.
8. The Department may continue to provide equipment grants as follows:
 - * Equipment to establish new patient services under the New Works Program;
 - * Equipment for new government initiatives, where such equipment has a broader objective than meeting the needs of individual hospitals.

Operational Consequences:

9. The Conditions of Funding for 1994-95 will be revised as follows:
 - i) The restriction on hospitals entering into expenditure related to capital projects for acquisition of plant, furniture, fittings or equipment and computer hardware (including software programs where they form part of the capital cost) will be removed.
 - ii) There will be an obligation on hospitals to ensure that appropriate and up-to-date equipment is maintained for the range of services provided by the hospital. This is consistent with the requirements of the accreditation process.
10. The Department will also seek to ensure that hospitals have appropriate flexibility to use normal commercial borrowing arrangements (including leasing). In deciding on their future equipment needs, hospitals should give consideration to leasing equipment as an alternative to purchase. Leasing would allow hospitals access to state of the art technology, where they have not accumulated sufficient sinking funds
11. Hospitals will need to maintain up-to-date asset registers to record their equipment and have established policies for depreciation of equipment consistent with the requirements in the Finance and Accounting Manual.
12. To ensure that hospitals are able to plan for their future equipment needs, they should examine their current use of capital equipment, with particular reference to the need for accurate allocation of equipment costs across inpatient/non-inpatient functions, public/private patients and hospital departments.



S J DUCKETT
Director
Acute Health Services