Advice to Wellington City Council regarding proposed three waters capital and operational expenditure budgets for the 2025/26 financial year and triennium

TO	Jenny Chetwynd, Chief Infrastructure Officer, Wellington City Council
COPIED TO	Nik Zangouropoulos, Head of Service Planning, Wellington Water; Wayne Maxwell, Group Manager Business Services, Wellington Water; Chris Matthews, Manager Waste, Water & Resilience, Wellington City Council; Andrea Reeves, Chief Financial Officer, Wellington City Council
FROM	Julie Alexander, Group Manager Network Strategy and Planning, Wellington Water
DATE	5 February 2025

Action sought

	Action
Jenny Chetwynd, Chief Infrastructure Officer, Wellington City Council	**Note** the contents of this memo. **Provide** this advice to Wellington City Councillors consideration.

Contact for telephone discussion (if required)

Name	**Position**		**1st Contact**
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Purpose

1. This paper provides Wellington City Council (Council) with:
    - Updates to the Capital Expenditure (capex) programme as a result of new information;
    - Revisions to the Capex and Operational Expenditure (opex) programmes to align with Council's preliminary funding decisions;
    - Advice on any areas where risks have changed as a result of the draft budget decisions;
    - An update on the approach to allocating corporate costs to capital and operational expenditure; and
    - Updates on the organisational capability and technology investment requests from our Stage one advice.

Recommended actions

It is recommended that Council:

a. **acknowledges receipt of:**

   i. an updated revised FY2024/25 Capex forecast;
   ii. updated Capex budgets and programme to align with your funding decisions for the triennium; and
   iii. an updated FY2025/26 Opex programme to align with your funding decisions, as requested by Council;

b. **notes** that Wellington Water does not recommend the attached programme, which has been developed to align with your funding decisions for the triennium;

c. **considers** the risks arising from Council's preliminary funding decisions;

d. **recommends** an increase to FY2025/26 capital budget by up to $25M (from $60M to up to $85M) to manage unacceptable risks;

e. **recommends** an increase to FY2025/26 operating budget by $5M (from $61M to up to $66M) to manage unacceptable risks;

f. **recommends** a $0.43M increase to Management Advisory services fee;

g. **notes** the updated information on organisational and technology investments;

h. **notes** the updated information on the approach to allocating corporate costs to capital and operational expenditure;

i. **notes** that in order to support your FY2025/26 annual planning processes, Wellington Water will provide final detailed advice in May 2025; and

j. **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. Wellington Water Limited (WWL) has updated the FY2025/26 and triennium capex budgets to reflect further information received on cost estimates and recommended timings for projects, as well as new risks identified since our December 2024 advice.

3. WWL recommends that Council increases the capex budget for FY2025/26 by up to $25M (from $60 to up to $85M) to manage unacceptable risks.

4. Notwithstanding the above, in accordance with Council's request, we have set out a capex programme that aligns to council's FY2025/26 LTP capex funding allocation.

5. WWL recommends that Council increases the opex budget for FY2025/26 by $5M (from $61M to $66M), to address the most urgent operational risks.

6. Notwithstanding the above, in accordance with Council's request, we have set out an opex programme that fits within the FY2025/26 LTP opex funding allocation.

7. Our December 2024 advice to Council highlighted that risks identified in WWL's 2024-34 LTP close out advice, of 23 August 2024, continue to be relevant.

8. Following Council's indication of preliminary capex and opex funding decisions in December 2024, we have identified additional key risks that Council should be aware of, including risks that are relevant to all councils, and those risks that are specific to Council's funding decisions. The key risks identified across all councils are:

    - Wastewater treatment plant compliance risks
    - Wastewater network overflow risks
    - Leaks backlogs
    - Significant impact on WWL's ability to conduct engineering investigations work due to limited Opex funding
    - Insufficient funding for urgent work
    - Growing backlog of renewals.

9. Additional specific risks identified for Council are:

    - Risk of acute water shortage if water demand exceeds water supply
    - Increasing network outages and bursts
    - Risk of reservoir contamination
    - Moa Point Wastewater Treatment Plant – risk that key components of the plant will continue to fail before necessary renewals can be completed, risks to contractor health and safety, compliance risks, and risk that equipment failure at Moa Point could impact on the ability of the new Sludge Minimisation Facility to be effectively commissioned and operate efficiently.

10. Our advice also requested additional opex investment in WWL's organisational capability of $0.43M to ensure we can deliver councils' programmes well, reduce the reliance on consultants and contractors, mature our approach to managing contracts, increase efficiencies, and improve our processes and ways of working to reduce the risks of errors from reoccurring; and investment to procure and implement core technology systems and improvements that are required for any effective and efficient water utility organisation.

11. Councils have signalled that our request for investment in the building of capability for the organisation will be declined. However, Greater Wellington Regional Council has agreed to include the funding for technology and systems (subject to some final resolutions) in their draft Annual Plan for consideration by their Councillors in February. If approved, this means

that Greater Wellington Regional Council would debt fund the full amount of $37.5M over three years and charge interest to each metropolitan council via the bulk water levy.

Background and context to our advice

12. Councils around the region are facing cost pressures and challenges with affordability.

13. Over the last year Wellington City Council, and the other councils in the region, have invested heavily on getting on top of the rising number of leaks within the public network and increasing water supply capacity to avoid risks of an acute water shortage this summer. We acknowledge Council's significant additional investment in network leak repairs. As at 1 January 2025, Council's leaks backlog is 206, marginally above the sustainable level of 133, and water demand is down by almost 20 million litres per day.

14. Despite the progress in reducing water loss and the risk of an acute water shortage, we are still only applying a band aid solution to a water network that is close to breaking point in many areas.

15. The water assets in the region are old and at or near the end of their operational lives. This is a symptom of historical underinvestment, and the region is playing a game of catch up. Every year that councils are unable to afford to shift the dial is another year that old assets will further deteriorate.

16. For the next financial year (FY2025/26) we have again recommended to all councils to increase the level of investment needed to address their water asset issues and reduce the risks and impacts to their communities. WWL notes that not investing will increase the risk of:
    - Assets breaking;
    - Further interruptions to service;
    - Rising costs in maintenance and repairs;
    - Restrictions on growth;
    - Impacts to the environment through untreated wastewater entering local waterways; and
    - Putting public health at risk.

17. Additionally, WWL has asked councils for investment into building the capability of the organisation, to strengthen our budgeting processes, improve our checks and balances, and improve how we manage risk and assurance. This request was in response to recommendations laid out in the independent review into WWL's capital programme estimation and budgeting systems. Councils have indicated that they will be unable to fund this work. In spite of this, WWL has continued to drive improvement through the organisation, however councils could be exposed to ongoing risks of future errors, such as the recent cost estimation error.

18. Lastly, significant investment in the core technology system is needed to support future water services delivery. Work must start on building these basic technology systems now, as they will be required for any future water entity that councils decide on. Most of our councils have said no to this investment as well. However, Greater Wellington Regional Council is exploring the possibility of including the funding of this in their draft Annual Plan for consideration by their Councillors. If approved, this means that Greater Wellington Regional Council would debt fund the full amount and charge interest to each metropolitan council via the bulk water levy, which every metropolitan council has to pay for the supply of drinking water.

Council context

19. WWL understands that Council is currently undertaking an LTP amendment and comprehensive budgeting exercise.

20. In addition, we are aware that, following the introduction of the Local Water Done Well legislation in 2024, Council will consult Wellingtonians in March and April 2025 on three options for future water services delivery, following which a decision will be made on the preferred future direction for Council's water services.

21. This advice builds on our December 2024 preliminary advice, and provides updates and proposals in relation to the triennium view of Council's approved LTP based on Council's funding decisions, taking into account the above factors.

22. WWL will continue to work with Council to refine the Council's programme based on your feedback.

Corporate cost allocations update

23. In our advice of 4 December 2024, WWL advised Council of the programme of work underway following the 2024 independent review of WWL's capital programme estimation and budgeting systems.

24. Further work has since been undertaken to ensure that the corporate cost budget forecasts are accurate, and that there is a transparent approach to allocating corporate costs to capital and operational expenditure to make sure these costs are recovered fully across the programme.

25. The capex summary provided includes a calculation of corporate costs that is based on the current assessment of WWL's overall capex programme. The final corporate cost figures applicable to each council will depend on the final quantum of the capex programme (i.e. it will shift up or down in line with the final capex figure agreed across the whole region and the balance between councils).

Annual Planning approach

26. WWL worked iteratively with Council to develop the 2024-34 LTP, and we provided you with our final close-out advice on the LTP investment programme on 23 August 2024. 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.

27. Our final close-out advice also included an updated active risk register, and an updated level of service projections, on the basis that the Council agreed capital budget was below the WWL recommended investment level for the LTP period.

28. Following the LTP close-out advice, WWL continued to engage with Council on changes and updates required to the adopted FY24-34 LTP programme to accommodate emerging needs.

29. On 4 December 2024, WWL provided preliminary advice to Council, to support your FY2025/26 annual planning process; this advice included proposed changes to the capital and operational delivery programmes, and recommendations to increase funding for the triennium from the agreed LTP funding levels accordingly.

30. After considering our preliminary advice, Council advised WWL on 20 December 2024 of your decision to maintain funding allocations for FY2025/26 at the LTP approved levels.

31. Since providing Council with our preliminary advice in December 2024, further information on cost estimates and recommended timings for projects as well as new risks have been gathered. As a result, the total indicative capex funding requirement has risen to $240M over the triennium ($85.2M for FY2025/26), with a further $26M of other recommended investments for inclusion in the triennium programme.

32. The uplift between our preliminary advice in December 2024 and this advice is predominantly a result of bringing critical elements of the Moa Point WWTP programme from outside of the triennium), including replacement of the WWTP Electrical Instrument and Control (EIC) System and the aeration systems. Both are considered to be critical initiatives, due to the risk to both the effective operation of Moa Point WWTP, and the impacts on the effective commissioning and efficient operation of the new Sludge Minimisation Facility (SMF). Significant cost and timing impacts for Moa Point odour and ventilation renewals and Moa Point roof replacement have also contributed to the uplift between our Stage one and Stage two advice.

33. In order to be compliant with the triennium Council funding of $190.61M, it has been necessary to reduce or defer a number of programmes and projects. The amended programme is provided in **Appendix A : Detailed Triennium and LTP Capex programme**. Despite these adjustments, the draft programme is not aligned to the Council approved fiscal year phasing and will require further consultation with Council and officers.

34. Significant projects that will be impacted by deferral include critical projects within the CBD programme of works, and further deferrals to the wastewater network renewals. In addition, we would not be able to bring forward the majority of the required work at Moa Point WWTP detailed above – other than the critical blower component of the Aeration System Renewal.

FY2025/26 and Triennium capital expenditure

35. The level of capital funding agreed in the LTP was $60.17M for FY2025/26 and $190.61M over the triennium.

36. In our December advice, WWL recommended a slight change for FY2025/26 to $59.55M[1] (a decrease of $0.62M) and an increase to $204.60M[2] over the triennium (an increase of $13.99M).

37. Council advised WWL on 20 December 2024 that the FY2025/26 capex programme should align with the approved LTP funding envelope and fiscal year phasing, ensuring projects remain within the established budgetary limits.

38. Since providing Council with our initial advice in December 2024, further information on cost estimates and recommended timings for projects, as well as new risks, have been gathered. This has increased the total funding need and consequently, the requirement for prioritisation to meet the advised funding limits.

39. The significant projects that will be impacted by deferral include critical projects at the WWTP and within the CBD programme of works. In addition, further deferrals to the wastewater network renewals currently planned within the LTP triennium funding and included as part of the LTP adopted capital investment would also need to be considered.

40. We have reviewed the capex programme internally, and undertaken an initial reprioritisation exercise in order to try to align the programme within the allocated funding levels. Due to

[1] Before FY2025/26 corporate cost adjustments
[2] Before FY2025/26 corporate cost adjustments

existing committed programmes of work, options for prioritisation are very limited. However, details of the changes to the draft programme are set out below for discussion with Council and Officers. An updated detailed LTP programme reflecting the proposed revisions is attached as **Appendix A**.

41. Table 1 sets out a summary of the proposed prioritised capital expenditure programme of the FY2025/26 and Triennium capital delivery plan, by water type and Local Government Act 2002 (LGA) classification.

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

Water	LGA Classification	2024/25	2025/26	2026/27	Triennium
Drinking Water	Growth	$0.16M	$0.16M	$0.17M	**$0.49M**
	Level of Service	$3.40M	$1.40M	$2.28M	**$7.08M**
	Renewal	$9.44M	$16.06M	$12.86M	**$38.36M**
Drinking Water TOTAL		**$13.00M**	**$17.62M**	**$15.30M**	**$45.93M**
Stormwater	Growth	$0.16M	$0.16M	$0.17M	**$0.49M**
	Level of Service	$1.31M	$2.22M	$2.78M	**$6.31M**
	Renewal	$1.58M	$1.76M	$2.36M	**$5.70M**
Stormwater TOTAL		**$3.05M**	**$4.15M**	**$5.30M**	**$12.51M**
Wastewater	Growth	$6.06M	$0.16M	$0.17M	**$6.39M**
	Level of Service	$17.45M	$30.91M	$6.46M	**$54.81M**
	Renewal	$22.64M	$22.42M	$26.04M	**$71.10M**
Wastewater TOTAL		**$46.15M**	**$53.49M**	**$32.66M**	**$132.30M**
TOTALS		**$62.21M**	**$75.26M**	**$53.27M**	**$190.74M**

Note: above figures are uninflated and in FY24-25 dollars

**The FY2024/25 programme reflects known timing changes*

42. The significant deferrals proposed to the capital programme for the triennium in order to align with the approved LTP funding envelope include:

Moa Point WWTP:

- ($5.17M) - Aeration System Renewal - Blowers moved forward to within the triennium and construction of diffuser deferred to outside of the triennium.
- ($4.18M) - Odour and Ventilation Renewal – aligned to Stage one advice with concept design within the triennium and construction deferred.
- ($14.2M) - Roof Replacement & Associated Works – aligned to Stage one advice with concept design within the triennium and construction deferred.

CBD Wastewater Programme:

- ($6.6M) – Deferral of construction of Victoria Street Rising Main renewal until year four.

Renewals and Upgrades:

- ($4.7M) – Agra Crescent Stormwater Renewal - to commence in year four.
- ($2.2M) – Regional Pressure Management and PRV renewals - to commence in year four.
- ($5.1M) – Wastewater renewals (Newtown) - to commence in year four.

43. If further reprioritisation is required, there may be a need to consider deferring or rephasing other projects and programmes of work, including renewals. For example, there may be planned renewal programmes from which funding is reallocated to support the reactive renewals programme.

44. Note that FY2024/25 budgets include changes to costs and timing as per the forecasts, as well as amendments as agreed with Council Officers.

45. In addition, we will continue to see the need for unfunded, urgent and unexpected works arise, the costs of which will have to be reprioritised from other existing programmes.

Increases to address capex programme risks

46. In addition to the programme included in Appendix A, WWL recommends that the total capital budget for FY2025/26 is increased by $9.9M for:

- $4.0M – network reactive maintenance.
- $0.5M – district area metre renewals.
- $5.2M – Victoria St waste water rising main.
- $0.2M – Highland Park reservoir.

Universal Smart Metering

47. In our December advice, WWL provided Council with an update on a programme of work underway to develop a business case for the delivery of smart metering across the four metropolitan councils of the region.

48. The programme and planning for procurement and pilot deployments are still being developed. Once costs are fully understood, we will include detailed information in our advice to Council in May 2025.

49. At this stage, our early cost estimates indicate that the capex funding allocated by Council for the roll out of universal residential smart meters in the 2024-34 LTP may not be sufficient.

FY2025/26 Operational Expenditure

50. The level of funding for operational expenditure approved in the LTP for FY2025/26 was $60.70M. Our Stage one advice recommended an increase in funding of up to $8.53M in order to meet additional operational costs.

51. Council has asked WWL to manage opex priorities for FY2025/26 within the existing funding allocation. As such, we have developed a revised draft opex plan for FY2025/26 (Table 2), setting out the proposed amended programme.

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

WCC Draft Council OPEX Annual Plan 25/26		25/26 Approved LTP Budget	25/26 WWL Recommended Budget	25/26 Annual Plan	Variance
Drinking Water	Monitoring & Investigations	4.00M	4.53M	4.32M	(0.21)M
	Operations	0.23M	0.19M	0.18M	(0.01)M
	Planned Maintenance	3.72M	3.86M	3.37M	(0.48)M
	Reactive Maintenance	13.06M	13.62M	13.06M	(0.56)M
	Management & Advisory Services	1.97M	2.10M	1.97M	(0.13)M
Total Drinking Water		22.98M	24.30M	22.91M	(1.39)M
Stormwater	Monitoring & Investigations	1.02M	1.55M	1.03M	(0.53)M
	Operations	0.03M	0.03M	0.03M	0.00M
	Planned Maintenance	0.96M	3.94M	0.97M	(2.97)M
	Reactive Maintenance	1.40M	1.51M	1.40M	(0.11)M
	Management & Advisory Services	0.98M	1.05M	0.98M	(0.06)M
Total Stormwater		4.40M	8.08M	4.40M	(3.67)M
Wastewater	Monitoring & Investigations	2.74M	4.11M	2.63M	(1.49)M
	Operations	0.15M	0.12M	0.11M	(0.02)M
	Planned Maintenance	1.84M	2.32M	1.54M	(0.78)M
	Reactive Maintenance	3.59M	5.10M	3.59M	(1.52)M
	Treatment Plant	15.84M	15.79M	17.21M	1.41M
	Management & Advisory Services	3.61M	3.85M	3.61M	(0.24)M
Total Wastewater		27.76M	31.30M	28.68M	(2.62)M
Wastewater Joint Venture	Treatment Plant	5.55M	5.55M	4.71M	(0.85)M
Total Wastewater Joint Venture		5.55M	5.55M	4.71M	(0.85)M
Total		60.70M	69.23M	60.70M	(8.53)M
	Urgent capability improvements for FY2025/26*		0.93M	0.93M	
	Net programme savings from replacing contractors*		(0.93)M	(0.93)M	
Grand Total		**60.70M**	**69.23M****	**60.70M**	**(8.53)M**

**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 requested for System Enhancements and Organisational Capability*

52. We have reviewed the draft budgets from our initial advice, and reduced some programmes of work in line with the Council approved levels of funding. This has resulted in reductions to investigations, planned maintenance and reactive maintenance activities, with a particular impact on Stormwater and Wastewater investment levels.

Planned Maintenance:

- Reductions to funding for planned maintenance activities for Stormwater, including a provision of $1.2M for the cleaning of the Harris Street Syphon and an allowance for cleaning of thirteen Stormwater grid traps across the city.

- Reductions to funding for planned maintenance activities for Wastewater, including gravity main flushing, overflow monitoring, and pump station maintenance.

Reactive Maintenance:

- Reductions in Drinking Water reactive maintenance will lead to an increase in the backlog of leaks requiring repair to an estimated level of 430 in Summer 2025/26,above the estimated sustainable level of 133.
- Reductions in Wastewater reactive maintenance putting pressure on levels of service.

53. The investigations activities that are proposed to be reduced or deferred are shown in Table 3 below.

Table 3: Proposed reductions to planned investigations for FY2025/26

Proposed FY2025/26 investigations reductions	**$ ('000)**
Catchment growth (western & housing intensification)	$360
Leak detection (keeping at current year levels)	$275
Pressure transient monitoring	$51
Drinking Water Acute water shortage programme	$92
Critical Asset Condition Assessments	$359
Asset Management planning	$50
Roving team ID inflow and infiltration (keeping at current year levels)	$500
General investigations all 3 waters (Reservoirs, flooding, possible WWTP non-compliance)	$600
RMA – regional costs	$120
H&S Assessments WW pump station	$40
Total proposed reduction ('000)	**$2,447**

54. These reductions are intended to minimise impacts on services in the current year, but will impact activities which support planning and advice, limiting our ability to support growth planning, condition assessment, water loss and future capital works.

55. **Appendix B** provides a breakdown of the categories of Council's agreed budget for operational expenditure in the 2024-34 LTP.

Increases to address opex programme risks

56. In addition to the programme included in Appendix B, WWL recommends that the total operating budget for FY2025/26 is increased by $5.5M for:
    - $1.1M – drinking water reactive maintenance (leak repair).
    - $1.5M – waste water reactive maintenance.
    - $1.5M – storm water planned maintenance (Harris St syphon).
    - $0.6M – waste water drainage investigations.
    - $0.8M – waste waster planned maintenance.

57. In our December 2024 advice, WWL set out a number of risks resulting from Council's current levels of capex and opex funding. These risks included:

    - Growing renewal backlogs. There isn't enough funding to meet the recommended 41km of network renewals per year;
    - Risk of tighter water restrictions and a risk of an acute water shortage due to water loss from ageing networks and increasing water demand due to population growth;
    - Ageing reservoir assets; and
    - Risks with not meeting Wastewater Treatment Plants compliance.

58. Following Council's indication of preliminary capex and opex funding decisions in December 2024, we have identified additional key risks that Council should be aware of – some which are relevant to all councils, and others that are specific to Council's funding decisions.

General risks applicable to all councils

59. Not being able to meet WWL's recommended level of funding means councils will carry increasing risks on their water assets. This means no progress will be made towards increasing the level of renewals, and therefore there will be ongoing deterioration of the water network for future years. As a result, councils should expect to see continuing increases in cost and effort to maintain these old assets.

Wastewater treatment plant compliance risks

60. Based on current approved funding levels, there is growing risks of failure of critical components at the wastewater treatment plants which may result in non-compliance. It is likely there will be more untreated wastewater discharges, which would lead to an increasing risk to the health of the environment and potentially to public health, as well as the risk of prosecution. Councils are not providing the level of funding needed to allow us to manage their plants at an optimal level. This could see ongoing impacts on the local residents and the community.

Wastewater network overflow risks

61. The region's wastewater system is aging, and parts of the network are over 120 years old. Construction of the original wastewater network (the pipes and pumps that carry wastewater to the treatment plants) was originally designed to protect public health, with less focus on the health of the environment.

62. This means when the wastewater network gets overloaded (e.g. through a blockage somewhere or when there is heavy rainfall) some untreated wastewater can overflow from manhole lids and certain outlet pipes into streams, rivers, and the harbour. This is the network doing what it was originally designed to do – these overflows minimise the risk of wastewater entering properties and the community and reduce the risks to public health, however they have a direct impact on the environment.

63. New national and regional rules mean WWL and councils are in the process of applying for new resource consents to allow us to continue to manage the wastewater and stormwater networks.

64. To achieve better outcomes for the environment as well as meet the expectations of iwi and the requirements under the proposed Plan Change 1 in GWRC's Natural Resources Plan, significant investment from councils is needed to renew, replace and upgrade the wastewater and stormwater networks. Since providing Council with LTP advice, the regulator has

proposed to accelerate the timing for these proposed regulations. If passed, this means Council would need to invest more heavily in coming years to meet this requirement.

65. Currently, there isn't enough funding to deliver on the proposed timeframe and work that is needed now in order to be compliant in future years.

Leaks backlogs

66. Council has made good progress over the past financial year to significantly reduce leaks. However, as more leaks are reported every day, ongoing investment is needed to keep leak numbers down. Current Council investment levels for 2025/26 are not at the recommended levels needed to achieve this and we estimate that the backlog of leaks will be back at a significant level in the coming years based on Council's current indications for funding (updated forecasts indicate that the backlog of leaks requiring repair will increase to an estimated level of 430 in Summer 2025/26). This paired with the city's aging network and a backlog of increasing renewals means that the risks of an acute water shortage or the need for more severe water restrictions could increase again.

Significant impact on Wellington Water's ability to conduct investigations

67. Limited council opex investment will have a significant impact on WWL's ability to conduct engineering investigations work (such as condition assessments, growth and strategic studies, capital programme investigation and briefing work). Engineering investigations involve proactively investigating and monitoring the state of the region's network and condition of councils' assets. It allows us to make well-informed recommendations to councils on where they should prioritise their investment, identify assets that need maintenance or renewal before they break, and reduces the risk of cost increases on the work we deliver for councils as well as reduce delivery risk. Not being funded to do this work undermines our ability to manage assets effectively and opens councils up to cost increases, delays in work, and more urgent and unexpected events/outages. It also puts at risk the ability of the future water organisation to deliver a larger capital programme, because investigations are an essential aspect in building the future programme of work that's required.

Insufficient funding for urgent work

68. There is insufficient funding for urgent and unexpected events, outages and project changes. This means that if a key water asset breaks or fails during the year, we would have to reprioritise funding from our planned and proactive work to respond/repair the asset. As a result, councils would see a reduction in the planned work we could deliver for them. Urgent and unexpected events have been rising steadily over the years due to historical underinvestment in the network and we are seeing more events that are more complex to fix, that take longer to repair and that cost more. Ongoing and proactive engineering investigations would allow us to find these issues before they occurred, but this area of work is also unfunded.

69. We are cutting some project budgets in order to reprioritise programmes to fit within council agreed funding. This is likely to have an impact in future years, as our ability to meet deliverables and commitments will be impacted.

Growing backlog of renewals

70. We have previously recommended to WCC that the council needs to be renewing 41kms of pipe per year for the next 30 years. In the current financial year based on available Council funding we are forecasting to renew around 0.5km of pipe. Council should expect significant risk of more leaks, burst pipes, and service outages as pipes continue to degrade faster than they are being renewed.

Specific risks identified for Wellington City Council

71. Without the appropriate level of ongoing investment into finding and fixing leaks, water demand for Wellington City could exceed water supply due to increasing levels of water loss in the network and population growth. This increases the risk of an acute water shortage or the need for more severe water restrictions (Level 3 restrictions or above).

72. The aging condition of the network in Wellington City means there will be increasing levels of outages and bursts. There isn't enough investment in Council's reactive capex budget to efficiently respond to the growing number of outages and bursts, which will ultimately mean longer wait times for customers and further disruption.

73. A number of reservoirs are reaching their end of life and have significant structural issues. In 2021 WWL assessments identified three reservoirs in Wellington City in very poor structural condition and a high risk of failure. If these reservoirs failed, this would disrupt the supply of water to some communities.

74. Council has 65 reservoirs with high or very high risk of contamination. If contamination occurs (e.g. if an animal or vermin gets into the reservoir) this would put public safety at risk and require WWL to implement measures such as a boil water notice to keep people safe. A recent example of this is the Montgomery Avenue Reservoir incident in Nov 2024 where a dead bird was found in the reservoir, which meant we had to issue a boil water notice 72 hours

Moa Point Wastewater Treatment Plant

75. Council have deferred investment into critical improvements at the Moa Point Wastewater Treatment Plant for a number of years. In the 2024-34 LTP, Council agreed to provide about 80% of the recommended investment requested for the Moa Point plant. As a result, we have slowed down or deferred work to meet Council budgets. The risk here is that key components of the plant will continue to fail before we can complete the necessary renewals. The renewals also have an impact on our contractor's workplace health and safety e.g. proper ventilation is needed on site and there are areas of the building that need to be replaced to ensure structural integrity.

76. The Sludge Minimisation Facility (SMF) is being completed in 2026. The expectation from Council is that the facility will be integrated with the current operations and equipment at Moa Point WWTP. The poor condition of the plant at Moa Point may have an impact on the ability of the new facility to be effectively commissioned and operate efficiently. This may impact Council's goal of reaching their reduction target of sludge disposal.

77. The condition of the Moa Point assets means there will continue to be compliance issues until the funded renewals and upgrades are complete. In addition, there is not enough capacity at the Moa Point Wastewater Treatment Plant to meet full compliance when major maintenance is needed, and when equipment needs to be taken offline.

Investments in Wellington Water's corporate capability

Technology and Systems

78. While councils have indicated they won't be providing the requested investment for technology and systems, we have made progress in this area with Greater Wellington Regional Council looking to include the funding for this (subject to some final resolutions) in their draft Annual Plan for consideration by their Councillors in February. If approved, this means that Greater Wellington Regional Council would debt fund the full amount and charge interest to each metropolitan council via the bulk water levy.

Organisational Capability Plan

79. The lack of increased investment means we will not be able to fully implement key initiatives identified in the independent review into WWL's capital programme estimation and budgeting systems or improve the health and maturity of our organisation. While we have started some work outlined in the review, more work is needed to enhance controls and assurance, improve operational effectiveness, identify value for money opportunities, strengthen our culture and ways of working, and lay the groundwork for transferring to a new water organisation in the best possible state in 2026 (if that is what councils decide through the Regional Water Services Delivery Plan).

80. The additional $6M of regional investment identified in the Organisational Capability Plan was a wide programme of work to address the findings of the recent review, with the intention of preventing serious future errors, and putting in place fundamental processes and systems to be fit for purpose for the future. This funding as requested in our Stage one advice would have allowed us to implement key activities in the risk and assurance space, for example: updating our Cost Estimation Manual and embedding this across all relevant staff who provide cost estimates for councils' work; developing an organisational compliance framework and strategy; developing critical operating processes across our budgeting, planning and treatment plant operations; and generally improving our checks and balances.

81. While the Wellington Water Committee endorsed the proposed Plan, councils have advised that they are unable to fund these opex costs. This means we will not be able to fully deliver on the Organisational Capability Plan, which will now be revised to what can be delivered within existing resources. This risk here is councils will be exposed to ongoing risks of future errors, such as the recent cost estimation error.

82. Councils are also collaborating on a regional Water Services Delivery Plan and propose to create a new water organisation, in response to government direction through the Local Water Done Well policy. This will require contributions from WWL that have the potential to impact on our day-to-day delivery.

Corporate budget

83. In our Stage one advice we outlined to councils our change in approach to increase organisational capability and lift our organisation's maturity. A key part of this is taking a 'value-add' mindset and looking at what this means for the corporate services needed to support the effective delivery of councils' capital and operational programmes for upcoming years.

84. We were clear with councils on our intent to find efficiencies by reducing our reliance on contractors and bringing more work in-house, which will allow us to deliver our work programmes internally for cheaper. This has resulted in an increase in headcount with flow-on increases in IT licences, vehicles, accommodation, consumables etc, plus continued high inflation of costs. The majority of these costs can be allocated to the relevant capital and operational programmes for our councils but will mean an increase in corporate cost allocation for these programmes, which should then broadly be offset by a reduction in consultancy spend.

85. We also requested an additional $1.5M (across the region) for the funding of additional roles (under our Management and Advisory Services Fee) to build capability within our leadership and corporate services teams, which councils have indicated they will also not be able to fund. The lack of funding for these roles will mean we can't make the needed improvements to our commercial risk management, business planning, assurance activities and processes, asset management capabilities, and information management. For urgent work we will have to use

short-term contractors rather than build long-term internal knowledge and capability, which may end up costing councils more money in the long term.

86. In the past, we have responded to councils' cost cutting requirements by agreeing to reduce and flatline our corporate budgets. Additionally, we have not clearly communicated our organisational need or position to councils. As a result, we have undercut ourselves and after years of underinvestment in our organisational capability, corporate support, and systems and processes, WWL is now not right-sized for the work we need to deliver or to deal with the water infrastructure challenges the region faces.

87. We now find ourselves in a similar situation to previous annual planning and LTP cycles where councils' funding constraints means we need to find "savings" in their work programmes. However, instead of continuing to cut into corporate budgets, this year we are taking a different approach. We are being clear with councils about the cost required for essential corporate support on their programmes. These costs are critical and cover essential activity such as commercial management, health and safety, reporting, contract management and asset management. Ensuring we have the funds to deliver this work will mean that less capital and/or operational work will be delivered in order to meet councils' set budgets. Not doing so will mean we won't be able to effectively deliver council programmes and may result in increases in costs further down the line.

Next steps

88. 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.

Wellington Water

Appendix A : Detailed Triennium and LTP Capex programme

Budget Version	FY24-25	FY25-26	FY26-27	Triennium
WCC Approved LTP	**61,802,142**	**60,168,126**	**68,636,615**	**190,606,883**
WWL Stage 2 recommended programme	**62,205,693**	**75,261,967**	**53,269,026**	**190,736,686**
	-	-	-	-

Council	Water	LGA	Project Description	FY24-25	FY25-26	FY26-27	Triennium
WCC	Drinking Water	Renewal	Aro Street Ridermain Renewal - reactive repair	473,171	1,143,954	-	**1,617,125**
WCC	Drinking Water	Renewal	Cockayne Road Water Main Renewal (Urgent Works)	1,300,528	-	-	**1,300,528**
WCC	Drinking Water	Renewal	Johnsonville Water Main Renewal [sp]	281,781	2,512,136	1,568,083	**4,362,001**
WCC	Drinking Water	Renewal	Main Road (68-Redwood Ave) Water Network Renewals	-	26,469	-	**26,469**
WCC	Drinking Water	Renewal	Newlands Water Main Renewal [sp]	238,430	3,495,618	1,663,085	**5,397,133**
WCC	Drinking Water	Renewal	Oriental Pde, Oriental Bay Water Main Renewal [sp]	-	-	165,699	**165,699**
WCC	Drinking Water	Renewal	WCC Commercial Meter Renewal	180,131	182,130	183,602	**545,863**
WCC	Drinking Water	Renewal	WCC District Meter Area Renewals	101,763	102,893	275,846	**480,502**
WCC	Drinking Water	Renewal	WCC DW Control Systems Renewals	43,351	43,832	65,533	**152,716**
WCC	Drinking Water	Renewal	WCC Pipe Network Reactive Renewals - Drinking Water	6,124,922	6,460,685	6,586,368	**19,171,975**
WCC	Drinking Water	Renewal	WCC Programme - Drinking Water Defects & Close out cost	311,768	89,856	220,932	**622,555**
WCC	Drinking Water	Renewal	WCC VHCA Reservoir Water Quality Renewals	200,314	1,901,501	2,017,751	**4,119,566**
WCC	Drinking Water	Renewal	WCC Water Pump Station Renewals	184,239	97,748	113,058	**395,046**
WCC	Drinking Water	Level of Service	Pressure Management - Stage 1 Close out costs	200,699	-	-	**200,699**
WCC	Drinking Water	Level of service	Regional Pressure Management & PRV upgrades	200,699	-	-	**200,699**
WCC	Drinking Water	Level of service	WCC Capital Carbon Modelling - Drinking Water	21,675	21,916	22,093	**65,685**
WCC	Drinking Water	Level of service	WCC Drinking Water Network Modelling	683,271	265,714	321,433	**1,270,419**
WCC	Drinking Water	Level of service	WCC Reservoir Level of Service Improvements	92,882	94,135	94,896	**281,912**
WCC	Drinking Water	Level of service	WCC Security Locks Reservoirs	21,178	21,175	21,346	**63,700**
WCC	Drinking Water	Level of service	WCC VHCA Buried Reservoir Integrity Upgrades	153,766	1,000,790	1,815,975	**2,970,531**
WCC	Drinking Water	Level of service	Wrights Hill Reservoir Seismic Improvements	2,026,244	-	-	**2,026,244**

WCC	Drinking Water	Growth	WCC Reactive Growth Development Projects - Drinking Water	162,566	164,371	165,699	**492,635**
WCC	Stormwater	Renewal	Stirling Street (10-14) Adelaide Road (493) Stormwater Renewal	-	-	441,863	**441,863**
WCC	Stormwater	Renewal	VHC SW Culverts - Moorefield Rd	-	-	276,964	**276,964**
WCC	Stormwater	Renewal	WCC Pipe Network Reactive Renewals - Stormwater	618,834	605,127	359,023	**1,582,984**
WCC	Stormwater	Renewal	WCC Programme - Stormwater Defects & Close out cost	13,005	144,482	193,315	**350,802**
WCC	Stormwater	Renewal	WCC SW Control Systems Renewals	15,173	18,629	39,021	**72,822**
WCC	Stormwater	Renewal	WCC SW Drainage Investigations Water Quality Renewals	830,384	881,583	933,140	**2,645,106**
WCC	Stormwater	Renewal	WCC SW Pump Station Renewals	103,798	110,199	116,378	**330,375**
WCC	Stormwater	Level of service	CBD Stormwater Flooding Improvement Projects	118,331	547,902	979,249	**1,645,482**
WCC	Stormwater	Level of service	Johnsonville Stormwater Flooding Improvement Projects	59,165	273,951	382,894	**716,011**
WCC	Stormwater	Level of service	NDP: Resource consent for stormwater discharges	325,132	328,741	331,397	**985,271**
WCC	Stormwater	Level of service	NDP: SMS workstream 1 implementation for water quality (modelling)	108,377	109,580	110,466	**328,424**
WCC	Stormwater	Level of service	Papawai Stream Erosion Control	207,025	52,330	-	**259,355**
WCC	Stormwater	Level of service	Tawa stormwater flooding improvement projects	59,165	273,951	382,894	**716,011**
WCC	Stormwater	Level of service	VHC SW Culverts - Moorefield Rd	37,932	-	-	**37,932**
WCC	Stormwater	Level of service	WCC Capital Carbon Modelling - Stormwater	21,675	21,916	22,093	**65,685**
WCC	Stormwater	Level of service	WCC Climate Resilience Model	-	82,185	-	**82,185**
WCC	Stormwater	Level of service	WCC Global consent for operations and maintenance works in streams	21,675	21,916	-	**43,592**
WCC	Stormwater	Level of service	WCC New Smart Services - Stormwater	26,305	26,597	26,812	**79,715**
WCC	Stormwater	Level of service	WCC Stormwater Network Modelling	270,943	273,951	276,164	**821,059**
WCC	Stormwater	Level of service	WCC SW Drainage Improvement Projects	52,944	211,750	266,826	**531,520**
WCC	Stormwater	Growth	WCC Reactive Growth Development Projects - Stormwater	162,566	164,371	165,699	**492,635**
WCC	Wastewater	Renewal	Bellevue subdivision Horokiwi Sewer Renewal (Urgent Works)	1,219,245	1,232,781	-	**2,452,025**
WCC	Wastewater	Renewal	Cable St (6-21) Wastewater Pipe Renewal	-	-	114,469	**114,469**
WCC	Wastewater	Renewal	Carey's Gully SDP Planned Renewals	211,778	317,625	-	**529,402**
WCC	Wastewater	Renewal	Careys Gully Sludge Dewatering Renewal	16,574	-	-	**16,574**
WCC	Wastewater	Renewal	Eastern trunk main WW Renewal - Stage 1 (Airport cargo area)	812,830	493,112	-	**1,305,942**
WCC	Wastewater	Renewal	Golden Mile and Lambton Quay	2,602,433	2,824,034	3,201,906	**8,628,373**
WCC	Wastewater	Renewal	Karori Effluent Pipeline Remediation	1,222,765	37,470	4,748	**1,264,983**
WCC	Wastewater	Renewal	Kemp St Wastewater Renewal	-	-	126,539	**126,539**

WCC	Wastewater	Renewal	Kent Tce and Oriental Pde Rising main renewal	216,755	-	-	**216,755**
WCC	Wastewater	Renewal	Moa Point WWTP Aeration System Renewal	997,071	1,797,120	4,495,956	**7,290,148**
WCC	Wastewater	Renewal	Moa Point WWTP Chemical Tanks Renewal	315,356	-	-	**315,356**
WCC	Wastewater	Renewal	Moa Point WWTP Clarifiers & Associated Equipment	1,171,253	-	-	**1,171,253**
WCC	Wastewater	Renewal	Moa Point WWTP IPS Renewal	1,284,040	589,300	-	**1,873,340**
WCC	Wastewater	Renewal	Moa Point WWTP Odour and Ventilation Renewal	867,019	-	-	**867,019**
WCC	Wastewater	Renewal	Moa Point WWTP Odour Control System Renewal	26,242	-	-	**26,242**
WCC	Wastewater	Renewal	Moa Point WWTP Planned Renewals	2,506,101	2,536,127	2,508,159	**7,550,387**
WCC	Wastewater	Renewal	Moa Point WWTP Process Model Development	113,863	-	-	**113,863**
WCC	Wastewater	Renewal	Moa Point WWTP Reactive Renewals	1,338,098	911,200	1,237,216	**3,486,514**
WCC	Wastewater	Renewal	Moa Point WWTP Roof Renewal	1,602	-	-	**1,602**
WCC	Wastewater	Renewal	Moa Point WWTP Roof Replacement & Associated Works	346,807	317,783	-	**664,591**
WCC	Wastewater	Renewal	Moa Point WWTP UV Renewal	875,382	5,491,594	-	**6,366,976**
WCC	Wastewater	Renewal	Seatoun North Wastewater Renewal	-	-	349,950	**349,950**
WCC	Wastewater	Renewal	Stratford Way (5) - Wilton Road (89) Wastewater Renewal [sp]	-	-	874,261	**874,261**
WCC	Wastewater	Renewal	Victoria Street Rising Main Renewal	805,985	-	5,249,442	**6,055,427**
WCC	Wastewater	Renewal	WCC Pipe Network Reactive Renewals - Wastewater	2,432,023	1,427,485	1,118,993	**4,978,501**
WCC	Wastewater	Renewal	WCC Programme - Wastewater Defects & Close out cost	139,522	438,322	414,247	**992,090**
WCC	Wastewater	Renewal	WCC Wastewater Renewals - Newtown - Portion 2 [sp]	-	-	351,281	**351,281**
WCC	Wastewater	Renewal	WCC Western WWTP Planned Renewals	137,655	105,874	552,329	**795,859**
WCC	Wastewater	Renewal	WCC WW Control Systems Renewals	43,351	43,832	65,533	**152,716**
WCC	Wastewater	Renewal	WCC WW Drainage Investigations Water Quality Renewals	1,383,973	1,479,594	1,576,766	**4,440,333**
WCC	Wastewater	Renewal	WCC WW Pump Station Renewals	500,592	530,761	562,017	**1,593,369**
WCC	Wastewater	Renewal	WCC-CPX-Landfill Road Manhole Renewals	112,134	-	-	**112,134**
WCC	Wastewater	Renewal	Western WWTP Reactive Renewals	315,549	264,687	266,826	**847,062**
WCC	Wastewater	Renewal	Western WWTP UV Replacement	623,271	1,578,622	-	**2,201,894**
WCC	Wastewater	Renewal	Willeston and Harris Wastewater Renewal	-	-	2,970,258	**2,970,258**
WCC	Wastewater	Level of service	Airport WW Interceptor	1,083,773	3,835,317	-	**4,919,090**
WCC	Wastewater	Level of service	Moa Point / Western / Careys Gully Electrical and control upgrades	4,118,338	12,273,015	3,093,041	**19,484,394**
WCC	Wastewater	Level of service	Murphy St WW Interceptor connection Overflow improvements	346,367	2,639,953	-	**2,986,320**

WCC	Wastewater	Level of service	NDP: Resource consent for dry weather overflows	325,132	328,741	-	**653,873**
WCC	Wastewater	Level of service	NDP: Resource consent for wet weather overflows	812,830	821,854	828,493	**2,463,177**
WCC	Wastewater	Level of service	NDP: WW overflows universal measures	108,377	109,580	110,466	**328,424**
WCC	Wastewater	Level of service	Otari-Wilton Bush upgrade (Churchill Road)	318,975	2,687,057	-	**3,006,032**
WCC	Wastewater	Level of service	Pump Stations 1 - 7 Upgrades	1,521,950	5,661,051	2,054,497	**9,237,499**
WCC	Wastewater	Level of Service	Taranaki St New WW PS	55,192	-	-	**55,192**
WCC	Wastewater	Level of Service	Wakefield St new Rising Main	7,790,034	2,182,246	-	**9,972,280**
WCC	Wastewater	Level of service	WCC Capital Carbon Modelling - Wastewater	21,675	21,916	22,093	**65,685**
WCC	Wastewater	Level of service	WCC New Smart Services - Wastewater	26,305	26,597	26,812	**79,715**
WCC	Wastewater	Level of service	WCC Wastewater Network Modelling	315,356	318,857	321,433	**955,647**
WCC	Wastewater	Level of service	WCC WW Manhole Cover Safety Improvements	602,097	-	-	**602,097**
WCC	Wastewater	Growth	Taranaki St New WW Rising Main	5,901,647	-	-	**5,901,647**
WCC	Wastewater	Growth	WCC Reactive Growth Development Projects - Wastewater	162,566	164,371	165,699	**492,635**
			Total	**62,205,693**	**75,261,967**	**53,269,026**	**190,736,686**

Wellington Water

Appendix B: LTP approved operating expenditure programme

WCC		24/25 Council	25/26 Council	26/27 Council	Triennium Council	10 Year Council
Drinking Water	Monitoring & Investigations	5,142,716	3,999,485	3,915,197	13,057,398	44,617,036
	Operations	299,584	299,584	299,584	898,752	3,009,840
	Planned Maintenance	3,580,213	3,590,924	3,593,675	10,764,812	36,024,514
	Reactive Maintenance	17,060,732	13,118,691	12,953,453	43,132,876	127,659,377
	Management & Advisory Services	1,969,635	1,969,635	1,969,635	5,908,905	19,696,350
Total Drinking Water		28,052,880	22,978,319	22,731,544	73,762,743	231,007,117
Stormwater	Monitoring & Investigations	958,347	1,022,880	1,043,880	3,025,107	10,174,267
	Operations	34,311	34,311	34,311	102,933	357,110
	Planned Maintenance	946,500	962,723	974,123	2,883,346	10,344,419
	Reactive Maintenance	1,500,000	1,400,000	1,278,663	4,178,663	13,129,304
	Management & Advisory Services	984,818	984,818	984,818	2,954,453	9,848,175
Total Stormwater		4,423,976	4,404,732	4,315,795	13,144,502	43,853,275
Wastewater	Monitoring & Investigations	2,630,935	2,740,935	2,705,935	8,077,805	26,184,030
	Operations	145,684	145,684	145,684	437,052	1,470,840
	Planned Maintenance	1,797,500	1,838,328	1,880,128	5,515,956	21,118,620
	Reactive Maintenance	3,700,000	3,587,976	3,355,000	10,642,976	34,107,976
	Treatment Plant	15,681,934	15,836,935	15,998,823	47,517,692	159,287,231
	Management & Advisory Services	3,610,998	3,610,998	3,610,998	10,832,993	36,109,975
Total Wastewater		27,567,051	27,760,856	27,696,568	83,024,474	278,278,672
Wastewater Joint Venture	Treatment Plant	5,554,900	5,554,900	5,554,900	16,664,700	55,549,000
Total Wastewater Joint Venture		5,554,900	5,554,900	5,554,900	16,664,700	55,549,000
Total		65,598,806	60,698,806	60,298,806	186,596,418	608,688,064