

TO Andrew Dalziel, General Manager Infrastructure, Porirua City Council (PCC)

COPIED TO Peter Wells, Manager Service Planning
Ian Dennis, Manager Customer Experience

FROM Julie Alexander, GM Network Strategy & Planning

DATE 4 November 2022

PRELIMINARY THREE WATERS 2023/24 ANNUAL PLAN OPEX ADVICE FOR PORIRUA CITY COUNCIL

	Action sought	Deadline
Andrew Dalziel General Manager Infrastructure, PCC	Note the recommendations in this paper. Meet with Wellington Water to discuss content of this paper.	30 November 2022

Purpose

1. This paper informs Porirua City Council (Council):
 - a) of the approved 2023/24 Long Term Plan (LTP) operational expenditure (OPEX) budget, and the risks of keeping the budget at this level, and
 - b) that Wellington Water advises additional OPEX funding should be provided above the 2023/24 LTP approved level to maintain existing levels of service and that subsequent advice on a proposed 2023/24 OPEX budget will be provided to Council in February 2023.

Recommendations

2. Wellington Water recommends Council:
 - b) **notes** the risks associated with keeping the FY2023/24 OPEX budget at the LTP approved level
 - c) **notes** that Wellington Water will provide subsequent advice on the recommended OPEX budget for FY2023/24, and that this will exceed the approved 2023/24 LTP budget
 - d) **notes** advice on FY2024/25 OPEX budgets will be provided as part of Wellington Water's 2024-2034 LTP advice
 - e) **notes** the FY2021-31 LTP OPEX budget does not include funding for significant emergency events, which Council funds separately
 - f) **notes** that Wellington Water will need a response from Council on whether it accepts the risks outlined in this document related to continuing with FY2023/24 OPEX LTP approved budget or is willing to provide Wellington Water with additional OPEX funding to reduce the risks and maintain existing levels of service.
 - g) **agrees** to increase the FY2023/24 OPEX budget above the approved FY2023/24 Long Term Plan level for the following priority areas, at a minimum:

- i Asset condition assessments
- ii Sustainable water supply and leakage management
- iii Investigations to inform forward capital works plans
- iv Wellington Water management fee

Context

3. Wellington Water provides Council with three waters advice, management and repair services against budgets provided through the Long-Term Planning process. Advising Council of issues and impacts that arise which may impact on our ability to work within those budgets and provide agreed service levels is a vital part of our role as your service provider.
4. Our advice is developed in the context of the strategic investment priorities agreed with our owners and set out in our Statement of Intent. These priorities are: maintaining existing infrastructure, supporting growth, ensuring a sustainable supply of drinking water, improving environmental water quality, reducing carbon emissions and increasing the resilience of the services to the impacts of climate change. Funding decisions made for FY2021/31 LTP mean that only limited performance improvements will be achieved. The expected impact of the investment decisions and the residual risks are set out in the Regional Service Plan¹.
5. Council-owned three waters assets are ageing. This means they're not being renewed or replaced as quickly as they're wearing out, leading to increasing issues and outages. Over time, this results in higher reactive costs including maintenance, repairs, and renewals.
6. Over the past year Wellington Water has experienced significant increases in the costs of material and labour due to a variety of inflationary factors (inflation in the past financial year has reached over 7%). This has put pressure on the CAPEX and OPEX programmes Wellington Water is delivering on behalf of its client Councils. Additionally, new information has been discovered through investigations and additional data analysis. For example, our leak management programme has given us a much better understanding of the extent of water loss across the network and the impacts of that loss. These pressures mean OPEX investment at FY2023/24 LTP approved level will be insufficient to meet Council's level of service targets.
7. Wellington Water remains committed to assisting Council achieve its service level targets, but we are concerned that current agreed funding provided for provision of our services will not allow those targets to be achieved.

Summary of previous advice from Wellington Water

8. Council's approved LTP OPEX budget for FY2023/24 is \$8.439 million. This is less than the amount required to respond to all the strategic investment priorities.
9. In April 2022, we advised Council we were concerned that FY2023/24 agreed budget would not be sufficient to meet Council's required service legal targets.
10. Table 1 illustrates the difference in approved LTP 2023/24 budget, and the budget Wellington Water advised was necessary in April 2022. The recommended funding was \$10.478 million, or 19.5% higher than the budget amount.

¹ Available at <https://www.wellingtonwater.co.nz/publication-library/advice-and-work/regional-service-plan/>.

Table 1: Wellington Water advised budget versus LTP agreed budget (uninflated)

Activity (\$ x 1,000)	Recommended 2023/24 funding – April '22 advice	Council approved 2023/24 LTP funding	Difference
Treatment Plant	\$1,726	\$1,726	-
Planned maintenance	\$1,976	\$869	-\$1,098
Reactive maintenance	\$3,682	\$3,096	-\$586
Monitoring & investigations	\$1,553	\$1,198	-\$355
Operations	\$150	\$150	-
Management & advisory services	\$1,400	\$1,400	-
Totals	\$10,478	\$8,439	-\$2,039

Risks of keeping the FY2023/24 OPEX budget at the approved LTP level

11. In our April 2022 advice, we identified several risks associated with Council's approved OPEX budget. Many of these risks still stand, and some may have increased in likelihood and/or severity. In addition, new risks have been identified. This highlights that an OPEX budget above the approved LTP level is needed if Council intends to meet its level of service targets.
12. The following risks have been identified and are detailed below. The costs for some of these are yet to be determined and will be provided in the advice we give Council in February 2023.
 - a Planned maintenance – Completing critical planned maintenance is good asset management practice and allows for planned work on critical assets. The current level of investment in planned maintenance will mean the frequency of stormwater network flushing and drinking water network maintenance activities such as hydrant flushing and valve maintenance will reduce. This will increase the risk that blockages and overflows will continue to occur, with poor environmental outcomes. A lower level of planned drinking water maintenance carries a risk that hydrants and valves will not operate reliably when needed. These maintenance reductions place additional pressure on reactive maintenance budgets. There also remains a risk that under-investment in pump station maintenance will result in significant issues at pump stations as there is no allowance for increasing maintenance costs, increasing numbers of failures or the ability to address deferred maintenance issues.
 - b Reactive maintenance is considerably below the level of expenditure required and will result in a reduction in levels of service in response times and low priority faults not being addressed.
 - c Sustainable water supply and leakage management - Gross water consumption over the first quarter of FY23 for the Wellington metropolitan area averaged 2.9% higher than the corresponding time last year and 7.0% above our 5-year target. All networks are performing poorly based on standardised water loss metrics, with Porirua City Council sitting in the "poor" infrastructure leakage index (ILI) category. Minimum night flows and water balance analyses, climate and population correction modelling, and analysis of dry weather wastewater flows all indicate that leakage is the primary driver of rising demand. A full programme of mitigation measures has been developed and prioritised; however, Wellington Water requires additional OPEX funding from Porirua City Council of \$665k to support these measures. The leak repair programme that was funded through stimulus funding in FY2020/21 and FY2021/22 is no longer funded. This means there is insufficient funding to make a significant impact on water loss and demand. Water use in metropolitan Wellington is now at an all-time high, and it is important to continue to prioritise leak

detections and repair as an important tool for managing water loss. Without additional funding, the leak issue and overall consumption will continue to increase, negating recent gains and putting even greater stress on the water supply for the region. As a result, there is an increased likelihood of level 3 or higher water restrictions being needed to control demand this summer. If Level 3 or 4 restrictions are required, then mayors will need to lead communications

Wellington Water has advised the Water Committee that it is prioritising leak detection and remediation in response to significantly increased water usage over the 2022 winter. We expect that Councils should also be prioritising this activity, but the underfunding we have identified will significantly impact Council's ability to contribute to this region-wide activity. Reduced leak detection will likely also see water consumption continue to rise and community engagement in conservation decrease.

- d Investigations – Reducing general investigations limits the ability to identify and resolve service issues, potentially resulting in ongoing customer and environmental impacts and placing constraints on preparing forward capital works plans.
- e Very High Criticality Assets (VHCA) - Between June 2020 and July 2022 Wellington Water completed a condition assessment project to identify VHCA assets and assess their condition. While there is always risk of assets failing unexpectedly, the VHCA programme has significantly improved our understanding of the condition of the assets assessed. Assets identified as requiring remedial actions will need to be funded to prevent unplanned failures. Additional investment in ongoing condition assessment work is strongly recommended to ensure reliable operation of the networks.
 - i Historically, planned maintenance on reservoirs has been limited by very constrained budgets. The VHCA and Water Safety Planning programmes highlighted the need to review the planned maintenance budgets to adequately mitigate contamination risk for reservoirs. The VHCA programme confirmed that contamination risks have surfaced through lack of regular inspection of these reservoirs. An additional \$340k is required to clean the reservoirs and carry out inspections and maintenance activities to mitigate these contamination risks.
- f Backflow prevention - A regionally consistent backflow prevention policy and program is being implemented to ensure Wellington Water meets the requirements of the Water Services Act 2021 and Taumata Arowai's expectations. Without it, there is a risk that water supplied to customers becomes contaminated within council networks due to activities within private property. This could potentially cause widespread illness or death. For PCC, it is estimated that \$25k is required annually to complete surveys and inspections to understand the contamination risks of all medium and high-risk properties in Council's area. These surveys will determine whether boundary devices are already in place and, if not, the suitability of boundary devices to be implemented to protect the public network.
- g Asset register – All activities that Wellington Water performs for Councils rely on a complete and accurate asset register. Stimulus funding enabled good progress on fixing long standing issues with the asset register; the VHCA Programme identified VHCA assets and assessed their condition, and in-roads were made on asset data and information processing backlogs. Councils allocated some funding for ongoing condition assessment work in the approved FY2023/24 LTP and have recently provided additional funding for asset data completeness and quality work. In both areas ongoing funding is required and further increases in funding will enable Wellington Water to accelerate work and have a positive impact on service provision. This work also contributes to the National Transition

Unit understanding the full complement of assets Council currently owns (providing a complete asset valuation) and supporting smooth transition of services to the new Entity.

- h Labour costs – Since the 2021 LTP budgets were agreed, labour costs have increased. This is largely due to a current skill shortage in New Zealand resulting in an increased need to use subcontractors/contractors in place of permanent staff. We are expecting significant increases in the amount and hourly rate of subcontractor work. This will have an overall impact on the cost of completing work, particularly for reactive maintenance.
- i Growth studies – Undertaking growth planning studies in FY2023/24 will help inform the capital delivery programme that will be developed for the 2024-34 LTP. We will continue to work with Council to ascertain whether Council wishes for this work to be undertaken. We estimate \$50k will be required to complete Council’s Regional Service Plan in FY2023/24.
- j Wellington Water management fee – Wellington Water is absorbing additional management costs in FY2022/23 and will continue to bear the cost in FY2023/24 if additional funding is not made available. The key reasons for the increasing management fee are:
 - i inflation running at a higher rate than forecast when developing the LTP
 - ii an increase in wages to match market rates and an increase in the proportion of contractors and consultants being used across the industry, and
 - iii increases in staff numbers due to the larger CAPEX and OPEX programmes Wellington Water is delivering, and increased regulation and compliance activity.

The Wellington Water management fee is charged proportionally across all councils. For PCC, this means that in FY2023/24 we require an increase of \$140k from the FY2023/24 LTP budget, to cover the management costs absorbed by Wellington Water to date and to sustain our core business functions. If additional funding cannot be secured from Council to accommodate this year-on-year uplift, Wellington Water will need to reallocate funds from other OPEX budgets to make up for the deficit in the management fee. This will further impact Council’s ability to achieve its service level targets. The management fee is also covering some internal staff time costs for work required to be undertaken by Wellington Water to prepare and support the transition of services to the new Water Services Entity. However, most of these costs are being met from the additional funding Council is providing out of DIA's Transition Support Funding.

In addition, under the Government-funded stimulus programme we made progress on understanding and mitigating the immediate cyber security risks across the water network. The Department of Internal Affairs approved stimulus funding for this work to be carried through to FY22/23. Wellington Water requires ongoing investment from Council in cyber security in FY23/24 to continue mitigation of this risk. Note, at the time the 2021-31 LTP was developed, we did not know the extent of work required for cyber security, and associated ongoing costs, hence the reason this programme has not been budgeted for beyond FY2022/23. At a minimum, ongoing funding of current cyber security activity needs to continue. Split proportionately across councils, this equates to \$28k being requested from Porirua City council to continue with current cyber security measures. The actual budget needed will be higher than this as cyber security threats change and we gain greater understanding of the detail of our current security risk.

In total, the updated management fee requested is \$1.57m including the increase of \$140k in management costs, and the additional funds requested for cyber security activity.

Next steps

13. We will continue to work on your OPEX needs over the coming months and provide detailed OPEX budget advice to Council in February 2023. In the February advice, Wellington Water will recommend Council increase its FY2023/24 OPEX budget above the approved LTP level.
14. In parallel to providing Council's OPEX Annual Plan advice, we are also determining a 10-year unconstrained OPEX forecast for Council, for submission to the National Transition Unit. This information is due in early December 2022.
15. We are committed to working with you and are keen to meet to discuss the content of this memo when suits.

Julie Alexander

GM Network Strategy & Planning

Ph: 021815162

julie.alexander@wellingtonwater.co.nz