

Late item 4.1.3

Special Meeting (Region Making Projects)

Thursday, 23 November 2017

commencing at 2.00pm

Nambour Chambers, Corner Currie and Bury Streets, Nambour

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4 REPORTS DIRECT TO COUNCIL**4.1 ECONOMIC AND COMMUNITY DEVELOPMENT****4.1.3 SUNSHINE COAST INTERNATIONAL BROADBAND SUBMARINE CABLE****File No:** Council meetings**Author:** Group Executive
Economic & Community Development Group**Attachments:** Att 1 - Feasibility Study: Sunshine Coast International
Broadband Submarine Cable (10 November 2017),.....*Conf 5/125*
Att 2 - Market Sounding Report: Sunshine Coast International
Broadband Submarine Cable (November 2017),.....*Conf 87/125*
Att 3 - Progress Report: Sunshine Coast International
Broadband Submarine Cable Project (16 November 2017)
.....*Conf 101/125*
Att 4 - Project Management Plan: Sunshine Coast International
Broadband Submarine Cable (20 November 2017),.....*Conf 103/125***PURPOSE**

The purpose of this report is to update Council on the progress of the Sunshine Coast International Broadband Submarine Cable Project (the cable project or the project) and seek a Council resolution to proceed with a formal procurement process in the form of an Expression of Interest to identify a partner(s) to deliver an international broadband submarine cable to the Sunshine Coast.

EXECUTIVE SUMMARY

The recently completed Sunshine Coast International Broadband Submarine Cable Feasibility Study (the feasibility study) has confirmed that there is interest from government, potential users and submarine cable developers for a new international broadband submarine cable (the cable) landing to Queensland via the Sunshine Coast.

A new international broadband submarine cable to South East Queensland will stimulate investment by:

- attracting and supporting up to 864 jobs to the Sunshine Coast
- stimulating new investment up to \$927 million to the Queensland economy and
- increasing tax revenue for Queensland by up to \$70 million.

A market sounding exercise conducted by Council has identified that businesses on the Sunshine Coast are:

- paying a higher cost for communications to Brisbane
- paying business prices for what is essentially a retrograde 'residential' service and
- lacking local data centre and disaster recovery options to minimise business costs and improve business efficiency.

An international broadband submarine cable will address these issues and stimulate investment and jobs growth, and help retain jobs that might otherwise have been relocated elsewhere as a result of inferior telecommunications infrastructure.

A formal procurement process in the form of an Expression of Interest will provide opportunity for Council to identify a partner(s) to deliver the international broadband submarine cable.

OFFICER RECOMMENDATION

That Council:

- (a) receive and note the report titled “Sunshine Coast International Broadband Submarine Cable”
- (b) invite Expressions of Interest to identify a partner(s) to deliver the international broadband submarine cable and
- (c) note that the calling for Expressions of Interest as noted in (b) above would be in the public interest for the following reasons:
 - i. being able to discuss and negotiate the best outcome given a number of unknowns in the construction and operation of the proposed project
 - ii. to allow industry driven analysis of existing and future costs for construction and ongoing operation of the project on which to base economic decisions and
 - iii. to enable a bespoke contract between Council and the successful respondent.

FINANCE AND RESOURCING

The feasibility study was completed at a cost of \$210,250 (excluding GST) and this was funded by a grant from the Australian Government.

The total cost and structure of the project will not be known until early 2018 however a number of potential funding sources have been identified including:

- the private sector is likely to be interested in funding components of the project
- the Commonwealth Government
- the Queensland Labor Government has announced that it will spend \$15 million in support of the project if re-elected following the State election on 25 November 2017
- an amount of \$8 million has been allocated to the international broadband submarine cable project as part of Council's most recent Budget Review and
- other South East Queensland Councils may also be willing to contribute financially to the cable project.

When complete, the cable project will have the potential to be a revenue generating asset for Council.

CORPORATE PLAN

Corporate Plan Goal: *A smart economy*

Outcome: 1.2 - New capital investment in the region

Operational Activity: 1.2.4 - Implement actions to facilitate the landing of an international broadband submarine cable on the Sunshine Coast.

CONSULTATION

Portfolio Councillor Consultation

The Mayor and Cr Robinson have been consulted as part of the feasibility study and the market sounding exercise.

Internal Consultation

The following have been consulted in relation to the feasibility study and the market sounding exercise:

- Chief Executive Officer
- Chief Strategy Officer
- Manager Economic Development
- Project Officer Economic and Community Development
- Coordinator Smart City Framework
- Manager Procurement and Contracts

External Consultation

The following stakeholders were consulted as part of the feasibility study and the market sounding exercise.

- Federal Government agencies
- Queensland Government agencies
- Submarine cable providers
- Telecommunication providers
- Data centre operators
- Internet content and cloud providers
- Key Sunshine Coast businesses.

Community Engagement

No community consultation beyond the external consultation referred to above has been undertaken as part of the feasibility study or the market sounding exercise.

PROPOSAL

Feasibility Study

In June 2017, a Commonwealth Grant Agreement was signed between the Commonwealth of Australia and Sunshine Coast Regional Council (the grant). The purpose of the grant was to conduct a feasibility study to:

- assess the costs and benefits of connecting an international submarine telecommunications cable on the Sunshine Coast and
- examine how to leverage private sector investment to unlock the economic value of an international submarine telecommunication cable.

The grant required that an open tender process be conducted to engage a consultant to undertake the feasibility study. A Request for Proposal (RFP) was advertised with an independent evaluation of responses conducted and each response was rated by members of an evaluation panel in accordance with the Procurement Probity Plan evaluation criteria. A

report was submitted to the Council's Procurement Contracts Committee on 12 July 2017, with the appointment of GQI Consulting Pty Ltd on 14 July 2017 to undertake the feasibility study.

GQI Consulting Pty Ltd approached the work of the feasibility study in two parts, as described below.

The first part establishes the technical, financial and commercial viability of a submarine cable landing on the Sunshine Coast:

- Identify existing and planned submarine cables to Australia
- Determine demand and pricing for submarine cables
- Undertake a SWOT analysis for the Sunshine Coast as a landing site
- Gather market intelligence to inform a market sounding exercise
- Identify additional infrastructure required for the landing station
- Make recommendations to Council on the optimal approach.

The second part evaluates the economic benefits:

- Review the industries and sectors on the Sunshine Coast
- List the barriers and potential ways these might be overcome
- Model the benefits using a Computable General Equilibrium model to understand the total incremental impact
- Understand any policy or regulatory implications
- Suggest any additional actions.

A component of the feasibility study has been to consult 35 stakeholders. These stakeholders include Councillors, Council officers, data centre operators, officers of some Federal and State Government agencies, representatives of key Sunshine Coast businesses, submarine cable providers, and telecommunication providers.

The feasibility study report was provided to the Commonwealth on 10 November 2017. The study confirms that there is substantial interest from business users, submarine cable developers and a number of government agencies for a new submarine cable landing on the Sunshine Coast.

A new international broadband submarine cable to the Sunshine Coast could increase the competitiveness of the State and stimulate investment, as shown in Table 1.

| Economic Benefits based on Computable General Equilibrium (CGE) modelling ¹ | Sunshine Coast | Queensland (including Sunshine Coast) | Australia (including Queensland) |
|--|----------------|---------------------------------------|----------------------------------|
| Value added \$m: (NPV) | \$453m | \$927m | \$907m |
| Employment (FTEs p.a.) | 864 | 830 | 201 |
| Investment (\$m: NPV) | \$276m | \$309m | \$305m |
| Tax rev. including Payroll tax (\$m: NPV) | - | \$70m ² | \$42m |

Table 1: Summary of Economic Benefits

¹ NPV of benefits 2020 to 2050.

² Includes Payroll tax NPV of \$25m.

The economic modelling undertaken as part of the feasibility study indicates substantial value-added economic, investment and employment benefits for the Sunshine Coast, the whole of Queensland and Australia for example:

- The Sunshine Coast region will benefit from an international cable landing station which will stimulate investment, jobs growth, and help retain jobs that might otherwise have been lost to the region. It will also provide a 'halo' effect for the Maroochy CBD development, bringing forward purchase, lease and rental decisions.
- There are potential benefits for North Queensland using existing or new communication networks.
- Queensland will benefit as an international cable will reduce the backhaul cost to Sydney across the State. This will in turn encourage companies to move their traffic directly to the Sunshine Coast – further reducing costs and stimulating the South-East Queensland Data Centre market as a location for major multinationals.
- Australia will benefit from the increased business activity, although the growth in Queensland may come at the expense of other states.

The report argues a new cable to Queensland will be an important national asset as it will provide access to a growing Queensland market base; offer diversity (minimises risk) from the existing crowded and expensive landing options in Sydney; and plugs into one of the most supportive innovation and entrepreneurship ecosystems, and smart city regions and states in Australia.

Market Sounding

A key recommendation of the feasibility study was that Council undertake a market sounding exercise to determine what services and assistance would be required for international submarine cable operators and proponents to successfully complete the project. This process would inform requirements for the submarine cable (wet and dry), the cable landing station, and the backhaul to understand the level of interest in supplying the solution.

In October 2017, a number of activities were undertaken to raise awareness of the cable project and the market sounding exercise. The target audience was backhaul providers, data centres, submarine cable providers, and telcos. The activities included the following:

- A Council presence at the Submarine Networks World 2017 conference held in Singapore
- Advertising in major newspapers including *The Australian*, *The Australian Financial Review* and *The Courier Mail*
- A page on QTender, the Queensland Government's online tendering system
- An advertisement in *CommsDay*, an online telecommunications industry publication
- Direct contact with key stakeholders involved in the feasibility study.

A total of 39 registrations were received from the Singapore presence and advertising. An additional seven of the stakeholders that were contacted directly registered their interest.

A sample of the registrations received were invited to meet with Council and then to provide input via a submission to inform Council on their desire to achieve an international broadband submarine cable by 2020.

The key findings of the market sounding exercise include the current inequality for Sunshine Coast businesses as they are paying higher prices and receiving a lower quality service than the cost of broadband that the capital cities are enjoying.

These findings from the market sounding exercise support a key recommendation of the feasibility study which is to clarify in more detail the cost, benefit, commitment and timing of each interested party.

As a result, it is recommended that Council commence a formal procurement process in the form of an Expression of Interest to identify a partner(s) to deliver the international broadband submarine cable. This process would involve the project being split into separable portions to generate as much interest as possible.

Governance

In parallel with the procurement process, the following governance arrangements will be progressed:

- The establishment of a Project Control Group (PCG) which will reflect Portfolio Councillor responsibilities and consider the need for external representation on the PCG
- A review of the future corporate structure that would best suit the project when it proceeds and the seeking of any necessary State and Federal Government approvals that are required
- Engage specialist resources to facilitate the project progressing
- The Project Plan will be updated to reflect the project progressing to the stage of undertaking a formal procurement process.

Legal

Local Government Regulation 2012 governs the methodology for the tender process for local government authorities.

The relevant sections of the Regulation are as follows:

227 Valuable non-current asset contract – tenders or auction needed first

- (1) A local government can not enter into a valuable non-current asset contract unless it first—
 - (a) invites written tenders for the contract under section 228 ; or
 - (b) offers the non-current asset for sale by auction.
- (2) This section is subject to division 4.

228 Tender process

- (1) This section is about how a local government must invite written tenders for—
 - (a) a large-sized contractual arrangement; or
 - (b) a valuable non-current asset contract.
- (2) The local government must either—
 - (a) invite written tenders under subsection (4); or
 - (b) invite expressions of interest under subsection (5) before considering whether to invite written tenders under subsection (6)(b).
- (3) However, the local government may invite expressions of interest under subsection (5) only if the local government—
 - (a) decides, by resolution, that it would be in the public interest to invite expressions of interest before inviting written tenders; and
 - (b) records its reasons for making the resolution in the minutes of the meeting at which the resolution was made.

Statutory Bodies Financial Arrangements Act 1982 will be reviewed to identify if any approvals are required and these will be sought by the Chief Executive Officer.

Policy

The proposal to deal with the disposal by way of Expressions of Interest is not contrary to any Council policy.

Risk

As detailed in the report, the project provides significant opportunities and benefits for the Sunshine Coast. To derive these benefits and minimise risks associated with the project, appropriate governance arrangements will begin to be implemented.

Previous Council Resolution

There are no previous Council resolutions relating to this report.

Related Documentation

Feasibility Study: Sunshine Coast International Broadband Submarine Cable (10 November 2017).

Critical Dates

Table 2 provides details of the dates that are critical to maintaining progress on the cable project.

| Activity | Date |
|---|---------------|
| Expressions of Interest – advertising commences | November 2017 |
| Expressions of Interest – closing date for submissions | January 2018 |
| Expressions of Interest – assessment of submissions | January 2018 |
| Report to Council of outcome of Expressions of Interest process | February 2018 |
| Signing of Partnership | March 2018 |

Table 2. Critical dates

Implementation

The project will be progressed in accordance with the resultant resolutions of Council including:

- the establishment of a Project Control Group (PCG) which will reflect Portfolio Councillor responsibilities and consider the need for external representation on the PCG
- a review of the future corporate structure that would best suit the project when it proceeds and the seeking of any necessary State and Federal Government approvals that are required
- the engagement of a specialist resources to facilitate the project progressing
- updating of the Project Plan to reflect the project progressing to the stage of undertaking a formal procurement process and
- provision of reports to Council when further decisions are required or in the form of project updates.