INQUIRY INTO INTEGRITY OF THE NSW BIODIVERSITY OFFSETS SCHEME

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Nature Conservation Council of NSW 14 September 2021

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Nature Conservation Council of NSW 14 September 2021 Submission - Parliamentary Inquiry on the Integrity of the NSW Biodiversity Offset Scheme.







11 September 2021

Email: portfoliocommittee7@parliament.nsw.gov.au

Dear Portfolio Committee 7,

Inquiry on the Integrity of the NSW Biodiversity Offset Scheme

The Nature Conservation Council of New South Wales (NCC) is the state's peak environment organisation. We represent over 170 environment groups across NSW. Together we are dedicated to protecting and conserving the wildlife, landscapes, and natural resources of NSW.

The diversity and character of native plants and animals in NSW is remarkable and inspiring. Our shared natural heritage has evolved over millions of years and should be treasured. Too often, biodiversity offsetting legitimises an unacceptable legacy of destruction we leave future generations.

The focus of this parliamentary inquiry is the *integrity* of the NSW Biodiversity Offset Scheme. NCC is calling for integrity in scheme design, integrity in scheme implementation and integrity in the scheme's ecological outcomes. These are separate, but related, considerations and all require further scrutiny. This submission expands on these three themes.

NCC is opposed to biodiversity offsetting. Where it does occur, offsetting should only be used as a last resort and not be permitted in high biodiversity value areas, such as those with threatened species or ecological communities, or that are important for maintaining landscape habitat connectivity.

If biodiversity offsetting is used, the scheme design must be best practice, transparent and include regular comprehensive evaluations of implementation, ecological outcomes and cumulative impacts.

Until integrity across design, implementation and outcomes is achieved, the BOS will struggle to achieve and maintain credibility and social license.

The current Land Management and Biodiversity Conservation Framework is not adequately protecting biodiversity in NSW and must be fixed. This includes the Biodiversity Offset Scheme.



Thank you for the opportunity to contribute to this important inquiry.

Yours sincerely,

Chris Gambian Chief Executive



Inquiry on the Integrity of the NSW Biodiversity Offset Scheme

Recommendations

That the NSW Government:

- 1) Commission an independent comprehensive review of the Land Management and Biodiversity Conservation Framework, including the BOS.
- 2) Strengthen BOS design so that it is consistent with best practice biodiversity offsetting principles: tighten like-for-like offsetting requirements and variation rules; set strict parameters about use of the payment option; remove the option to discount offsets based on non-ecological considerations; empower the BCT to refuse to accept an offset liability if they don't think they will be able to fulfill it with a like-for-like offset.
- 3) Strengthen the Land Management and Biodiversity Conservation Framework so that less clearing is permitted without approval or offsets:
 - a. Update the Land Management (Native Vegetation) Code to tighten Parts 2 and 3 and remove Parts 5 and 6.
 - b. Expand Category 2- Sensitive regulated land to include a broader range of sensitive and high conservation value areas including all vulnerable and endangered ecological communities.
 - c. Release the comprehensive Native Vegetation Map with all categories and all listed Critically Endangered Ecological Communities.
 - d. Establish guidelines and process for nominating Areas of Outstanding Biodiversity Value (AOBV).
- 4) Reduce the BOS area thresholds, so that more clearing is captured by the BOS.
- 5) Improve the application of the Biodiversity Values Map so that it captures more values and is accurate and up to date.
- 6) Make *Serious and Irreversible Impacts* an objective test, with supporting thresholds and criteria.
- 7) Require that Major Projects be refused where *Serious and Irreversible Impacts* will occur.
- 8) Increase the thresholds for identifying *Serious and Irreversible Impacts*, so that this mechanism provides absolute protections for threatened species and ecological communities.



- 9) Where discretionary Ministerial discounting of offset obligations for Major Projects occurs, require that this is reported to the Parliament.
- 10)Review the Biodiversity Assessment Method to ensure it is consistent with best available science and evidence, including averted loss assumptions and tree hollow provisions.
- 11)Improve the clarity and scope of the BOS public register so that it includes location, total area, ecosystem and species credits of the clearing and the offset sites, as well as development application or Native Vegetation Panel reference numbers and total price paid.
- 12)Create an online map function which shows geographic location, and key details, of offset sites across the state.
- 13) List all offset obligations being created under the LLS Act, Environmental Planning and Assessment Act, the BC Act and the Vegetation SEPP in one central location, including fulfillment status information.
- 14) Publish a regular snapshot with state-wide information about activity under the BOS.
- 15) Implement proposed changes to improve the rigour of the developer charge model and biodiversity offset payment calculator under the payment-in-lieu of offsets option.
- 16) Release the 1400 submissions and a submission report from the developer charge model consultation conducted earlier this year.
- 17) Investigate alternative models for allocating accredited assessors to projects where developers to not choose their ecological consultants.
- Publicly release the results from the accredited assessor audit currently being completed.
- 19) Conduct a comprehensive review of offset effectiveness under legacy programs over the last 20 years.
- 20) Conduct regular monitoring, evaluation and reporting on ecological outcomes at BOS offset sites over the long term.
- 21) Increase the capacity of the BCT so it is fit for purpose and can consistently and effectively fulfill its role in the BOS.
- 22)Increase the transparency of the BCT by requiring an independent Annual Audit, in addition to an Annual Report.
- Establish a process where third parties can raise concerns about an offsetting assessment or decision that results in a review by the appropriate body – BCT or DPIE.



Biodiversity in NSW is in steady decline.

Clearing of native vegetation and habitat modification are the greatest threats to species and ecosystems in our state. Over the last 200 years, NSW has lost almost half of its bushland through land clearing and only 9% of what is left is in good condition.

The public conservation estate only covers 9% of NSW and does not constitute the comprehensive, adequate, and representative protection needed to ensure the long-term survival of species and ecosystems. This means efforts to protect vegetation outside the conservation estate are crucial.

Despite this, in 2016 the NSW Government introduced reforms that dramatically deregulated native vegetation management across the state.

The new Land Management and Biodiversity Conservation (LMBC) Framework was established in 2016 through the Biodiversity Conservation (BC) Act, the Vegetation SEPP and amendments to the Local Land Services (LLS) Act.

Since these excessively permissive laws were introduced, rates of annual vegetation clearing have approximately doubled in NSW.

The Biodiversity Offset Scheme (BOS) is a key component of the LMBC Framework and should be understood in this context. The BOS sits within the Framework as an enabling mechanism for habitat destruction. For those areas where important native vegetation is afforded some protection, the BOS provides a pathway to clearing, even for the most threatened species and ecological communities. Almost nothing is safe.

There is not enough public information about the operation of the BOS.

Reviews in 2019 by the Audit Office and the Natural Resources Commission^v confirmed that the new LMBC Framework is failing at its regulatory purpose of protecting native vegetation. These reviews focused on clearing on rural land and did not cover the BOS.

The three-year review of the LMBC Framework, promised by the Minister for Environment when introducing the legislation,^v is overdue and has not been published. The statutory five-year review is due next year, but the scope and timeframes are not known.

Given this context, we are particularly grateful to the Committee for working to shine a light on this important issue. We are also pleased the Audit Office has begun an investigation into the BOS.



The BOS has fundamental weaknesses in its design, which means it does not meet best practice standards.

A significant body of academic literature and policy guidance exists which establishes principles for best practice biodiversity offsetting. These include ensuring offsets are only used as a last resort; not permitted for use in areas with high conservation value, which must be 'no go zones'; like-for-like; genuinely additional; required to achieve no net loss to biodiversity and are direct land-based offsets, not payment or indirect conservation measures.

The design of the current BOS does not meet the best practice principles for offsetting. NSW has seen several iterations of biodiversity offset schemes over the last 20 years. In its design, the BOS is the weakest and most flexible scheme so far. The flaws and loopholes in the BOS were well documented at the time of the reforms. This includes in the 2016 NCC report *Paradise Lost – The weakening and widening of NSW biodiversity offsetting schemes, 2005-2016.* This report remains very relevant, and we encourage the Committee to draw upon it.^v

The key weaknesses in the design of the BOS include that:

- provisions for 'no go zones' to protect high conservation value are very limited
- variation rules allow for offsets that are not like-for-like
- payments to the Biodiversity Conservation Trust (BCT) are allowable instead of securing offsets
- indirect conservation measures can be used instead of securing offsets
- mine site rehabilitation is an acceptable offset credit
- offset obligations for Major Projects can be discounted under Ministerial discretion.

Too much vegetation clearing is not captured by the BOS.

The self-assessed Land Management (Native Vegetation) Code under the LLS Act allows extensive unregulated clearing that does not generate an offset obligation under the BOS.

The Native Vegetation Panel, which determines approvals for higher impact clearing, including attaching offset obligations under the BOS, has only processed one application for rural clearing, in February 2021.^v For all other rural clearing under the LLS Act over the last four years – double the pre-reform average - none have required offsets under the BOS.

Other clearing is not captured in by the BOS because it is below the BOS area threshold, or the area does not appear on the Biodiversity Values Map. The appropriateness of the area thresholds and the accuracy and completeness of the Biodiversity Values Map require further interrogation.



For clearing that is captured in the BOS, accessible avenues exist to avoid best practice offsetting requirements.

Proponents may pay money instead of finding offsets or apply variation rules where offsets delivered are not for the same species or ecological community being impacted. Major Projects can have offset requirements discounted based on social and economic considerations at the will of the Minister.

The one 'no go zone' provision in the BOS - the Serious and Irreversible Impacts test – can be interpreted subjectively by consent authorities and blatantly ignored for Major Projects and Strategic Biodiversity Certifications. As a mechanism to protect our most important and vulnerable biodiversity, the Serious and Irreversible Impacts test sets the bar incredibly low, only acting to stop clearing if a threatened species or ecological community is already in a state of severe decline, degradation, has very limited geographic distribution or is unlikely to respond to measures to improve habitat. The Serious and Irreversible Impacts test may help stop extinction in the final hour but is certainly not a tool to protect and support nature to thrive and maintain resilience. The BOS needs more boundaries around where offsetting can and cannot be applied.

Underpinning the BOS is the Biodiversity Assessment Method (BAM), which accredited assessors use to determine biodiversity values, development impact, offset requirements, and credits generated from offset sites. In the depths of this technical document, supporting appendices and formula, are the details about what ecological factors are counted, how they are counted, how they are weighted and the calculations that decide the quantities of offsets required to compensate impacts.

These methodological details and assumptions have big ramifications for ecological outcomes and must be carefully tuned based on the best available science. The rigour of the current BAM settings requires comprehensive review. For example, the current assessment only records if trees have hollows, rather than the actual number, size and functionality of hollows present. An old growth tree with several large and small occupied hollows could be offset by a credit generated from a tree with one small hollow which may not be occupied.

The BAM also embeds problematic assumptions about future loss. The assessment of gain at an offset site incorporates a measure of 'averted loss'. This assumes future clearing with no protection at an offset site. A 2016 expert review of the draft BAM highlighted that the measures of averted loss were unreasonably high, assuming that tree cover would be completely lost in 2-7 years in high-risk areas and within 4-16 years in low-risk areas.^v Research shows rates of assumed averted loss have been consistently overestimated in offsetting schemes across Australian jurisdictions.^x This key pitfall of offset policy design discredits any claim to no net loss.



The design of the BOS lacks integrity in setting the foundations for delivering a scheme that protects biodiversity values.

Four years into implementation, serious questions exist about how the BOS is operating in practice.

The system as it stands is not transparent and as such does not enjoy public confidence.

Recent media investigations demonstrate that the implementation of offset policies and the delivery of offsets varies case-to-case but is often woefully inadequate. Highly dubious offsetting arrangements are coming to light. These have included massive delays in delivering offsets,^x conflicts of interests among scheme actors^x and serious concerns about additionality^x

Some past examples, such as in Western Sydney, Maules Creek and the Hunter Valley, eventuated under the Commonwealth offset policy and/or prior to the implementation of the BOS. However, this legacy is instructive and highlights the need for consistency, transparency, and evaluation in offsetting schemes.

Our current BOS is complex and opaque. The public does not have a clear view of key administrative information about the operation of the scheme. Between different agencies and levels of government, it is unclear if even the NSW Government has a complete picture. The public registers that do exist are not comprehensive and are obscure, and require well-informed interpretation. The clarity and scope of the BOS public registers must be improved. Establishing an offset map function, where all offset sites are displayed geographically, with key details, would be valuable.

Key components of the LMBC Framework, which interact with the BOS, are incomplete or not fully operational. This includes the Native Vegetation Regulatory Map, which still does not display all land categories, and the Areas of Outstanding Biodiversity Values mechanism, which hasn't been formally established. Both features have direct implications for what clearing is and is not captured by the BOS and should be finalised as a priority.

Key questions about the operation of the BOS include:

- How often is the *Serious or Irreversible Impacts* test resulting in impacts being avoided?
- How many offset obligations are being generated across the state?
- What and where are the projects generating offset obligations?
- What type of ecosystem and species credits are being generated across the state?
- What proportion are for Major Projects?
- What proportion are being fulfilled through 1) developer owned offset sites, 2) purchased offset credits 3) the payment option through the BCT?



- How often and where are the variation rules, indirect measures, ministerial discounting, and mine site rehabilitation offset options being used?
- When is the Independent Planning Commission choosing to override Serious and Irreversible Impact provisions?
- Where is the Biodiversity Certification pathway being used?
- Where are the offset sites being established?
- What proportion are averted loss offsets, restoration offsets or a mix?

A regular snapshot report collating this information will provide accountability public visibility of what is being lost and gained, where, and over what timeframes.

The Biodiversity Offset Payments Calculator (BOPC) is not working effectively.

Proposed reforms to the BOPC, indicate that the current pricing function determining the amount paid to the BCT under the payment-in-lieu of offsets option is not working in its current form. This pricing function is obviously a crucial component of the BOS, with broad effect across the whole market. The 1,400 submissions received on the proposed changes earlier this year, should be made public and a submissions summary released.

So far, the prices paid to transfer offset obligations to the BCT have not always reflected the true costs for delivering like-for-like offsets. In effect this has left the BCT holding obligations it doesn't have the money to fulfil without using variation rules. The 2019-20 BCT Annual Report showed a \$11.5 million gap between the amount they had received from developers and the estimated costs to acquit their outstanding credit obligations.^x

The overall offset obligation liability sitting with the BCT is growing. There is a concerning trend of the payment option increasingly being used. A recent Question on Notice in the Legislative Council revealed the number of payments into the BCT to transfer offset obligations is increasing - in 2018-19 it was 31, in 2019-20 it was 75, in 2020-2021 it was 104.^{×v} The BCT currently holds unfulfilled offset obligations for 158 development projects.^{xv}

Clearly, the government needs to improve the accuracy of the methodology used to quote BCT payment option prices. However, as long as the payment-in-lieu of offset option exists, with developers able to pay and proceed before like-for-like offsets have been found, there is a risk that like-for-like offsets will never be found or delivered. As use of the payment option increases, with more and more obligations and payments transferred, the resources of the BCT to fulfill offset obligations may also be stretched. The need for transparency and integrity in how this function is administered by the BCT will also only become more important.



Beyond the high-level systemic information about scheme operation, lies the more difficult questions around integrity of the behaviour of scheme actors: of proponents, developers, accredited assessors, consent authorities, DPIE and the BCT. The flexibility in BOS design leaves room for subjective judgements. The gaps in oversight, in a context with vested and conflicted interests, leaves room for unethical conduct. How individuals and organisations are applying the scheme, and the checks and balances to ensure ethical conduct, requires further scrutiny.

The role of accredited assessors, the ecological consultants who apply the BAM, is a key concern. They provide the data and analysis that determines the amount and type of offset credits required and importantly, identification of *Serious and Irreversible Impacts*. They are employed directly by proponents, with the obvious risk that some consultants will tell proponents what they want to hear. If a developer gets an assessment they don't like, they can shop around, and potentially get a less rigorous and more favourable assessment, from another consultant.

Quality assurance, integrity, transparency, and accountability requirements should be strengthened to ensure low quality work or unethical conduct is not tolerated. Alternative models for engaging accredited assessors should be investigated, such as a pool system, where accredited assessors are randomly allocated to projects by the BCT. The results of the first accredited assessor audit, currently being completed, should be publicly released.

Under the BOS, consent authorities are responsible for deciding whether *Serious and Irreversible Impacts* are likely to occur and therefore cannot be offset. For all development other than Major Projects, where it can be ignored, this is a red flag which stops development. This crucial threshold, of whether the ecological costs of destruction are too high, should be an objective test, not a subjective, contestable, decision by the consent authority. As long as this is the case, the application of the *Serious and Irreversible Impacts* trigger by consent authorities must be questioned.

Even with best practice design and implementation, research shows biodiversity outcomes can still be far from certain.

Discussions around biodiversity offsetting too easily become distracted and weighed down in financial market terminology and administrative issues - the price of offsets, supply, demand, trades, the application of the rules and to what extent loopholes are being used and abused. None of this information confirms actual ecological outcomes.

Ultimately, the most important measure of integrity of the BOS is the ecological outcomes it delivers. With every offset, there is a risk of allowing destruction of existing ecological values on the promise of a future gain that does not materialise, or the incorrect assumption of averting future loss– a counterfactual that can never be proven definitively. In each case, the outcome is simple: net loss in biodiversity.



Across the world, biodiversity offsetting is widely applied but its effectiveness is rarely assessed after implementation. Studies that are available show that offsets often fail. A comprehensive 2016 study of the outcomes from all offset projects approved in Western Australia from 2004-2015 showed that only 39% could be considered effective.^{xv}

Some natural assets, such as tree hollows in mature trees, are especially important habitat for a wide range of species and are particularly difficult to offset. A 2017 study titled 'The anatomy of a failed offset' monitored offset sites established for the Hume Highway and showed nest boxes installed to offset loss of hollow bearing tress were hardly used by the target threatened species.^{xv}

An important 2017 desktop study evaluated outcomes from biodiversity offsetting in NSW between 2005-2015 using data collected by NSW Office of Environment and Heritage. It found that 82% of offsets were justified through 'averted loss', where no net loss in vegetation area would only be achieved on the assumption that the offset site would have been cleared otherwise. The underlying rate of clearing was overestimated to the extent that no net loss in area of vegetation will not occur for 146 years into the future.^{xv} The study also found that a notional net gain in the quality of habitat was achieved, but only by substituting attributes difficult to restore (mature hollow-bearing trees) with attributes that are easy to restore (e.g.: tree saplings).

There is not enough visibility of the ecological outcomes of biodiversity offsetting policies in NSW. A comprehensive independent retrospective review of offsets sites and outcomes over the 20 years that offsetting policies have been in place is needed. Oversight and management of legacy offsets under old schemes must not be neglected.

Going forward under the BOS, effective systems must be in place to monitor, evaluate and publicly report implementation of offsets under the scheme and ecological outcomes over time. Evaluation must not rely just on desktop analysis of scheme data, with all its explicit and implicit assumptions, but also on-ground monitoring of real-world ecological outcomes.

We are reaching ecological tipping points and must change course.

Last year, NSW's first Biodiversity Outlook Report found that without effective management, 50% of threatened species and 41% of all threatened ecological communities will be extinct in NSW by 2100.^{xx} Species like the iconic koala are headed for extinction by 2050. Ecosystems in several bioregions are close to ecological tipping points, where ecological diversity and carrying capacity crosses a threshold and decreases rapidly.^{xx}



The current system only stops destruction if it likely to issue the final blow and push a species or ecosystem to extinction. Even then, if the development is State Significant Development or State Significant Infrastructure, or pursuing Biodiversity Certification, the Minister can legally permit activity likely to cause extinction.

The uncertainty about ecological outcomes under offsetting policies reinforces the importance of avoiding impacts. We must identify what areas, species and ecological communities are too important to lose and designate absolute protection.

Offsetting should only be used as a last resort and not be permitted in high biodiversity value areas, such as those with threatened species or ecological communities or that are important for maintaining landscape habitat connectivity.

Where biodiversity offsetting is used, the scheme design must be best practice, transparent and include regular comprehensive evaluations of implementation and ecological outcomes and cumulative impacts. If evidence shows no net loss outcomes are not being achieved, management and scheme design must be adapted accordingly.

A best practice scheme will accurately reflect scarcity of offset types, and prices will rise accordingly. When prices do rise, this must be understood as the scheme functioning as intended, providing a disincentive for destruction and an incentive for offset creation. Rhetoric suggesting that high prices for offsets is a reason to abandon or further weaken the BOS is very concerning and misguided.

We fully support investment in private land conservation and recognise the importance of ecological management and restoration. The BCT is an important institution and should be supported to build the capacity needed to deliver strategic private land conservation outcomes over the long term. The BCT's oversight and quality control role in the BOS is positive and should be strengthened and made more transparent.



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