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Wholesale water capital works programme 2007-2008 half year review

1. Purpose

The purpose of this report is to present a summary of the financial position of the projects making up the 2007/08 Wholesale Water Capital Works Programme as at 31 December 2007.

2. Significance of the decision

The matters in this report do not trigger the significance policy of the Council or otherwise trigger section 76(3)(b) of the *Local Government Act 2002*.

3. Summary of capital works programme outcome

The forecast expenditure for 2007/08 Annual Plan projects is **\$3,945,000** against a budget of **\$4,837,000**, a difference of approximately **\$892,000**.

The main reasons for spending less than the budget are:

- (1) Deferral of the project to construct an emergency water supply pumping station in Whitehead Road for the Karori zone because Capacity (Wellington Water Management) (on behalf of Wellington City Council (WCC)) prefers an alternative method which has since been evaluated.
- (2) Delay in commencing the proposed new Central Business District (CBD) reservoir because of a lack of funding commitment from Capital and Coast District Health Board (C&CDHB).
- (3) Deferral of detailed investigation into a new water source pending completion of the consultation process.
- (4) Equipment replacement budgets for the water treatment plants are forecast to be significantly underspent. These budget items are in part a contingency provision to fund the replacement of equipment that fails. So far this year there have been no significant equipment failures.

4. Underspending expected in 2007/08

4.1 Summary

Underspending totalling approximately **\$1,148,000** is forecast within the 2007/08 capital works programme for a variety of reasons, as described below. A detailed list of projects where under spending is expected is contained in Attachment 1.

4.2 Reduced scope

The scope of a number of projects has been reduced, resulting in a saving of approximately \$475,000.

Approximately 50 percent of this saving is associated with budgets allocated to equipment replacement/refurbishment at the treatment plants, which were set at 2 percent of the equipment value. However, the need to replace equipment this year has been less than anticipated.

In addition, more detailed analysis has shown that upgrading the distribution system to facilitate higher flow rates in the future will be less costly than anticipated. The scope of the Te Marua Pumping Station hydro-generation investigations, renewal of the telemetry system and hazard protection work has also been reduced.

4.3 Deferral

4.3.1 Proposed Terminal Reservoir in Prince of Wales Park (CBD Reservoir)

This project has been further delayed by the lack of a funding commitment by Capital and Coast District Health Board to this joint with Greater Wellington Regional Council (GWRC) and WCC. It seems unlikely that more than nominal expenditure will occur this year. The option of a joint WCC/GWRC project will be considered for next financial year if this commitment is not confirmed by the end of March.

4.3.2 Detailed investigations of a new water source

At the time the 2007/08 budget was prepared it was expected that some preliminary design work on a preferred option would be possible before June 2008. However, delays in completing investigation work and the complexity of the consultation processes will limit what can be achieved. Further investigation of the proposal to increase storage in the Stuart Macaskill Lakes is proposed.

4.4 Projects delayed

Preliminary design of a proposal to install a pumping station in Whitehead Road to provide an emergency supply to Karori has been completed. However, Capacity has suggested an alternative approach that would provide a second point of supply without a pumping station. This proposal has also been studied and a report on the alternatives prepared for discussion with Capacity. The resulting delays mean that it is unlikely that the

project will proceed past the design phase this financial year. It is envisaged that the balance of the allocated funding will be transferred to 2008/09.

4.5 **Direct cost savings**

Direct cost savings on a number of projects are forecast to result in savings of \$301,000. A list of these projects is contained in attachment 1.

5. **Projects where additional costs are expected**

5.1 **Summary**

The forecast of additional costs totals **\$256,000**. There are a variety of reasons for the expected additional costs as set out below. A detailed list of projects where additional costs are expected is contained in Attachment 1.

5.2 **Projects where the scope has expanded**

5.2.1 Valve replacements

An annual budget is provided to replace valves that fail or require replacement for other reasons. This year expenditure on these replacements is forecast to be \$10,000 in excess of the budget.

5.2.2 Meter replacement

An annual budget is provided to fund the replacement of meters that fail. Early in 2007 the Thorndon meter failed. This is a large meter located at some depth in Thorndon Quay, which is heavily trafficked and congested with other services. The opportunity was taken to build a structure around the meter so that any future meter replacement will be straightforward. The cost of this replacement was approximately \$100,000, with about half being spent in 2007/08, significantly exceeding the meter replacement budget.

5.2.3 Control system upgrade

The water supply system relies heavily on computerised control systems, and an annual budget is held for upgrades and replacements. A high level of replacements and upgrades has been required this year because of failures and obsolescence, and the budget is forecast to be exceeded.

5.3 **Projects where additional costs are expected**

5.3.1 Te Marua Water Treatment Plant replacement of control system

This is a major project running over three years. Despite careful and thorough planning, we have since become aware that information about the plant and its control logic is incomplete or inaccurate and that replacement of some items not previously included will now be necessary. Currently overexpenditure in 2007/08 is forecast to be \$20,000 but it is likely that this will increase further as more system information is obtained.

5.3.2 Completion of 2006/07 projects

It is difficult to perfectly match the programming of all projects to the financial

year and inevitably there is a need to fund the completion of a few projects from the previous financial year. This year this funding requirement is forecast to be \$67,000.

6. Summary of forecast savings and additional expenditure

Summary of projected savings and additional expenditure by asset type

Category	Budget \$	Forecast \$	Variance %
Source projects	155,000	125,000	-19
Treatment plant projects	1,945,000	1,544,000	-21
Pipeline projects	420,000	340,000	-19
Pumping stations and reservoirs	387,000	70,000	-82
Monitoring and control projects	880,000	929,434	+6
Minor works, seismic protection and completion of 2006-2007 projects.	850,000	836,895	-1
New sources	200,000	100,000	-50
Total	4,837,000	3,945,329	- 18

7. Conclusion

Underspending of approximately \$1,148,000 is forecast for the capital works programme, principally through cost savings and reductions in scope.

Additional costs of approximately \$256,000 have been identified as a result of increased scope and increased costs

The net result is a forecast under spend of approximately \$892,000 in the 2007/08 wholesale water capital works programme.

8. Recommendations

That the Committee:

1. **Receives** the report.
2. **Notes** the forecast cost reduction of \$1,148,000 and total net underspend of \$892,000 in the capital works programme as detailed in Attachment 1.
3. **Approves** the increased expenditure on capital works programme projects of \$256,000 as detailed in Attachment 1.

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Attachment 1: 2007-2008 Capital Works Programme Details of Expected Changes