



## **SOUTH WAIRARAPA DISTRICT COUNCIL MEETING Agenda 16 March 2022**

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### **NOTICE OF MEETING**

Under the COVID-19 Protection Framework Red traffic light setting this meeting will be held via video conference starting at 3.00pm. All members participating via video conference will count for the purpose of the meeting quorum in accordance with clause 25B of Schedule 7 to the Local Government Act 2002. This meeting will be live-streamed and will be available to view on our [YouTube channel](#).

#### **SWDC Affirmation**

**We pledge that we will faithfully and impartially use our skill, wisdom and judgement throughout discussions and deliberations ahead of us today in order to make responsible and appropriate decisions for the benefit of the South Wairarapa district at large.**

**We commit individually and as a Council to the principles of integrity and respect, and to upholding the vision and values we have adopted in our Long Term Plan strategic document in order to energise, unify and enrich our district.**

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### **Open Section**

- A1.** Apologies
- A2.** Conflicts of interest
- A3.** Acknowledgements and tributes
- A4.** Public participation  
*As per standing order 14.17 no debate or decisions will be made at the meeting on issues raised during the forum unless related to items already on the agenda.*
- A5.** Actions from public participation
- A6.** Extraordinary business

### **B Decision Reports from Chief Executive and Staff**

- B1.** Use of Additional Fiscal Stimulus for Wellington Water Limited OPEX Budget Report Pages 1-6

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**AGENDA ITEM B1**

**USE OF ADDITIONAL FISCAL STIMULUS FOR WELLINGTON  
WATER LIMITED OPEX BUDGET**

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**Purpose of Report**

To update Councillors on the forecast over expenditure in the water operations budget and the proposed process to manage.

**Recommendations**

Officers recommend that the Council:

1. *Receive the Use of Additional Fiscal Stimulus for Wellington Water Limited OPEX Budget Report.*
2. *Notes unconstrained 3 water OPEX costs are forecasted to be \$1.1M overspent in FY 2021/22.*
3. *Approves that \$1M fiscal stimulus CAPEX be reprioritised to the SWDC OPEX budget to meet the forecast overspend.*
4. *Notes that this will need to be replaced with additional CAPEX funding of \$1M.*

**1. Executive Summary**

Wellington Water has advised a \$1.1M overspend in the water operation budget is forecast at year end. This paper seeks approval to reprioritise \$1M of fiscal stimulus CAPEX to our OPEX budget to meet a forecast overspend of up to \$1.1M in FY 2021/22.

**2. Background**

Council remains committed to investing strongly in three water services. Council has benefited from the Governments Fiscal Stimulus package and funds have been allocated to a programme of work including maintenance workstreams and we are on track to deliver this programme. Details of the stimulus projects is attached in Appendix one.

Delivery of three water services across New Zealand is increasingly difficult due to labour shortages, inflationary pressures and the poor condition of our networks. It is an uncertain environment, so we need to be agile to manage risks.

## 2.1 Current Budgets and Forecasts

The current 21/22 opex budgets are:

Long Term Plan	Fiscal Stimulus
\$2.836M	\$60K

Wellington Water Limited (WWL) carry out first principles reviews of forecasts against budgets every quarter. They completed a Quarter 2 review which indicated that if we carry on with the current level of activity in the work programme we would be \$1.0M over the LTP budget. Officers have been working with Wellington Water to provide additional clarity and ensure confidence in the forecast projections. The forecast over expenditure has now been updated to \$1.1M at the end of February (this includes costs for the Tauherenikau pipe river crossing and response to Cyclone Dovi).

The reasons for the forecasted overspend are:

- a) unplanned “Reactive” maintenance to repair networks, including several large incidents. Just under \$200,000 had been spent at the end of Q2 on emergency incidents including \$120,000 on wastewater mains overflows in Featherston in August 2021. Recent incidents include the Tauherenikau pipe river crossing and response to Cyclone Dovi.
- b) steadily increasing cost structure due to inflation, labour shortages, complexity of jobs and increasing customer expectations;
- c) Treatment plant operations, to meet minimum health and safety and compliance requirements for water and wastewater treatment;
- d) Planning and compliance, to provide for growth planning and infrastructure development, and to meet minimum compliance monitoring requirements.

## 3. Discussion

Officers have been working with Wellington Water to identify options to deal with the projected Opex \$1.1M overspend including:

- a) Reducing the service offering to the community (major impact).
- b) Reprioritise a portion of the committed fiscal stimulus funding to free up \$1M for Opex. This requires backfilling the committed fiscal stimulus funding with additional council capex funding which results in the equivalent funds being available for Opex. (The fiscal stimulus has no rules between Opex and Capex). This would meet the forecast over expenditure and the service offering would remain the same. This would require Wellington Water to work within the new funding envelope to avoid any additional over expenditure.

Option a) - a reduced service offering - is not recommended. We are recommending Option b) as it is a balanced solution and sets us up well for 22/23 and 23/24 financial years where costs will continue to be very high (note: council is eligible to receive ‘no worse off’ funding during 22/23 and 23/24 which it could use as an option to meet the expected increased costs over LTP funding).

### 3.1 Financial Considerations

Officers have been working with Wellington Water to identify options to address the projected Opex \$1.1M operational overspend.

Officers have considered options available. The table below discusses the impacts of the two options:

- To fund the operating overspend through Ratepayers Equity, or
- To utilise the Stimulus and reprioritise the programme of work.

	<p><b>1. Operating Overspend Option</b> Continue with the current programme &amp; levels of service and leave the overspend in the normal water budget. The only way to fund an operating overspend in Water is for the deficit to come from Ratepayers' Equity at the end of the year, which affects all ratepayers, not just those paying water rates.</p>	<p><b>2. Capex &amp; Opex Stimulus Swap Option</b> Move the \$1million that's been spent on capital renewals and projects under the stimulus funding into our normal capital programme. Then move the overspent operating costs into the stimulus funded programme. This would result in the overspend being in our normal capital programme, which has more funding options, all of which only affect those paying water rates.</p>
<b>Cash flow impact</b>	Cashflow would be reduced by the total overspend Working Capital ratio would reduce from 2.9 to 2.7	We would need to source the payment to WWL from cash flow. Working Capital ratio would reduce from 2.9 to 2.7
<b>Interest income impact</b>	Cash would be reduced by \$1m. Interest income would be approximately \$14k less.	Cash would be reduced by \$1m. Interest income would be approximately \$14k less.
<b>Funding options</b>	Operating deficits are always funded from Ratepayers' Equity, which affects all ratepayers.	<p>Capital overspends can be funded from:</p> <p><b>2a. Reserves.</b> The appropriate reserve would be the depreciation reserve (water) which had an opening balance of \$4.8M at 1<sup>st</sup> July 2021. Committing and extra \$1M from this Reserve would require careful management. The water part of this reserve has been built up via water rates only.</p> <p><b>2b. Debt.</b> Interest rates are currently still at reasonable rates (3.6%), and the principal &amp; interest payments would be collected via water rates only. Annual principal and interest cost would be approx. \$76K</p>
<b>Equity including reserves impact</b>	Ratepayers' equity would reduce by \$1m.	<p>Depreciation reserve would decrease by \$1m.</p> <p>No immediate impact on equity or reserves.</p>

#### **4. Summary and Recommendation**

A Wellington Water review carried out at the end of February forecast Water Opex costs to exceed the LTP budget by \$1.1M at year end (including the Tauherenikau River Crossing and response to Cyclone Dovi).

We have worked with WWL to identify options to deal with the projected Opex \$1.1M overspend to ensure minimal impact on the community. Reducing service levels is not recommended at this stage.

We recommend that the forecast over expenditure is funded from the fiscal stimulus fund. The \$1M funded from the fiscal stimulus fund requires approval from Crown Infrastructure Services with indications this would be forthcoming.

It is recommended council approves the reprioritisation of fiscal stimulus capex thereby freeing up \$1M of fiscal stimulus to meet the forecast overspend.

#### **5. Appendices**

Appendix 1 – Wellington Water Ltd Summary of Fiscal Stimulus Programme

Contact Officer: Gary O’Meara, Water Consultant  
Stefan Corbett, Group Manager Partnerships and Operations  
Katrina Neems, General Manager Finance

Reviewed By: Harry Wilson, Chief Executive Officer

# **Appendix 1 – Wellington Water Ltd Summary of Fiscal Stimulus Programme**

## Overall Programme Summary:

The deadline date for the spend of the stimulus funding is 30 June 2022. We are still aiming to get projects complete in advance of that date, as there will be absolutely no extension beyond this date, and funding and expenditure should be finalised within the current financial year as much as possible. We will be closely managing budgets as they get close to being expended, and some funds will move between workstreams to ensure that we make maximum use of the available funding.

The quarterly report to DIA was submitted on 28 January. We will be sending funding requests out shortly to be signed by councils and DIA.

Project	Commentary	H,S,Q,E	Stakeholder	Risk	Finance	Prog.	Rating
1. Capital renewals	The construction of these watermain renewals in Fox Street in Featherston commenced as scheduled on 13 September 2021. To date 302m of 630DPE watermain and 421m of 1800DPE watermain has been completed and this has now been connected to the existing network. During regular QA some defects in the construction have been identified and the team is working with the contractor to remedy these, this is expected to be remedied by end of February/early March.	🟡	🟢	🟢	🟡	🟡	🟢
2. Asset conditions assessment	Pipe inspections: Inspection of the VHCA pressure water mains within SWDC were delayed by the impacts of COVID and have been scheduled to be complete in November 2021.  Utilities inspections. The above ground reservoir inspections and assessments are complete. The reservoir conditions are generally satisfactory to poor from a structural perspective. Vulnerabilities to potential contamination were found that need to be addressed via maintenance works and these are being placed in the forward works programme as a matter of priority subject to funding availability, refer also the reference to Boar Bush below.  WTP Inspections: All WTP inspections are 85% complete and work is underway planning to complete the remaining 15% of the WTP assets. The SWDC water treatment plants have been assessed to be in a moderate to poor condition.	🟢	🟢	🟡	🟢	🟡	🟡
3. Maintenance	The council's budget for Stimulus-funded Maintenance has been expended.	🟢	🟢	🟢	🟡	🟡	🟡
4. Asset management systems and processes and 5. Data and technology systems	The Business Improvement Programme has harmonised its initiatives into four core streams; Asset Management, Ready for Regulation, Data & Digital and Other (for anything that does not fit under the former.  • Asset Management Stream: Certus Detailed design work programme is underway. Defining the detailed requirements to derive a strategy to achieve ISO certification and Renewals is underway with the busines and technical teams. In addition, the Wellington Water Asset Management Information system (Maximo) development environment will be provisioned (by Certus) over the December period to aid in prototyping the Workflows, Processes and Data.  • Ready for Regulation & Risk/Assurance Stream: Key planning for the stream under the direction of the new Director or Regulation - Charles Barker. Integrated planning between the RFR initiatives and other streams is underway. Director of Regulation (with support from PWC) is finalising plans for the stream in December. This stream will also monitor the Backflow and WTP SOPs as they are direct interfaces into the regulatory readiness plan.  • Data & Digital Stream: The Data & Digital stream has prioritised four streams of work in their roadmap: Governance and Architecture, Enabling Processes & Practices, Core Capabilities and Skills & Competencies to address the critical risks in the Data and Digital domain. Priority is the remediation of the Operational technology risk (cyber), defining what enduring cyber capability WWL needs for the future.	🟢	🟢	🟡	🟡	🟡	🟡
6. Leakage management	6.3 Proof-of-concept trial for smart household water meters to identify network or private leaks: Installation of meters and onboarding of customers is underway. There was a Greytown community engagement day on 28th November. The trial has been extended so that we continue to received data throughout 2022. The installation programme is going well and have installed 70 meters by the end of Jan	🟢	🟡	🟢	🟢	🟡	🟡
7. Water safety priorities	7.1 Reservoir Repairs – no reservoir roof maintenance is planned in SWDC 7.3 All 15 sensors have now arrived. The first 5 devices will be installed at five locations within this month. 7.4 Internal Audit: The audit work is progressing slower than planned due to the range of operational and strategic priorities the Network Management Group management team, including its frontline, is currently under. This includes the group restructure, significant plant upgrades and change initiatives related to regulatory reform. An audit at Waterloo & Gear Island WTPs and an investigation into an incident at the Waiohine WTP has been undertaken. The timeframe to complete has been extended to the end of June. The Process Writing work on Standard Operating Procedures and other documents is progressing a little slower than planned due to similar factors as above but has now picked up and should be complete in April. 7.5 Chlorine Trailer – the design has been completed and the trailer is scheduled to be manufactured by March 2022. All apparatus and equipment have been delivered, it is currently being assembled and installed within a portable trailer. The control system software is currently being designed that will be controlling the automated equipment with the chlorine trailer. The project is currently running to schedule. 7.7 Chlorine analyser for the Pirinoa WTP: work was largely completed in December to design and deliver a chlorine analyser, with another fit out scheduled for January 25th.	🟢	🟢	🟢	🟢	🟢	🟢
8. Capital projects	Boar Bush reservoir: The design of the decommissioning of the contact tank and reconfiguration of the pipework is complete, and awaiting for a revised quotation from a civil contractor; physical works expected to start in March	🟢	🟡	🟢	🟡	🟡	🟢
9. Regional Water Reform Project aka Preparation for reform (Note: this is led by councils, not by WWL)	The project to support the 9 Wellington Councils through the reforms programme had significant activity following Government announcements on 27 October that the reforms are proceeding, to ensure that councils and stakeholders understand the implications of these and the process from here. Review and analysis of this information, including workshops and council reports has been a major focus, along with trying to align with other councils in the Entity C area to support consistent information to elected members and senior staff. This included analysis of the impact on local government of the water reforms, and transition to the new water entities and systems. Collateral has been developed to help explain the reforms process, key issues and potential next steps including workshop packs, public information and sections of council reports. A joint submission to MBIE was prepared on the proposed economic regulation model on behalf of the 9 Wellington Councils and WWL.  Numerous meetings have been held with Wellington region councils, councils across the entity C area, LGNZ and DIA. The Project Director has also briefed the Wellington Water Committee, the Mayoral Forum and CE Forum. The Project has continued to build relationships with DIA and the water reform leads from other regions. These help to share insights and approaches. In addition, relationships have been further developed across entity C area including the Top of the South Island and Manawatu areas.  Upcoming work is likely to include: • Advice and updates to all nine Wellington councils and the Wellington Water Committee • Confirmation of any public / stakeholder engagement processes - including alignment of approach across the region • Preparation for the release of legislation • Preparation for due diligence processes - debt identification, land transfer / assets, implications for the CCO • Engagement with DIA, the National Transition Unit and the proposed working groups • Iwi / Māori engagement • Wider engagement across entity C • Change management • Policy advice on the planning and governance structures to enable local voice	🟢	🟢	🟢	🟢	🟢	🟢