Wellington Water

Advice to Hutt City Council (HCC) Regarding Three Waters Capital Expenditure for the 2023/24 Annual Plan

TO	Bruce Hodgins, Strategic Advisor, Hutt City Council
COPIED TO	Peter Wells, Manager Service Planning, Wellington Water; Kevin Locke, General Manager Customer Operations, Wellington Water
FROM	Julie Alexander, General Manager Network Strategy & Planning, Wellington Water
DATE	2 December 2022

Purpose

1. This paper advises Hutt City Council (Council) on the level of capital expenditure (CAPEX) Wellington Water Limited recommends that Council budgets for in the FY2023/24 Annual Plan. It advances our previous advice to Council dated 4 November 2022.

Recommended action

2. It is recommended that Council:

a. **agree** to continue enabling growth in the three waters capital delivery programme by approving a budget for the 2023/24 financial year of $65m-$68m. This budget is above the forecast expenditure for the 2022/23 financial year ($60m)

b. **agree** to increase the total CAPEX budget available for the three-year 2021/24 Long Term Plan to $154-$157m, which is $3m-$6m above the currently approved budget.

c. **notes** additional work is required to confirm the projects that would make up the FY2023/24 programme and this will be provided in subsequent advice in January 2023.

d. **notes** that this advice will be released and published on Wellington Water's website within 30 working days of being sent to Council.

Context and key messages

3. In our preliminary advice to you dated 4 November 2022 ('WWL *Preliminary Y3&4 Capital Delivery advice to HCC_Nov 22'*) we requested a Council provide a capital budget of $85.5m in FY2023/24. This aligned with the information provided to Wellington Water from Council on 20 October 2022. This assumed that approximately $20m would be brought forward to enable funding of additional investment, increasing this year's budget from $41.8m to $60m

4. The 2022/23 budget was $41.8m, the current risk adjusted forecast is $60m which is at the top of the delivery range of ($42M-60m). Year to date spend at the end of October was $21m. Looking to 2023/24, the capital delivery programme is forecasting to spend between $65-$68m.

5. We are now seeking a CAPEX budget of between $65-68m for FY2023/24. This reflects a level of investment we believe is deliverable within the Capital programme in FY2023/24. It includes approximately $45m of projects that are on track to have contracts awarded by the end of June 2023, some will be the next stage of works already underway, for example the Avalon Wastewater Catchment Renewals Programme.
6. A budget between $65-68m exceeds Councils' 3-year budget by between $3m-$6m. At the 3-year budget level, a total of $151m was approved through the Long Term Plan ($132m) and subsequent additional approved funding ($19m). In 2021/22 expenditure was $29m. The risk adjusted forecast spend for 2022/23 is $60m, and the forecast for 2023/24 is $65-$68m. At a forecast total of $154-$157m, this is $3m-$6m above the currently approved 3-year budget.
7. A significant portion of the FY2023/24 programme will be recommended to be in renewals activity. Investment in renewals reduces the risk of asset failures and has positive flow on effects to future maintenance budgets. Increasing CAPEX investment in FY2023/24 provides an opportunity to address Councils growing backlog in renewals projects.
8. Further detail on the projects proposed to make up Council's FY2023/24 CAPEX programme will be provided in subsequent advice in January 2023.

Risk of keeping budget at current LTP level

9. As noted in our previous advice, Wellington Water has been working on sustainably growing the CAPEX programme over the past few years. Reducing expenditure in FY2023/24 below that of F2022/23 is counter-intuitive to the sustained growth model.
10. It's important we continue to provide greater certainty to the market of ongoing investment in three waters into the future. We are seeing the contractor market ramp up resourcing for delivery in three waters and growing the level of investment year on year is an important part of this. Signalling sustained growth in investment will provide stability in the market and reduce the risk of contractors shifting to other large-scale programmes such as transport and housing which also have growing CAPEX programmes.

Next steps

11. Please provide a response to the recommendations in this paper to Julie Alexander by 13 January 2023.