



21 November 2011

The Directors  
Lend Lease Communities (Wilton) Pty Limited,  
31 Pembroke Parade  
Wilton NSW 2571

Attention : Mr Jamie Howieson

Dear Jamie

## **COST MODEL REVIEW FOR THE SEWERAGE SYSTEM AT BINGARA GORGE**

The Directors of Lend Lease Communities (Wilton) Pty Limited ("**LLCW**") ("**Directors**") have engaged PKF Corporate Advisory (East Coast) Pty Ltd ("**PKFCA**") to conduct a review of the cost model prepared by LLCW ("**LLCW Cost Model**") in relation to a private sewerage system for Bingara Gorge, a real estate development located adjacent to the intersection of the Hume Highway and Picton Road at Wilton ("**Project**").

### **Background**

LLCW is the developer entity contracting with the landowner to develop the Project. LLCW has subcontracted the operation and maintenance of the recycled water treatment plant to an external party. The contracting entity for the Operation & Maintenance (O&M) contract is with Veolia Water Solutions & Technologies (Australia) Pty Limited ("**VWS**"). Both the LLCW and VWS are parties to the customer contracts with the residents for the provision of recycled water supply and sewerage service.

LLCW management advised they had selected four (4) companies to submit proposals for the design and construction of the recycled water treatment plant. LLCW management advised that VWS was appointed in January 2010 to apply for the Water Industry Competition Act 2006 ("**WICA**") licence. LLCW management advised that the selection was on the basis that VWS was the only company holding a WICA licence for another project, at the time of tender.

We were informed by LLCW management that subsequently, VWS submitted a concept proposal to LLCW providing details for the design, supply, installation, commissioning and operation of the recycled water treatment plant. LLCW management advised that, on this basis and LLCW's internal recommendation, VWS was awarded the contract to design and construct the recycled water treatment plant.

### **Basis of preparation**

The LLCW Cost Model was prepared by the Directors. The Directors believe that the LLCW Cost Model has been prepared with due care and attention, and considers all best estimate assumptions when taken as a whole to be reasonable at the time of preparing the LLCW Cost Model.

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## Procedures

We have reviewed the LLCW Cost Model to provide an independent assessment of the LLCW Cost Model to the residents. Residents should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the LLCW Cost Model, and that this may have a material positive or negative effect on the cumulative profit/(subsidy) received/incurred by LLCW.

The procedures that we performed did not constitute an audit or a review in accordance with Australian Auditing and Assurance Standards. In addition, the procedures that we performed have not been designed to provide a negative assurance opinion on forecasts in accordance with Australian Auditing and Assurance Standards. Consequently, no assurance in relation to forecast information is expressed. Our engagement was conducted in accordance with applicable agreed-upon procedures.

## Conclusion

In accordance with our scope of engagement, we have assessed and reviewed, where possible, the revenue and costs items embodied in the LLCW Cost Model against appropriate source documents and discussion with LLCW management. Based on our assessment and review, which is not an audit in accordance with Australian Auditing and Assurance Standards, nothing has come to our attention which suggests that, in all material respects, the revenue and costs estimated for the period 1 August 2011 to 31 July 2014 have not been compiled in accordance with the supporting documentation and explanations provided.

In assessing the costs identified in the LLCW Cost Model, we note the following:

- based on the evidence provided, and the scope of our review, nothing has come to our attention to indicate the LLCW Cost Model includes charges for capital recovery in relation to the capital cost of the recycled water treatment plant; and
- based on the evidence provided, and the scope of our review, we note that the provision of the services result in a net subsidy position of approximately \$0.98 million to be incurred by LLCW.

The basis of our conclusion above is detailed in our report to LLCW dated 21 November 2011.

Yours sincerely



**Bruce Gordon**  
Director