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COPIED TO	Peter Wells, Manager Service Planning
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PRELIMINARY THREE WATERS 2023/24 ANNUAL PLAN OPEX ADVICE FOR UPPER HUTT CITY COUNCIL

Purpose

1. This paper informs Upper Hutt City Council (Council):

   a) of the approved 2023/24 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 2023/24 LTP approved level to maintain existing levels of service and that subsequent advice on a proposed 2023/24 OPEX budget will be provided to Council in February 2023.

Recommendations

2. Wellington Water recommends Council:

   b) **notes** the risks associated with keeping the 2023/24 OPEX budget at the LTP approved level

   c) **notes** that Wellington Water will provide subsequent advice on the recommended OPEX budget for the 2023/24 financial year, and that this will exceed the approved 2023/24 LTP budget

   d) **notes** advice on the 2024/25 OPEX budgets will be provided as part of Wellington Water's 2024-2034 LTP advice

   e) **notes** the 2021-31 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 2023/24 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 2023/24 OPEX budget above the approved 2023/24 Long Term Plan level

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 priorities agreed with our owners and 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 the resilience of the services to the impacts of climate change. Funding decisions made for the 2021/31 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 Plan[1].
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 significant pressure on the CAPEX and OPEX programmes Wellington Water is delivering on behalf of its client councils. Additionally, new information has been discovered through investigations and additional data analysis. For example, we have a much better understanding of the extent of water loss across the network, and the impacts of that loss, through our leakage management programme. These pressures mean OPEX investment at the 2023/24 LTP approved level will be insufficient to meet Council's level of service targets.
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 the 2023/24 financial year is $7.882 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 2023/24 agreed budget would not be sufficient to meet Council's required service legal targets.
10. Table 1 illustrates the difference in approved LTP 2023/24 budget, and the budget Wellington Water advised in April 2022 was necessary. The recommended funding was $1.184 million, or 15% higher than the budget amount.

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	**$3,206**	**$3,206**	-
Planned maintenance	**$1,166**	**$730**	-$436
Reactive maintenance	**$2,087**	**$1,714**	-$373
Monitoring & investigations	**$1,079**	**$704**	-$375
Operations	**$160**	**$160**	-
Management & advisory services	**$1,368**	**$1,368**	
Totals	**$9,066**	**$7,882**	-$1,184

[1] Available at https://www.wellingtonwater.co.nz/publication-library/advice-and-work/regional-service-plan/.

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 communicated to Council in April 2022 are still relevant for the 2023/24 financial year:

    a Operations – There remains a risk that under-investment in pump station maintenance will result in significant issues at pump stations. While the approved funding is similar to historic expenditure levels, there is no allowance for increasing maintenance costs, rising number of failures or the ability to address deferred maintenance issues.

    b 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 such as hydrant flushing and valve maintenance will reduce. This will increase the risk that blockages and overflows will continue to occur, with poor environmental outcomes. A lower level of planned drinking water maintenance carries a risk that hydrants and valves will not operate reliably when needed. As mentioned, these maintenance reductions place additional pressure on reactive maintenance budgets.

    c Reactive maintenance is considerably below the level of expenditure required and will result in a reduction in levels of service in response times and low priority faults not being addressed.

    d Investigations – Wellington Water has advised the Water Committee that it is prioritising leak detection and remediation in response to significantly increased water usage over the 2022 winter. We expect that councils should also be prioritising this activity, but the underfunding we have identified will significantly impact Council's ability to contribute to this region-wide activity. Reduced leak detection will likely also see water consumption continue to rise and community engagement in conservation decrease. 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.

    e Leakage management – The leak repair programme that was funded through stimulus funding in 2020/21 and 2021/22 is no longer funded. This means there is insufficient funding to repair the leaks that have been identified.

13. Since the advice Wellington Water gave Council in April 2022, additional 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 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 $320k is required to clean and carry out inspections and maintenance activities to mitigate these contamination risks.

b 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; the VHCA Programme identified VHCA assets and assessed their condition, and in-roads were made on asset data and information processing backlogs. Councils allocated some funding for ongoing condition assessment work in the approved 2023/24 LTP and have recently provided additional funding for asset data completeness and quality work. In both areas ongoing funding is required and further increases in funding will enable Wellington Water to accelerate the pace of work and therefore the associated positive impact on service provision. This work also contributes to the National Transition Unit understanding the full complement of assets Council currently owns (providing a complete asset valuation) and supporting smooth transition of services to the new Entity, thus benefitting Upper Hutt residents.

c Material increases – Since the 2021 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 and wastewater Joint Ventures charges.

d Labour costs - Since the 2021 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 in place of permanent staff. We are expecting significant increases in the amount and hourly rate of subcontractor work. This will have an overall impact on the cost of completing work, particularly for reactive maintenance.

e Cyber Security – under the Government funded stimulus programme we made good 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 FY22/23. Wellington Water requires ongoing investment from Council in cyber security in FY23/24 to continue mitigation of this risk.

f Sustainable water supply – Gross water consumption over the first quarter of FY23 for the Wellington metropolitan area averaged 2.9% higher than the corresponding time last year and 7.0% above our 5-year target. All networks are performing poorly based on standardised water loss metrics, with UHCC sitting in the "very poor" infrastructure leakage index (ILI) category. Minimum night flows and water balance analyses, climate and population correction modelling, and analysis of dry weather wastewater flows all indicate that leakage is the primary driver of rising demand. A full programme of mitigation measures has been developed and prioritized; however, Wellington Water requires additional OPEX funding from UHCC of $491k to support these measures. Without additional funding, the leak issue and overall consumption will continue to increase, negating recent gains and putting even greater stress on the water supply for the region.

g Growth studies – Wellington Water completed a growth plan for UHCC in 2021/2022 using hydraulic modelling. The concept options from this work are being investigated in more detail and will be developed into a 30-year programme, due in 2023. We estimate that $100k is required from UHCC for consultant support to complete and close out these growth studies.

h Wellington Water management fee – Given inflation is running at a higher rate than forecast when developing the LTP, Wellington Water is currently absorbing additional management costs in FY23 and will continue to bear the cost in FY24 if additional funding is not made available. The Wellington Water management fee is charged proportionately across all councils. For UHCC, this means that in FY24 we require approximately $1.5m, an increase of $136k from the 2023/24 LTP budget, 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 in management fee. 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 most of these costs are being met from the additional funding the council is providing out of DIA's Transition Support Funding.

Next steps

14. 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 2023 advice, Wellington Water will again recommend Council increase its 2023/24 OPEX budget above the approved LTP level.
15. 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.
16. 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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