

Advice to Porirua City Council (PCC) Regarding Three Waters Operating Expenditure for the 2023/24 Annual Plan

TO Andrew Dalziel, General Manager Infrastructure, Porirua City Council

COPIED TO Pete Wells, Manager Service Planning, Wellington Water; Ian Dennis, Manager Customer Experience, Wellington Water

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

DATE 22 December 2022

Action sought

	Action sought	Deadline
Andrew Dalziel General Manager Infrastructure, Porirua City Council	Note and respond to the recommendations in this paper	20 January 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 Water	021 195 9621	✓

Purpose

1. This paper advises Porirua City Council (Council) on Wellington Water Limited's recommended operating expenditure (OPEX) budget for the FY2023/24 Annual Plan. It advances our previous advice to Council dated 4 November 2022.

Recommended action

2. It is recommended that Council:
 - a. **note** that Porirua City Council's confirmed OPEX investment in three waters is \$8.439m for the 2023/24 financial year;
 - b. **note** that Wellington Water recommends an OPEX budget of \$14.096m is needed for FY2023/24 to meet current levels of service;
 - c. **agree** to:
 - i. increase OPEX funding across all investment categories with priority, at a minimum, on the following activities:
 - I. Asset condition assessments
 - II. Sustainable water supply and leakage management
 - III. Investigations and monitoring
 - IV. Wellington Water management fee including cyber security; and
 - ii. accept that a budget below \$14.096m will result in reduced levels of service;
 - d. **meet** with Wellington Water to discuss the content of this paper and to agree appropriate funding levels within Council's financial constraints;
 - e. **advise** Wellington Water of the process (including the impacts of our advice on Council's Significance and Engagement Policy) timeframes and any further information needed to support progressing the development of Council's Annual Plan;
 - 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, on or after 30 January 2023.

Context and key messages

3. In our preliminary advice to you dated 4 November 2022 (*'Preliminary Three Waters 2023/24 Annual Plan OPEX Advice for Porirua City Council'*) we signalled risks with keeping Council's OPEX budget at

the current LTP approved level. To address these risks, we advised that additional OPEX funding be provided and that we would prepare further advice to support this view. This paper presents that advice.

4. Wellington Water recommends \$14.096m is needed to maintain and operate Council’s three waters assets in FY2023/24. This is a \$5.657m increase across all Wellington Water’s services to Council.
5. We acknowledge this is a sizeable step-up from Council’s approved LTP budget. We appreciate that Council will be facing financial pressures across all its budgets and any increase will need to be considered against Council’s total budget position across all its operations. We are also conscious Council will require more detailed discussions to determine a final, approved budget for FY2023/24.
6. We wish to discuss with you the overall position, that as your advisors and three waters service provider, we propose for next year. Following which, we then wish to enter into detailed discussions over what programmes should be prioritised and delivered in the context of your whole-of-Council budget.

Porirua City Council’s Three Waters Operating Investment

Wellington Water’s recommended OPEX budget for the 2023/24 financial year is \$14.096m

7. Table 1 below outlines Wellington Water’s recommended changes to our approved OPEX budget for FY2023/24. Advice on our proposed CAPEX budgets will be provided separately in early 2023.

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

Investment Category	FY23 Budget	Council approved 2023/24 LTP funding	2023/24 recommended budget	Recommended increase above LTP approved budget
Management & Advisory Services	1,300	1,400	1,568	168
Monitoring & Investigations	1,891	1,198	2,644	1,446
Operations	126	150	189	40
Planned Maintenance	2,044	869	2,095	1,226
Reactive Maintenance	3,441	3,096	5,442	2,346
Treatment Plant	1,726	1,726	2,158	432
TOTAL	10,529	8,439¹	14,096	5,657

8. Consistent with industry-wide trends, Wellington Water is seeing significant cost increases across all activities within its service delivery portfolio. Cost increases associated with higher labour,

¹ Note, the total 'Council approved 2023/24 LTP funding' and the total 'recommended increase above LTP approved budget' exclude the balance of Better Off funding Council has provided for the Water Loss Reduction Programme and Drainage Roving Crews and Repairs that will be rolled over into FY2023/24.

consultant/contractor and material costs as well as growth factors and rising demand for water have contributed to the budget shifts across all investment categories in Table 1.

9. Additional factors driving changes within specific investment categories are summarised below.

Treatment plants

10. The Treatment Plant investment category groups all activities relating to the operation of both drinking and wastewater treatment plants covering operations and planned and reactive maintenance. The OPEX budgets for all other activities delivered by Wellington Water are separated under the relevant investment category.
11. A budget increase of \$0.432m above the approved FY2023/24 LTP OPEX budget of \$1.726m is recommended. The key drivers for this increase, in addition to general inflation factors, are attributed to:
 - increase in sludge disposal costs – disposing sludge is expected to increase by 15% in FY2023/2024 resulting in a total increase of \$0.072m
 - operations and maintenance costs for plants have increased by \$0.097m
 - variation in the contract with Veolia due to existing contractual mechanisms with an estimated future uplift of 20% (\$0.123m).
12. Within the recommended budget, \$0.130m is included for treatment plant process investigations, and plant critical spares.

Planned maintenance

13. The planned maintenance investment category includes water and wastewater pump station, utility and network asset maintenance, and stormwater maintenance activities.
14. Wellington Water's average spend on planned maintenance over the past two years is \$1.373m, with an increase in spend between FY2020/2021 and FY2021/2022 of 10%. The latest planned maintenance forecast for FY2022/2023 is \$2.042m which is currently on track with the current budget of \$2.044m.
15. We recommend a total budget of \$2.095m to meet forecast planned maintenance costs. This is an uplift of \$1.226m over the FY2023/24 LTP approved budget of \$0.869m and is in-line with the FY2022/23 budget.
16. We advise that without this uplift some planned maintenance activities will not be able to continue risking network and plant reliability and the probability of issues arising, causing unbudgeted reactive maintenance costs.
17. The recommended uplift, in addition to general inflation and higher costs for goods and services, reflects:
 - additional funding for non-residential demand management (\$0.035m). This is to support the focus on Sustainable Water Supply and Demand
 - reservoir maintenance, pump station maintenance and area water meters and flushing wastewater pipe activities.

Reactive maintenance

18. A total budget of \$5.442m is recommended for reactive maintenance activities. This is an uplift of \$2.346m from the FY2023/24 LTP approved budget of \$3.096m (a 55% increase on the FY2022/23 forecast spend of \$3.510m). It should be noted that the FY2023/24 LTP approved budget is below the final agreed budget for FY2022/23 of \$3.441m.
19. Some activities within this investment category are covered by the Better-off funding package (\$1.379m for FY2023/24 accounting for 25% of the total recommended budget for reactive maintenance) including reactive leakage control. Further detail on activities covered by the Better-off funding is provided below in the section 'Sustainable water supply'.
20. Year-on-year reactive maintenance expenditure has been trending upwards. The average spend over the past two years was \$3.394m, with an increase between FY2020/21 and FY2021/22 of 23%.
21. While dependent on the number of failures, reactive maintenance costs are anticipated to further increase based on failure trends experienced to date, the average age of assets and anticipated rates of renewal/replacement. Due to an uplift of 20% in contractor costs and the increasing complexity of leak repairs, leaks have become more expensive to detect and repair. Contractor cost increases are putting significant pressure on reactive maintenance budgets and is a major factor in the uplift recommended for FY2023/24.
22. The associated risks of a funding level below the \$5.442m requested include:
 - A reduction or stoppage of non-urgent instructed works (such as the installation of new valves to reduce the size of a shutdown area, or customer requests/complaints). The consequence of not doing instructed works is that we fail to improve the efficient operation of the network, so water outage areas become bigger, resulting in longer outages with a greater number of customers affected.
 - A reduction in targeted subcontractor spend is a preferred option to reduce expenditure if required. This would reduce the available resources to attend to customer calls, by only attending to high priority or medium priority (P1 and P2) work requests and would mean that non-urgent backlog of work will grow. Any significant reduction of subcontractor spend will likely drive skilled workers elsewhere and securing them back, if additional funding becomes available, will not be swift. We note that the current job backlog sits at over 351 jobs and increases to this number would likely result in increased customer dissatisfaction.
 - A reduction in after-hours jobs would reduce costs given the penal rates applied. After hours work is mainly governed by the type of work required. There could be a significant risk to local businesses with this approach, as water supplies may be cut during the working day to address issues that could otherwise be addressed at night.

Monitoring and investigations

23. The monitoring and investigations investment category includes a range of activities such as condition assessments, resource consent compliance monitoring, water sampling and monitoring, investigations, design studies and asset management.
24. A total budget of \$2.664m is recommended to meet monitoring and investigation costs. This is an uplift of \$1.446m over the FY2023/24 LTP approved budget of \$1.198m.
25. The recommended increase is largely due to the following key work areas:

- Investigations (\$0.668m) including for inflow and infiltration studies to drive water quality, stormwater network and catchment master plans, growth modelling, an overflow strategy, and a flood management strategy. Many of the investigations proposed for completion in FY2023/24 will support the capital expenditure programme.
 - Asset condition assessments including specialist condition assessment for the Porirua Wastewater Treatment Plant (\$0.542m) – as noted in the Porirua City Council Active Risk Dashboard for Q1 2022/23, Council has a number of aging assets. Additional funding for condition assessments would focus on understanding the maintenance and renewal requirements of Council’s asset pipes, plants, and reservoirs. Without this knowledge, reactive maintenance costs will continue to rise.
 - Asset management planning and facility management plans (\$0.263m).
26. Also accounting for the uplift is increased laboratory costs and new sampling programmes required to meet changing water regulation and new resource consent requirements.
27. Continued year-on-year constrained OPEX budgets for investigations reduces the ability to gather the information needed to identify and manage risk across the network. Investigations are important for helping inform development of an ongoing capital programme of work. Condition assessments for example, are solely focussed on Very High Critical Assets, therefore reducing the ability to prepare a proactive network renewals programme for lower criticality assets. As a result, we are running a reactive, rather than proactive, renewals programme, which ultimately will come at higher overall cost.

Operations

28. The operations investment category covers maintenance activities across Council’s stormwater, wastewater, and potable water asset control systems.
29. A total budget of \$0.189m is recommended to meet operating costs. This is an uplift of \$0.040m over the FY2023/24 LTP approved budget of \$0.150m due to inflation and growth factors.

Management and advisory services

30. The higher management costs we have been experiencing in FY2022/23 due to higher inflation rates, wage growth consistent with market rates, a higher proportion of contractors and consultants being used across the industry, and increased staff numbers to deliver larger CAPEX and OPEX programmes, are trending to continue through FY2023/24.
31. In addition to the general cost increases, funding of \$0.028m for cyber security activity is needed. No specific funding for cyber security was provided in the approved LTP. Therefore, this programme has not been budgeted for beyond FY2022/23. Cyber risk is growing globally. As an organisation delivering essential infrastructure services, it is vital investment is made to protect against cyber-attack.
32. We propose budget uplift for Wellington Water’s management and advisory services as a priority. If this increase does not eventuate, the additional costs will need to be covered by reducing funding from within other investment categories. A total budget of \$1.568m is requested, which is an uplift of \$0.168m from the LTP approved budget of \$1.400m.

Sustainable water supply

33. Table 2 below provides a breakdown of the activities funded using the Better-off funding package of \$2.039m for FY2023/24. These include a mixture of planned and reactive maintenance activities, with a focus on water loss and roving crew. This funding is included within our overall funding request.

Table 2: Summary of allocated Better-off funding by investment category and activity (\$000's)

Investment Category	Activity	FY2023/24 recommended budget	% covered by Better-off funding
Monitoring & Investigations	Active Leakage Control	172	100%
Monitoring & Investigations	Roving Team Inflow and Infiltration	320	100%
Monitoring & Investigations	Meter Reading	63	100%
Planned Maintenance	Area Water Meters	105	100%
Reactive Maintenance	Unplanned Maintenance	5,442	25%

Next steps

34. Please provide a response to the recommendations in this paper to Julie Alexander by 20 January 2023.
35. Following your response to this advice note and any discussion meeting, Wellington Water will proceed to deliver services within agreed budgets.