

# **BRIEFING: THREE WATERS OPERATING EXPENDITURE DATE – 8 FEBRUARY 2023 2.15PM**

## **ATTENDEES**

**Elected Members:** Mayor Barry, Cr Barratt, Cr Briggs, Cr Brown, Cr Dyer, Cr Edwards, Deputy Mayor Lewis, Cr Mitchell, Cr Morgan, Cr Parkin, Cr Shaw, Cr Stallinger, Cr Tupou, M Fisher (PCB), K Yung (PCB).

**Staff:** J Miller, Chief Executive; J Livschitz, Group Chief Financial Officer; A Blackshaw, Director Neighbourhoods and Communities; K Puketapu-Dentice, Director Economy and Development; A Geddes, Director Environment and Sustainability; A Gordon, Senior Policy Advisor; R Houlbrooke, Policy Lead Strategy and Planning; R Hardie, Head of Strategy and Policy; C Meads, Head of Mayor's Office.

**Mana Whenua representatives:** H Modlik, Chief Executive, Te Rūnanga o Ngāti Toa Rangatira.

## **PRESENTERS**

B Hodgins, Strategic Advisor, Hutt City Council and P Wells, Head of Service Planning, Wellington Water Limited.

## **KEY OBJECTIVES OF THE BRIEFING**

The purpose of the briefing is to consider Council's funding approach to Wellington Water Limited ahead of the Long-Term Plan/Annual Plan Subcommittee and additional Council meeting on 23 February 2023.

## **INTRODUCTION**

An opportunity to advise elected members of changes to capital and operational expenditure (capex and opex) recommendations for the Three Waters budget in response to contractor price rises and increased level of activity.

## **PRESENTATION BY P WELLS, HEAD OF SERVICE PLANNING, WELLINGTON WATER LIMITED AND B HODGINS, STRATEGIC ADVISOR**

**Slide 1 (Header)**

**Slide 2 – Contents**

**Slide 3 – Active risk dashboard:** Critical risks Council should be aware of as asset owner and funder. Reservoirs and renewals are the most significant risks.

**Slide 4 – Active risk dashboard (continued)**

**Slide 5 – Summary financials:** The value of the capex programme is increasing. The majority of expenditure is in renewals.

**Slide 6 – HCC Capex sustained growth 2021/22 – 2023/24:** Forecast and proposed expenditure – a small uplift for 2023-2024

**Slide 7 – Capex advice:** Some funds in Council's LTP envelope are for projects outside of Wellington Water so the funding gap is around \$23M. Officers recommend increasing investment so the industry can continue to deliver an upgraded programme over time.

**Slide 8 – Questions**

**Slide 9 – Bulk water:** Bulk water use is rising more than other cities. A user charge increase is recommended along with removing the discount for the largest users of water. Wellington Water Limited have been to provide unavoidable costs.

**Slide 10 – WWL OPEX advice introduction:** Wellington Water advice on a recommended budget increase will be presented to the Long-Term Plan/Annual Plan Subcommittee meeting on 23 February 2023.

**Slide 11 - FY2023/24 Annual Plan OPEX budget:** Shows a more realistic funding level to achieve the activity needed along with opportunities to reduce costs. There is scope to make choices and reduce costs on investigations and planned and reactive maintenance. There is no allowance for emergencies.

**Slide 12 – FY2023/24 Annual Plan OPEX Monitoring and Investigations:** Investigations and conditions assessments are the larger portion of work. A large proportion are precursors to capital works. Inadequate funding will restrict the amount of future work that can be done in 2 or 3 years and the flow of projects into the new water entity.

**Slide 13 – FY2023/24 Annual Plan OPEX Operations:** Not discretionary, necessary network work.

**Slide 14 - FY2023/24 Annual Plan OPEX Planned maintenance:** Not much opportunity to defer work.

**Slide 15 – FY2023/24 Annual Plan OPEX reactive maintenance:** Prioritising work and deciding the level of services offered. The current programme on leak management will extend but leaks will get worse until renewals catch up. The backlog is worsening.

**Slide 16 – FY2023/24 Annual Plan OPEX Treatment Plant:** Not many discretionary costs. There are a number of cost increases, particularly power and disposal. No changes are recommended.

**Slide 17 – FY2023/24 Annual Plan OPEX Management fees and advisory services:** Increases in wages and staff numbers.

**Slide 18 – FY2023/24 Annual Plan OPEX summary.**

**Slide 19 – Options:** A report to the Long Term Plan/Annual Plan Subcommittee meeting on 23 February 2023 will have 3 options. Option b is recommended.

## Slide 20 – Questions

### QUESTIONS AND DISCUSSION POINTS

- Additional work is being done in a measured way that allows contractors time to get resourcing in place.
- Some of the additional budget requested is for cost escalations. For future reporting actual renewals expenses will be used so it is clear what has been achieved in past three years including the increased level of pipe renewals. This will be reported to the Long Term Plan/Annual Plan Subcommittee meeting on 23 February 2023.
- Changes to Council’s Long Term Plan budget need approval by the National Transition Unit (NTU). Once approved and the work is completed, Council should be able to get the loan funding back, but this is not a certainty. Council is in negotiation with the NTU.
- Wellington Water deliberately over-programmes when estimating capital requirements. If there are delays, it can continue to work up to that limit and provide confidence it can meet Council’s capex budgets.
- Key chokepoints are human resources, consultants, contractors and Council’s ability to borrow. This is an issue if looking to the future and the investment needed to deal with the backlog.
- Some capex projects do not get actioned by Wellington Water Limited for up to three years. Maintaining investment in the design is important so projects are ready to go ahead for the new entity.
- A programme called ‘knowing your pipes’ has been in place for a couple of years to address leaks in domestic lateral connections. Wellington Water test for contamination then work in those areas.
- Water meters would make a significant difference to the number of domestic water leaks.
- B Hodgins will find out if it would be more efficient to offer domestic lateral renewals at the same time pipes are being renewed.
- The ‘know your pipes’ work will be continuing and will be reported to the Long Term Plan/Annual Plan Subcommittee on 23 February 2023. It hasn’t been aligned to public pipe works.
- It is possible businesses such as retirement homes could be impacted by the withdrawal of the metered water charge discount rate.
- Hutt and Porirua city councils have budgets for water meters but a coordinated approach across the region is needed to avoid the cost of a new reservoir. This will be an issue for the new water entity to decide.
- If Hutt and Porirua city councils had water meters, they would pay a smaller proportion for bulk water. However, rolling out water meters would take some years and fixing leaks would require a medium to long term timeframe.
- Public network water asset aging is contributing to Lower Hutt’s disproportional use of bulk water. Wellington Water is responding to leaks with a \$1M overspend thus far.

- A large portion of waste levy for sewerage sludge will be returned from disposal costs but the remainder is transport costs from Seaview to Silverstream. Power costs are driven by gas prices and are the result of the tender process.
- Leaks are prioritised by looking at the number of leaks in a network. Contactors can decide if it is more effective to renew or repair pipes using the budget for reactive renewals.
- Advice has been given to the NTU on optimal levels of service and the budget needed. After Easter 2023 it is likely to be known what each entity can afford to fund in terms of opex and capex.
- Wellington Water have gone through a trajectory exercise with NTU that includes investment needed. Council will need three or four times the budget of Council's current Long Term Plan to address the backlog of issues.
- It is important to reinforce that change is needed in communications with the public as issues are worked through, particularly regarding the enormity of the backlog and the cost to catch up. Communications will go out when Council decides at the Long Term Plan/Annual Plan Subcommittee meeting on 23 February 2023.

## **NEXT STEPS**

- A report will be considered by the Long Term Plan/Annual Plan Subcommittee meeting on 23 February 2023.
- P Wells will find out if the 20% Consumers Price Index (CPI) assumption for treatment plant management and overhead costs is reasonable. He will provide a response via B Hodgins.
- P Wells was asked to provide Wellington Water Limited's thoughts on escalations and costs as per questions from Councillors.
- P Wells will enquire about work done to investigate opportunities for alternative sources of power and will provide a response via B Hodgins.

## **BRIEFING MATERIALS**

**Attachment 1** – Presentation: Proposed FY2023/24 Annual Plan Capex and Opex.

The briefing closed at 3.19 pm.