

Three Waters Operating Expenditure FY2022/23 Overspend – Greater Wellington Regional Council

TO Sue McLean, Kaiwhakahaere Matua Ratonga Rangapū / General Manager – Corporate Services, Greater Wellington Regional Council

COPIED TO Chris Maggs, Kaiwhakahaere Matua PMO Manager, Greater Wellington Regional Council; Brady Corkill, Management Accountant, Greater Wellington Regional Council; Peter Wells, Head of Service Planning, Wellington Water; Liam Wright, Head of Finance, Wellington Water; Jeremy McKibbin, Group Manager Network Management, Wellington Water

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

DATE 11 May 2023

Action sought

	Action sought	Deadline
Sue McLean Kaiwhakahaere Matua Ratonga Rangapū / General Manager, Corporate Services	Note that Wellington Water is forecasting a full year overspend on the agreed FY2022/23 operational expenditure budget. Approve the overspend on Wellington Water’s FY2022/23 OPEX budget. Advise Wellington Water of any additional information needed for closing out year end budgets.	2 June 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 seeks Greater Wellington Regional Council's (the Council) approval for a year end overspend on Wellington Water's FY2022/23 operational expenditure (opex) budget.

Recommended action

2. It is recommended that Council:
 - a. **note** that Wellington Water is forecasting an overspend of \$3.500m on the agreed FY2022/23 OPEX budget of \$19.306m;
 - b. **note** that Wellington Water's forecast full year overspend does not include consideration of the decision not to progress with the capital Waterloo Water Treatment Plant Ground Improvement Project;
 - c. **note** that the FY2022/23 OPEX overspend is mainly attributed to increased demand for water and cost escalation for treatment chemicals not anticipated at the time budgets were set;
 - d. **approve** Wellington Water's FY2022/23 OPEX overspend at year-end;
 - e. **advise** Wellington Water of any additional information needed to support closing out year-end budgets to address the overspend; 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, once the Council has considered and made decisions in relation to this advice.

Wellington Water forecasts an overspend on FY2022/23 OPEX

Wellington Water forecasts a \$3.500m overspend on the FY2022/23 operational expenditure budget of \$19.306m

3. Since September 2022, Wellington Water has been forecasting a full year budget overspend. This has been reported to Council through the monthly OPEX Dashboard reports.
4. As at 30 April 2023, Wellington Water was forecasting an overspend of \$2.900m. Despite efforts to reflect all factors within the forecasts, for the past few months, Wellington Water has been seeing incremental month-on-month increases. This is largely due to the unpredictability and escalation of treatment plant costs.
5. To account for this, Wellington Water seeks Council's approval for an estimated year-end variance of \$3.500m on the FY2022/23 opex budget. Note this does include consideration of any costs associated with the decision not to progress the capital expenditure Waterloo Water Treatment Plant Ground Improvements Project. Work is required with Council to determine the appropriate treatment of these costs.

Drivers of the forecast overspend¹

6. The majority of the forecast overspend is in the Treatment Plant investment category (accounting for \$2.336m or 82% of the total forecast overspend as at April 2023). Of this, \$2.193m or 94% relates to chemical costs.
7. Chemical costs are considered unavoidable, being a direct input required in providing safe drinking water to the community. The overspend in chemical costs has been driven by:
 - new contracts for the procurement of chemicals needed to treat drinking water resulted in significant cost increases above Wellington Water’s budgeted estimates
 - CO₂ costs have more than doubled. In January 2023, Wellington Water was advised that due to the force majeure event at Kapuni and global economic conditions, an amendment to the product supply agreement was needed. This resulted in, from 16 January 2023, the charging unit for CO₂ increasing from \$1528.26/tonne excl. GST (including product surcharge) to \$3,836.00/tonne excl. GST
 - increased water demand. The quantity of chemicals required in water treatment directly correlates to demand for water – as water demand increases, so does the volume of chemicals needed.



Figure 1: Water Demand (Million Litres per day (ML/d)) - 7 day rolling average for year to date FY2019/20 - FY2022/23

To meet demand, Wellington Water has had to shift from an economic optimised production approach to a production maximisation approach. This means that, among a range of factors, water is being drawn from more expensive river and lake sources which require higher levels of treatment to meet safe drinking water standards and takes from the aquifer in preparation for summer to meet consent limits.

8. Other factors contributing to the forecast overspend include:
 - Control systems (8% or 0.242m of the April 2023 forecast overspend)
 - Pump Stations (8% or \$0.221m of the April 2023 forecast overspend) – Overspend is mainly due to the Kaiwharawhara Pump Station where two pumps are planned for replacement. Replacements have been ordered but there is a long wait on delivery. In the meantime, additional maintenance is required until these replacements are installed.
 - Investigations (5% or \$0.157m of the April 2023 forecast overspend).

¹ Figures based on the April 2023 forecast overspend of \$2.852m

Next steps

9. Subject to Council's response and any further information required, Wellington Water will continue expenditure to the agreed overspend².

²Excluding occurrence of any emergency events