

<b>ORDINARY MEETING</b>	<b>4</b>
<b>21 DECEMBER 2023</b>	

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

58/6/3-01 | #7311225

### **RECOMMENDATION:**

That Council:

1. **Reconfirms the *Cairns Water Security – Stage 1 Project* as Council’s Number One Advocacy Priority;**
2. **Seeks additional funding commitments 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.**

---

### **EXECUTIVE SUMMARY:**

On 28 April 2021, Cairns Regional 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 (\$107.5 million from each level of government) towards the cost of delivering the project. These commitments were warmly welcomed by Council and the wider community.

However, as with infrastructure projects nationally, the Total Project Cost Estimate for the *Cairns Water Security – Stage 1 Project* has increased significantly since initial independent costings were completed in February 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.

An updated Total Project Cost Estimate has now been completed by Council’s independent Cost Advisor, Ranbury Management Group. The updated Total Project Cost Estimate is \$472 million. This updated estimate takes into account the results of a comprehensive procurement process for the project (which included Early Contractor Involvement), and the recommended award of the Design and Construct Contract for the project which is scheduled for consideration at Council’s Ordinary Meeting on 21 December 2023.

Given the significant escalation in the Total Project Cost Estimate, it is recommended that Council reconfirm the project as its Number One Advocacy Priority and seeks additional State and Federal funding to support the total project cost.

**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)*

Without the additional State and Federal funding outlined in Table 1, 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.

### **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.

For some time, Cairns Regional Council has been planning for the long-term urban water needs of the Cairns Community. 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. The CWSS 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, 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 (\$107.5 million from each level of government) towards the cost of delivering the project.

However, as with infrastructure projects nationally, the Total Project Cost Estimate of the *Cairns Water Security – Stage 1* Project has increased significantly since initial independent costings were completed in March 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 based on a high-level understanding of the required investments and infrastructure.

This Council report provides an update on the Total Project Cost Estimate and the additional State and Federal funding requests that are recommended in light of the anticipated increase in costs.

## **COMMENT:**

### *Project status and capital cost update*

Since the current State and Federal funding commitments of \$215 million (combined) for the *Cairns Water Security – Stage 1* Project were secured in 2022, a number of key project related activities have been progressed and/or completed. These include:

- Finalisation of the detailed independent business case for the project;
- Design development to a Reference Design level;
- Implementation of a comprehensive procurement process (incorporating Early Contractor Involvement) for project design and construction;

- Finalisation of approval requirements; and
- Preparation of an updated Total Project Cost Estimate incorporating the outcomes of the above.

The final Detailed Business Case prepared by ARUP confirmed the *Cairns Water Security – Stage 1* Project as the preferred solution for delivering additional drinking water supply capacity for Cairns in the short to medium term. A copy of the final Detailed Business Case has been provided to the Queensland Government’s Department of Regional Development, Manufacturing and Water.

The procurement process for the Design and Construct Contract for the *Cairns Water Security – Stage 1* Project and recommended contract award, is the subject of a separate report to Council’s Ordinary Meeting on 21 December 2023. Subject to the awarding of the contract being confirmed at this meeting, the project will proceed to detailed design with construction expected to commence in mid-2024.

The project procurement process was comprehensive incorporating an Early Contractor Involvement phase and occurred over several months. Further details on this process are contained in the separate report to Council referred to earlier.

Council’s independent Cost Advisors, Ranbury Management Group, have prepared an updated Total Project Cost Estimate. This estimate includes:

- Award of the design and construct contract in accordance with the recommendation contained in the concurrent report going to Council’s Ordinary Meeting on 21 December 2023;
- Owner’s costs, including for external specialist advice, project management and contract management, and other allowances through to Practical Completion;
- Additional scope items not currently included in the design and construct contract scope, such as revegetation requirements, Behana Creek Intake Upgrade Works, and land acquisitions required for construction;
- Land acquisition (Water Treatment Plant) and other pre-planning costs (incl survey, geotech, hydraulic and hydrology studies etc);
- Detailed Business Case and related costs; and
- Contingency provisions to account for project risk.

Ranbury Management Group’s updated estimate of project capital cost incorporating the above is \$472 million (ex GST).

### *Recommended Advocacy*

Given the significant escalation in the Total Project Cost Estimate, it is recommended that Council reconfirm the project as its Number One Advocacy Priority and seeks additional State and Federal funding to support the total project cost.

**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 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

Council Officers recommend that formal submissions be made to relevant State and Federal Government ministers 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.

#### Other matters - Demand Management

The *Cairns Water Security – Stage 1 Project* is being delivered alongside the continued roll-out of water-saving measures through Council's Water Demand Management Strategy 2016 - 2025. Council has had an active Demand Management Strategy in place since 2006.

Demand management initiatives that Council has implemented to date include:

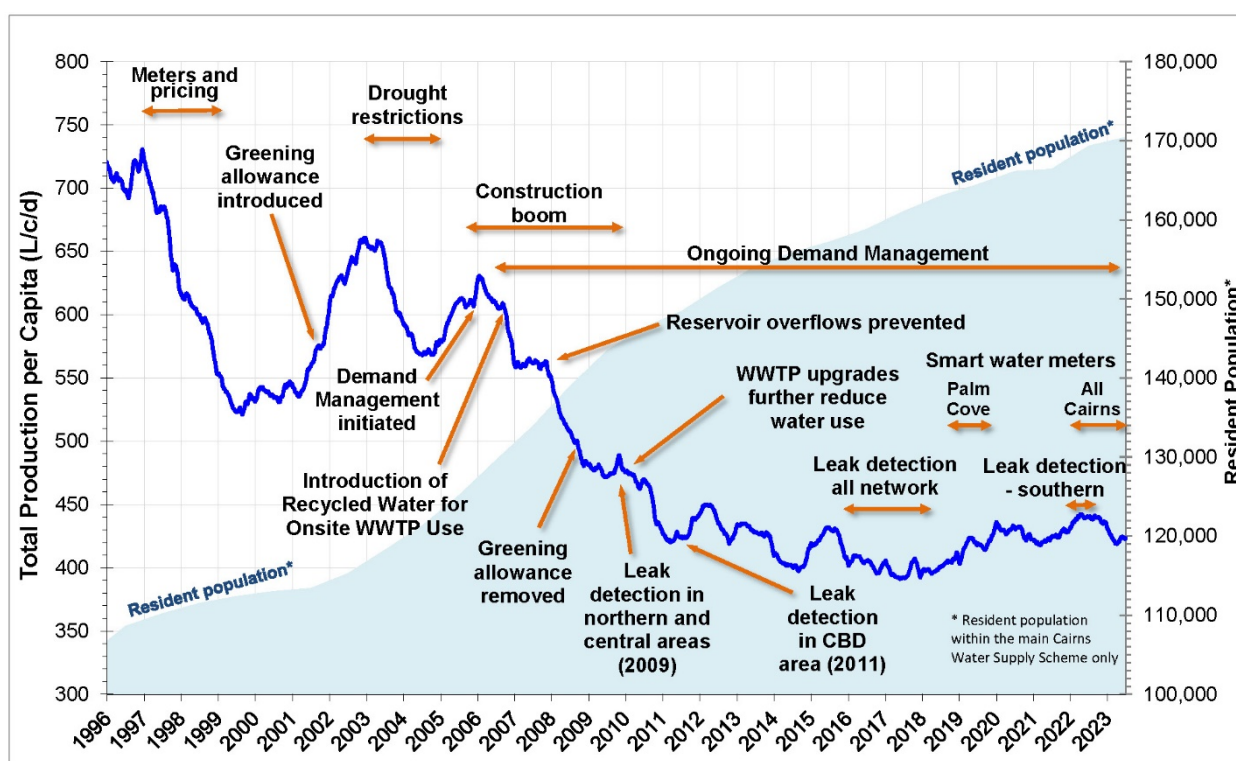
- The introduction of Smart Water Meters;
- Bulk water meter audits and replacement;
- Active leak detection, management and repair program;
- Effective metering and pricing;

- Water education and conservation programs (schools and community);
- Media and communication campaigns;
- Permanent water conservation measures;
- Water conservation incentives for commercial customers; and
- Use of recycled water for irrigation of public gardens, school fields and sports facilities.

Council has committed \$5.7 million in its 2023/24 Budget to continue the rollout of smart water meters, with further commitments in following Budget cycles for the installation of more than 50,000 gauges by mid-2025. The total Budget allocation as at 2023/24 is \$20 million over the four years to 30 June 2026.

The need to conserve water has been embraced by the Cairns community with a 35% reduction in water consumption per capita over the 17 years to 30 June 2023. This is demonstrated by the graph below.

**Graph 1: Correlation between Council's demand management initiatives and water consumption per capita (demand management initiatives commenced 2006)**



Data sources: QGSO, ABS, Cairns Regional Council water user database and historical records

As a result of these measures, Cairns' residential water use is similar to that of other Queensland regional areas and is significantly better than that of comparable tropical cities such as Townsville and Darwin. This is demonstrated in the following table (Table 3) which shows the average annual residential water supplied (kL/property) for various regional centres and cities. Council's strategy targets a further 10% reduction by 2025.

**Table 3: Average annual residential water supplied (kL/property) for various regional centres and cities**

Region	2019-20	2020-21	2021-22	% change (21-22 v 20-21)
Darwin	373	360	374	3.9
Townsville	363	342	342	0
Rockhampton	383	365	317	-13
Whitsunday	304	276	277	0.3
<b>Cairns</b>	<b>257</b>	<b>250</b>	<b>255</b>	<b>2.1</b>
Cassowary Coast	220	224	236	5.7
Mackay	215	168	196	16.5
SEQ *	163	161	151.8	-5.70

\* Average across following water service providers: Unitywater, Urban Utilities, Redland City Council, Logan City Council, City of Gold Coast. Data source: Bureau of Meteorology, February 2022, National performance report 2020–21: urban water utilities, part A).

While demand management has ensured the city’s drinking water supply meets current needs, it won’t be sufficient to accommodate the anticipated population growth of 62,000 people by 2046. To provide for these additional residents (and an associated increase in visitors), a new drinking water supply is needed.

In the context of population growth, the *Cairns Water Security – Stage 1 Project* will ensure that Cairns Regional Council remains compliant with the Water Supply (Safety and Reliability) Act 2008.

Under the Act, Council is required to implement measures that ensure the continuity of services. It is unreasonable to expect the Cairns community to be put on austerity/severe level restrictions on a permanent basis in the case of a failed wet season.

#### *Other Matters – Project Value management*

In the seven years since the adoption of the CWSS in 2015, active demand management and other investment deferral initiatives (both minor infrastructure and non-infrastructure), have been successful in reducing demand, optimising existing water supply assets, and prudently delaying the need for new infrastructure investment. However, in accordance with the strategy, investment in new infrastructure is now needed to ensure the water supply continues to meet the growing water needs of the region and sustains the agreed level of service to the community.

Early project works reviewed the Staging and Phasing options for the delivery model, with the analysis confirming costs would significantly increase if *Stage 1* works were delivered in a staged or phased manner.

As part of Council's procurement process for the *Cairns Water Security – Stage 1 Project*, the ECI phase also sought innovation and value management options from the proponents, all of which were considered by Council prior to finalising the Total Project Cost Estimate, ensuring a value for money approach to the project scope.

### Other Matters - Stakeholder engagement

Throughout October, November and December 2023 Council representatives have provided high-level project updates to key stakeholders including:

- Hon Steven Miles, Deputy Premier, Minister for State Development, Infrastructure, Local Government and Planning and Minister Assisting the Premier on Olympic and Paralympic Games Infrastructure;
- Senator Nita Green, Senator for Queensland;
- Hon Warren Entsch MP, Federal Member for Leichhardt;
- Hon Craig Crawford MP, State Member for Barron River;
- Hon Curtis Pitt MP, State Member for Mulgrave;
- Mr Michael Healy MP, State Member for Cairns;
- Advance Cairns;
- Cairns Chamber of Commerce;
- Regional Development Australia (RDA) Tropical North; and
- Office of Northern Australia.

The project has received widespread support. Project briefings will continue to be provided to stakeholders (including additional stakeholders to those outlined above) on an ongoing basis.

### **OPTIONS:**

#### Option 1 (Recommended)

That Council:

1. Reconfirms the *Cairns Water Security – Stage 1 Project* as Council's Number One Advocacy Priority;
2. Seeks additional funding commitments 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.



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:

Construction of the *Cairns Water Security – Stage 1* Project is expected to generate significant economic activity and support hundreds of jobs in the construction sector during the construction phase. If the revised State and Federal funding outlined in Table 1 is not forthcoming, the majority of the project capital cost would be borne by local residents which in turn would result in an adverse impact to economic activity by virtue of a reduced level of disposable income for Cairns residents.

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 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 forecast escalation in the Total Project Cost Estimate.

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 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:**

Details of the significant stakeholder engagement undertaken in considering/developing the proposed advocacy approach outlined in this report are outlined in the Comments section.



Nick Masasso  
Director - Economic Development & Advocacy