

HUTT CITY COUNCIL

**KOMITI ITI MAHERE Ā-NGAHURUTANGA / MAHERE Ā-TAU
LONG TERM PLAN/ANNUAL PLAN SUBCOMMITTEE**

Meeting to be held in the Council Chambers, 2nd Floor, 30 Laings Road, Lower Hutt on
Tuesday 20 February 2024 commencing at 9:00 am.

SUPPLEMENTARY ORDER PAPER

PUBLIC BUSINESS

**5. RECOMMENDATIONS TO TE KAUNIHERA O TE AWA KAIRANGI | COUNCIL -
20 February 2024**

5b)a) Investment Required to Eliminate Water Leak Backlog

Memorandum dated 15 February 2024 by the Strategic Advisor 3

CHAIR'S RECOMMENDATION:

“That the Subcommittee recommends that Council:

- (1) receives and notes the information contained in the memorandum;
- (2) agrees to an investment of \$2.8m to clear the current backlog of leaks in Lower Hutt by the end of 2024. This would be to a level at which Wellington Water Limited is able to respond within the 20-day target for lower-level leaks as set out in their Key Performance Indicators;
- (3) agrees to include in the Draft Long Term Plan an additional \$2.8M in OPEX. This would be funded through an additional 1% in rates for the 24/25 financial year, and a 0.9% increase in the 25/26 financial year, noting there would be an offsetting reduction of funding in 26/27;
- (4) asks that, in addition to its current resourcing and structure, Wellington Water Limited explores using plumbing professionals from within the region to meet this target; and
- (5) notes that this budget and approach are designed to mitigate the risk of an acute shortage next summer and more generally in the short term. This is in addition to the medium and long term solutions proposed in Council’s draft Long Term Plan of a continued uplift in renewals of pipe and the installation of water meters.

5b)b) Draft Long Term Plan 2024-2034 - Further information on the rating impact for Three Waters capital investment

Memorandum dated 16 February 2024 by the Manager Financial Strategy and Planning 5

CHAIR'S RECOMMENDATION:

“That the recommendation contained in the memorandum be endorsed.”

Kate Glanville
SENIOR DEMOCRACY ADVISOR



TO: Chair and Members
Long Term Plan/Annual Plan Subcommittee

FROM: Bruce Hodgins

DATE: 15 February 2024

SUBJECT: INVESTMENT REQUIRED TO ELIMINATE WATER LEAK
BACKLOG

Purpose of Memorandum

1. Following a request from Mayor Barry to Wellington Water Limited (WWL), this memorandum provides the Subcommittee with additional advice on the funding required to eliminate the backlog of water leaks.

Recommendation

That the Subcommittee:

- (1) receives and notes the information in this memorandum; and
- (2) provides direction to officers.

Background

2. In the report “Three Waters Further Advice for 2024-2034 Long Term Plan”, WWL noted a range of risks around the OPEX investment of \$35M included in budgets, including risks around leaks and the ability to address the backlog within this budget.
3. The operating budget for reactive maintenance for water leaks in year 1 of the 2024-2034 draft Long Term Plan is currently set at \$6M. WWL advises that this level of funding, while being \$1.5M more than the original budget for the current financial year, is likely to only maintain the backlog of work at the current level. (Note that Council gave WWL direction late last year to increase investment in reducing the leaks as soon as possible with an additional \$1.5M OPEX funding, \$1M of which will be offset through a reduction in spending or savings within the water budget).
4. WWL has advised that a further \$2.8M is estimated to be required in the 2024-25 financial year to eliminate the backlog of leaks. This would be to a level at which it will be able to respond within its KPIs for lower priority leaks, being 20 working days. It is anticipated that most of the backlog would be eliminated by 31 December 2024.
5. WWL notes that this advice is based on the current backlog not increasing and that the risk profile of the category of leak does not change. For instance, if the Wellington Region experienced a moderate or larger sized earthquake, the effect on the aged water network is likely to change the number and category of leaks.

6. WWL also caveats the advice on having the time to gear up for additional trained resources to increase workload capacity.

Discussion

7. While investment in renewals over time is the most cost-effective way of resolving the issue, the only practical way for Council to help avert water shortages over the next few summers is to get on top of the leaks backlog.
8. The backlog in this context is anything greater than around 280 leaks which is the number that can be addressed within the 20-day target levels for lower-level leaks as set out in the KPIs.
9. As at 31 January 2024, the OPEX dashboard reporting from WWL indicates that the additional \$1.5M this financial year for fixing leaks has not yet been drawn on. WWL advises that with December 2023 and January 2024, public holidays and planned staff leave, the planned increase in resourcing the leak management programme has only just commenced.
10. If Council indicates now that an additional investment in fixing water leaks is proposed for the draft LTP, WWL will have sufficient time to gear up resources to deliver the work in the first half of the 2024/25 financial year.
11. The funding implication of the proposed additional OPEX is as follows:

Detail	2024-25 \$'M
Current Draft LTP 2024-34 budget	35.047
Proposed revised Draft LTP 2024-34 budget	37.847
Variance	2.800

12. In line with our Revenue and Financing Policy, this repair cost of \$2.8M is an operational cost and should be funded by rates and not from long term debt.
13. The indicative rates revenue increase impact of this additional OPEX budget of \$2.8M is 1.9% for 2024-25. This would require the proposed rates revenue to increase from 15.9% (after growth) up to 17.8% in 2024-25. There would be an offsetting reduction of funding in 2025-26 on the assumption that the funding was no longer required and the backlog of leaks was resolved. Alternatively, Council could make a decision to fund this one-off cost over two years (for example 1% in 2024/25 and 0.9% in 2025/26).

Appendices

There are no appendices for this memorandum.

Author: Bruce Hodgins, Strategic Advisor

Reviewed By: Jenny Livschitz, Group Chief Financial Officer

Reviewed By: Alison Geddes, Director Environment and Sustainability

Approved By: Jo Miller, Chief Executive



TO: Chair and Members
Long Term Plan/Annual Plan Subcommittee

FROM: Deepu Nunnian

DATE: 16 February 2024

SUBJECT: DRAFT LONG TERM PLAN 2024-2034 - FURTHER
INFORMATION ON THE RATING IMPACT FOR THREE
WATERS CAPITAL INVESTMENT

Purpose of Memorandum

1. To provide the Long Term Plan/Annual Plan Subcommittee with further updated information on the rates impact of the capex options proposed in the Consultation Document of the draft Long Term Plan.

Recommendation

That the Subcommittee receives and notes the updated information on the rates impact of the capex options proposed to be consulted on in the draft Long Term Plan process.

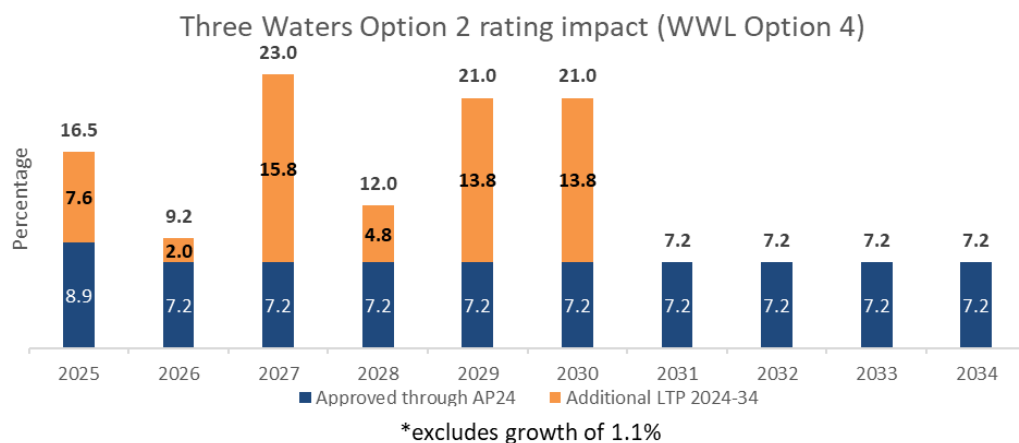
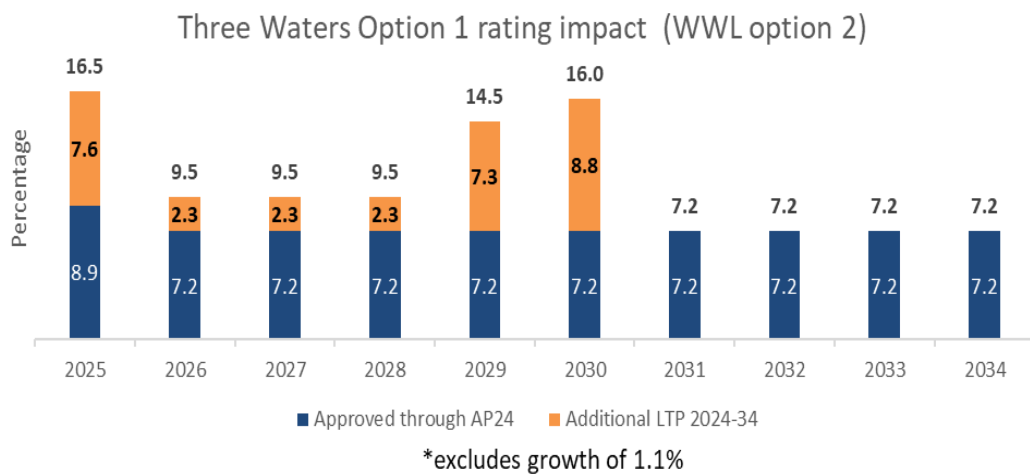
Background

Rating impact of the capital programme and options for consultation for the draft Long Term Plan 2024-34

2. In the report "Three Waters Further Advice for 2024-2034 Long Term Plan", Wellington Water Limited (WWL) note a range of risks around the capex programme included in budgets versus their recommended investment level.
3. The Consultation Document includes two options for water services investment:
 - Option 1 – Council preferred option included in the draft plan, being \$1.5 Billion capex investment over ten years.
 - Option 2 – WWL recommended an investment level of \$2.5 Billion capex investment over 10 years. This option is not the preferred option by Council. Through the decision-making processes of the draft plan, Council has agreed that this option is unaffordable to be funded by ratepayers alone without central government support or reform.

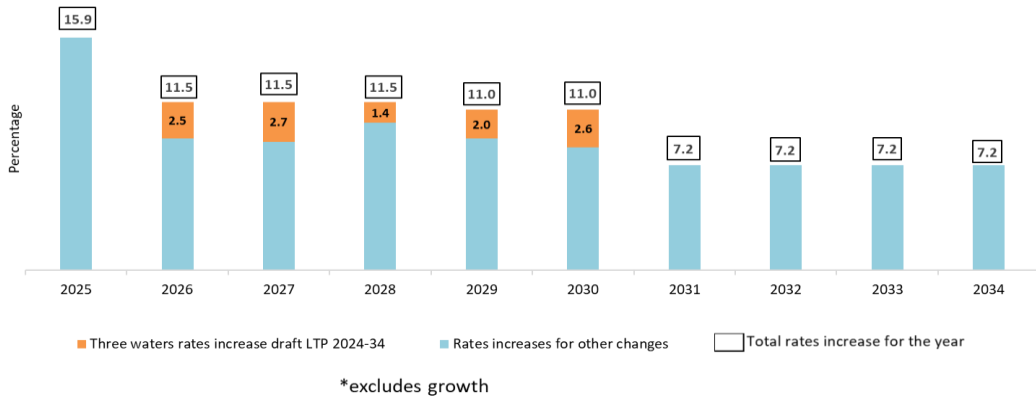
(Note these numbers have been adjusted by the BERL inflation adjustors, whilst WWL numbers are presented as uninflated numbers.)

4. A previous report to the Subcommittee on 27 November 2023, "Three Waters Capital Investment options for the Draft Long Term Plan 2024-2034", included detailed advice around the rating impacts associated with the Three Waters capital investment options.
5. The two graphs that follow are extracted from that report. These two options are the ones that were selected by Council for inclusion in the draft Consultation Document. This was early indicative information and did not include some later decisions to bring forward a few key projects. All savings proposals had also not been applied to these budgets at this point. It also did not reflect any smoothing of the rates revenue increases, which has subsequently been applied.

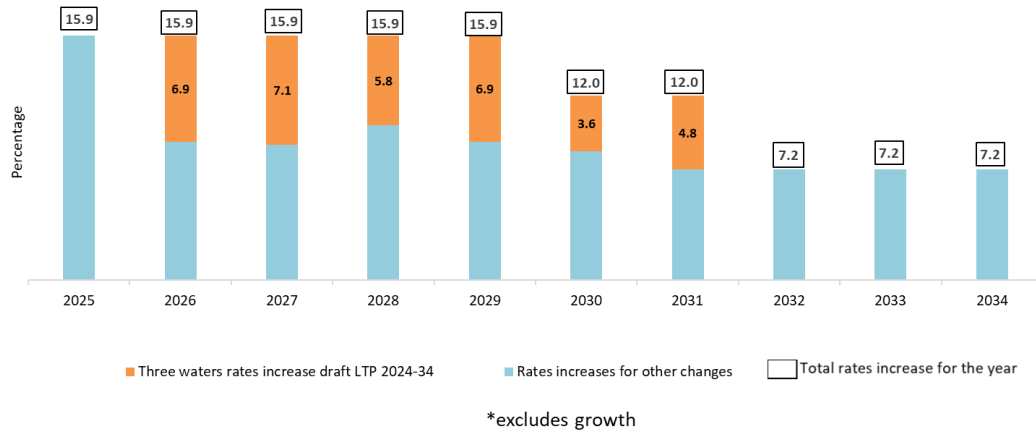


6. The graphs below present the latest rating impact per year of the Three Waters capex options, with Option 1 being the one included in the proposed draft LTP budgets and option 2 being the higher investment per WWL advice being consulted on. These include some smoothing applied to the rates increases.

Three Waters Option 1 rating impact



Three Waters Option 2 rating impact



7. The difference in rates revenue increases between Option 1 and Option 2 is an additional 4% per year on average over the period 2026-2031. It is important to note that the rates revenue increases in years 2025/26 to 2028/29 are 15.9% per annum (after growth). The content in the consultation document references the increases in option 2 being unaffordable for ratepayers and that central government support or reform is required.

Appendices

There are no appendices for this memorandum.

Author: Deepu Nunnian
 Manager Financial Strategy and Planning

Reviewed By: Jenny Livschitz
 Group Chief Financial Officer

Approved By: Jo Miller
 Chief Executive