

Preliminary advice to Upper Hutt City Council regarding proposed three waters capital and operational expenditure budgets for the 2025/26 financial year and triennium

TO Tim Harty, Group Manager Operations, Upper Hutt City Council;
Kate Thomson, Director Finance, Risk and Digital Solutions, Upper Hutt City Council

COPIED TO Pete Wells, Head of Service Planning, Wellington Water;
Wayne Maxwell, General Manager Business Services, Wellington Water

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

DATE 29 November 2024

Action sought

Action	
Tim Harty, Group Manager Operations, Upper Hutt City Council	Note the contents of this memo. Meet with Wellington Water to discuss the recommendations and issues raised within the memo.

Contact for telephone discussion (if required)

Name	Position	1st Contact	
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Purpose

1. This paper informs Upper Hutt City Council (Council) of:
 - Annual planning advice, including proposed updates to the Long Term Plan 2024-34 with a focus on the current triennium;
 - key areas where Wellington Water recommends additional investment in FY2025/26 and the triennium; and
 - the additional investment required into Wellington Water's corporate capabilities in order to better manage the region's assets and services.

Recommended actions

It is recommended that Council:

- a. **confirms** Council's proposed approach to FY2024/25 capital budget carry overs;
- b. **notes** the revised FY2024/25 Capital Expenditure (Capex) forecast that will be further updated in Stage 2 advice;
- c. **approves** budget changes for specific FY2024/25 initiatives to enable completion of required work within this financial year;
- d. **considers** the indicative proposed Capex and Operational Expenditure (Opex) budgets for FY2025/26;
- e. **notes** the indicative Capex budget requirement for FY2026/27 and across the remaining seven years of the Long Term Plan 2024-34;
- f. **considers** the specific risks presented in this memo;
- g. **notes** the requirement for investments needed to implement a range of organisational capability improvements, and for essential systems and technology improvements at Wellington Water in order to better manage the region's assets and services;
- h. **notes** that in order to support your FY2025/26 annual planning processes, Wellington Water will update our advice in mid-late February 2025 based on Council's draft funding decisions, and provide final detailed advice in May 2025; and
- i. **notes** that in line with agreed policies on transparency and information sharing, this memo will be published on Wellington Water's public website, subject to any redactions consistent with the Local Government Official Information and Meetings Act 1987, once Council has considered and made decisions regarding this advice.

Executive Summary

2. This advice proposes updates to the annual plan for FY2025/26, and to the triennium view of the approved Long Term Plan (LTP) to reflect current knowledge of programmes and any recommended changes.

3. The following key issues underpin our advice, and affect all councils. Any additional investment in these areas will support improved outcomes in delivering water services for our communities:
 - increasing investment in pipe network planned and reactive renewals to address backlogs over a 30-year period and reduce them to a long-term sustainable level;
 - regional alignment to address the critical water supply risk, with coordinated investments in storage, metering, and leak repairs; and
 - ensuring investment to meet increasing regulatory requirements, with a focus on Wastewater Treatment Plants.
4. The level of Capex funding agreed in Council's Long Term Plan (LTP) for 2025/26 (excluding Wastewater JV share but including Council agreed carry overs from FY2023/24) was \$9.42M, and a total of \$45.38M over the triennium. Since the LTP was agreed, Wellington Water (WWL) has updated our forecast to reflect the most up to date view of costings and programmes. Based on this, we are now recommending an increase for 2025/26 to \$14.56M¹ (an increase of \$5.13M) but a decrease to \$44.66M² over the triennium (a decrease of \$0.72M).
5. The level of Opex funding agreed in Council's LTP for 2025/26 was \$9.9M. WWL is in the process of updating its operational budgets forecast. Based on our early stage view we are recommending an increase in programme funding of \$1.7M for 2025/26, with the majority of the increase relating to investigations and reactive network maintenance (such as leak repairs, leak detection and the regional water loss management programme)³.
6. The active risks identified in WWL's 2024-34 LTP close out advice, of 15 August 2024, continue to be relevant; noting that the LTP funding agreed by Council for Capex and Opex was below recommended levels.
7. In response to recommendations from the 2024 independent review into WWL's capital programme estimating and budgeting systems (the 2024 review), we have brought forward our business planning cycle to align with Council's annual planning cycle. To feed into this first stage of advice to councils, the base corporate budgets for WWL have been developed at a high level and this shows a lift in investment is needed above what was agreed in the 2024-34 LTP.
8. There are also further investments needed to provide for critical systems updates and to lift corporate capability and maturity, as recommended in the 2024 review.

Background and context to our advice

9. WWL's shareholding councils have been clear in their expectations of us to demonstrate value for money and find efficiencies and improvements to the way we deliver water services for their communities. Councils need to be confident that WWL is financially prudent and a 'smart purchaser' of services on their behalf.

¹ Before FY2025/26 corporate cost adjustments, but including the Pinehaven project

² Before FY2025/26 corporate cost adjustments, but including the Pinehaven project

³ This figure does not include the investment uplift needed for the organisational capability improvements required in response to the 2024 independent review, or the investment needed for essential technology systems and improvements

10. Additionally, findings in the recent independent review highlighted significant capability improvements needed to prevent errors from reoccurring and lift our organisation's maturity to better deliver on our responsibilities to our councils.
11. Significant investment is also needed to implement core technology systems and improvements that are required for any effective and efficient water utility organisation. This was also highlighted in the independent review.
12. When it comes to organisational capability, maturity, and technological systems – we are far behind on where we need to be. Wellington Water is not right sized for the work that we need to deliver for our shareholders or to deal with the challenges the region faces with water infrastructure. Our programme of work and responsibility has grown over the past ten years but the investment into the organisation to support this work has not.
13. To support this increase in work we have over the years relied heavily on our consultants and suppliers and an outsourcing model. This has raised concerns with our shareholders around value for money.
14. Additionally, we haven't communicated our organisational need or position well over many years. We are doing this differently this year and for future years.
15. We have been making rapid and immediate changes over the past few months to address councils' concerns and meet expectations. We are making fundamental changes to the way we work. We are shifting to a 'value-add' mindset in how we deliver water services. This is about:
 - building internal capability to deliver our work instead of outsourcing work, which is cheaper and more efficient;
 - retaining knowledge and control of our information;
 - maturing our approach to managing our contracts; and
 - increasing capability so we can proactively look for and implement efficiencies across the organisation.
16. Urgently increasing our corporate capability is vital to deliver councils' operational and capital programmes – not doing so will open us up to risks of errors and issues, like the recent cost estimation error, reoccurring.
17. Since WWL identified the Corporate Cost error in capital budgeting advice, we have conducted a review into corporate cost allocations to check and validate if the \$51M gap in funding was correct and identify any further impacts on councils' programmes. We have advised Council of the high-level impacts in October 2024. For HCC this amounted to a net reduction in Corporate Charges of \$3.0M over the triennium period. This has been included in the programme as an offsetting budget line.
18. Deloitte is providing on-going advice during the annual planning process to further refine the corporate cost methodology.
19. Additionally, the 2024 review of WWL's capital programme estimation and budgeting systems highlighted significant capability improvements needed to prevent errors from reoccurring and lift our organisation's maturity to better deliver on our responsibilities to our councils. As a result, further investment is needed in order for WWL to:
 - purchase and implement core technology systems;
 - lift our organisational capability; and
 - increase funding for WWL's corporate services to ensure we are able to deliver the FY2025/26 programme well and effectively.

Section One: Annual Plan

Annual Planning approach

20. This advice proposes updates to the triennium view of Council's approved LTP, to reflect current understanding of the LTP programme and any recommended changes.
21. The advice builds on the final LTP advice provided to Council on 15 August 2024, which set out the 2024-34 LTP investment programme adopted by the Council. As signalled in our final advice, WWL has continued to engage with Council on changes and updates that may be required to the adopted LTP programme to accommodate emerging needs.
22. WWL has aimed to update the Capex programme to be compliant with the existing LTP funding envelopes. Where necessary, funding has been re-prioritised to accommodate arising needs or revised scope and costings, with the programme balanced by deferring some projects until after the triennium.
23. This advice also outlines recommended changes and additions to the current approved LTP Operational Expenditure budget, and identifies areas of risk if the current level of funding is maintained across the full LTP programme.
24. WWL will continue to work with Council to refine our annual plan advice based on your feedback.

Capital Expenditure Plan

25. Since the LTP budget was approved in mid-2024, WWL has made significant progress in delivering water services and renewing Council's water assets. Some highlights include:
 - 413 leaks fixed in the current financial year (since 1 July 2024), as at end of October 2024.
 - Chatsworth Road watermain renewal, which will improve the resilience and reliability of the drinking water network, is on track to be completed by end of this financial year.
 - Pinehaven Stream Upgrade (Willow Park Phase 2) project, aimed at upgrading and increasing the capacity of the Pinehaven Stream to reduce flood risk to the surrounding area, is on track to be completed by end of this financial year.
 - Work on the biofilter replacement at the Seaview Wastewater Treatment Plants was delivered on time and now focus is on delivering work to replace the sludge dryer.

Revisions to forecast capital expenditure for FY2024/25

26. The level of capital funding agreed in the LTP for FY2024/25 (excluding Wastewater JV share) was \$26.17M. Included in the FY2024/25 budget was \$6.35M of Council approved carry overs from FY2023/24 (excluding Wastewater JV carryover of \$3.79M). The updated delivery forecast for the FY2024/25 programme (excluding Wastewater JV share), including proposed changes is \$16.01M.
27. A summary of significant changes to the FY2024/25 capital programme is shown below, and a detailed breakdown of the amended programme is included within **Appendix A**. Additional detailed information on any of the proposed changes is available on request.

28. The significant changes proposed to the FY2024/25 capital programme are:
- (\$4.9M) - Pinehaven Stage 3 is currently excluded from the annual plan programme, awaiting a decision from Council
 - (\$4M) - Subject to Council approval, Totara Park bridge pipework strengthening is proposed to be deferred outside the triennium, as it is deemed lower priority than other drinking water main renewals
 - (\$1.5M) of Logan Street Watermain FY24-25 budget is proposed to be shifted to FY2025/26, resulting from updates to the phasing of the work
 - \$0.24M to initiate work on new drinking watermain and ridermain renewal
 - \$0.4M additional funding to renew District Area meters
 - Wastewater JV - \$1.7M (30% share) of funding for Western Hills Trunk Urgent Works (VHCA) brought forward into the triennium, to fund the high risk renewal, as discussed with Council
 - Wastewater JV - \$0.65M (30% share) of funding for unexpected costs incurred from Days Bay pump station incident.
29. Please note that the Seaview WWTP JV Planned Renewals “bundled” budget line has been unwound to show individual line items - unless specified in this memo, this does not constitute a project cost increase.
30. WWL asks Council to **approve** the revised Capex forecast for FY2024/25, in order to proceed with the changes and to continue the required work within this financial year. Our programme leads are already engaging with Council officers on approval of changes for some specific items such as network renewals.
31. Annual Planning advice has assumed that the requested changes for FY2024/25 are able to be approved. In the event that some, or all, changes are not approved, amendments will be required to the FY2025/26 programme.
- Carry over of funding from FY2024/25*
32. In previous years, WWL has utilised the ability to carry over unspent allocated funds to allow for fluctuations in annual budgets. Any changes or limitations to this ability could potentially restrict WWL’s flexibility to efficiently deliver the proposed triennium programme. Therefore, WWL asks Council to confirm their proposed approach to carry overs from FY2024/25 into FY2025/26 and FY2026/27, and advise if there are any limitations that will apply.

FY2025/26 and Triennium capital expenditure

33. The level of capital funding agreed in the LTP, including Council agreed carry overs and excluding Wastewater JV share, was \$9.42M for FY2025/26 and \$45.38M over the triennium. Based on WWL’s updated forecasts for FY2025/26, we are now recommending an increase in the FY2025/26 budget to \$14.56M but an overall decrease to \$44.66M across the triennium, the details of which are shown in the updated LTP programme attached as **Appendix A**.
34. Table 1 sets out a summary of approved and proposed expenditure levels of the FY2025/26 and Triennium capital delivery plan, by water type and Local Government Act 2002 (LGA) classification.

Table 1: Summary of approved vs proposed capital expenditure for FY2025/26 and Triennium, by water and LGA classification (\$)

		FY2025/26 Approved Budget (\$)	Proposed FY2025/26 Budget (\$)	Changes between FY2025/26 Approved and Proposed Budget	Approved Triennium Budget (\$)	Proposed Triennium Budget (\$)*	Triennium Projects for Council Considerati on (\$)
Drinking Water		4.68M	8.25M	3.57M	19.01M	23.14M	0.36M
	Growth	0.05M	0.05M	0.00M	0.15M	0.15M	
	Level of Service	0.60M	0.98M	0.38M	6.59M	2.74M	
	Renewal	4.03M	7.22M	3.19M	12.27M	20.24M	0.36M
Stormwater		1.31M	1.31M	0.01M	10.53M	5.62M	0.00M
	Growth	0.05M	0.05M	0.00M	0.15M	0.15M	
	Level of Service	0.84M	0.85M	0.01M	9.18M	4.25M	
	Renewal	0.41M	0.41M	0.00M	1.20M	1.22M	
Wastewater		3.44M	4.99M	1.55M	15.83M	15.90M	0.00M
	Growth	0.05M	0.05M	0.00M	0.15M	0.15M	
	Level of Service	1.14M	1.19M	0.05M	3.81M	3.86M	
	Renewal	2.25M	3.75M	1.50M	11.87M	11.89M	
Total		9.42M	14.56M	5.13M	45.38M	44.66M	0.36M
Corporate Cost adjustments**					0.90M	0.90M	
Urgent capability improvements for FY25/26***						0.94M	
Net programme savings from replacing contractors						(0.94)M	
Grand Total		9.42M	14.56M	5.13M	46.28M	45.56M	0.36M
Wastewater JV (30% share)		17.95M	15.37M	(2.58M)	51.09M	51.11M	0.02M

* Total budgets include the funding required to complete Pinehaven Stage 2. Stage 3 is excluded as awaiting Council decision.

**Corporate cost adjustment from the review as advised in October

*** Investment needed to lift corporate capability and maturity from FY25/26

35. **Appendix A** provides a detailed breakdown of initiatives that make up Council's FY2025/26 capital delivery plan, the triennium programme, and the adopted 2024-34 LTP.
36. The significant changes proposed to the LTP triennium capital programme, in addition to the proposed FY2024/25 programme are:
 - \$9M - Subject to Council approval, new drinking watermain and ridermain renewal package has been included to substitute for the reduction in programme from deferring Totara Park and removing Pinehaven Stage 3 work. If Council wants to retain the LTP funding for these two initiatives in the LTP triennium budget, the new watermain renewal will be scaled down to fit within Council's overall triennium LTP budget envelope.
 - \$.85M to complete VHCA reservoir water quality renewal regional programme to reduce the risk of reservoir contamination.
37. WWL has identified some additional projects where we are requesting that Council consider additional funding. These projects include:

- \$1.1M additional funding allocated for reactive pipe network renewals including ‘under consideration’ projects.
- A further up to \$1M to renew District Area meters in year 2 and year 3 of the LTP. Wellington Water is in the process of confirming the exact budget requirements for this work, and as a result, this budget is not reflected in the current updated programme and will be included in stage 2 of the advice.

Seaview Wastewater Treatment Plant – timing and phasing

38. There are a number of very significant projects and activities that fall within the Seaview Wastewater Treatment Plant programme of work, and we are working to optimise project delivery schedules to get these critical projects delivered as quickly as we can.
39. Based on updated knowledge of project delivery forecasts and expected cashflows, our advice includes proposals to rephase some activities outside the triennium. This rephasing is not based on delays or deferrals to projects, but reflects a better understanding of the timeframes in which these phases of work will be completed, and costs will be realised. We will continue to urgently progress critical projects, including the sludge dryer, odour control, and UV renewals work.
40. The full proposed programme of investments for the Wastewater Joint Venture has been provided for information in **Appendix C**.

Universal Residential Smart Metering

41. Council’s proposed Capital programme does not include funding for implementing residential smart meters.
42. A programme of work is underway to develop a business case for the delivery of residential smart metering across the four metropolitan Councils of the region. This is due to be completed in FY2024/25.
43. As the programme progresses over the coming months, WWL will be able to provide Council with further updates and more certainty around timeframes and costs. We expect to provide an update in February 2025, and again in mid-2025 when the draft business case is due to be completed. However, further Opex funding is likely to be required to continue the business case and pilot activities that are planned for next year.

FY2025/26 Operational Expenditure

44. The level of funding for operational expenditure approved in the LTP for FY2025/26 was \$9.91M. While the annual planning process is still underway, our early advice based on forecasts is that an increase in funding of up to \$1.75M is recommended in order to meet additional costs, as detailed below.
45. Table 2 summarises how Council’s FY2025/26 operational expenditure budget is currently allocated, and sets out the proposed revisions based on updated forecasts.

Table 2: Summary of approved and proposed operational expenditure for FY2025/26 (\$) by water and investment category

UHCC Draft Council OPEX Annual Plan 25/26		25/26 Approved LTP budget (\$)	Proposed funding increase to meet recommendations (\$)	Variance between approved budget & recommended increase
Drinking Water	Monitoring & Investigations	0.80M	1.05M	0.26M
	Operations	0.07M	0.06M	(0.01)M
	Planned Maintenance	0.36M	0.41M	0.04M
	Reactive Maintenance	1.54M	2.00M	0.46M
	Management & Advisory Services	0.42M	0.45M	0.03M
Total Drinking Water		3.19M	3.97M	0.78M
Stormwater	Monitoring & Investigations	0.19M	0.22M	0.03M
	Operations	0.02M	0.37M	0.35M
	Planned Maintenance	0.31M	0.38M	0.06M
	Reactive Maintenance	0.09M	0.17M	0.08M
	Management & Advisory Services	0.21M	0.23M	0.01M
Total Stormwater		0.83M	1.36M	0.53M
Wastewater	Monitoring & Investigations	0.36M	0.68M	0.32M
	Operations	0.07M	0.05M	(0.03)M
	Planned Maintenance	0.26M	0.33M	0.07M
	Reactive Maintenance	0.37M	0.40M	0.03M
	Management & Advisory Services	0.78M	0.83M	0.05M
Total Wastewater		1.85M	2.29M	0.44M
Wastewater Joint Venture	Treatment Plant	4.03M	4.03M	0.00M
Total Wastewater Joint Venture		4.03M	4.03M	0.00M
Total		9.91M	11.66M	1.75M
Urgent capability improvements for FY25/26*			0.15M	
Net programme savings from replacing contractors			(0.15)M	
Grand Total		9.91M	11.66M**	1.75M

*Investment needed to lift Corporate Capability – this will be offset by corresponding savings from bringing services in house and reducing spending on consultants and contractors

**This total does not include additional investment for System Enhancements and Organisational Capability – please see Table 3 in Section Three of the memo for detailed information on investments required in Organisational Capability and Systems

46. **Appendix B** provides a breakdown of the categories of Council's agreed budget for operational expenditure in the 2024-34 LTP.
47. The largest factors in the revised operational expenditure forecasts for the current and future financial years are in the areas of Monitoring and Investigations. This is driven by the following:
 - Increases to regional water loss management programmes activities to improve sustainable water supply and demand following improvements in our understanding of the effectiveness of different interventions, in particular, proactive leak detection activity as well as educational and data work.
 - Increases to Drinking water reactive maintenance to sustain work to find and fix leaks.

- Uplifts in Stormwater and Wastewater reactive maintenance to meet required levels of service.
- Increases to funding for planned maintenance activities, including pump stations, reservoir maintenance and valve testing.
- Increases to support condition assessment activities, including WWJV condition assessment activity for the Western Trunk Main.

Section Two: Funding levels and residual risks

48. The final approved budgets for capital and operational expenditure across the full ten years of the 2024-34 LTP period were below the levels recommended by WWL:
- Capital expenditure - WWL recommendation of \$771.M vs Council agreed investment of \$291.9M, excluding carry overs, for capital development, activities such as replacing and upgrading ageing water assets.
 - Operational expenditure - WWL recommendation of \$130.9M vs Council agreed investment of \$99.4M, for key operational activities including supplying safe drinking water, collecting & treating wastewater, fixing leaks and maintenance.
49. There are a number of risks resulting from the current levels of funding for capital and operational expenditure:
- In FY2023/24, the total renewal rate was 1.1km, and based on current forecasts, the total projected renewal rate for FY2024/25 is 1.6km. The current level of network renewals within the programme is below the level necessary to achieve a renewals rate of around 9km per year, which is the level required to sustainably renew the three waters networks.
 - Increased investment is required for reactive pipe renewals, due to historic underinvestment in renewing aging pipes. Without additional investment, the significant and growing backlog of aging pipes can lead to more leaks and bursts, as pipes continue to degrade faster than they are being renewed.
 - Some findings from the 2022 VHCA reports on reservoir and pump station condition remain outstanding. Increases in planned and reactive funding may be required to support remediation of findings.
 - The condition of the Seaview Wastewater Treatment Plant (WWTP) assets means that there will continue to be compliance issues until the funded renewals are complete. In addition, there is not enough capacity at the Seaview WWTP to meet full compliance when major maintenance is needed.
 - Reconsenting the intermittent discharge from Seaview WWTP to Waiwhetū Stream is complex because the discharge is impacted by the changing standards required to reduce overflows from the upstream network, as well as the capacity of the treatment plant and main outfall pipeline. A strategic plan is being developed to address the system-level challenge, and this will also provide the direction needed to inform discharge consent activities.
 - The Network Discharges Programme planned investment packages included in the LTP will need to be re-assessed following the conclusion of the Plan Change one process.

Section Three: Uplifting Capability

50. As a result of the changes we have made following the 2024 review, we have brought forward our business planning cycle to align with Council's annual planning cycle. The first stage of advice to councils indicates that an increase to corporate budgets is required above what was agreed in the 2024-34 LTP.
51. There are also further investments needed to provide for critical systems updates and to lift corporate capability and maturity, as recommended in the 2024 review.
52. When it comes to organisational capability, maturity, and technological systems – we are far behind on where we need to be. Wellington Water is not right sized for the work that we need to deliver for our shareholders or to deal with the challenges the region faces with water infrastructure. Our programme of work and responsibility has grown over the past ten years but the investment into the organisation to support this work has not. For example, in FY2018/19 we were responsible for a capital programme of \$65M and in FY2023/24 we were responsible for a capital programme of \$329M. That's around 400% increase in delivery in five years, but investment in corporate support, systems, and processes has not kept pace.
53. Table 3 below sets out the additional investment needed at a Council level in FY2025/26 and FY2026/27. This includes \$1.64M for System Enhancements in FY2025/26 (\$0.69M in FY2026/27) and \$0.37M for Organisational Capability Improvements in FY2025/26.

Table 3: Investments required in Organisational Capability and Systems at a Council level

Upper Hutt City Council - anticipated additional investment	25/26 Proposed (\$)	26/27 Proposed (\$)
Additional Management & Advisory Services <i>(Included in Base Opex programme)</i>	0.09M	0.25M
System Enhancements	1.64M	0.69M
Annual Operating costs post implementation	0.03M	0.25M
Organisational Capability	0.37M	0.00M
Total	5.79M	3.21M

Corporate Budget

54. In FY2024/25 we reduced our Management & Advisory Services Fee (MAS) by 5% from our original advice in response to cost-cutting requirements of councils. However, in taking a 'value add' mindset we have looked at the resourcing needed for councils' capital and operational programmes for the upcoming years and revised the way we will deliver this work. As a result, we have reassessed our staffing needs and intend to add 40 additional roles.
55. 28 of these roles will be to bring in FTEs to reduce our spend on consultants on project work and to deliver three waters services and deliver this work internally for cheaper. The remaining 12 new roles are to respond to councils' expectation to be more efficient and effective and include two additional senior leadership roles. Some of these roles, over time, will also have an impact on reducing consultancy spend.

56. This increase in headcount, with flow-on increases in IT licences, vehicles, accommodation, consumables etc, plus continued high inflation of costs, means that our forecast expenditure for 25/26 has increased by \$6.7M.
57. The majority of these costs will be charged to councils' Capex and Opex budgets as they are linked to delivery of these activities, and these costs will be offset by reduced use of consultants. Councils will see benefit in value for money through bringing work in house, building internal capability, reducing inefficiencies and increasing level of service.
58. We are still applying internal pressure to manage costs, however due to the urgent need to progress some of the required improvements we are forecasting a \$1M regional budget overrun in the current 2024/25 year. We are requesting that this is retrospectively funded through a requested increase of \$1.5M to our MAS for FY2025/26.
59. We will continue to look for opportunities to bring work that is currently outsourced in-house and apply a 'value for money' lens in the way we deliver our services. However, there are some distinct pieces of work that require specialist skills which we will use consultants for, as it is more prudent for us to bring in consultants for short periods of time to support these activities. This mainly relates to our corporate space and covers activities such as compliance, expert advice to help us make improvements, and to review our systems and processes.

Investments required in Organisational Capability and Systems

Technology systems investment

60. Over the last three years, WWL has made only very limited, 'no regrets' investment in technology systems, as it was expected that Affordable Water reform would deliver new technology systems for the proposed new water services entities. At the same time there has been significant growth in the organisation's activities and therefore the technology systems it uses are no longer fit for purpose.
61. This has led to a current state where decisions can be made based on incomplete or out of date information, there is inefficiency in day-to-day task execution and high risk of operational error and asset failure. Further delay in investment will also lead to increased risk of successful cyber-attack and critical data loss due to systems reaching end of life. This means they are no longer being supported by vendors or kept up to date with security protections.
62. These issues have been highlighted by the recent capital programme estimating error, where deficiencies in systems were identified as a contributing factor. The 2024 review also noted that WWL should no longer wait for water reform to resolve issues with its current organisational capability but ensure any changes made now are pragmatic and keep the future new entity in mind.
63. In line with the WWL's Statement of Intent 2024-2027⁴ (the SOI), WWL has prepared technology systems investment options. These are focused on supporting resolution of current efficiency and effectiveness issues and enabling asset management improvements that can benefit a new water services model. The recommended investment option has been endorsed by the Wellington Water Committee and the details of this option are set out below.

⁴ *Our water, our future – Statement of Intent 2024-27*: <https://www.wellingtonwater.co.nz/assets/Reports-and-Publications/Wellington-Water-Statement-of-Intent-2024-27.pdf>

64. In total, WWL requires \$37.5M over two financial years, with an ongoing operating cost of \$4-5M per annum investment to deliver the following critical systems, the associated business change necessary for their successful adoption, and their ongoing operation:
- Construction Project Management System
 - Documents and Records (content) Management System
 - Health & Safety System
 - Asset Management System
 - Finance System
 - Customer Relationship Management System.
65. This is the set of systems recommended to address the critical issues. These are also essential tools for a new regional Water Services Council Controlled Organisation (WSCCO). If WWL remains as an organisation, further investment will be required.
66. Notable benefits of this investment include:
- Mitigation of significant operational and cyber risk
 - The ability to be more efficient in building, operating, and maintaining the water assets and the services they deliver
 - Increased ability to monitor WWL's operations and performance more effectively, and therefore be transparent in its reporting on the delivery of safe, reliable, complaint and affordable drinking water, stormwater, and wastewater services.

Organisational Capability Plan

67. The 2024 review exposed gaps and risks, particularly around WWL's compliance, commercial capability, and systems, and highlighted the need for significant capability uplift.
68. In response, WWL developed an Organisational Capability Plan (provided to Councils at the Wellington Water Committee on 27 September 2024), to enhance controls and assurance, improve operational effectiveness, identify value for money opportunities, and strengthen culture and ways of working. The plan aims to consolidate all necessary activities over the next two years, ensuring WWL has the right capability to deliver on councils' capital delivery programme while preparing for transition to a new entity.
69. This investment is critical; without it, WWL will not be able to make the necessary foundational improvements needed to successfully deliver on its responsibilities.

Next steps

70. WWL is committed to working with Council and we are keen to meet with Council Officers to discuss the content of the memo. In addition, following upcoming Council meetings, please advise WWL of relevant decisions so that these can be incorporated into the ongoing work to support your annual planning process.

Appendix A : Detailed Triennium and LTP Capex programme

	2024/25	2025/26	2026/27	Triennium	TOTAL LTP
Approved UHCC Revised LTP Budget - 1st July 2024 (including carry over, excluding WWJV share)	26,175,076	9,422,309	9,778,494	45,375,879	142,502,864
WWL Proposed Programme (excludes corporate cost adjustment for Years 1-3)	16,016,949	14,556,093	14,087,310	44,660,353*	134,661,710
Corporate Cost Adjustment for Triennium	100,000	400,000	400,000	900,000	
Urgent capability improvements				941,688	
Net programme savings from replacing contractors				-941,688	
Proposed additional projects to consider	0	131,220	231,220	362,440	362,440

Council	Water	LGA	Project Description	FY24-25 Programme (\$)	FY25-26 Programme (\$)	FY26-27 Programme (\$)	Triennium Programme (\$)	TOTAL LTP (\$)
UHCC	Drinking Water	Growth	UHCC Reactive Growth Development Projects - Drinking Water	51,175	51,750	51,750	154,675	504,675
UHCC	Drinking Water	Level of service	(SWS) UHCC PW Pressure Management		500,000	750,000	1,250,000	2,250,000
UHCC	Drinking Water	Level of service	Install Bypass smart flow meter on all fire connections (support unallocated water usage)				0	0
UHCC	Drinking Water	Level of service	Totara Park Rd WS Bridge Pipework Seismic Strengthening	175,000	0	0	175,000	4,377,507
UHCC	Drinking Water	Level of service	UHCC Capital Carbon Modelling - Drinking Water	10,235	10,350	10,350	30,935	100,935
UHCC	Drinking Water	Level of service	UHCC Drinking Water Network Modelling	51,175	351,175	51,175	453,525	1,103,525
UHCC	Drinking Water	Level of service	UHCC Management of Fire Hydrant Use	685,745	100,000		785,745	785,745
UHCC	Drinking Water	Level of service	UHCC New Smart Services - Drinking Water	15,353	15,525	15,525	46,403	151,403
UHCC	Drinking Water	Renewal	Bristol St Watermain Renewal	38,500	1,800,000		1,838,500	1,838,500
UHCC	Drinking Water	Renewal	Chatsworth Road (Whitemans Rd to 58) Watermain Renewals	4,539,875	3,409	2,586	4,545,871	4,545,871
UHCC	Drinking Water	Renewal	UHCC District Meter Area Renewals	475,000	22,514	69,585	567,099	800,634
UHCC	Drinking Water	Renewal	UHCC DW Control Systems Renewals	30,705	31,050	51,050	112,805	362,805
UHCC	Drinking Water	Renewal	UHCC Pipe Network Planned Renewals - Drinking Water	0	0	0	0	26,420,643

UHCC	Drinking Water	Renewal	UHCC Pipe Network Reactive Renewals - Drinking Water	314,600	668,780	718,780	1,702,160	4,648,160
UHCC	Drinking Water	Renewal	UHCC Pressure Reducing Valve (PRV/PCV) Renewals	153,525	163,530	170,775	487,830	1,901,830
UHCC	Drinking Water	Renewal	UHCC Pressure Management - Urgent Works	432,751			432,751	432,751
UHCC	Drinking Water	Renewal	UHCC VHCA Reservoir Water Quality Renewals	307,050	850,000	0	1,157,050	1,157,050
UHCC	Drinking Water	Renewal	UHCC Water Pump Stations Renewals	199,834	44,060	28,690	272,584	604,104
UHCC	Drinking Water	Renewal	Water Main and Rider Main Renewal Package 2024-27	239,000	3,638,000	5,251,000	9,128,000	12,602,000
UHCC	Stormwater	Growth	UHCC Reactive Growth Development Projects - Stormwater	51,175	51,750	51,750	154,675	504,675
UHCC	Stormwater	Level of service	NDP: Resource consent for stormwater discharges	511,750	517,500	517,500	1,546,750	1,546,750
UHCC	Stormwater	Level of service	NDP: SMS workstream 1 implementation for water quality (modelling)		77,625	155,250	232,875	2,832,875
UHCC	Stormwater	Level of service	NDP: SW Subcatchment Asset Management Plan - Hulls Creek	0	0	144,900	144,900	2,944,900
UHCC	Stormwater	Level of service	Pinehaven Stream Phase 3	119,233			119,233	119,233
UHCC	Stormwater	Level of service	Pinehaven Stream Upgrade Willow Park Phase 2	1,460,717			1,460,717	1,460,717
UHCC	Stormwater	Level of service	UHCC Capital Carbon Modelling - Stormwater	10,235	10,350	10,350	30,935	100,935
UHCC	Stormwater	Level of service	UHCC Global consent for operations and maintenance works in streams	30,000	30,000	0	60,000	60,000
UHCC	Stormwater	Level of service	UHCC Stormwater Network Modelling	153,525	155,250	155,250	464,025	1,514,025
UHCC	Stormwater	Level of service	UHCC SW Drainage Improvement Projects	61,410	62,100	62,100	185,610	605,610
UHCC	Stormwater	Renewal	UHCC Pipe Network Planned Renewals - Stormwater	0	0	0	0	0
UHCC	Stormwater	Renewal	UHCC Pipe Network Reactive Renewals - Stormwater	287,219	351,746	375,921	1,014,886	5,105,886
UHCC	Stormwater	Renewal	UHCC SW Control systems Renewals	25,588	10,350	30,350	66,288	151,288
UHCC	Stormwater	Renewal	UHCC SW Pump Stations Renewals	41,544	48,159	48,159	137,861	463,571
UHCC	Wastewater	Growth	UHCC Reactive Growth Development Projects - Wastewater	51,175	51,750	51,750	154,675	504,675
UHCC	Wastewater	Level of service	NDP: Resource consent for dry weather overflows	307,050	310,500	310,500	928,050	928,050
UHCC	Wastewater	Level of service	NDP: Resource consent for wet weather overflows	255,875	258,750	258,750	773,375	773,375
UHCC	Wastewater	Level of service	NDP: ww overflows universal measures	102,350	103,500	103,500	309,350	1,009,350
UHCC	Wastewater	Level of service	NDP: WWNO subcatchment reduction plan - Hulls Creek	0	0	155,250	155,250	22,595,250
UHCC	Wastewater	Level of service	UHCC Capital Carbon Modelling - Wastewater	10,235	10,350	10,350	30,935	100,935
UHCC	Wastewater	Level of service	UHCC Wastewater Network Modelling	102,350	103,500	310,500	516,350	1,516,350

UHCC	Wastewater	Level of service	UHCC WW Drainage Investigations Water Quality Renewals	378,695	399,860	365,355	1,143,910	4,158,910
UHCC	Wastewater	Renewal	Cole Grove WW Renewal	392,285	1,552,500		1,944,785	1,944,785
UHCC	Wastewater	Renewal	Logan St Wastewater Renewal	3,105,750	1,500,000		4,605,750	4,605,750
UHCC	Wastewater	Renewal	UHCC Pipe Network Planned Renewals - Wastewater		225,221	3,294,013	3,519,234	8,254,076
UHCC	Wastewater	Renewal	UHCC Pipe Network Reactive Renewals - Wastewater	358,225	380,880	399,510	1,138,615	4,436,615
UHCC	Wastewater	Renewal	UHCC WW Control Systems Renewals	30,705	15,525	35,525	81,755	201,755
UHCC	Wastewater	Renewal	UHCC WW Pump Stations Renewals	450,336	78,784	69,511	598,631	1,633,231
			Total	16,016,949	14,556,093	14,087,310	44,660,353	134,661,710

Under Consideration projects

Council	Water	LGA	Project Description	FY24-25 Programme (\$)	FY25-26 Programme (\$)	FY26-27 Programme (\$)	Triennium Programme (\$)	TOTAL LTP (\$)
UHCC	Drinking Water	Renewal	UHCC Pipe Network Reactive Renewals - Drinking Water	0	131,220	231,220	362,440	362,440
			Total	0	131,220	231,220	362,440	362,440

Wastewater JV Programme (UHCC 30% share)

Council	Water	LGA	Project Description	FY24-25 Programme (\$)	FY25-26 Programme (\$)	FY26-27 Programme (\$)	Triennium Programme (\$)	TOTAL LTP (\$)
UHCC	Wastewater JV		30% share to UHCC WWJV Programme	8,061,763	15,372,556	27,676,769	51,111,087	158,731,816
			Total	8,061,763	15,372,556	27,676,769	51,111,087	158,731,816

**Total budgets include the funding required to complete Pinehaven Stage 2. Pinehaven Stage 3 is excluded in the proposed updated programme, as awaiting Council decision.*

Appendix B: LTP approved operating expenditure programme

UHCC		24/25 Council	25/26 Council	26/27 Council	Triennium Council	10 Year Council
Drinking Water	Monitoring & Investigations	746,227	795,276	849,326	2,390,829	9,449,585
	Operations	116,171	116,171	116,171	348,513	1,175,710
	Planned Maintenance	413,938	410,338	409,107	1,233,383	4,097,132
	Reactive Maintenance	1,492,744	1,447,295	1,394,476	4,334,515	12,968,373
	Management & Advisory Services	424,935	424,935	424,935	1,274,805	4,249,350
Total Drinking Water		3,194,015	3,194,015	3,194,015	9,582,045	31,940,150
Stormwater	Monitoring & Investigations	189,441	190,441	191,441	571,323	1,911,410
	Operations	22,048	22,048	22,048	66,144	234,480
	Planned Maintenance	315,271	314,271	313,271	942,813	3,121,710
	Reactive Maintenance	90,630	90,630	90,630	271,890	906,300
	Management & Advisory Services	212,468	212,468	212,468	637,403	2,124,675
Total Stormwater		829,858	829,858	829,858	2,489,573	8,298,575
Wastewater	Monitoring & Investigations	364,025	364,025	364,025	1,092,075	3,626,250
	Operations	74,955	74,955	74,955	224,865	763,550
	Planned Maintenance	255,630	255,630	255,630	766,890	2,556,300
	Reactive Maintenance	374,320	374,320	374,320	1,122,960	3,743,200
	Management & Advisory Services	779,048	779,048	779,048	2,337,143	7,790,475
Total Wastewater		1,847,978	1,847,978	1,847,978	5,543,933	18,479,775
Wastewater Joint Venture	Treatment Plant	3,995,607	4,033,691	4,060,531	12,089,829	40,684,831
Total Wastewater Joint Venture		3,995,607	4,033,691	4,060,531	12,089,829	40,684,831
Total		9,867,457	9,905,541	9,932,381	29,705,379	99,403,331

Appendix C: Detailed Wastewater JV Triennium and LTP Capex programme

				2024/25	2025/26	2026/27	Triennium	TOTAL LTP
Approved UHCC Revised LTP Budget - 1st July 2024 + carry over				34,051,861	59,845,846	76,413,275	170,310,982	521,608,232
WWL Proposed Programme (excludes corporate cost adjustment)				26,872,542	51,241,852	92,255,896	170,370,290	529,106,053
Coun cil	Water	LGA	Project Description	FY24-25 Programme (\$)	FY25-26 Programme (\$)	FY26-27 Programme (\$)	Triennium Programme (\$)	TOTAL LTP (\$)
HCC	Wastewater JV	Growth	Seaview WWTP JV Wastewater Storage (Waiwhetu Stream Discharge Consent Renewal)	500,000	1,295,984	1,295,984	3,091,968	3,091,968
HCC	Wastewater JV	Level of service	HCC WWJV Control Systems Upgrades - HUVA	88,000			88,000	307,430
HCC	Wastewater JV	Level of service	Seaview WWTP JV Treatment System Modification (consent required)				0	4,500,000
HCC	Wastewater JV	Level of service	Totara Park Road Seismic Resilience WW	175,000			175,000	5,360,000
HCC	Wastewater JV	Renewal	Consent renewal - Seaview WWTP (maintenance) (exp 2031)				0	600,000
HCC	Wastewater JV	Renewal	Consent renewal - Seaview WWTP coastal discharge (exp 2031)				0	4,000,000
HCC	Wastewater JV	Renewal	Consent renewal - Seaview WWTP coastal occupation (exp 2029)				0	400,000
HCC	Wastewater JV	Renewal	Consent renewal - Seaview WWTP Discharge to air (exp 2031)				0	1,500,000
HCC	Wastewater JV	Renewal	HCC Pipe Network Planned Renewals - Wastewater JV				0	194,080,000
HCC	Wastewater JV	Renewal	HCC WWJV - Major Pump Stations Renewals	2,750,226	758,655	758,655	4,267,536	8,505,186
HCC	Wastewater JV	Renewal	HCC WWJV - Pipe Network Reactive renewals	120,000	200,000	300,000	620,000	2,020,000
HCC	Wastewater JV	Renewal	Petone Collecting Sewer Rising Main Renewal (Stages 1 and 2)	1,159,013	1,933,678	22,909,910	26,002,601	83,055,947
HCC	Wastewater JV	Renewal	Seaview WWTP JV Aeration System Renewal	1,000,000	500,000	2,000,000	3,500,000	14,700,000
HCC	Wastewater JV	Renewal	Seaview WWTP JV Backup Power Supply	500,000	8,500,000	1,000,000	10,000,000	10,000,000
HCC	Wastewater JV	Renewal	Seaview WWTP JV Centrifuge Dewatering Renewal	500,000	200,000	0	700,000	700,000
HCC	Wastewater JV	Renewal	Seaview WWTP JV Clarifier Renewal	500,000		500,000	1,000,000	6,000,000
HCC	Wastewater JV	Renewal	Seaview WWTP JV Effluent Pump Motor Renewal	330,000	0	0	330,000	330,000
HCC	Wastewater JV	Renewal	Seaview WWTP JV General Blower Refurbishment	220,000	330,000	0	550,000	550,000

HCC	Wastewater JV	Renewal	Seaview WWTP JV General Instrumentation Replacement	398,200	550,000		948,200	948,200
HCC	Wastewater JV	Renewal	Seaview WWTP JV Grit Removal	220,000	550,000		770,000	8,100,000
HCC	Wastewater JV	Renewal	Seaview WWTP JV Main Effluent Outfall Renewal (planning phase only)	400,000	2,000,000	2,000,000	4,400,000	20,000,000
HCC	Wastewater JV	Renewal	Seaview WWTP JV MCC Component Renewal	151,800	0	0	151,800	151,800
HCC	Wastewater JV	Renewal	Seaview WWTP JV Milliscreen Replacement	1,380,500	3,297,677	2,761,000	7,439,177	7,439,177
HCC	Wastewater JV	Renewal	Seaview WWTP JV Odour Control Renewal	4,773,758	7,483,163	1,539,794	13,796,715	13,796,715
HCC	Wastewater JV	Renewal	Seaview WWTP JV Outfall Medium Term Renewal	275,000	470,830	470,830	1,216,660	1,216,660
HCC	Wastewater JV	Renewal	Seaview WWTP JV Planned Renewals				0	4,979,187
HCC	Wastewater JV	Renewal	Seaview WWTP JV Primary Sedimentation Renewal	1,045,000	550,000	0	1,595,000	1,595,000
HCC	Wastewater JV	Renewal	Seaview WWTP JV Process Model Development	100,000	50,000	57,000	207,000	757,000
HCC	Wastewater JV	Renewal	Seaview WWTP JV RAS RAS Pump Replacement	220,000	0	0	220,000	220,000
HCC	Wastewater JV	Renewal	Seaview WWTP JV RAS System Renewal	500,000	1,500,000	500,000	2,500,000	2,500,000
HCC	Wastewater JV	Renewal	Seaview WWTP JV Reactive Renewals	562,723	562,723	562,723	1,688,169	6,428,169
HCC	Wastewater JV	Renewal	Seaview WWTP JV Screening Wash Press Replacement	220,000	550,000	0	770,000	770,000
HCC	Wastewater JV	Renewal	Seaview WWTP JV Sludge Dryer Replacement	1,000,000	13,000,000	55,400,000	69,400,000	92,200,000
HCC	Wastewater JV	Renewal	Seaview WWTP JV Sludge Handling Pump Renewal	300,000	300,000	0	600,000	600,000
HCC	Wastewater JV	Renewal	Seaview WWTP JV Sludge Handling Renewal and Capacity Upgrade				0	5,250,000
HCC	Wastewater JV	Renewal	Seaview WWTP JV UV Major Refurbishment	715,000	0	0	715,000	715,000
HCC	Wastewater JV	Renewal	Seaview WWTP JV UV Renewal	1,068,322	6,359,142	0	7,427,464	7,427,464
HCC	Wastewater JV	Renewal	Seaview WWTP Dryer Component Replacement	500,000	300,000	200,000	1,000,000	1,000,000
HCC	Wastewater JV	Renewal	Silverstream Wastewater (JV) storage				0	3,351,150
HCC	Wastewater JV	Renewal	VHCA-Western Hills Trunk	5,200,000	0	0	5,200,000	9,960,000
			Total	26,872,542	51,241,852	92,255,896	170,370,290	529,106,053

30% share to UHCC 8,061,763 15,372,556 27,676,769 **51,111,087** **158,731,816**