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Independent Pricing and Regulatory Tribunal
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To whom it may concern

Monitoring the NSW Biodiversity Credits Markets

Urban Taskforce Australia supports the development and improvement of the NSW biodiversity credits market.

However, at present, many members of Urban Taskforce have advised that there remains concern regarding both delays and uncertainty regarding the availability of bio-diversity offsets. The additional costs associated with the credit market is of particular concern given the lack of feasibility in the property development and construction sector at present. This is having a real impact on new housing production.

It should be acknowledged that with the state of property development and construction company insolvencies being at such high levels, there is no extra margin to trim from development and construction budgets. Accordingly, any extra impost on the supply of housing will be passed on to the buyer, increasing the price of homes.

Moreover, an inefficient and uncertain credit market that poses potential delays, will trigger banks to take action to protect themselves against risk, and cover their exposure with higher margins on loan interest rates. Clearly, this will further reduce the amount of feasible projects and thus reduce housing supply.

As a general note, the concerns expressed in the discussion paper surrounding market competition, low confidence in market integrity and governance, unreliable market information and the requirement for constant oversight, are echoed by Urban Taskforce members in relation to the NSW Biodiversity Credit Market. Many members have advised that a combination of these concerns have resulted in them avoiding the NSW Biodiversity Credit Market as much as possible.

Urban Taskforce was disappointed that the IPART documentation did not offer any significant insights or information regarding increasing the efficiency or lessening the uncertainty, delays and cost to housing supply, especially for those attempting to step into the market. This is a key failing which should be explicitly addressed.

Certainty and Confidence

The Biodiversity Credits Market and the Biodiversity Offset Scheme are premised on the assumption that development proponents have the confidence to invest. This relies on the cost of the credit obligation being known from the outset. We welcome efforts by DCCEE staff to invite the development community to make early notification of the need for credits or offsets and note that this has resulted in improvement in matching offset obligations and stewardship opportunities.

Nonetheless, in a formal sense, currently developments must wait until the lodgement of a development application before obtaining a quote for Biodiversity Credits. We are advised that this often prevents developments even being considered.

Large public and private infrastructure dominate the credit market, and there is a risk that this scheme becomes a tool that is utilised by only these proponents.

If the scheme is to function at a smaller scale for private development, the cost must be known from the outset, the system must be efficient, and confidence and certainty should be instilled through education and consistent application of clear rules of engagement.

Market Price and Market Friction

Urban Taskforce members advise that there is a general lack of comparable market information to set a market-driven price for credits that would promote competitive tension in the pricing of credits. There appears to be no prospect of lessening credit costs, as foreshadowed in the discussion paper.

The Biodiversity Conservation Fund undermines the operation of the Biodiversity Credit Marketplace by setting a credit rate that distorts market operations.

Some members have advised that there is less effort and uncertainty, along with greater strategic alignment achieved by bypassing the private marketplace entirely and going straight to the Biodiversity Conservation Trust.

Despite the additional expense, paying the fixed rate into the Biodiversity Conservation Fund, which can be managed on a DA-by-DA basis, provides more certainty which is critical to project funding. Banks and financiers always heavily punish unquantified risk.

Property development proponents have experienced friction in the private credit marketplace when buyers and sellers are forced to navigate time-consuming bureaucratic delays and uncertainties. This creates trepidation for the scheme.

As noted above, this friction combined with the time, investment, cost and uncertainty-of-outcome surrounding the credit market has dissuaded many projects from even applying.

Many smaller regional development proponents have not pursued any projects that may require Biodiversity Credits, due to the time and expense required in obtain an assessment on top of the strong chance that the Biodiversity Offsets Scheme will make the project unfeasible.

Incentives for Producing Offset Credits

Urban Taskforce hears a variety of feedback on the operational efficacy of the biodiversity offsets scheme. However, some have ongoing concerns, and all would like to see the scheme improved.

Some members are reluctant to produce credits as this could tie up what they perceive as being large swathes of land with the stewardship requirements under the Biodiversity Conservation Act.

Others have benefitted from being surprised when DCCEE staff have responded to an approach regarding credits by identifying opportunities for stewardship near waterways on the very same properties that would completely obviate the need for credits to enable the development of the remaining site.

Flexibility and Oversight

Currently the Biodiversity Offset Scheme recognises two types of credits. We are advised that the requirements for like-for-like credits requirement have bifurcates the market, slowing its adoption. At these early stages of the Biodiversity Credit Scheme, flexibility in the handling of these types would benefit market growth.

With the issues offered in the discussion paper, some members have advised that central market management would aid the health of the Biodiversity Credit Market. This level of control is unaligned with a private market, however issues of confidence, inefficiency and uncertainty must be weighted

up against possible benefits of centrality. This point is consistent with that made earlier regarding the off expressed preference for utilising centrally managed Biodiversity Conservation Trust and Biodiversity offsets scheme, rather than the NSW Biodiversity Credit Market

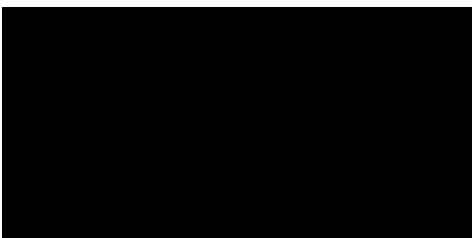
Conclusion

Urban Taskforce supports the core goal of the Biodiversity Offset Scheme as a market led contribution to the safeguarding of biodiversity, while permitting development. However, we are concerned that the current structure of the Biodiversity Credits Markets and its associated costs and complexity undermines housing supply at a time of critical housing shortages.

For the scheme to truly function as intended, reforms must prioritise efficiency, transparency, and certainty. This includes setting credit obligations at the outset of development processes and introducing flexibility in credit types and market operation to encourage broader participation. Without these changes, the credit market will not sophisticate and the scheme risks dissuading private sector involvement, reducing the demand for biodiversity credits, and further complicating an already challenging development environment in NSW.

Should you wish to discuss this matter further, please call our Head of Policy, Planning and Research, Benjamin Gellie on [REDACTED] or via email [REDACTED]

Yours sincerely



Tom Forrest
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