

TO Sue McLean, Kaiwhakahaere Matua Ratonga Rangapū / General Manager, Corporate Services, Greater Wellington Regional Council (GWRC)

COPIED TO Peter Wells, Manager Service Planning  
Jeremy McKibbin, GM Network Management

FROM Julie Alexander, GM Network Strategy & Planning

DATE 08 November 2022

**PRELIMINARY THREE WATERS 2023/24 ANNUAL PLAN OPEX ADVICE FOR GREATER WELLINGTON REGIONAL COUNCIL**

---

Action Sought

	Action sought	Deadline
<b>Sue McLean</b> Group Manager of Corporate Services, GWRC	<b>Note</b> the recommendations in this paper.  <b>Meet</b> with Wellington Water to discuss content of this paper.	30 November 2022

Purpose

1. This paper informs Greater Wellington Regional Council (Council):
  - a) of the approved FY2023/24 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 FY2023/24 LTP approved level to maintain existing levels of service and that subsequent advice on a proposed FY2023/24 OPEX budget will be provided to Council in February 2023.

Recommendations

2. Wellington Water recommends Council:
  - a) **notes** the risks associated with keeping the FY2023/24 OPEX budget at the LTP approved level and acknowledges that these risks mean the current budget will not be sufficient to meet existing levels of service
  - b) **notes** that Wellington Water will provide subsequent advice on the recommended OPEX budget for FY2023/24, and that the breakdown of costs provided as an attachment to this memo are provisional
  - c) **notes** advice on the FY2024/25 OPEX budgets will be provided as part of Wellington Water's FY2024-2034 LTP advice
  - d) **notes** the FY2021-31 LTP OPEX budget does not include funding for significant emergency events, which Council funds separately

- e) **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 FY2023/24 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.
- f) **agrees** to increase the FY2023/24 OPEX budget above the approved FY2023/24 Long Term Plan level for the following priority areas, at a minimum:
  - i Treatment plant materials and chemicals
  - ii Asset condition assessments
  - iii Sustainable water supply
  - iv Wellington Water management fee

## 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 FY2021/31 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<sup>1</sup>.
5. Council-owned water 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 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, our leak management programme has given us a much better understanding of the extent of water loss across the network, and the impacts of that loss. These pressures mean OPEX investment at the FY2023/24 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.
8. Council's approved LTP OPEX budget for the FY2023/24 financial year is \$20.14m. This aligns with the budget information provided to Wellington Water on 4 November 2022. This budget is less than the amount required to respond to all the strategic investment priorities and meet Council's required service level targets. Table 1 (over-page) illustrates the approved LTP 2023/24 budget.

---

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

**Table 1: LTP approved budget (uninflated)**

Activity (\$ x 1,000)	Council approved 2023/24 LTP funding
Treatment Plant	\$4,582
Planned maintenance	\$2,142
Reactive maintenance	\$184
Monitoring & investigations	\$2,931
Operations	\$1,001
Management & advisory services	\$9,263
<b>Totals</b>	<b>\$20,104</b>

### Risks of keeping the FY2023/24 OPEX budget at the approved LTP level

9. In our March 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.
10. Attachment A, 'Water Supply 2023.24 Business Plan\_WWL', provides provisional OPEX estimates for FY 2023/24. This includes the estimated costs to address some of the risks detailed below, but not all. The costs for some of the costs below are yet to be determined and will be provided in the advice we give Council in February 2023, for example a recommended increase for planned maintenance has not been provided. We recommend Council consider these risks, and associated costs, and inform Wellington Water of the risks Council wishes to focus on addressing in FY 2023/24.
11. The following risks have been identified and are detailed below.
  - a Treatment plant material cost 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. As previously advised, Council is forecasting a 10% (\$1,086k) OPEX overspend in the current financial year, primarily due to cost increases in the treatment of drinking water. Overall, there has been 7.1% growth in demand for drinking water from this time last year and the new contracts for chemicals excluding CO<sup>2</sup> reflect a 14% cost increase where we had budgeted 5%; CO<sup>2</sup> costs have more than doubled due to a Marsden Point surcharge and a government Emissions Trading Scheme (ETS) charge. Additional budget of at least \$1.07m will be needed for treatment plant costs in FY2023/24 in response to the growing demand for drinking water, and chemical costs. We will confirm the final costs in subsequent advice. The lime supply contract is being reviewed in July 2023, so the costs for lime supply may increase in the next financial year.
  - b Planned maintenance – Completing critical planned maintenance is good asset management practice and allows for planned work on critical assets. For treatment plants, Council currently has a backlog of approximately 170 maintenance work orders, totalling approximately \$450k. Not addressing this backlog will mean plant reliability will reduce and the probability of issues arising will increase. This is particularly an issue during the summer months when capacity reduces and demand for water increases.
  - 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. The FY 2022/23 reactive maintenance budget is currently tracking towards a significant overspend.

- d There has been a continued trend of increased gross demand, and as at July 2022 the regional water demand was 170 MLD, which was the highest winter demand recorded in 32 years. Leakage is the primary driver behind rising demand. Our available buffer for varying levels of daily water usage is becoming increasingly tight, and this is set to worsen as overall water usage increases over the summer months. As a result of this ongoing risk, we need to ensure your treatment plants are able to cope with this sustained increase in demand. In terms of continued ability to reduce the risk to water supply, an estimated total of \$224k for FY2023/24 is required to allow work to continue to enhance supply readiness and optimise how we operate treatment plants and networks. Without additional funding, our ability to optimise your treatment plant will be reduced, having an impact on the ability to treat the increased volume of water required to meet demand.
- e 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. \$600k is required to carry out condition assessment of critical assets not yet assessed.
  - 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 \$60k is required to clean the reservoirs and carry out inspections and maintenance activities to mitigate these contamination risks.
- f Non-VHCA condition assessment – Asset condition assessment and monitoring will continue to improve Wellington Water’s understanding of Council’s assets. Additional funding of \$400k will allow Wellington Water to undertake non-destructive testing on all rotary equipment of Council’s water treatment plants. This would include pulling assets apart if needed for internal inspection and will include minor maintenance to be undertaken. A further \$400k will allow Wellington Water to undertake condition assessment of pipes and pump stations.
- g 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, a potential rising number of failures or the ability to address deferred maintenance issues.
- h 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 FY2023/24 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. Additional one-off

funding is also required to develop and update strategic asset management plans for council's assets, at an estimated cost of \$500k. This work will contribute 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.

- i 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.
- j Wellington Water management fee – Wellington Water is absorbing additional management costs in FY2022/23 and will continue to bear the cost in FY2023/24 if additional funding is not made available. The key reasons for the increasing management fee are:
  - i inflation running at a higher rate than forecast when developing the LTP
  - ii an increase in wages to match market rates and an increase in the proportion of contractors and consultants being used across the industry, and
  - iii increases in staff numbers due to the larger CAPEX and OPEX programmes Wellington Water is delivering, and an increased regulation and compliance activity.

The Wellington Water management fee is charged proportionally across all councils. For GWRC, this means that in FY2023/24 we require an increase of \$887k from the FY2023/24 LTP budget, to cover the management costs absorbed by Wellington Water to date and 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. This will further impact Council's ability to achieve its service level targets. The management fee is also 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. However, the intention is for most of these costs to be met from additional funding the council is providing out of DIA's Transition Support Funding.

In addition, under the Government-funded stimulus programme we made 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 FY2022/23. Wellington Water requires ongoing investment from Council in cyber security in FY2023/24 to continue mitigation of this risk. Note, at the time the 2021-31 LTP was developed, we did not know the extent of work required for cyber security, and associated ongoing costs, hence the reason this programme has not been budgeted for beyond FY2022/23. At a minimum, ongoing funding of current cyber security activity needs to continue. Split proportionately across councils, this equates to \$177k being requested from Greater Wellington Regional Council to continue with current cyber security measures. The actual budget needed will be higher than this as cyber security threats change, and we gain greater understanding of the detail of our current security risk.

In total, the updated management fee is \$9.94m including the increase of \$887k in management costs, and the additional funds requested for cyber security activity.

### Next steps

12. 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 advice, Wellington Water will recommend Council increase its FY2023/24 OPEX budget above the approved LTP level.
13. 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.
14. We are committed to working with you and are keen to meet to discuss the content of this memo when suits.

### **Julie Alexander**

GM Network Strategy & Planning

Ph: 021815162

[julie.alexander@wellingtonwater.co.nz](mailto:julie.alexander@wellingtonwater.co.nz)