

**ITEM 7. GREEN SQUARE WATER RECYCLING – STAGE TWO – APPROVAL
TO ENTER INTO PROJECT DELIVERY AGREEMENT**

FILE NO: S116501.004

SUMMARY

Sustainable Sydney 2030 includes a vision for a resilient water-sensitive city that is able to adapt to climate change and reflects the desire of businesses and the community for improved water efficiency, increased water independence and improved water quality in local water catchments.

The draft Environmental Strategy and Action Plan for 2016-2021 sets a target of zero increase in potable water use across the City of Sydney local government area from the baseline year of 2006. This will be challenging and can only be achieved through a mix of water efficiency measures and water recycling. This target supersedes the efficiency and recycled water targets set out in the Decentralised Waster Master Plan.

The best opportunity to develop water recycling projects in the City of Sydney area is within urban renewal areas. Urban renewal areas provide the density and scale required for efficient investment in recycled water infrastructure. Infrastructure provision can be planned and installed at the time of development, which is cheaper and more efficient than retrofitting. Redevelopment also allows private water utilities to offer water services across an entire precinct, improving commercial viability. As well, the City can use planning controls to encourage the delivery of recycled water services.

Green Square is a major urban renewal area. Via a competitive tender process, the City engaged Flow Systems to design, construct, operate and maintain a recycled water scheme to service Green Square Town Centre. Flow Systems is a private water utility operating under the provisions of the Water Industry Competition Act. The Green Square Town Centre water recycling scheme (Stage One) involves extraction of stormwater from the trunk drainage system in the Town Centre and installation of a water recycling plant in the Green Infrastructure Centre, an existing building on the former South Sydney Hospital site refurbished by the City.

Outside the Town Centre (served by Stage One) significant extra urban renewal potential exists in the Greater Green Square area, particularly Epsom Park, North Rosebery and Beaconsfield. A private water utility could fund, own and operate a commercial water utility in this area, provided that the utility could form suitable commercial arrangements with Sydney Water, developers and customers and the City offers space to house the treatment plant and storage tanks.

In 2015, the City conducted an expression of interest process for proposals from organisations capable of owning, designing, building, operating and retailing recycled water services. A single suitable respondent was identified, referred to as 'Company C'. Council subsequently granted an exemption from tender and authorised the Chief Executive Officer to undertake confidential commercial negotiations with Company 'C'.

Negotiations with Company 'C' have now concluded, and suitable commercial terms have been agreed that would allow a Stage Two Water Recycling Scheme to be delivered in a manner which is consistent with the City's preferred model for delivery of recycled water in this area.

RECOMMENDATION

It is resolved that:

- (A) Council note that a satisfactory outcome has been achieved to commercial negotiations with the single suitable respondent to the expression of interest process for the Stage Two Water Recycling Scheme (Company 'C');
- (B) Council note how it is proposed to manage the commercial and logistical considerations that are central to satisfactory delivery of the Stage Two Water Recycling Scheme, as discussed in in confidential Attachment A to the subject report; and
- (C) authority be delegated to the Chief Executive Officer to enter into a project delivery agreement with the single suitable respondent (Company 'C') on terms and conditions that are consistent with the heads of agreement document set out in confidential Attachment B to the subject report.

ATTACHMENTS

Attachment A: Summary of Confidential Commercial Negotiations (Confidential)

Attachment B: List of Terms to be incorporated in Project Delivery Agreement (Confidential)

(As Attachments A and B are confidential, they will be circulated separately from the agenda paper and to Councillors and relevant senior staff only.)

CONTEXT

1. Sustainable Sydney 2030 includes a vision for a resilient water-sensitive city that is able to adapt to climate change and reflects the desire of businesses and the community for improved water efficiency, increased water independence and improved water quality in local water catchments.
2. The draft Environmental Strategy and Action Plan for 2016-2021 sets a target of zero increase in potable water use across the City of Sydney local government area from the baseline year of 2006. This will be challenging and can only be achieved through a mix of water efficiency measures and water recycling. This target supersedes the efficiency and recycled water targets set out in the Decentralised Water Master Plan.
3. The best opportunity to develop water recycling projects in our local area is in our urban renewal areas. Urban renewal areas provide the density and scale required for efficient investment in recycled water infrastructure. Infrastructure provision can be planned and installed at the time of development, which is cheaper and more efficient than retrofitting. Redevelopment also allows private water utilities to offer water services across an entire precinct, improving commercial viability. As well, the City may have some scope (in areas where redevelopment is occurring) to use its planning controls to encourage the delivery of recycled water services.
4. The City has already commissioned a water recycling system to service Green Square Town Centre. This scheme involves extraction of stormwater from the trunk drainage system in the Town Centre and installation of a water recycling plant inside the Green Infrastructure Centre (this building is part of the former South Sydney Hospital and has been refurbished by the City).
5. Significant future urban renewal potential exists in other parts of the Greater Green Square area, particularly Epsom Park, North Rosebery and Beaconsfield. Preliminary investigations indicate that it could be feasible for a private utility to fund, own and operate a commercial water utility in this area provided the utility could form suitable commercial arrangements with Sydney Water, developers and customers and the City offers space to house the treatment plant and storage tanks.
6. It is considered feasible for a private utility to fund, own and operate a water utility business that provides full customer services in the balance of the Greater Green Square area on a commercial basis. The role of the City would be limited to facilitating involvement of a water utility in redevelopment of the Greater Green Square area and possibly providing access to space to house plant, and storage tanks.
7. Via an expression of interest process, the City invited proposals from organisations capable of owning, designing, building, operating and retailing recycled water services. A single suitable respondent has been identified, namely, Company 'C'. The understanding that has now been reached with Company 'C' is consistent with the City's preferred model.

BACKGROUND

8. Recycled water has been identified as an important element of green infrastructure since early on in the redevelopment process for Green Square Town Centre.

9. In 2011, the City engaged consultants to scope the design, construction, operation and maintenance of a recycled water scheme in Green Square Town Centre. For convenience, this scheme is referred to as “Stage One”.
10. In 2012, the City issued a tender for the design, construction, operation and maintenance of the Stage One recycled water scheme.
11. The successful tenderer was Flow Systems Pty Ltd, a firm which is now majority owned by the Brookfield Infrastructure Group. Flow Systems is a private water utility licensed to operate under the provisions of the Water Industry Competition Act (WIC Act).
12. In 2013, the City adopted the Decentralised Water Master Plan.
13. In 2014, Flow Systems started detailed design of the Stage One water recycling scheme and thereafter started construction of the Stage One scheme. The scheme involves extraction of stormwater from the trunk drainage system in the Town Centre and installation of a water recycling plant inside the Green Infrastructure Centre (this building forms part of the former South Sydney Hospital and has been refurbished by the City).
14. Delivery of additional recycled water opportunities would be consistent with the Decentralised Water Master Plan.
15. Water recycling is an emerging industry sector and is becoming increasingly commercially viable. Examples of schemes recently developed in the City include Barangaroo and Central Park. To assist schemes deal with commercial risks, property developers often provide space for scheme infrastructure and dual plumb buildings to remove a barrier to apartment owners connecting to recycled water.
16. One of the risks to new schemes has been obtaining suitable commercial terms with Sydney Water for residual discharges from wastewater treatment plants and the use of potable water to top up recycling supplies. The City has been working successfully with other industry stakeholders to bring about regulatory change that addresses these matters and recognises the emerging role of water recycling.
17. This year IPART has conducted a review of the wholesale pricing framework for Sydney Water and Hunter Water. In November 2016 IPART issued a draft report and determination on pricing for residual discharges and the use of potable water top-up, which would improve the commercial environment for water recycling.
18. In 2015, Council considered a business case which identified circumstances in which it may be commercially feasible for a private water utility to develop, fund, own and operate a recycled water business in the Greater Green Square urban renewal area based on treatment of waste water.
19. In the second half of 2015, the City invited expressions of interest from organisations capable of providing alternative water utility services at an acceptable cost to customers in the Greater Green Square urban renewal area. For convenience, this scheme is referred to as “Stage Two”.
20. The expression of interest included a possible option for space for a water treatment facility (this would eventually convert to a long-term lease) and possible space for storage infrastructure, subject to the preferred respondent achieving pre-agreed project development milestones and wastewater recycling targets.

21. Three businesses responded to the expressions of interest process (known as Companies 'A', 'B' and 'C'). However, only a single business was identified that would be willing to deliver the Stage Two recycling scheme in accordance with the City's requirements. This business is Company 'C'.
22. Council granted an exemption from tender in accordance with the provisions of the Local Government Act 1993, and negotiations have been ongoing over the course of the past year with Company 'C'.
23. Agreement has now been reached with Company 'C' on the terms of a project delivery agreement to deliver water recycling services to the balance of the Greater Green Square renewal area.

FINANCIAL IMPLICATIONS

24. Financial implications of the proposed project delivery agreement are discussed in confidential Attachment A. It is not anticipated that there would be any adverse financial impact on the City.
25. Commercial risks associated with the proposed delivery agreement would be carried entirely by the owner and operator of the private water utility. The main risks that the City assumes are those associated with issuing a lease to the private water utility to occupy space to build and operate a water treatment facility. These risks, which include such matters as end of lease site remediation, are covered in the terms of the proposed lease.

RELEVANT LEGISLATION

26. The expression of interest process for Stage Two Water Recycling was conducted in accordance with the Local Government Act 1993, the Local Government (General) Regulation 2005 and the City's adopted contract policy. A single suitable respondent (Company 'C') was identified through this process.
27. The decision to deal with the single suitable respondent and to provide an exemption from tender was approved by Council on 14 December 2015.
28. Confidential Attachments A and B contain information about the commercial terms of the proposed project delivery agreement for Stage Two Water Recycling that would, if disclosed, confer a commercial advantage on a person with whom the City proposes to conduct business, or prejudice the commercial position of the person who supplied the commercial information.
29. Discussion of the matter in an open meeting would, on balance, be contrary to the public interest because it would compromise Council's ability to negotiate fairly and commercially to achieve the best outcome for its ratepayers.
30. Accordingly, it is recommended that both attachments remain confidential in accordance with section 10A (2) (d) of the Local Government Act 1993.

CRITICAL DATES / TIME FRAMES

31. Execution of a project delivery agreement on suitable terms and conditions on an urgent basis is highly desirable, because development in the Greater Green Square area is occurring rapidly and it is important that the selected utility be able to engage with developers on a timely basis. Accordingly, the terms and conditions discussed in confidential Attachment A and further documented in confidential B are recommended for approval.
32. The structure of the project delivery agreement would require the private utility (Company 'C') to satisfy a number of requirements before the agreement becomes binding. These requirements are the conditions precedent. Once these are met, the City would then issue a lease over part of the Green Infrastructure Centre that would be used by Company 'C' as the site of the Stage Two water recycling facility.

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