

## MEMO

TO Siobhan Proctor, Chief Infrastructure Officer, Wellington City Council

COPIED TO Pete Wells, Manager Service Planning, Wellington Water; Mark Ford, Group Manager Business Services, Wellington Water

FROM Julie Alexander, Group Manager Network Strategy and Planning, Wellington Water

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### **2023/2024 Operating Expenditure (Opex) Annual Plan Discussion**

#### Purpose

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This memo sets out the associated risks and implications of not providing the additional funding requested in the 'Dec 2022 WWL 2023-24 Annual Plan OPEX Advice – WCC' (FY2023/2024 Opex Annual Plan Advice).

#### Background

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WWL have recommended a \$10.373m increase across all our services to Council (from \$44.716m to \$55.089m), for operational expenditure for FY2023/24. A key concern for WWL is that if the additional recommended funding is not granted, Wellington Water will be required to stop some activities currently being undertaken and not address known risks that have been identified since the current budgets were agreed to. This will result in several risks to the security and quality of water being delivered to communities.

#### Changes since the 2021-31 Long-Term plan (LTP) was developed

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The 2021-31 LTP was developed using the best data that was available at the time, however, since that time, our understanding of the region's investment needs has advanced considerably. For example, since that LTP was set:

- Condition of the assets – significant stimulus funding allowed for a better understanding of the condition of Council's assets through an extensive condition assessment program for Very High Critical Assets. Parallel investments in asset information systems are also providing improvements to asset data.
- Taumata Arowai – future performance standards have been established under both Taumata Arowai's regulatory programme and the National Policy Statement on Freshwater Management 2020. These establish new or significantly elevated levels of service that Council must meet. Meeting these increased levels of service has flow on cost impacts on OPEX budgets.

- Leakage – there is an increasing rate of leakage and water demand in Wellington. Not only does this bring forward the need for capital investment to improve the supply-demand balance, but it also increases the need for planned and reactive maintenance, monitoring and investigations, and educational campaigns to reduce water usage; and
- Increase in asset base from the adoption of laterals.

## Summary of Risks

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If we were to reduce or stop key activities to the value of \$10.37m, this would result in a variety of risks to delivering core services and managing key infrastructure. A number of these risks have been communicated to Council in the Opex Forecast Overspend FY2021/22 Memo, dated 16 February 2022.

### Reactive Maintenance

There remains a significant backlog of renewals on the network, and the current rate of renewals investment means that the position is continuing to worsen year on year. As a consequence, reactive maintenance needs are increasing over time as assets age and deteriorate. Council's reactive maintenance costs have been increasing by approximately 10% year on year:

- the average spend on reactive maintenance over the past two years was \$11.48m (\$9.4m in FY2020/21, and \$13.56m in FY2021/22).
- the latest reactive maintenance forecast for FY2022/23 is \$13.96m (10% increase on the previous two years)
- the recommended budget for FY2023/24 of \$15.4m is a 10.8% increase on the FY2022/23 forecast spend.

If reactive maintenance budgets were kept at the approved LTP funding of \$11.97m, WWL will have less available funding than in previous years to respond to reactive maintenance work.

The associated risks of a funding level below the \$15.4m requested are:

- A reduction or stoppage of non-urgent instructed works (such as installation of new valves to reduce the size of a shutdown area, or customer requests/complaints). The consequence of not doing instructed works is that we fail to improve the efficient operation of the network, so water outage areas become bigger, resulting in longer outages with a greater number of customers affected.
- A reduction in targeted subcontractor spend is a preferred option to reduce expenditure if required. This would reduce the available resources to attend to customer calls, by only attending to high priority or medium priority (P1 and P2) work requests and would mean that non-urgent backlog of work will grow. Any significant reduction of subcontractor spend will likely drive skilled workers elsewhere and securing them back, if additional funding becomes available, will not be swift. We

note that the current job backlog sits at over 1600 jobs, and increases to this number would likely result in increased customer dissatisfaction.

- A reduction in after-hours jobs would reduce costs given the penal rates applied. After hours work is mainly governed by the type of work required. There could be a significant risk to local businesses with this approach, as water supplies may be cut during the working day to address issues that could otherwise be addressed at night.

### **Planned Maintenance**

Proactive planned maintenance is vital to ensure Council's assets are kept in good working order, and reduce the likelihood of unexpected failures. Planned maintenance expenditure has been increasing by approximately 9% year on year:

- the average spend on planned maintenance over the past two years was \$3.4m,
- the latest planned maintenance forecast for FY2022/23 is \$5.27m, which exceeds the agreed LTP funding level for FY2023/24 of \$4.44m, and
- The recommended planned maintenance budget for FY2023/24 is \$6.2m

The associated risks of not funding the additional requested \$1.7m are as follows:

- Planned valve maintenance would be reduced, which results in a reduced ability to locate and isolate mains for repair. This increases the overall job cost, and also may result in 3<sup>rd</sup> party damage from mains failure.
- Funding for hydrant maintenance would be reduced. The risk with reducing this activity is an increased risk in Fire Services not being able to locate or operate a fire hydrant. There is a risk to public safety and public health, and a risk to the council's risk profile by reducing this activity.
- Reducing wastewater pump station maintenance would increase the risk of pump station failures and wastewater overflows. This would result in a decrease in customer trust, and would impact on the life of the assets that would not be fully maintained.
- Reducing stormwater system maintenance would increase the risks of property flooding, and damage to public infrastructure. Council is therefore more vulnerable to risk in relation to cost claims.
- Postponing maintenance on Council's key assets may result in higher costs in future, as we know reactive maintenance work is more expensive than proactive maintenance costs.

### **Treatment Plant**

Wastewater treatment plants are aging and are susceptible to failures with associated compliance risk. Increases in proactive maintenance and renewals are necessary to manage the risks for operating these plants.

The recommended treatment plant budget is \$18.14m, which is an uplift of \$2.52m above the LTP agreed budget of \$15.62m. As noted in the FY2023/24 Annual Plan Advice, the forecast increases in treatment plant costs are due to sludge disposal costs, higher gas and electricity costs, variations to the Veolia contract and an expected uplift in the PCC WWTP Joint Venture share. All these increased costs relate to the operation of our wastewater network.

Additionally, we note that the existing energy supply contract is due for renewal in March 2023. Market engagement with Utility companies during the early stage of the RFP process is indicating a steep rise in electricity cost from 2020 levels.

### **Monitoring & Investigations**

The Monitoring & Investigations recommended budget is \$7.822m, which is an increase of \$1.84m above the LTP approved budget of \$5.98m. Note, this budget is higher than Monitoring and Investigations budget noted in the 5 December OPEX Annual Plan advice as \$266k for the asset register has been shifted from the management fee to this investment category.

As noted in the 5 December OPEX Annual Plan advice, the main areas with recommended budget uplift in this investment category are condition assessments and investigations. Further detail on this work, including the associated risks of not funding the requested increase in budget are provided below:

- Condition assessments - In the 5 December OPEX Annual Plan advice we recommended a budget uplift of \$0.230m was needed for condition assessment. Since this advice was given, we have determined that this uplift should be increased to \$0.310m to include additional condition assessment work that had been excluded in our 5 December OPEX Annual Plan advice. Please note that the total recommended budget for the Monitoring & Investigations investment category remains unchanged at \$7.822m. Instead, other activities within monitoring and investigations will need to be prioritised or deferred to accommodate the redistribution of funds toward condition assessment.
- At a Council meeting on 8 December 2022, WWL staff provided advice to Councillors that we should be building the ability to deliver approximately \$10m of asset condition assessment per year across the region, with approximately \$4m apportioned to Wellington City Council assets. Of the \$4m, approximately half would be utilised to undertake pipe condition assessment activities, which would enable around 50km of pipe to be assessed each year.

The proposed increase in funding of \$0.310m supports the sustained pathway of increasing investment in this activity.

- Monitoring – Monitoring accounts for approximately 36% of the requested monitoring and investigations budget and \$160k of the uplift requested. The key cost increases in this area are due to the trade waste monitoring and investigations, global stormwater resource consent compliance monitoring, and wastewater flow and overflow monitoring. Wastewater flow and overflow monitoring is critical for modelling, growth studies, integrated catchment planning and improvements to environmental water quality capital projects.

Increased laboratory costs and new sampling programmes due to regulatory changes and new consents are driving up monitoring costs. Reducing the monitoring budget below what is recommended may affect our ability to address resource consent requirements.

- Investigations – OPEX investigations support a range of activities such as growth modelling, sustainable water supply education, and asset management. Investigations also typically address multiple outcomes such as growth and level of service outcomes together. Investigations, excluding the condition assessments and the asset register, account for 59% of the Monitoring and Investigations budget and \$1.264m of the requested uplift in this investment category.

As with the capital expenditure programme, WWL over-programmes investigations on the assumption that some investigations will slow down or stop throughout the year. Priorities also shift throughout the year as new information and risks are identified and need to be addressed. Therefore, there are new investigations that will be on the list for delivery in FY2023/24 that may not have been there in the previous years, and will not have any budget allocated to them.

Based on current priorities, below is an approximation of the proportion of investigations that support priority outcomes. If the investigations and monitoring budget is reduced below the recommended amount, it will proportionally affect the delivery of investigations and will require WWL to re-prioritise the work that can be achieved within the available budget.

- Wastewater specific investigations (17%) – Inflow and infiltration studies, pump station assessments and management plans, wastewater overflow reduction studies, water quality investigations etc.
- Drinking water specific investigations (10%) – backflow surveys, pump station assessments and management plans, reservoir build investigations, Karori Dam investigations etc.
- Sustainable Water Supply studies (11%) - Pressure Management, water loss and demand balance analysis / improvements, commercial consumption reduction, education campaigns etc.
- Growth related projects, including Let's Get wellington Moving support and growth modelling (11%)
- Asset register (4%)

Note, a significant proportion of investigations also flow on to inform the capital programme – investigations are the starting point of understanding what solutions may be required to address known problems. Reducing funding to these can therefore impact future planned capital delivery programmes.

## Sustainable Water Supply

Within the recommended budget for FY2023/24, \$1.023m is attributed to activities focused on sustainable water supply. This is split up amongst the investment categories as detailed in the table below:

Category	SWS Activity	Recommended FY23/24 budget
Planned Maintenance	Non-residential Demand Management	\$0.148m
Planned Maintenance	Integrated Meter Management	\$0.010m
Monitoring & Investigations	Active Leakage Control	\$0.560m
Monitoring & Investigations	Strategic Water Loss Management	\$0.221m
Monitoring & Investigations	Public Education	\$0.084m
<b>TOTAL</b>		<b>\$1.023m</b>

### Monitoring & Investigations

- Active Leakage Control – \$0.560m of funding to cover standard business as usual leak detection activities required to triage leakages.
- Public education costs relating to sustainable water supply and demand as well as strategic water loss management activities (additional to active leakage control work) have been factored into this investment category.

### Planned Maintenance

- Included in the planned maintenance investment category costs are activities relating to non-residential demand management and integrated meter management activities.

### Reactive Maintenance

- Please note that leak repair costs are included within the reactive maintenance investment category and that active leakage control funding excludes budget required for reactive works when a leak has been detected. Additionally, the works management system is not designed to explicitly record jobs relating to leak repairs. Therefore, budget to complete this work will be embedded within the unplanned network maintenance budget within the reactive maintenance investment category.

Water demand for Wellington City is outstripping supply due to water loss in the network and growth. The overarching risk of inadequately investing in sustainable water supply activities, including operational funding for finding and fixing leaks, is water supply shortage. We strongly recommend as a priority, consistent with Council’s early signals, increased investment in sustainable water supply and demand activities.

## Management Fee

The Management and Advisory Services Fee predominantly covers Wellington Water staff and contractor costs (excluding those linked to the Network Engineering Team, Network Management Group and Customer Operations Group), building maintenance and property costs, licencing costs, digital services and support, and cyber security.

The proposed increase in fees includes a one-off adjustment of 10% to address inflationary impacts for FY2022/23 and FY2023/24 and a 2% uplift for specific cyber security activities.

As noted in our preliminary advice to you dated 4 November 2022 (*'Preliminary Three Waters 2023/24 Annual Plan Opex Advice for Wellington City Council'*), if Council does not provide additional funding to accommodate this increased management fee budget, Wellington Water will need to reallocate funds from other investment category budgets to make up for this deficit. Consequently, this will further impact Council's ability to achieve its service level targets.

## Next Steps

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We request a response by 27 January 2023 and look forward to future discussion with Council in seeking your direction on a way forward.

Following your response to this memo and any discussion meeting, Wellington Water will proceed to deliver services within agreed budgets.