

TO Stefan Corbett, GM Partnerships and Operations, South Wairarapa District Council (SWDC)

COPIED TO Peter Wells, Manager Service Planning
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FROM Julie Alexander, GM Network Strategy & Planning

DATE 4 November 2022

PRELIMINARY THREE WATERS 2023/24 ANNUAL PLAN OPEX ADVICE FOR SOUTH WAIRARAPA DISTRICT COUNCIL

Action Sought

	Action sought	Deadline
Stefan Corbett GM Partnerships and Operations, SWDC	Note the recommendations in this paper Respond to Wellington Water with decisions and indications as outlined in this paper	30 November 2022

Purpose

1. This paper informs South Wairarapa District Council (Council):
 - a) of the approved FY2023/24 Long Term Plan (LTP) operational expenditure (OPEX) budget, and the risks of keeping the budget at this level, and
 - b) that Wellington Water advises additional OPEX funding should be provided above the FY2023/24 LTP approved level to maintain existing levels of service and that subsequent advice on a proposed FY2023/24 OPEX budget will be provided to Council in February 2023.

Recommendations

2. Wellington Water recommends Council:
 - b) **notes** the risks associated with keeping the FY2023/24 OPEX budget at the LTP approved level
 - c) **notes** that Wellington Water will provide subsequent advice on the recommended OPEX budget for the FY2023/24, and that this will exceed the approved FY2023/24 LTP budget
 - d) **notes** advice on the FY2024/25 OPEX budgets will be provided as part of Wellington Water's 2024-2034 LTP advice
 - e) **notes** the FY2021-31 LTP OPEX budget does not include funding for significant emergency events, which Council funds separately

- f) **notes** that Wellington Water will need a response from council on whether it accepts the risks outlined in this document related to continuing with the FY2023/24 OPEX LTP approved budget or is willing to provide Wellington Water with additional OPEX funding to reduce the risks and maintain existing levels of service.
- g) **agrees** to increase the FY2023/24 OPEX budget above the approved FY2023/24 Long Term Plan level for the following priority areas, at a minimum:
 - i Asset condition assessments
 - ii Wellington Water management fee
 - iii Martinborough wastewater treatment plant sludge management

Context

- 3. Wellington Water provides Council with three waters advice, management and repair services against budgets provided through the Long-Term Planning process. Advising Council of issues and impacts that arise which may impact on our ability to work within those budgets and provide agreed service levels is a vital part of our role as your service provider.
- 4. Our advice is developed in the context of the strategic investment priorities¹ set out in our Statement of Intent. These priorities are looking after existing infrastructure, supporting growth, ensuring a sustainable supply of drinking water, improving environmental water quality, reducing carbon emissions and increasing service resilience to mitigate the impacts of climate change. Funding decisions made for the FY2021/31 LTP mean that only limited performance improvements will be achieved. The expected impact of the investment decisions and the residual risks are set-out in the Regional Service Plan².
- 5. Council-owned three waters assets are ageing. This means they're not being renewed or replaced as quickly as they're wearing out, and that means increasing issues and outages. Over time, this results in higher reactive costs including maintenance, repairs, and renewals.
- 6. Over the past year Wellington Water has experienced significant increases in the costs of material and labour due to a variety of inflationary factors (inflation in the past financial year has reached over 7%). This has put pressure on the CAPEX and OPEX programmes Wellington Water is delivering on behalf of its client Councils.
- 7. Wellington Water remains committed to assisting Council achieve its service level targets, but we are concerned that current agreed funding provided for provision of our services will not allow those targets to be achieved.

Summary of previous advice from Wellington Water

- 8. Council's approved LTP OPEX budget for FY2023/24 is \$3.095 million. This is less than the amount required to respond to all the strategic investment priorities.
- 9. In April 2022, we advised Council we were concerned that the FY2023/24 agreed budget would not be sufficient to meet Council's required service legal targets.
- 10. Table 1 illustrates the difference in approved LTP FY2023/24 budget, and the budget Wellington Water advised in April 2022 was necessary. The recommended funding was \$3.95 million, or 21.6% higher than the budget amount.

² Available at <https://www.wellingtonwater.co.nz/publication-library/advice-and-work/regional-service-plan/>.

Table 1: Wellington Water advised budget versus LTP agreed budget (uninflated)

Activity (\$ x 1,000)	Recommended 2023/24 funding – April '22 advice	Council approved 2023/24 LTP funding	Difference
Treatment Plant	\$1,164	\$1,164	-
Planned maintenance	\$101	\$101	-
Reactive maintenance	\$1,382	\$557	-\$825
Monitoring & investigations	\$539	\$509	-30
Operations	\$429	\$429	-
Management & advisory services	\$336	-336	-
Totals	\$3,950	-\$3,095	\$855

Risks of keeping the 2023/24 OPEX budget at the approved LTP level

11. In our April 2022 advice, we identified several risks associated with Council's approved OPEX budget. Many of these risks still stand, and some may have increased in likelihood and/or severity. In addition, new risks have been identified. This highlights that an OPEX budget above the approved LTP level is needed if Council intends to meet its level of service targets.
12. The following risks have been identified and are detailed below. The costs for some of these are yet to be determined and will be provided in the advice we give Council in February 2023.
 - a Addressing non-compliance – As council is aware, an abatement notice was received for the Martinborough Wastewater Treatment Plant in FY2022/23. Wellington Water has advised South Wairarapa District Council to urgently fund desludging of the pond to address this non-compliance. Early estimates indicate that \$1.5m of additional funding is required to complete this work, which represents a significant addition to the current LTP OPEX expenditure. In addition, several 'Please Explain' letters have also been received for Martinborough, Featherston, Greytown & Lake Ferry treatment plants. To proactively manage risks, improvements need to be made to maintain compliance with the relevant consents. Wellington Water is committed to consent compliance and will continue to work with South Wairarapa and within the operational limits of these sites to achieve this.
 - b Increased consumption – Water consumption in the South Wairarapa District Council averaged 558 L/c/d, up 2% from the same time last year and 40% above the 400 L/c/d target. This naturally leads to higher treatments costs, due to the additional amount of chemicals required to treat increasing volumes of water coming into the wastewater treatment plants.
 - c Planned maintenance – Completing critical planned maintenance is good asset management practice and allows for planned work on critical assets. The current level of investment in planned maintenance will mean the frequency of stormwater network flushing and drinking water network maintenance activities (for example: hydrant flushing and valve maintenance) will reduce. This will, in turn, increase the risk that blockages and overflows will continue, leading to poor environmental outcomes.

- d Reactive maintenance is considerably below the level of expenditure required and will result in a reduction in lower levels of service (for example: longer response times for less urgent operational repairs) and low priority faults not being addressed. For treatment plants, Council currently has a backlog of approximately 70 maintenance work orders, totalling approximately \$150k. Not addressing this backlog will reduce plant reliability and increase the risk of a greater number of operational issues. This is a particularly pertinent in summer, when water consumption increases and capacity reduces.
- e Investigations – Reducing general investigations limits the ability to identify and resolve service issues, potentially resulting in ongoing customer and environmental impacts and places a constraint on preparing forward capital works plans. South Wairarapa District Council continues to run at a high risk of water supply outages, water quality issues, non-compliances and potential prosecution due to insufficient funding for investigations. It also means Wellington Water is not in a position to provide adequate information to emerging issues or respond quickly to events.
- f Very High Criticality Assets (VHCA) - Between June 2020 and July 2022 Wellington Water completed a condition assessment project to identify VHCA assets and assess their condition. While there is always risk of assets failing unexpectedly, the VHCA programme has significantly improved our understanding of the condition of the assets assessed. Assets identified as requiring remedial actions will need to be funded to prevent unplanned failures. Additional investment in ongoing condition assessment work is strongly recommended to ensure reliable operation of the networks.
 - i Historically, planned maintenance on reservoirs has been limited by very constrained budgets. The VHCA and Water Safety Planning programmes highlighted the need to review the planned maintenance budgets to adequately mitigate contamination risk for reservoirs. The VHCA programme confirmed that contamination risks have surfaced through lack of regular inspection of these reservoirs. An additional \$220k is required to clean and carry out inspections and maintenance activities of all reservoirs to mitigate these contamination risks.
- g Asset register – All activities that Wellington Water performs for Councils rely on a complete and accurate asset register. Stimulus funding enabled good progress on fixing long standing issues with the asset register. For example, the VHCA Programme identified VHCA assets and assessed their condition, and progress was made on asset data analysis and information processing backlogs. Councils allocated some funding for ongoing condition assessment work in the approved FY2023/24 LTP and have recently provided additional funding for asset data completeness and quality work. In both areas ongoing funding is required, and further funding increases will enable Wellington Water to accelerate the pace of work and improve service provision. This work also contributes to the National Transition Unit (NTU) understanding of the full complement of assets Council currently owns (providing a complete asset valuation) and supporting a smooth transition of services to Entity C.
- h Material increases – Since the FY2021 LTP budgets were agreed, the cost of chemicals and other materials have increased. This is placing pressure on the OPEX budgets of treatment plants and will likely have an impact on bulk water levies.
- i Labour costs – Since the FY2021 LTP budgets were agreed, labour costs have increased. This is largely due to a current skill shortage in New Zealand resulting in an increased need to use subcontractors/contractors, on hourly rates, in place of permanent staff. We are expecting this trend to continue, leading to further increases in labour costs required to complete reactive maintenance work.

- j Growth studies –Undertaking growth planning studies in FY2023/24 will help inform the capital delivery programme that will be developed for the FY2024-34 LTP. We will continue to work with Council to ascertain whether Council wishes for this work to be undertaken. We estimate \$100k will be required to complete the Martinborough Growth Plan in FY2023/24.
- k Wellington Water management fee –Wellington Water is currently absorbing additional management costs in FY2023 and will continue to bear the cost in FY2024 if additional funding is not made available. The key reasons for the increasing the management fee are:
 - i inflation running at a higher rate than forecast when developing the LTP
 - ii an increase in wages to match market rates and an increase in the proportion of contractors and consultants being used across the industry, and
 - iii increases in staff numbers due to the larger CAPEX and OPEX programmes Wellington Water is delivering, and increased regulation and compliance activity.

The Wellington Water management fee is charged proportionately across all councils. For SWDC, this means that in FY2023/24 we require approximately an increase of \$33.6k from the FY2023/24 LTP budget, to cover the management costs absorbed by Wellington Water to date and to sustain our core business functions. If additional funding cannot be secured from Council to accommodate this year-on-year uplift, Wellington Water will need to reallocate funds from other OPEX budgets to make up for the deficit. Consequently, this will further impact Council's ability to achieve its service level targets. It is also worth noting that the management fee is covering some internal staff time costs for work required to be undertaken by Wellington Water to prepare and support the transition of services to the new Water Services Entity, but the intention is for most of these costs to be met from additional funding the council is providing out of DIA's Transition Support Funding.

In addition, under the Government-funded stimulus programme we made progress on understanding and mitigating the immediate cyber security risks across the water network. The Department of Internal Affairs approved stimulus funding for this work to be carried through to FY2022/23. Wellington Water requires ongoing investment from Council in cyber security in FY2023/24 to continue mitigation of this risk. Note, at the time the 2021-31 LTP was developed, we did not know the extent of work required for cyber security, and associated ongoing costs, hence the reason this programme has not been budgeted for beyond FY2022/23. At a minimum, ongoing funding of current cyber security activity needs to continue. Split proportionately across councils, this equates to \$8,400 being requested from SWDC council to continue with current cyber security measures. The actual budget needed will be higher than this as cyber security threats change, and we gain greater understanding of the detail of our current security risk.

In total, the updated management fee is \$378k including the increase of \$33.6k in management costs, and the additional funds requested for cyber security activity.

Next steps

- 13. We will continue to work on your OPEX needs over the coming months and provide detailed OPEX budget advice to Council in February 2023. In the February advice, Wellington Water will recommend Council increase its FY2023/24 OPEX budget above the approved LTP level.
- 14. In parallel to providing Council's OPEX Annual Plan advice, we are also determining a 10-year unconstrained OPEX forecast for Council, for submission to the National Transition Unit. This information is due in early December 2022.

15. We are committed to working with you and are keen to meet to discuss the content of this memo when suits.

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