

Advice to Wellington City Council Regarding Three Waters Operating Expenditure for the 2023/24 Annual Plan

TO Siobhan Procter, 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 & Planning, Wellington Water

DATE 5 December 2022

Action sought

| | Action sought | Deadline |
|--|--|-----------------|
| Siobhan Procter Chief Infrastructure Officer, Wellington 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 | 021 195 9621 | x |

Purpose

1. This paper advises Wellington City Council (Council) on Wellington Water Limited's recommended 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 Wellington City Council's confirmed OPEX investment in three waters is \$44.716m for the 2023/24 financial year (FY2023/24);
 - b. **note** that Wellington Water recommends an OPEX budget of \$55.089m is needed for FY2023/24.
 - c. **agree to:**
 - i. increase OPEX funding across all investment categories with priority given to increasing budget for the following activities:
 - I. Asset condition assessments
 - II. Sustainable water supply and leakage management
 - III. Wellington Water management fee; and
 - ii. Accept that a budget below \$55.089m will result in reduced levels of service from Council;
 - d. **meet** with Wellington Water to discuss the content of this paper to agree appropriate funding levels within Council's financial constraints;
 - e. **advise** Wellington Water of the process (including the impacts of our advice on Council's Significance and Engagement Policy) timeframes and any further information requirements needed from Wellington Water to support progressing the development of Council's Annual Plan; and
 - f. **note** that this advice will be proactively released and published on Wellington Water's public website, subject to any redactions consistent with the Local Government Official Information and Meetings Act 1987, within 30 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 Wellington City Council'*) we signalled risks associated with keeping Council's OPEX budget at the current LTP approved level. We also proposed possible OPEX cost increases to address those risks, where known. At this time, we signalled we would provide further, detailed advice to support our view that the FY2023/24 OPEX budget would need a significant uplift.

4. This paper presents that advice in detail and proposes a \$10.37 million increase across all Wellington Water’s services to Council. In total, Wellington Water recommends \$55.089m 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 pressure across all of its budgets and that this increase will need to be considered against Council’s total budget position across all its operations. We are also conscious Council will require more detailed discussions to determine a final, approved budget for FY2023/24.
6. We wish to discuss with you the overall position that as your advisors we propose for next year. We then wish to enter into detailed discussions over what programmes should be prioritised and delivered in the context of your whole-of-Council budget.

Wellington City Council’s Three Waters Operating Investment

Wellington Water’s recommended OPEX budget for the 2023/24 financial year is \$55.089m

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

Table 1: Summary of proposed operational expenditure for FY2023/24 by investment category (\$000s)

| Investment Category | FY23 Budget | Council approved 2023/24 LTP funding | 2023/24 recommended budget | Recommended increase above LTP approved budget |
|--------------------------------|---------------|--------------------------------------|----------------------------|--|
| Management & Advisory Services | 5,887 | 6,342 | 7,369 | 1,027 |
| Monitoring & Investigations | 5,854 | 5,982 | 7,556 | 1,574 |
| Operations | 346 | 371 | 420 | 49 |
| Planned Maintenance | 4,458 | 4,436 | 6,208 | 1,772 |
| Reactive Maintenance | 9,844 | 11,967 | 15,401 | 3,433 |
| Treatment Plant | 15,238 | 15,618 | 18,136 | 2,518 |
| TOTAL | 41,627 | 44,716 | 55,089 | 10,373 |

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.
9. Additional factors driving changes within specific investment categories are summarised below.

Treatment plants

10. The Treatment Plant investment category groups all activities relating to the operation of treatment plants covering operations and planned and reactive maintenance. The OPEX budgets for all other activities delivered by Wellington Water are separated under the relevant investment category.
11. A total budget of \$18.136m is requested for Treatment Plant activities. This is an uplift of \$2.518m from the approved LTP OPEX budget for FY2023/24 of \$15.618m.
12. The recommended budget uplift, in addition to general inflation factors, reflects expected cost increases due to the following key drivers:
 - increase in sludge disposal costs – disposing sludge to landfill is expected to increase by 13% from \$262/ton to \$294/ton in FY2023/2024 resulting in a total increase of \$0.646m
 - higher gas and electricity tariffs – the contracts for power and gas will expire in 2023 with an estimated future uplift of 15% resulting in a total budget increase of \$0.463m
 - operations and maintenance costs for plants have increased by \$0.334m
 - variation in the contract with Veolia due to existing contractual mechanisms with an estimated future uplift of 15% (\$0.264m)
 - expected uplift in the Porirua City Council Waste Water Treatment Plant (WWTP) Joint Venture share of \$0.786m. This is higher than the preliminary advice signalled in early November.

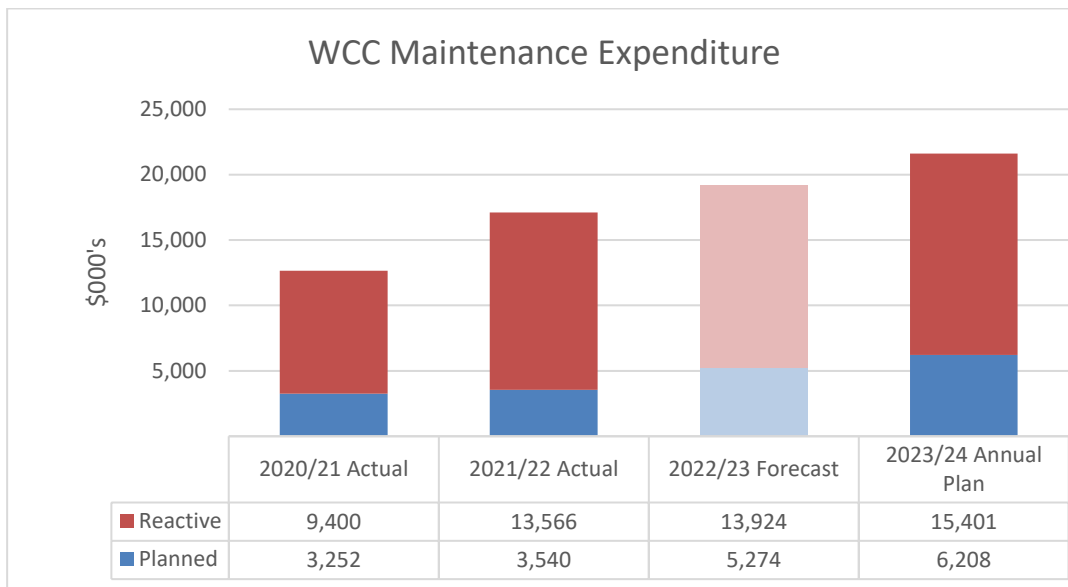
Planned maintenance

13. A total budget of \$6.208m is requested for planned maintenance activities, which is an uplift of \$1.772m from the FY2023/24 LTP approved budget of \$4.436m. This uplift is recommended to meet forecast planned maintenance costs for network maintenance, pump stations and reservoirs.
14. Identified as a priority in our previous advice, our leak management programme has given us a more detailed understanding of the extent of water loss across the network, the impacts of that loss, and has enabled strategic leak repairs to better target water loss.
15. Historically, planned maintenance on reservoirs has been limited by very constrained budgets. The identification of deferred maintenance items in the VHCA programme, coupled with the high number of reservoirs (48 assessed out of 64), highlights the need to review the current programmed maintenance budget to adequately mitigate contamination risk.

Reactive maintenance

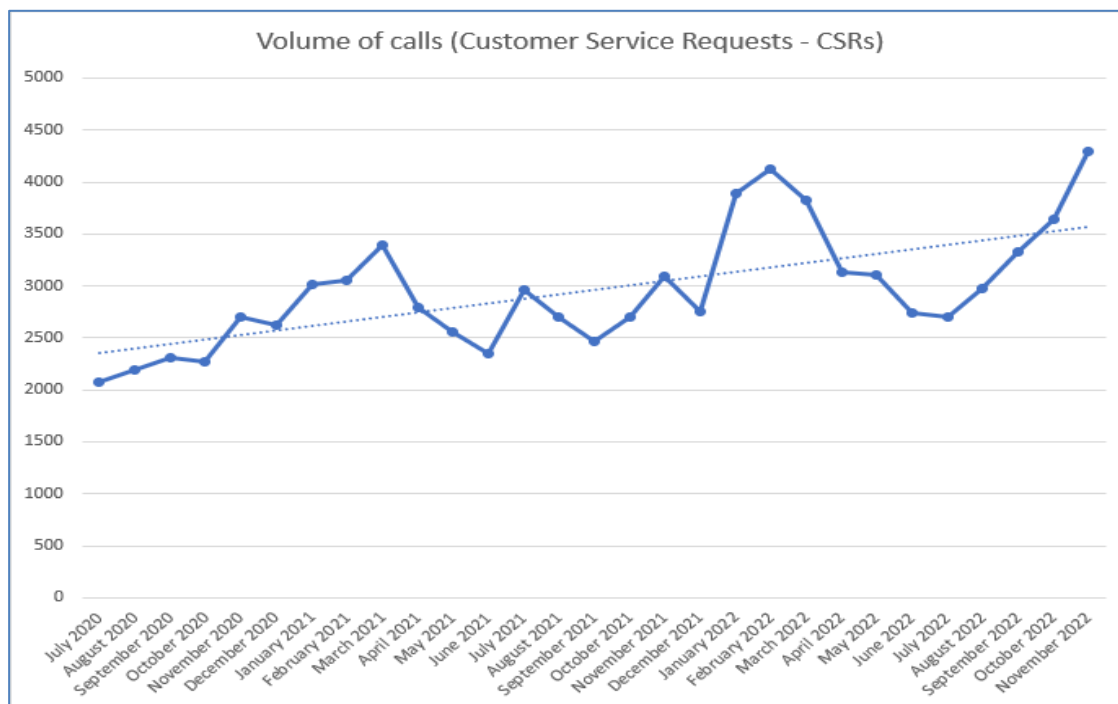
16. For FY2022/23 we are tracking towards an overspend above the approved reactive maintenance budget. Figure 1 illustrates the trends in actual and forecast maintenance expenditure from 2020/21 to 2023/24. It highlights that planned and reactive maintenance expenditure is growing year on year.

Figure 1: *Planned and reactive maintenance expenditure (FY2020/21- 2023/24)*



17. While dependent on the number of failures, reactive maintenance costs are anticipated to increase based on failure trends experienced to date, the average age of assets and the resulting rates of renewal/replacement anticipated. Figure 2 (overpage) illustrates the upward trend in maintenance calls between July 2020 and November 2022.

Figure 2: Reactive maintenance call volumes (FY2020/21 – 2022/23)



18. A total budget of \$15.401m is requested for reactive maintenance activities, which is an uplift of \$3.433m from the FY24 LTP approved budget of \$11.967m. This uplift in funding is recommended to meet forecast reactive maintenance costs for network maintenance, pump stations and reservoirs.

19. The recommended budget shift also reflects growth across the network and the activities to maintain pump station, reservoir and network assets to required operational service levels. This represents \$672k of the overall proposed budget increase.
20. Alternatively, if additional budget is not available or to the level recommended, we advise setting different target levels of service to increase response times and reduce delivery of lower priority reactive maintenance activities.

Monitoring and investigations

21. Monitoring and Investigations activities include, condition assessments, water regulatory and resource consent compliance monitoring, water sampling and monitoring, asset management, and investigations and design study activities.
22. A total budget of \$7.556m is requested, which is an uplift of \$1.574m from the LTP approved budget of \$5.982m.
23. The main areas with recommended budget uplifts are:
 - a Condition assessment - We are recommending an uplift of \$230k, to \$1.285m, in order to complete condition assessment on High Criticality Assets (HCA) assets, physical pipe inspections, testing of critical pumps, Moa Point and Western wastewater treatment plant pump and blower performance testing. Condition assessment activities accounts for 15% of the Monitoring & Investigations 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.
 - b Investigations – A total budget of \$2.895m is recommended for investigations which is a key component when supporting the delivery of the current and future capital work programme. We recommend an uplift of \$241k in funding to complete general and reactive investigations, including wastewater overflow reductions and strategies, inflow and infiltration investigations as well as public education funding to inform the Sustainable Water Supply and Demand programme (see section Sustainable Water Supply for further detail). We recommend an uplift in funding in investigations to help inform forward capital programmes as a priority.
24. Also accounting for the uplift is increased laboratory costs and new sampling programmes required to meet changing water regulation and new resource consent requirements.

Management and advisory services

25. 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 expected to continue with this trend through FY2023/24.
26. In addition to these general management cost increases, ongoing funding of \$127k for cyber security risk mitigation 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 security risks are growing globally. As an organisation delivering essential infrastructure services for many critical operations, it is vital investment is made to protect against cyber-attack.

27. We propose budget uplift for Wellington Water's management and advisory services as a priority. If this increase does not eventuate, the additional costs will need to be covered by reducing funding from within other investment categories.
28. A total budget of \$7.369m is requested, which is an uplift of \$1.027m from the LTP approved budget of \$6.342m.
29. Council provided \$266k for the asset register in FY2022/23. While there have been some delays in getting resources in to start the work this funding has enabled, it has allowed good progress to be made on fixing long standing issues with the asset register. Providing this level of funding again for FY2023/24 will enable the progress being made on the asset register to continue at the current pace. Without ongoing funding into FY2023/24, Wellington Water will have to stop or slow down asset register improvement activities¹.

Sustainable water supply

30. We strongly recommend as a priority, consistent with Council's early signals, increased investment in Sustainable Water Supply and Demand (SWSD) 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. The costs for Sustainable Water Supply activities are split across the proposed planned maintenance (\$158k) and monitoring and investigation (\$305k) budgets outlined above. In total this represents \$463k of the total recommended budget.
31. Included in the planned maintenance investment category costs are activities relating to non-residential demand management, such as piloting and completing assessments on high using sectors, to commence in 2023. In addition, integrated meter management activities such as inspections, desktop analyses, meter verifications and calibrations are recommended to improve confidence in meter performance and reliability. Funding integrated meter management activities would contribute to returning to drought resilience levels of service.
32. Under monitoring and investigations, we have accounted for public education costs relating to sustainable water supply and demand. This includes more frequent customer surveying to better understand customer behaviour and attitudes regarding water conservation as well as increased campaign activities to educate and inform the public around what Council are doing to address sustainable water supply and demand. Additional strategic water loss management activities also account for the additional uplift requested, such as more comprehensive investigations, detection surveying and roving of poor performing District Metered Areas (DMA) to enable preventative maintenance and renewal. This would include step testing, checking pressure control valves and meter installations as well as investigation into private leakage. We would also seek to complete a Wellington City network wide risk profiling exercise using satellite and GIS data.

¹ Note, the \$266k for the asset register has been added on top of the general management fee increase noted in the previous advice; hence the increase above \$7.1m previously signalled for this investment category.

Next steps

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