

## Capital Investment Policy

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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 Investment Policy (CIP) primarily relates to capital investment and expenditure necessary to sustain services and cater for growth in the demand, rather than operating expenditure.

The following documents comprise the reference material when considering capital investment:

- the CIP (this document) – outlining the overarching objectives and goals in capital investment;
- the Capital Investment Framework - outlining the strategic considerations of capital proposals; and
- the Capital Investment Guidelines - practical application of the Policy and Framework in an operational setting.

### Policy objectives

This policy provides a means of appraising proposed investment into infrastructure and assets, as well as setting priorities within the context of the long-term Capital Works Program (CWP) to address strategic service delivery needs. The objectives of this Policy are to:

- Ensure capital investment aids the achievement of the Council Plan, informs the development of a long-term financial plan (LTFP) and a CWP aligned to service needs;
- Ensure capital investment delivers the greatest possible improved service outcomes while minimising the quantum of capital required, in accordance with the best value principles;
- Ensure capital investment is undertaken in a financially sustainable manner and in accordance with Council's Asset Management Policy 2017-2021 and a lifecycle cost evaluation that identifies the asset's design, construction and maintenance costs and operating cash flow requirements and depreciation, over the course of the LTFP; and
- Enable and ensure the effective planning and implementation of capital investment and capital works projects.

### Intended outcomes

This Policy 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 CIP principles should be commensurate with the project's size and level of risk.

This Policy is designed to:

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

More detail on the practical application of the CIP is provided in the supporting Framework and Guidelines.

## **Policy principles**

This Policy is underpinned by the following principles:

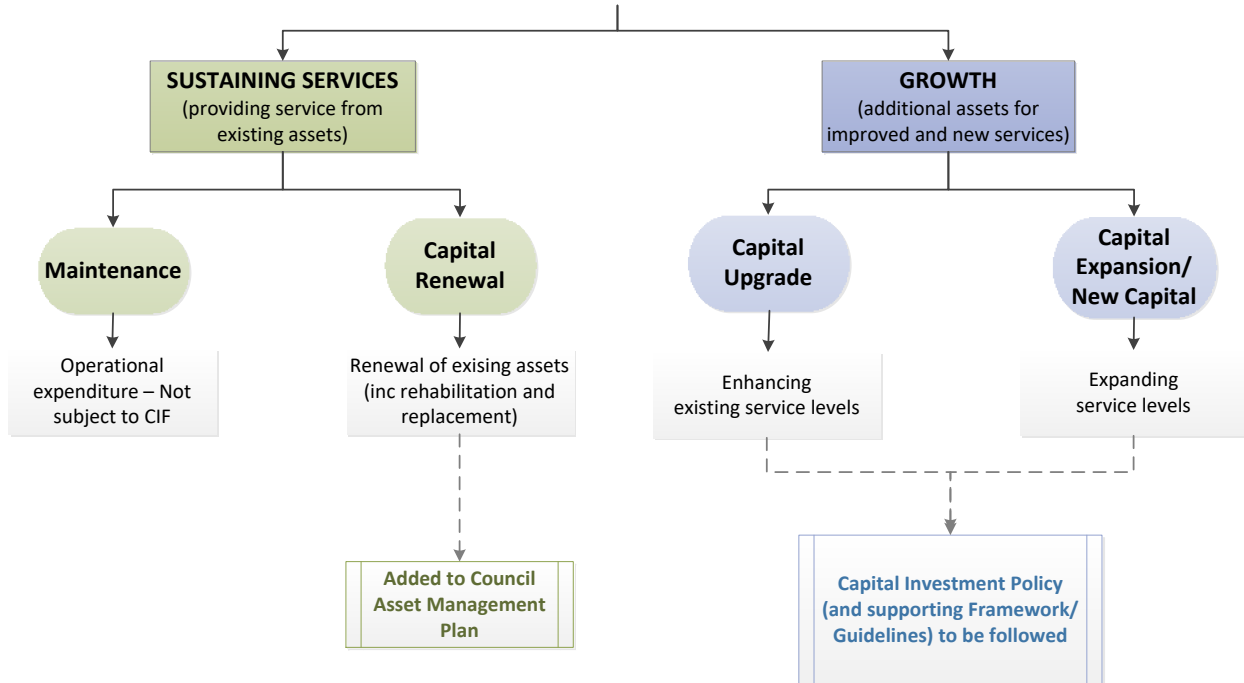
- Capital investment proposals are based on current and future needs of the community to enable improved social, environmental and economic outcomes.
- Evaluation of proposals is underpinned, and informed, by sound business, investment and risk assessment practices in order to maximise public value of infrastructure investment.
- Proposals are considered in the context of existing infrastructure, the Council's strategic direction and best value for money.
- 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 its merits relative to other more cost effective alternatives. This supports effective project prioritisation.
- Transparency in the decision making process surrounding the investment of capital.

## **Details of Policy**

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 asset's life. 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 and assets can be summarised in the following way.

**Allocation of capital investment funds**



**Sustaining service levels – Maintenance and renewal**

Maintenance and renewal are *not* subject to the CIF.

**Maintenance**

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

**Renewal (replacement of existing assets)**

Asset renewal is required to sustain service delivery and prevent a decline in service outcomes/levels. As such, it is considered non-discretionary and automatically approved in the CWP.

Renewals do not generally impact future revenue however, they may reduce future operating and maintenance expenditure if well designed and completed at the optimum time.

Asset renewal projects must be appraised and prioritised in line with Council’s Asset Management Policy 2017-2021. Based on an existing asset’s condition, the level of service it is required to support, and the allocation of renewal funding, is determined by Council through the LTFP and annual budget cycle.

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

## **Infrastructure and asset growth – Upgrade, Expansion and New Assets**

The CIP provides Council with a framework to appraise and prioritise all upgrade, expansion and new asset requests to ensure they maximise service delivery and achieve the outcomes of the Council plan.

### **Capital upgrade**

Capital upgrades are considered discretionary because they improve 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.

### **Expansion and new assets**

Expansion or new assets generally increases operating and maintenance costs by increasing the asset base, and therefore maintenance and renewal requirements not previously recognised.

Any upgrade, expansion or acquisition of new assets should be assessed and prioritised based on a Business Case (template in the accompanying Framework) which assesses an investment proposals’:

- 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
- readiness and justification.

### **Additional supporting documents**

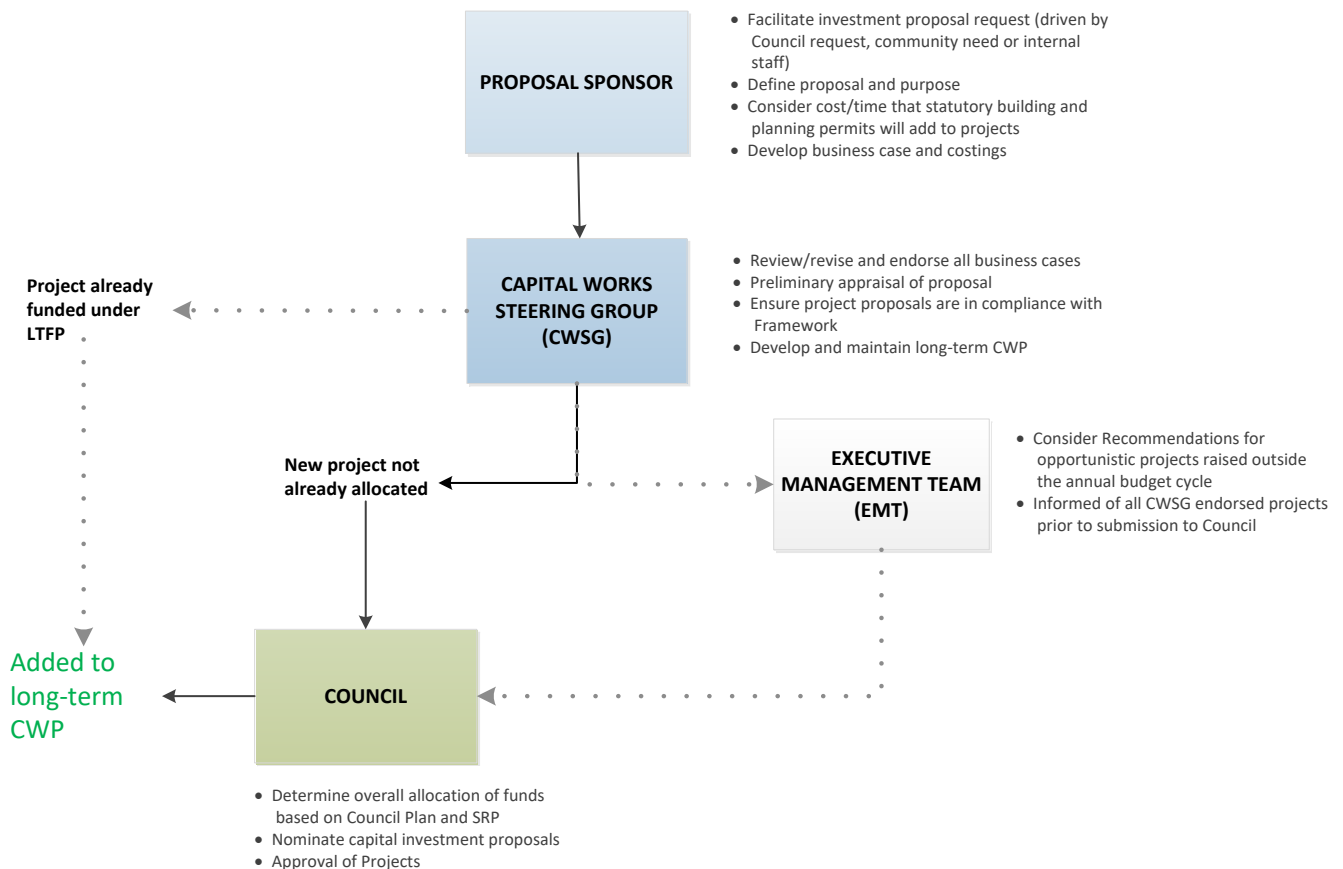
This Policy is supported by the Capital Investment Framework and Guidelines, which provide detailed guidance on how capital projects are to be initiated, implemented and progressed from an operational perspective.

This Policy should also be considered in the context of Council’s Asset Management Policy Infrastructure Assets 2017-2021.

### **Governance and approval thresholds for capital works**

In order 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/cost, must be presented to the Capital Works Steering Group for consideration/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 budget process.



## Reference to other documents

- Bass Coast Shire Council 2017-21 Council Plan
- Asset Management Policy Infrastructure Assets 2017-2021
- This Policy 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 at an interval not exceeding four years.

Accountability for reviewing the CIP rests with the Manager Infrastructure Delivery.

## Approval

Approved by Council at its meeting held on

Date 18/04/2018

Signed by the Mayor (Cr Pamela Rothfield)



Date 18/04/2018