

Appendix 4 – Cover Note for Options Presentation

Indicative 2021/31 Long Term Plan investment advice for Wellington City's three waters services

The Taskforce has been asked to review whether the council's LTPs provide for sufficient investment in the three waters

The scope of the Taskforce's activities includes the review of "the nature of investment required and whether the current Long-term Plan [LTP] and draft Annual Plan budgets are sufficient to meet the current and future needs of Wellington city".

We are now in the final year of the current (2018/28) LTP and the associated three waters funding has now been committed. The best means for the Taskforce to assess whether investment will be sufficient to meet 'future needs' will be to consider the nature and level of investment being proposed for the coming (2021/31) LTP.

WWL's advice for the 2021/31 LTP presents a complete picture of the investment requirements

WWL is currently at stage 2 of a 3-stage process for developing and presenting its investment advice to its owners. This stage involves the presentation of a recommended investment programme and investment options that considers council feedback on our initial 'early investment signals' advice (i.e. stage 1), their relative investment priorities, and their anticipated funding envelope.

Our investment advice to our owners is explicit about the state of the existing networks and services, the implications of their planned growth activities, the investment required to lift performance across the five identified strategic priorities, and the risks and benefits associated with the level of investment in each area.

The five strategic priority areas have a strong alignment to the Taskforce's areas of investment. The priorities are:

- Looking after existing infrastructure (through operating expenditure for operations and maintenance, and then through capital expenditure for renewals)
- Enabling planned growth (as determined and prioritised by each council)
- Reducing drinking water demand
- Improving the environmental health of the water
- Reducing our carbon emissions and responding to climate change.

Each council will need to determine the level of funding committed to each priority, and the timing of that funding, recognising the level of service, and risk, that the funding provides for.

Investment needs to more than double if all investment priorities are to be achieved

Our early investment signals advice showed that the collective capital investment required across all of our owners to deliver improvements across all of these priority areas is circa \$240M per annum. The current level of capital expenditure is around \$140M, or around half of the level required into the future.

The Water Industry Commission for Scotland (WICS) completed an independent review of the information used to develop the early investment signals advice and advised that the proposed investment was below the range that they would expect for the services being delivered (\$300-\$350M). WICS is continuing to provide its independent quality assurance through all three stages of the advice development.

The council is expected to consider 2021/31 LTP investment requirements in September

For various reasons, the early investment signals advice was not presented to Wellington City councillors. The attached advice provides the information we anticipate presenting to councillors in a workshop in September. The choices the councillors make on priorities and funding levels and phasing will inform the final, optimised 'stage 3' investment advice for use in LTP consultation. For this reason, we ask that the presentation is not released until it has been shared with councillors.

Our investment advice recognises the current state of the assets

Wellington City's water networks are ageing and some assets (for example, asbestos cement pipes) are failing prematurely. Between 50%-60% of three waters assets are due to be replaced in the next 30 years (based on age), and they are getting older. This poses a steadily increasing risk to core three water services and healthy growing communities

Since around about 2016/2017, and possibly also influenced by the Kaikoura Earthquake, the network has begun to show greater signs of distress due to renewals not keeping pace with need. Operating under fixed budgets (adjusted annually by CPI) and with ever-increasing customer expectations, our response has progressively become more and more reactive. This means that planned maintenance, leak detection works, and asset inspection and condition assessments have been reduced or deferred, further compounding service performance issues.

At the same time, with the levels of renewals not keeping pace with need, we now have a renewals backlog. The impact of this is a steadily increasing number of defects and an increase in the complexity and severity of these defects. We are also noting annual increases in leakage as measured by night time flows.

However, community expectations are increasing, and so are national standards: water regulator, freshwater management. Growth, reducing water consumption, improving water quality and climate change are all additional challenges facing three waters asset own

The Taskforce could consider recommending increased investment that recognises the current network condition

In responding to its terms of reference and scope, the Taskforce could consider making the following recommendations:

- That the level of opex funding needs to be adjusted (increased) to meet the ongoing needs of a deteriorating network; and
- That the level of renewals (capex) funding be increased to both meet the level of depreciation but also to catch-up with the backlog so the network, as a whole, does not continue to deteriorate.