



## Advice to Greater Wellington Regional Council (GWRC) Regarding Three Waters Operating Expenditure for the 2023/24 Annual Plan

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

COPIED TO Peter Wells, Manager Service Planning, Wellington Water; Jeremy McKibbin, General Manager Network Management, Wellington Water

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

DATE 30 November 2022

### Action sought

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	Action sought	Deadline
<b>Sue McLean</b> General Manager - Corporate Services, GWRC	<b>Note and respond</b> to the recommendations in this paper	13 January 2023

### Contact for telephone discussion (if required)

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Name	Position		1st Contact
Julie Alexander	General Manager Network Strategy & Planning, Wellington Water	021 815 162	
Pete Wells	Manager Service Planning, Wellington Water	021 195 9621	✓

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## Purpose

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1. This paper advises Greater Wellington Regional 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 8 November 2022.

## Recommended action

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2. It is recommended that Council:
  - a. **note** that Greater Wellington Regional Council's confirmed OPEX investment in three waters is \$20.104m for the 2023/24 financial year (FY2023/24);
  - b. **note** that Wellington Water recommends an OPEX budget of \$25.836m is needed for FY2023/24;
  - c. **agree to:**  
  
**EITHER**
    - i. increase Wellington Water's OPEX funding for FY2023/24 by \$5.731m to a total OPEX budget of \$25.836m;  
**OR**
    - ii. agree to proportionally increase OPEX funding across all investment categories with priority, at a minimum, on the following activities:
      - I. Treatment plant materials and chemicals
      - II. Asset condition assessments
      - III. Sustainable water supply
      - IV. Wellington Water management fee; and
    - iii. accept that a budget below \$25.836m will result in reduced levels of service of Council's assets;
  - d. **advise** Wellington Water of the process, including the impacts of our advice on Council's Significance and Engagement Policy, timeframes and any further information requirements needed to support progressing the development of Council's Annual Plan;
  - e. **meet** with Wellington Water to discuss the content of this paper; and
  - f. **note** that this advice will be proactively released and published on Wellington Water's website within 30 working days of being sent to Council.

## Context and key messages

3. In our preliminary advice to you dated 8 November 2022 (*'Preliminary Three Waters 2023/24 Annual Plan OPEX advice for Greater Wellington Regional Council V2'*) we signalled risks with keeping Council's OPEX budget at the current LTP approved level. We also noted possible OPEX cost increases to address those risks, where known.
4. Following further analysis, we now have a better understanding of the OPEX budget required for FY2023/24. Wellington Water recommends \$25.836m is needed to maintain and operate Council's three waters assets in FY2023/24.
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 of its budgets and any increase in funding to Wellington Water will need to be considered alongside other Council priorities.
6. The OPEX budget proposed by Wellington Water reflects the funding level we advise is needed to deliver existing levels of service and complete priority investigations. In the situation where an OPEX budget is approved below the amount proposed, we would welcome a conversation with Council to confirm priorities and the trade-offs in levels of service.

## Greater Wellington Regional Council's Three Waters Operating Expenditure

### Wellington Water's recommended OPEX budget for the 2023/24 financial year is \$25.836m

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*

Investment category (\$ x 1,000)	FY23 Budget	Council approved 2023/24 LTP funding	2023/24 recommended budget	Recommended increase above LTP approved budget
Treatment Plant	\$4,584	\$ 4,548	\$6,307	\$1,759
Planned maintenance	\$1,862	\$1,802	\$2,324	\$523
Reactive maintenance	\$106	\$525	\$526	\$1
Monitoring and investigations	\$2,915	\$3,031	\$4,773	\$1,742
Operations	\$1,603	\$936	\$1,968	\$1,032
Management and advisory services	\$8,236	\$9,263	\$9,938	\$674
<b>TOTAL</b>	<b>\$19,306</b>	<b>\$20,104</b>	<b>\$25,836</b>	<b>\$5,731</b>

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

### **Treatment plants**

9. The Treatment Plant investment category groups all activities relating to the operation of 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.
10. Significant increases in the cost of chemicals and other materials along with growth in water demand volumes is driving increases in treatment costs. These costs account for over half of the additional budget recommended for treatment plants. They are a priority being a cost that must be incurred in delivering this service. As previously signalled to Council:
  - drinking water average daily demand has increased from 167ML/d to 179ML/d or 7.1% compared to this time last year
  - costs for the optimal set of tendered water treatment chemicals has increased by 14% (a cost increase of 5% had been budgeted)
  - CO<sub>2</sub> costs have more than doubled due to a Marsden Point surcharge and a charge under the Emissions Trading Scheme (ETS).
11. Within the recommended budget, additional funding is also sought to address the backlog of corrective maintenance activities across the Te Marua, Wainuiomata, Waterloo and Gear Island treatment plants. Without this uplift, the backlog will continue to increase, risking plant reliability and the probability of issues arising. We also advise accounting for additional reactive maintenance at these sites which is expected associated with the age of plant.

### **Planned maintenance**

12. The recommended budget shift reflects growth across the network and increased demand for water proactive activities to maintain pump station, reservoir and network assets to required operational service levels.
13. Historically, planned maintenance on reservoirs has been limited due to very constrained budgets. Deferred maintenance items identified through the Very High Criticality Assets (VHCA) programme has highlighted the need to review the current programmed maintenance budget to adequately mitigate contamination risk.

### **Reactive maintenance**

14. While dependent on the number of failures, reactive maintenance costs are anticipated to increase based on delivery trends to date and the average age of assets and rates of renewal/replacement. Budget uplift is recommended to meet forecast reactive maintenance costs for network maintenance, pump stations and reservoirs. Alternatively, we advise agreeing to amend target levels of service to increase response times and reduce delivery of lower priority reactive maintenance activities.

### **Monitoring and investigations**

15. The recommended increase is largely due to the following key work areas:
  - Condition assessment – as previously signalled, we have made good progress on completing VHCA condition assessments. As a priority, we strongly advise ongoing funding in condition assessments, including for non-VHCA, to further improve understanding of Council's assets and to identify where remedial action is needed to minimise unplanned failures. Note, this is one of the activities WWL recommends is prioritised for increased investment. Condition assessments accounts for the greatest proportion of the uplift requested.

- Critical spares – the industry is experiencing long lead times for parts due to supply-chain issues. This has the potential to cause severe disruption in the event of unplanned failure and an increased focus on critical spares management is recommended.
  - Investigations, including the Raw Water Source investigation to determine the feasibility of staging the Te Marua Scheme expansion by investing in Managed Aquifer Recharge first. This is expected to be needed if metering is delayed or not fully implemented across the cities.
16. Also accounting for the uplift is increased labour, laboratory and monitoring costs for water regulatory and resource consent compliance monitoring and water sampling and testing activities. These costs are required to meet either our Fixed Service Level Arrangement with Council or new regulatory requirements.

### **Operations**

17. The recommended budget shift reflects increased equipment and laboratory costs as well as upgrades of aging control systems and IT system replacements, for example the replacement of virtual server software which supports operational technology. Control systems refer to everything we use to automatically control and monitor our treatment plants, reservoirs, pump stations, flow meters, valves.

### **Management and advisory services**

18. 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.
19. In addition to the general management cost increases, ongoing funding 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.
20. We recommend budget uplift in management and advisory services as a priority. If Council does not increase budget for management and advisory services to the level proposed, the additional costs will need to be covered by reducing funding from within other investment categories.

### **Sustainable water supply**

21. We strongly recommend as a priority, increased investment in Sustainable Water Supply activities. These activities are important to: help ensure water is available to support economic, social and cultural wellbeing; improve efficiency of supply across the network; and improve environmental outcomes.
22. The costs for Sustainable Water Supply activities are split across the proposed planned maintenance, reactive maintenance, and monitoring and investigations budgets outlined above.

### **Next steps**

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23. Please provide a response to the recommendations in this paper to Julie Alexander by 13 January 2023.
24. Following your response to this report and any discussion meeting, Wellington Water will proceed to deliver services within agreed budgets.