

TO Sue McLean, Kaiwhakahaere Matua Ratonga Rangapū / General Manager (GM),  
Corporate Services, Greater Wellington Regional Council (GWRC)

COPIED TO Peter Wells, Manager Service Planning, Wellington Water

Jeremy McKibbin, GM Network Management

FROM Julie Alexander, GM Network Strategy & Planning

DATE 08 November 2022

## **Preliminary Advice to GWRC on Three Waters Services Capital Delivery Plan for the Financial Years 2023/24 and 2024/25**

### Action sought

---

	<b>Action sought</b>	<b>Deadline</b>
<b>Sue McLean</b> General Manager, Corporate Services, GWRC	<b>Note</b> the recommendations in this paper.  <b>Meet</b> with Wellington Water to discuss proposals for delivery outlined in this paper.	30 November 2022

### Purpose

---

1. This paper informs GWRC ('Council') of:
  - a) the indicative budget that Wellington Water is requesting Council allocate for financial year (FY) 2023/24,
  - b) an indicative budget range for FY 2024/25, and
  - c) risks to the capital delivery plan (CDP).
2. The paper does not provide details of specific projects that will be delivered during FY 2023/24; this is currently being developed and will be issued to Council in December 2022.

### Recommendations

---

3. Wellington Water recommends that Council:
  - a) **notes** the budget for FY 2023/24
  - b) **notes** the intention to carry over any remaining budget from FY 2022/23 into the final budget for FY 2023/24 and the estimated values of these carry-overs
  - c) **notes** that the list of projects to be delivered in FY 2023/24 is currently under development and will be issued to Council in December 2022

- d) **notes** that the total value of the proposed projects will exceed the proposed budget and Council's long-term plan (LTP) budget for FY 2023/24; this is purposely to help mitigate delivery of risk of underspending against the council budgets
- e) **considers** the risks presented in this memo
- f) **notes** that industry wide cost pressures mean fewer projects can be delivered under current budget levels than initially planned for in the LTP
- g) **notes** the proposal to work with Council to continue to optimise the FY 2024/25 programme ahead of the preparation of the next draft annual plan and engagement with the National Transition Unit

## Introduction

---

- 4. Wellington Water is committed to providing service excellence to Council. Our focus is on delivering the right assets at the right time; whether that be a renewal, level of service increase or to support growth, although our current emphasis is on renewals.
- 5. We are also working to improve the efficiency of our programme delivery. Beginning to bring in projects from the Very High Criticality Assets (VHCA) assessment programme will contribute to improving our effectiveness.
- 6. Over the past year Wellington Water has experienced significant increases in the costs of material and labour due to higher than anticipated inflation and market capacity pressures. This has placed pressure on Council's capital expenditure (Capex) programme, meaning fewer projects are able to be delivered than initially planned for in the LTP. There is a risk that the current levels of inflation continue, or potentially increase, through 2023 and 2024. This will continue to impact the costs of projects as currently scoped, necessitating either rescoping of key projects, reallocation of budgets from lower priority projects, or increased budgets from Council.

## FY 2023/24 Capex

---

- 7. The **budget for FY 2023/24 is \$74.8M**. This aligns with the budget information provided to Wellington Water on 04 November 2022.
- 8. It is assumed that the information provided by the Council includes estimated carry-overs from FY 2022/23 (as indicated in the information provided); confirmation of this assumption has been sought from Council.
- 9. Further work is required to provide greater certainty of the budget required to deliver Council's FY 2023/24 Capex programme, taking regional deliverability into account. Until this additional work has been completed, Wellington Water asks that Council retain the LTP approved budget for FY 2023/24, including any carry-overs from FY 2022/23, but note that this figure could shift.
- 10. Further information on the projects to be delivered is currently being finalised and will be presented in an update to this memo in December 2022.
- 11. In a similar manner to the approach adopted for the Year 2&3 CDP, we will target a total project value of the programme for FY 2023/24 of 120% of the proposed budget i.e. \$87M. This over-programming against the proposed budget is purposely introduced to mitigate delivery risks and optimism bias in delivery capacity.
- 12. Wellington Water intends to manage the delivery of these projects within the agreed budgets, using the delegated authorities within Wellington Water and Council to manage movements between council budgets as required.

13. Progress against the budget spend will be reported throughout FY 2023/24 via the established monthly finance and programme meetings.
14. Once finalised, the programme of works (projects list) will be updated throughout the remainder of the financial year as project information develops. Updates will be presented to Council on a quarterly basis.
15. Key risks to the FY 2023/24 programme include availability of resources (materials and personnel) across the region and the challenges associated with the transition to Entity C under Water Reforms. These are detailed later in this memo.

## FY 2024/25 Capex

---

16. Wellington Water has been working on sustainably growing the Capex programme over the past few years. Providing a signal of investment is an important way to continue to grow to delivery capability and capacity in the region and provide greater certainty to the market of ongoing three waters investment into the future.
17. Continuing with this growth model, a budget range for FY 2024/25 is being provided at this point. This range will be further refined throughout FY 2023/24 as the next 3-year Long-Term Plan (LTP) is developed, noting that FY 2024/25 falls into the next LTP cycle.
18. Council's budget range for FY 2024/25 is estimated at \$43m to \$98m.
19. The lower figure comprises the mid-point of the 'sustained uplift' approach adopted by Wellington Water for Years 1-3 of the current LTP, projected into FY 2024/25.
20. The upper figure represents sustainable growth of 30% year-on-year from the anticipated FY 2022/23 spend.
21. The programme of projects for delivery in FY 2024/25 will be further developed throughout FY 2023/24. This work will also provide greater certainty of the budget range for FY 2024/25.

## Risks

---

22. Water Reforms and Transition to Entity C – Water Reforms and the transition to Entity C has the potential to disrupt delivery of the capital programme if it is not managed well. Areas of particular note include funding mechanisms and contracting arrangements for existing and new projects; alignment of governance structures across the entities and change management, including personnel experience for those transitioning to the new entity.
23. Inflation – as noted, there is a risk that the current levels of inflation continue, or potentially increase, over the Y3&4 period. If so, this will require decisions from Council on whether key projects should be re-scoped, budgets reallocated from lower priority projects, or increased budgets provided from Council.
24. Regional Water Supply – an issue has recently been identified regarding a significant increase in the amount of leakage from the potable water supply across the region. Provision of safe drinking water is a key priority for Wellington Water, and it may be necessary to reprioritise resources (and budgets) to address issues on the potable water supply. Wherever possible, we will do this within agreed budget envelopes, but where this cannot be achieved within the potable water budgets, we will present options for discussions with Council.
25. Resource and Supply Chain Constraints – there is currently an industry-wide constraint in availability of resources (both materials and personnel) which may impact the delivery of projects. To mitigate the likelihood and impact of this risk, we have worked with consultants and contractors to only propose projects that we are confident we can deliver within the current known constraints.

26. Delivery of Proposed Capital Delivery Programme - historically, Wellington Water has underspent capital against council budgets. We have worked to mitigate this risk by over-programming against the LTP across the three years.
27. Future delivery of the assets assessed as part of the VHCA programme – The VHCA condition assessment project sought to identify which of the Council's very high criticality three waters assets are in poor condition requiring renewal in the short term. The programme has identified and scoped some of the work required to renew VHCA assessed assets. However, the full scale of future investment required on these assets is not yet fully understood. Council should anticipate that Capex funding above current levels will be required in future years to complete these critical works; the future capital delivery programme to bring these most critical assets up to standard will be significant.
28. COVID Pandemic - We continue to face impacts of the global COVID pandemic. We expect to continue to see challenges with global supply chains, freight and transportation and associated price increases which will impact delivery of the programme.

## Next steps

---

29. Meet with Council in December 2022 to review the proposed budgets and proposed projects.
30. Progress against the budget spend will be reported throughout FY 2022/23 via the monthly finance and programme meetings, and should any variance be noted, the impacts on the FY 2023/24 budget will be communicated via updates to this memo.
31. Agree any carry-over budgets from FY 2022/23 with Council and incorporate into the final budget for FY 2023/24 delivery.
32. Once the FY 2023/24 draft budget is agreed with Council, we will communicate the plan with Wellington Water Business Units , the Consultant Panel and Contractor Panel, and commence delivery.
33. We will develop the FY 2024/25 plan through FY 2023/24 with a plan to submit the final FY 2024/25 CDP in April 2024.
34. We are committed to working with you and look forward to meeting to discuss the content of this memo.

### **Julie Alexander**

GM Network Strategy & Planning

Ph: 021815162

[julie.alexander@wellingtonwater.co.nz](mailto:julie.alexander@wellingtonwater.co.nz)