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SEQ CATCHMENTS LTD.

Submission on: *Draft Queensland
Environmental Offsets Policy*

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SEQ Catchments thanks the department for the opportunity to provide feedback on the draft Queensland Environmental Offsets Policy.

Overall, we believe the proposed policy is a major improvement on the current policy as it is less complex; more focussed on gaining outcomes where avoidance and mitigation of environmental harm is not possible; and, is transparent in process and the factors involved in it. The shifting of responsibility for providing offsets from the proponents to the State will certainly simplify the process for the proponent's side of the offsets equation.

Additionally, most regions in Queensland have, or will soon have up to date environment and natural resource management plans endorsed by a wide range of stakeholders including all levels of government. We strongly urge the delivery of the policy take account of these plans given most deal with the complexities associated with ensuring matters of state and national significance are taken into account. These plans are informed by the best scientific and planning minds available. At the least, investment hubs and direct benefit management plans need to demonstrate consistency with, and support for natural resource management plans, as well as local government plans (for example, Community Plans) to ensure efficiencies and improve the effectiveness of the offset delivery.

In South East Queensland, the natural resource management plan is based on ecosystem services principles. Given the population pressure and modified state of the region, SEQ Catchments is very keen to ensure the delivery of offsets account for, and preferably enhances the ability of the region's natural assets to provide these ecosystem services.

On the proponent side, there are a number of clarifications needed. These include more details on what is involved in the administration costs and landholder incentives. Common best practice in management and administrative costs for projects in Queensland is 10% of overall project costs. Most firms build in contingencies to take this figure to 15%. Add to this, the costs of an as yet to be agreed and established funds management system, and the current calculation for administrative costs seems to come up short in the examples provided during the consultation phase.

The proposal to base the landholder incentives calculations on stocking rates and land value is an effective overall approach; however, there needs to be thought given to terrain constraints, removing concessional components to land values (for example, an intensive horticulture property adjoining towns will enjoy a concessional valuation which does not necessarily reflect the highest and best use associated with that land), and dealing with the complexity associated with multiple offset receiving sites for a single offset proposal.

The accountabilities involved in the offset policy model are also unclear. The impression we gained from the consultation phase is that the proponents will only be responsible for quantifying the nature and extent of the environmental

harm to be caused by their development activity plus the two additional components of the offset equation. Once the calculation is accepted by the regulator (the pay and go principle), we understand their environmental obligations are discharged completely.

While we commend the simplicity of this approach and see the obvious benefits to the successful achievement of the State's four pillar objectives, we also believe the responsibilities for the successful completion of the "offset contract terms", the successful establishment and long term viability of the offset need to be clearly established. Additionally, the impacts of *force majeure* and other risk based issues need careful consideration in clarifying clearly the obligations being assumed by the offset provider, versus the fund managers, versus the State.

SEQ Catchments is concerned that there is not yet enough detail on the offset delivery side of the proposal given the proposed reliance on a single offset fund manager. Whether the fund is a trust, or other hypothecated fund approach (whether legislated or not), or other market based funding model, the success of the policy depends totally on the success of the fund.

Both the State and Ipswich City Council have gained extensive experience from the initial failures of offset funds to achieve the stated policy outcomes. It would be helpful for these lessons to be researched and captured before any decisions are made to select the new fund model. The lessons and analysis also need to account for risk – to the state and to the parties involved - as single fund model places all the risk against the single entity approach.

Common business approaches dictate the spreading of risk wherever feasible to minimise loss which is inevitable incurred if there are shortfalls in the single funding model. SEQ Catchments strongly urges the State to consider a multiple fund approach which is governed under a clear performance regime. While we understand the attractiveness of a single fund approach due to its apparent simplicity and singular accountability; we are firmly of the view that such a model places all parties and their interests at much greater risk.

SEQ Catchments advocates a four tier model for the fund component. The first tier is as proposed for the "pay and go" proponents who in the main are smaller organisations and do not wish to be involved in further overheads in time or money other than the calculation of their offset obligation. The second tier is a combination of the "pay and go" funding and negotiated funding approach where a larger proponent can gain other outcomes associated with their social licence to operate which can all be brought together for a major landscape scale outcome from the offset delivery.

The third tier would be the negotiated outcomes where the large proponent is keen to directly deliver and brand against its social licence to operate requiring a direct link between the obligation and the delivery. The fourth tier is the direct land offset as per the proposal.

Allowing a four tier multiple fund approach would facilitate innovation and spread the State's risk in the offset delivery process. This process also has the extra benefit of allowing not for profit organisations to create much greater value from the delivery of offset than a normal marketplace delivery may deliver given their involvement in gaining environment and natural resource management outcomes.

SEQ Catchments also feels the offset provider role and associated processes are too vague and do not seem to be established other than the thinking about tendering by a fund manager. Again, this part of the process is critical to the success of the policy and needs to be clearer so potential players in the marketplace can understand the State's thinking.

The other consideration which may create a serious dynamic in the offset delivery side of the proposal, is the competition for sites in designated investment hubs (and in some cases with the direct benefit management plan areas). A landholder who learns of their special place in the market is highly likely to use this information to create more value for his part. Because the proposal separates the offset proponent and the offset provider, negotiations become fraught and the result may be that many viable offset delivery opportunities are lost. The scope for the fund manager to deal with this dynamic in the short term will be crucial. While in time, the marketplace should deal with these anomalies, SEQ Catchments believes consideration may need to be given to a method for dealing with the situation.

In practical terms, there is an increasing interest in utilising advanced offsets through the creation of "offset banks". Several South East Queensland Councils are considering creating these land banks as a way to create efficiencies in the development assessment process. While the market is likely to reward these approaches, they are likely to move toward the mitigation banking models in evidence across many parts of the United States of America. Some thought to how the policy will account for these sorts of approaches would be useful if it has not already done so.

Lastly, one of the issues associated with the current policy and funds approach was that marketplace and size of the market was not defined. There are likely to be a high number of competitors in the offset provision market; however, the changes in *Sustainable Planning Act 2009* triggers and partial dismantling of the regional planning system are likely to greatly impact the size of the potential offsets market. Some analysis of this would be very useful to government and business decision-making processes.

The draft policy is welcomed by SEQ Catchments and forms an important part of gaining critical environmental outcomes in a region which is highly modified, yet depends on our natural assets for its clean water, clean air, healthy soils and quality of life.