

**Advice to Wellington City Council Regarding Three Waters Operating Expenditure for the 2023/24 Annual Plan**


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TO Geoff Swainson - Director of Asset Management and Operations  
Sarah Tunnicliffe – Infrastructure and Project Accountant

COPIED TO Pete Wells, Head of Service Planning, Wellington Water

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

DATE 9 December 2022

**Action sought**


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	<b>Action sought</b>	<b>Deadline</b>
<b>Geoff Swainson</b> Director of Asset Management and Operations, Upper Hutt City Council	<b>Note and respond</b> to the recommendations in this paper	20 January 2023

**Contact for telephone discussion (if required)**


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<b>Name</b>	<b>Position</b>		<b>1st Contact</b>
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## Purpose

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1. This paper advises Upper Hutt City Council (Council) on Wellington Water Limited's recommended operating expenditure (OPEX) budget for the FY2023/24 Annual Plan. It advances our previous advice to Council dated 28 October 2022.

## Recommended action

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2. It is recommended that Council:
  - a. **note** that Council's confirmed OPEX investment in three waters is \$8.402m for the 2023/24 financial year;
  - b. **note** that Wellington Water recommends an OPEX budget of \$10.811m is needed for FY2023/24.
  - c. **agree to:**
    - i. increase OPEX funding across all investment categories with priority given to increasing budget for the following activities:
      - I. Asset condition assessments
      - II. Sustainable water supply and leakage management
      - III. Investigations
      - IV. Wellington Water management fee including cyber security; and
    - ii. Accept that a budget below \$10.811m will result in reduced levels of service from Council;
  - d. **meet** with Wellington Water to discuss the content of this paper to agree appropriate funding levels within Council's financial constraints;
  - e. **advise** Wellington Water of the process (including the impacts of our advice on Council's Significance and Engagement Policy) timeframes and any further information requirements needed from Wellington Water to support progressing the development of Council's Annual Plan; and
  - f. **note** that this advice will be proactively released and published on Wellington Water's public website, subject to any redactions consistent with the Local Government Official Information and Meetings Act 1987, within 30 days of being sent to Council.

## Context and key messages

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3. In our preliminary advice to you dated 28 October 2022 (*'WWL 2023-24 Preliminary OPEX Advice to UHCC October 2022V2'*) we signalled risks associated with keeping Council's OPEX budget at the current LTP approved level. We also proposed possible OPEX cost increases to address those risks,

where known. At that time, we signalled we would provide further, detailed advice to support our view that the FY2023/24 OPEX budget would need a significant uplift.

4. This paper presents that advice in detail and proposes a \$2.409 million increase across all Wellington Water’s services to Council. In total, Wellington Water recommends \$10.811m 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 pressure across all its budgets and that this increase will need to be considered against Council’s total budget position across all its operations. We are also conscious Council will require more detailed discussions to determine a final, approved three waters budget for FY2023/24.
6. We wish to discuss with you the overall position that as your advisors and three waters service providers we propose for next year. We then wish to enter into detailed discussions over what programmes should be prioritised and delivered in the context of your whole-of-Council budget.

### Upper Hutt Council’s Three Waters Operating Investment

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**Wellington Water’s recommended OPEX budget for the 2023/24 financial year is \$10.811m**

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

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

Investment Category	FY2022/23 Budget \$000's	Council approved 2023/24 LTP funding \$000's	2023/24 recommended budget \$000's	Recommended increase above LTP approved budget \$000's
Management & Advisory Services	1,270	1,459	1,533	74
Monitoring & Investigations	1,405	751	2,065	1,314
Operations	174	171	179	8
Planned Maintenance	763	778	1,053	275
Reactive Maintenance	1,048	1,827	2,545	718
Treatment Plant	3,156	3,418	3,437	19
<b>TOTAL</b>	<b>7,816</b>	<b>8,402</b>	<b>10,811</b>	<b>2,409</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.
9. Additional factors driving changes within specific investment categories are summarised below.

### **Treatment plants**

10. The Treatment Plant investment category groups operations and planned and reactive maintenance activities relating to the operation of treatment plants. The OPEX budgets for all other activities delivered by Wellington Water are separated under the relevant investment category.
11. Hutt City Council has signalled joint venture cost for FY2023/24 will be approximately 2.3% above the forecast costs for FY2022/23 (not against FY2022/23 budget). However, given the cost increases Wellington Water is seeing across its OPEX programmes, our advice is that it would be prudent to budget for an uplift in joint venture costs above 2.3%.
12. The recommended budget in Table 1 for treatment plant joint venture costs represents a 5% uplift on Hutt City Council's FY2022/23 forecast. This equates to \$3.437m being requested for Treatment Plant activities in FY2023/24, which is an increase of \$0.019m above the approved LTP OPEX budget for FY2023/24 of \$3.418m.
13. Wellington Water has also requested Hutt City Council increase the budget for treatment plant condition assessment from \$15k to \$165k in FY2023/24. If approved, this will also have flow on charges to Upper Hutt City Council of approximately \$50k. This figure has not been factored into the costs in this memo as they are dependent on the budget also being adopted by Hutt City Council.

### **Planned maintenance**

14. A total budget of \$1.053m is requested for planned maintenance activities, which is an uplift of \$275k from the FY2023/24 LTP-approved budget of \$778k. This uplift is recommended to meet forecast planned maintenance costs for network maintenance, pump stations, reservoirs and utilities.
15. We previously advised that planned maintenance on reservoirs has been limited by very constrained budgets and that \$360k is needed to clean Council's 16 reservoirs. Cleaning of these reservoirs can be staged over several years so for FY2023/24 we are only requesting \$80k to clean four of the highest need reservoirs. This will start the process of mitigating the risk of drinking water contamination due to overdue cleaning schedules.
16. Sustainable Water Supply related activities included in the planned maintenance investment category costs are non-residential demand management, such as piloting and completing assessments on high using sectors to commence in 2023. In addition, integrated meter management activities such as inspections, desktop analyses, meter verifications and calibrations are recommended to improve confidence in meter performance and reliability. Funding integrated meter management activities would contribute to better monitoring of the network and indirectly support a return to drought resilience levels of service by helping us target water loss interventions.

### **Reactive maintenance**

17. For FY2022/23 we are tracking towards an overspend above the approved reactive maintenance budget.
18. While dependent on the number of failures, reactive maintenance costs are anticipated to increase based on failure trends experienced to date, the average age of assets and the anticipated resulting rates of renewal/replacement. Leaks are now more expensive to detect and repair given an uplift of 20% in contractor costs, and also because of the increasing complexity of leak repairs themselves. The contractor cost increases put significant pressure on the reactive maintenance budgets, and is a major factor in the uplift request for FY 23/34.
19. A total budget of \$2.545m is requested for reactive maintenance activities, which is an uplift of \$718k from the FY24 LTP approved budget of \$1.827m. This uplift in funding is recommended to meet forecast reactive maintenance costs for network maintenance, pump stations and reservoirs. A \$125k portion of the requested uplift is dedicated to an increased focus on leak repair, to reduce the rate of rise and to begin to improve our drought resilience. The activity around leaks is a high priority given the summer demand risks the region is currently facing.
20. If the funding uplift is not approved, the associated risks include an increase in leakage backlogs beyond current levels, which would potentially impact the sustainability of the network's water supply. We would be able to complete fewer reactive jobs, which would result in a reduction in customer satisfaction. Alternatively, if additional budget is not available or to the level recommended, we advise setting different target levels of service to increase response times and reduce delivery of lower priority reactive maintenance activities.

### **Monitoring and investigations**

21. Monitoring and Investigations includes a range of activities such as condition assessments, resource consent compliance monitoring, water sampling and monitoring, and asset management.
22. The LTP approved budget for monitoring and investigations in FY2022/23 is notably higher than the FY2023/24 budget. To continue with the current pace of investigations and address additional known risks, a total budget of \$2.065m is requested for FY2023/24. This is an uplift of \$1.314m from the LTP approved budget of \$0.751m. Without this uplift, some monitoring and investigations activity currently underway in FY2022/23 may need to stop next financial year.
23. The main areas with recommended budget uplifts are:
  - a Investigations – A total budget of \$1.437m is recommended for investigations which is a key component when supporting the delivery of the current and future regulatory and capital work programme. We recommend an uplift of \$1.003m in funding to complete general and reactive investigations, including wastewater overflow reductions and strategies, new regulation coming into effect for dams in 2024, inflow and infiltration investigations as well as public education funding to inform the Sustainable Water Supply and Demand programme (see section Sustainable Water Supply for further detail). The uplift in funding also includes investigations to help inform forward capital programmes as a priority. The key areas of budget uplift are:

- i Dam safety regulations, which come into effect in 2024 involving a number of failure assessments and potential impact assessments are required to understand risk and be compliant with the new regulation resulting in a recommended budget increase of \$133k
  - ii Catchment management plans, catchment growth planning, flood management strategies new standards and requirements from regulators required to support future capital programmes resulting in a recommended budget increase of \$178k
  - iii Condition assessment - We are recommending an uplift of \$85k, to \$245k, to complete condition assessments on High Criticality Assets (HCA) assets, physical pipe inspections, and testing of critical pumps. As a priority, we strongly advise ongoing funding for condition assessments, including for non-Very High Criticality Assets (VHCA), to further improve understanding of Council's assets and to identify where remedial action is needed to minimise unplanned failures
  - iv Council provided \$100k for the asset register in FY2022/23. It has allowed good progress to be made on fixing long-standing issues with the asset register. The level of funding recommended for FY2023/24 is \$100k and will enable the progress being made to continue at the current pace. Without ongoing funding into FY2023/24, Wellington Water will have to stop or slow down asset register improvement activities
24. Monitoring – A total budget of \$627k is recommended which is an uplift of \$311k in funding. This will mainly go toward minimising the rate of growing leaks (\$250k) and is consistent with the approach taken across the region, for the share of software as a service cost that is currently under-budget (\$25k), and for increased laboratory costs and new sampling programmes required to meet changing water regulation and new resource consent requirements (\$11k).
25. Under monitoring and investigations, we have accounted for public education costs relating to sustainable water supply and demand. This includes more frequent customer surveying to better understand customer behaviour and attitudes regarding water conservation as well as increased campaign activities to educate and inform the public around what Council is doing to address sustainable water supply and demand. Additional strategic water loss management activities also account for the additional uplift requested, such as more comprehensive investigations, detection surveying of poor performing District Metered Areas (DMA) to enable preventative maintenance and renewal. This would include step testing, checking pressure control valves and meter installations as well as investigation into private leakage. We would also seek to complete an Upper Hutt City network-wide risk profiling exercise using satellite and GIS data.

### **Management and advisory services**

26. 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 expected to continue with this trend through FY2023/24.
27. In addition to these general management cost increases, ongoing funding of \$27k for cyber security risk mitigation 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 security risks

are growing globally. As an organisation delivering essential infrastructure services for many critical operations, it is vital investment is made to protect against cyber-attack.

28. We propose budget uplift for Wellington Water's management and advisory services as a priority. If this increase does not eventuate, the additional costs will need to be covered by reducing funding from within other investment categories. A total budget of \$1.533m is requested, which is an uplift of \$74k from the LTP approved budget of \$1.459m.

### **Sustainable water supply**

29. We strongly recommend as a priority, consistent with Council's early signals, increased investment in Sustainable Water Supply and Demand (SWSD) 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. The costs are split across the proposed planned maintenance (\$36k), reactive maintenance (\$125k) and monitoring and investigation (\$75k) budgets outlined above. In total this represents \$236k of the total recommended budget.

### **Next steps**

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