

Advice to Hutt City Council (HCC) Regarding Three Waters Operating 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, Group Manager Network Strategy & Planning, Wellington Water

DATE 2 December 2022

Action sought

	Action sought	Deadline
Bruce Hodgins Strategic Advisor, Hutt City Council	Note and respond to the recommendations in this paper	13 January 2023

Contact for telephone discussion (if required)

Name	Position		1st Contact
Julie Alexander	Group Manager Network Strategy & Planning, Wellington Water	021 815 162	
Pete Wells	Manager Service Planning, Wellington Water	021 195 9621	✓

Purpose

1. This paper advises Hutt City Council (Council) on Wellington Water Limited's operating expenditure (OPEX) budget for 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. **note** that Hutt City Council's confirmed OPEX investment in Three Waters is \$23.54m for the 2023/24 financial year;
 - b. **note** Wellington Water recommends an OPEX budget of \$29.24m is needed for FY2023/24 to meet current levels of service.

- c. **agree** to:

EITHER

- i. proportionally increase OPEX funding across all investment categories with priority, at a minimum, on the following activities:
 - I. Asset condition assessments
 - II. Sustainable Water Supply and Demand and leakage management
 - III. Investigations to inform forward capital works plans
 - IV. Wellington Water management fee including cyber security; and
- ii. accept that a budget below \$29.24m will result in reduced levels of service of Council assets;

OR

- i. increase Wellington Water's OPEX funding for FY2023/24 by \$5.7m to a total OPEX budget of \$29.24m;
- d. **advise** Wellington Water of the process, including the impacts of our advice on Council's Significance and Engagement Policy, timeframes and any further information needed to support progressing the development of Council's Annual Plan;
- e. **meet** with Wellington Water to discuss the content of this paper to agree appropriate funding levels within Council's financial constraints; and
- f. **note** 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 (*'Preliminary Three Waters 2023/24 Annual Plan OPEX advice for Hutt City Council'*) we signalled risks with keeping Council's OPEX budget at the current LTP approved level. We also noted possible OPEX cost increases to address those risks, where known.
4. Following further analysis, we now have a better understanding of the OPEX budget required for FY2023/24. Wellington Water recommends \$29.24m is needed to maintain and operate Council's Three Waters assets in FY2023/24.
5. We acknowledge this is a sizeable step-up from Council's approved LTP budget. We appreciate that Council will be facing financial pressures across all its budgets and any increase in funding to Wellington Water will need to be considered alongside other Council priorities.
6. The OPEX budget proposed by Wellington Water reflects the funding required to deliver existing levels of service. In the situation where an OPEX budget is approved below the amount proposed, we would welcome a conversation with Council to confirm priorities and the trade-offs in levels of service.

Hutt City Council's Three Waters Operating Investment

Wellington Water's recommended OPEX budget for the 2023/24 financial year is \$23.537m

7. Table 1 below outlines Wellington Water's recommended changes to our approved OPEX budget for FY2023/24. Advice on our proposed CAPEX budgets will be provided separately in early 2023.

Table 1: Summary of proposed operational expenditure for FY2023/24 by investment category

Investment category (\$ x 1,000)	FY23 Budget	Council approved 2023/24 LTP funding	2023/24 recommended budget	Recommended increase above LTP approved budget
Treatment Plant	6,540	6,910	7,800	890
Planned maintenance	2,792	3,575	3,984	410
Reactive maintenance	5,844	6,057	8,161	2,104
Monitoring and investigations	4,234	3,200	4,901	1,701
Operations	200	183	228	46
Management and advisory services	3,354	3,613	4,164	551
TOTAL	22,964	23,538	29,238	5,702

8. Consistent with industry-wide trends, Wellington Water is seeing significant cost increases across all activities within its service delivery portfolio. Cost increases associated with higher labour, consultant/contractor and material costs as well as growth factors and rising demand for water have contributed to the budget shifts across all investment categories in Table 1. Additional factors driving changes within specific investment categories are summarised below.

Treatment plants

9. The Treatment Plant investment category, groups all activities relating to the operation of treatment plants, planned and reactive maintenance. The OPEX budgets for all other activities delivered by Wellington Water are separated under the relevant investment category.
10. The recommended budget uplift, in addition to general inflation factors, reflects expected cost increases due to:
 - higher gas and electricity tariffs – the contracts for power and gas will expire in 2023. We have budgeted a 15% increase for FY2023/2024.
 - sludge disposal costs to landfill are increasing by 12.5% in FY2023/2024
 - increased outfall pipe maintenance – the frequency of unplanned maintenance to the Seaview outfall pipe has increased. On average, outfall maintenance costs have been in the order of \$130,000 per incident. We have budgeted an allowance for two incidents in FY2023/24
 - variation in the contract with the Plant Manager Veolia.

Planned maintenance

11. A large proportion of the recommended uplift is due to inflation and higher costs for goods and services. In addition, growth and water demand is putting pressure on maintenance programmes to ensure pump stations and other assets across the network are being maintained to required operational service levels.

Reactive maintenance

12. Existing funding is insufficient to meet customer requirements, therefore the recommended budget supports Wellington Water to increase activity to meet target service levels. In addition, significant cost increases associated with higher labour, consultant/contractor and material costs are contributing to the uplift recommended for reactive maintenance.
13. We know that capital investment is insufficient to address the backlog of pipe renewals, as such the network is continuing to age and increased levels of failure and repairs are expected. Budget uplift is recommended to meet forecast reactive maintenance costs across your Three Waters infrastructure with a large proportion to stormwater and potable water network maintenance which includes leak repairs. We support Council's early signals to Wellington Water that reactive maintenance including leakage management is a priority for any additional budget funding.
14. Alternatively, if additional budget is not available or to the level recommended, we advise agreeing to amend target levels of service to increase response times and reduce delivery of lower priority reactive maintenance.

Monitoring and investigations

15. The recommended increase is largely due to the following key work areas:

- Condition assessment – as previously signalled, we have made good progress on completing Very High Criticality Assets (VHCA) condition assessments. We are recommending an uplift of \$729k to complete condition assessment on High Criticality Assets (HCA) assets, physical pipe inspections, testing of critical pumps, wastewater treatment plant pump and blower performance testing and the development of pump station asset management documents. The additional funding for condition assessment activities accounts for 42% of the Monitoring and Investigation uplift requested. As a priority, we strongly advise ongoing funding in condition assessments, including for non-VHCA, to further improve understanding of Council’s assets and to identify where remedial action is needed to minimise unplanned failures.
- Investigations, including for the Hutt Valley Joint Venture trunk mains; to meet increased levels of service for the Active Leak Control Programme; resilience, fireflow, pressure management, and reservoir structural assessments; wastewater overflow reduction and the frequency. We recommend an uplift in funding of 23% in investigations to help inform forward capital programmes as a priority.

16. Also accounting for the uplift is increased laboratory costs and new sampling programmes required to meet changing water regulation and new resource consent requirements.

Operations

17. The uplift recommended is for preventative maintenance activities across Council’s stormwater, wastewater, and potable water asset control systems. It is important these systems are operational for controlling and monitoring the Council’s treatment plant, pump station, flow meter, and valve assets.

Management and advisory services

18. The higher management costs we have been experiencing in FY2022/23 due to higher inflation rates, wage growth consistent with market rates, a higher proportion of contractors and consultants being used across the industry, and increased staff numbers to deliver larger CAPEX and OPEX programmes, are trending to continue through FY2023/24.

19. In addition to the general cost increases, ongoing funding for cyber security activity is needed. No specific funding for cyber security was provided in the approved LTP. Therefore, this programme has not been budgeted for beyond FY2022/23. Cyber risk is growing globally. As an organisation delivering essential infrastructure services, it is vital investment is made to protect against cyber-attack.

20. We endorse Council’s early signals to Wellington Water that management and advisory services (including cyber security) is a priority for budget uplift.

Sustainable water supply

21. We strongly recommend as a priority, consistent with Council’s early signals, increased investment in Sustainable Water Supply activities. These activities are important to: help ensure water is available to support economic, social, and cultural wellbeing; improve efficiency of supply across the network; and improve environmental outcomes.

22. The costs for Sustainable Water Supply activities are split across the proposed planned maintenance, reactive maintenance, operations and monitoring and investigation budgets outlined above. In total this represents \$575k of the total recommended budget.

Next steps

23. Please provide a response to the recommendations in this paper to Julie Alexander by 13 January 2023.
24. Following your response to this report and any discussion meeting, Wellington Water will proceed to deliver services within agreed budgets.