

## Funding and Resources

### Introduction

- 4.1 Effective programs for the ecologically sustainable use of Australia's catchment systems will be implemented only if they are supported by sufficient levels, and appropriate types, of funding.
- 4.2 'Funding' typically refers to the money invested to obtain an outcome. However, this report takes a broader view, regarding funding as anything of value (which may be measured in monetary terms) used to promote the ecologically sustainable use of Australia's catchment systems.
- 4.3 What can count as 'funding' is very broad. It may be money, time, the allocation of land for a conservation program, retiring land altogether from productive use, or changing agricultural activities so that they embody ecologically responsible practices.
- 4.4 Funding has to come from some source. A number of different things, or sources, will motivate a person to allocate funds (money, time, property) to an ecological purpose. These can include regulation, monetary grants, direct purchase of land, or access to information and expertise. Possible funding sources are set out in table 4.1.
- 4.5 Some sustainable land management practices may require agriculturalists to refrain from farming practices that would, if implemented, increase their incomes. As a result, income may be foregone in the short and even medium term. In this report, the Committee wishes to note the financial costs associated with opportunities forgone due to the adoption of sustainable land use practices. This issue will be examined in greater detail in the report of the Committee's inquiry into public good conservation. It is anticipated that this report will be tabled sometime in 2001.

- 4.6 In this chapter the Committee examines the evidence for the amount and source of funds required and the different options available to fund the ecologically sustainable use of Australia's catchment systems.

## Approaches to funding

- 4.7 Given the extent of the problems, it is clear that considerable levels of funding will be required for a long period of time. The amount of money to be invested in attaining the ecologically sustainable use of Australia's catchment systems will be the most significant single investment program ever undertaken in Australia. The number of people involved, the amount of time, and the changes in land use that will need to occur, will represent an in kind investment running into the tens of billions of dollars.
- 4.8 Moreover, it is clear that effective programs will involve a mix of private initiative and public funds. It is essential that the funding mechanisms are appropriate to the task at hand and actually deliver the outcomes wanted.
- 4.9 Furthermore, as noted in chapter 3, the ecologically sustainable use of Australia's catchment systems will rest upon high levels of community participation. Participation will occur only if the administrative and funding systems are considered by the community to be open, understandable and credible. The community will view the systems as open, understandable and credible only if they are open and accountable.

### Recommendation 21

- 4.10 **The Committee recommends that funding systems be open, understandable and accountable and that any allocations made under a system be reported in the annual report of the Department that administers the funds.**

## Levels of funding

- 4.11 It is now generally recognised that the funds required to ensure ecologically sustainable use of Australia's catchment systems will come from two sources: from taxation revenues and from private sources.
- 4.12 Estimates of the total amount of money required differ. Dr Carl Binning from the CSIRO was reported to have estimated that over the next ten to twenty years, 'at least \$100 billion had to be pumped into the environment'.<sup>1</sup> This would require, on average, \$5 billion to \$10 billion per annum.
- 4.13 In a widely publicised speech, Treasury secretary Mr Ted Evans is reported to have estimated that the cost of repairing the Murray-Darling Basin to be at least \$30 billion.<sup>2</sup>
- 4.14 This figure can be compared to that provided in an ACF/NFF study<sup>3</sup> which suggested that a capital investment of \$60 billion was required over a ten year period, with an annual maintenance program of \$0.5 billion. This represented a total annual investment of \$6.5 billion from all sources. Public expenditure would need to be about \$33.5 billion over the decade, involving \$3.7 billion per year, including an ongoing maintenance program of \$320 million per annum.
- 4.15 Evidence provided to the Committee indicated that the present levels of funding provided by all levels of Government was inadequate. Ms Anwen Lovett testified that:

I have had quite a lot of anecdotal feedback from people who have been part of developing quite detailed plans for regions and who say that there has then been no funding to implement them, or they get a small amount of funding for a particular part of the plan and not the plan in its entirety. The whole point of having a plan is to deliver the package; otherwise you do not get the integrated outcome you need at the other end. It comes down to commitments to funding to actually implement the plan. There are a lot of regional plans out there that are not being implemented. However, there are some good examples, particularly over in Western Australia, where they have been confronted by dryland salinity far sooner than a lot of areas in the east. There are quite

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1 M Moscaritolo, 'Put a price on nature', *The Herald Sun*, 22 September, 2000, p. 52.

2 P Coorey, 'At last, environment is on the agenda', *The Advertiser*, 10 July, 2000; P Cleary, 'Treasury warns on surplus', *The Financial Review*, 7 July, 2000.

3 NFF/ACF, National investment in rural landscapes, April, 2000, p. i.

good examples that I would encourage you to get information on through organisations such as the Land and Water R&D Corporation.<sup>4</sup>

- 4.16 The amount of money required is not known with certainty. However, it is clear that the present levels of funding from public and private sources, is inadequate.
- 4.17 It is essential in effective planning for the community to be mindful of the level of funding, both public and private, that will be required to implement policies for the ecologically sustainable use of Australia's catchment systems.
- 4.18 Although various community groups are aware that large sums of money are required to fund remedial programs, it is also apparent to the Committee that there is no widespread public awareness of the large sums of money required to address the environmental problems that face the nation. The Committee believes that widespread community support for increased public funding for environmental programs will be generated if both the magnitude of the problems is revealed along with the financial costs of inaction. The Committee will discuss the issue of increased public awareness and public education programs in its report on its inquiry into public good conservation.
- 4.19 The Committee concludes that the Government should work towards establishing an estimate of the overall cost of addressing environmental degradation and implementing sustainable environmental practices. The Committee also concludes that the Government should, as part of the cost-assessment project, determine the value of the financial contribution required from public funds and the value of the contribution required from private funds. Furthermore, the Committee will discuss the issue of funding levels and options in its report on its inquiry into public good conservation.**
- 4.20 As public and private funds flow into ecologically sustainable land use programs, it is important that the funds are used efficiently. It is essential that one policy area does not undermine the capacity or the motivation of individuals or communities to develop ecologically sustainable land use practices. For example, a recent survey of dairy farmers concluded that deregulation of the dairy industry had resulted in lower milk prices. This has increased uncertainty in some areas of the dairy industry. This in turn may reduce the capacity of some dairy farmers to invest in environmental management, at a time when market pressures are promoting more intensive production. In addition, more intensive production may involve

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4 *Transcript of Evidence*, p. 293; see also Anon. 'Still unready for tax' *The Land*, 5 October, 2000, p. 30.

greater effects upon the environment. As a result, an integrated package of environmental and production orientated programs may be required in order to produce structural adjustment along with responsible environmental outcomes.<sup>5</sup>

- 4.21 The need for an integrated package of environmental and production orientated programs is also demonstrated by the possibility that foreign markets will link trade and market access for Australian goods, on the one hand, to the environmental impact of the production processes of the goods, on the other. Dr Craik told the Committee that standards for ecological sustainability may be applied by other countries to Australia's export industries. The result will be that if Australia's products fail tests of ecological sustainability or are not accredited, Australian products may face, in effect, non-tariff trade barriers. Foreign markets may not permit Australian products to be sold, or they may impose a tariff upon them or labelling restrictions. This will impose upon Australian products a market disadvantage. Dr Craik also noted that the prospect of such barriers may, in fact, promote attitudinal change in favour of ecologically sustainable land use practices and confer upon those producers a market advantage, internationally and domestically:

I think we will see that trade restrictions and the need for meeting particular standards—whether it is fair or not fair and whether we challenge it legally or not—are going to be facts of life and that somehow we are going to have to deal with them. Initially, we will probably see those who feel that they really want that market using it as a market advantage and actually going out of their way to do something to actually get into a market because they want the premium that is in it. I think it will be a driver, much as I think we have seen the supply chain be a real driver of QA through the farm sector—that their goods just will not get bought by Woolworths or whatever if they have not met these specific criteria.<sup>6</sup>

- 4.22 The capacity of some government policies to unintentionally cause environmental degradation has been noted in other reports. The Industry Commission pointed out, 'poor program design is also reflected in perverse outcomes resulting from some government policies.'<sup>7</sup> The

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5 National Land and Water Resources Audit, *Natural resource management on Australian dairy farms*, September, 2000, p. 14.

6 House of Representatives Standing Committee on Environment and Heritage, inquiry into public good conservation, *Transcript of Evidence*, p. 240.

7 Industry Commission, *A full repairing lease: inquiry into ecologically sustainable land management*, 27 January 1998, p. 117.

Commission identified as an example of a perverse outcome, government policies that lead to subsidisation of irrigation water.<sup>8</sup>

4.23 Perverse outcomes are also evident in relation to a number of land clearing issues. In a separate inquiry into the costs of conservation on private land currently being undertaken by the Environment and Heritage Committee, a number of submissions commented on the inconsistency created by some of the current natural resource management strategies.<sup>9</sup> For example:

- there is currently some discussion that if a carbon credit trading scheme is implemented, landholders will only be able to gain credits for trees that are less than ten years old, therefore encouraging farmers to clear original vegetation and plant new trees.
- Dr Carl Binning and Dr Mike Young identified certain incentives and tax concessions that promote the clearing of indigenous vegetation.<sup>10</sup>

4.24 Another example of counter-productive arrangements concerns local government rates and state government land tax. In most of the states and territories, the local government rates on land and land taxes used for primary production purposes are generally lower than rural land not currently being used for primary production. This means that if a landholder wishes to conserve a particular area, in addition to the costs incurred through managing that land, they must also pay higher local government rates for the privilege of being able to do so.

## Recommendation 22

4.25 **The Committee recommends that an audit of policies be conducted to identify counter-productive incentives in respect of promoting ecologically sustainable land use that are contained in Commonwealth, state and territory programs and that proposals be developed for their removal.**

8 Industry Commission, *A full repairing lease*, p. 117.

9 For example, see K Lloyd, Submission no. 28, p. 1; A Stoneman, Submission no. 63, p. 3; NSW Farmers' Association, Submission no. 1777, p. 13.

10 C Binning and M Young, *Talking to the Taxman about Nature Conservation: proposals for the introduction of tax incentives for the protection of high conservation value native vegetation*, 1999, p. 22.

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## Sources of Funds

- 4.26 There are two major sources of funds to underwrite ecologically sustainable land use. The public sector obtains funds by way of taxation or other charges, such as rates, and disburses this funding through annual budgets, passed by a parliament or local government body.
- 4.27 In contrast, the private sector has a large number of funding sources. Some are based on landholders conforming to various land use rules and regulations, but by far the largest number are voluntary. The following Table 4.1 (below) sets out the major forms of funding mechanism.
- 4.28 The Committee was advised by Dr Wendy Craik that no single funding solution was appropriate to all cases:

We [the NFF] believe that a combination of tools—market incentives, public good funding and rebates, for example—will be required. Flexibility will obviously be required for customised delivery. Supplementary government funding is likely to be required to facilitate the establishment of markets in both carbon and salt because commercial returns have yet to be established.<sup>11</sup>

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11 *Transcript of Evidence*, p. 292.

Table 4.1 Summary of Funding Mechanisms

	<b>Dependability and Certainty</b>	<b>Cost Effectiveness</b>	<b>Information Revelation</b>	<b>Targetability</b>	<b>Transparency and Ability to be Evaluated</b>	<b>Community Acceptability</b>
<b>Regulation</b>	Regulation in general is certain. Degrading native vegetation by stealth is possible but not much information is available regarding the extent to which this occurs.	Cost effective only when serious losses imminent.	Only limited information provision: when people are willing to accept the relevant fine/penalty then they perceive benefit to be larger than value of the fine.	A blanket measure but can be targeted through exemptions and permit system.	Transparent since punishments are published in legislation. Difficult to evaluate since the extent to which it prevents biodiversity losses unknown except at a broad level.	Can be troublesome because of differences in opinion regarding property rights. This may be affected by education and elapse of time.
<b>Voluntary agreements – land for Wildlife</b>	Voluntary so less certain than regulation.	Keeps budgetary costs low.	Provides information about specific sites.	Voluntary so limited, but can approach specific sites and use land purchase (revolving fund).	Transparent and easily evaluated.	Voluntary so well accepted.
<b>Conservation Covenants</b>	Voluntary so less certain than regulation.	Reduces budgetary costs by involving private participants.	Provides information about specific sites.	Voluntary so limited, but can approach specific sites and use land purchase (revolving fund).	Transparent and easily evaluated.	Voluntary so well accepted.
<b>Land purchase</b>	Voluntary so less certain than regulation.	Depends, generally, on whether land is near current reserve and large in area.	Purchase price an indicator of land profitability.	Voluntary so limited but can approach specific sites.	Transparent and easily evaluated.	Voluntary so well accepted.
<b>Conservation contracts: auctions</b>	Voluntary so less certain than regulation.	Maximise participation in positive conservation at minimum budgetary cost. Enforcement and monitoring costs need to be evaluated prior to introduction. Relatively cheaper than one-to-one negotiation to achieve a given amount of land-	Will reveal information about opportunities forgone when conservation undertaken. Ability for some to shade their true preferences but helps to minimise this problem.	Targets economically-driven landholders who may not respond to voluntary schemes. Some targeting can be built into the benefits index.	Transparent and easily evaluated.	Voluntary so well accepted. There may be government resistance due to transparent budgetary cost. Will alert landholders to which activities and areas are valuable if payment schedule is constructed carefully. If priorities not constructed carefully

	<b>Dependability and Certainty</b>	<b>Cost Effectiveness</b>	<b>Information Revelation</b>	<b>Targetability</b>	<b>Transparency and Ability to be Evaluated</b>	<b>Community Acceptability</b>
		use change.				may mislead landholders.
<b>Tax incentives</b>	Voluntary so less dependable than regulation.	Does not spur competition amongst landholders for the private provision of biodiversity maintenance.	Limited.	Voluntary so limited.	Very limited as information on conservation activities not available.	
<b>Government-assisted community programs</b>	Voluntary so less certain than regulation.	Reduces budgetary costs by involving private participants.	Same as management agreements (given that there are good links between the community groups and government.	If regional groups have information on high-value biodiversity sites, can be targeted specifically. Government needs to ensure targeting is consistent with its priorities.	Transparent if good information feedback to government. Requires close links between government and the community group.	Depends on size of community group (larger membership will mean more of community involved and therefore more ownership and acceptance). Depends on community group's <i>modus operandi</i> . For example, a group that educates its community and is non-confrontational will promote positive attitudes.

Source: G. Stoneham, et al, *Mechanisms for Biodiversity Conservation on Private Land*, attachment to Submission no. 235, House of Representatives Standing Committee on Environment and Heritage, *Inquiry into Public Good Conservation*.

4.29 Some programs will be best delivered by way of a direct grant, for example, to a Landcare group; other programs may be funded by way of targeted taxation concessions, while other programs may be best delivered through the creation of a market and the trading of various rights.<sup>12</sup> No one approach will be appropriate for all situations, and it is important that expertise be developed to determine the best approach in any situation. It is also essential, in the Committee's view, that the selection of a funding mechanism is driven by the requirements of the particular case. As well, given the community focus of the Landcare movement, it is essential to the success of an funding mechanism that the reasons for the selection of that particular mechanism are publicly known and supported by the community.

## The Public Sector

4.30 A major source of funding catchment programs will be the public sector, and it will be by way of various taxation measures. Taxation revenue will be expended on catchment management programs in two ways:

- taxation revenue can be allocated by amending the taxation and revenue laws, at either a Commonwealth, state, territory or local government level, so as to provide some form of rebate or concession for the ecologically sustainable use of land; or,
- by some form of appropriation by the Commonwealth or a state or territory, leading to a monetary grant or other form of subvention supporting a program or activity.

4.31 A problem that has been brought to the attention of the Committee is the variety of sources of funding. Dr Wendy Craik testified:

... there has been some concern amongst our constituents about having different buckets of money rather than having one large funding source, which has made it confusing. Perhaps this has not delivered outcomes that are as beneficial as they might otherwise have been if there was one pot of money labelled under one particular program.<sup>13</sup>

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12 For example, the successful salinity trading scheme in the Hunter Valley. This scheme began on 1 January, 1995 and is the only scheme in the world based on real time environmental conditions. See A Wahlquist, 'Trading scheme reduces river salt', *The Australian*, 23 September, 2000, p. 18.

13 *Transcript of Evidence*, p. 292-293.

- 4.32 Multiple sources of public funding lead to confusion and an inability to measure costs. They make control of expenditure more difficult, thereby diminishing the ability of responsible agencies to ensure appropriate and accountable use of public funds. These problems arise in connection with public funds disbursed by government agencies through to programs provided by community groups. These problems do not occur, however, when a department of the Commonwealth operates its own program, such as those operated by the Department of Defence. In such cases, the provider of the service has an immediate and clear link with the sole funder. The Committee considers that the multiple sources of funding available in this area highlights the need for a high degree of co-ordination across funding bodies.

### Recommendation 23

- 4.33 **The Committee recommends that all Commonwealth funding for programs for ecologically sustainable land use, be aggregated and co-ordinated for performance monitoring and reporting purposes, and be aligned with national plans.**

- 4.34 The importance of taxation incentives as a central element in promoting the ecologically sustainable use of Australia's catchment systems was pointed out in a recent discussion paper:

Taxation is recognised as a fundamental driver of philanthropy; a mechanism through which community-business partnerships can be facilitated. This mechanism allows business to do what they do best – develop innovative solutions to complex problems in a way that is largely free of bureaucracy.

To successfully engage the philanthropic sector several factors need to be addressed:

- Conservation has to be transformed from one of the most highly taxed land-uses in Australia to a land-use that enjoys taxation treatment commensurate with the public benefits associated with our natural heritage;
- Practical on-ground environmental management needs to be given an increased profile and promoted as part of the core business of the charitable and philanthropic sectors;

- Mechanisms that facilitate and promote the creation of private conservation Trusts need to be established.<sup>14</sup>

4.35 Public funds, collected through taxation, together with tax rebates and deductions can motivate landholders to become involved in ecologically sustainable land use practices. Dr Wendy Craik, made the point in this way:

... governments might contribute something like \$3.5 billion a year and the private sector about \$3 billion per year over a 10-year period and that the public money would be largely used to leverage private money so that you would get investment in areas where you would not get it if there were a proposal to have just private investment alone.<sup>15</sup>

4.36 Dr Craik also informed the Committee that not only were the overwhelming majority of farmers prepared to invest their own funds, but that the amount of public money was amplified many times over:

The ABS did a survey a couple of years ago and they asked farmers whether they were prepared to invest money out of their own pockets. I think 87 per cent said they were. Then there were some figures suggesting that every government dollar put into a lot of these projects generates something like \$3 to \$13 of community or private money into the project as well. So in fact we would see the government money as leveraging private investment. I suppose in particular areas we would be thinking that a lot of that would come through some money from the government—to lead to planting trees in particular. If you had some money, you might actually get the private sector to put in money to actually make it a going proposition because by itself it just would not be a strictly commercial proposition without government assistance.<sup>16</sup>

4.37 The conclusion of the Committee is that public money, raised and provided through the taxation system, will underpin the ecologically sustainable use of Australia's catchment systems. It will do this by seeding and motivating private investment. Without public support, private investment will not occur to the same extent.

4.38 The use of public funds, provided through the revenue system appears to be the way that conservation measures are funded in the United States.<sup>17</sup>

14 C Binning and M Young, *Philanthropy: sustaining the land*, The Ian Potter Foundation: Melbourne, 1999, pp. 5-6.

15 Inquiry into public good conservation, *Transcript of Evidence*, p. 223.

16 Inquiry into public good conservation, *Transcript of Evidence*, p. 225.

17 Appendix F outlines the approach taken in the United States to conservation.

There, sympathetic taxation arrangements have fostered private philanthropy. The result is that in the United States, the non-government sector has placed large amounts of land under conservation programs. One trust alone, the Nature Conservancy, now protects over 9 million areas (3,642,300 hectares). The Nature Conservancy has an annual turnover of over \$US450 million, and is one of the top 10 charities in the United States.

- 4.39 Table 4.2 summarises and compares the current taxation arrangements in Australia with those in the United States in respect of philanthropic disposal of land. Appendix G summarises and compares the current taxation arrangements in Australia with those in the United States in respect of specific financing mechanisms.

**Table 4.2 Basic Ways of Giving**

<b>Tool</b>	<b>US Situation</b>	<b>Australian situation</b>	<b>Changes Required</b>
Cash donation	Cash donations are deductible and can be apportioned over 5 years	Cash donations are deductible only in the year they are made	Apportionment over 5 years
Donation of assets – eg shares	Deduction at full market value Capital gains exempt May be apportioned over 5 years	Deduction at full market value from 1 July 1999 Subject to capital gains	Capital gains tax exemption Apportionment over five years
Land	Deductible Capital gains exempt May be apportioned over five years	Deductible from 1 July 1999 Capital gains tax exemption Apportionment over five years <sup>18</sup>	
Bequests	Exempt from Capital gains tax	Exempt from Capital gains tax from 1 July 1999	

- 4.40 Information available to the Committee indicates that the taxation arrangements in Australia are not particularly sympathetic to developing public and private investment in the ecologically sustainable use of

18 As reported by Senator the Hon. Robert Hill, Minister for the Environment and Heritage in 'Donate to the environment – tax incentives', media release, 30 June 2000.

Australia's catchment systems. Not only is there insufficient public funding available, but:

- the private sector does not enjoy sufficiently motivating incentives to enter into ecologically sustainable land use practices; and
- the taxation incentives that are available are poorly targeted.

4.41 A 1996 report by Colin Mues, Lynelle Moon and John Grivas, *Land Care: Tax Provisions*<sup>19</sup>, concluded that the current system of tax deductions provides a much higher subsidy equivalent for land care works to individuals in the higher taxable income groups who are liable to a higher marginal income tax rate. As a result,

... there is a significant number of broadacre farmers who are estimated to rarely earn sufficient taxable income to enter the top marginal income tax brackets and many others who are estimated to earn less than the tax free threshold. The current concessions offer these groups only modest or no additional incentives to undertake land care related works.<sup>20</sup>

4.42 The Committee notes that amendments to income tax legislation in 1998 are likely to provide an incentive to landholders on low incomes to engage in landcare activities. The amendments allow landholders to claim a rebate of 34 per cent on expenditure up to \$10,000 on landcare activities.<sup>21</sup> Based on figures published by ABARE, these changes will be of benefit to approximately 60% of primary producers.<sup>22</sup> However, landholders on incomes liable to tax at the highest marginal rate will still have access to a much higher level of subsidy, while landholders on low incomes may find the initial outlay prohibitive in terms of their farm budget.

#### **Recommendation 24**

4.43 **The Committee recommends that the Government develop options for increasing the taxation incentives to participate in landcare activities for landholders on low incomes.**

19 Australian Bureau of Agricultural and Resource Economics (ABARE) Research Report 96.6, Commonwealth of Australia: Canberra, 1996

20 ABARE Research Report 96.6, p. 63.

21 *Taxation Laws Amendment (Landcare and Water Facility Tax Offset) Act 1998*; Act 91/1998.

22 C Binning and M Young, *Talking to the Taxman about Nature Conservation*, pp. 28-29.

4.44 Even given the amendments in 1998, it is still the case that, under the present tax system (and as noted in the ABARE report), it is not possible to target tax concessions at land degradation problems that are causing the most significant 'off-farm' or public costs. 'There was no evidence' the report noted,

...that greater incentives are being offered to farmers who are dealing with land degradation problems that have significant off-farm costs. In this respect, the current system of deductions, and probably all tax instruments, are not well targeted.<sup>23</sup>

4.45 The report noted that there are other taxation instruments which could potentially make the level of benefit provided by the tax concessions less dependent upon taxable income and in that way provide a greater range of incentives to agriculturalists, irrespective of taxable income. The other instruments mentioned are:

- a system of refundable tax credits;
- a system of tax rebates; and
- an investment allowance

4.46 Dr Carl Binning and Dr Mike Young of the CSIRO have conducted a number of studies on the effect of tax<sup>24</sup> policies at a national, state and local government level on the development of ecologically responsible land use practices.<sup>25</sup> Dr Binning and Dr Young identified a number of initiatives that could promote more ecologically responsible land use. These include:

- The definition of landcare activities contained in the *Income Tax Assessment Act 1997* should be amended to better reflect landcare outcomes;
- Providing more incentives to landholders to place land under a conservation covenant; for example, tax deductions and rate reductions and allowing deductibility of maintenance costs;
- Providing the tax concessions and rebates available to primary producers to landcare groups;<sup>26</sup>

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23 ABARE Research Report 96.6, p. 64.

24 'Tax' is taken here to refer to rates, service charges, levies, licence fees, as well as those charges usually referred to by the term.

25 C Binning and M Young, *Talking to the Taxman about Nature Conservation*, C Binning and M Young, *Conservation Hindered*, Environment Australia: Canberra, 1999; C Binning and M Young, *Beyond Roads, Rates and Rubbish*, Environment Australia: Canberra, 1999; C Binning and M Young, *Opportunity Denied*, Environment Australia: Canberra, 1999

26 C Binning and M Young, *Talking to the Taxman about Nature Conservation*, pp. 13-14.

- The Commonwealth should establish a rate rebate scheme. Local councils would be funded from the scheme to remit rates (and state governments to remit land tax) on land that is used in accordance with an approved management program;<sup>27</sup>
- Landholders who do not use land for income-generating purposes are unable to deduct the cost of rates and land tax from their income. Landholders should be able to deduct from their income the cost of rates and land tax on land placed under voluntary conservation agreements or covenants;
- Ensure that land use restrictions or use are taken into account when land is valued; and
- Enable local councils to impose levies,<sup>28</sup> rates and other charges on the basis of the ecologically appropriate use of land.

### Recommendation 25

**4.47 The Committee recommends that the Government conduct a public inquiry into the disincentives for the ecologically sustainable use of Australia's landscape contained in the present taxation arrangements at all levels of government, and make recommendations for change, including costings.**

4.48 At present in Australia there is insufficient funding available from the public and the private sector. The Committee accepts that private sector funding can be motivated by amending the taxation laws to motivate private philanthropy in respect of ecologically sustainable land use.

4.49 The Committee believes, however, that there are many initiatives that will not occur unless there is direct public investment. The community is then faced with obtaining sufficient levels revenue to fund such programs. One suggestion made frequently over the past few years is that a specific tax levy be imposed.<sup>29</sup>

27 C Binning and M Young, *Conservation Hindered*, p. 12.

28 At present, of all the states, only Queensland permits local government bodies to charge environment levies. See C Binning and M Young, *Opportunity Denied*, p. 9.

29 For example, see D Blackmore, CEO of the Murray Darling Basin Commission, and K Ridge, Executive Officer of the NSW Nature Conservation Council in 'Still unready for tax' *The Land*, 5 October, 2000, p. 30; The Deputy Prime Minister, the Hon. John Anderson MP, 'Salinity tax being considered', *The Canberra Times*, 29 July 2000, p. 3.

- 4.50 The Committee believes that this suggestion has merit. In the past the community has shown its support for tax levies directed at specific purposes. The 'Guns Buyback' scheme is a case in point. The Committee believes that the community would support a levy that was allocated to promoting lasting ecologically sustainable land use.
- 4.51 Different levels have been proposed for the levy. Whilst this is a matter for the Parliament to determine, the following table provides an indication of the amount of revenue that could be raised through a very modest levy imposed on taxable income.

**Table 4.3 Funds raised by a levy on taxable income**

Type of taxpayer	Total taxable income	Levy	Levy collected
	\$m	%	\$m
Individuals			
Grade of taxable income			
Under \$60,000	208 203	1.00%	2 082
\$60,000 to under \$100,000	36 095	1.25%	451
\$100,000 and above	27 180	1.50%	408
Total	271 478		2 941
Companies	99 737	0.75%	748
Funds	28 843	0.75%	216
<b>TOTAL</b>			<b>3905</b>

- 4.52 Addressing the problems faced by Australia's catchment systems will require programs that operate for a considerable period of time. Stable funding is essential if these programs are to attain the outcomes wanted. Any funding proposal must then be stable and be aimed at providing funding for the long term.

**Recommendation 26**

4.53 **The Committee recommends that the Government examine the feasibility of introducing an environment levy to pay for the public contribution to implementing the policy of the ecologically sustainable use of Australia's catchment systems.**

**The Committee further recommends that such a the levy:**

- **remain in place for no less than 25 years; and**
- **be clearly marked on each taxpayer's taxation assessment notice.**

## The Private Sector

4.54 Public funding is intended to motivate the private sector to invest in ecologically sustainable land use practices. The recommendations made already will, if they produce a more sympathetic taxation treatment and state and local government charge system, motivate private sector investment.

4.55 The Committee was advised by Dr Wendy Craik that the members of the NFF prefer voluntary, motivating, incentive-based mechanisms:

In terms of the actual mechanisms that you might use, we would suggest that voluntary agreements with land-holders is one quite successful way to go; payments through agreements to land-holders. We obviously support an approach which is in an incentive based approach rather than a regulatory based approach. There needs to be caution. Things like the clawback of water rights, for instance, without any compensation can cause resentment to conservation and actually set back the cause. We certainly acknowledge that land-holders have a duty of care, but that duty of care needs to have some limits. Farmers cannot be expected to fund in full the community's desire for biodiversity conservation.<sup>30</sup>

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30 Inquiry into public good conservation, *Transcript of Evidence*, p. 224.

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- 4.56 The Committee received evidence of a large array of policy instruments available to promote ecologically sustainable land use. These are set out in table 4.1. Much of this report has provided recommendations that will implement these instruments.
- 4.57 By far the most effective mechanisms that will motivate private sector investment are economic incentives. Economic incentives are those financial incentives or disincentives that will encourage a landholder to select an ecologically responsible land management option.
- 4.58 Economic instruments can be coercive-deterrent in nature, such as fines or charges for ecologically irresponsible practices; or motivating-incentive based, in that the landholder will select an action because of the benefit likely to be obtained. Economic instruments include:<sup>31</sup>
- Carbon trading
  - Salinity credits and other tradeable permits
  - Water quality credits
  - Water rights trading
  - Stewardship payments
  - Levies, subsidies
  - Incentives to retire land
  - Grants
  - Auctioning of project delivery rights
  - Fines
  - Licence fees based on real cost
- 4.59 Much work needs to be done on the application of various approaches to specific projects. In particular, the role of the Commonwealth in creating and managing an (artificial) market where one does not naturally exist must be discussed. There is community resistance to adopting market-based approaches simply on the assumption that the 'market does it best'.
- 4.60 The community wants, and is entitled to, public policy based on reliable empirical research. Moreover, the ecologically sustainable use of Australia's catchment systems involves not merely using particular economic instruments, but other policy approaches as well, including most importantly, community motivation.
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31 For a discussion of some of these mechanisms, see AFFA, *Managing Natural Resources*, pp. 39 - 43.

- 4.61 There is one initiative in particular where market considerations merge with community aspirations: conservation covenants. The Committee believes there is considerable scope for the Commonwealth, state and territory administrations to significantly increase the incentives available to the private sector by motivating conservation covenants.
- 4.62 Conservation covenants address two major areas of concern that undermine efforts to motivate participation in, and private and public funding of, catchment conservation programs:
- Community concern that catchment programs funded from public sources produce lasting improvements;
  - Landholder concern that participation in landcare programs that involve reconfiguring land management practices do not diminish the viability of their farming enterprises.
- 4.63 An area of community concern is ensuring that the improvements made in land use and catchment health as a result of contemporary efforts are not undone at some later time. The Committee is concerned that a cycle does not develop of catchment improvement, selective degradation followed by calls for community support to repair resulting damage.
- 4.64 The Committee also recognises that there is concern regarding reasonable expectations that private landholders should manage land in a responsible and ecologically sustainable way without the incentive of financial rewards. The Committee will examine this issue further in its report on its inquiry into public good conservation.
- 4.65 The attainment of long term and long lasting improvements in return for the allocation of public funds is already an established feature of public policy. The NHT *Guide for New Applicants 1998 – 1999* states in part:
- The Commonwealth owes it to taxpayers to ensure that that its investment leads to long term change towards sustainability.<sup>32</sup>
- 4.66 Changes to landuse may involve landholders in additional expenses and in some cases these may be of an ongoing nature. For example, a landholder may decide to retire a portion of their land from production or alter its use, leading to lower income from the land. However, the landholder will generally face local government charges and state land taxes. Landholders incur expenses for such land and may, overall, experience as a result diminished levels of income.
- 4.67 One way that landholders and the community can address these concerns is through the use of incentive supported conservation covenants.
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32 Quoted in C Binning and M Young, *Talking to the Taxman about Nature Conservation*, p. 19.

- 4.68 Conservation covenants are voluntary agreements that permanently bind a landholder and all successors, in respect of the way that the land covered by the covenant is used. A conservation covenant is a legally binding agreement regarding the use of the nominated land. These covenants generally permanently restrict adverse land-uses and prescribe the management actions required to sustain conservation values in the long-term. Since conservation covenants restrict use of the land for future owners, the covenant appears clearly on the property title where it is in full view of all prospective new landholders.
- 4.69 Covenants are by their nature voluntary. They are also philanthropic, at least in part, because landholders will have to continue to provide some financial support, even given some level of community subvention.
- 4.70 Dr Carl Binning and Dr Mike Young note that there are no significant incentives for landholders to enter into conservation covenants in Australia. They note also that there are significant administrative, legal and personal costs associated with these arrangements. As a result, very few conservation covenants have been established.<sup>33</sup>
- 4.71 Trust for Nature (TFN) Victoria is an example of a group involved in this process. TFN Victoria is an independent, non-profit organisation that focuses on brokering permanent protection agreements with landholders. The organisation will often buy land, place a covenant on it, and then resell the land to interested purchasers. They also assist in a number of incentive programs to reduce the cost of maintaining conservation areas.
- 4.72 The National Farmers Federation supports the use of conservation covenants. Dr Wendy Craik testified that:
- ... they are a great innovation because there is not way that the public reserve system can fund conservation parks, or whatever you want to call them, solely. I think it is an excellent idea if you have the private sector involved – and presumably there are tax deductions or something to encourage that sort of approach.<sup>34</sup>
- 4.73 The Committee is also aware of the use conservation covenants in the United States of America. The approach there is more flexible and includes a range of options, such as rates exemption, landswaps and exchanges, bargain sale of land, and conservation annuities, bonds and shares.<sup>35</sup>

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33 C Binning and M Young, *Talking to the Taxman about Nature Conservation*, p. 30.

34 *Transcript of Evidence*, p. 305.

35 This evidence was given by C Binning in private discussions with the Committee.

- 4.74 The Committee considers that promoting conservation covenants are an important step in expanding ecologically sustainable land use, and consequently, measures should be implemented to foster the spread of conservation covenants. Measures to promote covenants should not only provide clear incentives but also remove disincentives. Since the legal status of a conservation covenant is established at a state level, the role of the Commonwealth in promoting covenants will be confined to:
- providing financial incentives to state, territory and local governments to remove the disincentives of entering into a covenant that are posed by land tax and local government charges;
  - providing taxation incentives to landholders to enter into covenants;
  - encouraging covenants that are robust, feasible and sustainable in the long-term; and
  - encouraging state and territory administrations to enact appropriate and sympathetic legislation, where this has not already occurred.
- 4.75 Such measures are likely to have fiscal implications at a Commonwealth level. Therefore, before a covenanting scheme is established the fiscal effect should be closely studied. The Committee will examine this issue further in its inquiry into public good conservation.

Ian Causley, MP  
Committee Chair

4 December 2000