

Memo

To: Seqwater
From: Frontier Economics
Date: 17 January 2022
Subject: **Updated cost escalation forecasts**



Introduction

Frontier Economics was asked by Seqwater to update the escalation rates used in Seqwater's bulk water draft pricing submission to the QCA for the 2022-26 regulatory period. The QCA's draft decision accepted all aspects of the escalation method proposed by Seqwater in its submission.¹ We have therefore updated the escalation rates using the same methodology as the Frontier Economics report *Cost escalation factors*.²

We were instructed to provide updated forecasts using data up to 31 October 2021. In some cases, the frequency of the published data did not allow us to update the forecasts to 31 October 2021. In those circumstances, we used the most recent data available up to 31 October 2021.

The latest available data for each cost category is outlined below.

Employee and contract labour expenses

- **Seqwater Enterprise Agreement 2019- 2023:** there has been no new enterprise agreement released since the publication of the draft report. As such, the updated escalators which use this data source have not changed.
- **Queensland Treasury Budget Strategy and Outlook:** the 2021-22 Queensland Treasury Budget Strategy and Outlook has been released since the publication of the draft report (tabled in State Parliament on Tuesday 15 June 2021). The updated escalators use the latest year of projections for the WPI published in this outlook.

¹ QCA (2021), Seqwater Bulk Water Price Review, Draft Report, November 2021

² Frontier Economics (2021), Cost escalation factors, A report for Seqwater, 25 June 2021



- **10-year average, based on ABS WPI for Queensland:** this data is reported on a financial year basis and has been updated since the publication of the draft report. As such, the updated escalators include data up to 30 June 2021.

Service delivery contractors – labour component

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Service delivery contractors – non-labour (other services) component

- **Market based inflation forecast (inflation swaps):** uses data up to 31 October 2021.
- **Inflation for FY2020 and FY2021:** taken from actual ABS inflation data.
- **Inflation for FY2022:** taken from RBA forecast in the August 2021 Statement of Monetary Policy.

Chemicals

- **Market based inflation forecast (inflation swaps):** uses data up to 31 October 2021.
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- **Inflation for FY2022:** taken from RBA forecast in the August 2021 Statement of Monetary Policy.

Other materials and services, including insurance

- **Market based inflation forecast (inflation swaps):** uses data up to 31 October 2021.
- **Inflation for FY2020 and FY2021:** taken from actual ABS inflation data.
- **Inflation for FY2022:** taken from RBA forecast in the August 2021 Statement of Monetary Policy.

Capital expenditure

- **Market based inflation forecast (inflation swaps):** uses data up to 31 October 2021.
- **Inflation for FY2020 and FY2021:** taken from actual ABS inflation data.
- **Inflation for FY2022:** taken from RBA forecast in the August 2021 Statement of Monetary Policy.

Key results

The updated escalation rates are presented in **Table 1**.

Table 1: Forecast escalators for the period 2019-20 to 2027-28

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Employee and contract labour expenses	3.00%	0.20%	4.44%	3.00%	2.50%	2.75%	2.36%	2.36%	2.36%
Service delivery contractors – labour component	3.00%	0.20%	4.44%	3.00%	2.50%	2.75%	2.36%	2.36%	2.36%
Service delivery contractors – non-labour (other services) component	-0.30%	3.80%	1.50%	2.10%	2.22%	2.26%	2.39%	2.41%	2.32%
Chemicals	-0.30%	3.80%	1.50%	2.10%	2.22%	2.26%	2.39%	2.41%	2.32%
Other materials and services, including insurance	-0.30%	3.80%	1.50%	2.10%	2.22%	2.26%	2.39%	2.41%	2.32%
Capital expenditure	-0.30%	3.80%	1.50%	2.10%	2.22%	2.26%	2.39%	2.41%	2.32%

Source: Frontier Economics



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