sunwater

Irrigation pricing proposal

1 July 2025 to 30 June 2029

Appendix C Cost escalation

Appendix C
Cost escalation

Methodology

In line with the regulatory framework set by the QCA, Sunwater applies expected cost escalation factors across major operating expenditure cost categories to inflate its regulated operating expenditure forecast from real to nominal dollars.

For this price review, Sunwater adopted the same major cost categories as the 2020 review and applied the QCA's cost escalation methodology set out in the QCA Final Position Paper – Inflation Forecasting[1] (the QCA's Inflation Position Paper) where possible, deviating where current cost forecasts warrant a departure from previous practice.

All adopted methodologies are described with supporting data and evidence within this document.

In developing its cost escalation factors Sunwater has drawn heavily from the QCA's published position paper on inflation forecasting.

Key features of Sunwater's approach to cost escalation include the use of:

- Contracted (known) price escalation factors where contracts extend beyond the base year
- Respected industry forecasts for the 2023-24 financial year for insurance
- The Reserve Bank of Australia's (RBA) latest short-term inflation forecast for the 2023-24 and 2024-25 financial years where no other forecast exists
- A year five anchor point (coinciding with the 2027-28 year)
- The midpoint of the RBA's target range (2.5 percent) for 2028-29 for ALL cost categories
- Queensland Treasury forecasts for labour (excluding contracted cost increase in 2023-24)

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[1] QCA, Final Position Paper – Inflation Forecasting, October 2021

Sunwater's proposed cost escalators

This document summarises the cost escalators Sunwater has applied to the development of its operating and renewals expenditure forecasts from the base year to the end of the price path period (2025-26).

Table 1 sets out the cost categories used as inputs to the pricing model and the escalation factors applied. It also sets out the basis for calculation where applicable.

The derivation of underlying input cost escalators is then presented in **Table 2** (general index), **Table 3** (insurance index) and **Table 4** (labour index).

Where possible Sunwater has sought to align with good regulatory practice and not pass on unreasonable price risk to its customers. It has also sought to simplify the overall cost escalation approach, noting that the current inflationary environment is significantly different to the one that existed at the time of the 2020 price review.

 An example of the way Sunwater has sought to balance price risk in favour of customers is its decision to apply only a general index to contracted services costs. Sunwater notes that these services include significant labour elements (particularly in the operations space) and labour costs will be subject to the same wage pressures Sunwater is facing.

The approach adopted for the 2020 price review to create a composite index (comprising general inflation and labour inflation components) for contracted services remains sound and Sunwater may seek to re-introduce a composite index in future reviews.

Sunwater has, however, elected to simplify this approach for the 2025-26 to 2028-29 review, and in doing so, absorb some price risk. Sunwater's cost forecasts for contracted services have adopted a general inflation index across the entirety of Sunwater's contracted services portfolio.

Table 1 – Sunwater's proposed cost escalation factors by cost category

Cost category	Basis	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Electricity (default)	1 July 2023 price changes and General inflation index (**Table 2**)	*Known price increases*	3.10%	2.98%	2.87%	2.75%	2.50%
Electricity (eight schemes)	Bespoke scheme-by-scheme forecasts in line with known long-term contracts	*Refer to electricity model and technical appendix*					
Insurance	Insurance index (**Table 3**)	21.00%	10.73%	2.98%	2.87%	2.75%	2.50%
Operations& maintenance	Weighted average of labour (**Table 4**) and general inflation indices (**Table 2**)	*Calculated separately for operations, preventative maintenance, and corrective maintenance according to the respective proportions of labour and non-labour costs*					
Labour	Labour index (**Table 4**)	4.50%	3.50%	3.50%	2.98%	2.47%	2.47%
Contracted services	General inflation index (**Table 2**)	3.60%	3.10%	2.98%	2.85%	2.75%	2.50%
Materials							
Other							
Indirects	50:50 weighting of labour (**Table 4**) and general inflation index (**Table 2**)	4.05%	3.30%	3.24%	2.93%	2.61%	2.49%
Local area support							
Corporate support							
Renewals	Applied to each cost component of renewals expenditure (labour, contracted services, materials, other non-labour, plant) in line with the above labour cost escalator for the labour costs and general inflation for materials, contracted services, other non-labour and plant						

The derivation of Sunwater's general inflation index adopts the methodology set out in the QCA's Inflation Position Paper and is presented in **Table 2**.

Table 2 – Derivation of general inflation index

2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
RBA forecast⬇	*RBA forecast*⬇	*Glidepath*⬇		*Anchor year*⬇	RBA mid-point ⬇
3.60%	3.10%	2.98%	2.87%	2.75%	2.5%

Sunwater has applied RBA forecasts[2] for June 2024 and June 2025 on the basis that these represent the best available forecasts for the full year effect of general inflation for the first two years of our base-step-trend forecast.

The derivation of insurance and labour indices align with the methodology set out in the QCA's Inflation Position Paper and past regulatory practice, and is presented in **Table 3** and **Table 4**.

Table 3 – Derivation of insurance index

2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Contract⬇	*Industry (Marsh) forecast*⬇	Revert to general index (see **Table 2** above)⬇			
21.00%	10.73%	2.98%	2.87%	2.75%	2.5%

Table 4 – Derivation of labour index

2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Sunwater EBA⬇		Queensland Treasury / RBA forecast⬇	*Glidepath*⬇	10-year simple average for QLD WPI all sectors⬇	
4.50%	3.50%	3.50%	2.98%	2.47%	2.47%

It is expected throughout the review process (prior to issuing its final report in January 2025) the QCA will continue to monitor short-term expectations of inflation and adjust forecasts for forward years accordingly.

[2] Reserve Bank of Australia (2023) August Statement of Monetary Policy, Forecast table – August 2023 | RBA, 22 August 2023

Reference materials

Sunwater has relied on the below reference materials to develop its cost escalators in line with the methods set out further below.

The QCA's approach

Figure 1 – Extract from the QCA's 2020 Final Report (irrigation pricing review)

Table 19 The QCA's recommended cost escalation factors (%)

Cost category	Basis for escalation factor	Forecast period	Escalation factor (%)
Materials	CPI using latest short-term inflation forecast of the RBA	2019–22	2.00 (2019–20); 1.75 (2020–21); 2.20 (2021–22)
	Mid-point of the RBA target range	2022–24	2.50
Insurance	Actual increase	2019–20	14.71
	Based on Marsh (broker) forecast	2020–21	10.00
	CPI forecast	2022–24	2.20 (2021–22); 2.50 (2022–24)
Labour	Queensland Government Annual Budget 2018–19	2019–23	2.25 (2019–20); 2.5 (2020–22); 2.75 (2022–23)
	10 year average WPI for all sectors in Queensland over 2009–19 (Australian Bureau of Statistics)	2023–24	2.73
Contracted services	Weighted average of WPI and CPI, using weighting approach proposed by Sunwater	2019–24	2.05 (2019–20); 1.89 (2020–21); 2.26 (2021–22); 2.55 (2022–23); 2.54 (2023–24)
Electricity (default)	AEMO 2019 retail electricity price assumptions, adjusted to nominal terms using our CPI assumption	2019–24	(4.07) (2019–20); 2.14 (2020–21); 1.57 (2021–22); 1.60 (2022–23); 1.38 (2023-24)
Non-direct costs (labour and materials)	Weighted average of WPI (50 per cent) and CPI (50 per cent)	2019–24	2.13 (2019–20); 2.13 (2020–21); 2.35 (2021–22); 2.63 (2022–23); 2.62 (2023–24)

Source: AECOM, Rural Irrigation Operating Expenditure Review: Sunwater, January 2020, pp. 176–180; Queensland Treasury, Queensland Budget 2019–20, Budget Strategy and Outlook, Budget Paper No. 2, June 2019, p. 35; ABS, Wage Price Index, Australia, September 2019, Table 8a: Ordinary Hourly Rates of Pay Excluding Bonuses: All Sectors by State, Original, cat. no. 6345.0. AEMO, Retail Electricity Price ESOO 2019; QCA analysis.

QCA, Inflation forecasting, final position paper, October 2021

ABS inflation data and RBA forecasts

Figure 2 - August Statement of Monetary Policy – Forecast table – August 2023 | RBA, 22 August 2023

Table 1: Forecast Table – August 2023[a]
Percentage change over year to quarter shown[b]

	Jun 2023	Dec 2023	Jun 2024	Dec 2024	Jun 2025	Dec 2025
Gross domestic product	1.6	0.9	1.3	1.6	2.0	2.3
Household consumption	1.6	1.3	1.9	2.4	2.5	2.6
Dwelling investment	−1.8	−2.5	−0.9	1.4	3.5	3.3
Business investment	5.2	3.4	−0.1	0.0	1.0	1.8
Public demand	1.3	1.9	1.7	1.5	2.2	3.0
Gross national expenditure	1.2	1.2	1.7	1.9	2.1	2.5
Imports	4.5	7.2	4.9	4.1	3.8	4.0
Exports	7.8	5.7	2.4	2.5	2.9	2.7
Real household disposable income	−2.9	−0.1	0.4	2.1	3.7	3.3
Terms of trade	−8.8	−5.0	−3.6	−2.6	−3.0	−2.6
Major trading partner (export-weighted) GDP	3.9	3.7	3.2	3.0	3.3	3.1
Unemployment rate (quarterly, %)	3.6	3.9	4.2	4.4	4.5	4.5
Employment	3.2	2.3	1.2	1.0	1.1	1.3
Wage price index	3.7	4.1	4.0	3.8	3.7	3.6
Nominal (non-farm) average earnings per hour	4.9	6.5	5.0	4.4	4.1	3.7
Trimmed mean inflation	5.9	3.9	3.3	3.1	2.9	2.8
Consumer price index	6.0	4.1	3.6	3.3	3.1	2.8

(a) Forecasts finalised 2 August. The forecasts are conditioned on a path for the cash rate broadly in line with expectations derived from surveys of professional economists and financial market pricing. Other forecast assumptions: TWI at 61; A$ at US$0.66; Brent crude oil price at US$80bbl. The rate of population growth has been revised higher in the near-term but is expected to gradually decline to around its pre-pandemic average.
(b) Forecasts are rounded to the first decimal point. Shading indicates historical data.

Sources: ABS; CEIC Data; Consensus Economics; Refinitiv; RBA.

Sunwater has adopted the values presented in Table 1 Forecast Table associated with the August Statement of Monetary Policy, noting that Table 5.1 of the August Statement rounds forecasts to the nearest quarter point.

Queensland Government budget outlook

Figure 3 - Extract from Budget_2023-24_Strategy_Outlook.pdf, 22 August 2023

Table 2.2   Queensland economic forecasts/projections[1]

	Actuals	Forecasts		Projections		
	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27
Gross state product[2]	4.4	2	3	3	2¾	2¾
Employment	5.1	3¼	1	1½	1¾	1¾
Unemployment rate[3]	4.5	3¾	4¼	4½	4½	4¾
Inflation[4]	5.4	7¼	3¾	3	2½	2½
Wage Price Index	2.5	3¾	4	3½	3½	3½
Population	1.6	2	1¾	1½	1½	1½

Notes:
1. Unless otherwise stated, all figures are annual percentage changes.
2. Chain volume measure (CVM), 2020–21 reference year.
3. Per cent, year-average.
4. Brisbane, per cent, year-average.

Sources: ABS Annual State Accounts, National, State and Territory Population, Labour Force, Wage Price Index, Consumer Price Index, and Queensland Treasury.

Electricity

Cost escalation methodology summary	
QCA approach 2020	AEMO 2019 retail electricity price assumptions, adjusted to nominal terms using CPI assumption
QCA inflation paper guidance	Not specifically set out.
Sunwater proposed methodology	Sunwater's approach is to use: • Actual escalation where Sunwater has long term contracts in place • Where there is no contract in place, use forecast electricity escalation provided by recognised authority (QCA or AEMO) • Use CPI for years where there is no forecast that is deemed reasonable Sunwater proposes to escalate electricity prices on a National Metering Identifier (NMI) basis: • If the NMI is in the Scheme NMIs (i.e. covered under the Whole of Government (WoG) agreement) use NMI specific electricity escalation for 2023-24 to 2027-2028 with 2028-29 escalated at the RBA mid-point value • If the NMI is not included in the Scheme NMIs, use the 'Regulated retail electricity prices in regional Queensland' 2023-24 tariff forecasts for 2023-24 based on the NMI tariff and then Sunwater's proposed general inflation index for escalation from 2024-25 to 2028-29 (Base Rates)
Any deviation, and why	Very similar to the QCA's previous approach aside from AEMO forecasts not yet available, proxy used.

In its previous price review, the QCA employed the following methodology to determine the appropriate escalation factor for Sunwater's electricity costs.

Figure 4 – The QCA's approach to electricity cost escalation in the 2020 price review

Electricity (default)	AEMO 2019 retail electricity price assumptions, adjusted to nominal terms using our CPI assumption	2019–24	(4.07) (2019–20); 2.14 (2020–21); 1.57 (2021–22); 1.60 (2022–23); 1.38 (2023-24)

Since the 2020 price review electricity prices in Queensland have experienced unprecedented volatility, particularly in the last 12 months. Base contract prices have risen from $250 to $320 per MWh.

The Australian Energy Market Commission stated that the increase was '*as a direct result of global events and fuel prices and the suspension of the wholesale market in June 2022*'.

Forecasting electricity escalators is complex given the current and future energy issues. For this reason, Sunwater proposes to escalate electricity prices on a National Metering Identifier (NMI) basis:

- If the NMI is in the Scheme NMIs (i.e. covered under the Whole of Government (WoG) agreement) use NMI specific electricity escalation for 2023-24 to 2027-2028 with 2028-29 escalated at the RBA mid-point value

- If the NMI is not included in the Scheme NMIs, use the 'Regulated retail electricity prices in regional Queensland' 2023-24 tariff forecasts for 2023-24 based on the NMI tariff and then Sunwater's proposed CPI approach (as per the materials escalator) for escalation from 2024-25 to 2028-29 (Base Rates)

Insurance

Cost escalation methodology summary	
QCA approach 2020	Actual increase for Year 1, Marsh forecast for Year 2, then CPI remaining years
QCA inflation paper guidance	Not addressed in detail other than CPI forecast approach (anchor year and glide path)
Sunwater proposed methodology	Known increase for year 1, expected increase for year 2 (Marsh estimate), then glide path to anchor and mid-point thereafter
Any deviation, and why	No deviation from the QCA's 2020 methodology, updated for its stated CPI forecasting approach (with anchor year and glide path)

In the 2020 price review the QCA adopted the below methodology to escalate Sunwater's insurance costs for the forthcoming price path period.

Figure 5 – The QCA's approach to insurance cost escalation in the 2020 price review

Insurance	Actual increase	2019–20	14.71
	Based on Marsh (broker) forecast	2020–21	10.00
	CPI forecast	2022–24	2.20 (2021–22); 2.50 (2022–24)

For this price review, Sunwater has adopted the same approach, updated for the QCA's stated CPI forecasting approach (with anchor year and glide path).

In May 2023 Sunwater received advice from Marsh that premiums for both the ISR and Liability policies would continue to rise in the short term. Marsh advised CPI is the most reliable cost escalator in the longer term because "It is very difficult to predict premiums so

far into the future when there are many factors which effect premium pricing". Marsh's market outlook noted current factors affecting insurance premiums in the short to medium, shown in Figure 6 below.

Figure 6 - Factors affecting insurance premiums in the short to medium term

Ukraine/Russia	Cyber	Natural Perils	Macro impacts	Capacity
Exposure management, Dependencies and Sanctions	Cyber coverage and exclusionary language	Secondary peril exposures	* Inflation	Global Insurers are now retaining a greater amount of CAT exposure
Territorial Scope & Exclusionary Language	Non PDBI exposures	Climate change	Economic Outlook/ Higher Interest Rates	There was a major push to restrict scope of cover
The next big "known unknown" or "unknown unknown"		Model change / Model Adjustment	ESG	CAT programmes in "non-peak" zones were impacted
Market Hardening				

For this reason, Sunwater has adopted the QCA's CPI approach for years three, four, five and six of the forecast.

For years one and two, Sunwater has taken Marsh's short-term advice on asset values, ISR and Liability policy premiums to estimate the expected insurance cost increases for 2023-24 and 2024-25.

Declared asset value (DAV)

Premiums are based on two factors, the value of the assets being insured and the premium applied to the policy type.

Insurers largely accept asset revaluations every five years and for Sunwater, the Australian Bureau of Statistics' Queensland Roads and Bridges Index (series ID A2333727L) to escalate asset values in the between years.

In 2021 Sunwater undertook a full revaluation of its assets resulting in a reduction in values from $13.5B to $11.7B (↓13.33%). This drove significant savings for customers in terms of insurance costs.

For 2022 and 2023 Sunwater's declared asset value was escalated using the Queensland Roads and Bridges Index. This resulted in the declared asset values set out below.

Table 5 - Sunwater's DAV for 2023-24 and 2024-25

|	Starting asset value	Queensland Roads and Bridges Index	Declared asset value for given year
2021-22	$11.7B	6.83%	$12.5B
2022-23	$12.5B	14.4%	$14.3B

Policy premiums

Separate to declared asset value increases are policy premium increases. The two largest insurance costs for Sunwater are ISR and Liability policies. Marsh provided the below forecast for insurance premiums in its May 2023 outlook.

Figure 7 - Property Indicative Pricing

Holding DAV steady, Marsh is forecasting property premium increases in 2023-24 and 2024-25 of 4.95 per cent and 4.98 per cent respectively.

Figure 8 - Liability insurance pricing analysis
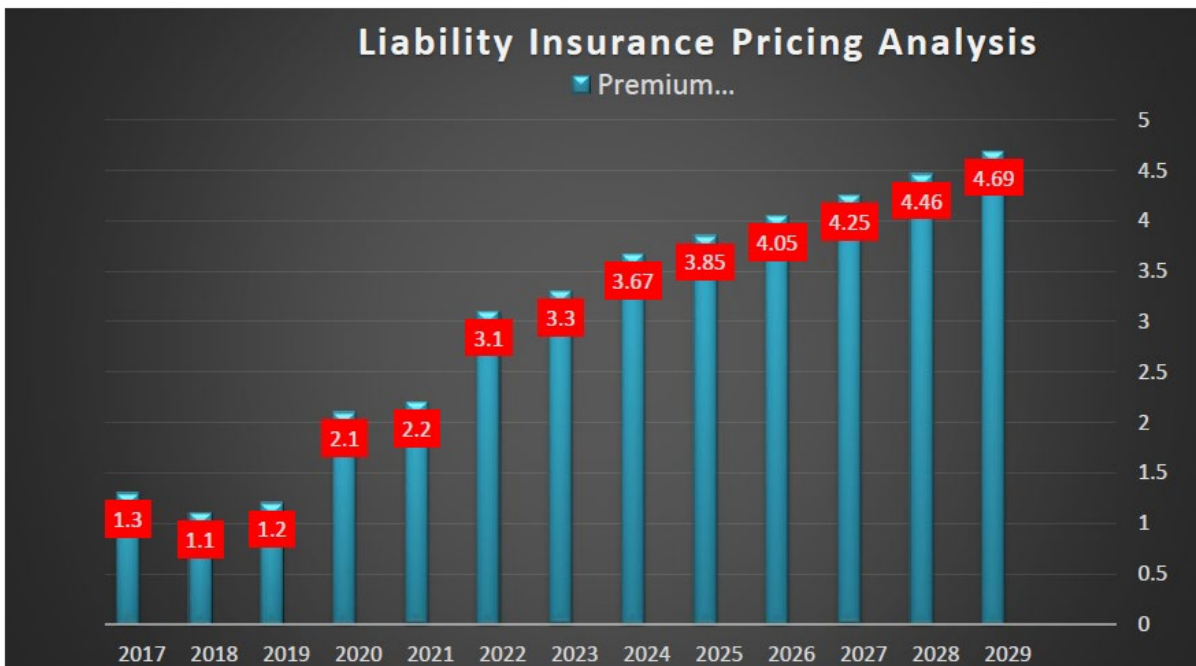
Marsh is forecasting liability insurance premium increases in 2023-24 and 2024-25 of 11.21 per cent and 4.90 per cent respectively.

Total insurance escalation

Factoring the above expected increases in DAV and Marsh's commentary on policy premiums, Sunwater has taken a conservative approach to forecasting insurance cost escalation for the first two years of the cost escalation period.

Sunwater has elected to use the Queensland Roads and Bridges index forecast of 11 per cent for declared asset values in 2023-24, and in the absence of more reliable forecast data, *no inflation assumption for 2024-25*.

Table 6 - Sunwater's forecast DAV to inform insurance cost escalators for the pricing proposal

	Starting asset value	Queensland Roads and Bridges Index	Declared asset value for given year
2023-24	$14.3B	11.00%	$15.87B
2024-25	$15.87B	0.00%	$15.87B

When considering Marsh's commentary on policy premiums, and acknowledging the difficulty in accurately forecasting premium increases, Sunwater based its 2023-24 assumption on advice from Marsh that a 10 per cent increase in premiums would be a reasonable assumption in the short term.

For 2024-25 Sunwater has assumed no increase to declared asset value, which is highly unlikely but lacking reliable forecast data. For this reason, Sunwater has assumed a premium increase of 5 per cent above the current rate of inflation at the time which was 5.73 per cent. These assumptions are reflected in the table below and form the basis of Sunwater's insurance cost escalators for years one and two of the cost escalation forecast.

Table 7 - Expected increases in insurance costs 2023-24 and 2024-25

	DAV increase assumption	Premium increases (across policy types) assumption	Total insurance increase assumption
2023-24	11.00%	10.00%	21.00%
2024-25	0.00%	10.73%	10.73%

General inflation index

Cost escalation methodology summary	
QCA approach 2020	CPI using latest RBA short-term inflation forecast, then RBA midpoint
QCA inflation paper guidance	The QCA's stated position is to use short-term RBA forecasts for the first two years of the regulatory period and derive forecasts up to the fifth year ahead, using a linear glide path—from the RBA's short-term forecast in year 2 to a rules-based anchor-point forecast in the fifth year ahead. Specifically, if the second year forecast of headline inflation is: • less than or equal to 2 per cent, the anchor point would be set at 2.25 per cent • between 2 per cent and 3 per cent, the anchor point would be set at 2.5 per cent • greater than or equal to 3 per cent, the anchor point would be set at 2.75 per cent. If the second year RBA forecast is not available, the QCA states it will use a linear glide path commencing from the RBA's first year forecast, and refer to the December-ending RBA forecast in the second year ahead when determining the anchor point.
Sunwater proposed methodology	Sunwater proposes the same approach as the above, specifically, CPI using short term RBA inflation forecast (June-June) and then a linear glide path from the second year RBA forecast to the end of period, with and anchor point in year 5, where year 5 of the forecast years is currently 2027-28.
Any deviation, and why	No deviation from QCA stated position in its Inflation Paper other than the timing of the short-term RBA forecasts and the 5-year anchor point.

Labour cost escalation

Cost escalation methodology summary	
QCA approach 2020	Queensland Government Annual Budget 2019-23, then ABS 10-year average WPI for all sectors in QLD over 2009-19
QCA inflation paper guidance	The QCA states its position is to use expected CPI inflation to escalate opex and capex input costs where the underlying cost drivers are not materially different from CPI inflation; however, to use input specific or sector-specific cost escalators where underlying cost drivers are materially different from CPI inflation[3].
	For labour cost escalation, it has previously used Queensland Treasury's most recent forecasts of the Queensland wage price index (WPI) for up to three years ahead, with the long-term (10-year) historical average Queensland WPI thereafter. The QCA states it considers that the Queensland Treasury is a reliable source of information, and its data is publicly available and therefore transparent. The QCA considers the WPI to be the best estimate of wage cost escalation because it measures the pure price change in labour costs independent of compositional changes such as variations in the quality or quantity of work performed.
Sunwater proposed methodology	Sunwater proposes a similar approach as above with two exceptions:
	• The Year 1 forecast to be based on a known and committed employee increase
	• Consistent with other approaches, a linear glide path from Queensland Treasury/RBA forecasts in Years 2 and 3 to Year 4 (shown below)
	Sunwater proposes the QCA approach of the 10-year simple average for QLD WPI all sectors for years 5 and 6 of the forecast.
Any deviation, and why	Sunwater has adopted the committed employee increase of 4.5% in year 1 of the forecast, and a glide path in year 4 to the long-term average for WPI.
	Reasons for this deviation are set out below.

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[3] QCA, Inflation forecasting, final position paper, p. 15

Figure 9 - Queensland economic forecasts/projects

Table 2.2   Queensland economic forecasts/projections[1]

	Actuals	Forecasts		Projections		
	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27
Gross state product[2]	**4.4**	**2**	**3**	**3**	**2¾**	**2¾**
Employment	5.1	3¼	1	1½	1¾	1¾
Unemployment rate[3]	4.5	3¾	4¼	4½	4½	4¾
Inflation[4]	5.4	7¼	3¾	3	2½	2½
Wage Price Index	2.5	3¾	4	3½	3½	3½
Population	1.6	2	1¾	1½	1½	1½

Notes:
1. Unless otherwise stated, all figures are annual percentage changes.
2. Chain volume measure (CVM), 2020–21 reference year.
3. Per cent, year-average.
4. Brisbane, per cent, year-average.

Sources: ABS Annual State Accounts, National, State and Territory Population, Labour Force, Wage Price Index, Consumer Price Index, and Queensland Treasury.

Reasons for deviation from QCA approach

It is important to note that the Queensland Treasury/RBA forecast for wage growth in 2023-24 does not reflect the agreed wage increases across Queensland Government for government employees (which is 4.5 per cent).

In order to successfully negotiate the next Enterprise Agreement with Sunwater employees, Sunwater, in line with State Government policy, has agreed wage increases as set out below.

Table 8 - Agreed wage increases

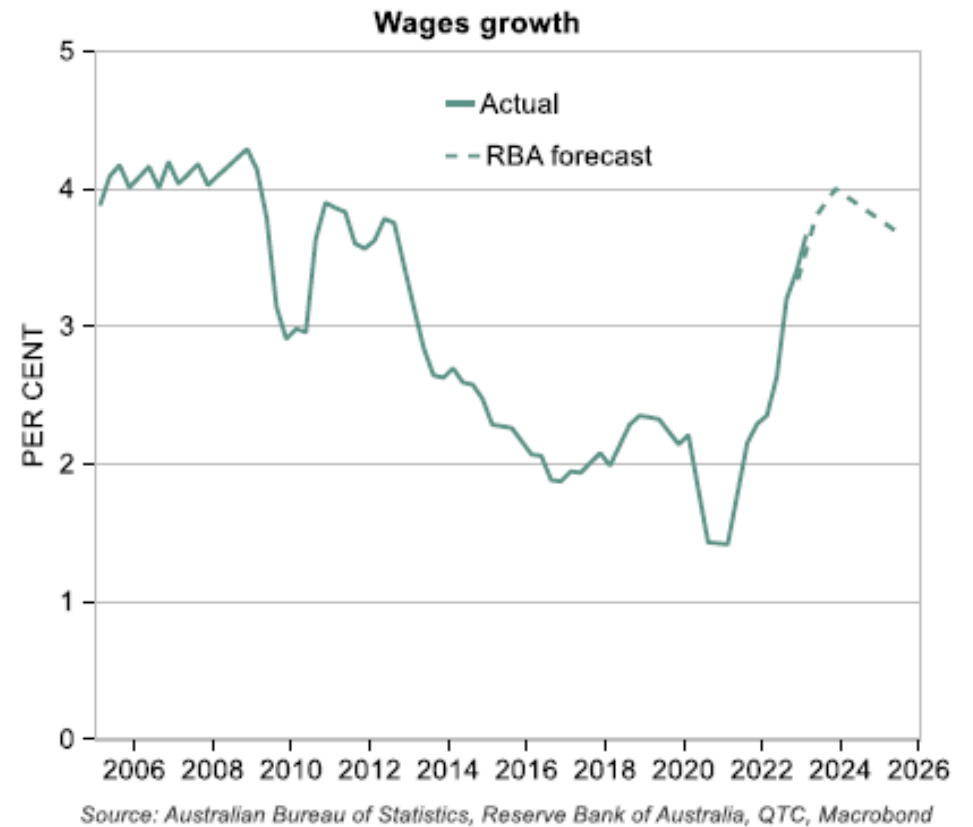|	2022-23	2023-24	2024-25
Wage increases	4.50%	4.50%	3.50%

These rates were the subject of extensive consultation and market testing, and initiated by external advice set out below.

External advice on wage escalation

This is one of the toughest markets for wage-price escalation the nation has seen in more than a decade.

Inflation is the highest it has been in this period, and cost of living pressures are being felt across the nation.

Figure 10 - ABS/RBA unemployment and wage growth forecasts

Unempoloyment rate

Source: Australian Bureau of Statistics, Reserve Bank of Australia, QTC, Macrobond

Wages growth

Source: Australian Bureau of Statistics, Reserve Bank of Australia, QTC, Macrobond
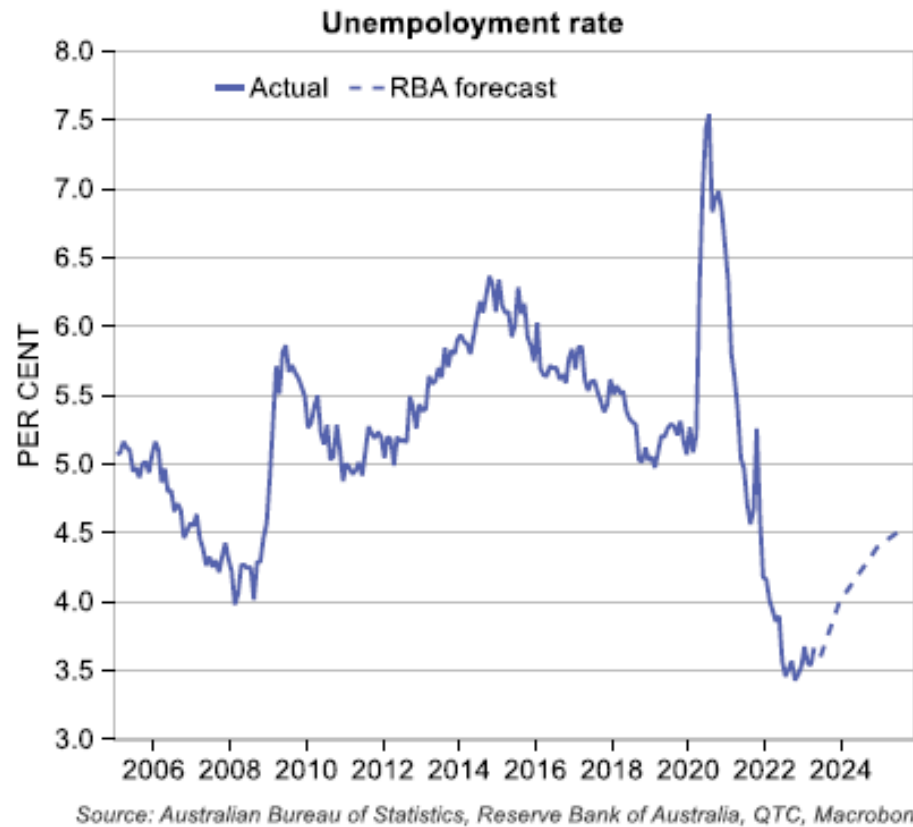
Wages growth is expected to reach its fastest rate since 2009 before softening in 2024-2025.

Employees and employee representatives across all labour markets have been active for some time, with upwards pressure on wages to close the cost-of-living gap.

Sunwater received external advice on the labour market when preparing its Strategic Workforce Planning initiative. The current labour market represents a risk to Sunwater and its services to customers if Sunwater does not meet the market in terms of its wage expectatio

Figure 11 - External analysis provided to Sunwater on current labour market

- There may be increasing difficulty attracting and recruiting staff as demand in the external labour market is accelerating for critical and specialist skill segments
- Strong employment growth predicted to 2025, for regional and remote regions of Queensland
- Greater work participation may require organisations to look at offering flexible work arrangements, and directly addressing critical participation barriers

Innovative attraction and retention **strategies** will be key to securing workers in a **shrinking talent pool**

Given that **STEM jobs are growing almost twice as fast** as other jobs, Sunwater has an important role to play in **developing female STEM talent**

Over the five years to November 2025, **STEM** occupations are projected to **grow (12.9 per cent)**, **more than twice as fast** as non-STEM occupations

Current **Unemployment** rate **(3.5%)** at the **lowest** since April 2012

52% of employed persons indicated that the **ability to work Part-time** hours was one of the **most important incentives** to increasing work participation

Female workforce **participation increased** to 62.1%, compared with males which decreased to 70.4%

Job **Vacancies** in Electricity, Gas, Water & Waste Services industry in Queensland are to rise by **8.3%** by 2024/25.

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This led to the agreed wage increases set out in Table 4 which Sunwater believes is vital to attracting and retaining the employees required to deliver the regulated water services.

For this reason, Sunwater proposes this wage increase for 2023-24.

Given the higher than 10-year average wage escalation at present, Sunwater proposes a glide path approach to the 10-year average WPI. Sunwater proposes two years of Queensland Treasury/RBA forecasts for wage escalation in Queensland post the known Year 1 increase with a glide path to the longer term WPI of 2.47 per cent in years 5 and 6.

It is unlikely labour escalation will drop from 3.5 per cent to 2.47 per cent in one year. It is more reasonable to expect escalation will glide from 3.5 per cent to 2.98 per cent and then 2.47 per cent or thereabouts into the future.

In calculating the 10-year average for WPI in Queensland (all sectors), Sunwater relied on independent advice from KBR set out in Table 6 below.

Table 9 – Independently calculated 10 year WPI average

Ten-year average

Year	Index	Annual change
2014–15	120.5	2.4
2015–16	122.8	2.2
2016–17	125.1	2
2017–18	127.9	2
2018–19	130.8	2.3
2019–20	133.3	2.1
2020–21	135.4	1.5
2021–22	138.7	2.4
2022–23*	143.9	3.75
2023-24*	149.7	4
Ten year simple average		**2.47**
Ten year geometric average		**2.43**

Consultant note: 2022–23 and 2023–24 are based on a forecast. Given that recent years have a much higher wage increases than the ten year average, it is considered appropriate that these values inform the price path period. The current WPI (albeit a forecast) is considered more reliable than 2013-14.