3 WATERS - DRAFT OPERATING AND CAPITAL EXPENDITURE BUDGETS 2026/27

Department: 3 Waters

EXECUTIVE SUMMARY

1 This report provides an overview of the draft operating and capital expenditure budgets for the Annual Plan 2026/27 for the 3 Waters Group. The following activities are provided for:

- Water Supply
- Wastewater
- Stormwater

2 The following draft budget schedules are provided:

a) A draft operating expenditure budget is shown at **Attachment A.**

b) A draft funding impact statement is shown at **Attachment B**.

c) A schedule of proposed fees and charges is shown at **Attachment C**.

d) A draft capital expenditure budget is shown at **Attachment D.**

3 This report asks the Council to adopt the draft operating and capital expenditure budgets for the purposes of developing the Annual Plan 2026/27.

RECOMMENDATIONS

That the Council:

a) **Adopts** for the purposes of developing the Annual Plan 2026/27:

i) The draft 2026/27 operating budget for the 3 Waters Group as shown/amended at Attachments A and B.

ii) The draft 2026/27 fees and charges schedules for the 3 Waters Group as shown/amended at Attachment C.

iii) The draft 2026/27 capital expenditure budget for the 3 Waters Group as shown/amended at Attachments D.

LOCAL WATER DONE WELL REFORM

4 As part of the government's water services reform programme, Local Water Done Well, the Council prepared a Water Services Delivery Plan (WSDP), which sets out how water services will

be delivered in a way that meets regulatory requirements. The DCC must give effect to the WSDP, and ensure that water services are delivered in a financially sustainable manner by 30 June 2028 at the latest.

5 The Local Government (Water Services) Act 2025 provides a comprehensive new planning and reporting framework for water services. This framework was designed for new water services delivery arrangements and to support and enable other aspects of the legislation, such as the objectives and financial principles that apply to water service providers (including financial ring-fencing requirements and economic regulation regime overseen by the Commerce Commission).

6 As part of the implementation plan in the WSDP, staff are currently working on a review of internal charging to ensure ringfencing requirements are met.

7 In anticipation of the new accountability framework, the draft 2026/27 operating and expenditure budgets for 3 Waters have been detailed in this report, separate from budget reports of non-water activities.

OPERATING BUDGET

8 To fully fund operating expenditure and achieve a balanced budget (excluding development contribution revenue and vested assets), consecutive rates increases of 15% in the 2025/26 to 2027/28 years were included for 3 Waters in the 9 year plan 2025-34 (9YP) and Water Services Delivery Plan (WSDP). The 3 Waters operating budget is projected to be fully funded by year 3 (2027/28).

9 The 2026/27 draft operating budget is $133.917 million. This is an increase of $6.320 million (5.0%) from the 2025/26 year, with the primary drivers being increases in depreciation ($4.608 million) and interest costs ($2.044 million). The following sections explain the revenue and expenditure changes from the previous year.

Revenue

Rates

10 Rates revenue increased from $97.896 million to $114.270 million, an increase of $16.374 million (16.7%). The 9YP and WDSP projected a 15% increase, however, due to the increase in depreciation based on the asset valuation as at 30 June 2025, a further 1.7% increase ($1.641 million) has been made. This represents around half of the additional depreciation funding required to achieve a balanced budget by the 2027/28 financial year.

11 As discussed in paragraph 8, the 3 Waters operating budget was projected to be fully funded by year 3 (2027/28). The net deficit in 2025/26 (excluding development contributions, vested assets and external subsidies for capital projects) was $18.927 million. The net deficit in this draft budget is $9.478 million which has reduced by $9.449 million.

External revenue

12 External revenue increased from $8.748 million to $9.765 million, an increase of $1.017 million (11.6%). This is mainly attributed to user charges (fees and charges), which include a 15% increase in water sales (commercial water usage), representing $977k of the increase. Charges for trade waste, backflow prevention and tankered waste have all increased to account for increases in costs.

Internal revenue

13 Internal revenue decreased from $1.988 million to $350k, a decrease of $1.638 million (82.4%). This is due to reduced Better Off Funding, as projects are in the final year of funding, and is aligned to the programme.

14 The remaining $350k of Better Off Funding relates to work on growth, infrastructure assessments and Local Water Done Well planning and ringfencing.

Expenditure

Personnel costs

15 Personnel costs have increased from $11.784 million to $12.390 million, an increase of $606k (5.1%). This reflects a general salary increase along with an additional $250k provision for the implementation of Local Water Done Well, to respond to new economic regulation and reporting requirements.

Operations and maintenance costs

16 Operations and maintenance costs have decreased from $17.639 million to $17.522 million, a decrease of by $117k (0.7%), with changes outlined below:

a) The network maintenance contract overhead costs reduce by $131k (9.1%) due to increased capital project spend. This means that more of the contract overheads can be attributed to capital projects.

b) Plant maintenance and operational costs have decreased by $126k from $8.605 million to $8.479 million.

i) Maintenance costs have reduced by $645k, reflecting actual costs of reactive maintenance following the recent increased planned maintenance programme,

ii) However, offsetting the above reduction are increases in sludge removal of $150k (60.1%) and chemical/laboratory costs of $369k (8.8%). These reductions are due to the current wastewater treatment plant incinerator processes and chemical contract price increases respectively.

c) Dam safety contracted services have increased by $54k (43.3%) relating to required reviews and water quality investigations.

d) An allowance of $100k has been provided for the demolition of dilapidated and redundant infrastructure.

Occupancy costs

17 Occupancy costs have increased from $15.471 million to $15.608 million, an increase of $137k (0.9%), due to:

a) Rates expenditure increased by $234k (3.0%). Please note that this assumes the introduction of a new rating differential for water utility general rates. This proposed change is outlined in the Rating Method report included on this agenda. If this option isn't approved by Council, rates expenditure will need to be increased by $5.291 million.

b) Electricity and water charges have increased by $308k (7.8%) resulting from increases to unit charges.

c) Insurance costs have decreased by $367k (12.8%) reflecting a softening in the insurance market relating to the underground pipe network.

Consumables and general costs

18 Consumables and general costs have decreased from $3.938 million to $2.815 million, a decrease of $1.123 million (28.5%), primarily due to:

a) Consultancy costs under the Better Off Funding programme have decreased by $1.305 million (81.5%) from $1.601 million to $0.296 million, due to the completion of approved projects and available funding. The funding programme will finish on 30 June 2027.

b) Software licence fees have an increase of $148k (42.8%) reflecting additional connection and reading costs for smart water meters.

Internal charges

19 Internal charges have increased from $5.337 million to $5.502 million, an increase of $165k (3.1%):

a) While there were savings in internal sludge disposal costs of $264k, this was offset by increases to landfill disposal fees of $168k which is due to the interplay between incinerator usage, the lime process and ash production at Tahuna Wastewater Treatment Plant.

b) Administrative charges increased by $192k, representing an increase to the corporate overhead charges which have moved in line with CPI and additional Finance costs to cover ring fencing requirements.

Depreciation costs

20 Depreciation has increased from $62.007 million to $66.615 million, an increase of $4.608 million (7.4%). This increase is driven by the 30 June 2025 valuation of the water network, increasing the value of the water network by $335.121 million.

21 The result of the increased value of the water network is more depreciation beyond what was projected in year 2 of the 9YP and the WSDP. As a result, depreciation expense is $3.702 million higher than forecast.

22 To ensure that the Council continues to work towards 3 Waters being fully funded by 2027/28 (year 3 of the 9YP), around half of the additional depreciation has been funded in these draft budgets, which has increased the rate increase for 3 Waters to 16.7%.

Interest costs

23 Interest has increased from $11.421 million to $13.465 million, an increase of $2.044 million (17.9%). This is mainly due to increased debt resulting from the capital programme and the change in interest rate.

FEES AND CHARGES

24 Fees and charges for 3 Waters increases are outlined below:

a) Central water scheme tariffs (commercial water usage) has increased by 15% or $0.02 for the supply of bulk raw water per cubic meter, and $0.38 for the supply of treated water per cubic meter to reflect increased costs of distributing and treating water. This increase aligns with increases to other water supply charges.

b) Tankered waste charges have been separated into 'septage waste', and 'food, oil & grease waste', with the latter increasing by 91.7% to better reflect actual costs for treatment and disposal.

c) City-wide unit rates for trade waste

I. Volume per cubic metre (-6%) -$0.01 decrease to reflect costs and anticipated volume.

II. BOD5 per kg (15.6%) $0.04 increase to reflect costs and anticipated volume.

III. NFR/TSS per kg (13.6%) $0.06 increase to reflect costs and anticipated volume.

d) All other fee increases are driven by increased costs and have been adjusted in alignment with the local government index increase (4.2%).

CAPITAL BUDGET

25 The 3 Waters draft 2026/27 capital expenditure budget is $92.711 million. The overall budget remains the same as year two of the 9YP and WSDP.

26 However, the draft budget has reprofiled some expenditure, reflecting the need to prioritise renewal of existing assets. These changes include:

- The draft renewals budget has increased from $62.057 million to $74.594 million, an increase of $12.537 million (20.2%).

- The draft new capital budget has reduced from $28.639 million to $15.509 million, a decrease of $13.130 million (45.8%).

- The draft growth budget has increased from $1.421 million to $2.014 million, an increase of $593k (41.7%).

27 Table 1 provides a summary of the changes to the draft 3 Waters capital expenditure budget for the 2026/27 year.

Capital Expenditure	2026/27 Annual Plan Draft Budget	Year 2 of 9YP and WSDP $'000s	Increase (Decrease) $'000s
Renewals supporting Growth	635	635	-
Renewals	73,959	61,422	12,537
Total Renewals	**74,594**	**62,057**	**12,537**
New Capital for Growth	2,014	1,421	593
New Capital	15,509	28,639	(13,130)
Total New Capital	**17,523**	**30,060**	**(12,537)**
Total 3 Waters Capital Expenditure	**92,117**	**92,117**	**-**

***Table 1**: Summary of 3 Waters 2026/27 draft capital expenditure*

28 Network renewal programmes are established and delivering efficiently, therefore these renewals are being accelerated, where possible, to help manage demand in future years.

29 There is a high degree of confidence that the overall capital budget for 2026/27 will be fully delivered, as the programme is managed as a body of work rather than a collection of isolated projects. While some individual projects may experience timing delays, this is not expected to affect overall expenditure, as activities will be re-sequenced as required. The scale and volume of work mean that shifts in project timing can be absorbed within the wider programme, ensuring the full budget is deployed.

30 Table 2 provides a summary of the draft capital expenditure programme for each of the three areas. Further explanation of the changes is then provided in each section below.

Activity Group	Capital Expenditure $'000s	2026/27 Annual Plan Draft Budget	Year 2 of 9YP and WSDP	Increase (Decrease)
Stormwater	Growth	-	-	-
	New Capital	1,975	2,175	(200)
	Renewal	5,159	5,810	(651)
	Stormwater Totals	**7,134**	**7,985**	**(851)**
Wastewater	Growth	814	814	-
	New Capital	6,595	11,431	(4,836)
	Renewal	25,945	20,477	5,468
	Wastewater Totals	**33,354**	**32,722**	**632**
Water Supply	Growth	1,200	607	593
	New Capital	6,939	15,033	(8,094)
	Renewal	43,490	35,770	7,720
	Water Supply Totals	**51,629**	**51,410**	**219**
	Grand Totals	**92,117**	**92,117**	**-**

***Table 2**: Summary of 3 Waters 2026/27 draft capital expenditure by activity*

Stormwater

31 The draft budget for Stormwater has decreased from $7.985 million to $7.134 million, a decrease of $851k (10.7%). This includes:

a) A decrease in renewals of $651k due to completion of the Mosgiel Stormwater Pumpstations and Network in the current year and a reduction in the extent of work required in the North East Valley Parks Area ($1.156 million), though these decreases were partially offset by an increase to the Kaikorai Valley Hills project of $1.489 million, due to the acceleration of delivery through long term renewals programmes.

b) A decrease in new capital of $200k due to completion of the Mosgiel Stormwater Upgrade in the current year ($625k) offset by network resilience and efficiency improvements ($625k) with minor timing changes on a number of other projects.

Wastewater

32 The draft budget for Wastewater has increased from $32.722 million to $33.354 million, an increase of $632k (1.9%). This includes:

a) An increase in renewals of $5.468 million (26.7%) from $20.477 million to $25.581 million due to increases in the Kaikorai Valley Hills budget ($2.981 million) and the Reactive Network budget, though these are partially offset by a reduction in the Programmed Network budget ($482k). These changes are due to the acceleration of delivery through long term renewals programmes.

b) A decrease in new capital of $4.836 million (42.3%) from $11.431 million to $6.595 million due to reductions in the Metro Wastewater Treatment Plant Resilience ($2.648 million) and the Musselburgh to Tahuna Link budget ($450k), where the anticipated extent of work required has reduced. Bioresources Facility ($500k) and Rural Wastewater schemes ($1.350 million) have reduced to re-phasing.

Water Supply

33 The draft budget for Water Supply has increased from $51.410 million to $51.629 million, an increase of $219k (0.4%). This includes:

a) An increase in renewals of $7.720 million (21.6%) from $35.770 million to $43.490 million due to the acceleration of Air Valve renewals ($300k) and Commercial Smartmeters ($1.855 million), which was previously accounted for in the Water Efficiency budget line, as well as acceleration of delivery through long term renewals programmes including the Kaikorai Valley Hills budget ($442k), North East Valley Parks Area budget ($841k), Port Chalmers Water Supply and Water Plant renewals ($5.551 million). The budget for Reactive Network Renewals ($343k) has also increased. These increases are partially offset by budget reductions due to delivery timing of Rotary Park Water Main, Toby Replacement, Water Network Renewals, and Minor Plant Renewals.

b) A decrease in new capital of $8.094 million (53.8%) from $15.033 million to $6.939 million due to reductions in Water Efficiency ($2.947 million) programme with the budget transferred to Commercial Smartmeters, Reactive Network Improvements ($400k), and Water Supply Resilience ($1.000 million). Plant Condition Assessment budget has decreased $4.051 million as a result of this work being completed within the renewals programme.

Signatories

Author:	John McAndrew - Head of 3 Waters
Authoriser:	David Ward - General Manager, 3 Waters, Property and Urban Development

Attachments

	Title	Page
A	2026/27 Draft Waters Operating Budget	
B	2026/27 Draft Waters Funding Impact Statement	
C	2026/27 Draft Waters Fees and Charges	
D	2026/27 Draft Waters Capital Expenditure Programme	

SUMMARY OF CONSIDERATIONS

Fit with purpose of Local Government

This decision enables democratic local decision making and action by, and on behalf of communities, and promotes the social, economic, environmental and cultural well-being of communities in the present and for the future.

Fit with strategic framework

	Contributes	Detracts	Not applicable
Social Wellbeing Strategy	✓	☐	☐
Economic Development Strategy	☐	☐	✓
Environment Strategy	✓	☐	☐
Arts and Culture Strategy	☐	☐	✓
3 Waters Strategy	✓	☐	☐
Future Development Strategy	☐	☐	✓
Integrated Transport Strategy	☐	☐	✓
Parks and Recreation Strategy	☐	☐	✓
Other strategic projects/policies/plans	✓	☐	☐

The 3 Waters Group activities primarily contribute to the objectives and priorities of the above strategies.

Māori Impact Statement

Council budgets impact broadly across all Dunedin communities, including Māori. The adoption of Te Taki Haruru – Māori Strategic Framework signals Council's commitment to mana whenua and to its obligations under the Treaty of Waitangi. Mana whenua and matāwaka will have the opportunity to engage in the Annual Plan 2026/27 consultation process.

Sustainability

The Annual Plan 2026/27 is not proposing any changes to that provided for in the 9 year plan 2025-34. Major issues and implications for sustainability are discussed in the Infrastructure Strategy and financial resilience is discussed in the Financial Strategy of the current 9 year plan 2025-34.

LTP/Annual Plan / Financial Strategy /Infrastructure Strategy

This report provides draft budgets for the 3 Waters Group for inclusion in the Annual Plan 2026/27.

Financial considerations

Financial considerations are detailed in the report.

Significance

The 9 year plan 2025-34 budgets were considered significant in terms of the Council's Significance and Engagement Policy, and were consulted on. Variations to those budgets are discussed in this report. The draft budgets will be included in the Annual Plan 2026/27 and will be consulted on.

Engagement – external

There has been no external engagement in developing the draft budgets for the 3 Waters Group.

Engagement - internal

Staff and managers from across Council have been involved in the development of the draft budgets.

SUMMARY OF CONSIDERATIONS
Risks: Legal / Health and Safety etc. There are no identified risks.
Conflict of Interest There are no known conflicts of interest.
Community Boards Community Boards will have an opportunity to engage in the Annual Plan 2026/27 consultation process.