



Consultation Draft NSW Natural Capital Statement of Intent

Recognising the value of nature

Acknowledgment of Country

The NSW Government acknowledges the Traditional Owners and Custodians of the land on which we live and work and pays respect to Elders past, present and future.

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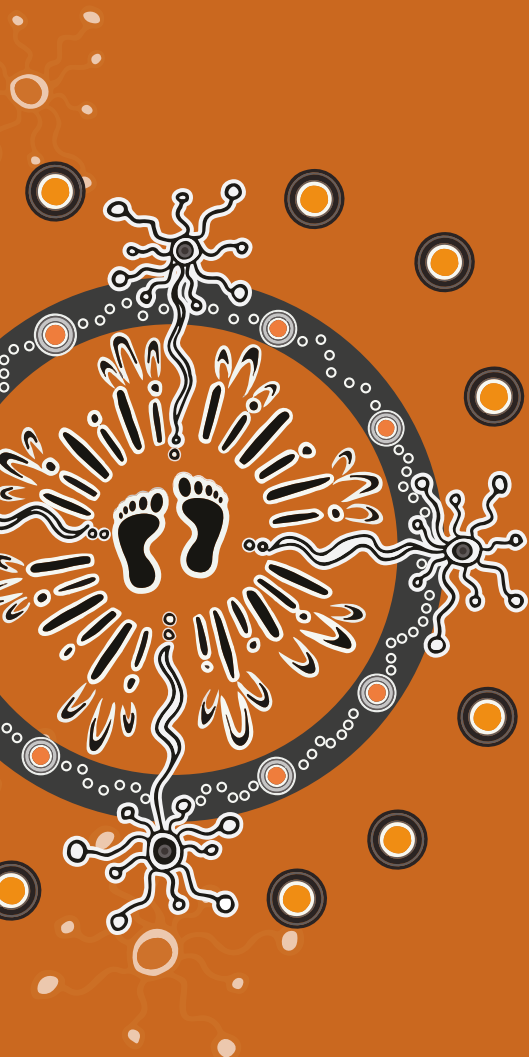
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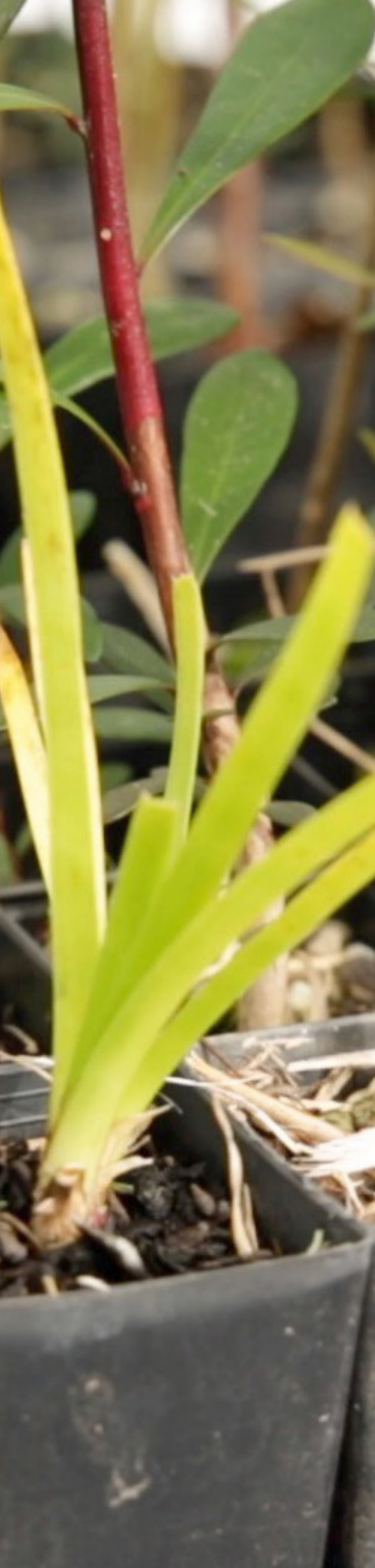
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Draft NSW Natural Capital Statement of Intent

The NSW Natural Capital Statement of Intent sets the ambition for, and approach to, sustainably managing natural capital in NSW. It provides a pathway to guide and inform NSW Government decision-making to conserve and enhance environmental assets and services while ensuring the State's economic prosperity.

The NSW Natural Capital Statement of Intent:

- provides a common language and framework for natural capital, by providing a universal definition and six principles to guide its implementation
- sets clear focus areas that will assist the NSW Government in exploring opportunities to embed the principles in its decision-making, policies, and programs
- aligns with NSW Government policies and national and international commitments such as the UN Sustainable Development Goals and the draft post-2020 Global Biodiversity Framework
- defines the NSW Government's role in implementing natural capital principles and supporting landholders to engage in natural capital markets
- outlines the immediate next steps and focus areas to guide policy and implementation.

The NSW Natural Capital Statement of Intent builds on the NSW Government's leadership, as a responsible steward of the State's natural assets.

The economy is dependent on environmental assets and the services they provide, including the goods and services, amenity, cultural values, and liveability. Further, natural capital is critical to developing a low carbon, sustainable economic agenda. The NSW Government recognises the need to be responsive to rapidly changing environmental and economic needs in a way that balances and promotes both natural capital and economic growth.

Landholders have been stewards of the land and engaged in natural resource management activities for generations. Landholders therefore have a key role to play in generating natural capital value and improving ecosystems and habitats through best practice land management. Natural capital investment, by both government and the private sector, can support active land stewardship among and alongside productive land activities.



The NSW Government's role as a steward includes the delivery of nature-positive (WEF 2021) conservation and environmental market policies and programs such as the Biodiversity Offsets Scheme, *Saving our Species* program, Primary Industries Productivity and

Abatement Program, Farm Innovation Fund, and Green Corridors. The NSW Government is also a manager of land, water and forests on the public estate and aims to generate environmental, social and economic benefits through the flow of natural capital assets to goods and services, employment and economic values.

The application of natural capital principles to government's various initiatives, such as the Marine Estate Management Strategy, will further act to ensure a strong return on investment from a public perspective.

Finally, the NSW Government's role includes supporting current and future research and development (R&D) activities that will contribute to technical and technological advances, which in turn, will provide greater confidence to market investors. R&D endeavours include:

- developing cost effective ways to measure and account for natural capital
- developing new approaches to optimise natural capital within productive landscapes
- understanding the linkages, inter-dependencies and trade-offs between different natural capital assets
- protecting our natural capital from biosecurity risks
- identifying ways to build natural capital while building social and economic outcomes at the same time
- developing approaches that ensure we build resilience into our natural capital assets to adapt to a changing climate.

The NSW Natural Capital Statement of Intent has been developed to clearly signal the NSW Government's resolve to better deliver positive economic, environmental, social and cultural outcomes for the State. It is envisaged that, in time, natural capital can be embedded into government and private sector decision-making, leading to sustainable economic development and the emergence of new natural capital industries in regional NSW.

Defining natural capital

Natural capital refers to the world's stocks of natural assets, and the services that flow from them, which include geology, soil, air, water, and all living things. It is from this natural capital that humans derive a wide range of services, often called ecosystem services, which make human life possible. The most obvious ecosystem services include food, water, plant materials used for fuel, building materials and medicines (Convention for Biological Diversity 2021). Capital has traditionally been thought of as money or any resource or asset that stores or provides value to people and the economy. Natural capital is a way of thinking about nature in much the same way as traditional capital – if we invest in it, it creates value, and if we degrade it, we limit its value.

Until now, conventional economic models and financial markets have not accounted for environmental degradation and so do not provide a holistic picture of economic growth and prosperity. By not valuing the benefits we get from nature and taking nature into account in our economic and financial decisions, we create significant social and economic costs.






Objective

The objective of the Natural Capital Statement of Intent is to explore opportunities to embed natural capital considerations in NSW Government decision-making to:

- recognise the value of, and our impact and dependencies on, nature
- recognise the importance of land managers in contributing to ecosystem services
- continue to incorporate natural capital principles in NSW Government policies and programs which recognise that production and environmental outcomes can be achieved concurrently
- enable the economic transition towards a nature positive economy where landholders are recognised for the public goods they provide for the community
- accelerate, scale up and improve the value of investment into nature-positive opportunities
- continue to integrate the enhancement of natural capital with primary industries productivity and land management by:
 - o incentivising best practice land management and removing red tape
 - o co-designing cost-effective natural capital mechanisms with stakeholders



The international and national context

Economic case for natural capital is growing

The economic case for valuing nature cannot be understated. In 2019, the World Economic Forum (WEF) estimated that \$44 trillion of global economic value generation, more than 50% of global Gross Domestic Product, is moderately or highly dependent on nature. *The Global Risks Report 2021* (WEF 2021) ranks biodiversity and ecosystem collapse as one of the top five most likely and impactful risks humanity will face in the next 10 years.

More recently, the United Kingdom Government commissioned a landmark independent review on the economics of biodiversity, the Dasgupta Review. It concludes that nature is a 'blind spot' in economics and that 'we can no longer afford for it be absent from accounting systems that dictate our national finances or ignored by economic decision makers' (Dasgupta 2021). The Dasgupta Review is expected to set the agenda for the UK Government's 25-year environmental plan and will shape how nature is valued and accounted for on its balance sheets.

International momentum is building to develop the enabling policy framework

The Strategic Plan for Biodiversity¹ 2011–2020 (developed as part of the UN Convention on Biological Diversity) included 20 Aichi Biodiversity Targets, with Target 2 aiming to mainstream biodiversity in policy decision-making and national economic accounts. The draft post-2020 global biodiversity framework is building and extending this commitment to mainstreaming biodiversity and is scheduled for completion at the Conference of Parties (COP-15) in 2022 (Convention on Biological Diversity 2021).

¹'Biodiversity' or 'biological diversity' means the variability among living organisms from all sources including, inter alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems (Convention on Biological Diversity 2010)



Financial markets have started to connect the climate and nature-related risk agendas

Biodiversity loss entails physical, transition, reputational and systemic risks for investors. Leading financial actors are integrating nature-related risks and opportunities in their approaches to sustainable investing, lending and underwriting practices, including reporting on biodiversity portfolio footprints and developing common biodiversity metrics and targets.

The Taskforce on Nature-related Financial Disclosures (TNFD 2021) is a global initiative aiming to guide financial institutions and businesses in their nature-related financial disclosure effort. By 2023, the TNFD will provide a framework for corporations and financial institutions to assess, manage and report on their dependencies and impacts on nature. The NSW Government is a member of the TNFD Forum.

Australia is well-placed to act

Australia is one of the most biologically unique and diverse countries in the world. Australia's natural capital has historically underpinned our economic success, but Australia's biodiversity is under increasing threat. *The Independent Review of the Environment Protection and Biodiversity Conservation Act 1999* (DAWE 2020) found that Australia's natural environment is in decline and that the current environmental trajectory is unsustainable. Globally, Australia has the fourth highest incidence of animal species extinction and eighth highest number of threatened species listed in the International Union for the Conservation of Nature Red List of Threatened Species (IUCN 2021).

The Australian Government has proposed to amend Australia's environmental laws to better protect the environment, and has undertaken a number of initiatives to increase environmental resilience, such as the National Landcare Program, the \$100 million Oceans Leadership Package to protect Australia's oceans, the National Soil Strategy, and the \$66 million Agriculture Biodiversity Stewardship Package.

NSW environmental leadership

The growing population of New South Wales and ongoing effects of climate change, continue to exert pressure on the environment (EPA 2018). It is important for New South Wales to understand its natural capital assets, how these interact with NSW's economy and social benefits, and the flow of renewable and non-renewable assets. Innovative ways that engage landholders and Government to manage our natural resources and effectively manage biodiversity must continue to be identified.



The NSW Government is already responding to climate change and is leading the way through the *NSW Waste and Sustainable Material Strategy 2041*, *Electricity Infrastructure Roadmap*, and the *Net Zero Plan Stage 1: 2020-2030*. The NSW Government recently released a *Net Zero Plan Stage 1: 2020-2030 Implementation Update*, which commits New South Wales to an emissions reduction target of 50% by 2030.

We recognise that the sustainable development, climate change and nature agendas are interrelated and, therefore, must be addressed together. An informed understanding of natural capital is critical to accelerating the response to climate change in a way that integrates economic growth with the enhancement of natural assets.

We have long been delivering a range of initiatives that sustainably manage and enhance the State's natural capital. New South Wales has management frameworks in place for the sustainable management of its marine and terrestrial environments, fisheries and forests, which provide direct benefits to the public through renewable goods and services.

In 2008, the State established the Biobanking program – a limited market-based program to support the exchange of biodiversity credits to offset major development-related biodiversity loss (DPIE 2008). In 2017, the program was expanded into the NSW Biodiversity Offsets Scheme, which offsets the loss of biodiversity due to developments across the State.

In 2018, the NSW Government responded to investor feedback and issued an inaugural sustainability bond – a first of its kind in Australia and worth \$1.8 billion – which supports a range of environmental and social initiatives across the State. This program continues to grow, currently totalling \$5.2 billion in bonds issued to the market and contains capacity to issue more. We have also implemented a range of initiatives to conserve and improve our natural capital asset base, including the \$175 million for the 2 stages of the Saving Our Species program, the \$70 million per year private land conservation program (which has delivered more than 2,000 agreements that protect over 2 million hectares for conservation), and a commitment to add 400,000 hectares to our national parks estate by the end of 2022 (which since 2019, has resulted in the acquisition of 520,000 hectares, of which approximately 295,000 hectares has been reserved). We also administer sustainable pathways to balance environmental services with economic outcomes on private land through our farm forestry, plantation, and land management frameworks.

This Natural Capital Statement of Intent, and the Primary Industries Productivity and Abatement Program, are the next significant leadership step towards delivering a resilient and growing economy, healthy and prosperous communities and expanding, competitive and innovative industries and businesses. Both initiatives will align with NSW Treasury whole-of-state sustainable finance principles to ensure the most effective use of government funding.

Opportunities and benefits for NSW

This Natural Capital Statement of Intent is a key step in the NSW Government's recognition of the value of natural capital and creation of the ecosystem for evolving natural capital markets and investment and employment opportunities.

This is a cornerstone for the State's economy, which our business and finance community and key industries, particularly our world-class primary industries, are positioned to prosper from.

Figure 1 shows the opportunities and benefits for New South Wales of recognising the value of nature.



Figure 1 Opportunities and benefits of recognising the value of nature



The role of the NSW Government

The NSW Government is responsible for the stewardship of the State's natural assets to ensure a strong, resilient, and diverse economy.

Through this Natural Capital Statement of Intent, New South Wales is providing the pathway, policy signals and frameworks to enable the State and private sector, particularly the finance sector and primary industries, to contribute more systematically to a nature-positive, resilient, and sustainable economy.

We have 3 main roles: to be an enabler of natural capital, to participate in capital markets and investments, and where appropriate, to regulate natural capital markets and investments.

Table 1 The role of NSW Government in delivering enhanced natural capital outcomes

Role	Description
Enabler	<p>Building capacity and exploring opportunities to integrate natural capital into mainstream financial and economic decision-making through:</p> <ul style="list-style-type: none">• raising awareness and building natural capital knowledge• addressing the barriers to mainstreaming private sector investment in natural capital• establishing government-led activities that enhance natural capital• providing support and advice to landholders to help realise the natural capital value of their land• creating the conditions for landholders and communities to participate in, and benefit from, effective management of natural capital assets.
Investor or investee	<p>Accelerate nature-positive outcomes through financial activities (where appropriate), such as:</p> <ul style="list-style-type: none">• investing in natural capital assets and markets• procuring nature-positive goods and services• contributing to nature-positive related bond issuance.
Authority	<p>Leveraging its authority in identifying opportunities to:</p> <ul style="list-style-type: none">• take a leading role in standard-setting, accreditation, certification, and market regulation and supporting existing government businesses to achieve certification• facilitate capital flows to meet net zero targets and nature-positive biodiversity ambitions through convening industry on key issues• establish and help regulate environmental markets and support voluntary market-creation opportunities.

Implementation principles and vision

The vision, principles, and key enablers to protect and enhance the State's natural capital assets are outlined in Figure 2. These will underpin NSW Government decision-making and planning.

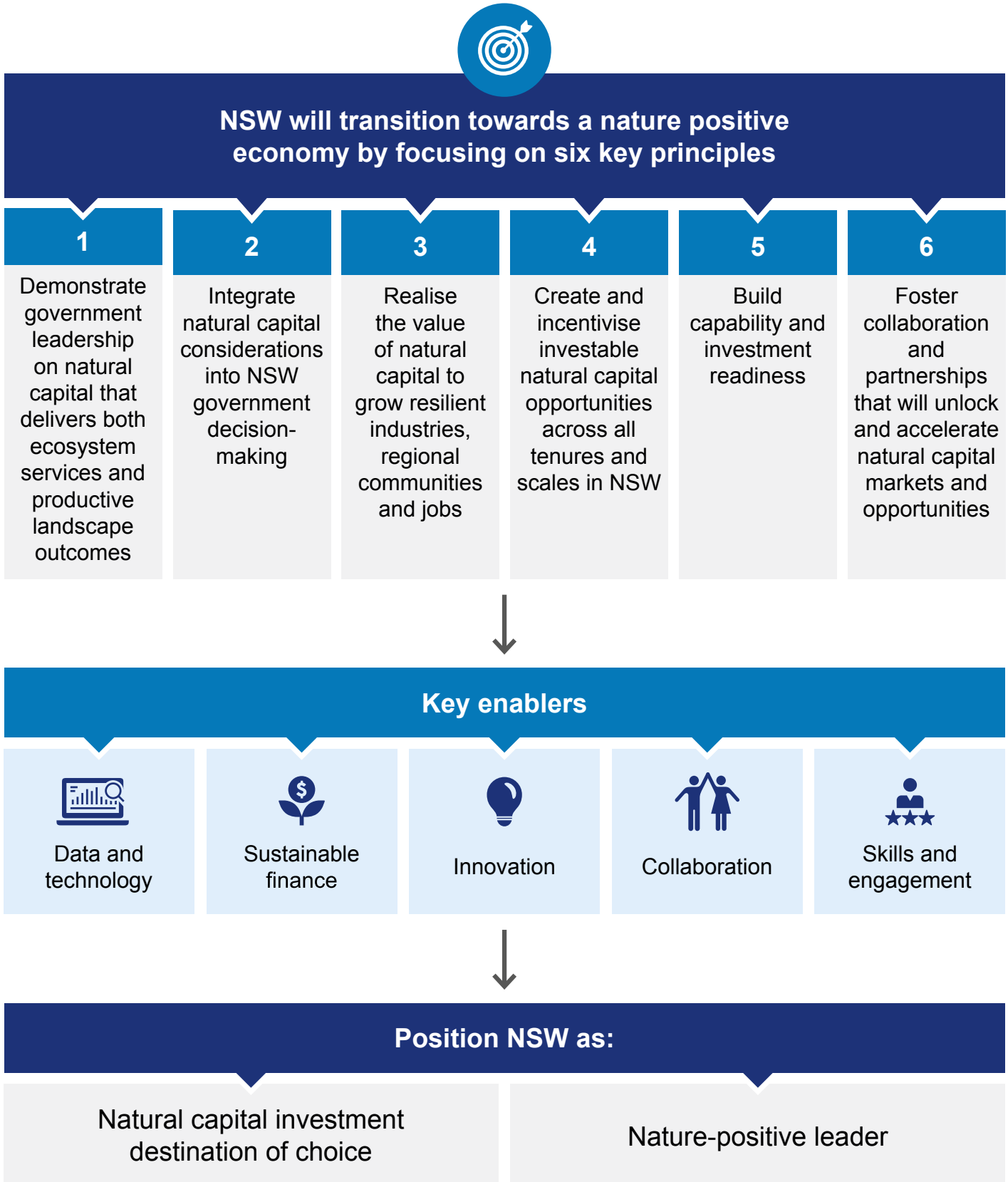


Figure 2 Implementation vision, principles and enablers



How NSW will take action

The table below summarises what the NSW Government intends to do to recognise and value natural capital in government and industry decision-making. A key vehicle for this is the Recognising Natural Capital Program which brings together stakeholders from the finance, non-government and government sectors to collaborate on ways to unlock the value of natural capital.

Table 2 Principles and Focus Areas for Action

Principles	Future Focus Areas
Demonstrate government leadership on natural capital that delivers both ecosystem services and productive landscape outcomes	<p>Lead by example through developing innovative natural capital strategies and initiatives that are underpinned by evidence-based targets.</p> <p>This includes developing strategies to recognise natural capital to enable markets to unlock alternative revenue streams for primary industries, Aboriginal communities, water management and sustainable land management.</p>
Integrate natural capital considerations into NSW Government decision-making	<p>Identify and test how to account for the social and economic value of natural capital on the State's balance sheet.</p> <p>This includes investigating opportunities to unlock the value of natural capital across the State's public lands and recognising natural capital in planning and development decisions.</p>
Realise the value of natural capital to grow resilient industries, regional communities and jobs	<p>Identify and enable natural capital opportunities in regional NSW which can contribute to the development of new regional industries, sustainable employment and opportunities for primary producers, landholders and Aboriginal communities.</p> <p>This includes creating the market framework and financial incentives for the primary industries and lands sector to sequester carbon, enhance biodiversity, improve productivity through best practice, and create other economic opportunities.</p>

Principles	Future Focus Areas
<p>Create and incentivise investable natural capital opportunities across all tenures and scales in NSW</p>	<p>Investigate the merit of developing financial instruments and methods that overcome barriers to valuing and investing in natural capital.</p> <p>This includes investigating viable investment pathways, market-based natural capital mechanisms and financial instruments that can be scaled and re-produced to diversify revenue stream and capital for the primary industries and lands sector.</p>
<p>Build capability and investment readiness</p>	<p>Contribute to the establishment of consistent national biodiversity data metrics and support the development of capacity building networks that will unlock natural capital investment opportunities.</p> <p>This includes building the capabilities of the primary industries sector and landholders to identify new natural capital investment opportunities and diversify revenue streams.</p>
<p>Foster collaboration and partnerships that will unlock and accelerate natural capital markets and opportunities</p>	<p>Partner with other jurisdictions to harmonise natural capital methodologies and align national and international initiatives.</p> <p>This includes partnering with the primary industries sector and landholders to develop fit-for-purpose solutions and incentives that recognise industry-leading nature-positive agriculture practices.</p>





The pathway to recognising and valuing natural capital

The NSW Government will set out a pathway to recognising and valuing natural capital in a systematic and strategic manner that will support the evolution and maturation of voluntary natural capital markets and investments.

The market maturity development curve (Figure 3) highlights the initiatives that we will deliver to better recognise and value natural capital.

This will require building on current initiatives focused on developing natural capital standards and methods, such as the Biodiversity Indicator Program, and continuing to develop best land management practices and methodologies that deliver environmental and production outcomes. Robust standards and methods will be critical in establishing and promoting consistent natural capital metrics such as soil carbon sequestration and storage environmental accounts, the NSW biodiversity assessment method, or water metrics for primary industries and landholders.

Natural capital metrics will then be used to inform the establishment or further development of government-led strategies and initiatives such as the Biodiversity Offsets Scheme, *Saving our Species* program, the Forest Stewardship Program, the Primary Industries Productivity and Abatement Program and government-initiated partnerships with the finance sector to stimulate and accelerate natural capital investment opportunities.

These methods and metrics will underpin the investigation of opportunities to embed natural capital considerations in government decision-making and identify and test how to account for the social and economic value of natural capital on the State's balance sheet.

As market maturity increases, voluntary markets will establish and evolve independent of government intervention.

The maturity curve demonstrates how government can enable and create the settings which facilitate and de-risk private and public investment in natural capital initiatives. The curve shows how interventions, activities and capital need to change over time. Initially, government intervention is required to deliver activities and programs. As time progresses and markets mature, private sector involvement increases and government's role changes to one of steward and market authority. Work has already commenced on a range of interventions detailed on the curve. Interventions are designed to enable the right conditions and can, therefore, commence in parallel – though different interventions will take longer to mature, specifically open markets and direct private investment.

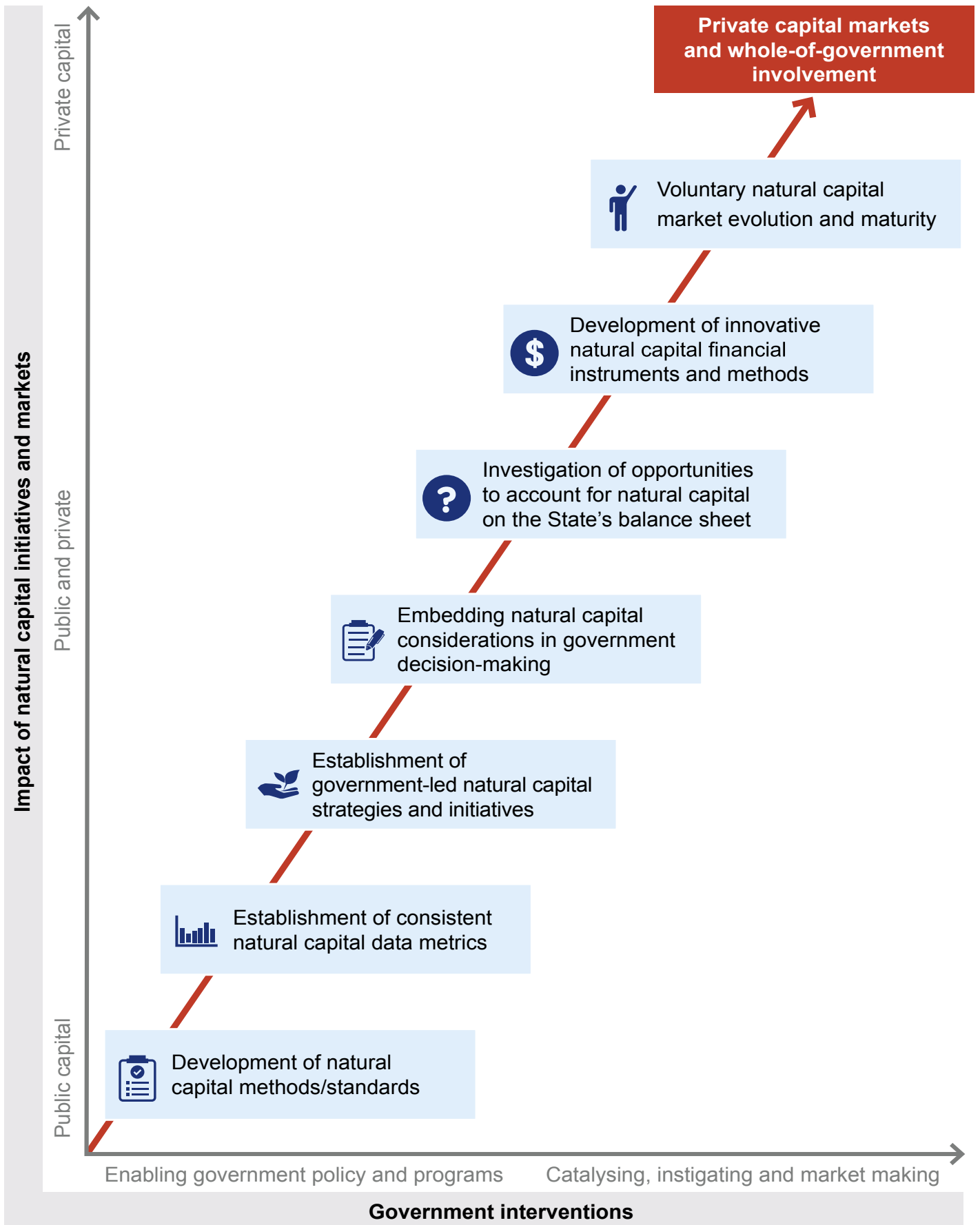


Figure 3 Market maturity development curve



What will happen next?

The NSW Government is committed to taking a leadership role in energy security, net zero, and natural capital. We recognise that natural capital is an integral part of a holistic package of actions required for a sustainable future that is underpinned by stronger and more resilient regional communities and businesses.

The NSW Natural Capital Statement of Intent sets out our vision and pathway to contributing systemically towards an improved natural capital asset base, and a resilient and sustainable economy.

To achieve this, we will seek to value and account for our interaction and dependencies on nature. We will build our knowledge base and share insights to help build capacity across other sectors and key industries and actively engage in global and national partnerships to create rigorous standards required for wider adoption.

Through support for natural capital markets, we will seek to scale up and optimise the value of investment flows into New South Wales. Our support of natural capital markets will provide incentives for the primary industries sector and Aboriginal landholders to conserve and manage the environment to generate broader economic, social and cultural benefits.

To ensure our vision meets the needs of the community, investors and the finance and primary industry sectors, we will bring together a broad coalition of finance, business and accounting expertise to help New South Wales develop its long-term natural capital policy and implementation roadmap.

Working with the community, businesses and the finance sector, the NSW Government aims to reposition NSW's relationship with nature, for the benefit of both current and future generations.



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