

Appendix G: System-level resource definitions

System-level definitions relate to all of a particular type of establishment, such as public hospitals or community health centres, at the State, Territory, or Commonwealth level (whichever is the highest level of overall administration of the system). The data definitions in the *National Health Data Dictionary* at the system or State health authority level are related to capital expenditure and indirect health care expenditure.

Capital expenditure

A working party of the National Health Data Committee developed a new definition of capital expenditure during 1994. The National Health Information Management Group agreed that both the new definition (previously known as item S1b) and the former definition (previously known as item S1a) would be current in the dictionary until all relevant jurisdictions implemented accrual accounting procedures.

Indirect health care expenditure

The system-level definitions represent expenditure on health care that cannot be directly related to programs operated by a particular establishment but that can be indirectly related to the admitted patients, residents, non-admitted patients, non-residents and community/outreach patients served by that establishment. These definitions are designed to improve the overall picture of health expenditure and to assist in understanding differences in costs for similar establishments in different States and regions. They are also designed to detect differences in the extent to which support services and other services to resident/admitted patients and non-admitted patients of an establishment may be provided by the establishment itself, at a State level or by other organisations. This concept will be reviewed by the National Health Data Committee during 1999.

Glossary of terms

The following glossary of terms supports the definitions of capital expenditure:

Asset

An asset is the service potential and/or future economic benefit controlled by the reporting entity as a result of past transactions or other past events including:

- Physical assets
 - current physical assets
 - non-current physical assets
- intangible assets.

The 'service potential' of an asset is its economic utility to the entity, based on the total benefit expected to be derived by the entity from the use of the asset and/or the subsequent disposal of the asset.

Financial asset

A financial asset is an asset that has a counterpart liability in the books of another accounting entity. For the purpose of the *National Health Data Dictionary*, financial assets are excluded.

Control

The recognition of an asset is based on the test of control rather than ownership. This may result in assets being recognised by a reporting agency that is not the registered owner (for example, denominational/ third schedule/non-profit hospitals). Control is the capacity of the entity to benefit from the asset in pursuit of the entity objectives and to deny or regulate the access of others to that benefit. Ownership of an asset occurs when the asset is purchased by or donated to an accounting entity. Acquisition means undertaking the risks, and receiving the rights to future benefits, as would be conferred with ownership, in exchange for a cost of acquisition.

Note: In cases where there is a building providing public health services under government control situated on land owned by a non-profit organisation, the value of the building, but not that of the land, should be included as a public asset.

Asset capitalisation

Asset capitalisation occurs when an item of expenditure meets the criteria of an asset and:

- is recorded in the books of an accounting entity;
- is recorded in an asset management system and depreciated; and
- the minimum level for capitalisation is no higher than \$5,000.

Asset disposal

When an asset is considered unserviceable, obsolete or in excess of probable requirements, it is disposed of using designated procedures. The asset is removed from both the accounting entity's asset management system and the book of accounts.

Asset enhancement

Expenditure on an existing asset is to be treated as an enhancement where there has been an effective and significant increase in the present or planned service potential of the asset. If the increase in service potential is incidental to some necessary maintenance and the incremental level will not be used in the foreseeable future, the expenditure would be more appropriately classified as maintenance.

Service potential has three components:

Service capacity: The expenditure increases the capacity to provide services and meet increases in demand for the asset's services.

Service quality: Improvement in the standard of the service provided, including efficiency improvements such as cost reductions, can represent an enhancement to an existing asset.

Useful life: The initial assessment of an asset's useful life will have assumed that certain maintenance expenditure (both routine and major periodic) would be necessary for the asset to achieve its anticipated useful life. An expenditure can only be accounted for as an enhancement if it increases (rather than assumes the achievement of) the asset's pre-determined useful life. This would include major work undertaken to extend the service potential of an asset, recognising that its function may change (e.g. refurbishment). It may result in a need to re-assess the life span of the asset.

Grouped assets

Most assets, particularly system assets, consist of a number of components. In principle, each component can provide service potential or future economic benefit and can therefore be classified as an asset. In practice, however, the key criterion for a separate asset is that it is an independent operating unit the components of which function as a cohesive whole to provide a common service. Such a unit is referred to as a 'grouped asset'.

For example, a computer network operates as a cohesive whole, yet may contain individual personal computers that can also operate independently. A network of roads, a water sewerage system, an electricity distribution system and a communications network are examples of extensive and integrated components operating as part of a total asset system. Another example of a group of assets used together to provide a common service is office furniture and equipment.

Grouped assets (including network assets) should be primary units for accounting recognition because their components function as a cohesive whole to provide a common service. This is subject to the capitalisation threshold.

The threshold tests should be applied to individual assets as well as grouped assets. The cost of each item making up a set of office furniture or of each computer in a computer network may be less than the capitalisation threshold, but if the total cost of the network or grouped asset exceeds the threshold, each item should be capitalised.

Cost of acquisition

The cost of acquisition is the purchase consideration (price) paid for an asset plus any costs incidental to the acquisition. The cost of an asset must include (where appropriate):

- installation
- commissioning
- transport
- customs duty
- any other incidental costs.

Interest and other finance costs incurred in acquiring the service potential embodied in an asset (for example, exchange fluctuations on loans) should not be included in the acquisition cost of that asset.

Asset construction

The following costs should be included in relation to construction of an asset:

- Costs that relate directly to the construction of an asset, including:
 - direct labour and material costs;
 - depreciation of physical non-current assets used on construction of the asset; and
 - set up costs directly related to the construction of an asset.
- Costs that are reliably attributable to the construction activity and are capable of being allocated on a reasonable basis to specific assets, including:
 - purchasing administration costs;
 - insurance;
 - costs of design and technical activities; and
 - project overheads (such as direct administration and holding costs of the project).
- The following costs, which are related to activities of the agency or asset construction generally, but not specific to the asset being constructed, should be excluded as they cannot be reliably attributed to the asset:
 - general administration costs; and
 - depreciation of plant and equipment not related to construction activities (including idle plant and equipment).

Lease

A lease is a grant or possession of an asset for a stated period of time at specified rentals and subject to various conditions. The register proprietor has certain re-entry rights if the lessee defaults by not observing the conditions of the lease or by not paying the specified rentals.