

Email from [REDACTED] Department of Transport, 9 October 2012

Melbourne Metro escalation factors 9/10/12

Hi all

Thank you for everyone's input to date. Below are the updated escalation rates for the Melbourne Metro tunnel project.

However, there are some areas where broad assumptions were made:

- Indirect costs and Client costs consist mainly of labour
- Electricity costs do not appear to be included in the cost components. It is observed that CPI for electricity is relatively high, having increased 6.1% and 5.6% per annum for Australia and Melbourne respectively (compound annual growth rate from 1998-2012). If electricity costs are significant and can be specifically identified as an MM component, the impact of this can be included in the modelling.
- The modelling currently has an assumed outlook where supply and demand pressures are balanced. As such, we believe it would be useful to meet up again briefly to discuss whether we agree on this scenario and to finalise the escalation approach of the MM and East West Link projects.

We welcome comments on the assumptions and analysis.

In relation to the East West Link project escalation rates, following some preliminary discussion with VicRoads, we have included a few comments for consideration by the EWL team:

-Asphalt Placed and Supplied – may not be appropriate as it is already captured as part of the Road and Bridge Construction PPI. Also need to be careful as it is a relatively volatile index influenced by crude oil prices.

-Labour Price Index (Transport, postal and warehousing) – may not be appropriate as it also includes the wages of truck drivers, posties, couriers, etc.

Schedule of escalation rates for Melbourne Metro tunnel project:

Melbourne Metro project cost component	ABS data series used	% of total project costs	% of costs (excluding Property and Arden)	1998-99 to 2011-12 (Actual)*	P50 Forecast**	P90 Forecast**
Labour	Labour Price Index: Table 5b, Total hourly rates of pay excluding bonuses, Australia, Private and Public, Construction	9%	11%	4.0%	4.0%	6.6%
Plant (TBM, track laying, piling rigs,	Producer Price Index: Table 1,	12%	14%	2.5%	2.5%	4.1%

excavators)	Final Total (Source)					
Materials (weighted average of concrete, steel, and other costs)	Producer Price Index: Tables 10 and 11, 2033 Ready-mixed concrete manufacturing, 2034 Concrete product manufacturing, 2221 Structural steel fabricating; Table 1, Preliminary, Total (Source)	19%	23%	3.4%	3.4%	5.6%
Subcontractors (weighted average of labour, plant and materials)	N/A	13%	15%	3.3%	3.3%	5.4%
Indirect costs	Labour Price Index: Table 2b, Total hourly rates of pay excluding bonuses, Australia, Private and Public, All industries	16%	19%	3.6%	3.6%	5.9%
Client costs	Labour Price Index: Table 2b, Total hourly rates of pay excluding bonuses, Australia, Private and Public, All industries	8%	10%	3.6%	3.6%	5.9%
Contractor's margin	Producer Price Index: Table 22, 6923 Engineering design and engineering consulting services	7%	8%	5.2%	5.2%	8.5%
Property acquisition costs	N/A	7%	N/A	N/A	N/A	N/A
Arden precinct costs	N/A	8%	N/A	N/A	N/A	N/A
Total		100%	100%			
WEIGHTED AVERAGE MELBOURNE METRO				3.6%	3.6%	5.8%

Notes:

*Compound annual growth rate from 1998-2012 based on ABS actuals data.

**As a starting point, the assumed outlook is where supply and demand pressures are balanced.

Thanks and regards,

