
REPORT 3
(1215/52/IM)

HOSPITAL / PRINCE OF WALES PARK WATER RESERVOIR FUNDING OPTIONS

1. Purpose of Report

This report outlines the options to fund the construction of the proposed Hospital/Prince of Wales Water Reservoir (and associated pipe work) in Prince of Wales Park, and recommends that the Committee agrees that construction does not commence until these funding arrangements are finalised.

2. Executive Summary

In 2003 a joint proposal was prepared for the construction of a large new water reservoir to be jointly funded by the Capital Coast District Health Board (CCDHB), Greater Wellington Regional Council (GWRC), and Wellington City Council (WCC). The reservoir would:

- provide emergency water storage for Wellington Hospital
- replace and expand WCC's storage
- provide for population increases

Funding for the construction of the reservoir has been discussed for many years. Both GWRC and CCDHB have withdrawn from the original tripartite agreement to fund this work.

Negotiations are progressing with GWRC regarding a rationalisation and transfer of assets that is expected to realise a sum that can be used to part fund the construction of the reservoir. The asset transfer would regularise the assets associated with bulk water provision in the city.

The CCDHB is not prepared to contribute to the construction of the reservoir or the dedicated pipeline from the new reservoir to the Hospital. This is in despite of the fact that one key reason for the works is to provide additional security of water supply to Wellington Hospital.

The demise of the tripartite funding agreement means that alternative sources of funding must be pursued. The Government will be approached (for a further time) to fund a share of the construction. If this is unsuccessful, officers recommend exploring the possibility of an increase in the Hospital's water charges to compensate WCC for costs associated with providing a higher level of service to the Hospital.

3. Recommendations

Officers recommend that the Committee:

1. *Receive the information.*
2. *Agree that a contribution to the costs of constructing the proposed Hospital/Prince of Wales Water Reservoir and associated pipe work (the Reservoir) be sought from the Government, but if this is unsuccessful the option of an increased water charge for the Wellington Hospital will be considered.*
3. *Note that negotiations are continuing with Greater Wellington Regional Council regarding a possible asset transfer, which, if successful may provide monies that could be used to part fund the Reservoir.*
4. *Agree that the design of the Reservoir continue but that construction will not commence until funding arrangements have been finalised.*

4. Background

In mid 2003 a joint proposal was prepared for the construction of a large new water reservoir to be jointly funded by CCDHB, GWRC and Wellington City Council (WCC).

The construction of the reservoir was to serve 3 functions:

1. To provide emergency water storage for Wellington Hospital
2. To replace and expand the storage currently available in the Bell Road reservoir for WCC
3. To provide for population increases on the GWCR regional water supply system.

The proposal was to share the construction cost equally between the three parties, with CCDHB also providing funding for a dedicated main from the new reservoir to the hospital (approximately \$1M). The construction of this dedicated pipeline would increase the assurance of access by the hospital to the stored water following a seismic event. The concept was adopted by all three parties with CCDHB noting that specific funding would be required for its share.

CCDHB have subsequently informed this Council that it will no longer fund its share of the works and that it does not consider that the construction of the reservoir or associated pipe works is a hospital responsibility.

GWRC has also informed this Council that it is not willing to contribute to the cost of this reservoir as it does not need it for operational purposes.

With recent events in Christchurch it has become increasingly apparent that the construction of this reservoir is imperative.

5. Discussion

Neither WCC nor GWRC have a legal obligation to supply water in the event of an emergency. Although both organisations are required under the CDEM Act 2002 to be in a position to function to the best of their ability in the event of a disaster this does not mean providing water to the hospital as per normal. The hospital also has the same requirement to be able to function in an emergency. Currently the Hospital uses up to a million litres of water a day and has sufficient water stored for some 7 days after a disaster. It may take 30 days or more for GWRC to reinstate the bulk water to the city following a major natural event.

While WCC also needs some additional water storage, the option to build a reservoir for WCC's purposes only, has not been considered.

5.1 Construction costs

There are two major costs associated with the proposal. The cost of the 35ML reservoir itself and the cost of supporting pipe work.

The cost to construct the reservoir only was originally estimated in 2004 to be \$9M. The 2011 estimate for the total work, i.e. the reservoir and pipe work is between \$13.6M to \$20.9M.

This estimate will be refined as the design is progressed this financial year.

Council currently has \$12.8M in the 2009-19 LTCCP for the following projects:

- \$11.2M in Water Pump Station and Reservoir Upgrades (CX336)
- \$1.6m in Water Reticulation Upgrades (CX326).

This leaves a shortfall of up to \$8.1M.

It is proposed that funding for this shortfall be sought from any combination of the following sources:

- a request for a capital contribution from Government
- an asset reassignment agreement with GWRC that would result in a financial consideration from GWRC to WCC that can then be used to part fund the reservoir
- additional borrowing by WCC
- increased water charges for the Hospital.

5.2 Capital Coast District Health Board

There has been considerable discussion over the past 10 years with CCDHB and a philosophical impasse has now been reached. The Hospital considers that its task is to provide health services and does not have a responsibility to provide water infrastructure. The hospital has a responsibility to function to the best of its ability in the event of an emergency and to do so it needs to have sufficient water until the bulk water is re-instated.

The Hospital also considers that should a disaster occur, it will be allocated any available water as a top priority and therefore there is no advantage for it to contribute to the construction of this reservoir. However, this approach ignores the fact that there will be many high priority demands for water in an emergency situation, and the prudent strategy is to build more storage capacity, rather than relying on having top priority of whatever water is available.

The hospital is a regional facility. It is not considered appropriate that the WCC should be left with the sole responsibility of providing benefits that will be received by the whole region. Other Hospitals in the country tend to have alternative sources of water such as bores.

The CCDHB has been asked for a commitment to its contribution to the proposed reservoir for some years. Delegations have been made in the past to the CCDHB and Government but to no avail. In discussion with the CCDHB staff it was agreed that now would be an opportune time to make another request to Government.

Given the apparent impasse in the CCDHB making a capital contribution, the option of charging the hospital through the water charges for the increased level of service is being considered.

The Hospital level of service

The Hospital is basically requesting a different level of service than any other resident or business in the city. It is requiring the City to provide water no matter what disaster occurs. Other users are aware that they will not have water for at least three days and any water after that will be severely limited until the bulk supply is reinstated. Therefore the Hospital, by requiring an enhanced level of service should be willing to pay for that service.

The CCDHB pays targeted rates for water supply to the Hospital. Water is charged by meter and currently the Hospital uses some 290 ML per year at a cost of some \$537,000.

Council can consider requiring an increased charge for water supplied to the Hospital (i.e. a differential targeted rate), based on the fact that the Hospital will receive an enhanced level of service by requiring a higher level of security of supply. This increased charge could be some percentage of the normal water charge and commence when the additional supply security is in place. An

increased charge could, for example, cover the extra long term cost of borrowing and depreciation for the assets associated with WCC providing that additional service.

5.3 Greater Wellington Regional Council

As this is a regional facility and therefore provides benefits for the whole region, GWRC has been requested to contribute to the cost of the reservoir even if it does not require the stored water for operational purposes.

GWRC does not disagree that it has a funding obligation, but has a fundamental issue with contributing Capex to an asset that it will not ultimately own or operate. Therefore, an asset transfer has been suggested.

GWRC has offered to purchase from WCC the pipe that provides bulk water to this proposed reservoir. This fits with a best practice model whereby the bulk water from the source to a terminal reservoir is the responsibility of the bulk water provider. WCC and GWRC have agreed to this concept and that the bulk water pipeline for Thorndon to the proposed new reservoir should be owned by and the responsibility of GWRC. However there are other pipes in the network that GWRC do not wish to retain ownership of and these negotiations are not yet resolved.

6. Conclusion

A large new reservoir is proposed in Prince of Wales Park to provide emergency water to the Hospital and to meet the Council's future water needs. A previous funding agreement was not successful, resulting in a potential funding shortfall of \$8.1M. A number of options to meet this shortfall are being pursued, including potentially increasing water charges to the Hospital. Officers recommend that no construction commences until these funding arrangements are finalised.

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Supporting Information

1) Strategic Fit / Strategic Outcome

The policy supports the outcome to protect Wellington's long term environmental health through well planned and well maintained infrastructure.

2) LTCCP/Annual Plan reference and long term financial impact

The project is contained in the Council Projects CX336 "Water Pumping Station and Reservoir Upgrades" and CX326 "Water Reticulation Upgrades" for Council's contribution to the work.

3) Treaty of Waitangi considerations

The reservoir is currently planned to be located on Town Belt. The Port Nicholson Block Settlement Trust is aware of the proposal and has no objection.

4) Decision-Making

This is not a significant decision. The report sets out the potential alternative sources of funding but no extra funding from WCC is being requested.

5) Consultation

a) General Consultation

Numerous discussions have been held with officers at both CCDHB and GWRC.

When the resource consent is submitted and construction commences the necessary consultation will be carried out at each stage.

b) Consultation with Maori

The Port Nicholson Block Settlement Trust has been approached and considers the proposal is unlikely to disturb any areas of cultural significance and the reservoir can be effectively buried into the landscape. They note that a more detailed investigation of the site would be done in a Cultural Impact report as part of the resource consent process.

6) Legal Implications

Officers have obtained preliminary legal advice from DLA Phillips Fox. Additional advice will be required if further consideration takes place of the option to increase the metered water charge for water supplied to the Hospital.

7) Consistency with existing policy

This report only recommends measures which are consistent with existing WCC policy.