

Porirua City Council 2021-31 Long Term Plan - Draft Three Waters Investment Strategy Discussion



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Discussion on Porirua's Draft Investment Strategy

This presentation follows on from the investment options presented by Wellington Water on 19 August and outlines the draft investment strategy developed collaboratively between Porirua City Council and Wellington Water.

1. Porirua City Council's fiscal constraints
2. Collaborative approach to develop draft investment strategy
3. Recommended investment advice of 19 August
4. Summary of investment strategy
5. Investment trade-offs and Risks
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Porirua City Councils fiscal constraints

There is significant pressure on the current fiscal envelope for three water investment in Porirua to;

- continue to renew existing assets, aging asset profile;
- respond to growth; and
- meet increasing level of service expectations.

However, there are also opportunities to utilise growth funded investment to catalyse both renewals and service level improvement.

The challenge is amplified in an environment where we are attempting to forecast infrastructure needs and wants out 30 years against a back-drop of potential for further structural change in the three waters sector.

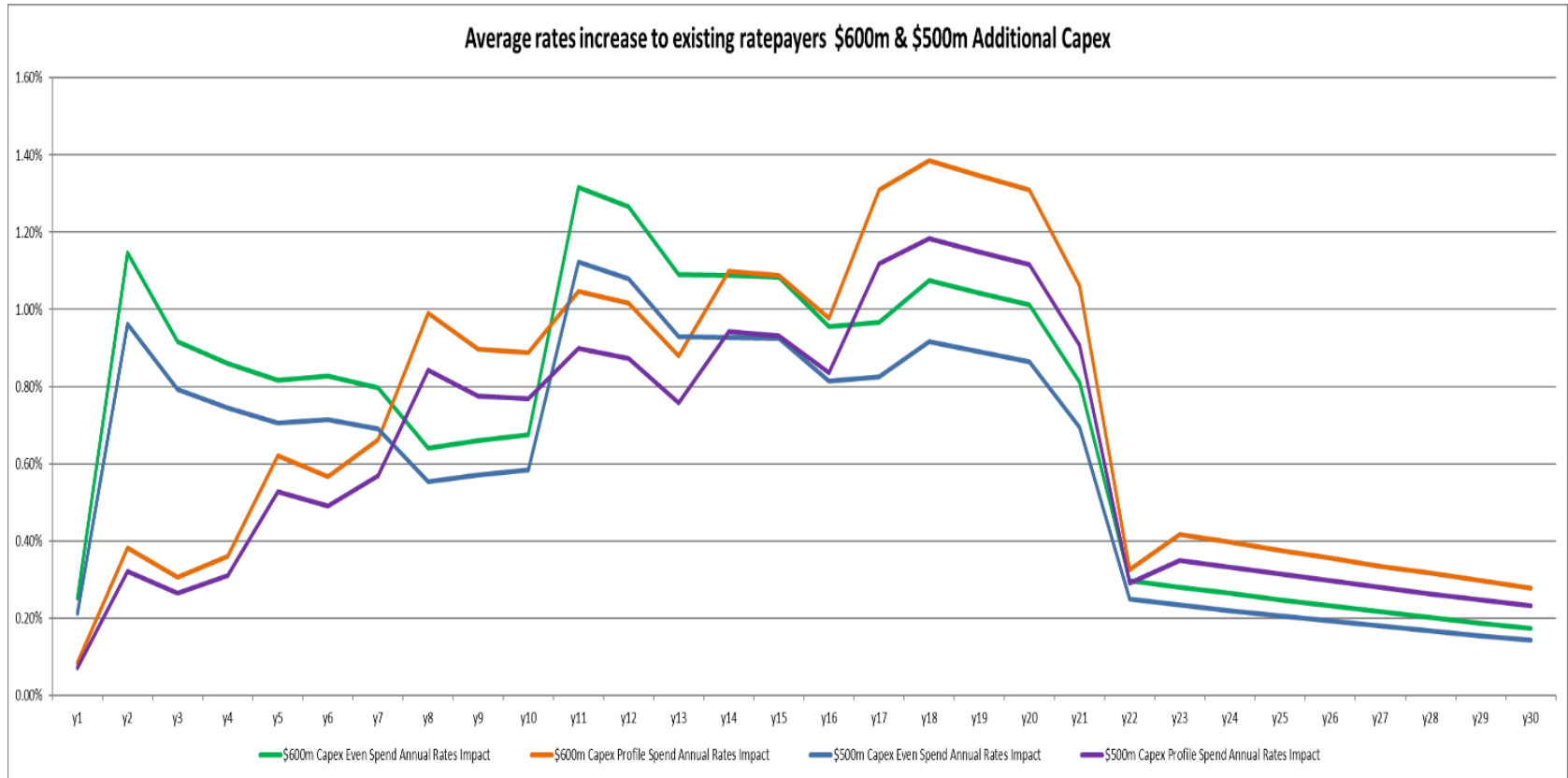
OAG are proposing all Councils ignore any water reform implications from LTP considerations and proceed as BAU.

Rate impact of additional \$100m

- Assumes an average capital profile.
- Uses 3% as cost of interest – can lock in around 1% which will reduce rate impact
- Doesn't address any S&P rating impact – 180% of revenue will be review point. Not likely to approach in next 5 years

	Rate increase yr 1	Rate increase yr 2	Rate increase yr 3	Cumulative rate increase 30 years
At \$500m	0.14%	0.64%	0.53%	18.3%
At \$600m	0.17%	0.76%	0.61%	21.4%

Rate impact of additional \$100m



Investment strategy collaborative approach

The following principles have been used to assist in developing the draft three waters investment strategy;

- It is accepted that overall capex will be constrained, both fiscally and in terms of deliverability. It will not be possible to deliver on everything at once.
- We are clear about differences between the investment requirement driven directly by Growth and investment driven by a Level of Service (LoS) improvement (both local catchment & network wide).
- Growth should pay for growth (noting previous growth has used up capacity without fully funding)
- Where possible Growth will be used to act as a catalyst for improving the efficiency and effective of initiatives that improve broader network service levels.
- A united understanding of risk and how this is managed is an important part of the prioritisation process.

Underlying approach – WWL Advice

Looking after existing infrastructure

Looking after existing assets is foundational to a sound risk management approach. It reduces the risk of surprises that usually cost more, and have greater negative effects, than planned work does.

Growth

Growth is inevitable and must be managed in a way that ensures it doesn't add to existing challenges for the three waters network. The projects required to support growth generally allow for level of service and growth upgrades.

Reducing water consumption

The other priorities are system wide issues that need addressing over the next 30 year:

Improving environmental water quality

- The region is near capacity for water supply
- Communities expect better environmental water quality than we have now
- Carbon emissions are a key contributor to climate change

Reducing carbon emissions

NOTE - Individual activities associated with localised risks such as flooding and seismic resilience will be progressed as funding allows

Capex investment funding - comparison

The proposed strategy provides to achieve the best parity in the future of the City's three water infrastructure needs.

	19 August CAPEX \$(M) investment Options 30 year LTP	24 September CAPEX \$(M) draft investment strategy 30 year LTP
Renewals	520 - 570 Includes \$139M for Eastern Porirua based on age profile	500 \$360 funded by PCC – majority from year 11 onwards \$210 indicated to be provided through Kāinga Ora Funding – majority first 10 years
Growth	169 funded through PCC	280 \$130 funding indicated to be provided through Kāinga Ora, \$150 funded through PCC for Plimmerton Farms and Eastern Porirua
Levels of Service (driven by Growth)	226 catalysed by growth	226 catalysed by growth
Level of Service (other)	109 \$50 minor LoS Improvements, \$17 Reducing water consumption, \$27, Improving water quality, \$15 reducing carbon emissions	70 \$50 minor LoS Improvements, \$20 Reducing water consumption
Total	\$1,024	\$1,076
KO Contribution	\$139	\$270
PCC Contribution	\$885	\$808

Investment funding – breakdown

	10 Year Investment \$(M)	Total 30 year LTP \$(M)	Exclusion \$(M)
Renewals	190 \$50 funded by PCC \$140 indicated to be provided through Kāinga Ora Funding	500 \$360 funded by PCC – majority from year 11 onwards \$140 indicated Kāinga Ora Funding	75 Trade off with current fiscal envelope Address current backlog
Growth	195 \$65 funded by PCC \$130 funding indicated to be provided through Kāinga Ora,	280 \$150 funded by PCC \$130 funding indicated to be provided through Kāinga Ora,	315 Growth outside of East and Plimmerton not included in current LTP capital programme
Levels of Service (driven by Growth)	98 catalysed by growth	226 catalysed by growth	115 Fiscal envelope constraint prioritisation upgrades
Level of Service (other)	70 \$50 minor LoS Improvements, \$20 Reducing water consumption	70 \$50 minor LoS Improvements, \$20 Reducing water consumption	-
Total KO Contribution PCC Contribution	\$553 \$270 \$283	\$1,076 \$270 \$808	\$505
Regional Priorities – Improving Environmental Water Quality			\$69+
Regional Priorities – Reducing Carbon Emissions			\$15+
Other Areas – Flood Reduction and Improving Resilience			\$33+

Recommendations from 19 August

Investment options for consideration;

	Fund an additional \$1.3m OPEX over 3 years, supporting a step change increase in operational costs to look after existing infrastructure.
	Fund \$150m CAPEX over 10 years for renewals to look after existing infrastructure.
	Fund the strategic growth investment level of \$182m CAPEX and \$12m OPEX over 10 years. A placeholder is included pending Kāinga Ora funding approval. Council complements growth investments with enabling policies.
	Fund \$15m OPEX and \$18m CAPEX over 10 years in activities that Reduce Water Consumption to defer investment in a new water source.
	Fund \$17m OPEX and \$27m CAPEX over 10 years to Improving Environmental Water Quality gradually over time.
	Fund \$2m OPEX and \$15M CAPEX over 10 years to Reduce Carbon Emissions.

Note: These recommendations exceed the proposed PCC fiscal envelope for the three waters.

Updated budget recommendation

Wellington Water and Porirua City Council recommends prioritising investment at looking after existing infrastructure and enabling growth. Recognising the existing economic environment a lower level of investment in regional priorities is proposed.

	Fund an additional cumulative \$0.45m per annum OPEX for the first 3 years, supporting a step change increase in operational costs to look after existing infrastructure.
	Fund \$50m CAPEX over 10 years for renewals to look after existing infrastructure, excluding Eastern Porirua, where \$140m of renewals will be directly funded by Kāinga Ora (agreement not yet finalised). \$50m over the first 10 years will be included for level of service and some renewal projects that are currently underway.
	Fund \$163m CAPEX over 10 years in strategic city wide growth projects and no additional OPEX funding. \$130m of benefit for Eastern Porirua will be funded by Kāinga Ora (agreement not yet finalised). Growth investment is made up of growth and level of service upgrades. No additional opex would be available.
	Fund \$20m CAPEX over 10 years in activities that Reduce Water Consumption to defer investment in a new water source. No additional OPEX will be allocated.
	No additional funding is available to specifically Improve Environmental Water Quality, some benefit will be gained through investment in renewals,
	No additional funding is available to specifically Reduce Carbon Emissions, some benefit will be gained through the delivery of other projects.

Indicative outcomes from draft investment strategy (PCC Funded only)

		Reduce service interruptions	Lower risk of critical asset failure	Increase customer satisfaction	Defer future investment	Reduce water consumption	Improve environmental water quality	Reduce CO ₂ emissions
	Fund \$0.45M OPEX year on year for three years	part	part	part	part	part	part	part
	Fund \$50m CAPEX Renewal (10 years), \$50m (10 years) to complete committed projects (LoS and renewal)	✓	✓	✓	✓	✓	✓	part
	Fund Growth \$163m CAPEX – no opex funding	✓	✓	✓		✓	✓	✓
	Fund \$20m CAPEX 10 years, no opex funding				part	part		
	No additional funding						minor	
	No funding							minor

Investment Trade Offs - Context

- Porirua is facing high growth in the short to medium term, with the government lead redevelopment of Porirua East and the developer lead development in North Plimmerton in particular.
- Growth in these areas will exacerbate existing capacity problems in the wastewater system in particular, which require major system upgrades to store peak flows and trunk upgrades to convey peak flows to storage tanks to reduce overflows.
- Renewals are mainly focussed on local networks that convey flow to the trunk system. The primary driver for renewals is to reduce localised collapses and blockages that lead to chronic pollution into local streams and harbour and can lead to sewage overflowing to roads and private property. Renewals in Eastern Porirua has been identified as an essential part of reducing pollution and overflows.
- A step change in investment in both renewals and levels of service upgrades (driven by growth) are part of what needs to be done to meet community desires and regulatory requirements and ideally more would be done in each area if budgets were unconstrained.

Investment Trade Offs - Risks

Investment Strategy	Risk
Combining investment from Kāinga Ora and Porirua City Council provides a significant uplift in the level of renewals of Porirua City three water assets.	<ul style="list-style-type: none"> • Backlog will increase further in areas outside Eastern Porirua • Compounding year on year decrease in service levels • Inherent risk of service failure grows • Increased operational response and corresponding compounding costs
Kāinga Ora funding contribution to three waters investment in Eastern Porirua	If the Kāinga Ora funding does not eventuate the level of renewals will be significantly below recommended levels and the funding of other projects including the Porirua High Level reservoir will need to be addressed by PCC.
Prioritising investment based on looking after existing infrastructure, growth and reducing water consumption.	PCC are still left with significant risk around meeting community aspirations especially Ngāti Toa.
Reducing water consumption – capex investment, no opex investment	PCC will not be able to achieve sufficient reduction in water consumption requiring significant investment by GWRC in a storage resulting in a significant opex increase for PCC.
Improving Environmental Water Quality – no additional funding in either opex or capex	No direct investment will mean a steep increase in investment will be needed in future years to meet the swimmable water targets by 2040.
Reducing carbon emissions – no additional funding in either opex or capex	No direct investment will mean a steep increase in investment will be needed in future years to meet the zero carbon act 2019 targets by 2050.

Discussion

Next steps

- Following this workshop and confirmation of Porirua City Council's fiscal envelope Wellington Water will return with further advice on an optimised three waters programme for endorsement.
- This optimised programme will include the risks associated with the level of investment funded.