



PARLIAMENTARY BUDGET OFFICE

NSW Parliament • Parliament House, Macquarie Street Sydney 2000

Referred by: Coalition **Proposal No:** C1497
Date Referred: 2/03/2023 **Date Published:** 20/03/2023
Proposal Title: Better Environment and Better Farms Services
Cluster: Cross-Cluster

General Government Sector Impacts

	2022-23 \$'000	2023-24 \$'000	2024-25 \$'000	2025-26 \$'000	4 year Total \$'000
Expenses (ex. depreciation)		8,094	8,021	7,886	24,001
Depreciation			320	320	640
Less: Offsets Revenue		3,000	3,000	3,000	9,000
					-
Net Operating Balance:	-	(5,094)	(5,341)	(5,206)	(15,641)

Capital Expenditure	-	1,941	1,449	1,209	4,599
Capital Offsets					
Net Capital Expenditure:	-	1,941	1,449	1,209	4,599

Net Lending/(Borrowing):	-	(7,035)	(6,470)	(6,095)	(19,600)
---------------------------------	---	----------------	----------------	----------------	-----------------

Total State Sector Impacts

Net Lending/(Borrowing):	-	(7,035)	(6,470)	(6,095)	(19,600)
---------------------------------	---	----------------	----------------	----------------	-----------------

Notes and costing assumptions:

The policy proposes to transform how the environment is valued and managed. The policy has three components:

1. development and integration of Natural Capital accounts
2. support for farmers to demonstrate sustainability
3. support for farmers to manage natural capital.

Further details are provided in each of the following subsections.

The Parliamentary Budget Office consulted with the Department of Planning and Environment (DPE), Department of Regional NSW (DRNSW) and the NSW Office of Energy and Climate Change (OECC) within Treasury to estimate the cost of this policy.

The total cost of the policy is an estimated \$19.6 million over the forward estimates and an additional \$8.4 million beyond the forward estimates, with a total of \$28 million.

Notes and costing assumptions continued:

Part 1 – NSW’s Natural Capital Accounts

The policy is to develop the State’s regional natural capital accounts and integrate them with the State’s financial accounts. This activity is expected to be completed between 2023-24 and 2026-27.

Natural capital refers to the world’s stock of natural resources. By developing natural capital accounts, impacts associated with the management of natural resources are expressed in monetary values, thereby making them more tangible.

As stated in the policy, accounts would be developed at the regional and state level (i.e., a ‘top-down’ approach) until such time as agency-level accounts are developed.

DPE advised that a top-down approach can be adopted relatively quickly, however it is less accurate than a ‘bottom-up’ approach. A top-down approach would explore and understand the underlying principles of natural capital accounting and direct the development of detailed natural capital accounting guidelines for broader adoption across NSW agencies over time.

In contrast, a bottom-up approach would mean that each government agency would need to survey and determine its environmental asset base, estimate the financial value of the ecosystem services derived from that asset base, and incorporate this information into its financial accounts. This information would be consolidated for all government agencies for integration with the State’s financial accounts.

The costing includes estimates for implementing a top-down approach.

DPE advised there would be costs associated with:

- staff, including data analysts, data engineers, spatial scientists, ecologists, and specialists in the System of Environmental-Economic Accounting (SEEA) and National Accounts
- web developer services
- storage, software and computing capacity
- data collection
- project management
- assurance and audit
- capacity building and educational materials on how to develop and use the accounts.

The costing includes costs to pilot the development of an agency-level financial statement to develop consistent methodologies and guidelines for application by all agencies.

The costing excludes costs to develop individual agency accounts. DPE advised this would require significant in-kind resourcing from participating agencies and the pilot would be used to identify likely costs to individual agencies.

The estimated funding would allow the development of six to eight specific natural capital accounts per year, assuming datasets are already available.

Capital funding is required for systems that will store and manipulate data, and to make data available to Treasury and other agencies for integration into the State’s financial statements. Capital funding is estimated at \$3.7 million over four years, which DPE advised represents the lower limit of the range of possible spending. Depreciation is calculated using the straight-line method over five years from 2026-27.

The total cost of the first element of the policy is \$13 million (see *Table 1*).

Notes and costing assumptions continued:

Part 2 - Support for farmers to demonstrate sustainability

The policy states that Local Land Services will be provided a sustainability partnership team with a \$2 million annual budget from 2023-24 to 2026-27. It also includes partnership grants of \$1 million per year provided for primary industries productivity and abatement purposes from 2023-24 to 2026-27.

The policy states that total funding for this component will be funded from within the existing budget for Primary Industries Productivity and Abatement Program (PIPAP). This will be done through reprioritisation of funds to accommodate this component of the policy.

Based on advice from OECC, \$12 million over four years from 2023-24 could be made available for reallocation to fund the second component of the proposed policy, provided the initiative meets the objectives of the program. PIPAP's aim is to reduce carbon emissions from land and agricultural sectors. OECC advised that funding would come from existing projects where funds have not yet been contractually committed.

The total cost of the second element of the policy is thus nil.

OECC cautions that reallocating funds from existing PIPAP projects, despite the funds not yet being contractually committed, would compromise the ability to complete work that is already underway to achieve carbon abatement from the land sector.

Part 3 – Support for farmers to manage natural capital

The policy is to fund \$15 million to Local Land Services to support farmers on the ground directly. This will enable farmers to develop and implement farm plans, facilitating carbon aggregation. The program will run from 2023-24 to 2027-28.

Based on advice from DRNSW, the funding will cover 11 full time staff for \$2.6 to \$2.8 million per year, and a whole of farm planning system for \$1.6 million over two years.

Depreciation is calculated using the straight-line method over five years from 2024-25.

The total cost of the third element of the policy is \$15 million (see *Table 1*).

Table 1. Cost breakdown per policy component per year (\$'000s)

Policy element	Cost	2023-24	2024-25	2025-26	2026-27	2027-28	Total
1. NSW Natural capital accounts							
	labour costs	1,699	1,671	1,638	1,694		6,702
	specialist and data collection	815	705	586	544		2,650
	capital	1,141	649	1,209	690		3,689
2. Supporting farmers to demonstrate sustainability							
	labour costs	2,000	2,000	2,000	2,000		8,000
	grant expense	1,000	1,000	1,000	1,000		4,000
	offset: PIPAP funds	- 3,000	- 3,000	- 3,000	- 3,000		- 12,000
3. Helping farmers to manage natural capital							
	labour costs	2,580	2,645	2,662	2,724	2,788	13,399
	capital	800	800				1,600
Total budget impact (excl. depreciation)		7,035	6,470	6,095	5,652	2,788	28,040
Depreciation			320	320	1,058	1,058	2,756