
**ORDINARY MEETING
OF
PŪRORO WAIHANGA | INFRASTRUCTURE COMMITTEE
SUPPLEMENTARY AGENDA**

Time: 9:30am
Date: Wednesday, 27 April 2022
Venue: Ngake (16.09)
Level 16, Tahiwī
113 The Terrace
Wellington

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1. General Business

WELLINGTON WATER 2022/23 & 2023/24 YEAR OPEX BUDGET REQUEST

Kōrero taunaki | Summary of considerations

Purpose

1. This report to Pūroro Waihanga | Infrastructure Committee presents WWL's request for additional Opex in years 2 and 3 of the LTP.

Strategic alignment with community wellbeing outcomes and priority areas

Aligns with the following strategies and priority areas:

- | | |
|---|---|
| <input type="checkbox"/> Sustainable, natural eco city | <input type="checkbox"/> People friendly, compact, safe and accessible capital city |
| <input checked="" type="checkbox"/> People friendly, compact, safe and accessible capital city | <input type="checkbox"/> Innovative, inclusive and creative city |
| <input type="checkbox"/> Innovative, inclusive and creative city | <input checked="" type="checkbox"/> Dynamic and sustainable economy |
| <input checked="" type="checkbox"/> Dynamic and sustainable economy | <input checked="" type="checkbox"/> Functioning, resilient and reliable three waters infrastructure |
| <input checked="" type="checkbox"/> Functioning, resilient and reliable three waters infrastructure | <input type="checkbox"/> Affordable, resilient and safe place to live |
| <input type="checkbox"/> Affordable, resilient and safe place to live | <input type="checkbox"/> Safe, resilient and reliable core transport infrastructure network |
| <input type="checkbox"/> Safe, resilient and reliable core transport infrastructure network | <input type="checkbox"/> Fit-for-purpose community, creative and cultural spaces |
| <input type="checkbox"/> Fit-for-purpose community, creative and cultural spaces | <input type="checkbox"/> Accelerating zero-carbon and waste-free transition |
| <input type="checkbox"/> Accelerating zero-carbon and waste-free transition | <input type="checkbox"/> Strong partnerships with mana whenua |
| <input type="checkbox"/> Strong partnerships with mana whenua | |

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

Relevant Previous decisions

Outline relevant previous decisions that pertain to the decision being considered in this paper.

Significance

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

Financial considerations

- | | | |
|------------------------------|--|--|
| <input type="checkbox"/> Nil | <input type="checkbox"/> Budgetary provision in Annual Plan / Long-term Plan | <input checked="" type="checkbox"/> Unbudgeted \$X |
|------------------------------|--|--|

2. The proposed option will require out-years increase to operational (opex) budgets of approximately \$5m per annum over the next two years. It may not require additional ratepayer funding as we are proposing that we apply for the the Three Waters reform "Better Off Funding" to cover the additional cost.

Risk

- | | | | |
|---|---------------------------------|-------------------------------|----------------------------------|
| <input checked="" type="checkbox"/> Low | <input type="checkbox"/> Medium | <input type="checkbox"/> High | <input type="checkbox"/> Extreme |
|---|---------------------------------|-------------------------------|----------------------------------|

| | |
|------------|--|
| Author | Chris Mathews, Manager Waste, Water and Resilience |
| Authoriser | Siobhan Procter, Chief Infrastructure Officer |

Taunakitanga | Officers' Recommendations

Officers recommend the following motion

That Pūroro Waihanga | Infrastructure Committee:

1. Receive the information
2. Agree to increase the opex budget for the relevant activity by a total of \$9.64m over the next two years - \$4.64m for the FY2022/23 and \$5.01m for the FY2023/24.
3. Consider Wellington Water Limited's (WWL) request to make provision for additional opex costs of up to \$3m over the next two years.
4. Recommend to Pūroro Maherehere | Annual Plan/Long-Term Plan Committee any budgetary changes considered by this Committee.
5. Agree that officers pursue an application to fund relevant operational costs relating to waters out of the Government's Three Waters Reform "Better off Funding" available to Wellington City Council.
6. Note that should the "Better Off Funding" application be unsuccessful, the requested budget uplift would increase rates by 1.1% in 2022/23 and 1.0% in 2023/24.
7. Note that should the "Better Off Funding" application be unsuccessful, the additional \$3m opex over the next two years would increase in rates by 1.4% in 2022/23 and 1.4% in 2023/24 (inclusive of the \$9.64m).

Whakarāpopoto | Executive Summary

3. The purpose of this report is to recommend a way forward to address Wellington Water's funding request for additional opex for the 2022/23 and 2023/24 financial years.
4. Based on advice from WWL received in late February 2022, on 31 March 2022, Council agreed to fund an additional \$4.9 million of opex in the current 21/22 financial year.
5. The additional opex was required to address a shortfall in forecast reactive maintenance costs relative to WWL's LTP budget for reactive maintenance.
6. This shortfall continues into years two and three of the LTP and as such, WWL requires additional funding of \$9.64 Million in total over the next two years.
7. This recommended increase in forecasted spend is consistent with the recent Council approval for the opex budget increase in the current year (2021/22) of \$4.9 million above LTP budget. As such it is supported by WCC officers.
8. WWL advised officers on 14th April of a potential requirement for up to \$3m in addition to the \$9.64m – a total of \$12.64m over the next two years.
9. Given officers have not had sufficient time to satisfy themselves that the increase over and above the advice provided in late February is justified, WWL is presenting this advice direct to Committee for its consideration.

10. It is proposed that WCC will apply to DIA for “Better Off Funding” to cover the additional expenditure as this will minimise the impact to rate payers.
11. WCC can apply for up to \$14.42m in “Better Off Funding” in Tranche 1 which is available from 1 July 2022.
12. Should the application for “Better Off Funding” to cover this increased cost be unsuccessful, the increased operational cost of the recommended \$9.64m opex budget would have to be rates funded.
13. The impact on ratepayers will be a year-on-year rates increase in 2022/23 of around 10.1% (after growth), up from the 8.9% increase outlined in the draft Annual Plan for consultation.
14. This would increase further should Council decide to approve the additional \$3m proposed by WWL.

Takenga mai | Background

15. A detailed breakdown of forecast costs and associated information was provided by WWL in late February 2022.
16. On 31 March 2022, Council agreed to fund an additional \$4.9 million of opex in the current 2021/22 financial year.
17. The additional opex was required to address a shortfall in forecast reactive maintenance costs relative to WWL’s LTP budget for reactive maintenance when “a *directional shift was made to increase funding in favour of planned maintenance and investigations, away from reactive maintenance*”¹.
18. This shortfall continues into years two and three of the LTP.
19. Wellington Water’s February advice projected its opex costs to exceed its LTP budget by \$4.639m (12.5%) in 2022/23 and by \$5.005m (12.9%) in 2023/24.
20. The table below shows the forecast against budget and the resulting variance:

| OPEX \$000 | 2022/23 Forecast | 2022/23 LTP | Variance | 2023/24 Forecast | 2023/24 LTP | Variance |
|--------------------------------|---------------------|----------------|--------------|---------------------|----------------|--------------|
| Treatment Plant | 15,083 | 14,660 | 423 | 15,420 | 15,327 | 93 |
| Reactive Maintenance | 10,690 | 5,599 | 5,091 | 11,791 | 6,143 | 5,648 |
| Planned Maintenance | 4,930 | 5,173 | (243) | 4,998 | 5,412 | (414) |
| Monitoring & Investigations | 5,250 | 5,883 | (633) | 5,169 | 5,491 | (322) |
| Management & Advisory Services | 5,887 | 5,887 | 0 | 6,342 | 6,342 | 0 |
| Total Opex | 41,841 | 37,201 | 4,639 | 43,720 | 38,715 | 5,005 |

Table 1 – Forecast Opex 2022/23 and 2023/24

21. As can be seen from the table above, the largest factor in the budget increase is in the area of reactive maintenance which is the maintenance required to address network problems when they arise, largely as a result of asset failure.
22. On 14th April 2022, WWL requested an additional \$3m over and above the \$9.64m two-year forecast provided in February.

¹ WWL Opex Variance Analysis 25 February 2022

23. Given the lateness of the advice and the lack of detailed information to support such a request, officers have not had sufficient time to satisfy themselves that the increase over and above the advice provided in late February is justified. WWL is presenting this advice direct to Committee for its consideration.

Kōrerorero | Discussion

24. Wellington City Council (WCC) operates a “one budget” model with WWL, whereby WCC funds WWL for opex and capex and allows WWL discretion to determine how that funding will be spent to meet a given level of service
25. Officers support the increase in Opex funding of up to \$9.64m over two years, based on the advice received in February 2022. The increase in opex is driven by the reactive maintenance budget issue which has flowed through into years two and three of the LTP.
26. If approved, Officers will seek approval from DIA to use some of the “Better Off Funding” to minimise the impact on ratepayers.
27. DIA recently released its guidance for Councils to submit for “Better Off Funding” which has been made available as part of the Three Waters reform process.
28. The use of this funding supports councils to transition to their new role post-reform through meeting some or all of the following criteria,
- Supporting communities to transition to a sustainable and low-emissions economy, including by building resilience to climate change and natural hazards
 - Delivery of infrastructure and/or services that enable housing development and growth, with a focus on brownfield and infill development opportunities where those are available.
 - Delivery of infrastructure and/or services that support local place-making and improvements in community well-being.
29. WCC’s Tranche 1 of funding is \$14.42 million and is available from 1 July 2022.
30. Applications for funding must be made by 30th September 2022.
31. Officers intend to apply to DIA for “Better off Funding” to cover the additional expenditure as this will minimise the impact to rate payers.
32. There is a risk that “Better Off Funding” may not be approved to cover water related opex cost and if this is the case, the additional cost will need to be funded through rates.

Kōwhiringa | Options

33. Officers recommend Council approve an increase to WWL’s opex budget for the relevant activity by a total of \$9.64m over the next two years - \$4.64m for the FY2022/23 and \$5.01m for the FY2023/24. The intent is to apply to DIA for the Government’s ‘Better of Funding’ to fund water related opex costs, thereby minimising the impact on ratepayers.
34. There is an option to approve an additional \$3m opex costs over 2 years, which was recently indicated as being required by WWL and is presented in the attached memo.

Given officers have not had sufficient time to satisfy themselves that the increase over and above the advice provided in late February is justified, WWL is presenting this advice direct to Committee for its consideration.

35. There is an option to request WWL to reduce opex spend, chiefly in the areas of planned maintenance, critical asset condition assessment and catchment growth planning. We do not recommend this option given the flow on negative impact on the quality of the network.

Whai whakaaro ki ngā whakataunga | Considerations for decision-making

Alignment with Council's strategies and policies

36. Proposed change to WWL opex budget for the 22/23 and 23/24 years relating to the second and third years of the 2021-31 Long Term Plan.

Engagement and Consultation

37. N/A

Implications for Māori

38. N/A

Financial implications

39. The financial implications are discussed throughout the detail above, principally seeking to mitigate the rates impact of this increase through use of the "Better Off Funding" available to Wellington City Council for water related relevant activities. However, should our application be unsuccessful, the increased costs will need to be met through an increase in rates. This will result in a year-on-year rates increase in 2022/23 of 10.1% (after growth), up from the 8.9% increase outlined in the draft Annual Plan for consultation.

Legal considerations

40. N/A

Risks and mitigations

41. There is a risk that Better Off funding may not be approved to cover water related opex cost and if this is the case, the additional cost will need to be funded through rates.

Disability and accessibility impact

42. N/A

Climate Change impact and considerations

43. N/A

Communications Plan

44. N/A

Health and Safety Impact considered

45. N/A

Ngā mahinga e whai ake nei | Next actions

46. If approved, WWL's opex budget in 2022/23 will be increased by \$4.64m to \$41.84m and in 2023/24 will be increased by \$5.01m to \$43.72m.
47. Officers will include relevant water related opex costs in its "Better Off Funding" request to DIA which will minimise the rates impact from this increase in WWL's opex budget if approved.
48. Officers will report back on the outcome of the "Better Off Funding" application process once known.

Attachments

Attachment 1. Wellington Water Opex Advice - 20 April 2022 

Advice to Wellington City Council regarding three waters services operational expenditure for financial years 2022-23 and 2023-24

TO Siobhan Procter, Chief Infrastructure Officer, Wellington City Council

COPIED TO Chris Mathews

FROM Mark Ford, GM Business Services, Julie Alexander, GM Network Strategy and Planning

DATE 20 April 2022

Purpose

1. This paper provides:
 - a) advice to Council on the latest forecasts of expenditure requirements to operate Wellington City Council's three waters assets at existing levels of service for the coming two financial years, 2022-23 and 2023-24;
 - b) reasons the increased forecasts for those years are above the budgets in Council's 2021-31 long term plan; and
 - c) risks to the forecasts provided and options for managing expenditure within those risks.

Recommendations

2. Wellington Water recommends:
 - a) Council LTP budgets for 2022-23 and 2023-24 are increased by \$4.639m to \$41.841m and \$5.005m to \$43.720m respectively, as proposed in February 2022 (compared with 2021-22, \$41.9m).
 - b) Council notes Wellington Water has updated its forecasts as at March 2022 to reflect the current uncertain and unpredictable environment, which have shown costs could increase by an additional \$3m over the next two years.
 - c) Council either
 - i Makes provision for the additional costs of up to \$3m forecast over the next two years; or
 - ii Agrees to hold the increased operational budgets (2022-23: \$41.841m; 2023-24: \$43.720m) and review them every six months to account for actual performance and updated information.

d) Notes these figures do not include significant emergency events which Council funds separately.

Summary

3. Aging three waters assets continue to affect customer service and environmental outcomes in Wellington.
4. During the 2021-31 long term plan drafting process and in subsequent reviews, Wellington Water advised Officers there would be a need for increased investment in three waters above historical levels and the figures initially provided for the draft 2021-31 plan.
5. Based on November 2021 forecasts, Wellington Water provided advice to Officers in February 2022 on a probable scenario for 2022-23 and 2023-24 budgets.
6. The probable scenario provided for 2022-23 was for an additional \$4.639m (increasing the long term plan budget to \$41.841m) and for 2023-24 an additional \$5.005m (increasing long term plan budget to \$43.720m), a total of \$9.644m over two years. This compares with the 2021-22 forecast of \$41.9m following approval of additional expenditure of \$4.9m.
7. Key reasons for the increased forecasts are: continuing with proactive maintenance including condition assessments; increasing reactive faults and incident numbers and the complexity of those failures, ongoing requirements to meet the regulatory changes of Taumata Arowai; inflationary cost pressures and a tight labour market, and continued work on asset information and data improvements.
8. Using additional network, economic and sector data since November, Wellington Water has updated its forecast as at March 2022 for the coming two years, and advised Council Officers of a risk of up to \$3m in addition to the \$9.644m two-year forecast over long term plan budgets.
9. Key reasons for the additional \$3m risk to the 2022-23 and 2023-24 forecasts are: rising inflation; increasing complexity and scope of operations work; a very tight labour market; material supply constraints.
10. Holding expenditure at long term plan budget levels would reduce levels of customer service including repairs and responses, curtail proactive work, and increase risks to human and environmental health.

Wellington City Council Operational Expenditure for the three waters

Background

11. 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 failures. This situation is a result of under-investment in renewals, which has been the case in Wellington and in many other parts of NZ for decades. Because the network has been under-funded for such a long time, it will be very expensive to reverse the deterioration – and will take a long time.

12. As Council began developing its 2021-31 long term plan, it learned about these issues and more through the Mayoral Taskforce on the Three Waters, and from Officer advice. It set an intention to address the deterioration of its assets and create a city with functioning, resilient and reliable water infrastructure that would support growth and environmental goals.
13. Wellington Water provided a range of investment scenarios to address these issues over time, and also advised that the limited information we had on the networks, along with other environmental factors, meant there was still a lot of uncertainty about what levels of improvement could be delivered by when.
14. The three waters budgets set in the final draft of the 2021-31 long term plan were a significant increase on previous years, but they were at bottom of the range of scenarios presented.
15. Setting these budgets low meant there was additional risk to years two and three not just from increased numbers of failures, but from increased costs and other unpredictable circumstances, such as the impacts of the pandemic. That is what has happened. Costs to repair faults, and the number of faults, have continued to rise.

Overview

16. In March 2022 Council approved the use of government stimulus funding to fund an additional \$4.9m of operational expenditure in the current 2021-22 financial year, bringing total operational expenditure to \$41.9m.
17. At the same time as the revised forecast for the current financial year was prepared, Wellington Water proposed revised forecast for 2022-23, to \$41.841m, and 2023-24, to \$43.720m; increases of \$4.639m and \$5.005m respectively (total \$9.644m) above the budgets in the long term plan.
18. These forecasts were based on data up to November 2021 and were presented to Officers in February 2022.
19. We now have updated information and a revised economic outlook, and wish to advise Council of the risk associated with the forecast for the 2022-23 and 2023-24 financial years. Based on our latest analysis, we estimate an additional sum of up to \$3m (in addition to the \$9.644m) over the two years may be required to cover operational activity. Note that this sum does not cover emergency responses to significant incidents, which Council has agreed to fund separately.
20. This additional sum of up to \$3m reflects better information we have on the impact of inflation (now over 6%), labour shortages, service requests and material supply issues, as at March 2022.
21. If Council is unable to fund all the revised budgets, then treatment, reactive maintenance and incident responses would be prioritised, and Wellington Water would use proactive work as the budget-balancing activity. More detail would be provided based on the actual amounts funded.
22. In summary, our advice to Council is to continue with the proactive work of planned maintenance, condition assessments and monitoring and to allow for increased costs and the likely continued rise in the amount of reactive work. This will help maintain current levels of customer service with respect to keeping the water running, minimising the impact of wastewater overflows, and responding as quickly as we can, including at nights and weekends, to day-to-day events.

Update from previous advice

23. As we were refining these forecasts we provided Officers with preliminary information, including a possible forecast of \$15m above long term plan budgets over two years. This has now been confirmed at \$9.644m, with an additional risk of up to \$3m over two years, totalling \$12.644m.
24. The biggest part of the difference between the \$15m figure and the \$12.644m was that we are no longer including an allowance for significant incidents.

Cost drivers for the latest forecasts

25. The largest factor in the revised forecasts for the current and future financial years is in the area of network maintenance. This is driven by:
 - a) record levels of customer service requests, a major burst, and significant storm events
 - b) increased breadth of response (such as providing drinking water, after hours work) to maintain service levels. External resources are being used to meet the service requests.
 - c) increased reactive maintenance
 - d) an estimated 20-30% increase in cost of materials for construction works.
 - e) There are vacancies across the organisation with some roles being filled by consultants or contractors at higher rates and this is expected to continue in the next two years. For example the Customer Operations Group (COG) have vacancy rates fluctuating between 20-30% for the depot that serves Wellington. This has resulted in an increase in sub-contractor teams being used for service requests.
 - f) Additional salary pressure is expected to be put on the organisation in future years in the constrained market. As an example, recently a minimum \$5/hour increase over two years was given to all staff in COG (who predominantly respond to Service Requests and other network maintenance work), to help with staff retention
 - g) A significant increase in planned maintenance is required in future years to help manage the increase in reactive management for the ageing networks
 - h) The value of continued condition assessments.

Contingencies for significant emergency events

26. The numbers presented for the years 2022-23 and 2023-24 do not include contingencies for significant events (e.g. asset failure or storm events with a large cumulative cost) outside of BAU reactive maintenance.