

Advice to Upper Hutt City Council regarding Three Waters Operating Expenditure forecast overspend for FY2022/23

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; Liam Wright, Head of Finance, Wellington Water

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

DATE 30 March 2023

Action sought

	Action sought	Deadline
Geoff Swainson Director of Asset Management and Operations, Upper Hutt City Council	Note that Wellington Water anticipates an overspend of the FY2022/23 OPEX budget; Approve drawing through the unexpected events reserve to offset the forecast FY2022/23 overspend; and Confirm Council’s preferred approach for addressing the remaining overspend.	6 April 2023

Contact for telephone discussion (if required)

Name	Position	1st Contact	
Julie Alexander	Group Manager Network Strategy & Planning, Wellington Water	021 815 162	
Pete Wells	Head of Service Planning, Wellington	021 195 9621	x

Purpose

1. This paper provides the Upper Hutt City Council (the Council):
 - i. an update on the FY2022/23 operational expenditure (OPEX) forecast overspend; and
 - ii. advice on the actions for addressing this overspend and the risks of any reductions to current FY2022/23 operational activities.

Recommended action

2. It is recommended that Council:
 - a. **note** that Wellington Water is currently forecasting an overspend of \$0.780m against an agreed full year FY2022/23 OPEX budget of \$7.816m;
 - b. **note** that Wellington Water’s revised budget forecast includes reductions in non-priority activities, where these are feasible, to minimise the FY2022/23 overspend;
 - c. **approve** drawing through the unexpected events reserve of \$0.297m to offset the forecast FY2022/23 overspend;
 - d. **confirm** with Wellington Water, Council’s preferred approach to addressing the remaining overspend of \$0.483m;
 - e. **note** that there are reputational, customer level of service and non-compliance risks associated with any further reductions to FY2022/23 operational activities; 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, once the Council has considered and made decisions in relation to this advice.

Wellington Water forecasts an overspend on FY2022/23 OPEX

3. Wellington Water’s February 2023 OPEX forecast indicated an expected overspend of Council’s OPEX budget by \$0.989m (*‘OPEX Dashboard as at 28 February 2023’* refers). Wellington Water has since undertaken a mid-cycle budget review to identify opportunities to reduce expenditure and improve the year-end position.
4. While reductions have been identified and included, the overall updated year-end forecast anticipates an overspend of \$0.780m (see Table 1). Wellington Water advises any further reductions will further limit levels of service for core services.

Table 1: FY2022/23 forecast operational expenditure by water and investment category (\$000)

Investment Category	Water Type	FY22/23 Budget	Updated FY22/23 Forecast	Variance
Treatment Plants	WW	3,156	3,317	(161)
	TOTAL	3,156	3,317	(161)
Management & Advisory Services	DW	381	381	0
	SW	191	191	0
	WW	699	699	0

Investment Category	Water Type	FY22/23 Budget	Updated FY22/23 Forecast	Variance
	TOTAL	1,270	1,270	0
Operations	DW	100	70	30
	SW	22	24	(2)
	WW	52	62	(11)
	TOTAL	174	157	17
Monitoring and Investigations	DW	873	759	114
	SW	202	178	25
	WW	330	316	14
	TOTAL	1,405	1,253	153
Planned Maintenance	DW	210	255	(45)
	SW	263	309	(46)
	WW	291	242	49
	TOTAL	763	806	(42)
Reactive Maintenance	DW	1,048	1,270	(223)
	SW	0	89	(89)
	WW	0	434	(434)
	TOTAL	1,048	1,794	(746)
Overall Total		7,816	8,596	(780)

Approach to address the forecast overspend

5. To address the overspend, Wellington Water requests Council approve use of the unexpected events reserve of \$0.095m for drinking water and \$0.201m for wastewater (using the total reserve of \$0.297m) This will leave a shortfall of \$0.483m still needing to be met.
6. Wellington Water does not consider any further reductions can be made to activities to cover this shortfall without impacting customer levels of service, Wellington Water's ability to deliver core services, increasing the risk of operational failures and compromising the FY2023/24 work programme. Advice on the risks of reducing operational activity, if this is required, is outlined in further detail below.
7. Wellington Water seeks confirmation from Council on:
 - i. the total budget position (including overspend) Council can accommodate; and
 - ii. direction on the operational activities to be reduced to meet budget levels.

Risks from reducing operational activities

8. If Council advises that no further budget allowance is available to address the forecast overspend, further reductions to those already made would be incurred against the following activities:
 - **Monitoring and Investigations:** expenditure is underspent year to date. Reductions have been made from this investment category to reduce the overall FY2022/23 OPEX overspend. For

example, reductions have been made to condition assessment work (which will impact the valve testing programme), growth modelling, and catchment growth planning.

If Council directs further reductions to monitoring and investigation activities, risks include:

- limiting Wellington Water's ability to optimise ongoing asset renewal and maintenance programmes
 - interrupting work to understand high-priority assets, limiting understanding of these assets and their future management
 - preventing the development of design briefs and investment cases which underpin the capital investment programmes, impacting future capital investment programmes, delaying the upgrade and renewal of key infrastructure.
- **Planned maintenance:** an overspend of \$0.042m is forecast for the year. If reductions are directed by Council, activities would need to be deferred to next year financial year. However, this will result in additional pressures on the FY2023/24 OPEX budget meaning that activities will continue to be pushed out to later years, further compromising the ability to complete deferred maintenance. Risks from reducing current year planned maintenance include:

- deferring planned wastewater maintenance activities, impacting the ability to manage network performance risks, and may result in overflows and associated environmental impacts
 - reducing active leak detection work, which would impact Wellington Water's ability to identify significant leaks (and private leaks), resulting in an increase in water loss
 - a high likelihood the number of failures, incidents and events will increase, increasing the need for reactive maintenance expenditure (recognising there is a zero reactive maintenance budget for wastewater and stormwater activities in an effort to focus expenditure on preventative planned maintenance).
- **Reactive maintenance:** an overspend of \$0.746m is forecast for the year. However, this is largely due to a zero-budget allocation for stormwater and wastewater reactive maintenance¹. If directed, actions to reduce expenditure would include:

The risks in reducing these activities include:

- impacting Wellington Water's ability to continue to identify, report and repair leaks. This will result in a reduction in responses to incidents, impacting response times, and therefore levels of service
- negatively contributing to water loss in the region
- increased customer complaints and dissatisfaction if the ability to repair leaks is reduced
- increased likelihood of ongoing wastewater and stormwater pipe failure and overflows.

¹ Due to budget pressures, an internal decision was made to prioritise planned maintenance and drinking water reactive maintenance. This resulted in a zero budget allocation for stormwater and wastewater reactive maintenance. The combined forecast wastewater and stormwater reactive maintenance overspend is \$0.536m.

9. These investment categories are also where Wellington Water will need to reduce activity in FY2023/24 to operate within the budget signalled by council. This means that any activity deferred in FY2022/23, may also not be addressed in FY2023/24. The cumulative impact of OPEX budgets below what Wellington Water recommends for planned and reactive maintenance places significant reputational, level of service and compliance risk to Council.