



9 December 2021

Matthew Hall
Manager, Commercial, Business Improvement and Procurement
Wellington Water Limited
WELLINGTON

Via email

Dear Matthew

Market Survey - Cost Escalation Q3-4 2021

Wellington Water Limited (WWL) has engaged Bond Construction Management (BondCM) to research the cost escalation that has occurred over the past 3 months for a “typical” WWL construction project.

Methodology

BondCM has previously prepared detailed schedule of quantities for typical WWL 3Waters construction contracts being delivered through the Capex Contract Programme of works covering Watermain, Wastewater and Stormwater Renewals. Three contracts covering the three work sectors were originally priced with our estimating software with rates for labour, plant and materials derived from the Wellington Region in August 2020 and updated in August 2021 to arrive at an estimated cost for each project. These projects are:

- Belvedere Road Watermain
- Cavendish Square Wastewater Stage 10
- Kelso Grove Stormwater

BondCM submitted its report on 6 September to WWL.

BondCM have re-contacted suppliers to obtain the latest pricing inputs and some commentary on what they are currently experiencing in the marketplace particularly with imported products. The dynamic nature of the international steel and petroleum-based product prices continues to fluctuate with an upward trend coupled with increased shipping costs, supply chain delays and a falling USD-NZD exchange rate (7.4% in Q4 alone).

Inflation Data

Staff and Labour Costs

The inflation rate for labour is dictated by when the employer undertakes a wage review typically at its financial year end which can be either Q4 or Q2 and is fixed for the year. It is therefore difficult to make an accurate assessment over such a short period of time but the general feeling at the moment is that the labour inflation rate is around 4 to 5% pa. This rate is being softened by the fact that staff have been working predominately from home and not incurring travel costs. We have seen larger increases for in-demand specialised skilled labour resources to meet workload pressures. There is no doubt that the closed borders are having an impact on the cost of labour.

Bond Construction Management Ltd

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Plant

Plant hire companies have indicated that they have recently applied increases in their plant rates of between 3 to 5% in the period due to the buoyant construction market and scarcity of some items of plant that are in demand.

Operated plant hire rates have risen at a slightly faster rate of between 5-7% due to the increase in FOG, labour, and the cost of ownership with recent interest rate increases.

Materials

Fuel

The cost of diesel has risen by approximately 13% and petrol by 10% in the Wellington region during Q4.

Bitumen Products

The cost of bitumen products have risen by between 8-10% during Q4 in the Wellington region due to exchange rate movements and the storage costs for the last shipment of bitumen due to the Covid lockdown restrictions impacting on usage in Auckland and Waikato.

Ready Mixed Concrete

Firth Concrete have advised 5-7% increase coming in the New Year on all their products.

Concrete Pipes

The manufacturers applied a price increase of 10% in October and have advised that there is another due in the New Year likely to be between 12-15% due to increase in the raw products particularly reinforcing steel, labour, and freight charges. They have also indicated that there will be another price review in March 2022. They currently have a good stock of concrete components with delivery lead times of 5 days. Quote validity period still stated as being 30 days.

uPVC and PE Pipes

The suppliers are seeing huge demand for its water and house fittings with local production facilities working flat tuck to meet demand, and they have indicated a price increase of 10-12% in the New Year. Currently they have sufficient material to meet demand with a rolling three monthly order programme for PE resin being imported from Saudi Arabia and Thailand.

Ductile Iron Pipes and Valves

These products are being supplied offshore and have seen increases of 18% since September due to the increase in the cost of the raw material and shipping costs from Australia and China. Lead times have gone out from 12 weeks to 16-20weeks.

Steelpipe NZ

There was price increase in October of approximately 11.5% for concrete-lined steel pipe and 18% on bare pipe. They procure the majority of their steel from NZ Steel who are working flat tuck to meet the housing demand. Delivery time is about 12 weeks as per normal schedule. NZ Steel sets its pricing to align with the worldwide steel base price. China is still taking what it can get its hands on making the market volatile. Quote validity period is only 5 days. There is another price increase coming in the New Year likely to be in February. No indication yet on how much.

Pumps

The price of pumps has increased between 15-18% since August with delivery periods still being quoted at 18-20 weeks from Europe and 10-12 weeks for the smaller pump units from their assembly plants in China. Quote validity period 30 days.

Steel

The price of steel has increased between 4-15% in the period depending on the type of steel product being supplied with delivery periods of 12 weeks on most products.

Fasteners

The cost of fasteners and anchors have increased between 8-10% in the period depending on the product and where it is manufactured.

Aggregates

Winstone Aggregates have advised that the rates for their products remain as quoted in September and will be reviewed again in June 2022. This is obviously a reflection of a decrease in demand with the imminent completion of the Transmission Gully project.

Electrical Cabling and Components

The cost of electrical cabling has increased substantially in the period by 18 -20% due to demand from the international market with wholesalers advising a quotation validity of 7 days. These price increases are due to factors such as China's economic recovery from the pandemic, sustainable green energy stimuluses, and supply disruptions. China's rising industrial production along with aggressive sustainable energy initiatives accredits the country to being the highest consumer of copper in the world.

Conclusion

We have applied the revised labour, plant and material costs into our three WWL specimen contracts to derive an overall cost increase of 5-6% on the projects from September. It should however be noted that all three specimen projects contain very little of the more volatile and variable material components.

All the material suppliers contacted have advised that their rates are subject to change at short notice with notifications of further increases being imminent with the validity period on their quotations for some products now just a matter of days. Inflation is well and truly with us which will have the potential to put cashflow pressure on contractors who have undertaken long term fixed price contracts.

It will also require the revaluation of Council LTP project budgets.

If you have any queries about our inflation data, please do not hesitate to contact the writer.

Yours faithfully

Bond Construction Management Ltd



David Jewell
Director

WWL Specimen Contracts

