



Capital Evaluation Policy

Purpose

In a financially constrained, rate-capped environment, it is essential that Council make sound capital investment decisions - with its finite capital resources - that maximise public value for current and future generations. By doing this, it will assist Council to deliver high quality services that meet community needs.

Introduction

The investment of capital funding for infrastructure and assets is fundamental in enabling Council to deliver high quality services that meet the needs of the community.

The Capital Evaluation Policy (CEP) primarily relates to capital investment and expenditure necessary to sustain services and cater for growth in service demand, rather than operating expenditure.

The following documents form the framework for considering capital investment:

- 1. Capital Evaluation Policy**
Strategic policy outlining the overarching objectives and goals in capital investment (this document).
- 2. Capital Evaluation Guidelines**
Practical application of the CEP in an operational setting.
- 3. Business Case for Capital Investment**
Criteria outlining the strategic considerations of capital investment proposals.

Policy objectives

This CEP provides a means of evaluating and appraising proposed investment in infrastructure assets, as well as setting priorities within the context of the Long Term Infrastructure Plan (LTIP) and the annual Capital Works Program (CWP) to address strategic service delivery needs.

The objectives of this CEP are to:

- Ensure capital investment aids the achievement of the Council Plan, which in turn informs development of the LTIP.
- Ensure each CWP aligns with current or future service needs.
- Ensure capital investment delivers the greatest possible improved service outcomes while minimising the quantum of capital required.
- Ensure capital investment is undertaken in a financially sustainable manner and in accordance with Council's Asset Management Policy.
- Ensure effective planning and an understanding of the true costs of any proposed capital investment (excluding maintenance and renewal works) through undertaking a lifecycle cost evaluation that identifies the asset's design, construction and maintenance costs as well as its operating cash flow requirements and depreciation, over the course of Council's Long Term Financial Strategy (LTFS).

Intended outcomes

This CEP is based on universal principles which should be applied to all capital works (excluding maintenance and renewal works), asset planning and management undertaken by Council. It provides guidance to Councillors and staff involved in the capital investment process to ensure appropriate rigour is applied in the assessment of capital investment proposals.

Application of CEP principles should balance the project's size and level of risk.

This CEP is designed to:

- Establish a robust and impartial appraisal and priority-based system for allocating finite Council resources for investment in infrastructure assets.
- Ensure that investment in capital is undertaken in a financially sustainable manner and in accordance with best practice asset management principles.
- Enhance transparency and public confidence in Council's decision-making process relating to the investment of capital.

More detail on the practical application of the CEP is provided in the supporting documents, including **Capital Evaluation Guidelines** and **Business Case for Capital Investment**.

Policy principles

This CEP is underpinned by the following principles:

- Capital investment proposals are based on current and future needs of the community to enable improved social, environmental and economic outcomes.
- Evaluation of proposals is informed by sound business, investment and risk assessment practices in order to maximise public value of infrastructure investment.
- Proposals are considered in the context of existing infrastructure, the Council's strategic direction and best value.
- Proposals are subject to rigorous assessment under the Framework to ensure short and long-term feasibility of proposed assets.
- New capital investment options are proposed after objective consideration of any alternatives. This supports effective project prioritisation.
- Transparency in the decision-making process surrounding the investment of capital.

Policy details

The decision to invest in infrastructure assets imposes a responsibility on Council to provide the requisite funds (for operating, maintenance, renewal and disposal) over the life of the infrastructure asset. Therefore, investment decisions must be considered within the context of Council's overall budget capacity.

Capital expenditure can be classified as renewal, upgrade, expansion or new assets depending on its impact on Council's future budgets. Investment in infrastructure assets can be summarised in the following way and as shown in *Figure 1* on the following page.

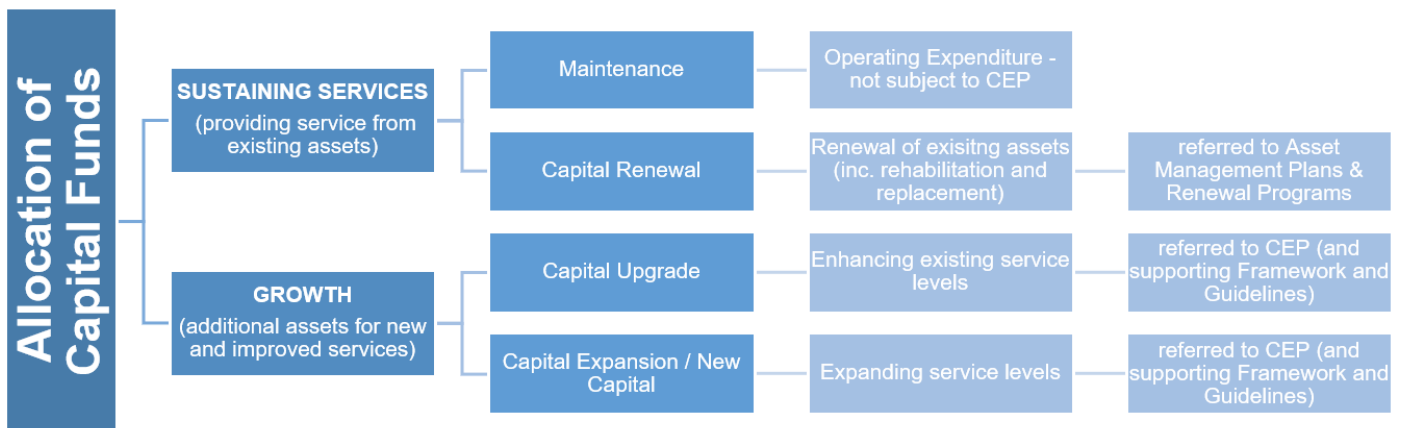


Figure 1 – Allocation of Capital Funds to support service delivery.

Sustaining service levels

The evaluation of maintenance and capital renewal is determined through annual operating budgets and Council’s annual capital renewal programs in accordance with the relevant asset management plans. Therefore, the evaluation of this type of expenditure is not subject to the CEP.

Maintenance

Maintenance of existing assets is classified as operational expenditure and is part of the Council’s ongoing maintenance programs.

Renewal

Infrastructure asset renewal is required to sustain service delivery and prevent a decline in service levels and outcomes. As such, it is considered non-discretionary and the necessary quantum of capital renewal expenditure to meet desired service levels shall be allocated in Council’s annual CWP.

Renewal of infrastructure assets does not generally impact future revenue, however, may reduce future operating and maintenance expenditure if well designed and completed at the optimum time.

Infrastructure asset renewal projects must be appraised and prioritised in line with Council’s Asset Management Policy and accompanying asset management plans. Based on an existing asset’s condition, the level of service it is required to support, and the allocation of renewal funding, renewal projects are determined by Council through the LTIP and annual budget cycle.

If a capital investment proposal has elements of renewal, as well as elements of upgrade or expansion a business case shall be developed in accordance with the CEP.

Growth in service demand – Upgrade, expansion and new infrastructure

The CEP provides Council with a framework to appraise and prioritise all upgrade, expansion and new infrastructure asset proposals to ensure they maximise service delivery and achieve the outcomes of the Council Plan.

Capital Upgrade

Capital upgrade is considered discretionary because this type of expenditure improves service levels, as opposed to renewal which sustains current service levels.

Upgrade of insufficient infrastructure can lead to reduced operating and maintenance costs but does not generally increase revenue.

Capital expansion and new infrastructure

Expansion or new assets generally increase operating and maintenance costs by increasing the infrastructure asset base, and therefore the required maintenance and renewal expenditure, not previously recognised.

Any upgrade, expansion or acquisition of new assets shall be assessed and prioritised based on a Business Case for Capital Investment, which assesses an investment proposal's:

- Community benefit in accordance with the Council plan,
- Risks for Council in undertaking or not undertaking the project,
- Scale of the positive impact on the community in terms of age, interest and population, and
- Project readiness and justification.

Additional supporting documents

This CEP is supported by the Capital Evaluation Guidelines and Business case for Capital Investment, which provide detailed guidance on how capital projects are to be initiated, implemented and progressed from an operational perspective. This CEP should also be considered in the context of Council's Asset Management Policy, along with other relevant strategies and plans.

Governance and approval thresholds for capital works

To ensure appropriate rigour is applied to the investment of Council's funds, all proposals which result in the creation of a capital asset for Council, regardless of quantum or cost, must be presented to Council's Capital Works Steering Group for consideration and recommendation as to how to proceed.

All project opportunities that arise throughout the course of the financial year (i.e., not as part of the budget cycle) are required to progress through the same authorising environment as those approved through the annual budget process.

See Figure 2 on the following page.

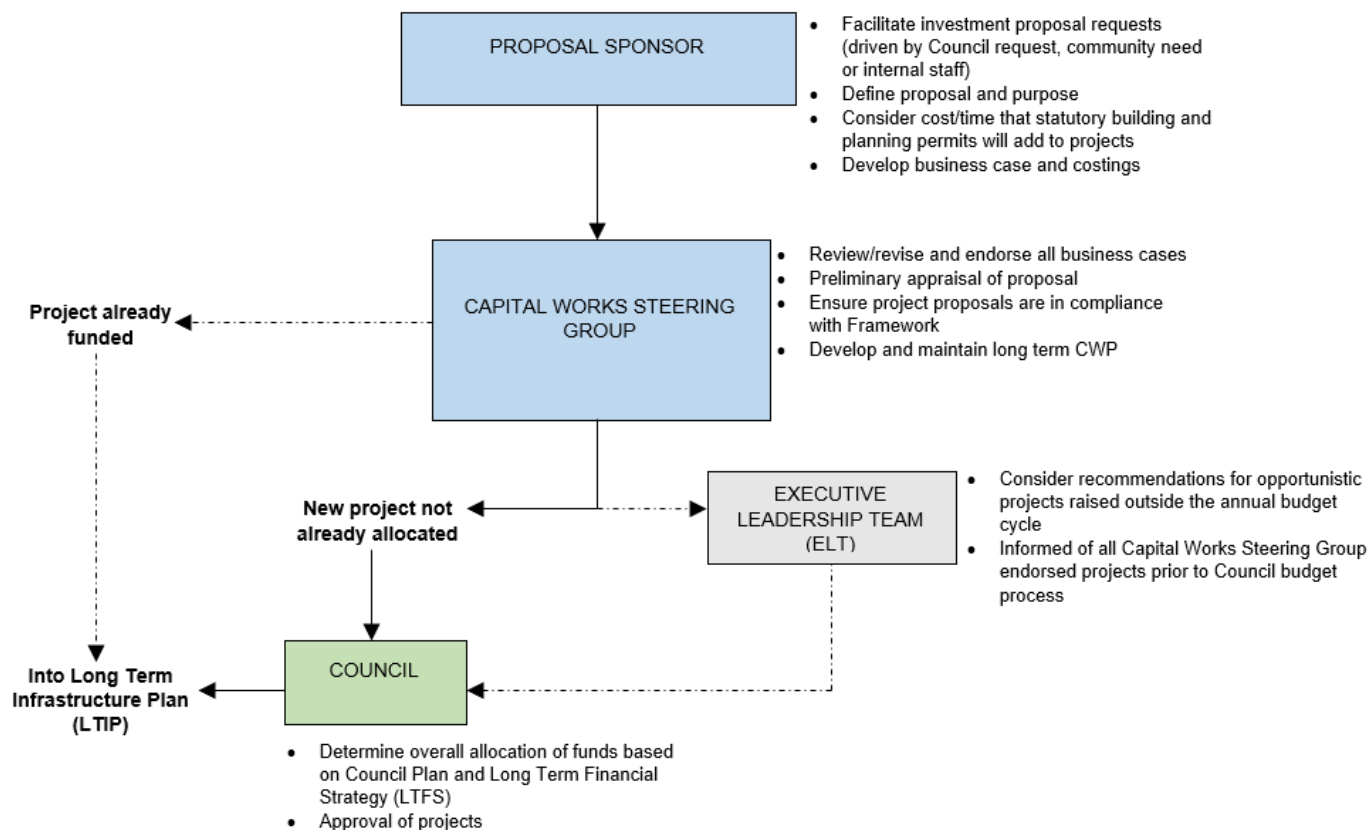


Figure 2 – Capital Evaluation and Investment Governance and Authorising Process.

Reference documents

This CEP refers to a number of other Council policies and documents:

- Baw Baw Shire Council Plan 2021-25
- Asset Management Policy
- Capital Evaluation Guidelines
- Business Case for Capital Investment

This CEP has been developed based on the recommended guidelines within Local Government Victoria's Asset Investment Guidelines and the Institute of Public Works Engineering Australasia's Infrastructure Financial Management Guidelines 2012.

Policy accountability and review

This policy shall be reviewed within 12 months of the Council term. Accountability for reviewing the CEP rests with the Manager Infrastructure Assets & Recreation.

Approval date	25 January 2021
Approval authority	Council
Effective from	25 January 2021
Review term	Within 12 months of Council term
Next review date	Mid 2025
Responsible position	Manager Infrastructure Assets & Recreation
Responsible Director	Community Infrastructure
Version	2