Northern and Western Geelong Growth Areas (NWGGA)

Title:	**Consultation paper: offsets and funding for the NWGGA strategic assessment**
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INTRODUCTION

This paper has been prepared to facilitate consultation with landholders on the options for offsets and funding for the Northern and Western Geelong Growth Areas (NWGGA) strategic assessment. This introduction:

- Provides an overview of the strategic assessment
- Outlines the need for offsets and funding
- Briefly outlines the approach to consultation with landholders
- Sets out the purpose and structure of the consultation paper

It is important to note that the information in this paper (including indicative costings) is provided for consultation purposes only and should not be taken as definitive. All costings are rounded and as a result there may be differences between certain costs within the paper. Further work is required through the strategic assessment process to finalise the details around offsets and funding.

OVERVIEW OF THE STRATEGIC ASSESSMENT

Planning is underway for the development of the NWGGA. The two growth areas represent the largest greenfield planning project in regional Victoria with the capacity to accommodate up to 110,000 new Geelong residents. They form a critical part of the City of Greater Geelong's (the City's) plan to address the long-term economic and population growth for the region.

Development within the growth areas has the potential to impact the following matters protected by the Commonwealth's *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act):

- Habitat for the Golden Sun Moth (GSM), Striped Legless Lizard (SLL), areas of Natural Temperate Grassland (NTG) and remnant patches of native grasslands within the Northern Geelong Growth Area (NGGA)
- Habitat for the Growling Grass Frog (GGF) and small remnants of native grasslands within the Western Geelong Growth Area (WGGA)
- Ramsar sites (wetlands of international importance) and habitat for a range of threatened and migratory species downstream from the growth areas

Developments that significantly impact matters protected by the EPBC Act require Commonwealth assessment and approval. The City is currently undertaking a strategic assessment under Part 10 of the EPBC Act to support development of the NWGGA. The strategic assessment will provide approval under the EPBC Act for development within the NGGA and WGGA as shown in Figure 1.

A number of documents are being developed as part of the EPBC strategic assessment process. They include:

- An overarching Plan (the Plan), which will describe the development and conservation actions that will be undertaken within the growth areas, along with the City's key outcomes and commitments to protect Matters of National Environmental Significance (MNES) that are protected by the EPBC Act
- A Biodiversity Conservation Strategy (BCS), which will function as a subordinate document to the Plan, providing further details around the biodiversity avoidance, impact mitigation and offset measures relevant to the growth areas and how these measures will be delivered. The BCS will consider both State and Commonwealth biodiversity requirements. For State matters, the BCS will address the Victorian planning and assessment provisions to ensure that the outcomes of the strategic assessment are consistent with State policy

- An Assurance and Implementation document, which will provide additional details around how the Plan will be delivered, including information regarding funding mechanisms, governance and monitoring and reporting
- A Strategic Impact Assessment Report (SIAR), which will assess the impacts of development under the Plan and evaluate the adequacy of the relevant outcomes, commitments and measures in protecting MNES

Drafts of the strategic assessment documents are currently being prepared with the aim of:

- Providing the drafts for public consultation during the first half of 2023
- Finalising the strategic assessment during the second half of 2023

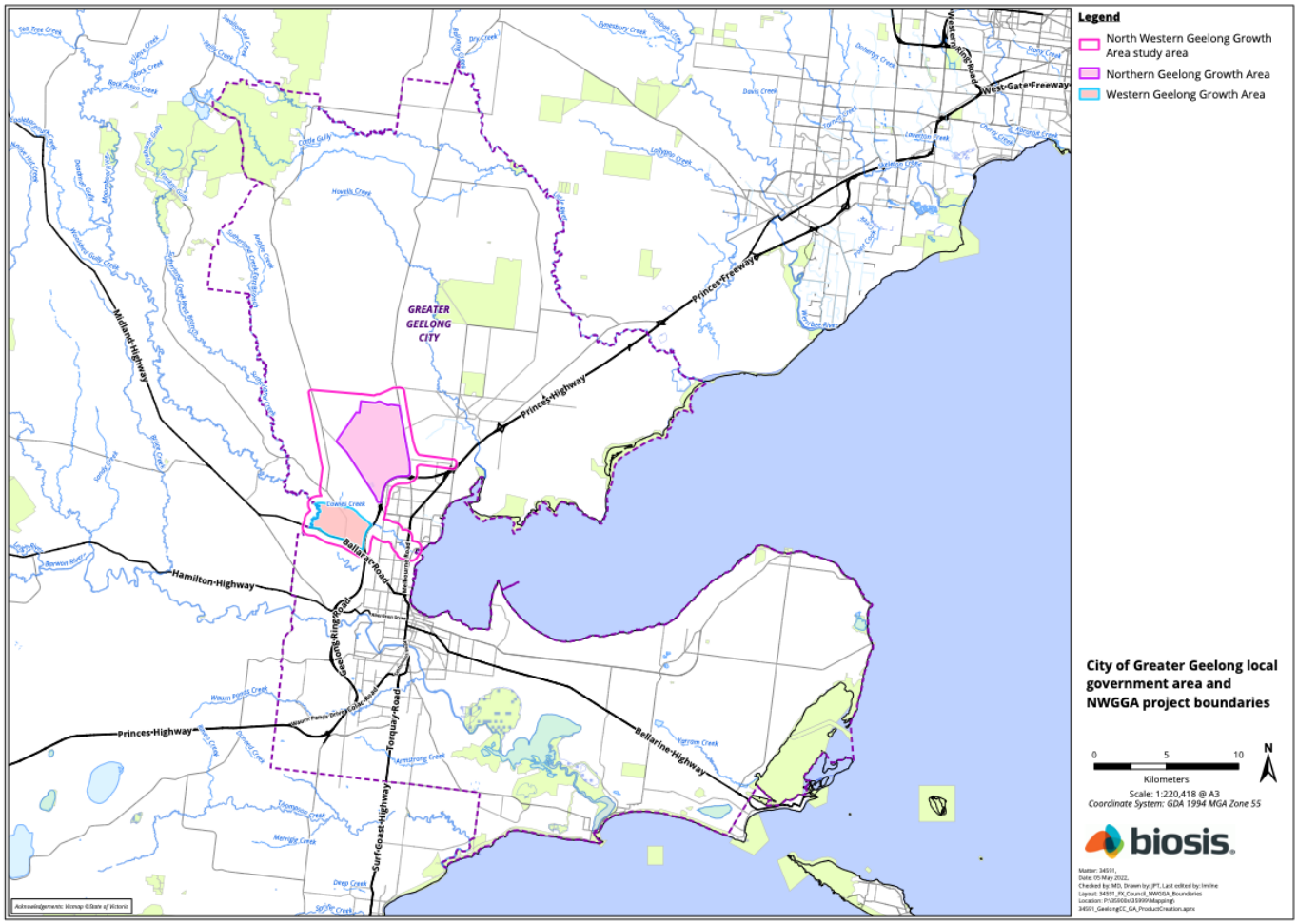

Figure 1: Strategic assessment area for the NWGGA

THE NEED FOR OFFSETS AND FUNDING

At the Commonwealth level, biodiversity offsets will be required as part of the strategic assessment process to compensate for the residual impacts of development. In particular, these impacts will relate to GSM, SLL and NTG in the NGGA.

In addition to offsets, the Plan will need to provide commitments to:

- Protect and manage habitat for GGF in the WGGA
- Avoid and mitigate potential downstream (or indirect) impacts from development within the growth areas
- Implement the Plan (including monitoring, evaluation and reporting (MER) and compliance)

The area of land to be avoided and managed within the NGGA has been expanded to help reduce the scale of direct impacts to MNES and address critical issues around meeting State biodiversity policy. The intention is for this land to be acquired and managed and will form a component of the EPBC Act offsets package. These sites combine to 109 ha (see Figure 2).

All of the commitments made through the Plan to protect MNES will require funding over the next 30 years. As part of preparing and implementing the Plan, the City is responsible for:

- Identifying how the commitments will be delivered
- Estimating the amount of funding needed to deliver the commitments
- Securing and administering this funding (as required) and ensuring the commitments are met

The City is seeking to recover the full cost of implementation from developers over the life of the Plan.

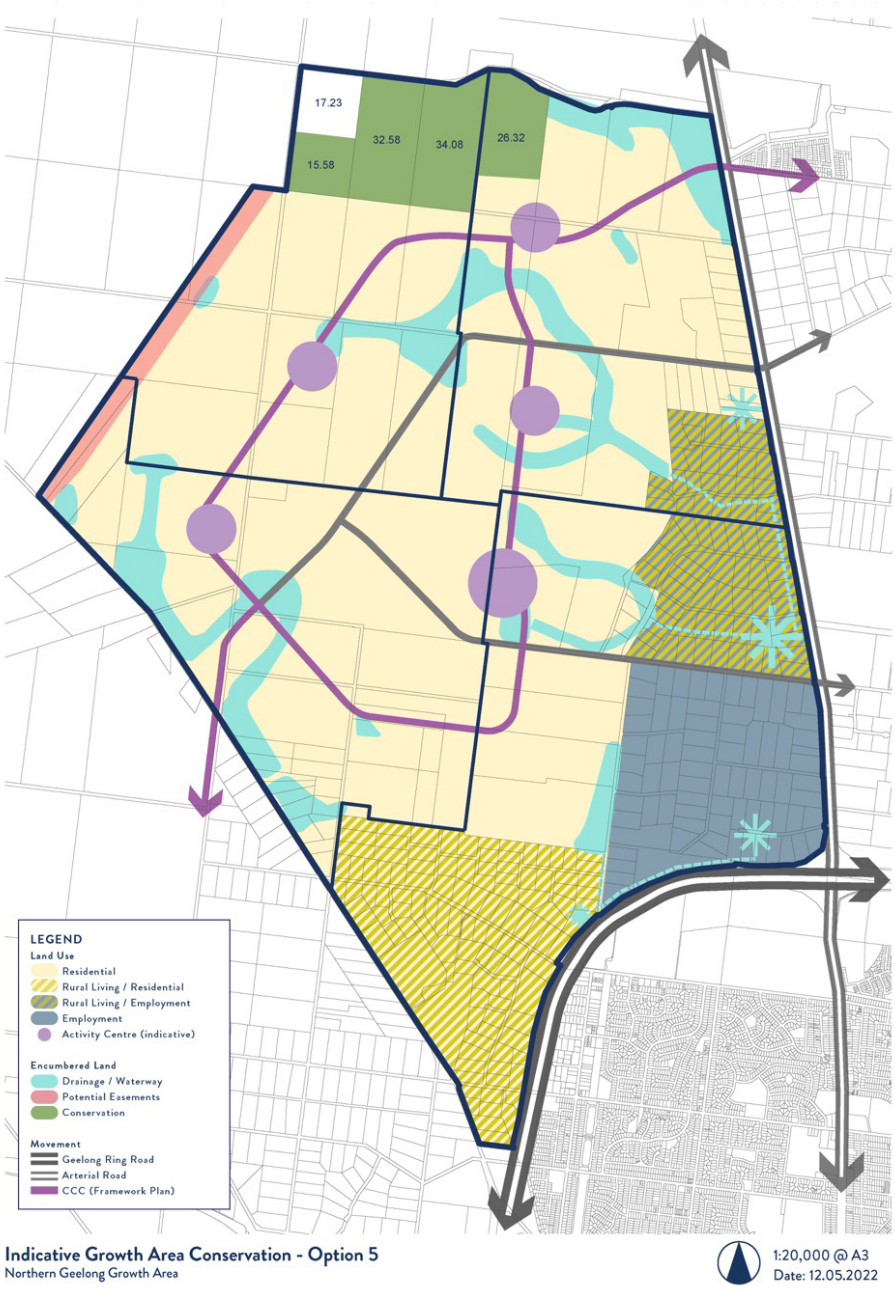

Figure 2: Preferred layout of the NGGA

APPROACH TO CONSULTATION WITH LANDHOLDERS

There are a range of options for how to go about funding and implementing the Plan. These are discussed in this paper. As part of evaluating the options, the City is considering the following key criteria:

- Costs
- Risks associated with offset availability and delivery certainty
- Biodiversity outcomes

The views of landholders are important in analysing the options and making a decision about the preferred pathway. This consultation process aims to gather an understanding of what is important to landholders around offsets and funding for the NWGGA strategic assessment.

Consultation on offsets and funding will involve a series of meetings with landholders in both growth areas to inform a decision by the City. This will be followed by additional meetings to discuss the outcomes of the work.

There will also be a range of other consultation opportunities throughout the strategic assessment including a formal public consultation process when the draft documents will be exhibited for comment (planned for the first half of 2023).

CONSULTATION PAPER

This consultation paper has been prepared to facilitate consultation with landholders within the NWGGA on:

- The need for offsets and funding for the strategic assessment
- Two scenarios for meeting the Commonwealth offset requirements
- The approach to funding and delivering the key Commonwealth commitments

The paper:

- Describes the key EPBC commitments which will require funding as part of Commonwealth approval
- Analyses two potential offset scenarios for addressing Commonwealth requirements
- Describes and analyses the potential options for funding and delivering the key commitments
- Discusses the State biodiversity requirements and the scope for State and Commonwealth alignment
- Presents a number of questions for discussion as part of the consultation process

DESCRIPTION OF THE KEY EPBC COMMITMENTS THAT WILL REQUIRE FUNDING

As outlined above, the key EPBC commitments of the Plan that will require funding relate to:

- Biodiversity offsets for impacts in the NGGA
- Protection and management of habitat for GGF in the WGGA
- Avoidance and mitigation of potential downstream (or indirect) impacts from development within both growth areas
- Implementation of the Plan (including monitoring, evaluation and reporting (MER) and compliance)

This section provides an overview of each of these commitments and summarises their indicative costs.

BIODIVERSITY OFFSETS FOR IMPACTS IN THE NGGA

Strategic assessments provide some flexibility in how biodiversity offsets are delivered. The City is considering two broad scenarios for delivery of the Commonwealth offsets. They are:

- Scenario 1: status quo
- Scenario 2: strategic offsetting

It should be noted that both offset scenarios provide for the acquisition and management of the conservation land within the NGGA. This land will form an upfront component of the offset package under both scenarios. Having this upfront component (as opposed to aligning the timing of development impacts with offset delivery) is likely to be necessary in order to secure endorsement and approval from the Commonwealth.

SCENARIO 1: STATUS QUO

The status quo approach to offsetting is based on:

- Calculating the impacts to MNES within the growth areas and applying the EPBC offsets calculator to determine the offset requirements. This level or quantum of offset is typical of any project-by-project (or EPBC Part 9 approval) and would likely be required for the NWGGA in the absence of a commitment to the types of strategic offset outcomes outlined below. As a guide, the broad quantum of offsets required under the status quo scenario is around:
    - 50 ha of NTG
    - 460 ha of SLL
    - 660 ha of GSM

- Assuming that the conservation land in the NGGA will compromise the total upfront component of the EPBC offset package
- Assuming that the remainder of the EPBC offsets will be delivered:
    - Outside the growth areas
    - Progressively over the 30 year life of the Plan

SCENARIO 2: STRATEGIC OFFSETTING

A more strategic approach to offsets than the status quo approach is possible under an EPBC strategic assessment (Part 10 of the EPBC Act). While normal project-by-project assessment processes (Parts 7-9 of the EPBC Act) are required to deliver offsets in accordance with the EPBC Environmental Offsets policy (2012) and associated calculator, strategic assessments are directed by a set of Terms of Reference which generally only require residual impacts to be offset in accordance *with the principles* of that policy, and without necessarily needing to meet the requirements established through the calculator.

The flexibility to move away from the calculator is offered on the provision that a more strategic package of offsets can be delivered through Part 10 assessments. The strategic nature of these offsets is intended to provide a better environmental outcome than would otherwise be delivered through project-by-project assessments. For example, strategic assessments can coordinate offset delivery to provide larger, consolidated offsets in key locations, improving the relative resilience and long-term viability of the values protected. In contrast, project-by-project assessments tend to lead to the delivery of many, smaller offset sites that are often disconnected.

The two factors that could potentially provide an improved strategic outcome and support a move away from the calculator for the NWGGA include:

- Upfront delivery of a significant proportion of the offset liability. The earlier offset sites can be secured and managed, the better the outcome for the values that are protected. If offsets are delivered in advance of the impacts, there is the potential to realise real gains through early threat management and this can lead to offsets which genuinely compensate for the impacts when they occur
- Securing and managing areas of land that meet at least one of the following strategic landscape criteria:
    - Protection of larger land parcels compared to typical project-by-project offsets
    - Located within a key biodiversity corridor and improves connectivity across the landscape
    - Connected to an existing conservation reserve

The strategic offsetting scenario presented in this paper is based on:

- Delivery of the offsets in a strategic manner, including through:
    - Maximising the upfront delivery of offsets
    - Applying strategic landscape criteria for the selection of offsets
- A discount in the offsets required by the EPBC offset calculator to reflect the strategic benefit of the offset package. A 20% discount has been used for the purposes of this paper as this is supported by conservation planning science. As a guide, the broad quantum of offsets likely to be required under the strategic offsetting scenario is around:
    - 40 ha of NTG
    - 310 ha of SLL
    - 530 ha of GSM
- Delivery of the following upfront offsets early in the life of the Plan (e.g. by the end of year 5):
    - The conservation land within the NGGA
    - 75% of the remaining offset requirement for NTG
    - 75% of the remaining offset requirement for SLL
    - 50% of the remaining offset requirement for GSM
- Delivery of the remaining offsets progressively over the 30 year life of the Plan, while still applying the strategic landscape criteria

The assumptions around the approach to strategic offsetting have been developed based on an understanding of the types of properties that are currently available on the offset market. This provides a level of confidence that the commitments are achievable in the immediate to short term.

PROTECTION AND MANAGEMENT OF HABITAT FOR GGF IN THE WGGA

GGF habitat within the WGGA will need to be protected and managed as part of EPBC approval. The costs associated with this are provided as a broad estimate for the purposes of this consultation paper and will be further defined and refined as the strategic assessment progresses. The costings incorporate estimates for the:

- Development of a GGF management plan
- Implementation of the GGF management plan which will likely involve some of the following types of measures:
    - Construction of waterbodies as habitat for the GGF
    - Fencing
    - Revegetation
    - Weed and pest animal management
    - Rubbish removal
    - Monitoring

AVOIDANCE AND MITIGATION OF POTENTIAL DOWNSTREAM (OR INDIRECT) IMPACTS

A range of specific commitments will be required around avoiding and mitigating downstream impacts that have the potential to affect MNES (e.g. changes to hydrological flows and water quality downstream of the growth areas). These commitments are likely to include the following types of measures:

- Undertaking a number of technical studies to:
    - Identify the key risks from the development on downstream MNES values and Ramsar wetlands in relation to water quality and water flows
    - Recommend appropriate measures and standards to address these risks in consultation with experts and other key stakeholders
- Preparation of a set of guidelines based on the results of these studies which will need to be considered in the development of PSPs and as part of decisions on planning permits and permit conditions to ensure risks to MNES values and Ramsar wetlands in relation to water quality and water flows are adequately managed

IMPLEMENTATION OF THE PLAN

In addition to funding for the commitments above, funding will be required for general administration of the Plan. This will need to cover items such as:

- Monitoring, evaluation and reporting (MER)
- Developer registration for undertaking approved actions under the Plan
- Compliance

SUMMARY OF THE INDICATIVE COSTS OF KEY EPBC COMMITMENTS

Table 1 summarises the indicative costs of the key EPBC commitments. It is important to note that these estimates are speculative at this stage in the process, but are considered appropriate to inform discussion around the approaches to offsetting, funding and overall delivery of the strategic assessment. The estimates are rounded for the purposes of consultation and should not be seen as final accurate costings.

The items in Table 1 relate specifically to the types of commitments that will be made in order to protect and manage MNES. This table does not attempt to identify the full list of planning and delivery costs associated with development of the growth areas more broadly (for example, the cost of designing and constructing stormwater infrastructure).

While the costs of the two offset scenarios are presented in Table 1, only one of these scenarios will be applicable depending on a range of factors and decisions discussed in this paper.

Table 1: Key components of the Commonwealth approval that will need to be funded

Component	Description	Indicative cost estimates
BIODIVERSITY OFFSETS – SCENARIO 1: STATUS QUO		
Acquisition and management of avoided land within the NGGA	• Involves acquisition and management of the expanded avoided land within the NGGA • Finance costs • Assumes the avoided land will operate as a Commonwealth offset site	$64,000,000
Offsets outside the growth areas	• Incorporates the cost of securing additional offsets outside the growth areas to address the impacts to MNES within the NGGA to GSM, SLL, NTG • Calculation of offset liability based on EPBC offsets calculator and reflects outcomes that would normally be delivered through a standard Part 7-9 process • Assumes offsets would be delivered progressively over the life of the Plan with no commitment or allowance for strategic outcomes	$27,000,000
BIODIVERSITY OFFSETS – SCENARIO 2: STRATEGIC OFFSETTING		
Acquisition and management of avoided land within the NGGA	• Involves acquisition and management of the expanded avoided land within the NGGA • Finance costs • Assumes the avoided land will operate as a Commonwealth offset site	$64,000,000

Additional upfront offsets outside the growth areas	• Incorporates part of the cost of securing additional offsets outside the growth areas to address the impacts to MNES within the NGGA to GSM, SLL, NTG
	• Assumes additional upfront offsets will be delivered early in the life of the Plan
	• Calculation of offset liability reflects the delivery of strategic offsets to improve the biodiversity outcome through:
	  o Substantial upfront offsets
	  o Consolidated offsets rather than piecemeal
	• Delivery of strategic outcomes assumes a reduction in the overall quantum of offsets required compared with the status quo
		$19,000,000

Remaining offsets outside the growth areas	• Incorporates the cost of delivering the remaining offset requirements outside the growth areas over the life of the Plan	$7,000,000
OTHER CONSERVATION MEASURES		
Growling Grass Frog (GGF) corridor	• Incorporates the development and implementation of a GGF management plan • Critical commitment for ensuring the Plan meets EPBC requirements **NB:** Further work is required to better define and cost this commitment. This will be undertaken as the strategic assessment progresses	$11,300,000
Avoidance and mitigation of potential downstream (or indirect) impacts from development within the growth areas	• Incorporates the cost of technical studies to determine how best to avoid and mitigate potential downstream impacts as precincts are planned and developed • Critical commitment for ensuring the Plan meets EPBC requirements **NB:** Further work is required to better define and cost this commitment. This will be undertaken as the strategic assessment progresses	$750,000
IMPLEMENTATION OF THE PLAN		
Monitoring, evaluation and reporting (MER)	• Incorporates the cost of MER during the 30 year life of the Plan	$18,750,000
Compliance	• Incorporates the cost of ensuring compliance during the life of the Plan	

COMPARISON OF THE TWO COMMONWEALTH OFFSET SCENARIOS

This section:

- Evaluates the two scenarios for delivering the Commonwealth offsets against a set of criteria. As outlined above, the scenarios are:
    - Scenario 1: status quo
    - Scenario 2: strategic offsetting
- Identifies the City's preferred scenario

EVALUATION CRITERIA

A set of evaluation criteria have been developed to enable a comparison between the two scenarios and inform decision making. A quantitative analysis has been undertaken for some criteria, while others have been assessed qualitatively. These criteria include:

- Cost, which has been analysed over the 30-year life of the approval
- Risks associated with offset availability and delivery certainty
- Biodiversity outcomes, which considers how well the two scenarios address key conservation planning principles
- Local benefits, which considers the outcomes being delivered by each scenario at the local scale

Cost

The cost analysis for each scenario:

- Incorporates the costs of acquiring and managing the conservation land in the NGGA
- Considers the offset liability under each scenario and the predicted offset costs over the life of the Plan. These incorporated predicted increases in offset costs over time
- Includes the costs of other commitments including management of the GGF corridor in the WGGA and the cost of technical studies for water related issues
- Includes the likely administrative costs for implementing the strategic assessment

The non-discounted costs for each scenario are presented in Table 2 and the predicted Net Present Value (NPV) costs are presented in Table 3. As outlined previously, the estimates are rounded for the purposes of consultation and should not be seen as final accurate costings.

NPV was included in the analysis to provide a comparison of the likely cost implications over time for each scenario. NPV is based on the premise that a dollar is worth more today than a dollar in the future. It provides a way of discounting costs over time to reflect that delayed costs are generally better from a financial perspective. A real discount rate of 4% was applied to calculate NPV. This is recommended in the Victorian Guide to Regulation for cost benefit analysis (https://www.dtf.vic.gov.au/funds-programs-and-policies/victorian-guide-regulation).

Table 2: Summary of the non-discounted costs for Scenario 1 and 2

	Scenario 1: status quo	Scenario 2: strategic offsetting
NGGA cost	$107,000,000	$105,000,000
WGGA cost	$14,000,000	$14,000,000
Total cost	**$121,000,000**	**$119,000,000**

Table 3: Summary of the NPV costs for Scenario 1 and 2

	Scenario 1: status quo	Scenario 2: strategic offsetting
NGGA cost (NPV)	$88,000,000	$83,000,000
WGGA cost (NPV)	$10,000,000	$10,000,000
Total cost (NPV)	**$98,000,000**	**$90,000,000**

The results suggest that:

- The overall predicted cost of both scenarios is similar, with Scenario 2 marginally cheaper
- The NPV costs for Scenario 2 are less than Scenario 1
- The costs are largely driven by the offsetting requirements for impacts within the NGGA
- The costs for the WGGA are substantially less than the NGGA

RISKS ASSOCIATED WITH OFFSET AVAILABILITY AND DELIVERY CERTAINTY

Risk in this context, relates to the challenges in finding and securing suitable offsets over time. It is anticipated that there will be diminishing supply of suitable offset sites over time due to declining environmental values and competition in the offset market as other large projects also seek to offset their impacts.

The delivery of offsets will need to keep pace with the timing of impacts as a condition of the EPBC approval. There is a risk that development could be stalled where there is a delay in finding and securing offsets.

Risk is significantly minimised by securing offsets early. Therefore, the larger the upfront offset component, the smaller the risk to development.

The strategic offsetting scenario (Scenario 2) therefore performs substantially better in relation to risk compared with the status quo scenario (Scenario 1) due to the much larger upfront offset component.

BIODIVERSITY OUTCOMES

The consulting team undertook analysis to compare the biodiversity benefits of strategic offsets compared to status quo offsets. The analysis investigated ways of quantifying the benefit of strategic offsets based on a literature review of policy and scientific papers, and estimated the percentage benefit of delivering strategic offsets for the NWGGA strategic assessment.

The analysis investigated the benefits of the two key components of strategic offsets – upfront delivery of a significant proportion of the offset liability, and securing and managing land with strategic landscape value, considering:

- Size of the offset land (or conservation area)
- Location of the offset site in relation to biodiversity corridors
- Connection of the offset site to existing conservation areas

Although the biodiversity benefit of strategic offsetting is difficult to quantify and is dependent upon a range of localised factors, the review provided evidence to support a conservative quantitative estimate of the benefit.

The results of the analysis suggest that the strategic offsetting scenario (Scenario 2) performs better in relation to biodiversity outcomes compared with the status quo scenario (Scenario 1). The biodiversity benefit of strategic offsetting was estimated to be a minimum of 20% greater than the status quo. This estimate is considered to be conservative, given that previous studies have shown larger benefits (Gordon & Peterson, 2019; Kujala, Whitehead et al., 2015), including a study of Victorian Grassland communities which suggested a 40% increase in ecological benefit (Gordon, Langford et al., 2011).

LOCAL BENEFITS

It is recognised that provision of offsets within the same local area where the impacts occur can be preferable in terms of both biodiversity representativeness and social amenity.

State policy requires native vegetation offsets (or the General Habitat Units) to be delivered within the same local government area or CMA region in which the impacts occur. However, at the Commonwealth level, offsets are only required to be like-for-like in terms of the values (or MNES) that are being impacted. This means that suitable offsets can be delivered some distance from development as long as they are protecting the same MNES and associated habitat that is being impacted.

Both offset scenarios provide for the acquisition and management of the conservation land within the NGGA. This will deliver an important biodiversity outcome within the local area. However, potential third party offset sites supporting the MNES that are being impacted within the NWGGA are either extremely scarce or unavailable elsewhere within the City of Greater Geelong or Corangamite CMA. This is largely due to competing land uses and high land prices. It is not expected that either offset scenario will be able to deliver land in the local area beyond what is being offset within the NGGA.

CONCLUSION AND PREFERRED SCENARIO

The strategic offsetting scenario (Scenario 2) generally performs better across all of the evaluation criteria, noting that the local benefits criteria does not differentiate between the two.

If sufficient funding can be sourced upfront and then recovered as development progresses within the NGGA, then a commitment to a strategic offsetting approach is expected to cost less, minimise the risks around offset delivery and development delay, and lead to better outcomes for biodiversity.

The strategic offsetting scenario is the preferred approach that the City would like to pursue.

OPTIONS FOR THE FUNDING AND DELIVERY OF KEY COMMONWEALTH COMMITMENTS

This section:

- Describes the proposed approach to funding and delivery of the key Commonwealth commitments itemised in Table 1, including three options for funding and delivering offsets outside of the NGGA
- Evaluates each option against a set of criteria
- Provides a conclusion about the analysis and the City's preferred approach to funding and delivery

PROPOSED APPROACH TO FUNDING

This section:

- Identifies the need for separate levies for the NGGA and the WGGA
- Discusses a proposed general levy for each growth area
- Provides an overview of the issues that will need to be resolved to establish a mechanism to collect levies
- Describes each of the three funding options for delivering external offsets to compensate for impacts within the NGGA

SEPARATE LEVIES FOR THE NGGA AND THE WGGA

Given the substantial difference in environmental values and impacts of the two growth areas, it is considered appropriate that the levies for Options 2 and 3 are calculated separately for each growth area. This is a critical assumption for the analysis of the funding options.

APPLICATION OF A GENERAL LEVY

It is proposed that a general levy is applied to each landholder in:

- The NGGA to fund:
    - Securing and managing the conservation land in that growth area as a contribution to the total offset liability of the Plan
    - Technical studies for water related issues relevant to the NGGA
    - The administrative costs of implementing the strategic assessment
- The WGGA to fund all of the commitments relevant to this growth area including:
    - Management of the GGF corridor in that growth area
    - Technical studies for water related issues relevant to the WGGA
    - The administrative costs of implementing the strategic assessment

NGGA levy for conservation land

A general levy for the conservation land in the NGGA is considered to be appropriate because the conservation land:

- Facilitates development approval for all landholders in the growth area
- Provides an important contribution to the upfront offsetting of impacts to MNES which is likely to be a specific requirement for approval
- Has been designed to ensure the State offsetting requirements are achievable for the growth area

It is assumed that the levy would be a flat levy. It is estimated based on the cost of acquiring the land and managing the land over a 10-year period apportioned to a developer based on the hectares (ha) of development on their landholding within development zones.

The cost for securing and managing the land is the same under both offsetting scenarios and results in a levy per hectare of development within the NGGA of approximately $32,000.

This levy would not be applied to landholders in the WGGA.

Levy for technical studies related to water issues

A general levy for the technical studies for water related issues is considered appropriate given that all development within the growth areas contributes to water related risks. The overall cost for these studies is minor in comparison to other commitments and is anticipated to cost:

- $250 per hectare for the NGGA
- $325 per hectare for the WGGA

WGGA levy for GGF corridor management

A general levy for GGF corridor management in the WGGA is considered appropriate as all development within the growth area contributes to the risk of indirect impacts to the species.

It is assumed that the levy would be a flat levy. It is estimated based on the potential costs for developing and implementing a GGF management plan apportioned to a developer based on the hectares (ha) of development on their landholding within development zones. The costs include some indicative costing for the construction of GGF waterbodies (noting further work is required to resolve the approach around this issue).

The cost is the same under both offsetting scenarios and results in a levy per hectare of development within the WGGA of approximately $15,000.

This levy would not be applied to landholders in the NGGA.

Levy for implementation

A general levy for implementing the Plan is also considered to be appropriate because all landholders will benefit from the outcomes of the strategic assessment. The levy is estimated by apportioning the potential costs of implementing the commitments for each hectare of development within both the NGGA and WGGA.

The estimated levy per hectare of development for implementing the Plan is:

- $8,000 per hectare for the NGGA
- $3,000 per hectare for the WGGA

Total general levy

The total general levy per hectare of development would be approximately:

- NGGA = $40,000
- WGGA = $18,000

MECHANISM TO COLLECT LEVIES

The Plan will need to briefly describe the mechanism for collecting the levy. The Plan does not need to provide substantial details about the levy mechanism but prior to endorsement of the Plan, DCCEEW will need to understand and have confidence that the proposed mechanism to secure funds is legally robust and feasible to implement.

The City has begun considering the available options for a mechanism to collect levies. Potential mechanisms are not identified and discussed here as this work will progress based on the outcomes of consultation on this paper. Key considerations in determining the levy mechanism will be:

- Are there any legal issues to clarify/resolve to ensure the mechanism is robust?
- Over what land and for what activities is the levy payable and are there any exceptions?
- What triggers the collection of the levy and when does the levy need to be paid?
- What compliance mechanisms are in place to ensure the levy is paid?
- Under what circumstances could an affected party review or challenge the levy?
- How will the levy be indexed to account for inflation?
- Will the levy be reviewed at appropriate intervals and can it be adjusted if necessary, and under what circumstances, to ensure the commitments in the Plan can be delivered over the life of the Plan?

SUMMARY OF OPTIONS TO FUND AND DELIVER NGGA OFFSETS OUTSIDE OF THE GROWTH AREA

The three options considered in this paper for the funding and delivery of the external offsets needed to address impacts within the NGGA are set out in Table 4 and described in further detail below. Note that there are no offsets required to address potential impacts within the WGGA. The following options and associated analysis therefore only relate to the NGGA.

Table 4: Options for the funding and delivery of the external offsets

Option	Summary of option	Offset scenarios that can be delivered by each option
Option 1	Developers secure and manage their own offsets	Scenario 1 only. Strategic offsetting (scenario 2) cannot be delivered through this option
Option 2	The City secures and manages offsets on behalf of developers using funds collected from a levy on urban development in the growth areas. The levy is calculated separately for each growth area based on either: • Option 2a – User Pays • Option 2b – Flat Levy	Scenario 1 and 2
Option 3	The City secures and manages offsets on behalf of developers using funds collected from a levy as per Option 2, but also allows (under certain circumstances) developers to make a Works in Kind contribution in lieu of the levy	Scenario 1 and 2

DESCRIPTION OF OPTION 1 – DEVELOPERS SECURE AND MANAGE THEIR OWN OFFSETS

Option 1 would involve developers securing and managing their own offsets. This option is only applicable to Scenario 1 (status quo) as Scenario 2 (strategic offsetting) would not be possible. This is because substantial upfront offsetting and the application of a strategic landscape approach would not be possible under a developer driven offsetting program.

The key elements of Option 1 are:

- The offset liability for each developer is calculated based on the impacts of the development on MNES on each landholding in accordance with the EPBC offset calculator. Impacts to MNES values are based on updated native vegetation and habitat mapping undertaken for the growth areas as part of the strategic assessment and development of the Plan. The mapping defines the MNES values on a landholding and the offset liability is calculated based on the mapping at the time of Plan endorsement (and not at the time the development occurs). It is important to note that offsets for MNES are only required for the NGGA
- Developers are responsible for securing and managing their own offsets according to the standard offset process under the EPBC Act for individual developments. This process requires:
    - Developers to source offsets from willing third parties, or source suitable offsets from their own land if available
    - Offsets to be secured prior to development occurring
    - Developers reporting to DCCEEW on progress in securing and managing offsets
- The Plan will commit to offsets being secured prior to development occurring, or require evidence be provided that offsets are available and the steps that will be taken to secure these offsets prior to development occurring
- The City will track and report annually to DCCEEW the overall progress in securing offsets against the offset liability

DESCRIPTION OF OPTION 2 – THE CITY SECURES OFFSETS ON BEHALF OF DEVELOPERS THROUGH A LEVY ON DEVELOPMENT

Option 2 would involve the City securing and managing offsets on behalf of developers using funds collected from a levy on urban development in the growth areas. This option is applicable to both Scenario 1 (status quo) and Scenario 2 (strategic offsetting).

The key elements of Option 2 are:

- The City establishes an offset fund to fund the costs of securing and managing offsets on behalf of developers
- The offset fund is fully cost-recovered from developers through a levy on urban development in the growth areas
- The City is responsible for:
    - Collecting the levy from developers

    - Sourcing offsets to meet the offset liability
    - Securing and managing the offsets by either:
        - Purchasing land and securing and managing the land for conservation, or
        - Entering into agreements with third-parties to secure and manage land for conservation
    - Administering the offset fund, including establishing governance arrangements
    - Tracking and reporting annually to DCCEEW the overall progress in securing offsets against the offset liability
- The levy paid by each developer is determined by one of two different levy options:
    - Option 2a – User Pays
    - Option 2b – Flat Levy

Option 2a – User Pays Levy

Under this option, the levy paid by each developer would be determined based on the impacts to MNES values on their landholding. Impacts to MNES values would be based on the updated native vegetation and habitat mapping undertaken for the growth areas as part of the strategic assessment and development of the Plan. The mapping defines the MNES values on a landholding and the levy would be calculated based on the mapping at the time of Plan endorsement.

The levy would be calculated assuming all MNES values would be impacted on a landholding within development zones. This is to ensure funding certainty and to mitigate the risk of creating small areas of avoided land of little value to biodiversity.

Development in the NGGA will directly impact habitat for three MNES values:

- NTG
- SLL habitat
- GSM habitat

A separate levy would be established for each of these MNES values. A developer may be liable to pay a levy for impacts to all three MNES values or only one or two of the values, depending on the MNES values on their landholding.

The levy paid by each developer represents the cost of securing and managing the offsets for that developer's offset liability in addition to the cost of implementing the other commitments under the Plan.

Option 2b – Flat Levy

Under this option, the levy paid by each developer would be determined based on the hectares (ha) of development on their landholding.

The levy would be calculated by determining the offset liability based on the updated native vegetation and habitat mapping undertaken for the growth areas, and deriving the levy from that calculation.

The total levy paid by each developer would represent the developer's proportionate contribution to the cost of securing and managing the offsets for the NGGA's offset liability in addition to the cost of implementing the other commitments under the Plan.

Developers within the NGGA would pay the same levy amount per hectare.

DESCRIPTION OF OPTION 3 – THE CITY SECURES OFFSETS THROUGH LEVY ON DEVELOPMENT AND ALSO ALLOWING FOR WORKS IN KIND CONTRIBUTIONS

Option 3 involves the City securing and managing offsets on behalf of developers using funds collected from a levy (as per Option 2) but also provides the option for developers to make a works in kind (WIK) contribution in lieu of the levy.

Under a WIK contribution, a developer agrees they will either provide offsets and/or works instead of payment of the levy to meet whole or part of their offset liability. The WIK contribution under Option 3 would be limited to certain circumstances to ensure enough funds remain available to meet the offset liability for the development in the NGGA.

Where a WIK contribution is made, the developer would be responsible for delivering the contribution and reporting to the City on progress in implementing the contribution and any ongoing management.

The City would be responsible for tracking progress of the delivery of the contribution and reporting to DCCEEW.

The potential circumstances where a WIK contribution may be suitable will need to be refined and updated through consultation with landholders and other stakeholders and further analysis of cost implications. As an indication, suitable WIK

contribution could involve securing offsets outside the growth areas that contribute to the overall offset requirements of the Plan, as long as those offsets meet the relevant strategic landscape criteria.

EVALUATION OF OPTIONS TO FUND AND DELIVER NGGA OFFSETS OUTSIDE OF THE GROWTH AREA

Again, a set of evaluation criteria have been developed to help analyse the funding options and enable a comparison. The criteria are:

- Cost (which has been analysed for different landholders across the growth areas)
- Risks associated with offset availability and delivery certainty
- Timing of offset delivery relative to impacts
- Biodiversity outcomes
- Administrative efficiency and complexity

Cost

The estimated cost of the commitments for landholders in the NGGA under Option 1 is provided in Table 5. Landholders are not specifically identified but shown anonymously for comparative purposes.

Option 1 is not likely to substantially change the cost liability that developers are expecting through a regular project-by-project development process. The option is consistent with the standard offset approach used for individual developments under the EPBC Act, and developers will likely already understand their potential offset liability under this option through due diligence processes.

Table 5: Cost range for commitments under Option 1

General levy component per hectare of development	Other commitment cost per hectare of development	Total commitment cost per hectare of development for each landholder
NGGA		
$40,000	$7,000 - $51,000	**$47,000 - $91,000**

The costs of the commitments for each landholder for Option 2a – User Pays and Option 2b – Flat Levy are estimated in Table 6. There are different outcomes for landholders depending on the level of impacts to MNES occurring on their land. For developers with lower levels of impact the user pays levy (Option 2a) is cheaper. Whereas for developers with higher levels of impacts the flat levy (Option 2b) is cheaper.

The costs associated with Option 3 are not expected to be substantially different to Option 2. Although it is noted that the opportunity for a WIK contribution may present some savings as landholders will pursue a WIK contribution where cost saving opportunities exist compared to the cost of the levy.

Overall, the funding options in themselves do not significantly affect the cost of implementing the commitments. The key driver is the offsetting scenario where, as outlined above, the cost of implementing a status quo offsetting scenario is higher than the strategic scenario. In this way, the relevant cost issue in relation to the funding options is the fact that Option 1 can only be delivered under a status quo offsetting scenario, while Options 2 and 3 are both also able to be used under the strategic offsetting scenarios.

Table 6: Cost range for commitments under Option 2

OPTION 2A – USER PAYS LEVY		
General levy component per hectare of development	**Other commitment cost per hectare of development**	**Total commitment cost per hectare of development for each landholder**
NGGA		
SCENARIO 1: STATUS QUO		
$40,000	$7,000 - $51,000	**$47,000 - $91,000**
SCENARIO 2: STRATEGIC OFFSETTING		
$40,000	$4,000 - $31,000	**$44,000 - $71,000**
OPTION 2B – FLAT LEVY		
General levy component per hectare of development	**Other commitment cost per hectare of development**	**Total commitment cost per hectare of development for each landholder**
NGGA		
SCENARIO 1: STATUS QUO		
$40,000	$14,000	**$54,000**
SCENARIO 2: STRATEGIC OFFSETTING		
$40,000	$13,000	**$53,000**

RISKS ASSOCIATED WITH OFFSET AVAILABILITY AND DELIVERY CERTAINTY

As outlined previously, it is anticipated that there will be a diminishing supply of suitable offset sites over time due to declining environmental values and competition in the offset market as other large projects also seek to offset their impacts.

If offsets are limited or not available, there is a significant risk that development will be delayed or cannot proceed.

While this risk applies to all options, the risk under Option 1 is greater as Options 2 and 3 allow for Scenario 2 (strategic offsetting), which reduces the risk of diminishing supply of offsets over time by securing offsets early.

TIMING OF OFFSET DELIVERY RELATIVE TO IMPACTS

For Part 10 strategic assessments, DCCEEW generally requires a component of the offsets to be delivered upfront, with the remaining offsets established at about the same rate as the impacts of development. This ensures that the lag between the impacts of the development and the gains from offsets is acceptable.

Again, the key driver for the project around timing of offset delivery is the offsetting scenario that is chosen (status quo or strategic) rather than the funding options. The upfront offsets to be provided as part of the strategic offsetting approach would be significantly greater compared with the status quo and would ensure offsets are provided ahead of the impacts of development. In this way, the timing of offset delivery relative to impacts is unlikely to be a concern for either Options 2a, 2b or 3 under a strategic scenario (Scenario 2).

If the status quo (Scenario 1) were to be applied, the funding options have different implications in terms of meeting DCCEEW's requirement for offsets to keep pace with development. This is because development is tied to the PSP program and different PSPs contain different MNES values and offset liabilities.

With the funding options that apply a user pays approach (Options 1, 2a and potentially 3), developers would be required to find their own offsets or pay a levy equivalent to the offset liability for that landholding prior to development commencing. Under these options, either the offsets would be delivered or there would be enough funds provided to the City to commence sourcing and securing the offsets needed to meet that offset liability prior to development commencing.

Under Option 2b, there is a risk of a lag between the impacts of the development and the gains from offsets. The risk arises with a flat levy where PSPs with greater MNES values are impacted early during Plan implementation. In this scenario, the levy amount collected up to that point in time is not equivalent to the offset liability, as the levy amount reflects the average funds needed across the growth area to meet the overall offset liability for the growth area. As a result, Option 2b under a status quo scenario is unlikely to satisfy DCCEEW's requirements around the timing of offset delivery, making it less viable.

BIODIVERSITY OUTCOMES

Again, the key driver behind the biodiversity benefits of the different funding options is the offset scenario that is applied. A strategic offsetting scenario is likely to lead to more certain biodiversity outcomes as offsets would be delivered early and located in strategic areas for biodiversity that improve long-term viability and can achieve multiple benefits for biodiversity values.

Option 1 is unable to deliver the strategic offsetting scenario as developers will make individual decisions about offsets driven by offset availability and offset cost rather than strategic considerations for biodiversity. This is likely to lead to less certain biodiversity outcomes which are typically small and patchily distributed.

Both Options 2 and 3 are able to be used under a strategic offsetting scenario. The biodiversity outcomes that could be delivered are expected to be largely the same between these options.

ADMINISTRATIVE EFFICIENCY AND COMPLEXITY

A key difference between the funding options relates to administrative efficiency and complexity. One of the lessons learnt from other strategic assessments around Australia is that the greater the complexity in implementation, the greater the likelihood that there will be problems in successfully meeting the commitments.

Between the funding options identified here, landholders bear more of the administrative burden under Option 1, whereas the City bears more of the burden under Options 2 and 3.

In terms of complexity:

- Option 1 is relatively straightforward as a funding option, but as outlined previously cannot be applied to the strategic offsetting scenario and is arguably the least efficient due to a lack of central coordination
- A user pays levy (Option 2a) is more complex to administer than a flat levy (Option 2b). This is because a user pays levy needs to be calculated according to the biodiversity values on different parcels of land. Developing and administering a similar type of user pays levy for the MSA was reportedly very difficult. A flat levy on the other hand (as implemented for the Western Sydney Growth Centres) is much less complex to apply
- Option 3 has the potential to add substantial complexity to the process as defining and implementing a WIK approach would involve many elements

SUMMARY AND PREFERRED APPROACH

As outlined above, the City is keen to pursue the strategic offsetting scenario to address impacts within the NGGA. Funding Option 1, while necessary to consider as part of this consultation, cannot reasonably deliver this scenario and is therefore not the preferred funding option of the City.

Under a strategic offsetting scenario, the only factor that appears to differentiate funding Options 2 and 3 relates to administrative efficiency. A flat levy on development that is administered by the City would be the preferred option on this basis. However, it is recognised that Option 3 may provide some cost savings if landholders can source land more cheaply using the WIK allowance. This may also be a good funding option if it can be made to work without involving significant complexity.

In summary, the City's preferred funding and delivery approach involves:

- Use of separate levies for the NGGA and WGGA to reflect the different scale of impacts to MNES within each growth area
- Application of a general levy on development to cover:
    - Commitments relevant to the NGGA including the acquisition and management of the NGGA conservation land, technical studies for water related issues, and the proportionate administrative costs of implementing the strategic assessment
    - Commitments relevant to the WGGA including management of the GGF corridor, technical studies for water related issues, and the proportionate administrative costs of implementing the strategic assessment
- Pursuing a strategic offsetting scenario (Scenario 2) to deliver offsets outside of the NGGA
- Applying a flat levy (Option 2b) on development within the NGGA to deliver offsets outside of the NGGA, or potentially a flat levy with a WIK allowance (Option 3) if this option can be made to work

STATE REQUIREMENTS

The biodiversity requirements of the Victorian planning system and the Guidelines for the removal, destruction and lopping of native vegetation (2017) will be considered when developing the BCS.

Table 7 identifies the General Habitat Units (GHU) that will need to be secured to meet State policy requirements for the NWGGA. This cost item is the key State component of the BCS relevant to the issues analysed in this paper. It is noted that the cost of delivering the expanded conservation area within the NGGA is attributed to both State and Commonwealth approval requirements. However, as it has already been incorporated into the cost estimates considered above in relation to Commonwealth requirements, it has not been re-evaluated here. Similarly, the cost of administering and ensuring compliance the BCS has also been considered in relation to Commonwealth requirements and is not repeated here.

Table 7: Key components of the BCS that will need to be funded – State

Component	Description	Cost estimate
NGGA offsets	A total of 19.067 GHU would be required to offset the impacts to native vegetation across the NGGA.	$2 million
WGGA offsets	A total of 9.8 GHU would be required to offset the impacts to native vegetation across the WGGA.	$1 million

State offsets are required to be secured in accordance with the requirements of the Victorian planning system and the Guidelines for the removal, destruction and lopping of native vegetation (2017). While the Commonwealth Part 10 strategic assessment process offers a level of flexibility in determining offset liability and can provide for Scenario 2 (strategic offsetting), there are no provisions under the State process for reducing the offset liability under a strategic offsetting approach.

It is possible for the State offsets (i.e. General Habitat Units) to be co-located with offsets for MNES under the EPBC Act, provided the site is located within either the Greater Geelong LGA or the Corangamite CMA and both the state and Commonwealth offset is registered at the same time. This limits / removes what is commonly referred to as 'double-dipping' (i.e. impacts are offset twice).

The method of aligning Commonwealth and State offsets is commonly explored. However limitations exist where the location and/or securing criteria cannot be met. This is particularly difficult in this context (i.e. Greater Geelong LGA / Corangamite CMA), due to:

- Limited known MNES values
- Land prices meet or exceed the worth of setting up the land as an offset
- Competing land uses
- There is significant competition for such sites due to development around Melbourne and Geelong

Co-location of the offsets would incur a significant time and administrative cost. This approach would be recommended if the State offset prescription is substantial and/or difficult to source. However, this is not the case for the following reasons:

- The preferred layout has avoided impacts and has removed the requirement to source Species Habitat Units (SHUs)
- GHUs within the Greater Geelong LGA and/or Corangamite CMA are readily available. Review of the DELWP Native Vegetation Credit Register (NVCR) (as at 19/8/2022) indicates there are at least 150 GHUs with the minimum strategic biodiversity score required

The most efficient approach would therefore appear to be the de-coupling of the State offsetting process from the Part 10 offsetting process. This would require developers to source their required State offsets under the existing Victorian process (NVCR) and/or the process relevant at the time of offsetting.

QUESTIONS FOR DISCUSSION

The following questions may be useful to consider as part of the discussion of the issues in this paper:

Are there other evaluation criteria that we should consider in analysing the various scenarios and options?

Do you have a preference for one of the Commonwealth offsetting scenarios? They are Scenario 1 (status quo) or Scenario 2 (strategic offsetting). If so, why?

Do you have a preference for one of the options for funding the delivery of the NGGA offsets? They are Option 1 (developer led offsets), Option 2a (user pays levy), Option 2b (flat levy), Option 3 (levy plus WIK). If so, why?

The analysis in this paper suggests that Scenario 2 (strategic offsetting) combined with Option 2b (flat levy) or Option 3 (levy plus WIK) is the preferred approach for the delivery of external NGGA offsets. What is your view on this?

Do you agree that there does not appear to be particular benefits to aligning the Commonwealth and State offsetting requirements? If not, why?

Do you have questions about the technical aspects of this paper?