

# Pricing of Native Vegetation Credits

Information sheet to assist landowners and credit owners with pricing their native vegetation credits

A Native Vegetation Credit Register broker can facilitate the trade and allocation of native vegetation credits on behalf of native vegetation credit owners and purchasers.

Credit owners must determine a price per unit to trade their native vegetation credits.

The price must cover the costs to fulfil all obligations and commitments in their security agreement and management plan, while also being competitive in the market.

The security agreement sets out obligations and commitments, including a 10-year management plan, referred to as the offset management plan. Landowners must maintain their site in the improved condition achieved at the end of the 10-year period in perpetuity (forever). The need for ongoing management costs must be considered when pricing native vegetation credits (e.g. on-going weed management or fence maintenance).

## Contents

The first part of this document explains habitat units of gain and their attributes that are sold (traded) as native vegetation credits.

There are two methods for trading native vegetation credits through the Native Vegetation Credit Register (NVCR):

- Negotiating a price with the offset purchaser (a NVCR accredited broker may do this on the landowner's behalf).
- Determining a set price for credits and making them available through an 'Over-the-Counter' agreement with a NVCR accredited broker.

The information in this document applies regardless of the method chosen. For further information on trading methodologies, speak with an NVCR accredited broker.

The second part of this document explains how to price native vegetation credits.

## Habitat units explained

The native vegetation regulations were changed on 12 December 2017. This changed the type of units and how they are calculated at an offset site. Two types of native vegetation credits can be generated at a third party offset site: general habitat units and species habitat units.

The number and type of units available at an offset site is calculated using the extent (area), gain score and landscape-scale mapped information (Strategic biodiversity value map, Habitat importance maps) in accordance with section 9.4.2 of the Guidelines.

Generally:

- Areas with higher condition score results in higher gain score and more habitat units.
- Higher scores in the landscape-scale mapped information results in more habitat units.

All habitat zones within an offset site generate general habitat units. Habitat zones that are species habitat (according to the Habitat importance maps, extent and gain score) can also generate species habitat units.

Whilst any habitat zone may include general and species habitat units, a trade or allocation can only be done in one of the units at a time. A trade or allocation in species habitat units will reduce the amount of general habitat units remaining and vice versa. The order that an allocation is done may be important when both species and general habitat units will be allocated from the same zone for a single offset requirement.

## Attributes for habitat units

Habitat units have set attributes. The Native vegetation offset report (for new offset sites) or Native vegetation credit statement (for existing sites) will detail the type of units available and their respective attributes. These attributes are important because a purchaser will need to ensure the habitat units they buy match the number of units and attributes specified in their offset requirement.

## General habitat unit attributes

- Catchment Management Authority (CMA) or Local Government Area (LGA). General offsets must be in the same CMA or LGA as the native vegetation being removed.
- Strategic Biodiversity Value (SBV) score. General offsets must have an SBV score of at least 80 per cent of the SBV score of the native vegetation being removed.
- Number of large trees. Offsets must include at least the same number of large trees as those being removed.

## Species habitat units

- Rare or threatened species habitat. Species offsets must be located in habitat for the same rare or threatened species that is impacted by the removal, according to that species' Habitat importance map.
- Number of large trees. Offsets must include at least the same number of large trees as those being removed.

## Key differences in types of units

The native vegetation removal regulations have been updated twice since they were introduced in the 1980's. These updates included a new way of determining the units that are sold as a native vegetation credit.

- Pre-2013: Native vegetation credits were traded in Habitat hectares and Very Large, Large, Medium Old Trees or Recruits. The amount of Habitat hectares was determined by combining the extent (area) and gain score determined by a gain scoring assessment.
- 2013: Native vegetation credits were traded in General and Specific Biodiversity Equivalence Units (GBEUs and SBEUs). These units were determined by combining Habitat hectares with landscape-scale mapped information. The mapped information played an equal role as the site-assessed information (extent and gain score) when the units were calculated.
- Post 2017: Native vegetation credits are now traded in General Habitat Units and Species Habitat Units (GHU and SHU). These units are determined by combining Habitat hectares with landscape-scale mapped information, but the mapped information plays half the role, meaning that the site-assessed information (extent and gain score) is the main determinant.

Whilst the units have some relationship to each other they are not directly comparable or interchangeable. One Habitat hectare is not equivalent to one GBEU,

which is not equivalent to one GHU. The changes to the landscape-scale mapped information and calculations generally means that an offset site will generate more GHUs than it did GBEUs

The price per unit should be different under each system due to the way units are determined, the attributes of a unit and differing market demands (think of each regulation as a different currency i.e. Australian Dollars versus American Dollars or British Pounds).

## Converting Credits

It is expected that some demand for offsets will continue under each of the regulatory systems as there can be a significant delay between issuing a permit to remove native vegetation and removing the native vegetation and securing the offsets.

Credit owners who have credits in the NVCR are being transitioned so that they can trade in the 2017 habitat units. As part of this process each credit owner receives a Native vegetation credit statement that includes information about the credits available under the three regulatory systems.

Credit owners need to use that information to set a price for the habitat units. A price tool has been developed that may help. This tool:

- Converts a cost per unit from habitat hectares or general biodiversity equivalence units to general habitat units. This can be used when a cost per unit has already been set by the credit owner.
- Determines a price per unit for each currency using the amount of money the credit owner needs to make (total cost of establishing the offset site) and the number of units available as detailed in the Native vegetation credit statement or Native vegetation offset report.

When using the price tool, it is important that landowners check that they would recover all costs for the ongoing management and protection of the vegetation if the estimated price was charged.

The rest of this sheet will help landowners set a price after considering all costs of setting up an offset site.

## Pricing native vegetation credits

The following steps will help determine the cost of setting up an offset site in perpetuity and set a price per unit for native vegetation credits.

It is intended as a general guide and there may be additional factors relevant to an individual's circumstances that credit owners can consider.

## Step 1: Estimate the total cost to establish and manage the offset site

The priority for many landowners is to recover the costs of establishing and managing their land as an offset site in perpetuity. These costs are recovered by trading native vegetation credits created once the security agreement is signed by all parties and the offset site established.

Landowners must consider all costs associated with managing and securing the offset site and remember that the recovery of these costs may not be immediate. The costs include set-up and administration costs, forgone use costs, immediate and ongoing management costs.

All obligations and commitments in the security agreement must be factored in, including the management actions specified in the Offset management plan and costs associated with the ongoing and in perpetuity management. Landowners have an ongoing legal obligation to undertake these commitments and actions.

### Administrative costs

Costs associated with establishing, administration and management of an offset include:

- Legal and taxation advice sought before establishing the offset.
- Engaging an NVCR accredited site assessor to complete the site assessment and prepare required documentation (including the offset management plan) to NVCR standards.
- Signing a security agreement with a statutory body (DELWP under the Conservation, Forests and Lands Act 1987 or Trust for Nature under the Victorian Conservation Trust Act 1972), including associated fees and charges and any costs related to obtaining legal or other advice.
- Registering the site on the NVCR and the property's title.
- Rates and other taxes may be applicable.
- Time taken in ongoing administration of the offset site, including developing and submitting annual reports.
- Insurance for the offset site is recommended in the case of any major events or damage to the site.
- Costs associated with brokerage and sale of the native vegetation credits.

### Foregone use costs

The security agreement restricts how land within the offset site can be used in perpetuity. This restriction may influence the value of a property. Landowners

may consider the lost opportunity cost due to foregone uses associated with managing an offset. These may include:

- Loss of firewood supply, if firewood is currently collected from the site.
- Loss of income from not being able to use the land for other productive land uses.
- Loss of the potential future use of the land.

### Management costs

The security agreement includes:

- An offset management plan that specifies management actions that must be implemented to achieve the estimated gain in vegetation quality or condition over a 10-year period, and
- Ongoing commitments to maintain the vegetation in the improved state in perpetuity.

Costs to deliver the Offset management plan and ongoing management costs may include:

- Labour costs for implementing the management actions in the 10-year active management period in the Offset management plan and ongoing management commitments to maintain the vegetation in the improved state in perpetuity.
- The cost of materials associated with each activity, such as fencing materials, farm supplies, herbicides, plants or seed supplies, tree guards and baits.
- Costs associated with stock exclusion such as watering points, stock shelter or supplementary feeding.
- The purchase or hire of equipment to undertake activities such as weed spraying or fencing.
- Additional costs to implement the agreement should a major event such as drought, flood or fire occur, and the implications of these on the landowner's ability to meet the commitments under the agreement (e.g. replace fencing, additional weed management, etc).
- Unexpected costs if new and emerging threats that require management to address them emerge - in particular, consider the potential 'flush of weeds' that may arise in response to climatic events (such as floods or wildfire) or from changed management (such as stock exclusion).
- Insurance for the site to enable repairs (such as fence replacement).
- Costs in completing annual reports or any ongoing reporting as requested (if any costs).

## Step 2: Consider private benefits

Landowners receive some benefits from managing their site as an offset. Once a landowner has considered the costs of establishing and managing an offset site, they may consider whether to absorb some of these costs themselves. This may be influenced by private benefits to themselves or their property because of the proposed commitments. These may include:

- Improved general condition of the property such as improved biodiversity, soil health or water quality.
- Increased wildlife such as birds and native animals as well as native flowers.
- Improved stock management through fencing.
- Better erosion control.
- Increased aesthetic value of the property.
- Personal satisfaction having made a positive impact to the natural environment and sense of place.
- Personal enjoyment of living with native vegetation and native wildlife.
- Improved knowledge and skills of native vegetation management and other natural resources activities.
- Access to native vegetation and natural resource management advice from DELWP or Trust for Nature.
- Protection of native vegetation biodiversity values in perpetuity.

### Step 3: Determine a price per unit

Once the landowner has determined the total cost to establish and manage the site, and adjusted this considering private benefit (if chosen to do so), the total cost can be turned into a price per unit for native vegetation credits using the price tool to assist.

Trading of GHUs and SHUs takes place at the zone level. It may be applicable to set different prices for different zones, especially if management costs vary across the zones. This would require splitting the total cost of the offset site across the zones and then determining the price per unit per zone based on the habitat units within each zone. This is done as follows:

- Consider any significant variation to the costs of implementing management actions across zones due to the requirements of the landowner agreement.
- Consider the land area of each zone and any significant variation in the total cost of managing zones due to their size.
- Divide the total costs of the offset site across zones, accounting for any significant variations across zones in relation to the requirements of the landowner agreement or the total cost of management due to land area.

- Divide this zone cost by the habitat units available within a zone to determine the cost of habitat unit per zone, the price tool can be used if required.

## Important factors to consider when setting a price

When setting the price per unit remember:

- Units are alternates and the sale of one reduces the amount of all others in a proportional way.
- Once the site is established, the full costs of managing and securing the offset site must be met.
- The sale of native vegetation credits may be incremental and intermittent depending on the price and demand.
- Potential increased management costs.
- DELWP and Trust for Nature holds money paid for credits in trust and makes annual payments over a 10 year period.
- Market value.

## The GHUs and SHUs are alternatives

Selling one unit reduces the other units in the zone by the same proportion. Do not divide the total costs by the sum of GHUs and SHUs available at the offset site. To get an indicative cost per unit, divide the total cost for the offset site (or zone) by the GHU available at the site (or zone). This provides an indicative cost per unit to establish and manage the offset site in perpetuity.

## Establishment timing

The landowner must begin implementing the obligations and commitments, as well as the offset management plan, as soon as the security agreement has been signed. It is recommended that landowners discuss this with brokers. It is possible to obtain an assessment and confirmation of native vegetation credits that could be generated by a security agreement. NVCR accredited brokers can then match the site with a trade. Once a trade exists the agreement is signed by all parties and the offset site established in the NVCR. This ensures that there will be some money available to implement the security agreement.

## Timing of trades

Landowners should consider the likelihood of future trades when developing a price for their initial trade(s). Reviewing the spreadsheet of trades over time may help determine if the credits that will be established will be in demand given the offset attributes of the habitat units available.

It is common for a purchaser to only require a small portion of the habitat units generated at an offset site. When this occurs, the remainder of the native vegetation credits can be sold in the future. However, the obligations, commitments and management actions set out in the security agreement must continue to be implemented even if there are no further trades or a delay in future trades.

It may be advisable to ensure that initial trades cover set-up costs and much of the management costs, as future trades may only occur at a time in the future. Talk to a NVCR accredited broker and review the Traded credits information on the DELWP website to gain an understanding of future demand for your credits.

### Potential increased management costs

Management costs may increase due to:

- Inflation in labour and materials costs.
- Flood or fire damage to fences.
- Additional management that was not foreseen. For example: drought impacting revegetation and costs for associated additional watering or new plant stock.

If these factors were not considered in step 1, they must be considered now.

### Staggered payments

Payments are made to landowners provided the required management actions are implemented to the required standard. These payments are staggered over the first 10 years as detailed in the payment schedule in the agreement. A higher percentage is usually paid in the early years as initial management costs may be high. Following the initial 10-year period, funds are not held in trust, and are paid directly to the landowner in full. The landowner is, however still bound by their security agreement in perpetuity and annual reports to check compliance may be requested.

Ongoing management will be required to ensure the offset site is maintained at its improved state.

### Market value and demand

Effectively, the market sets the competitive price for native vegetation credits. Landowners should look at the previous trade prices published on the DEECA website before finalising a price to ensure they are competitive in the market. The price per unit must be within 30% of the market value. Market value is calculated as the median price per unit per Catchment Management Authority for the previous 2 years of trades.

The traded credits information spreadsheet contains trades in all units. The market price will be different

under each system (pre-2013 units, 2013 units and 2017 units) because the calculations and site attributes that create the native vegetation credits have changed. Check the prices monthly, as the market can change over time.

### More information

The DEECA native vegetation website has further useful information, including:

- A link to the user guide and the *Search the native vegetation credit register tool* <https://nvcr.deeca.vic.gov.au/>.
- A list of all NVCR brokers that help complete trades of native vegetation credits.
- Records of all past native vegetation credit trades, including the price for each trade.

<https://www.environment.vic.gov.au/native-vegetation/native-vegetation/offsets-for-the-removal-of-native-vegetation/i-need-to-secure-an-offset>

### You can email

[nativevegetation.offsetregister@deeca.vic.gov.au](mailto:nativevegetation.offsetregister@deeca.vic.gov.au) for queries about trading and allocating native vegetation credits or

[nativevegetation.offsetmanagement@deeca.vic.gov.au](mailto:nativevegetation.offsetmanagement@deeca.vic.gov.au) for queries about setting up a new offset site or managing an existing offset site.

We acknowledge Victorian Traditional Owners and their Elders past and present as the original custodians of Victoria's land and waters and commit to genuinely partnering with them and Victoria's Aboriginal community to progress their aspirations.



© The State of Victoria Department of Energy, Environment and Climate Action June 2020.

#### **Creative Commons**

This work is licensed under a Creative Commons Attribution 4.0 International licence, visit the [Creative Commons website](http://creativecommons.org/licenses/by/4.0/) (<http://creativecommons.org/licenses/by/4.0/>).

You are free to re-use the work under that licence, on the condition that you credit the State of Victoria as author. The licence does not apply to any images, photographs or branding, including the Victorian Coat of Arms, and the Victorian Government and Department logos.

ISBN 978-1-76105-301-6

#### **Disclaimer**

This publication may be of assistance to you but the State of Victoria and its employees do not guarantee that the publication is without flaw of any kind or is wholly appropriate for your particular purposes and therefore disclaims all liability for any error, loss or other consequence which may arise from you relying on any information in this publication.

#### **Accessibility**

To receive this document in an alternative format, phone the Customer Service Centre on 136 186, email [customer.service@deeca.vic.gov.au](mailto:customer.service@deeca.vic.gov.au), or contact National Relay Service on 133 677. Available at [DEECA website](http://www.deeca.vic.gov.au) ([www.deeca.vic.gov.au](http://www.deeca.vic.gov.au))