

Supplementary advice to Upper Hutt City Council regarding Three Waters Operating Expenditure for the 2023/24 Annual Plan

TO Geoff Swainson - Director of Asset Management and Operations; Sarah Tunnicliffe – Infrastructure and Project Accountant

COPIED TO Pete Wells, Manager Service Planning, Wellington Water

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

DATE 20 April 2023

Action sought

| | Action sought | Deadline |
|---|--|-----------------|
| Geoff Swainson Director of Asset Management and Operations, Upper Hutt City Council | Note that Wellington Water recommends an OPEX budget of \$10.811m Confirm the indicative level of Council's FY2023/24 three waters OPEX investment Note that Wellington Water has identified adjustments of \$1.786m Confirm Council's preferred approach for addressing the remaining shortfall of \$0.623m. | 03 May 2023 |

Contact for telephone discussion (if required)

| Name | Position | 1st Contact | |
|-----------------|---|--------------------|---|
| Julie Alexander | Group Manager Network Strategy & Planning, Wellington Water | 021 815 162 | |
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Purpose

1. This paper provides the Upper Hutt City Council (the Council) advice on the:
 - i. changes necessary to the operational activities proposed for delivery in FY2023/2024 to fit within the level of funding signalled by the Council; and
 - ii. risks of adopting a three waters services OPEX budget for the FY2023/2024 Annual Plan below the levels recommended by Wellington Water Limited (Wellington Water).

Recommended action

2. It is recommended that Council:
 - a. **note** that Wellington Water recommends an OPEX budget of \$10.811m is needed for FY2023/24 to meet current levels of service and that a budget below this level will result in a reduction in the level of service provided for Council assets;
 - b. **confirm** that Upper Hutt City Council's OPEX investment in Three Waters is \$8.402m for the 2023/24 financial year plus an uplift of approximately \$1.100m for bulk water;
 - c. **note** that Wellington Water has identified adjustments of \$1.786m, resulting in a minimum budget of \$9.025m needed to deliver three waters services;
 - d. **confirm** Council's preferred approach for addressing the \$0.623m difference between Wellington Water's minimum level budget and the level of FY2023/24 OPEX investment advised by Council;
 - e. **agree** to accept the customer level of service and non-compliance risks associated with an OPEX budget of \$9.025m or lower, and the impact a budget at this level will have on Upper Hutt's future capital programme;
 - f. **note** that the risk register and the 2023-26 Statement of Intent will be updated to reflect the impacts of an OPEX budget below the level recommended by Wellington Water; and
 - g. **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, 30 days of being sent to Council.

Background

3. Wellington Water's preliminary advice to Council dated 28 October 2022 (*'Preliminary Three Waters 2023/24 Annual Plan OPEX advice for Upper Hutt City Council'*) signalled risks with keeping Council's OPEX budget at the current Long Term Plan (LTP) approved level. This advice also noted possible OPEX cost increases to address those risks, where known.
4. Wellington Water's 9 December 2022 advice (*'Advice to Upper Hutt City Council Regarding Three Waters Operating Expenditure for the 2023/24 Annual Plan'*) provided an update and included the recommendation that an OPEX budget of \$10.811m was considered necessary to maintain and operate Council's Three Waters assets in FY2023/24.
5. On 17 March 2023, Council advised via email that there would be no increase to the proposed three waters operating budget included within the draft FY2023/24 Annual Plan for consultation other than \$1.100m for the bulk water levy.

6. This paper outlines the changes that will be made to the FY2023/24 OPEX budget to achieve the level of funding advised by the Council, along with examples of the activities that would need to be put on hold or cancelled to achieve target budgets. It also highlights the associated risks of implementing these measures.

Upper Hutt City Council FY2023/24 Three Waters Operational Expenditure

Council has advised that Wellington Water’s OPEX budget for the 2023/24 financial year is to remain at the LTP confirmed level of \$8.402m with increases only for bulk water in the order of \$1.100m

7. Wellington Water recommends an OPEX budget of \$10.811m is needed for FY2023/24 to meet current levels of service. In response to Council’s advice on the level of three waters FY2023/24 OPEX budget, Wellington Water has removed \$1.786m from its recommended budget, leaving a shortfall of \$0.623m.
8. \$9.025m represents the minimum Wellington Water considers is needed to deliver three waters services for Council. At this level, and with the reductions that have been made, a number of issues facing the city will be unable to be addressed with risks to Council. Wellington Water seeks Council direction on its total OPEX budget position and the approach for resolving the \$0.623m deficit.
9. Table 1 below provides a breakdown of Wellington Water’s recommended OPEX budget for FY2023/24 and shows the adjustments made to meet the budget advised by Council.
10. Detail on the drivers and rationale for the budgets proposed in Table 1, the relative priorities of expenditure, and potential risks from lower levels of investment are outlined in the following sections.

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

| Water | Investment Category | FY22/23 LTP Budget | FY23/24 LTP Budget | FY23/24 WWL Recomm. Budget | Adjustments to meet specified FY2023/24 budget | Final Budget After Adjustments |
|--------------------------------|-----------------------------|--------------------------|--------------------------|-------------------------------------|--|--------------------------------------|
| Drinking Water (DW) | Monitoring & Investigations | 873 | 374 | 923 | (267) | 656 |
| | Operations | 100 | 96 | 99 | 0 | 99 |
| | Planned Maintenance | 210 | 314 | 499 | (179) | 321 |
| | Reactive Maintenance | 1,048 | 1,404 | 1,964 | (559) | 1,404 |
| DW Total | 2,230 | 2,188 | 3,484 | (1,005) | 2,479 | |
| Stormwater (SW) | Monitoring & Investigations | 202 | 96 | 474 | (276) | 198 |
| | Operations | 22 | 16 | 20 | 0 | 20 |
| | Planned Maintenance | 263 | 263 | 313 | (44) | 269 |
| | Reactive Maintenance | 0 | 88 | 167 | (77) | 90 |
| SW Total | 488 | 464 | 974 | (396) | 577 | |
| Wastewater (WW) | Monitoring & Investigations | 330 | 281 | 668 | (339) | 330 |
| | Operations | 52 | 59 | 61 | 0 | 61 |
| | Planned Maintenance | 291 | 201 | 240 | (6) | 235 |
| | Reactive Maintenance | 0 | 334 | 414 | (40) | 374 |

| | | | | | |
|--|--------------|--------------|---------------|----------------|----------------|
| WW Total | 672 | 874 | 1,384 | (384) | 999 |
| Wastewater Treatment Plant Joint Venture (WWJV) | 3,156 | 3,418 | 3,437 | 0 | 3,437 |
| WWJV Total | 3,156 | 3,418 | 3,437 | 0 | 3,437 |
| Management & Advisory Services Total | 1,270 | 1,459 | 1,533 | 0 | 1,533 |
| Grand Total | 7,816 | 8,402 | 10,811 | (1,786) | (9,025) |

Assumptions underpinning Wellington Water's proposed FY2023/24 OPEX budget

11. In Wellington Water's 9 December 2022 advice, the impact of inflationary factors driving up the cost of materials, labour, services, and utilities costs as well as rising demand for water was signalled. This is having an impact across all budget line items. At the time LTP budgets were initially set, inflation was lower. To accurately reflect current market conditions, a 10% increase has been applied over the FY2022/23 labour and plant allocations budgets across all water types and investment categories.
12. Some activities within the proposed OPEX budget are considered unavoidable. These costs relate to activities that are mandatory or cannot be avoided or deferred as they are essential for the operation and maintenance of Councils assets. For example, costs required for the day-to-day operation of critical services where the consequence of failure is very high or for maintaining compliance with legislation, regulation, or industry standards. It is recommended these activities need to be covered by Council.
13. Wellington Water considers the recommended budgets for the following activities is required to deliver unavoidable activities:
 - Treatment Plants (including the Wastewater Joint Venture)
 - Operations
 - Monitoring
 - Management & Advisory Services.
14. Wellington Water has not applied any reductions to these activities, with budgets remaining as recommended. However, if directed by Council that further adjustments are required to meet the LTP approved OPEX budget, it will need to be taken from these activities.
15. To meet Council's advised budget, activities under the following investment categories will be substantially reduced:
 - Planned Maintenance
 - Reactive Maintenance
 - Investigations.
16. Any reductions in budget below the minimum levels identified by Wellington Water will further impact service delivery. The combined effect of constrained budgets and the higher costs of goods and services will have a substantial impact on the volume of activities delivered in FY2023/24.

Monitoring and Investigations

17. The monitoring and investigations investment category includes activities such as condition assessments, consent monitoring, water sampling and monitoring, flow and overflow monitoring, investigations including for inflow and infiltration and water quality, meter reading, growth modelling and planning, asset management, and the development of an asset register.

18. A total budget of \$2.065m is recommended to meet forecast monitoring and investigations costs. This is an uplift of \$1.314m over the FY2023/24 LTP allocated budget of \$0.751m. To meet the FY23/24 budget level advised by Council, \$0.902m of investigations will be deferred, resulting in a revised budget of \$1.164m for FY2023/24.
19. Table 2 below provides the breakdown of the recommended budget by water type and the adjustments to fit within the overall OPEX budget advised by Council.

Table 2: Summary of proposed Monitoring and Investigations OPEX against adjusted to meet budget for FY2023/24 by water type (\$000s)

| Investment Category (\$000) | Water Type | 2023/24 LTP Budget | 2023/24 Recommended Budget | Adjustments to meet specified FY2023/24 budget | Final Budget After Adjustments |
|-----------------------------|----------------|--------------------|----------------------------|--|--------------------------------|
| Monitoring & Investigations | Drinking Water | 374 | 923 | (267) | 656 |
| | Stormwater | 96 | 474 | (276) | 198 |
| | Wastewater | 281 | 668 | (359) | 310 |
| | Total | 751 | 2,065 | (902) | 1,164 |

20. The following activities within the Monitoring and investigations investment category have been prioritised, with no adjustments made to the recommended budgets:
- Monitoring – Monitoring activities make up \$0.627m of the recommended budget for this investment category. Most of this is considered unavoidable costs required to undertake sampling and testing activity or monitoring to meet consent requirements. This budget also covers Council’s share of software which had not previously been budgeted for. The proposed adjustments to the Monitoring and Investigations investment category does not include any changes to monitoring activities or the corresponding budgets required to carry out these activities.
 - Activities required for regulatory compliance – for example preparing for new dam safety regulations which come into effect in May 2024, and undertaking backflow surveys essential for preventing water supply contamination.
21. Wellington Water has applied adjustments to the recommended budgets for:
- Condition assessments – a budget of \$0.317m is recommended to complete condition assessment on High Criticality Assets (HCA) assets. This has been halved to \$0.159. Wellington Water requires sufficient funding for condition assessments to inform and guide the development of capital delivery programmes. Without the knowledge obtained through thorough condition assessments:
 - maintenance efforts will be increasingly reactive and based on issues as they arise, leading to increased costs and less efficient use of resources. Reactive maintenance often results in a higher average cost of maintenance than proactive maintenance.
 - the frequency of repairs required and duration of outages impacting consumers are likely to increase.

Not completing enough condition assessments to support the capital works programme can result in:

- i inadequate budgeting – without a comprehensive understanding of the condition of the assets, it may be difficult to estimate costs of the capital works programme and budget accordingly
 - ii the capital works programme may not address the most critical issues or may not be optimized for the specific needs of the assets. This can lead to inefficiencies and wasted resources
 - iii safety hazards may be overlooked, putting workers and the public at risk
 - iv unnecessary repairs may be made, increasing costs and diverting resources away from more critical issues
 - v reduced asset lifespan – without proper condition assessment assets may not be maintained properly, which can lead to a reduction in their useful lifespan and result in increased costs over time.
 - General investigations – a budget of \$0.230m is recommended. This has been reduced by \$0.141m to \$0.089m. A reduction in the investigations budget will result in renewals investigations being deferred, impeding the timely execution of future renewals initiatives and risking:
 - i Failing to identify and address potential infrastructure failures or weaknesses, leading to costly repairs or even potential failure of the system
 - ii Being unable to plan for long-term maintenance and replacement needs, leading to the potential for unexpected expenses and service interruptions.
 - Sustainable Water Supply and Demand Strategic water loss management work - a budget of \$0.057m is recommended. This has been reduced by \$0.002m to \$0.055m. This work is considered important to get ahead of the water loss problem, seeking to solve the root cause and improving the reliability of water supply for consumers.
22. In addition to the activities above, all of the following investigations activity that was forecast and budgeted to be delivered in FY2023/24 will be stopped:
- Sustainable Water Supply and Demand public education (recommended \$0.018m)– regional share of campaign to reduce water use and increase water conservation particularly in summer months. Water supply and demand is a regional issue, becoming more acute.
 - Inflow and infiltration investigations (recommended \$0.065m) – Generally, failing to complete inflow and infiltration investigations to reduce wastewater overflows means work cannot proceed to reduce the risk of untreated sewerage leaching into the environment, polluting waterways, and causing human health risks. Without this work, consent requirements could be breached, resulting in possible regulatory penalties or legal action.
 - Catchment growth planning and growth modelling (recommended \$0.170m) – no funding will be available to complete these studies in FY2023/24.
 - Asset related studies and the development of facility management plans and standards, approved products and guidelines (recommended \$0.065m) – no funding will be available to complete these activities in FY2023/24.
 - Asset register (recommended \$0.100m) – without FY2023/24 funding, Wellington Water will have to stop or slow down asset register improvement activities. This could lead to difficulties in assessing the full range of assets owned by Council and providing data to support the transfer of services to the new Entity.
 - Heretaunga Dam Safety (recommended \$0.100m) – failing to undertake dam safety investigations risks dam failure if issues are not able to be identified and addressed. While the consequences of

this are very high, the likelihood is low. In response to this risk, a nominal amount of \$0.010m has been retained within the proposed monitoring and investigations budget for basic dam investigations works.

- Submissions on Greater Wellington Regional Council Resource Management Act 1991 (RMA) planning documents and responding to the RMA Reform, including the National Planning Framework (\$0.040m) – no funding will be available for legal and technical expertise to help ensure desired outcomes for the delivery of three waters services are reflected in the development of RMA regulation, policies and plans. In 2023/24 hearings will be held on the Greater Wellington Regional Policy Statement and plan changes to the Regional Plan are expected. It is important Wellington Water participates in these processes, on behalf of Council, to ensure the continued operation and setting of appropriate levels of service for Council's wastewater and stormwater networks.
- Climate change investigations (recommended \$0.032m) – no funding will be available to complete climate change related initiatives in FY2023/24 including investigations and carbon monitoring. This risks limiting Wellington Water's ability to prepare for future climate change (modelling), to report emission reductions, and to understand how to achieve 2050 emissions targets.

Operations

23. The Operations investment category includes the control systems covering the electrical, instrumentation and automation systems for Council's stormwater, wastewater, and potable water assets. It is important these systems are operational for controlling and monitoring Council's pump station, flow meter and valve assets.
24. A total budget of \$0.179m is recommended to meet forecast operations costs. This is an uplift of \$0.008m over the FY2023/24 LTP approved budget of \$0.171m due to the 10% increase in labour and plant allocations applied to reflect the impact of inflation.
25. Wellington Water advises that most of the proposed budget for Operations is unavoidable, being necessary to cover the costs essential for the running of Council control system assets. A small proportion allocated for preventative maintenance of control systems could be reduced. However, this could result in significant risks including:
 - equipment failure – without proper maintenance, control system assets such as valves, pumps, and control panels can malfunction or break down in some cases resulting in immediate loss of service, leading to disruptions in water supply and potential safety hazards
 - system downtime – if control system assets are not maintained, they may require more frequent repairs or replacements, leading to extended downtime and decreased efficiency
 - increased costs – neglecting preventative maintenance can lead to more costly repairs and replacements in the long run, as well as increased energy consumption and labour costs
 - environmental risks – poorly maintained control systems can lead to leaks or spills, which can have negative impacts on the environment and local communities.
26. Therefore, Wellington Water recommends retaining budget for these activities within the LTP budget level advised by Council.
27. Table 3 below provides the breakdown of the recommended budget by water type, noting no adjustments have been made to this investment category to meet the overall OPEX budget advised by Council. Figure 1 shows the recommended operations budget for FY2023/24 against previous budgets and actual and forecast expenditure.

Table 3: Summary of proposed Operations OPEX for FY2023/24 by water type (\$000s)

| Investment Category | Water Type | 2023/24 LTP Budget | 2023/24 Proposed Budget | Adjustments to meet specified FY2023/24 budget | Final Budget After Adjustments |
|---------------------|----------------|--------------------|-------------------------|--|--------------------------------|
| Operations | Drinking Water | 96 | 99 | - | 99 |
| | Stormwater | 16 | 20 | - | 20 |
| | Wastewater | 59 | 61 | - | 61 |
| | Total | 171 | 179 | - | 179 |

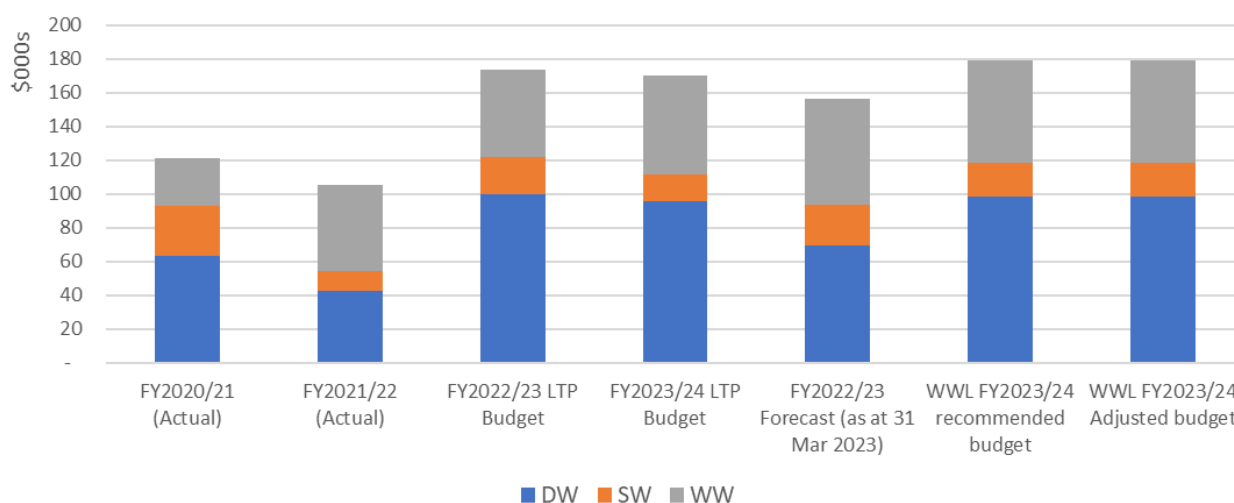


Figure 1: Actual, budget, forecast and proposed operations budgets for FY2020/21 - FY2023/24

Planned Maintenance

28. The planned maintenance investment category includes water and wastewater pump station, utility and network asset maintenance, and stormwater maintenance activities.
29. A total budget of \$1.053m is recommended to meet forecast planned maintenance costs. This level of activity is based on the forecast expenditure for FY2022/23 of \$0.806m plus additional budget to address:
 - growth and water demand putting pressure on maintenance programmes to ensure pump stations and other assets across the network are being maintained to required operational service levels
 - non-residential demand management – to support the focus on Sustainable Water Supply and Demand
 - reservoir maintenance, pump station maintenance and area water meters and flushing wastewater pipe activities.
30. To try and fit within the overall FY2023/24 budget level advised by Council, adjustments in the order of \$0.228m have been made resulting in a revised budget of \$0.825m.
31. Table 4 below provides the breakdown of the recommended budget by water type.

Table 4: Summary of proposed Planned Maintenance OPEX for FY2023/24 by water type

| Investment Category (\$000) | Water Type | 2023/24 LTP Budget | 2023/24 Proposed Budget | Adjustments to meet specified FY2023/24 budget | Final Budget After Adjustments |
|-----------------------------|----------------|--------------------|-------------------------|--|--------------------------------|
| Planned Maintenance | Drinking Water | 314 | 499 | (179) | 321 |
| | Stormwater | 263 | 313 | (44) | 269 |
| | Wastewater | 291 | 240 | (6) | 235 |
| | Total | 778 | 1,053 | (228) | 825 |

32. There are significant risks with a planned maintenance budget of \$0.825m. Already, due to available budget levels, Wellington Water is completing the minimum level of planned maintenance for Council with a focus on drinking water and wastewater pump station maintenance, berm mowing and stormwater and wastewater flushing to minimise overflows.
33. The frequency of pump station inspections has already been reduced from monthly to quarterly based on Council’s available funding for this financial year. The frequency of these inspections will be reduced further if additional reductions are required to meet Council budget levels.
34. Any further reductions to the planned maintenance budget will result in activities being stopped or deferred risking:
 - the ability to deliver planned activities across linear assets, impacting on asset life, and therefore levels of service (failures would occur sooner, and could be more expensive to repair if they have not had sufficient planned maintenance)
 - If pump station inspections are ceased or reduced, the potential for overflows increases, potentially leading to enforcement action. Odour complaints would likely increase (with respect to wastewater overflows)
 - If pump station inspections are ceased or reduced, Wellington Water would have to adopt a ‘run to failure’ asset management approach resulting in more costly repairs

Figure 2 shows the recommended operations budget for FY2023/24 against previous budgets and actual and forecast expenditure

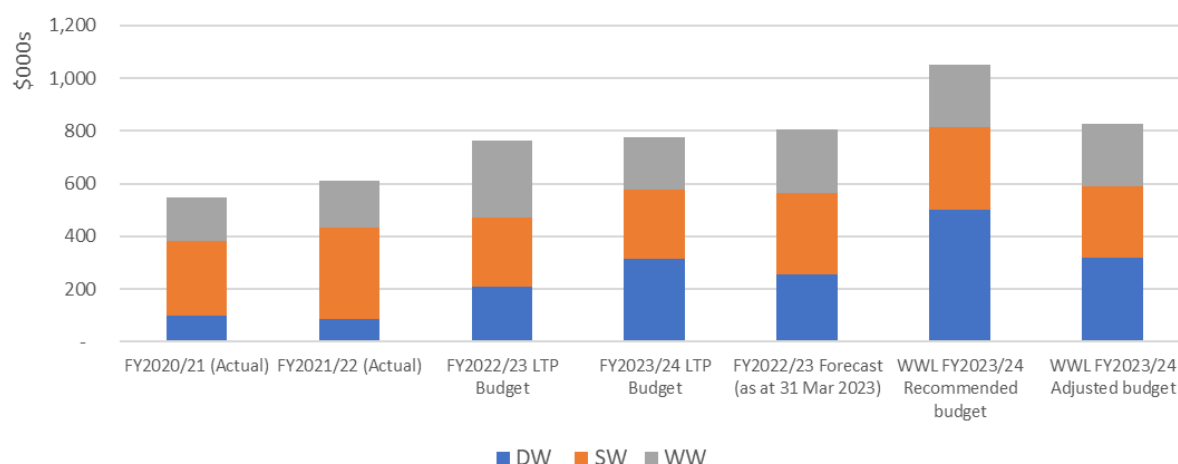


Figure 2: Actual, budget, forecast and proposed planned maintenance budgets FY2020/21 - FY2023/24 (\$000s)

Reactive Maintenance

35. A total budget of \$2.545m is recommended as being required to meet forecast reactive maintenance activities and to keep operating at current levels of service. To align with the budget advised by Council, \$0.676m of reactive maintenance activity will not be completed in FY2023/24, resulting in a revised budget of \$1.868m.
36. Table 5 below outlines the changes to the allocated reactive maintenance FY2023/24 OPEX budget.

Table 5: Summary of proposed reactive maintenance OPEX for FY2023/24 by water type

| Investment Category (\$000) | Water Type | 2023/24 LTP Budget | 2023/24 Recommended Budget | Adjustments to meet specified FY2023/24 budget | Final Budget After Adjustments |
|-----------------------------|----------------|--------------------|----------------------------|--|--------------------------------|
| Reactive Maintenance | Drinking Water | 1,404 | 1,964 | (559) | 1,404 |
| | Stormwater | 88 | 167 | (77) | 90 |
| | Wastewater | 334 | 414 | (40) | 374 |
| | Total | 1,827 | 2,545 | 676 | 1,868 |

37. Figure 3 shows previous reactive maintenance expenditure, forecast expenditure for FY2022/23 against budget, Wellington Water’s recommended budget and the adjusted budget.

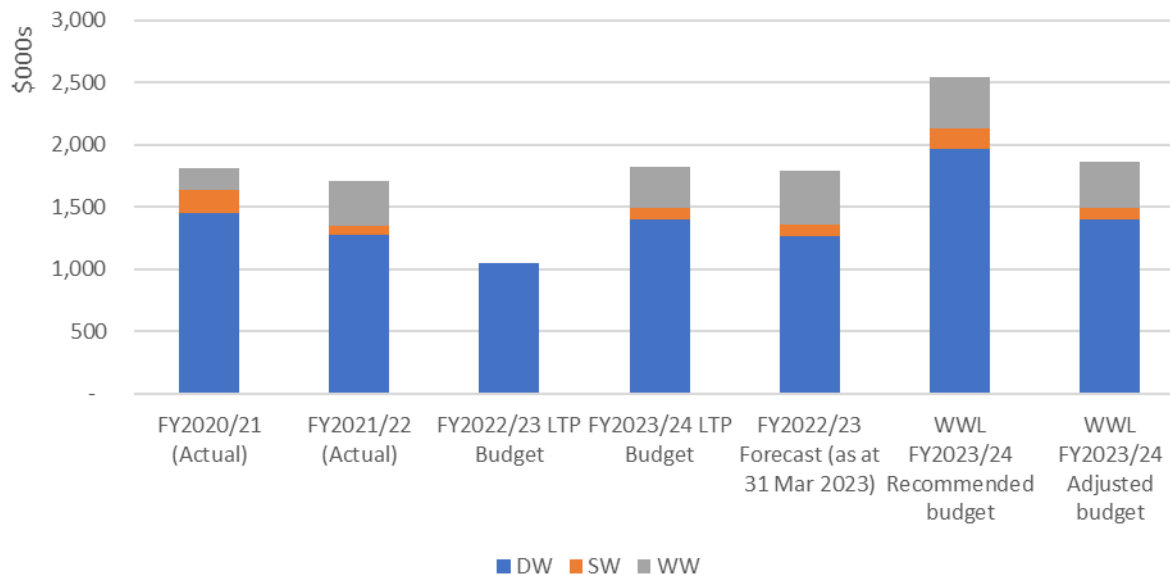


Figure 3: Actual, budget, forecast and proposed reactive maintenance budgets FY2020/21 - FY2023/24

38. 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 anticipated resulting rates of renewal/replacement.
39. The adjustments made have been to bring the budget in line with the existing FY2023/24 LTP budget and FY2022/23 forecast expenditure. However, Wellington Water advises this is considered insufficient and risks a continuation of the backwards trend with backlogs continuing to grow and customer dissatisfaction and complaints.

40. The current overall job backlog is 332 jobs (see Figure 4). A shortage in funding leading to further escalation in the backlog figure is expected to result in increased customer dissatisfaction to fix problems for which there is no budget.



Figure 4: Number of open jobs (April 2021 - April 2023)

41. Since the first quarter of FY2022/23, the unit price for wastewater and stormwater jobs has increased by approximately 38%. As a result, completing the same number of jobs has become more costly. Any additional pressure on the reactive maintenance budget is likely to have a significant impact on Wellington Water’s ability to provide appropriate levels of service in FY2023/24 and there will be a noticeable impact for residents and businesses.
42. It is important to note that the proposed operating budget for FY2023/24 does not account for any allocation of funds for unforeseen emergency events. These types of expenses will further negatively impact funding and ability to meet customer response expectations unless there is an ability to manage through separate funding channels by the Council.

Treatment plant

43. The Treatment Plant investment category groups all activities relating to the operation of wastewater treatment plants, covering Council’s share of the wastewater joint venture with the Hutt City Council. This includes planned and reactive maintenance, operations, and investigations¹.
44. Wellington Water advises that the proposed Treatment Plant budget is unavoidable, covering activities essential in delivering this service.
45. The recommended Treatment Plant budget for FY2023/24 is \$3.437m, which is \$0.019m above the LTP allocated budget of \$3.418m, as indicated in Table 6 below:

Table 6: Summary of proposed Treatment Plant OPEX for FY2023/24 by water type (\$000s)

| Investment Category (\$000) | Water Type | 2023/24 LTP Budget | 2023/24 Proposed Budget | Adjustments to meet specified FY2023/24 budget | Final Budget After Adjustments |
|-----------------------------|--------------------------|--------------------|-------------------------|--|--------------------------------|
| Treatment Plant | Wastewater Joint Venture | 3,418 | 3,437 | - | 3,437 |
| | Total | 3,418 | 3,437 | - | 3,437 |

46. As outlined in Wellington Water’s advice to the Hutt City Council (see ‘*Supplementary advice to Hutt City Council regarding Three Waters Operating Expenditure for the 2023/24 Annual Plan*’²), in addition

¹ This is different to the OPEX budgets for all other activities delivered by Wellington Water which are separated under the relevant investment category.

² <https://www.wellingtonwater.co.nz/assets/Reports-and-Publications/2-Feb-2023-Supplementary-advice-to-Hutt-City-Council-regarding-Three-Waters-Operating-Expenditure-for-the-2023.24-Annual-Plan.pdf>

to general inflation factors, the following key drivers account for the increase in the recommended Treatment Plant budget impacting costs relating to the Wastewater Joint venture:

- a 15% increase has been assumed over projected costs for FY2022/23 for gas
- the cost of power is expected to increase in FY2023/24 by 55% over the current FY2022/23 budget³
- the tariff for sludge disposal is increasing from \$207/tonne in FY2022/23 to \$347/tonne for FY2023/24 (including GST and the plant operator’s 9% markup)
- Veolia Contract management fees escalation rates have been updated to reflect current Index rates, impacting management and overhead costs (not included within Wellington Water’s general Management and Advisory Services fee) and maintenance and operational costs
- variation in the contract with the Plant Manager, Veolia, which is currently under negotiation
- outfall pipe maintenance – an allowance for two incidents has been budgeted for in FY2023/24 based on current trends.

47. Figure 6 highlights the growth in the recommended budget for FY2023/24, reflecting the factors noted above driving cost increases.

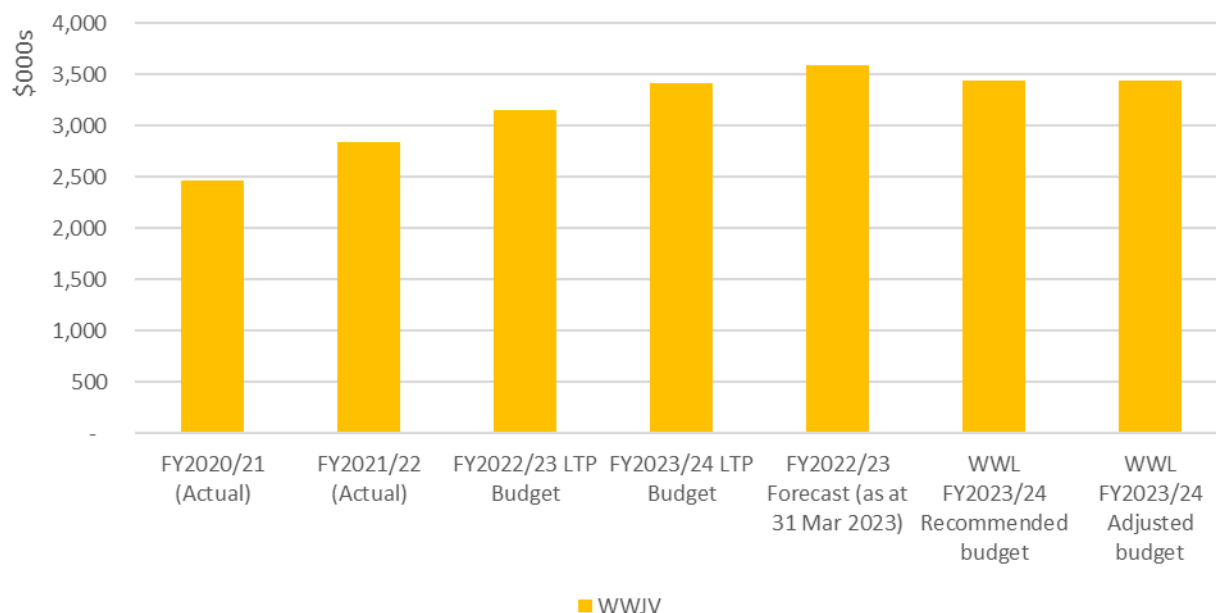


Figure 5: Actual, budget, forecast and proposed Treatment Plant budgets FY2020/21 - FY2023/24

Management and Advisory Services

48. A total budget of \$1.533m is required for Management and Advisory Services. This is an uplift of \$0.074m above than the allocated LTP budget of \$1.459m. Wellington Water has not applied any adjustments from its 9 December 2022 advice to the recommended Management and Advisory Services budget.
49. At the time of setting the LTP, an approximately 7.5% increase was built into the Management Fee across all councils from FY2022/23 to FY2023/24 made up of 2.5% inflation and a 5% additional activities allocation for anticipated extra work.
50. Inflation over the past 12 months has been significantly higher than the projected 2.5%. As a result, the Management and Advisory services budget for FY2022/23 has been insufficient to cover all

³ Figures based on the January 2023 approved electricity tender recommendation.

activities that cannot be directly attributed to Council OPEX and CAPEX programmes, but necessary for three waters service delivery. For example, overheads such as insurance, rent IT costs, etc.

51. To address this, the budget for FY2023/24 has been increased by 5% to retroactively cover the costs incurred by Wellington Water in FY2022/23. A further increase of 5% has been applied to account for the higher rates of inflation than assumed in the LTP for FY2023/24.
52. The Management and Advisory Services investment category also includes an uplift of approximately 2% (\$0.027m) to account for cyber security expenses not currently budgeted for in the LTP.
53. At the time the 2021-31 LTP was developed, Wellington Water did not have full visibility of the extent of work required for cyber security and the associated ongoing costs. Consequently, this programme was not allocated funding beyond FY2022/23. Cyber security costs are currently being covered by additional government funding. However, allowance is required within the LTP. At a minimum, ongoing funding of current cyber security activity needs to continue.