

<b>ORDINARY MEETING</b>	<b>3</b>
<b>1 MAY 2024</b>	

## **CAIRNS WATER SECURITY STAGE 1 – FUNDING**

58/6/3-01 | #7389595

### **RECOMMENDATION:**

That Council:

1. **Reconfirms the *Cairns Water Security – Stage 1 Project* as Council’s Number One Advocacy Priority;**
2. **Reconfirms the additional funding commitments sought from both the State and Federal Governments (in accordance with Table 1 in this report) to support the total project cost; and**
3. **Delegates authority to the Mayor and Chief Executive Officer in accordance with the *Local Government Act 2009* to finalise any and all matters relating to the above and to lead Council’s advocacy activities in relation to this matter.**

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### **INTERESTED PARTIES:**

Not applicable

*Note: The identification of interested parties is provided on a best endeavours basis by Council Officers and may not be exhaustive.*

### **EXECUTIVE SUMMARY:**

On 28 April 2021, Cairns Regional Council (Council) endorsed the *Cairns Water Security – Stage 1 Project* as Council’s Number One Advocacy Priority. In 2022, following a comprehensive advocacy campaign in partnership with the community and key advocacy stakeholders, Council was successful in securing \$215 million in State and Federal funding commitments towards the cost of delivering the project (\$107.5 million from each level of government). These commitments were warmly welcomed by Council and the wider community.

However, in 2023 following a rigorous procurement process and a review by independent Cost Advisor Ranbury Management Group, the Total Project Cost Estimate increased from \$248 million (the estimate at the time the \$215 million in State and Federal funding commitments were made) to \$472 million. The reasons for the escalation were provided in a report to Council at the Ordinary Meeting on 21 December 2023. At that meeting, Council endorsed the Project Launch Approval (PLA) for Project Construction Works and also awarded the design and construct contract for the project to John Holland Queensland Pty Ltd.

In conjunction with these decisions, to mitigate the burden of the additional project cost on ratepayers and residents, at the Ordinary meeting on 21 December 2023 Council also unanimously reconfirmed *Cairns Water Security – Stage 1* as its Number One Advocacy Priority and made the decision to seek an additional \$257 million from State and Federal Governments (Table E1). Without the additional State and Federal funding, the vast majority of the estimated \$472 million capital cost would need to be met by the Cairns community at a time when, given the current cost of living pressures, water users can least afford it.

**Table E1: CWSS1: Additional funding increases required**

	Existing Commitments \$million	Increase Required \$million	Total Commitment Now Sought \$million
Queensland Government	107.5	128.5	236.0
Federal Government	107.5	128.5	236.0
	<b>215.0</b>	<b>257.0</b>	<b>472.0*</b>

*Note 1: All amounts are exclusive of GST*  
*\* Estimated project capital cost per independent cost report from Ranbury Management Group (Nov 23)*

Following unanimous endorsement of the advocacy approach, in December 2023 Council formally requested that the State and Federal Governments each increase their funding commitments to \$236 million and that these increased commitments be specifically provisioned in the upcoming Federal and State budgets due to be delivered in May 2024 and June 2024 respectively. Led by the Mayor, advocacy activities to support this request have been ongoing across January, February and March 2024.

With Local Government Elections taking place on 16 March 2024, to inform its deliberations, the State Government has requested confirmation from the incoming Council that *Cairns Water Security – Stage 1* remains the Number One Advocacy Priority. This report provides an avenue to respond to that State Government request and to reiterate the need for additional funding to be provided.

It is recommended that Council reconfirm the advocacy position and recommit to seeking an additional \$257 million in funding (Table E1).

### **BACKGROUND:**

Cairns Regional Council's existing water supply network draws water from two key sources:

- Copperlode Falls Dam on Lake Morris; and
- A run of river supply from Behana Creek (South of Cairns).

Copperlode Falls Dam was established in 1976 when the Cairns population was 58,000. Since then, the population of Cairns has grown significantly with the service population (residents and visitors) now approaching 200,000 people.

Cairns Regional Council has been planning for the long-term urban water needs of the Cairns community for many years. In 2015, following extensive analysis, investigation

and community and stakeholder consultation, Council adopted the Cairns Water Security Strategy (CWSS).

The CWSS sets out a plan on how the urban water needs of Cairns will be met through to the middle of this century and is widely recognised as one of the most successful strategic planning and engagement/consultation initiatives Council has undertaken.

The CWSS recommended a series of initiatives in the following areas:

- Demand management – actions aimed at reducing the per capita use of water by the Cairns community; and
- Supply augmentations – investment in infrastructure to provide access to new water supply capacity as and when it is needed.

Demand management activities like water education, leak detection improvements, and effective metering and pricing, have since delivered significant results, most notably a 35% reduction in water usage per capita over the 17 years to 30 June 2023. While Council has made significant investments in these demand management initiatives, and will continue to do so, these measures alone are not sufficient to provide water security for our growing community and investment in supply infrastructure is now critical.

Identified in the CWSS, the *Cairns Water Security – Stage 1 Project* will secure Cairns' water needs well into the next decade by accessing a new water supply source. The project is critical to the future water security of Cairns as without it, our community faces the real risk of a drinking water shortfall by 2026. A comprehensive independent business case has confirmed the project as the best solution to meet Cairns' immediate drinking water supply needs.

The project will enable 'new' water to be sourced from the run of river supply in Mulgrave River and enable a significantly enhanced treatment process to be applied to Council's existing Behana Creek water supply, thereby increasing the volumes of water able to be drawn from this source. This integrated water supply project comprises new intake infrastructure, pipeline upgrades, a treatment plant, and reservoirs.

Given the critical nature of this project, and noting the significant capital cost involved, on 28 April 2021 Cairns Regional Council unanimously endorsed the *Cairns Water Security – Stage 1 Project* as Council's Number One Advocacy Priority. Following a comprehensive advocacy campaign in partnership with the community and key advocacy stakeholders, in 2022 Council was successful in securing \$215 million in State and Federal funding commitments towards the cost of delivering the project (\$107.5 million from each level of government).

However, as with infrastructure projects nationally, the Total Project Cost Estimate of the *Cairns Water Security – Stage 1 Project* has increased significantly since the \$215 million (combined State/Federal) funding commitments were made in 2022. At that time, the Total Project Cost Estimate was \$248 million, which was a preliminary cost estimate included in the Stage 2 Business Case Report and based on a high-level understanding of the required investments and infrastructure, and calculated with reference to previous independent cost estimates obtained by Council.

Following completion of the Stage 3 Detailed Business Case and a rigorous procurement process for design and construction, Council's independent Cost Advisor, Ranbury Management Group, prepared an updated Total Project Cost Estimate. The updated Total Project Cost Estimate is \$472 million. The reasons behind the significant increase in cost were the subject of a report to Council at the Ordinary Meeting on 21 December 2023. At that meeting, Council endorsed the Project Launch Approval (PLA) for *Cairns Water Security – Stage 1* Project Construction Works and also awarded the design and construct contract to John Holland Queensland Pty Ltd.

In conjunction with these decisions, to mitigate the burden of the additional project cost on ratepayers and residents, at the Ordinary meeting on 21 December 2023 Council also unanimously reconfirmed *Cairns Water Security – Stage 1* as its Number One Advocacy Priority and made the decision to seek an additional \$257 million from State and Federal Governments (an additional \$128.5 million each) to support project delivery. The decision was made in the context of the Ex-Tropical Cyclone Jasper disaster event which caused widespread damage and destruction in the Cairns region, and which has compromised the financial capacity of both Council and the wider Cairns community to fund the project cost increase at a time when acute cost of living pressures are already being experienced by residents.

Following Council's unanimous endorsement of the advocacy approach, in December 2023 Council formally requested that the State and Federal Governments each increase their funding commitments to \$236 million. Led by the Mayor, advocacy activities to support this request have been ongoing across January, February and March 2024 and included numerous meetings/briefings with State and Federal Ministers, Shadow Ministers, local members of parliament, advocacy partner organisations, departmental representatives and various other stakeholders.

With local government elections taking place on 16 March 2024, to inform its deliberations, the State Government has requested confirmation from the incoming Council that *Cairns Water Security – Stage 1* remains the Number One Advocacy Priority. This report provides an avenue to respond to that State Government request and to reiterate the need for additional funding to be provided.

### **COMMENT:**

#### **Project Status**

The procurement process for the design and construct contract for the *Cairns Water Security – Stage 1* Project and recommended contract award was the subject of a report to Council's Ordinary Meeting on 21 December 2023.

At that meeting, Council endorsed the Project Launch Approval (PLA) for *Cairns Water Security – Stage 1* Project Construction Works and also awarded the design and construct contract to John Holland Queensland Pty Ltd.

Council has subsequently executed a formal contract with John Holland Queensland Pty Ltd for project delivery and early project works are on track to commence mid-2024.

### Recommended Advocacy

For the reasons outlined in this report, it is recommended that Council reconfirm *Cairns Water Security – Stage 1* as its Number One Advocacy Priority and continues to seek increased State and Federal funding commitments of \$236 million each (Table 1).

**Table 1: CWSS1: Recommended additional funding requests**

	Existing Commitments \$million	Increase Required \$million	Total Commitment Now Sought \$million
Queensland Government	107.5	128.5	236.0
Federal Government	107.5	128.5	236.0
	<b>215.0</b>	<b>257.0</b>	<b>472.0*</b>

*Note 1: All amounts are exclusive of GST*  
*\* Estimated project capital cost per independent cost report from Ranbury Management Group (Nov 23)*

The proposed allocation of State and Federal funding by financial year is set out in Table 2 below. These allocations are based on the proposed milestone payments currently contained in the draft funding agreement previously being negotiated with the Queensland Government's Department of Regional Development, Manufacturing and Water proportionately uplifted to reflect the recommended new level of funding commitments per Table 1.

**Table 2: Proposed State and Federal funding allocations by financial year**

	2023/24 \$million	2024/25 \$million	2025/26 \$million	2026/27 \$million	Total \$million
Queensland Government	6.0	110.0	85.0	35.0	236.0
Federal Government	6.0	110.0	85.0	35.0	236.0

Following Council's unanimous endorsement of the advocacy approach on 21 December 2023, advocacy activities to support this request have been ongoing across January, February and March 2024. Led by the Mayor, discussions are largely focussed on requesting that:

- The increased funding commitments outlined in Table 1 be confirmed;
- The increased funding commitments be provided for in upcoming State and Federal budgets in accordance with Table 2; and
- A funding agreement for these revised funding commitments be progressed and finalised as a matter of urgency.

It is understood that confirmation of Council's Demand Management strategies will form part of any funding agreement with the State and Federal Governments.

Council's request for increased funding is supported by Advance Cairns, the Cairns Chamber of Commerce, the FNQ Regional Organisation of Councils, Regional Development Australia Tropical North and Tourism Tropical North Queensland.

A 'two-page' overview document has been developed and utilised to support advocacy activities and discussions. A copy of this document is included at Attachment 1 and acknowledges the support for the project (and associated advocacy ask) from the organisations referred to in the preceding paragraph.

### **OPTIONS:**

#### **Option 1 (Recommended)**

That Council:

1. Reconfirms the *Cairns Water Security – Stage 1 Project* as Council's Number One Advocacy Priority;
2. Reconfirms the additional funding commitments sought from both the State and Federal Governments (in accordance with Table 1 in this report) to support the total project cost; and
3. Delegates authority to the Mayor and Chief Executive Officer in accordance with the *Local Government Act 2009* to finalise any and all matters relating to the above and to lead Council's advocacy activities in relation to this matter.

#### **Option 2**

That Council **does not** endorse the *Cairns Water Security – Stage 1 Project* as Council's Number One Advocacy Priority and chooses another course of action.

### **CONSIDERATIONS:**

#### **Risk Management:**

The predominant risk associated with the proposed advocacy outlined in this report is reputational. Council aims to mitigate any potential reputational risk by adopting a collaborative advocacy approach underpinned by comprehensive stakeholder engagement and communication.

#### **Council Finance and the Local Economy:**

Council's current long term financial plan (adopted in June 2023) includes allowances for capital costs associated with the *Cairns Water Security – Stage 1 Project* of \$379 million (ex-GST) over the budget year and forward estimates. This allowance was based on the Total Project Cost Estimate contained in the Stage 3 Detailed Business Case report for the project. Council's current long-term financial plan also includes external project funding for the *Cairns Water Security – Stage 1 Project* of \$215 million based on existing State and Federal budget commitments.

If the additional State and Federal funding outlined in Table 1 is not forthcoming, Council's forecast financial position would be adversely impacted due to the combined effects of the forecast Total Project Cost Estimate of \$472 million and the forecast cost of undertaking disaster recovery works associated with Ex-Tropical Cyclone Jasper, a

significant portion of which are not expected to be recoverable under disaster recovery funding arrangements.

### Corporate and Operational Plans:

The *Cairns Water Security – Stage 1 Project* (and associated advocacy) aligns with multiple aspects of Council's Corporate Plan 2021-2026 as without access to reliable, safe drinking water, a wide range of Council's plans, projects and initiatives are likely to be severely compromised.

### Policy:

Council's endorsed Advocacy Policy has been applied in developing the proposed advocacy approach outlined in this report.

### **CONSULTATION:**

Throughout January, February and March 2024, Council representatives have provided high-level project updates to collaborating advocacy partners including:

- Advance Cairns;
- Cairns Chamber of Commerce;
- Regional Development Australia (RDA) Tropical North;
- Far North Queensland Regional Organisation of Councils (FNQROC); and
- Tourism Tropical North Queensland (TTNQ).

The project has received widespread support. Subject to Council endorsing the recommendation contained in this report, project briefings will continue to be provided to stakeholders (including additional stakeholders to those outlined above) on an ongoing basis.

### **ATTACHMENTS:**

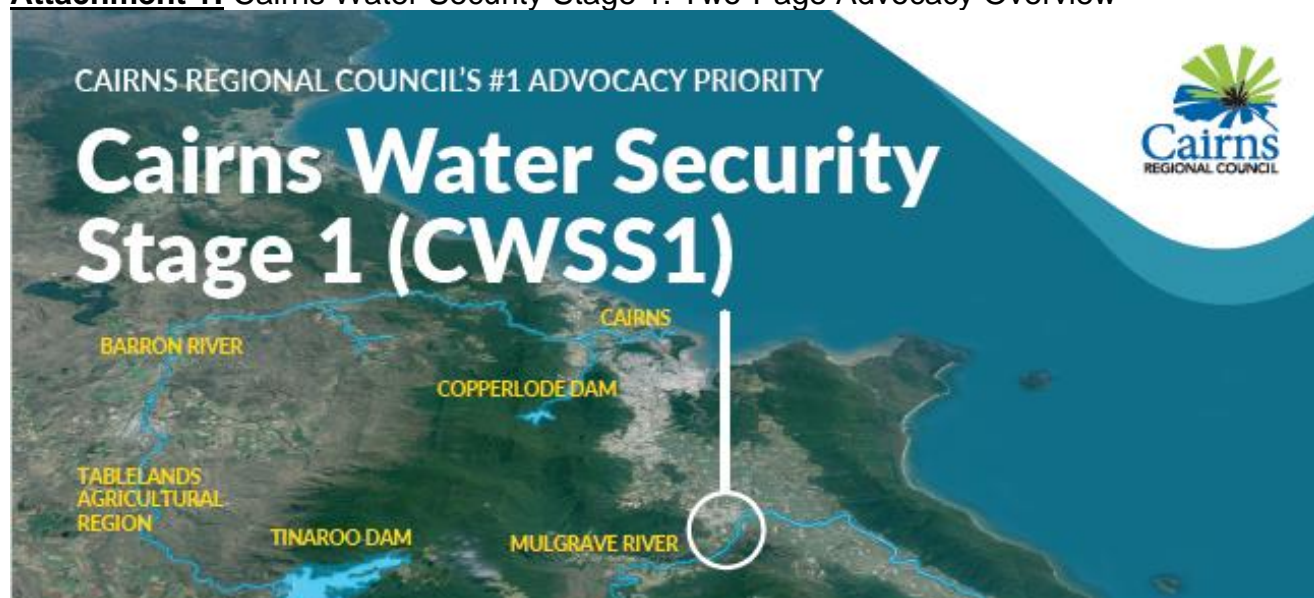
#### **Attachment 1: Cairns Water Security Stage 1: Two-Page Advocacy Overview**



Nick Masasso  
Director – Economic Development & Advocacy



**Attachment 1: Cairns Water Security Stage 1: Two-Page Advocacy Overview**



A critical regional infrastructure project supporting population and economic growth, and disaster resilience in Cairns and FNQ.

The CWSS1 project secures Cairns' future water needs well into the next decade. It has been confirmed through a detailed independent business case as the best value for money solution to the city's water needs.

Existing funding commitments confirm there is consensus at all levels of government, across all political parties, that CWSS1 is the most viable option to provide essential drinking water for Cairns.

But with an increased total project cost and the financial impact of recovering from ex-Tropical Cyclone Jasper, Council is calling on the Queensland and Australian Governments to fully fund CWSS1 to ensure sufficient drinking water - a basic human need - is available as our population and economy grow.

### Total project cost

Following a rigorous procurement process for the design and construction of the new intake, water treatment plant and pipe

network, the total project cost has increased from \$248 million to \$472 million.

The Queensland and Federal Governments have already committed \$215 million (\$107.5 million each) to assist with the completion of the project.

These commitments were based on a preliminary capital cost estimate for the project of \$248 million prepared in early 2022 and based on a high-level understanding of the required investments and infrastructure.

The revised total project cost has been calculated by independent Cost Advisor Ranbury Management Group and takes into account the value of the design and construct tender for the project awarded to John Holland Queensland in December 2023.

The increase in cost reflects the substantial inflationary pressures being experienced in the construction sector across Australia that have led to similar cost increases across major projects nationally.

### Project timeline

- 2015: Cairns Water Security Strategy adopted
- 2021-2022: Business case confirms CWSS1 as best solution
- Q2 2021: Council endorses CWSS1 as No. 1 Advocacy priority
- Q3 2021: Support from all local state and federal members
- May 2022: \$107.5 million funding commitment - Federal
- June 2022: \$107.5 million funding commitment - State
- Q2 2023 - today: Briefings with Ministers and key stakeholders on project cost increase
- December 2023: Construction contract awarded, Council reconfirms project as No. 1 Advocacy priority
- December 16 2023: Cyclone Jasper causes widespread damage and devastation to Cairns and the surrounding region
- Mid-2024: Construction starts
- Mid-2026: CWSS1 completed

### What we need

State and Federal Governments to support the disaster recovery and future economic and social prosperity of Cairns by increasing their existing commitments to the Cairns Water Security Stage 1 (CWSS1) Project to \$236 million each.

Funding to be delivered over 4 years:

2023/24	2024/25	2025/26	2026/27
\$6 million each	\$110 million each	\$85 million each	\$35 million each



## Ex-TC Jasper

Ex-Tropical Cyclone Jasper, the wettest cyclone on record, drenched the Cairns region in December 2023, causing extensive flooding to a number of Cairns suburbs. Homes were lost, infrastructure severely damaged and people's lives turned upside down following one of the most devastating natural disasters the region has ever experienced.

It also exposed the vulnerability of our current water supply, with residents placed on extreme water restrictions for 20 days, when blocked intakes at our key water source, Copperlode Falls Dam, resulted in treated water reserves falling to just 3%. The city came within two hours of running out of water. CWSS1 mitigates this risk by accessing a new water supply and establishing another treatment plant to the south of the city.

While the disaster recovery support packages provided by the State and Federal governments are welcome, our community will inevitably still bear significant costs as we look to rebuild infrastructure, address the environmental impacts of the event, and implement a range of initiatives necessary to support economic and social recovery.

This comes at a time where Cairns residents already face significant cost-of-living pressures with the rising cost of mortgage repayments, rent, insurance and day-to-day essentials all impacting household budgets and business profitability.

## Cost-of-living relief

Increased funding from the State and Federal Governments will not only provide water security but offer significant cost-of-living relief to the Cairns community. The increased commitment to CWSS1 from both levels of government requested in this paper (\$236 million each) would deliver savings of \$7,320 per household, or \$488 per year over 15 years.

### Cost of living relief: savings\* per household



#### Queensland Government

\$244 pa  
over 15 years  
Total \$3,660

#### Federal Government

\$244 pa  
over 15 years  
Total \$3,660

\*Savings per household represent future increases in Council rates and/or water charges avoided because of Government funding versus Council taking on debt to fund the project and repaying that debt over 15 years.

“This project is absolutely critical for our city and the liveability of its residents.”

The Hon. Warren Entsch  
Member for Leichardt

“This is a major infrastructure project that I wholeheartedly support.”

Hon. Michael Healy MP  
Minister for Tourism and Sport  
Member for Cairns

## Regional benefits



- Essential additional water for Cairns and FNQ to grow and prosper.
- Delivers critical risk mitigation for Council's existing water facilities, particularly during periods of natural disaster.
- Significantly cheaper than a new dam and with a lighter environmental footprint.
- Protects our visitor reputation by minimising water restrictions.
- Avoids conflict with future agricultural water needs on the Atherton Tablelands by not sourcing water from the Barron River/Mareeba Dimbulah Water Supply Scheme.
- Strategically located adjacent to the city's primary urban development front (Mt Peter) and in close proximity to the Cairns South State Development Area.

## CWSS1 project - background

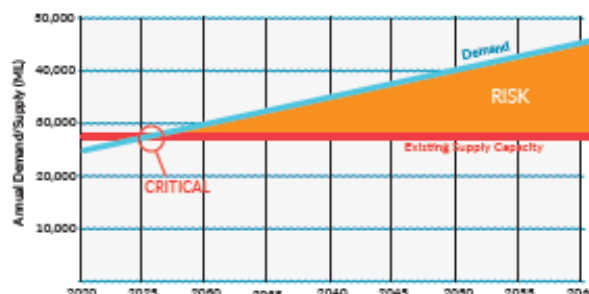
Constructed in 1976, when our population was 58,000, Cairns' primary water source, Copperlode Falls Dam, has served the city well. However, it can no longer meet the water needs of a growing population, expected to reach 241,000 by 2050.

Without a new water supply, Cairns faces the real possibility of a drinking water shortage by 2026.

The Cairns Water Security Stage 1 project will break ground in mid-2024 to provide a much-needed secondary supply, while increasing network resilience to respond to natural disasters.

A key part of the Cairns Water Security Strategy, and confirmed as the best value-for-money solution through a rigorous, independent business case process, the project sources water from a strategic reserve in the Mulgrave River near Gordonvale, and includes intake infrastructure, supply and mains connection pipelines, a treatment

plant and reservoirs. Adding 60ML of water per day to the network, CWSS1 is our 'new dam' but cheaper and with a lighter environmental footprint.



For more information:  
[www.cairns.qld.gov.au/advocacy](http://www.cairns.qld.gov.au/advocacy)

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CWSS1 is proudly supported by:

