

# Review of the Nillumbik Over the Counter Offset Program 2019

---

## BACKGROUND

State Government policy, incorporated under the Planning and Environment Act 1987, requires that, where native vegetation is to be lost due to development, it must be compensated for by securing an offset. An offset is the protection and enhancement of native vegetation at a site to compensate for the loss of biodiversity from the removal of native vegetation and this needs to be achieved prior to the vegetation being removed. To provide a simple and secure process for permit holders to source native vegetation offsets, the Department of Environment, Land, Water and Planning (DELWP) introduced an 'over-the-counter' mechanism allowing permit holders to purchase offsets directly from councils.

Permit holders who require native vegetation offsets are able to purchase these offsets through Nillumbik Shire Council's Over-the-Counter (OTC) Offset Program. Nillumbik Shire Council has developed the OTC Offset program in response to the lack of offsetting opportunities being available within the Shire. It is also a strategic action in the Nillumbik Biodiversity Strategy 2012. The OTC program facilitates the local implementation of the *Guidelines for the removal, destruction or lopping of native vegetation* policies and principles with regards to offsetting for the removal of native vegetation under Clause 52.17 of the Planning and Environment Act 1987. In December 2017, The Guidelines replaced the previous Permitted clearing of native vegetation – Biodiversity assessment guidelines. One of the major changes to the assessment process is the consideration of large trees, both within a patch and as scattered trees and offsets may now require a large tree component.

The OTC Offset Program provides a strategic and central location for offsets to be achieved on Council-owned freehold land. Therefore the OTC Offset Program provides an alternative for people who are searching for native vegetation offsets, particularly if they cannot achieve these offsets on their own land and it has been designed to assist planning permit holders to secure native vegetation offsets from Nillumbik Council as a third party. This will improve the efficiency of processing planning applications and assist in the timely implementation of Council projects and works requiring the removal of native vegetation. The OTC Offset Program will also enable vegetation offsets to be retained within the municipality and improve the quality and extent of vegetation at strategically located offset sites. Native vegetation credits sold through Council's OTC Offset Program will be extinguished upon sale and cannot be sold again. The total number of native vegetation credits derived from Council's offset site located at The Chase will therefore sell out after a period of time and for Council to continue operating its program, it will need to identify new offset sites from which to derive new native vegetation credits for sale through its program.

A detailed scoping and cost analysis was undertaken on the option to use The Chase Reserve as the first offset site where Council will trade offset credits to support both external permit applications and Council's internal permit applications. This is outlined in the Over-the-Counter Offset Program Business Case 2 February 2015. The Landowner agreement was executed by DELWP on 19 October

2015. The landowner agreement is registered on the Chase Reserve's title. This binds Council and any future landholders to the completion of the ten-year management plan and the on-going site use and maintenance commitments in perpetuity. The program is currently in Year 4 of its operation with each year starting on 19 October.

### QUOTES AND CREDIT SALES

Since the commencement of the sale of credits, 92 quotes have been prepared to both internal and external applicants seeking offsets. Table 1 below indicates how many sales have been made to date and the income generated from these sales. The grand total income made to date from the sale of the Chase offset credits is \$65,192.09 (ex GST).

**Table 1: Quotes and credit sales**

Year*	Quotes provided	Total sales	Internal Council projects sales	Internal sales Income ex GST	External sales	External sales Income ex GST	NSC permit applicants	Other Council permit applicants	Credits sold
2015-16	15	7	3	\$14550.80	4	\$9801.54	6	1	0.082 <sup>†</sup>
2016-17	28	7	2	\$2333.70	5	\$8401.32	6	1	0.046
2017-18	31	7	4	\$21003.30	3	\$9101.43	5	2	0.129
2018-19	18	0	0		0		0	0	
<b>Total</b>	<b>92</b>	<b>21</b>	<b>8</b>	<b>\$37887.80</b>	<b>12</b>	<b>\$27304.29</b>	<b>17</b>	<b>4</b>	<b>0.257</b>

\*Year starts Oct 19<sup>th</sup>

<sup>†</sup>plus a payment-in-lieu to Council for the sum of \$5,216 under the old Native Vegetation Framework

### INCOME/EXPENDITURE AND OFFSET MANAGEMENT WORKS AT THE CHASE OFFSET SITE

Management of The Chase Offset site commenced on 19 October 2015, the date that the Sec. 69 Landowner Agreement was executed in accordance with the requirements under the Landowner Agreement. Council now has an ongoing commitment to manage the land in accordance with the management actions outlined in the Landowner Agreement and in perpetuity beyond the 10 year intensive management period. This agreement continues to go with the land and regardless of offset credit sales, the management still needs to be undertaken each year in accordance with the agreement. The cost of management for Year 1, Year 2, Year 3 and projected costs for Year 4 are outlined in Table 2 below. The initial upfront costs associated with setting up an OTC Offset program are outlined in Table 2 below in the establishment column.

The expenditure and income amounts are variable and will be different each financial year. These expenditure and income amounts will be reviewed and updated annually. Upfront management costs have been calculated with Environmental Works Officers and are based on the level of management works required for The Chase to achieve a vegetation improvement gain and to meet minimum standards as an offset site as outlined in the Landowner Agreement and DELWP's Native vegetation gain scoring manual.

The projected expenditure for Year 4 gives a reasonable indication of what might be expended or generated during the operation of an over-the-counter system for that year up to October 2019.

Any income from the sale of credits will be restricted for use by the associated offset site and the operation of the OTC Offset Program. Therefore, any income generated through the sale of credits can only fund management works as stipulated in the Landowner Agreement, administration costs, establishment costs and any ongoing costs as outlined in the Business Case. It does not fund works on the reserve outside of the offset site or works associated with fire prevention or maintenance as this is outside of the scope of the agreement. As stated in the Business Case, Council initially had \$90,251 in an account for payments made to Council in the past in lieu of offsets and this amount increased to \$155,195 due to additional payments from the Bellbird Subdivision. This additional income is to be used to supplement the administration and management of the OTC Offset Program and associated offset site if and when required.

Due to the transition of credits from Biodiversity Equivalence Units (BEUs) to Habitat Units (HUs) in line with the changes to the Permitted Clearing Regulations and the shift in market pricing, there have been no sales in 2018/19 to date. This is also because Council's price is now too high compared to other offset providers. This will be discussed in more detail in the Costing Review.

**Table 2: Expenditure and income for the OTC Offset program**

<b>Expenditure (excl. GST):</b>		<b>Expenditure Year 1 2015/16</b>	<b>Expenditure Year 2 2016/17</b>	<b>Expenditure Year 3 2017/18</b>	<b>Expenditure Year 4 2018/19</b>
Administration	Staff and non-human resources. Includes monitoring and reporting (25% of overall cost to manage the offset site)	\$2,683	\$5,500	\$3053	\$3092
Establishment (Year 1 only)	Establishment of Credit site (Offset Management Plan, Sec. 69, surveyor fees)	\$14,500			
Management	Management costs associated with the management requirements per year in the Landowner Agreement.	\$10,730	\$22,000	\$12,210	\$12,366
Request for Credit Extract	New DELWP Native Vegetation Credit Register fees to produce a credit extract. \$75 per extract	\$150	\$600	\$525	\$0
Ongoing	Contingency and in perpetuity management (25% of the overall cost to manage the site.	\$2,683	\$5,500	\$3053	\$3092
<b>Total Exp.</b>		<b>\$30,746</b>	<b>\$33,600</b>	<b>\$18,841</b>	<b>\$18550</b>
<b>Income (excl. GST):</b>		<b>Income Year 1 2015/16</b>	<b>Income Year 2 2016/17</b>	<b>Income Year 3 2017/18</b>	<b>Income Year 4 2018/19</b>
	Internal credit sales	\$14,550.80	\$2,333.70	\$21,003.30	\$0
	External credit sales	\$9,801.54	\$8,401.32	\$9,101.43	\$0
<b>Total Income</b>		<b>\$24,352.34</b>	<b>\$10,735.02</b>	<b>\$30,104.73</b>	<b>\$0</b>
<b>Net income:</b>		<b>-\$6394</b>	<b>-\$22,865</b>	<b>\$11,264</b>	<b>-\$18,550</b>

## **COSTING REVIEW**

### **Assessment of the assumptions in the costing model**

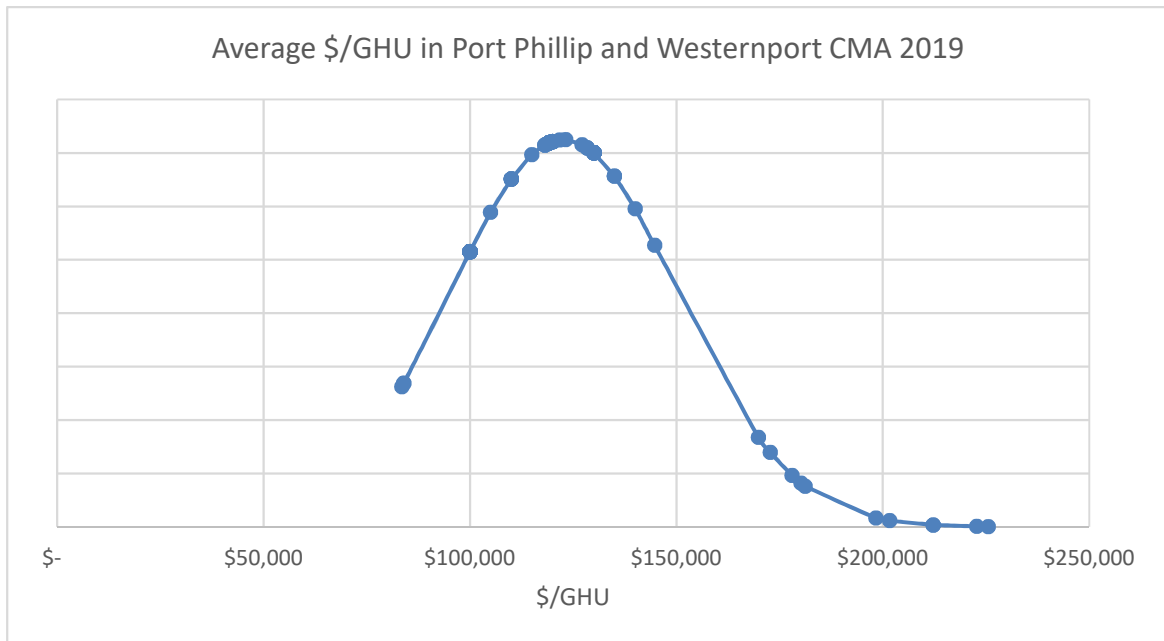
Offset prices will be determined by a number of factors including market drivers, level of management required at an offset site, demand for offsets etc. as outlined in the Business Case. Nillumbik were selling their credits at a price of \$233,370 per BEU. With the transition to HUs, the price is now \$230,677 per HU. The original price was established from the costing model which identifies all costs associated with an OTC Offset program and to enable cost recovery to occur, particularly with the implementation and management of vegetation credits, and the administration and management of the OTC Offset program.

The underlying assumptions in the costing model are all correct and still relevant. Table 3 shows the 2015 estimated baseline costs which were used to set the original price. Three amendments have been done to the baseline costs to adjust the price of The Chase credits and these are represented in Table 4. First the management costs have been amended to reflect the current cost of management occurring on the reserve and the estimated costs in the future. The contingency has been adjusted to 15% of the total of management, set-up and in perpetuity management which is down from 25% and the in perpetuity management has also been adjusted to 15% of total of management and set-up costs which is up from 5%. These adjustments better reflect what might be required on the site in the future for risk management and in perpetuity management. The percentage CPI still sits at 3%, but the final amount has also been adjusted to align with new estimated management costs (Table 4). As it is anticipated that these credits will now sell within 5-6 years rather than 2-3 years, the administration costs have been extended to reflect this.

### **Determining reasonableness and competitiveness of the credit price**

Council have been advised that cheaper offsets are available elsewhere in Port Phillip and Westernport CMA (PPWPCMA). A high proportion of offsets in Nillumbik have gone to other locations due to the low price. The price of HUs is highly variable in the PPWPCMA ranging from \$3m to \$20,000 per HU. The majority of credits sourced averaged \$122,753 per HU, some of which are of a lower quality or have a lower Strategic Biodiversity Value compared to The Chase (Figure 1). These lower prices have resulted in Nillumbik being priced out of the market as Council's price is at the upper end of the market price at \$230,677 per HU. Figure 1 does not include the sales at \$20,000 or \$3m as these were at the most extreme ends of the market price.

**Figure 1: Average \$/HU in Port Phillip and Westernport CMA 2019 (DELWP 2019)**



### Recommendations on price

With the change in metrics to HUs, a revision to the number of credits in our scheme and the market price it is prudent that the price of Nillumbik's credits be adjusted. As all offset costs within Victoria are market driven, it is advised that Council's sale price for The Chase Offsets be reviewed to ensure prices are consistent with market rates as well as ensuring that cost recovery and management requirements are met. In addition, Council should consider competitive neutrality when setting a new credit price.

Based on an adjusted management cost to reflect what is required on site, as well as the adjustment of the percentage contingency and in perpetuity management, and CPI, it is recommended the price be adjusted to \$141,885 (ex GST) per General HU (Table 4 and 5). The price for Species HUs vary according to what species is required to be purchased, however, it is recommended that a single price of \$147,000 (ex GST) per Species HU is set as this is an average of the calculated price of each SHU (Table 5). These prices are slightly above the current mean trade price for HUs in Port Phillip and Westernport CMA, but it will still ensure that cost recovery and adequate management is being achieved.

### SUMMARY

Over the course of the program there has been an increase in the number of quotes provided each year. The majority of sales were made to external permit applicants and to major government projects where it was important that offsets were locally sourced and there were no budget constraints. As internal Council projects have a requirement to source three quotes and purchase the cheapest available credits, the sales to internal Council departments have decreased. In addition, sales in general have decreased as the current Nillumbik credit price is too high, being at the upper end of the market. We anticipate with the change in credit price to \$141,885 (ex GST) per GHU and \$147,000 (ex GST) per SHU, sales of offset credits will increase in 2019-20.

**Table 3: 2015 estimate of baseline costs at The Chase Reserve over 10 years**

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	CPI	Ongoing	Total	
<b>Estimate of management costs</b>														
10 years of management	\$65,940	\$18,341	\$18,553	\$18,553	\$18,553	\$18,553	\$18,553	\$18,553	\$18,553	\$18,553			\$232,705	
CPI (3%)											\$80,031		\$80,031	
Monitoring and reporting	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000			\$20,000	
												<b>Management total</b>	<b>\$332,736</b>	
<b>Estimate of set-up costs</b>														
Sec 69. agreement	\$5,000												\$5,000	
Consultants fees and OMP	\$11,000												\$11,000	
Advertising, signage, publications	\$2,000												\$2,000	
Surveyor	\$600												\$600	
Legal fees	\$2,000												\$2,000	
												<b>Set-up total</b>	<b>\$20,600</b>	
<b>Estimate of ongoing in perpetuity management, contingency and administration costs</b>														
In perpetuity management <sup>#</sup>												\$17,667	\$17,667	
Contingency <sup>*</sup>												\$92,751	\$92,751	
Administration <sup>+</sup>	\$50,935	\$33,935	\$31,068										\$115,938	
												<b>Ongoing/contingency/administration total</b>	<b>\$226,355</b>	
<b>Grand Total</b>	<b>\$139,475</b>	<b>\$54,276</b>	<b>\$51,621</b>	<b>\$20,553</b>	<b>\$20,553</b>	<b>\$20,553</b>	<b>\$20,553</b>	<b>\$20,553</b>	<b>\$20,553</b>	<b>\$20,553</b>	<b>\$20,553</b>	<b>\$80,031</b>	<b>\$110,418</b>	<b>\$579,692</b>

<sup>#</sup>In perpetuity management is calculated at 5% of total of management and set-up costs

<sup>\*</sup>Contingency is calculated at 25% of total of management, set-up and in perpetuity management

<sup>+</sup>Administration is calculated at 25% of overall total of management, set-up, in-perpetuity management and contingency. As it is anticipated that these credits will sell within 2-3 years, the next offset reserve to be established will absorb the next round of administration costs. For the remainder of the time that The Chase is still an offset site (beyond selling all the credits) the only administration associated will be a small amount of management, monitoring and annual reporting which is covered in that cost of \$2000 per year.

**Table 4: 2019 estimate of baseline costs at The Chase Reserve over 10 years**

	Year 1 (15/16)	Year 2 (16/17)	Year 3 (17/18)	Year 4 (18/19)	Year 5 (19/20)	Year 6 (20/21)	Year 7 (21/22)	Year 8 (22/23)	Year 9 (23/24)	Year 10 (24/25)	CPI	Ongoing	Total
<b>Estimate of management costs</b>													
10 years of management	\$13,428	\$23,623	\$12,210	\$12,366	\$12,737	\$13,119	\$13,513	\$13,918	\$14,336	\$14,766			\$144,017
CPI (3%)	\$402.84	\$708.69	\$366.29	\$370.99	\$382.12	\$393.58	\$405.39	\$417.55	\$430.08	\$442.98	\$4,321		\$4,321
Monitoring and reporting	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000			\$20,000
<b>Management total</b>												<b>\$168,337</b>	
<b>Estimate of set-up costs</b>													
Sec 69. agreement	\$5,000												\$5,000
Consultants fees and OMP	\$11,000												\$11,000
Advertising, signage, publications	\$2,000												\$2,000
Surveyor	\$600												\$600
Legal fees	\$2,000												\$2,000
<b>Set-up total</b>												<b>\$20,600</b>	
<b>Estimate of ongoing in perpetuity management, contingency and administration costs</b>													
In perpetuity management <sup>#</sup>												\$28,341	\$28,341
Contingency <sup>*</sup>												\$32,591	\$32,592
Administration <sup>+</sup>	\$24,341	\$21,816	\$3,644	\$3,684	\$3,780	\$3,878							\$61,143
<b>Ongoing/contingency/administration total</b>												<b>\$122,075</b>	
<b>Grand Total</b>	<b>\$60,772</b>	<b>\$48,147</b>	<b>\$18,220</b>	<b>\$18,422</b>	<b>\$18,899</b>	<b>\$19,391</b>	<b>\$15,918</b>	<b>\$16,336</b>	<b>\$16,766</b>	<b>\$17,209</b>	<b>\$4,321</b>	<b>\$60,932</b>	<b>\$311,013</b>

<sup>#</sup>In perpetuity management is calculated at 15% of total of management and set-up costs

<sup>\*</sup>Contingency is calculated at 15% of total of management, set-up and in perpetuity management

<sup>+</sup>Administration is calculated at 25% of overall total of management, set-up, in-perpetuity management and contingency. As it is anticipated that these credits will now sell within 5-6 years, the next offset reserve to be established will absorb the next round of administration costs. For the remainder of the time that The Chase is still an offset site (beyond selling all the credits) the only administration associated will be a small amount of management, monitoring and annual reporting which is covered in that cost of \$2000 per year.



**Table 5: Estimate of price per HU for The Chase Reserve**

<b>Total baseline cost of offset: \$311,013</b>		<b>Cost per ha: \$30,641.67</b>		<b>Area of offset site: 10.15 ha</b>	
<b>HU<sup>+</sup></b>	<b>Large Trees (7 in total)</b>	<b>HU total</b>	<b>Area (ha)</b>	<b>Zone</b>	<b>\$/HU*</b>
General HU	7	2.192	10.15	All	\$141,885.49
Brush-tailed Phascogale	7	2.101	10.15	All	\$148,030.94
Crimson Spider-orchid	7	2.103	10.15	All	\$147,890.16
Dandenong Wattle	7	2.101	10.15	All	\$148,030.94
Eltham Copper	7	2.145	10.15	All	\$144,994.41
Large-flower Crane's-bill	7	2.101	10.15	All	\$148,030.94
Little Pink Spider-orchid	6	1.651	7.65	1B, 1D, 2A, 2B, 3A	\$141,979.90
Melbourne Yellow-gum	7	2.102	10.15	All	\$147,960.51
Slender Stylewort	7	2.101	10.15	All	\$148,030.94
Veined Spear-grass	7	2.086	10.07	1A, 1B, 1C, 1D, 2A, 2B	\$147,920.26
Wine-lipped Spider-orchid	7	2.101	10.15	All	\$148,030.94

<sup>+</sup>HU: Habitat Unit

\*Proportional price per ha divided by the amount of HUs available



# The Chase Reserve, North Warrandyte

