

---

## PROGRESSING THE SLUDGE MINIMISATION FACILITY

---

### PUBLIC EXCLUDED

**Grounds:** Section s48(1)(a) - That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7.

**Reason:** Section 7(2)(i) - The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).

---

### Kōrero taunaki | Summary of considerations

#### Purpose

1. This report to Kōrau Tōtōpū | Long-term Plan, Finance, and Performance Committee advises the Committee of project cost pressures with the Sludge Minimisation Facility (SMF) and recommends options to progress the project.

#### Strategic alignment with community wellbeing outcomes and priority areas

Aligns with the following strategies and priority areas:

- Sustainable, natural eco city
- People friendly, compact, safe and accessible capital city
- Innovative, inclusive and creative city
- Dynamic and sustainable economy

#### Strategic alignment with priority objective areas from Long-term Plan 2021–2031

- Functioning, resilient and reliable three waters infrastructure
- Affordable, resilient and safe place to live
- Safe, resilient and reliable core transport infrastructure network
- Fit-for-purpose community, creative and cultural spaces
- Accelerating zero-carbon and waste-free transition
- Strong partnerships with mana whenua

#### Relevant Previous decisions

The sludge minimisation project is included in the Council's 2021-2031 Long-Term Plan (LTP), under which Infrastructure Funding and Financing Act (IFFA) was adopted as the preferred funding option. Community engagement was held prior to setting the 2022-2023 Annual Plan.

Pūroro Waihanga | Infrastructure Committee of 11 November 2021 agreed to engage further with the community on potential levies. Te Kaunihera o Pōneke | Council of 30 June 2022 agreed Lysis Digestion and Thermal Drying as the preferred option for progressing

through detailed design and authorised the Chief Executive to issue a Notice of Requirement to alter Designation 58 to provide for the construction, operation and maintenance of the proposed new SMF at Moa Point.

Te Kaunihera o Pōneke | Council of 24 August 2022 agreed to fund the SMF under the IFFA and the commercial principles for setting the IFFA levy.

Te Kaunihera o Pōneke | Council of 15 December 2022 agreed to progress the SMF, funded under the IFFA and delegated all powers to the WCC Chief Executive Officer to complete necessary arrangements for the SMF, subject to overall funding parameters.

**Significance**

The decision is **rated medium significance** in accordance with schedule 1 of the Council's Significance and Engagement Policy.

**Financial considerations**

Nil       Budgetary provision in Annual Plan / Long-term Plan       Unbudgeted \$X

2. This paper seeks to increase the project budget allowance for the SMF, funded through additional IFFA funding. The proposed way forward will reduce the amount that WCC may be required to contribute from its balance sheet towards the SMF. Agreeing to additional IFFA funding would result in little or no impact on WCC's debt to revenue ratio.

**Risk**

Low       Medium       High       Extreme

3. The resolutions sought through this paper represent a low-risk approach to progressing the SMF. The SMF project itself involves technical, cost, legal and financial risk due to the complexity of the SMF plant and IFFA financing arrangements. Council has been advised of these risks through previous papers.

Author	Ben Henderson, Chief Advisor to CIO
Authoriser	Siobhan Procter, Chief Infrastructure Officer Beth Keightley, General Counsel

---

## Taunakitanga | Officers' Recommendations

Officers recommend the following motion

That the Kōrau Tōtōpū | Long-term Plan, Finance, and Performance Committee:

- 5) **Note** that updated pricing received on 25 May showed the expected cost (P50) of the Sludge Minimisation Facility to be \$409.9 million, [REDACTED]
- 6) **Note** these cost estimates are greater than previously agreed funding envelope [REDACTED]
- 7) **Note** that the project team has reduced expected costs by \$13.5 million since May through commercial negotiation and value engineering, resulting in a current P50 estimate of \$396.4 million [REDACTED]
- 8) **Agree** to further investigation of value engineering and staged capacity implementation design choices to seek further cost reduction
- 9) **Agree** to increase IFFA funding for the SMF to a maximum of \$400 million
- 10) **Note** that this increase in IFFA funding results in expected levies that sit within the ranges presented in December, and does not have any impact on the Council balance sheet
- 11) **Note** that IFFA funding arrangements need to be completed by early August at the latest, and further changes to IFFA arrangements (including the funding amount) will not be possible
- 12) **Agree** to increase the baseline budget (P50) for the SMF project to \$396.4 million
- 13) **Agree** to reconfirm other funding arrangements for the SMF (as agreed in December), including:
  - a. A \$36 million Council contribution, already approved and budgeted
  - b. Council committing to consider, at the relevant time, options available to complete the SMF should costs increase above available funding
- 14) **Note** that available IFFA funding could reduce from \$400 million if base interest rates increase by around 45 basis points between now and Cabinet considering the levy (in late July). Although this is considered highly unlikely, if it was to occur, Council's funding commitment under recommendation 13(b) would increase commensurately if project costs require.
- 15) **Note** that IFFA arrangements require Council to complete the SMF, in accordance with the Minimum Standards, including meeting any (and all) funding shortfalls between available funding and the actual costs to complete the SMF
- 16) **Delegate** to the WCC Chief Executive the power to negotiate and approve the final form of the Monitoring Deed which defines the Minimum Standards
- 17) **Agree** to approve the transactions contemplated by the Monitoring Deed and enter into, and authorise WCC's Chief Executive to sign (through power of attorney), the Monitoring Deed.

---

## **Whakarāpopoto | Executive Summary**

18. An updated reconciled cost estimate for the SMF project in late May showed an updated expected cost estimate of \$409.9 million [REDACTED]. These estimates are above the funding envelope agreed by Council in December 2022 [REDACTED].
19. The key reasons for this increase include:
  - (a.) \$20 million of anticipated but unrealised value engineering opportunities.
  - (b.) \$17 million of design related cost increases including additional stormwater, structural steel, cladding and heating, ventilation and air conditioning requirements.
  - (c.) \$6 million of non-design related construction costs including bonds and insurances, sludge transport (for SMF seeding), spoil disposal and overheads.
  - (d.) \$7 million of design and peer review fees.
  - (e.) \$6 million of WCC managed costs including consenting fees, ADA costs and contingency and currency risk allowances.
20. Offset by a reduction of \$20 million of allowances for contingency, risk and escalation as a result of increased level of project and design development
21. Officers considered several options to close the funding gap and progress the project and recommend three options that in combination will allow the SMF to progress in a way that preserves the overall outcomes and schedule of the project:
  - (a.) Commercial negotiation and value engineering – obtain savings through supplier cost reductions and design changes that have little or no impact on overall scope, programme or outcomes.
  - (b.) Additional IFFA funding – increase the IFFA funding amount, whilst ensuring the levy remains consistent with previous estimates.
  - (c.) Staged capacity implementation – assess options for cost savings that impact the peak capacity (including redundancy) of the facility without materially impacting its expected capacity or overall outcomes.
22. Commercial negotiation and value engineering has already reduced project costs by \$13.5 million relative to the May estimates. Officers will pursue further savings but expect additional savings will be more difficult to achieve. Staged capacity implementation has the potential to save an additional \$8 million, but this will take longer to assess and as such has not been included in the revised project cost estimates.
23. To close the remainder of the gap, officers recommend increasing the amount of IFFA funding available to fund the SMF, from a maximum of \$350 million to a maximum of \$400 million. Final IFFA financing terms are better than assumed in December, with savings allowing the increase in funding whilst levies remain within the ranges advised to Council in December and communicated publicly. For example, connected residential property levies (the largest levy payer group) are expected to be \$312 per

- 
- million dollars of capital value per annum under the increased funding amount, relative to an expected range of \$281 - \$321 in December 2022.
24. Officers recommend increasing the IFFA funding amount to \$400 million to minimise any future impact on WCC's balance sheet. This additional funding is particularly relevant in the context of Council's obligation to complete the project and meet any and all costs required to do so, as a condition of IFFA arrangements.
  25. The change in IFFA funding amount is subject to CIP Board, Ministerial and Cabinet approval, which officers expect would be forthcoming. Further changes to IFFA arrangements will not be possible from this point.
  26. Subject to Council agreement to the recommendations in this paper, officers intend to execute the construction contract with the construction joint venture, and instruct stage one works, before the end of June. IFFA arrangements are expected to be finalised and executed in late July or early August.
  27. Options that will result in a significant delay to the delivery of a solution to Wellington's sludge disposal challenges post 2026 risk losing the off- balance sheet funding and will at best, defer the significant benefits that this facility will provide and, at worst set the city back in terms of achieving sustainable environmental outcomes including:
    - By 2026, minimising the amount of sludge sent to the Southern Landfill
    - Enhancing the resilience of sludge management in Wellington
    - Reducing the environmental impact of sludge management in Wellington
    - Aligning the practice of sludge management in Wellington to mana whenua values and principles.

### **Takenga mai | Background**

28. On 15 December 2022 Council resolved to progress the SMF and delegated power to the Wellington City Council (WCC) Chief Executive Officer to complete necessary contractual and ancillary arrangements to give effect to the project.
29. At the time, key remaining tasks included:
  - (a.) completing developed design,
  - (b.) execution of the construction and related contracts,
  - (c.) completion and submission of the Levy Proposal and execution of Infrastructure Funding and Financing Act (IFFA) contracts required to fund the project,
  - (d.) securing outstanding regulatory approvals,
  - (e.) obtaining relevant confirmations from the Department of Internal Affairs as required by the Water Services Entities Act (WSEA),
  - (f.) acquisition of land required for the SMF from Wellington International Airport Limited (WIAL).

- 
30. The Council's approvals were subject to an overall funding envelope of [REDACTED] [REDACTED] [REDACTED] available at the time. In December, the expected P50 cost of the project was \$366.5 million. Project costs were subject to further advancement of design, more extensive geotechnical and other surveying and receipt of detailed pricing from the market.
31. Funding for the SMF was agreed to comprise:
- (a.) A \$36 million Council contribution to the project, which was already budgeted
  - (b.) Up to \$350 million of IFFA funding, and
  - (c.) Additional Council funding, to the extent it was required, over and above the first two items, [REDACTED]
32. At the time, the amount of IFFA funding available was not certain, meaning that the nature of Council's contribution [REDACTED]  
[REDACTED]  
[REDACTED]
33. Since December, the project has made good progress, including:
- (a.) Executing the Acquisition and Development Agreement to provide access to, enable early works on, and ultimately acquire, land necessary for the SMF from WIAL.
  - (b.) Submitting the Levy Proposal, required under the IFFA, to the Crown for assessment and recommendation. WCC officers have been informed by Crown officials that the Minister of Housing has agreed to recommend the Levy to Cabinet, and if agreed by Cabinet it will be implemented by Order in Council. Cabinet are due to consider the Levy in late July. Further approvals will need to account for decisions made through this paper.
  - (c.) Progressing negotiation of the Monitoring Deed and the Infrastructure Funding and Financing Funding and Administration Agreement (IFFFAAA), the legal instruments that will give effect to IFFA arrangements, between WCC, the Crown and Crown Infrastructure Partners (CIP) (acting through a Special Purpose Vehicle), and WCC and CIP, respectively.
  - (d.) Obtaining key regulatory approvals required to deliver and operate the SMF including resource consent for early works, notice of requirement to enable construction, maintenance and operation of the SMF, regional consents for earthworks, stormwater and air discharge and relevant Wildlife Act approvals.
  - (e.) Agreeing the key terms and conditions (but not total price) of the staged, fixed price, lump sum, NZS 3910:2013 construction contract between WCC and the construction joint venture (HEB Construction Limited and McConnell Dowell Constructors Limited).

---

<sup>1</sup> A P50 estimate represents the cost that is expected to be exceeded with 50% probability, [REDACTED]  
[REDACTED]

- (f.) Agreeing a lump sum price for stage one – enabling works (\$42m) and equipment procurement (\$49m), under the construction contract of \$91 million.
- (g.) Obtaining Department of Internal Affairs confirmation of decisions required to give effect to SMF in accordance with requirements of the WSEA.
- (h.) Commencing select early works on the site under the existing ECI contract, including site establishment, existing site and structure protection works and contamination remediation.
- (i.) Officially opening the project with a dawn blessing ceremony on 16 May 2023 led by Taranaki Whānui.

### **Kōrerorero | Discussion**

- 34. The 3910 construction contract, including instruction and pricing for stage one works, was due to be executed in late May. As part of the process leading up to execution of the contract a 'price exchange' for the full scope of works was required. The purpose of the price exchange was to provide WCC confidence that the overall cost of the SMF remained within delegated parameters.
- 35. The price exchange resulted in an updated overall SMF cost estimate of \$409.9 million at P50, [REDACTED]. These estimates represent an increase of \$43.4 million over the P50 estimate [REDACTED], as advised to Council in December.
- 36. The key components of the increase [REDACTED] are:
  - (a.) \$20 million of anticipated but unrealised value engineering opportunities.
  - (b.) \$17 million of design related cost increases including additional stormwater, structural steel, cladding and heating, ventilation and air conditioning requirements.
  - (c.) \$6 million of non-design related construction costs including bonds and insurances, sludge transport (for SMF seeding), spoil disposal and overheads.
  - (d.) \$7 million of design and peer review fees.
  - (e.) \$6 million of WCC managed costs including consenting fees, ADA costs and contingency and currency risk allowances.
  - (f.) Offset by a reduction of \$20 million of allowances for contingency, risk and escalation as a result of increased level of project and design development.
- 37. The primary reason for these increases is design and works planning development between December and the current point in time. For example, further investigation of value engineering opportunities meant that many of them could not progress without having a detrimental impact on benefit outcomes, while sludge seeding investigations have identified there is unlikely to be sufficient digested sludge within the region to achieve commissioning timelines, and so addition transport costs are necessary.
- 38. The project team has been working with the design and construction teams to investigate options to address the funding gap. Any solution needs to ensure that

project cost estimates and available funding can be brought in line such that the project can progress to deliver outcomes sought by Council and remain consistent with the Levy Proposal. Because the project is subject to further design development, this should include sufficient contingency to meet additional costs if risks eventuate [REDACTED]

### **Kōwhiringa | Options**

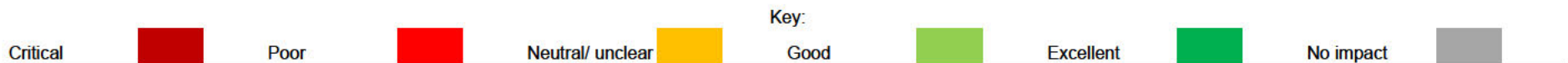
39. Officers have identified the following (non-mutually exclusive) options to close the funding gap and progress the project:
- (a.) Revisit overall sludge management solution – reassess business case options against outcomes and budget parameters, reselect solution and recommence design process.
  - (b.) Defer until detailed design and costing is available – pause execution of the construction and IFFA contracts until detailed design provides additional cost certainty and, if necessary, consider options to progress and/or fund the project at that point in time.
  - (c.) Commercial negotiation and value engineering – obtain savings through supplier cost reductions and through design changes that have little or no impact on overall scope, programme or outcomes.
  - (d.) Staged capacity implementation – assess options for cost savings that impact the peak capacity (including redundancy) of the facility without materially impacting its overall life, capacity to meet expected loads, the Minimum Standards (see para 49) and/or its overall outcomes.
  - (e.) Significant scope change – assess options for reducing costs by changing the technical solution used to process sludge, in the confines of the overall design philosophy (i.e., a lysis digestion and drying plant).
  - (f.) Additional Council funding – access additional Council funding to meet project cost pressures.
  - (g.) Additional IFFA funding – increase the IFFA funding amount, whilst ensuring the levy remains consistent with previous estimates.
  - (h.) Additional external funding – access funding from a third party, such as from a relevant government fund.
40. These options have been considered against a number of criteria, as follows:
- (a.) Project cost - the extent to which the option results in an overall affordable and acceptable project cost that represents value for money for WCC and Wellington ratepayers.
  - (b.) Ongoing cost risk – the extent to which ongoing project cost uncertainty is reduced (or otherwise).
  - (c.) Fiscal impact – impact on Council finances including debt to revenue limits.



- 
- (d.) Rate payer impact – impact on costs borne by Wellington ratepayers, primarily through the IFFA levy but also through rates impacts where relevant.
  - (e.) Programme/timing impact – impact on expected timing of overall programme, including completion prior to mid-2026 when existing resource consents for sludge disposal lapse.
  - (f.) Project outcomes – impact on the overall outcomes of the SMF including waste and emissions reduction, alignment with mana whenua values and providing a sustainable long-term solution for sludge management in the Wellington region.
  - (g.) Implementation complexity – degree to which option can be achieved without undue risk.
  - (h.) Project relationships – impact on relationships with project partners including the construction joint venture, CIP and the Crown.
  - (i.) Interaction with IFFA process – extent to which option aligns with timelines and requirement of IFFA funding, including consistency with the Levy Proposal, timing of Crown approvals and Minimum Standards required for the facility.
41. Table one assesses the options against the criteria on a multi category basis and explains rationale for the assessment. Officers consider that any option with at least one criteria rated as ‘critical’ is not viable to progress.

Table one: Multicategory assessment of SMF funding and cost management options

Option	Project cost	Cost risk	Fiscal impact	Ratepayer Impact	Programme / timing	Outcomes	Implementation	Project relationships	Interaction with IFFA	Commentary
Revisit overall solution	Yellow	Yellow	Red	Red	Red	Yellow	Red	Red	Red	Not feasible without significant delay and no guarantee of cost reductions. It will also impact on IFFA process including delay beyond central government election and need to revisit the Levy Proposal. There is also a significant relationship risk which may result in loss of key suppliers due to lack of certainty.
Pause until detailed design and cost	Red	Yellow	Red	Red	Red	Green	Red	Red	Red	More likely to increase certainty than reduce project costs. Potential delay three months. Would require delay in IFFA finalisation beyond central government election impacting project timeframes. Significant relationship risk, may risk loss of key suppliers.
Commercial negotiation / value engineering	Green	Yellow	Green	Green	Grey	Green	Green	Green	Green	Viable option to reduce costs (up to a total of \$15 million), although overall quantum unlikely to be sufficient to close funding gap. Expected to be complete prior to instruction of construction contracts as applicable.
Staged capacity implementation	Green	Yellow	Green	Green	Yellow	Green	Yellow	Green	Green	Viable option to reduce costs (up to \$8 million), although options are subject to further investigation and design with associated risk of realisation. Not likely to be complete prior to construction contract execution (expected to be complete by July), and assessment process could impact schedule
Significant Scope change	Green	Yellow	Red	Red	Red	Yellow	Red	Red	Red	Quantum of savings and timing impacts uncertain. Potential scope changes inconsistent with Levy Proposal and Minimum Standards. Seeking changes to Minimum Standards likely to be difficult, may not be agreed and could delay IFFA funding beyond election impacting overall project timeframes.
Additional Council funding	Grey	Grey	Red	Red	Green	Green	Green	Green	Green	Inconsistent with project funding approach, with unacceptable financial impact on Council balance sheet and debt to revenue ratio.
Additional IFFA funding	Grey	Grey	Green	Green	Green	Green	Green	Green	Green	Viable option to increase funding in line with project outcomes and timing, without impact on Council balance sheet or expected levy costs.
Additional external funding	Grey	Grey	Green	Green	Red	Green	Red	Green	Red	Timing unlikely to align to project and/or IFFA requirements. Introduces funding uncertainty.



42. Options that will result in a significant delay to the delivery of a solution to Wellington’s sludge disposal challenges post 2026 risk losing the off- balance sheet funding and will at best, defer the significant benefits that this facility will provide and, at worst set the city back in terms of achieving sustainable environmental outcomes including:
- By 2026, minimising the amount of sludge sent to the Southern Landfill
  - Enhancing the resilience of sludge management in Wellington
  - Reducing the environmental impact of sludge management in Wellington
  - Aligning the practice of sludge management in Wellington to mana whenua values and principles.

**Officers recommend an overall approach that combines options**

43. Officers recommend progressing three options, on the basis that they collectively provide the greatest ability to close the funding gap and meet the overall objectives of the SMF within time and cost parameters. In combination they will reduce costs and increase funding, providing a way forward that has the greatest chance of success and greatest value for money for Council and ratepayers.
44. The three options are:
- (a.) Commercial negotiation / value engineering
  - (b.) Additional IFFA funding
  - (c.) Staged capacity implementation

*Commercial negotiation / value engineering*

45. Officers continue to seek the best possible commercial arrangements under the contracts to the SMF. This includes reducing the cost of delivering a given scope of works, and ensuring that scope of works is as ‘lean’ as possible to deliver the facility whilst achieving the outcomes of the project and the Minimum Standards.
46. Since receiving the revised pricing in late May officers have worked with the construction joint venture and project partners to reduce costs, resulting in \$13.5 million savings, including:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

47. Officers will continue this process in the lead up to instruction of the final stage of works for the SMF. Through this process it will be important to balance potential benefits against the risk that design reviews and negotiations could result in delay or weaken relationships, resulting in a more adversarial approach to issues through the life of the

project. The impact of change on future operating costs will also be a consideration in these decisions.

48. Officers consider that as time progresses the ability to secure additional savings will diminish, as less and less 'low-hanging fruit' remain. Officers do not suggest that commercial negotiation and value engineering opportunities will fully close the funding gap, but will assist to reduce the gap in conjunction with the other options.

*Additional IFFA funding*

49. Officers, in conjunction with CIP, have identified an opportunity to increase the amount of IFFA funding available to fund the SMF, from a maximum of \$350 million to a maximum of \$400 million, with limited impact on levies.
50. In December we advised that the levy could support a maximum IFFA funding amount of \$350 million. This was based upon a range of conservative financing assumptions, as the financing process was still proceeding. Binding offers for finance have now been received which provide certainty of credit margins and refinancing costs, which are improved relative to prior assumptions.
51. A buffer was also allowed for base interest rate movements between December and consideration of the Levy by Cabinet (expected to occur in late July)<sup>2</sup>. Base rates have fallen materially since December and consequently CIP have advised that the amount of buffer can be reduced, but not eliminated, increasing available funding for the project to \$400 million. If base rates increase above the buffer, then this will reduce the available funding amount (see discussion at para 72).
52. Officers recommend increasing the IFFA funding amount by \$50 million, even though project costs have increased by a lower amount. A higher maximum funding amount protects against any likelihood of additional Council contribution if SMF costs increase again in the future, and is particularly relevant in the context of the requirement to complete the project under IFFA arrangements (refer paras 68-69). A higher funding amount decreases any risk of SMF cost pressures impacting Council finances, through either increasing debt to revenue ratios and requiring higher rates than otherwise, or equivalent budgetary savings needing to be found.
53. Everything else being equal, a higher funding amount increases the maximum levy payable by ratepayers. However, because the IFFA funding amount is a maximum, this increase will only occur if a higher level of funding is required to be meet project costs. If a lower funding amount is required (which will be known at project completion), future levies will be reduced.
54. Table two below sets out estimated levies under different project cost and IFFA funding scenarios.

---

<sup>2</sup> At which point based interest rates will be confirmed through interest rate hedging.

Table two: Levy estimates under different funding scenarios

		December 2022		June 2023			
		Maximum \$350 million <sup>3</sup> IFFA		Maximum \$400 million IFFA			
				Expected Levy @			Maximum Levy @
		Expected Levy	Maximum Levy	P50 project cost (\$396.4 million)	█ █ █ █ )	project costs >\$436 million	project cost >\$436 million and interest rate buffer used
Directly connected	Residential	\$314	\$335	\$302	█	\$312	\$335
	Commercial	\$465	\$500	\$447	█	\$462	\$500
Not directly connected	Residential	\$81	\$87	\$78	█	\$81	\$87
	Commercial	\$121	\$130	\$116	█	\$120	\$130

Note: All levies are presented on a per \$million of capital value per annum, as at fiscal year 2027/28

55. The current best estimate of IFFA levies correspond to the P50 █  
█  
█
56. These estimates are near the middle of the ranges considered in December, and consistent with those communicated to the public and commercial stakeholder groups through releases of the summary of the August 2022 Council paper on IFFA levies, the redacted December Council paper, the WCC SMF webpage and media on the SMF and potential levies around the December Council meeting. Maximum levies are unchanged relative to December.
57. A lower maximum IFFA funding amount would reduce the maximum levy payable by ratepayers<sup>4</sup>. However, if project costs are higher than what can be funded through

<sup>3</sup> Maximum levy estimates at \$350 million funding are slightly higher (e.g., \$14 for residential connected) than shown to Council in December, due to the use of an updated construction cost profile (which brings forward expenditure and therefore increases debt servicing costs) and updated Protected Māori Land (PML) due diligence (because PML is not to be charged the levy, the number of properties paying the levy is reduced). In addition, the lower end of the range shown in December is no longer relevant (as it was based on \$299 million funding), and so the expected levy at \$350 million funding is presented as a comparison. For comparison, the range for directly connected residential properties presented to Council in December was \$281-\$321.

IFFA, additional Council funding would be needed to meet those costs, which everything else equal would result in an equivalent increase in rates<sup>5</sup>.

58. Any change in IFFA funding amount would be subject to CIP Board, Ministerial and Cabinet approval, which based on feedback from CIP and officials, officers expect would be forthcoming.

*Staged capacity implementation*

59. The options described above will more than close the funding gap for the SMF, such that the available funding sources [REDACTED]. This is achieved without impact on the Council balance sheet, or negative impact on levy estimates relative to the ranges advised and agreed by Council in December.
60. Although sufficient for the project to progress, officers will investigate a range of 'staged capacity implementation' options. These could further reduce project costs increasing value for money or providing a buffer against future cost increases without additional funding.
61. Staged capacity implementation options involve design choices that reduce peak load capacity of initial works (currently designed to meet the peak load forecast over the next 37 years), whilst not affecting the overall technical solution, capacity to deal with expected loads or peaks in the medium term, Minimum Standards, outcomes, or useful life of the project.
62. Any additional capacity required to meet peak loads would be brought on in alignment with component maintenance or replacement lifecycles over the life of the project, and only as necessary to meet population and peak load wastewater treatment needs as they arise.
63. Specific opportunities identified include:
- (a.) Reducing digester volumes from 2500m<sup>3</sup> to 2100m<sup>3</sup>
  - (b.) Replacing one of the combined heat and power units with a standby generator
  - (c.) Reducing the specified capacity of pre-thermal hydrolysis centrifuges, gas conditioning equipment, and odour control system
  - (d.) Reducing the capacity of the dried product export silo and associated equipment
64. Potential savings from these approaches are expected to be less than \$8 million.
65. Further due diligence, design and investigation is required to assess these options before they can be confirmed. Officers expect that this will be done between now and July such that any confirmed opportunities can be instructed through stage two of the construction contract.

**Kōrerorero | Discussion – other matters**

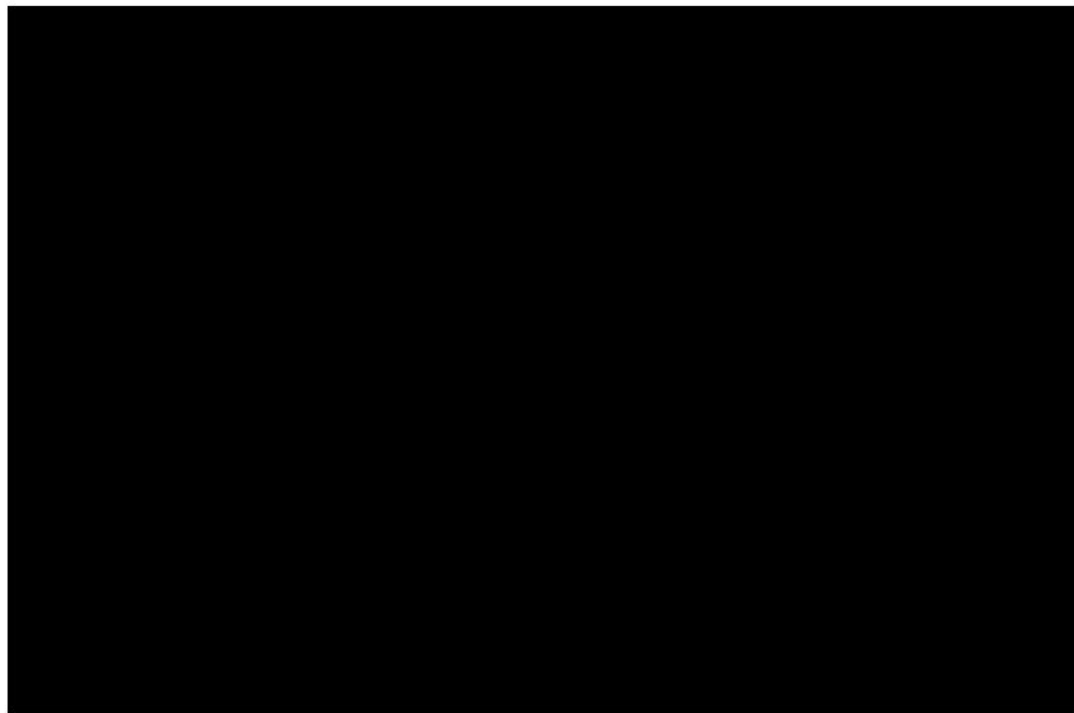
<sup>4</sup> For example, if the IFFA funding amount remained at \$350 million, maximum levies would be approximately \$25 per annum lower for connected residential properties per million of capital value.

<sup>5</sup> The total increase in rates would be equivalent, but due the LGFA debt to revenue ratio limit, rates would need to be frontloaded increasing short-term impacts on ratepayers.

66. The following diagram illustrates the overall impact of our recommended options in closing the funding gap, relative to cost estimates and funding agreed by Council in December, with the overall effect to realign available funding to project costs (including risks and contingencies). Because we recommend increasing IFFA funding by more than the increase in costs, the amount of funding contingency is improved relative to December 2022. This could be further improved should staged capacity implementation cost savings be realised. In addition, both the P50 [REDACTED] estimates include allowance for risks and contingency, (\$36.9 million [REDACTED]), which will only be used to the extent risks eventuate. These all reduce the likelihood of Council funding being required to meet additional costs.

67. [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED] However, the Council's obligation to complete the project remains. (see next section).

[REDACTED]



- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]

*Infrastructure Funding and Financing Act considerations*

68. Preparations for IFFA funding are well advanced, and finalisation needs to occur early August at the latest. Delay beyond this point could risk Crown side activities needing to be deferred until after the general election and formation of a new government. This would be highly problematic from a project and financing perspective, and result in unacceptable levels of reputational risk.
69. The maximum IFFA funding amount needs to be confirmed now to allow Crown and CIP approvals, and financing arrangements, to be updated ahead of contractual close, and once contractual close is reached further change to IFFA arrangements is not possible. This means Council will not have the ability to increase IFFA funding again in the future.
70. As advised in December, a condition of IFFA funding is that Council must complete the SMF and meet any (and all) additional costs required to do so. The reason for this requirement is that the Levy is established based upon the scope and expected benefits of the SMF as set out in the Levy Proposal. Non-completion of the SMF, or delivery of a project with a materially reduced scope, would put the Levy at risk of challenge (or non-payment), with resulting financial risks borne by CIP and the Crown.
71. Since December, officers have worked with CIP and the Crown to establish the contractual mechanism for the requirement to complete the SMF. This has involved defining the project, and certain Minimum Standards<sup>6</sup> of the project, to be documented in a Monitoring Deed. The Deed requires WCC to make representations/certifications that the SMF it procures meets the Minimum Standards (unless otherwise agreed by the Crown and CIP). In addition, the Deed includes undertakings that WCC must diligently pursue, and complete, the project, and will fund any shortfalls between available funding and cost of completing the project, as assurance mechanisms for the Crown and CIP (and CIP's lenders). Breach of these requirements could see Crown and/or CIP (in particular through its lenders) bringing a claim against WCC for breach of contract (with liability for resulting losses).

<sup>6</sup> Minimum Standards means a project that is designed and built to:

- treat the outputs from the existing Moa Point and Karori wastewater treatment plants;
- include thermal hydrolysis, anaerobic digestion, thermal drying, and biogas capture within the treatment process for wastewater;
- have the capacity to treat at least 20 tonnes of dry solids per day (tDS/D);
- reduces the expected total weight on a per unit basis, between the output of the SMF and current sludge process, by no less than 50%;
- produce a Class A Biosolid;
- result in the Moa Point sludge transfer pumps, pipeline and Careys Gully dewatering facility no longer being used; and
- enable at least 75% of the biogas generated in the process to be reused



- 
72. Combined, the fixed maximum IFFA funding amount and obligation to diligently pursue and complete the project, mean that WCC must meet all additional costs over available funding (expected to be \$436 million), to deliver the SMF. These obligations remain in place as long as WCC retains responsibility for delivery of the project, and will transfer to the new water services entity once established and when it takes responsibility for the project.
73. For these reasons, officers recommend that Council re-confirm its prior resolution to consider options at the time to complete the project should project costs be greater than available funding. This could include considering scope or value engineering options, although major scope change will not be possible due to the Minimum Standards.
74. Council should note that the maximum IFFA funding amount could reduce below \$400 million should base interest rates increase by more than 45 basis points (corresponding to the remaining interest rate buffer) between now and contractual close in late July. If this occurs levy revenue would not be sufficient to support \$400 million of funding, and the maximum funding amount would reduce by approximately \$5 million per every 10 basis point increase over and above the 45 basis point buffer.
75. A reduction in the funding amount is considered highly unlikely. Nonetheless in this circumstance, Council funding would need to increase commensurately, to the extent project costs require, as the requirement to complete the project would remain.

*Confirming agreement to execute the Monitoring Deed*

76. At the time of the December Council paper, it was planned that WCC's commitments to complete the SMF (including the obligation to complete the SMF to the Minimum Scope) and fund all cost overruns would be included in the IFFFAAA. Since then, it has been agreed with CIP and the Crown that those commitments will be documented in a separate Monitoring Deed, as otherwise the Crown would need to be a party to the IFFFAAA. As such, Officials are seeking explicit Council approval to enter into the Monitoring Deed.

*Water Services Reform*

77. It is possible that under the current proposed reforms the SMF will transfer to the new Wellington region water services entity (Entity G) on the establishment date for the water services entity. That date is still to be confirmed but is to occur between 1 July 2024 and 1 July 2026, and therefore could occur while the SMF is under construction. The obligation to complete the project and meet any and all costs of doing so would transfer to the water services entity at the point of transfer.
78. As is required by oversight provisions in the Water Services Entities Act, WCC will seek DIA confirmation of the decisions Council are making through this paper. Decisions will take effect once confirmed by DIA.

---

**Whai whakaaro ki ngā whakataunga | Considerations for decision-making**

**Alignment with Council’s strategies and policies**

- 79. The 2021-31 LTP outlined six priority objectives including creating a functioning, resilient and reliable three waters infrastructure. The SMF project fulfils this objective by building a resilient plant which enables the city to reduce its waste volumes at the landfill.
- 80. During 2021-31 LTP deliberations Council resolved to set the debt to revenue ratio limit at 225%. The Local Government Funding Agency (LGFA) limits the amount of debt Council can hold at 300% of their revenues. This is decreasing down to 280% in 2026. Progressing the SMF under the IFFA maintains agreed debt headroom.
- 81. The Wellington Region Waste Management and Minimisation Plan (2017 – 2023) committed WCC to a significant reduction in waste to landfill. The key target in this plan is to reduce solid waste sent to Class 1 landfills from 600kg per person per annum to 400kg per person by 2026. Developing a solution that removes the reliance on the Southern Landfill for the disposal of sewage sludge is the largest single initiative WCC can pursue to achieve this target.
- 82. In the Te Atakura – First to Zero Strategy, WCC committed to reducing carbon emissions by 57% by 2030 and 100% by 2050. The Southern Landfill is the biggest single contributor of carbon emissions from WCC operations, therefore achieving the carbon reduction goals will not be possible without finding a more environmentally sustainable solution to processing Wellington’s sludge, thereby enabling waste minimisation to occur, and reducing carbon emissions from solid waste management activities.
- 83. The Wellington Resilience Strategy was published by WCC in March 2017 to provide a blueprint for dealing with future shocks and stresses that impact WCC and its communities. In this strategy, WCC has committed to undertake an options assessment for sewage sludge disposal to identify preferred options on the basis that the status quo is not consistent with how Wellington perceives itself environmentally.
- 84. A Strategic Case for Sewage Sludge Management was prepared in 2019. The Strategic Case was completed by Wellington Water to understand the future management of sewage sludge within the Wellington Region, and had three key focus areas:
  - (a.) Reduce sewage sludge sent to landfills from 64kg to 4kg per person per annum;
  - (b.) Contribute to the zero-carbon act; and
  - (c.) Assist WCC with the resource consent processes for the Southern Landfill.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

---

■ [REDACTED]

■ [REDACTED]

■ [REDACTED]

[REDACTED]

■ [REDACTED]

■ [REDACTED]

[REDACTED]

■ [REDACTED]

[REDACTED]

[REDACTED]

[Redacted text block]

[Redacted text block]

[Redacted text block]

- [Redacted list item]

[Redacted text block]

- [Redacted list item]

[Redacted text block]

- [Redacted list item]

- [Redacted list item]

---

### **Implications for Māori**

96. A key objective of this project is to align the practice of sludge management in Wellington to mana whenua values and principles. Mana whenua have been consulted on the preferred technology, resource consents, broader outcomes and the development of a biosolids re-use strategy as part of the broader SMF programme.
97. Should the project be delayed or stopped, there will be a commensurate delay on achieving this objective.
98. The Levy will not apply to Protected Māori Land (as defined in the IFFA).

### **Financial implications**

99. The IFFA model creates separation between the Council balance sheet and project debt, with overall financial impacts as advised in December. Therefore, increasing the IFFA funding amount will not impact the WCC balance sheet.
100. Council will recognise additional new revenue equal to the amount of IFFA financing increase needed to fund the project (e.g., up to \$50 million) in the form of capital revenue funding from the CIP SPV over the construction period (2024-2026). This additional revenue will offset increased project costs.
101. Any potential Council funding of additional costs required to meet Council's legal obligation to complete the project (over the already agreed and budgeted \$36 million Council contribution) will not be included in the LTP now, on the basis such additional costs are not expected to be incurred, and Council has not considered the options available to it to complete the project.
102. In addition, officers' view is that the need for funding is unlikely to arise before establishment of the new Wellington region water services entity (between July 2024 and July 2026), and any planning would need to take into account the restriction on planning for water services introduced through the WSEA and associated legislation.
103. To the extent that this Council funding is required ahead of establishment of the Wellington region's water services entity (or the reforms do not proceed as contemplated as at the date of this paper), relevant amendments to the LTP (and any relevant consultation) will be made at the time.

### **Legal considerations**

104. Decisions in this paper will require consequential amendments to project contracts (still being negotiated) and the IFFA Levy process. Such amendments are not considered material.
105. Failure to complete the SMF in accordance with the requirements of the Monitoring Deed, including failure to procure a SMF that meets the Minimum Standards could result in claims being brought by the Crown or CIP (including through CIP's lenders) against WCC, should WCC's actions (or inactions) contribute to the losses of the Crown or CIP. Such claims are likely to be significant if they eventuate. As such, WCC will need to meet the costs of completing the SMF.

---

## **Risks and mitigations**

106. Officers have previously advised that as the IFFA process progresses reputational risks of a decision not to progress under IFFA increase. Changes to the IFFA funding amount agreed in this paper are occurring very late in the process. Council should consider that it will not be possible to cease the IFFA process beyond this point, and that it is committed to IFFA funding, completing the SMF and meeting the costs of completion.
107. It will be important to the successful delivery of the SMF to ensure that the options recommended in this paper are implemented in such a way as to preserve the existing relationship with the construction JV and other key suppliers. Given the advanced stage of negotiations for the 3910 construction contract and the specialised nature of the works, replacing key suppliers at this stage would result in significant additional time and cost.

## **Disability and accessibility impact**

108. There are no disability or accessibility impacts relevant to this paper.

## **Climate Change impact and considerations**

109. The SMF project aligns with a number of our Te Atakura goals, through:
- (a.) Reducing solid waste sent to landfill
  - (b.) Reduction in carbon emissions, pollution prevention and control and sustainable management of living natural resources and land use
  - (c.) Improvement in resilience and reliability of Wellingtons wastewater network
110. Officers understand that CIP intend to finance the SMF under green/sustainable borrowing documentation, with associated reporting. This further demonstrates the positive contribution the SMF will make to Council's climate and waste reduction objectives.

## **Communications Plan**

111. Proactive project communications will be managed by WCC's communications team in coordination with CIP, the Crown and project partners.
112. Although subject to finalisation we expect that joint CIP, WCC and Crown announcements will be made when IFFA funding is confirmed in late July/early August.
113. Communication to raise awareness of the levy, how it works and that it is funding the SMF project will occur in the lead up to the levy, which commences in July 2024.

## **Health and Safety Impact considered**

114. There are no specific health and safety implications associated with this paper.

## **Ngā mahinga e whai ake nei | Next actions**

115. Pending Council approval of the recommendations in this paper, officers will formally commence the process to increase IFFA funding with CIP and the Crown. In parallel,

---

the cost reduction initiatives discussed in this paper will be progressed, such that the construction contract can be executed and stage one works instructed. Officers expect this will occur in late June. This will further enable procurement key equipment supporting programme and cost certainty. Contractual close for the IFFA process is expected in late July, pending Cabinet approval of the levy, and finalisation of the IFFFAAA and Monitoring Deed.

**Attachments**

Nil