



**Investment funding allocations  
to Catchment Management  
Authorities in 2008/09**

Final Report

**March 2009**



# FINAL REPORT

## Investment funding allocations to Catchment Management Authorities in 2008/09

MARCH 2009

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## List of acronyms

AG	Australian Government
BR/G	Border Rivers/Gwydir CMA
CMA	Catchment Management Authority
CAP	Catchment Action Plan
CW	Central West CMA
DECC	Department of Environment and Climate Change
DPC	Department of Premier and Cabinet
JSC	Joint Steering Committee
LWMP	Land and Water Management Plan
NA	Namoi CMA
NAP	National Action Plan for Salinity and Water Quality
NHT	Natural Heritage Trust
NRC	Natural Resources Commission
NRM	Natural Resource Management
NSW	New South Wales
NSWG	New South Wales Government
ToR	Terms of Reference

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# 1 Introduction

In March 2008 the Premier asked the Natural Resources Commission (NRC) to provide advice on how available NSW investment funding should be allocated across Catchment Management Authorities (CMAs) in 2008/09. The NRC's recommendations, delivered in early April 2008, contained budget-in-confidence information that could not be publicly released at that time. The NSW Government subsequently advised CMAs of their funding allocations in May 2008.

The purpose of this follow-up report is to comply with the NRC's legislative requirement to publicly report on our advice to the Premier.<sup>1</sup> To ensure this advice is transparent, the report also provides additional contextual information.<sup>2</sup> While this report is historical in nature, it provides a useful illustration of how the six stage funding allocation process developed by the NRC can be applied in practice by any decision maker.

The NSW Government had to decide how to allocate new funding across the CMAs in 2008/09. Previously the Australian and NSW Governments have made joint investments in regional natural resource management (NRM) through CMAs. However, in 2008 the Australian Government announced a new NRM program and allocated funding directly to CMAs.<sup>3</sup>

The NRC applied the funding allocation process developed in its earlier report *Allocating NRM funding between NSW Catchment Management Authorities*.<sup>4</sup> As recommended in our earlier report, the initial assessments of priorities for investment should be checked and refined before the process is used for any future funding to ensure that best available information is used. However, in 2008/09 the amount of new NSW funding was relatively small, making up twelve per cent of the total pool of funding available to CMAs. Therefore any uncertainties in the assessments are unlikely to have a large impact on most CMAs' overall funding in 2008/09.

## 1.1 Recommendations

In April 2008 the NRC identified two approaches for allocating new NSW Government funding under the unilateral funding arrangements. The NSW Government could either offset the Australian Government's funding allocation decision with a view to providing a better overall balance of funding, or make its decision independently of the Australian Government. The NSW Government's decision depends on the extent to which alternative funding sources will contribute to NSW priorities.

The NRC recommended that the NSW Government:

1. Allocate funding to CMAs for 2008/09 to offset other sources of funding and so provide a better overall balance of funds (Option 2 in this report). This allocation was conditional

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<sup>1</sup> *Natural Resources Commission Act 2003*, 15(3).

<sup>2</sup> Since the NRC advised the Premier on funding allocations for 2008/09, the NSW Government has announced its new natural resource management funding program, *Catchment Action NSW*. Further details have also been published about the Australian Government's program, *Caring for Our Country*. This report explains our recommendation for the 2008/09 funding allocation decision and does not analyse the impact of these developments on future funding allocation decisions. Further, it does not include the outcomes from the *Caring for Our Country* contestable funding pool for 2008/09 as this information was not available at the time the NSW funding allocation decision was made.

<sup>3</sup> See [www.nrm.gov.au](http://www.nrm.gov.au)

<sup>4</sup> Natural Resources Commission, *Allocating NRM funding between NSW Catchment Management Authorities*, April 2008, available at [www.nrc.nsw.gov.au](http://www.nrc.nsw.gov.au).

upon the NSW Government being satisfied that alternative sources of funding would allow CMAs to undertake new activities in 2008/09 that contribute to all state targets. If not, then an independent approach was recommended (Option 1 in this report).

2. Make Sydney Metro CMA's funding conditional on the Minister's approval of a quality Catchment Action Plan (CAP) in order to mitigate the risk that new funding is invested in activities that will not promote the state-wide targets.

The NSW Government chose to adopt an independent approach and allocate the new funding according to Option 1 in this report.

Since our recommendations to the Premier on funding allocations for 2008/09, the NRC has recommended Sydney Metro CMA's draft CAP for approval.<sup>5</sup>

## 1.2 Terms of Reference

In March 2008 the NRC received a Terms of Reference (ToR) from the Premier seeking advice on how NSW Government funding could be allocated to the 13 CMAs for 2008/09, and how risks associated with the preferred funding option could be managed. The funding profile needed to maximise the likelihood of improvements in natural resource condition across NSW.

The ToR (see Attachment 1) required the NRC to:

- recommend a preferred funding profile for the CMAs for 2008/09
- advise on any adjustments to the Commonwealth's proposed 2008/09 allocations to the CMAs that NSW should pursue in negotiations<sup>6</sup>
- advise on any significant risks to natural resource management outcomes and CMA viability as a result of the proposed 2008/09 funding allocations.

The ToR required that the NRC only consult with the Department of Environment and Climate Change (DECC), NSW Treasury and the Department of Premier and Cabinet (DPC). However, wider consultation with all stakeholders is essential for transparency and to ensure the best available information is used to understand risks and acceptability of the recommendations to stakeholders. The NRC recommends that in the future, where practicable, the methodology for any allocation process is open to wider consultation, specifically with CMAs.

## 1.3 Structure of this report

This report is structured as follows:

- Chapter 2 explains the context of this advice, including the NRC's previous work that this advice builds on, and the existing funding available to CMAs
- Chapter 3 analyses the two options for allocating funding and examines the benefits and risks associated with each option.

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<sup>5</sup> Natural Resources Commission, *Recommendation: Sydney Metro Catchment Action Plan*, June 2008, available at [www.nrc.nsw.gov.au](http://www.nrc.nsw.gov.au).

<sup>6</sup> During the course of this consultation the Commonwealth confirmed that its allocations to CMAs were final and not open to negotiation. Therefore the NRC did not address this issue.

## 2 The context for funding allocation decisions

Over the previous five years of Phase 2 of the National Heritage Trust (NHT2) and the National Action Plan for Salinity and Water Quality (NAP) programs, the Australian and NSW Governments made joint investments in regional NRM through CMAs. However, the Australian Government established a new five-year funding program that impacts substantially on the model for NRM investment in NSW, and advised CMAs directly of their 2008/09 Australian Government allocations.

Under the new unilateral funding arrangements the NSW Government has to decide whether to use an *offsetting* approach to compensate 'losers' from the Australian Government's funding decisions, or make its allocation decision *independent* of other funding sources. This decision depended on whether the other funding sources would contribute to NSW targets.

For 2008/09, the NSW Government chose to adopt an independent approach. However, the NSW Government may wish to revisit these options in 2009/10 and beyond. For example, to the extent that some CMAs receive significantly higher or lower funding from the Australian Government than would be consistent with NSW Government priorities, it may wish to reconsider the option of offsetting.

The NSW Government will also need to consider whether to provide greater funding certainty for CMAs by setting allocations for the remainder of its *Catchment Action NSW* program consistent with the Australian Government, or continue to decide on funding allocations on an annual basis. Certainty surrounding funding is important for creating the stability and continuity needed to achieve long term change and to give CMAs the confidence to develop innovative approaches to achieve lasting outcomes. Conversely, annual funding allocations prevent CMAs from investing in long term projects and make it difficult for them to attract and retain highly skilled staff.

Prior to the Australian Government's announcement, the NRC had been tasked with advising the NSW Government on an approach to allocate funding between CMAs for the anticipated new joint NRM funding program. The NRC's recommended decision-making process and analytical framework can be applied to any source of funding. The NRC applied this process to recommend how the NSW Government should allocate its funding to CMAs for the 2008/09 transition year.

The following sections explain:

- the changes to CMA-delivered NRM investment
- the NRC's recommended approach to allocating funding
- sources of funding for CMAs in 2008/09.

## 2.1 Changes to Governments' NRM investments through CMAs

In 2003, NSW established CMAs as institutions for regional NRM planning and delivery. Both NSW and Australian Governments committed to joint investment in agreed NRM priorities in NSW through Bilateral Agreements. A Joint Steering Committee (JSC), made up of representatives from NSW and Australian Government agencies oversaw both Governments' joint decisions on investment funding to CMAs. The CMAs developed Investment Strategies which were recommended for approval by the JSC to Ministers. CMAs also presented detailed reports to the JSC on their expenditure and achievement of milestones.

On 14 March 2008, the Australian Government announced a new five-year program for its investment in NRM worth \$2.25 billion.<sup>7</sup> The new package, *Caring for our Country*, commenced on 1 July 2008 and amalgamates several existing NRM programs,<sup>8</sup> including those which have traditionally funded CMAs' activities. Through competitive bidding processes, the Australian Government opened the program to a broader range of delivery agents than just CMAs. Program funding is to be invested in six new national priority areas.

This program represents a substantial change in the model for NRM investment in NSW. It seems likely to result in unilateral funding of CMAs by both Governments, directed to separate sets of priorities and approved through separate investment decision-making processes. The Australian Government notified CMAs of their allocations for 2008/09, totalling \$32.8 million in NSW. This allocation will be directed to projects that promote the national priorities.

In addition to this 'base' allocation, the Australian Government set aside approximately \$8.2 million of 'transition' funding for 2008/09 to assist NSW CMAs adjust to the new program. CMAs also have access to a contestable pool of funding.

Despite the substantial changes in the Australian Government's approach, the NSW Government has a solid model for NSW investment in the health of the state's natural resources. Priorities for NRM are articulated by the state targets in the State Plan,<sup>9</sup> and by catchment targets in regional CAPs. Measuring whether NSW is making progress towards these targets is underpinned by the NSW Monitoring, Evaluation and Reporting Strategy and audits of the implementation of CAPs.

The NRC previously advised the NSW Government that CMAs' ability to achieve the best possible outcomes is constrained by the prescriptive conditions on funding and institutional arrangements. We advised that the NSW Government should negotiate streamlined reporting and funding arrangements between the Australian and NSW Government.<sup>10</sup>

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<sup>7</sup> The Hon Peter Garrett MP and The Hon Tony Burke MP, *Caring for our Country - Better Land Management, Less Red Tape*, Joint Media Release, 14 March 2008.

<sup>8</sup> Existing programs include the NHT, NAP, the National Landcare Program, the Environmental Stewardship Program and the Working on Country Indigenous Land and Environmental Program.

<sup>9</sup> NSW Government 2006, *The State Plan: A New Direction for NSW*.

<sup>10</sup> See, for example, Natural Resources Commission, *Progress of Catchment Action Plans: Their place in current and future natural resource management in NSW*, September 2006, p.21, available at [www.nrc.nsw.gov.au](http://www.nrc.nsw.gov.au).

## 2.2 A structured and transparent funding allocation process

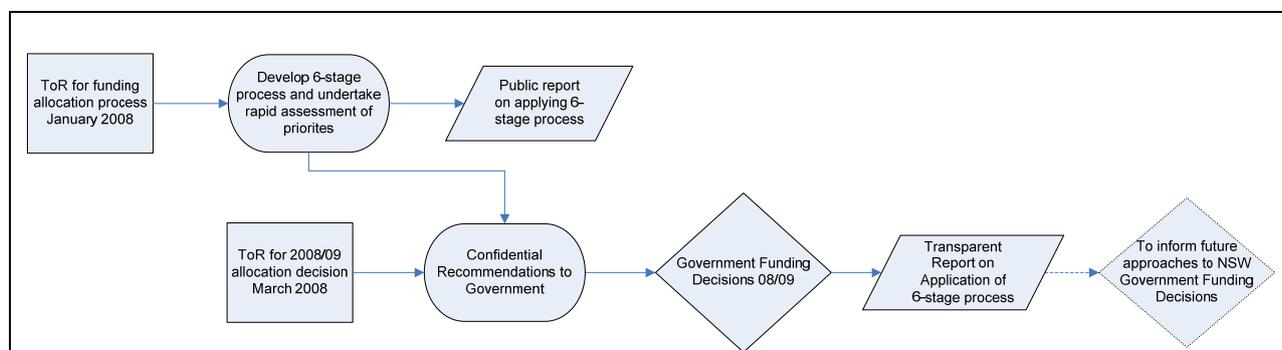
In January 2008, the NRC received a ToR from the Premier requesting advice on how funding could be allocated to maximise the likelihood of achieving improvements in natural resource condition across NSW.

The NRC recommended a six-stage process for allocating funding that aims to maximise likely return on investment.<sup>11</sup> The process was designed to be transparent, repeatable and adaptable, and received support from agencies and CMAs.<sup>12</sup>

The purpose of the recommended funding allocation process is to ensure that there is broadly the appropriate spread of funding allocated to CMAs across the state. CMAs and investors subsequently confirmed investment in their highest priorities when developing and approving more detailed four-year Investment Programs.

The NRC applied this process to develop recommendations for allocating new NSW funds to CMAs in 2008/09. Given the short period of time available for the development of an allocation process, the NRC undertook a 'first cut' rapid analysis using a priorities assessment framework to illustrate how priorities between CMA regions could be determined. The NRC recommends that this analysis be checked and refined for use in future years to ensure that best available information is used and up-to-date policy preferences are reflected. However, for 2008/09 there is relatively little new money to be allocated, therefore any uncertainties will not have a significant impact on overall funding.

**Figure 1: Developing and applying a funding allocation process**



## 2.3 Investment funding for CMAs in 2008/09

In 2008/09, CMAs have several sources of funding available to them for their NRM investment activities. These include:

- the allocation from the Australian Government's *Caring for our Country* program (AG base allocation), including a 'transition funding component' of the program (AG transition allocation)
- carry-over funding from previous years' joint allocations via the NHT2, NAP and some NSW programs (joint carry-over funding)

<sup>11</sup> As per footnote 2.

<sup>12</sup> For a comprehensive description of the development of this process, refer to the NRC's report *Allocating NRM funding between NSW Catchment Management Authorities*, April 2008.

- Land and Water Management Plan funding (NSW LWMP funding)
- new NSW funding (new NSW allocation).

These sources provide CMAs' 'core' investment funding. However, CMAs also have access to funds through a variety of other sources, including bids for other government or private money. The NRC understands that the core investment funding sources all have different specifications on how the money is to be spent. This is summarised in Table 1.

**Table 1: CMA investment funding sources for the transition year**

Funding	Amount [% of total] <sup>2</sup>	Specifications for how it is to be spent
AG base allocation	\$32.80 m <sup>1</sup> [27%]	<ul style="list-style-type: none"> <li>• Agreed by AG Ministers or delegates through approval of activities that contribute to national priorities</li> </ul>
AG transition allocation	\$8.21 m <sup>1</sup> [7%]	<ul style="list-style-type: none"> <li>• Agreed by AG Ministers or delegates through approval of activities that contribute to national priorities</li> </ul>
Joint carryover funding <sup>13</sup>	\$55.46m <sup>1</sup> [46%]	<ul style="list-style-type: none"> <li>• Must be expended by June 2009.</li> <li>• Earmarked for activities/management targets from previous Investment Strategies (prior to 2008/09) – some activities already commenced and contracted, some not commenced and contracted (proportions contracted vary between CMAs)</li> <li>• Cannot be redirected to new activities/management targets.</li> </ul>
NSW LWMP funding	\$8.35m <sup>1</sup> [7%]	<ul style="list-style-type: none"> <li>• Activities funded under LWMPs contribute to achieving targets in CAPs, but CMAs do not have complete control over activities funded as the plans were developed prior to the creation of CMAs and the NAP/NHT2 funding programs</li> <li>• In 2008/09, LWMP funding is only available to four CMAs and can only be spent in certain parts of each CMA region</li> </ul>
New NSW allocation	\$14.81m <sup>1</sup> [12%]	<ul style="list-style-type: none"> <li>• Agreed by the Minister of Climate Change and Environment or delegates through approval of activities that contribute to state priorities</li> </ul>

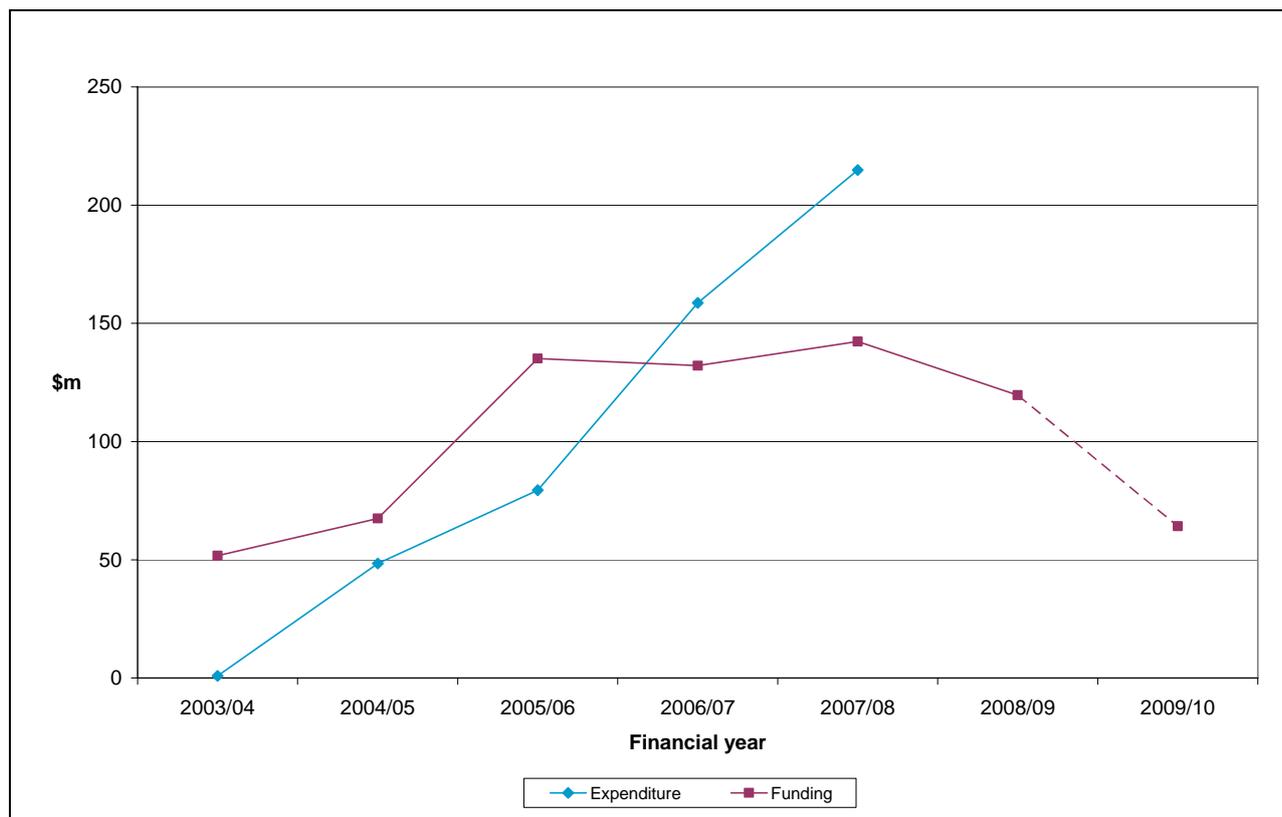
Notes: 1. Information supplied by DECC. 2. Percentages may not add to 100% due to rounding.

The sources of investment funding identified above total approximately \$133 million for 2008/09. This represents for all CMAs a substantial reduction from their budgeted peak expenditure of approximately \$214 million in 2007/08. However, for many CMAs, the total funding available in 2008/09 may be an increase from their average annual funding under the 5 year NHT2 and NAP programs.

CMA expenditure over the five years of the NAP and NHT2 programs followed a very different pattern than their annual allocation established at the beginning of the programs. CMAs generally underspent their funding allocation in the first three years of the programs while they established their systems and processes. In 2006/07 and 2007/08, CMAs' expenditure increased well above their funding allocations for those years using funding that was carried forward from 2004/05 and 2005/06. This expenditure pattern is depicted in Figure 2 below.

<sup>13</sup> Carried over from NAP and NHT2 programs, and includes a small amount of funding remaining from the NSW Environmental Services Scheme, Section 10 Soil Conservation and State Salinity Enhancement.

**Figure 2 CMA expenditure and funding 2004/05 to 2007/08<sup>14</sup>**



In addition to funding for investment activities, CMAs receive a recurrent budget totalling approximately \$40.3 million<sup>15</sup> to cover operating costs. These costs include salaries, Board operating costs and general CMA operating expenses such as advertising, maintenance, and telephones.

Operating budgets are not directly relevant in establishing investment funding allocations.<sup>16</sup> However, they are useful for evaluating the results at Stage 5 of the decision-making process. Operating budgets provide a measure of the capacity of a CMA to spend its investment funding effectively. For example, a CMA with a very low operating budget but very high investment funding may not have sufficient administrative support to expend its funds efficiently.

The ratio of operating budget to total investment funding should be similar across CMAs of roughly the same size. However, differences in this ratio between similar-sized CMAs may be explained by differences in business models that reflect regional variations as well as by differences in efficiency.

<sup>14</sup> The 2003/04-2006/07 expenditure figures are approximate, provided by NSW Treasury. The majority of the funding is from NAP and NHT2 programs, but the figures also include NSW Environmental Services Scheme, Section 10 Conservation and State Salinity Enhancement Expenditure. The 2007/08 figure is budgeted expenditure. All funding data was supplied by DECC. The 2009/10 funding figure assumes NSW and Australian Government funding remains at 2008/09 levels.

<sup>15</sup> Information supplied by DECC.

<sup>16</sup> Note that this is not an assessment of CMA efficiency, but simply a tool for evaluating various funding allocation options. Therefore the NRC has not assessed whether CMAs' operating budgets comprise elements of investment funding in addition to corporate overheads.

### 2.3.1 Funding currently allocated to each CMA

Table 2 summarises the allocations to each CMA from the Australian Government (including both the base funding and transitional funding), joint carry-over funding, and LWMP funding. These allocations across CMAs are fixed.

In the following chapter, the NRC outlines two options for allocating the new NSW funding across CMAs and indicates a preferred option.

**Table 2: Pre-existing, fixed investment funding allocated to CMAs for 2008/09**

CMA	AG allocation (\$m) <sup>1</sup>	AG transition allocation (\$m) <sup>1</sup>	Joint carry-over funding (\$m) <sup>1, 2</sup>	NSW LWMP funding (\$m) <sup>1</sup>	Total pre-allocated funding (\$m)
Border Rivers-Gwydir	1.90	0.56	4.80	0	7.26
Namoi	1.90	0.68	1.98	0	4.56
Central West	2.60	0.64	6.41	0	9.65
Lachlan	2.70	0.67	0.68	0.28	4.33
Murrumbidgee	3.90	0.63	11.78	2.72	19.04
Murray	3.70	0.6	3.82	5.26	13.38
Lower Murray Darling	1.50	0.61	3.42	0.08	5.61
Western	1.80	0.6	3.97	0	6.37
Northern Rivers	3.50	0.91	4.09	0	8.50
Hunter Central Rivers	3.10	0.71	4.93	0	8.74
Southern Rivers	2.90	0.78	6.91	0	10.59
Hawkesbury Nepean	2.60	0.77	1.58	0	4.95
Sydney Metro	0.70	0.05	1.09	0	1.84
<b>Total</b>	<b>32.80</b>	<b>8.21</b>	<b>55.5</b>	<b>8.35</b>	<b>104.82</b>

Notes:

1. Information supplied by DECC.
2. The amount of carry-over funding attributed to each CMA has been updated since the first advice to Government to reflect transfers of funds between CMAs.

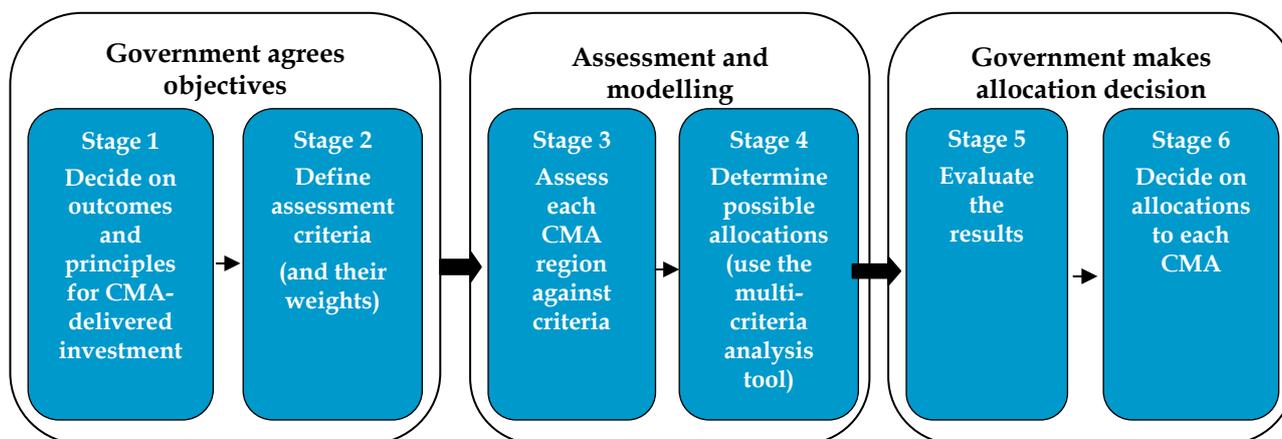
### 3 Applying the 6-stage allocation process

The NRC recommended that the NSW Government allocate funding to CMAs to offset other sources of funding so that the total funding profile reflects as closely as possible the NSW Government's investment principles. This funding profile is the best way for NSW to invest in priority natural resource issues and provide incentives for CMAs to perform effectively. A funding allocation based on these principles will maximise the likelihood of improvements in natural resources condition across NSW, provided that activities undertaken in 2008/09 using alternative sources of funding will contribute to state-wide targets.

New NSW funding makes up twelve per cent of the total funding pool for 2008/09 (excluding LWMP and carry forward funding). Therefore the NSW Government's ability to offset other funding is limited. However, the NSW Government will need to consider other approaches in future years when NSW funding will make up a greater proportion of the total funding pool.

To develop a recommendation for the NSW Government on a preferred funding allocation for 2008/09, the NRC used the 6-stage allocation process outlined in its earlier report, *Allocating NRM funding between NSW Catchment Management Authorities*. Figure 3 summarises the recommended allocation process.

**Figure 3: A decision-making process for allocating funding to CMAs**



This chapter:

- establishes a benchmark 'ideal allocation' and assesses two alternative funding allocation options against that benchmark
- describes the constraints that must be taken into account when applying the NRC's funding allocation process, and
- recommends a preferred option and describes how risks associated with it may be managed.

### 3.1 Stages 1-4: Agreeing investment principles and assessing CMAs

The NRC relied on its earlier report to apply stages 1 to 4 of the allocation process. This section summarises these stages and describes two alternative funding allocation options.

#### 3.1.1 An 'ideal allocation' between CMAs

The first stage in the allocation process is to determine outcomes and principles for CMA-delivered investment. The NRC has used the following two investment principles, recommended in our earlier report:<sup>17</sup>

- A. Invest in priority natural resource issues (*priorities*)**  
(Government policy preferences for expenditure between natural resource issues across NSW, and potential synergies from CMA-delivered investment)
- B. Invest cost effectively and provide incentives to perform effectively (*effectiveness*)**  
(focussing on CMAs' likely and actual effectiveness in implementing their region's CAP in partnership with local communities).

Stage 2 is to define the assessment criteria and weights. The NRC drew on its previous report for these. A summary of the analytical framework is presented in Attachment 2.

Stage 3 is to assess CMA regions against the criteria. Again we relied on our earlier report. The NRC used the *Standard for Quality Natural Resource Management* to evaluate the quality of its rapid assessment process in our earlier report. This process identified several major areas for improvement when this priorities assessment is revisited, including involving a broader range of stakeholders.<sup>18</sup> Recommendation 2 in that report suggested the initial assessments of priorities for investment should be checked and refined before it is used for any future funding. However, due to time constraints in providing this advice, further refinement was not possible. Furthermore, in 2008/09 the new NSW Government funding only makes up twelve per cent of the total pool of funding which has already been allocated. Therefore any uncertainties in the assessments were not likely to have a large impact on a CMA's overall level of funding.

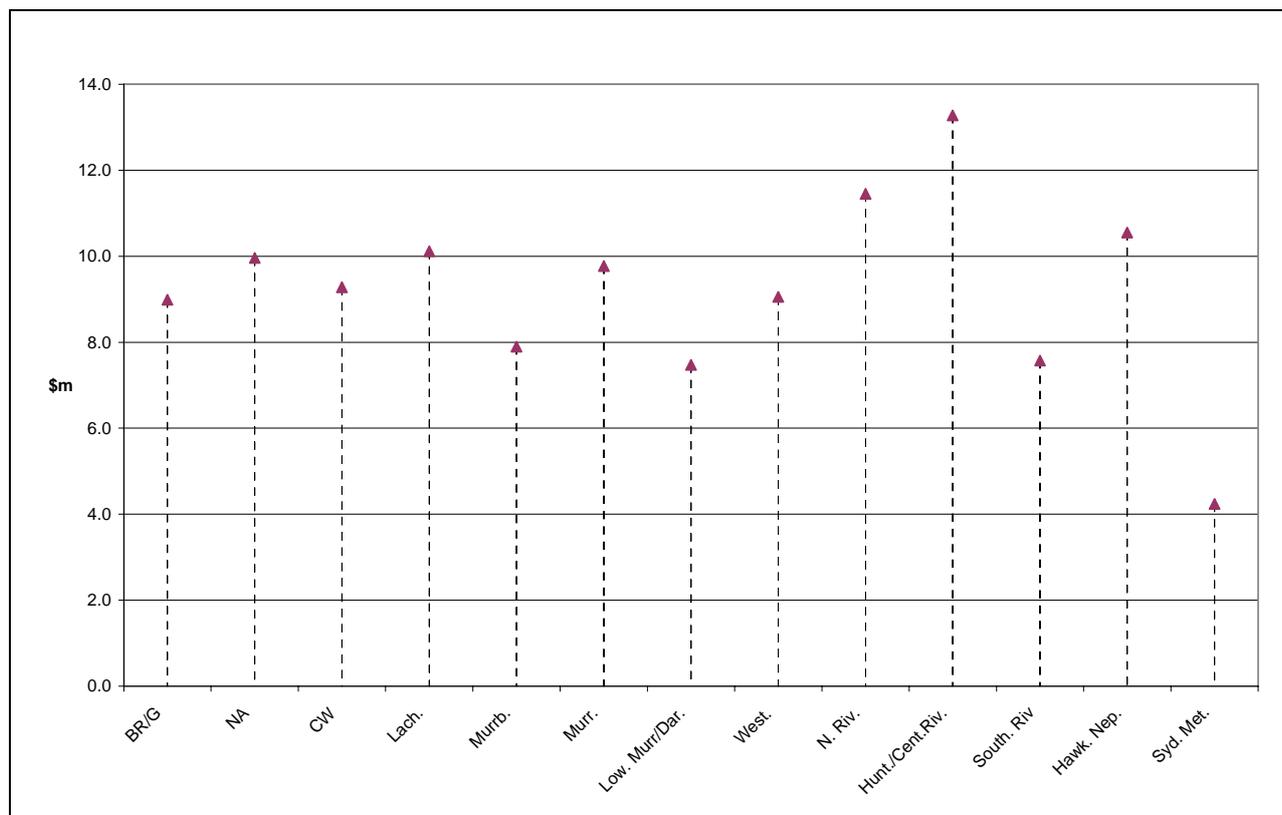
As a starting point, the NRC determined an 'ideal allocation' against which different options could be compared. Using the results presented in our previous report, the NRC assumed all available funding, including the pre-allocated funding, could be allocated through the NRC's six-step allocation process. This 'ideal allocation' is shown in Figure 4 and represents the ideal spread of funds if all sources of funding could be allocated according to a consistent set of investment principles.

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<sup>17</sup> See NRC (2008), *Allocating NRM funding between NSW Catchment Management Authorities*, April, p.17.

<sup>18</sup> *ibid.* p.27.

**Figure 4: 'Ideal allocation' for 2008/09 if all funding was flexible**



However, most of the available funding was already allocated using a range of different investment principles and decision processes. The NRC analysed the other sources of funding to determine the principles for investment and assessment criteria that were used (stages 1 and 2 of the process). This analysis is presented in Table 3 below.

For example, the Australian Government's base funding was allocated using a principle of continuity for regional bodies (stage 1). The assessment criterion (stage 2) was based on a percentage of historical Australian Government funding. This approach differs significantly from the investment principles and criteria developed by the NRC in our earlier report.

These existing allocations and approaches restrict the NSW Government's options for allocating funding. Nevertheless, the 'ideal allocation' represents the spread of available funding across the state that is most in line with the NSW Government's priorities.

**Table 3: Application of the 6-stage process to all funding sources**

Funding source	Stage 1: Outcomes and principles for CMA-delivered investment	Stage 2: Assessment criteria
NSW LWMP funding	Continuity and contractual obligations	Historic, from LWMPs
AG base allocation	Continuity	60% of historic AG funding
AG transition allocation	Hardship Adjustment principles	Done (AG's "Proposed principles for allocating the 2008/09 15 percent transition funding")
Carry-over funding	Continuity and completion of NHT2 and NAP programs <sup>1</sup>	Investment strategies 2004/05 – 2007/08

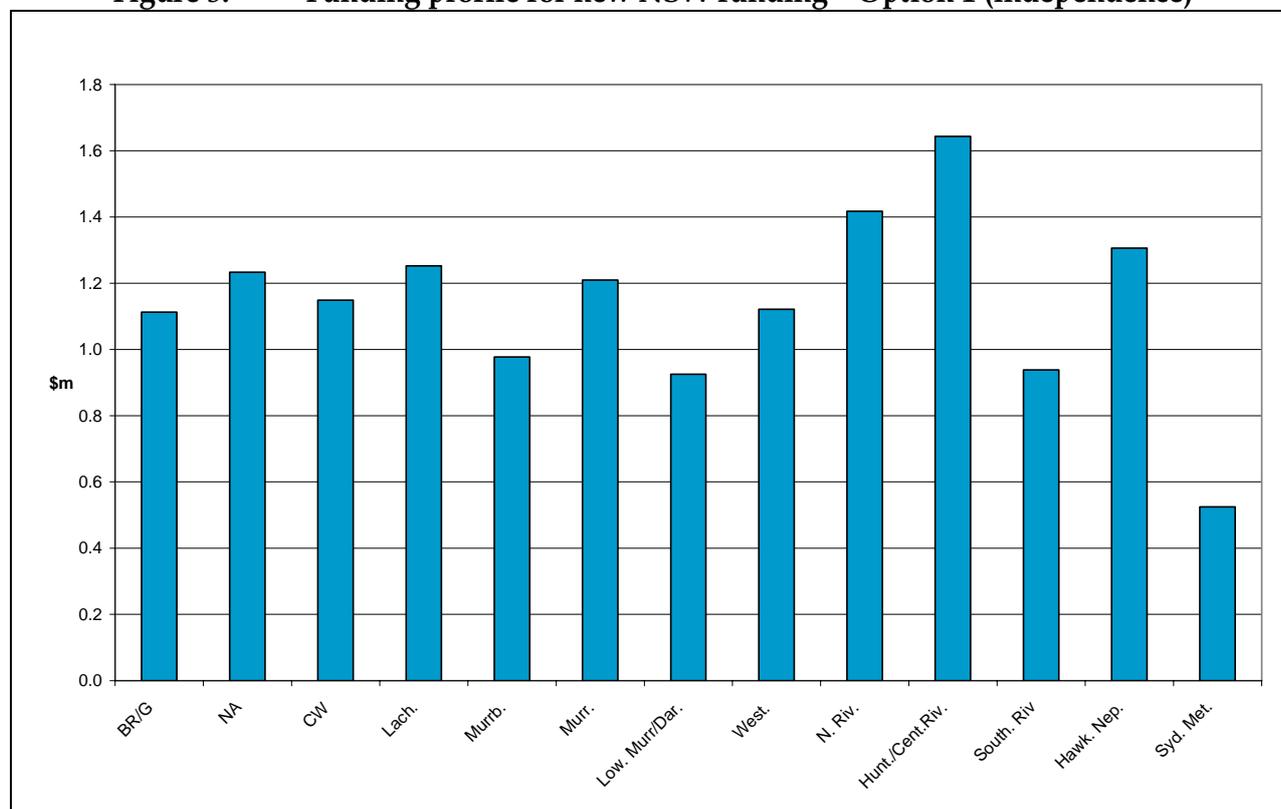
Notes:

1. Allocations under the NHT2 and NAP programs were originally based on a base level for each CMA, surface area and relative natural resource assets and threats, and negotiation.

### 3.1.2 Option 1: Allocating new NSW funding independently

Stage 4 requires modelling to determine possible allocations. As all other sources of funding were already allocated using different outcomes, principles and criteria, the first option is to allocate the new NSW Government funding between CMAs using the NRC's previous assessment,<sup>19</sup> and completely independently of the other sources of funding (Option 1). This results in the following funding profile for the new NSW funding only:

**Figure 5: Funding profile for new NSW funding - Option 1 (independence)**



<sup>19</sup> As per footnote 2.

Figures 6 and 7 below summarise the outcomes for each CMA for Option 1 when the other sources of funding are included, and compares them to the 'ideal allocation' presented in Figure 4. Figure 6 builds up the total funding allocation for each CMA from the different sources of funding – carry-over, AG base allocation, AG transition allocation, NSW LWMP funding and the new NSW allocation. The blue columns represent the \$14.81 million in new funding to be allocated by the NSW Government. The pink triangles represent the 'ideal allocation' described above, where all funding can be freely allocated across CMAs.

For example, Murray CMA has \$13.4 million in pre-existing funding, which already exceeds its 'ideal allocation' of \$9.8 million. New NSW funding adds a further \$1.2 million for a total funding allocation of \$14.6 million.

In contrast, Hawkesbury Nepean CMA falls short of its 'ideal allocation'. It has \$5.0 million in pre-existing funding, and receives an additional \$1.3 million in new NSW funding to reach a total funding allocation of \$6.3 million, compared to its 'ideal allocation' of \$10.5 million.

Figure 7 compares the total proposed level of funding for each CMA for the transitional year with the average annual funding level over the five years of the NHT2/NAP programs<sup>20</sup> and budgeted expenditure for 2007/08.<sup>21</sup> The NRC used this comparison to assess the risks associated with each option, discussed further below.

Although the 2007/08 budgeted expenditure is a useful reference point, it is a unique year that should not be taken out of context. CMAs' spending increased significantly in 2006/07 and 2007/08, with expenditure often far exceeding original allocations for those years. This followed three years of under-expenditure compared to funding allocations. This must be taken into account when making comparisons with proposed 2008/09 total funding levels.

Similarly, with the exception of Sydney Metro CMA, proposed total funding levels for 2008/09 are significantly higher than CMAs' five-year average funding levels. However, almost half of this funding for 2008/09 has been carried-over from previous funding programs, which will not be available after 2008/09.

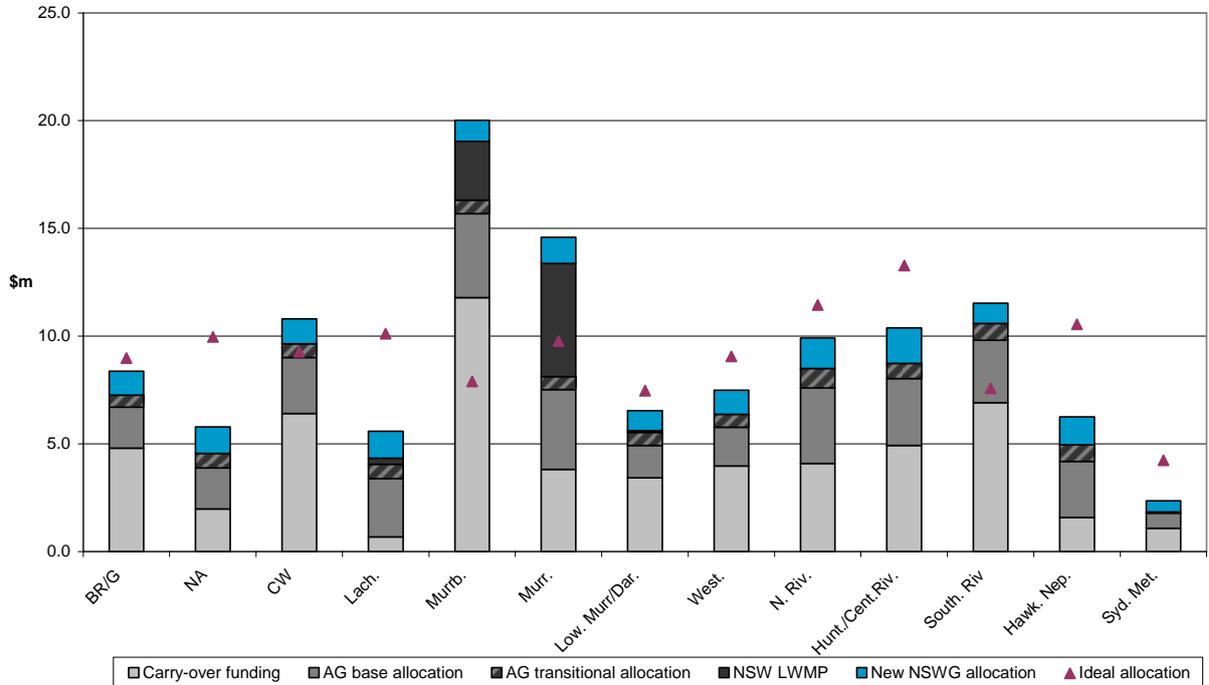
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<sup>20</sup> The NRC notes that CMAs were not fully operational at the beginning of the last NHT2/NAP funding cycle, and so were only able to spend a very small proportion of their allocated funding that year. However, for the purpose of this comparison, we are examining the budgeted allocations over the life of the program. We consider expenditure separately.

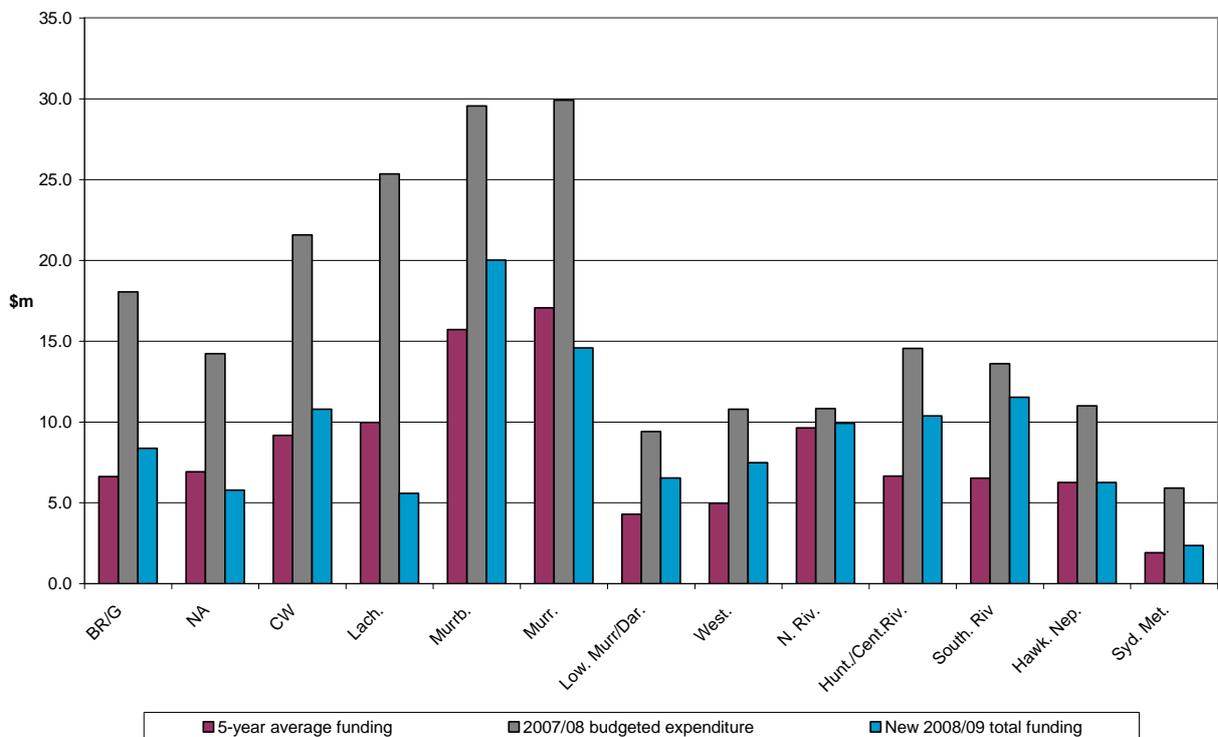
<sup>21</sup> Figures provided to the NRC by DECC.

**Option 1: Allocating new NSW funding independently**

**Figure 6: New NSW Government funding allocation for 2008/09 - Option 1**



**Figure 7: Comparison with previous years' funding and expenditure - Option 1**



### **3.1.3 Option 2: Using NSW funding to offset other sources of funding**

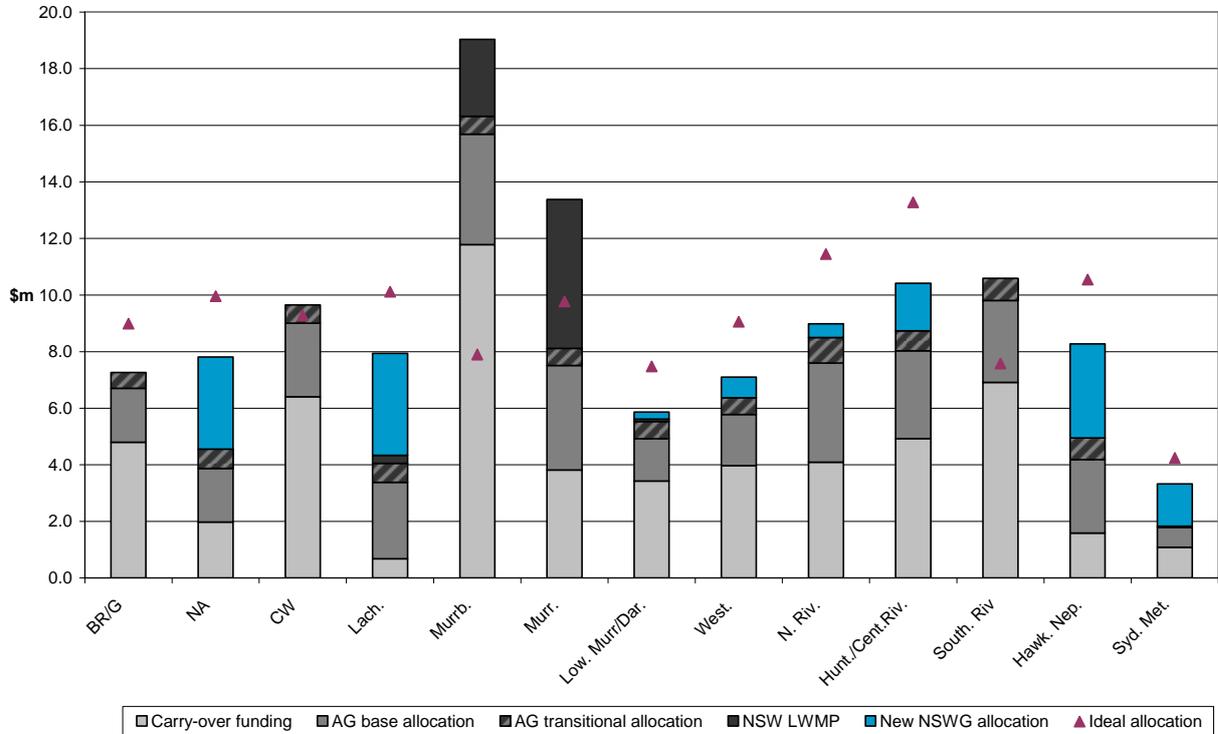
The NRC also assessed a second option, Option 2, which reflects an offsetting approach. Under Option 2 new NSW funding is distributed so as to achieve an overall funding profile that is as close as possible to the 'ideal allocation' described in section 3.1.1. Those CMAs that benefit extensively from carry-over funding, Australian Government funding and NSW LWMP funding receive little or no new NSW funding, while those CMAs that receive less of these alternative funding sources are compensated by the NSW Government. In other words, the NSW Government allocates new funding so as to offset the Australian Government's funding decision.

Although alternative funding sources were not allocated according to a consistent set of investment principles, all investment funding contributes to at least some NSW Government targets. All CMA funding is required to contribute to the NSW State Plan, although the NSW Government will have no influence over how other sources of funding are invested. Australian Government funding in 2008/09 is likely to be directed towards activities contained in CAPs and Investment Programs for 2008/09 which reflect NSW state priorities (as well as national priorities).

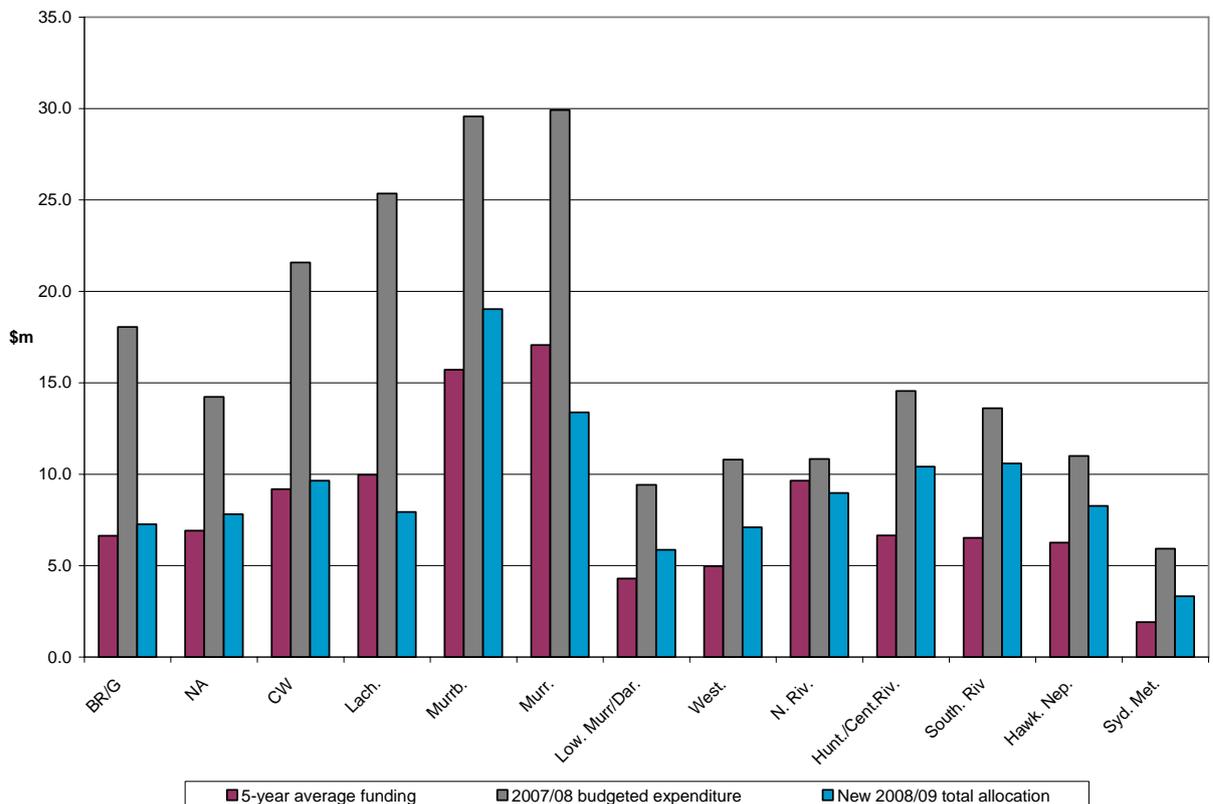
Option 2 results are summarised in Figure 8 and 9.

**Option 2: Using NSW funding to offset other sources of funding**

**Figure 8: NSW Government funding allocation for 2008/09 - Option 2**



**Figure 9: Comparison with previous years' funding and expenditure - Option 2**



## 3.2 Stage 5: Evaluating the results

Applying stage 5 of the process, the NRC evaluated the results from the allocation process described above to assess whether the outcomes for each option were reasonable.

### Option 1

The main benefit of Option 1 is that all CMAs would be guaranteed additional new funding from the NSW Government to invest in new programs during 2008/09. This would make it easier for all CMAs to manage an uncertain transitional year and hopefully maintain the support of their communities and momentum in implementing their region's CAP. Option 1 also minimises risk associated with uncertainties in the rapid assessment of priorities.

Option 1 also has several drawbacks. These include:

- this option does not achieve a funding profile that reflects the ideal, with a spread in the proportion of total funding to ideal funding of 56 per cent (that is, Sydney Metro CMA receives approximately 56 per cent of its 'ideal allocation') to 254 per cent (that is, Murrumbidgee CMA receives two and a half times its 'ideal allocation')
- some CMAs may be over-allocated while others may not receive sufficient funding to maximise the likelihood of improvements in natural resource condition in NSW
- this option has a large spread in the ratio of operating budget to investment funding, ranging from 1:5.6 (Murray CMA) to 1:1.2 (Sydney Metro CMA), which raises concerns about CMAs' ability to expend funds.

These drawbacks led the NRC to revisit stage 4 of the decision-making process and trial an alternative allocation, Option 2. It is important to note that the 6-step process does not lead to a single 'right' answer. Instead, there is an iterative loop between stages 4 and 5 that involves proposing and evaluating alternative allocations until the best possible solution is reached. Determining the most appropriate solution will necessarily involve some degree of judgement.

### Option 2

The main benefit of Option 2 is that all CMAs receive at least 76 per cent of their ideal funding allocation, and so this option better reflects the NSW Government's priorities.

A further benefit of Option 2 is that it minimises the spread of ratios of operating budget to investment funding, which range from 1:5.1 to 1:1.7. These ratios should be reasonably consistent across CMAs as they provide an indication of the capacity that CMAs have to spend funding effectively.

The main drawbacks of Option 2 are that:

- five CMAs receive no new NSW funding, which implies that the NSW Government will have no influence over the investment activities of five CMAs in 2008/09
- the option relies strongly on the assumption that activities undertaken in 2008/09 using other sources of funding will contribute to NSW priorities.

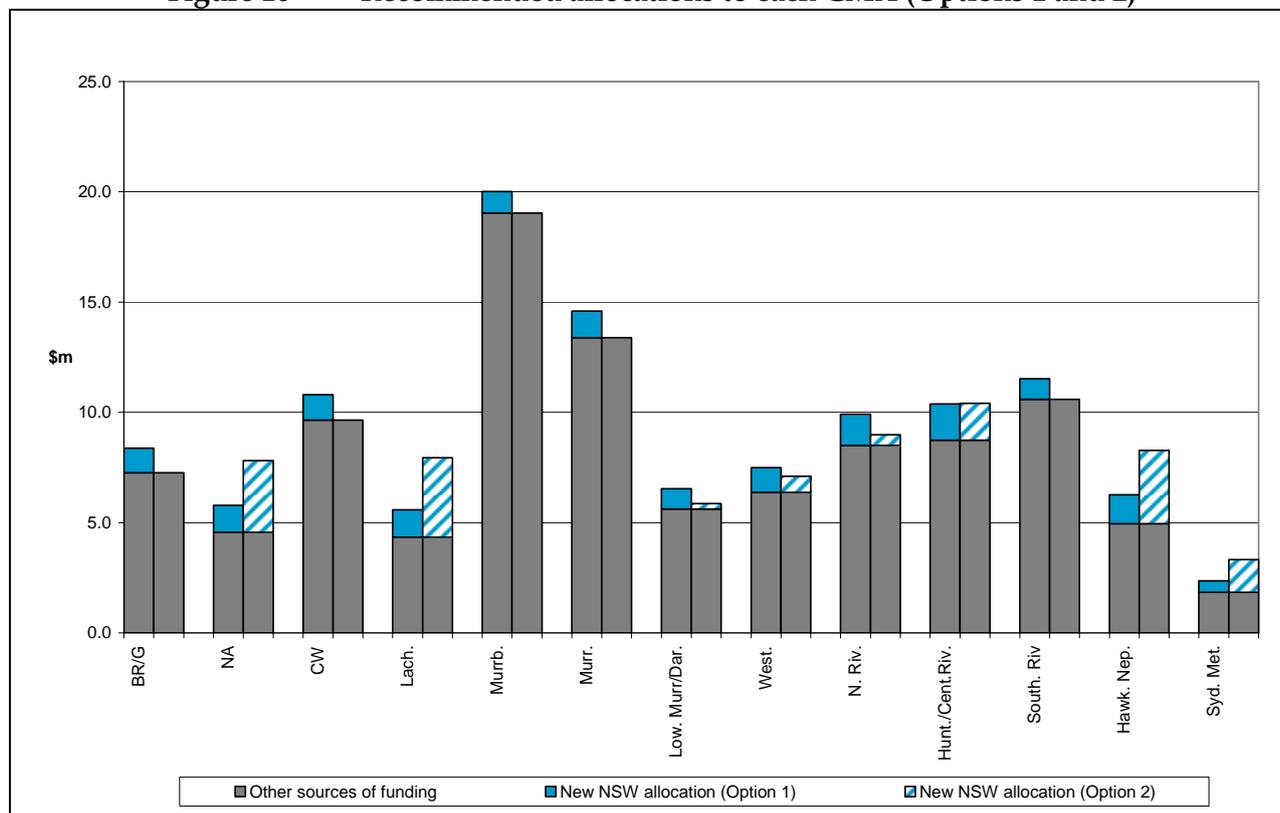
The specific allocations for each CMA under both options are specified in Table 4. Figure 10 compares the total funding outcomes for each CMA under the two options.

**Table 4 Recommended allocations to each CMA**

CMA	Other sources of funding <sup>1</sup> (\$m)	New NSW allocation (\$m)		Total allocation (\$m)	
		Option 1 <sup>2</sup> (Independent)	Option 2 (Offset)	Option 1 (Independent)	Option 2 (Offset)
Border Rivers-Gwydir	7.26	1.11	0	8.37	7.26
Namoi	4.56	1.23	3.26	5.79	7.81
Central West	9.65	1.15	0	10.80	9.65
Lachlan	4.33	1.25	3.61	5.59	7.94
Murrumbidgee	19.04	0.98	0	20.02	19.04
Murray	13.38	1.21	0	14.59	13.38
Lower Murray Darling	5.61	0.92	0.25	6.54	5.86
Western	6.37	1.12	0.73	7.49	7.10
Northern Rivers	8.50	1.42	0.48	9.92	8.98
Hunter Central Rivers	8.74	1.64	1.68	10.38	10.41
Southern Rivers	10.59	0.94	0	11.53	10.59
Hawkesbury Nepean	4.95	1.31	3.32	6.26	8.28
Sydney Metro	1.84	0.53	1.49	2.36	3.33
<b>Total</b>	<b>104.82</b>	<b>14.81</b>	<b>14.81</b>	<b>119.63</b>	<b>119.63</b>

1. These other sources of funding include the Australian Government allocation, Australian Government transitional allocation, carry-over funding and NSW LWMP funding
2. These numbers may differ slightly from actual allocations due to rounding errors.

**Figure 10 Recommended allocations to each CMA (Options 1 and 2)**



### 3.3 Stage 6: Deciding on an allocation for each CMA

Stage 6 of the recommended allocation process requires the NSW Government to decide on an allocation, taking into account the benefits and drawbacks of the identified options.

The extent to which Australian Government priorities coincide with NSW Government priorities is key in deciding which allocation option is appropriate. If the two governments' priorities overlap significantly, then all CMAs are guaranteed some funding for new activities that will contribute to NSW Government priorities.

The NRC considered that in 2008/09 funding should be allocated according to Option 1 if the other sources of funding are not used to invest in activities that contribute to NSW Government priorities. This option ensures that all CMAs will have access to a new source of funding that will allow them to undertake activities that can contribute directly to NSW Government priorities.

However, the NSW Government would be more likely to maximise its return on investment if it allocated its new funding so as to achieve an overall funding profile that reflects as closely as possible its investment principles. The NRC believes that Option 2, which offsets other sources of funding, is most likely to maximise return on investment across NSW and provide broadly the appropriate spread of funding across the 13 CMAs.

If the NSW Government is confident that all NSW priorities will be targeted through alternative sources of funding, the NRC recommended that in 2008/09 funding should be allocated so as to offset other sources of funding, as per Option 2 in this report.

#### ***Recommendation 1:***

*That the NSW Government allocates funding to CMAs for the 2008/09 transitional year to offset other sources of funding and so provide a better overall balance of funds. (Option 2 in this report). This allocation is conditional upon the NSW Government being satisfied that alternative sources of funding will allow CMAs to undertake new activities in 2008/09 that contribute to all state targets. If not, then Option 1 in this report should be adopted.<sup>22</sup>*

#### 3.3.1 Sydney Metro CMA funding

A drawback that was common to both allocation options is that Sydney Metro CMA does not yet have an approved CAP, and the NRC's allocation model included an assumed level of quality for an approved Sydney Metro CAP.

The criteria for assessing effectiveness in the 6-stage process are:

- CMA plans for investment, measured by the NRC's assessment of confidence that CMAs' CAP targets will promote achievement of the state-wide targets, and
- CMA progress, measured by assessment of progress against the NRC's recommended actions from CAP reviews (using strategic progress letters).

The NRC was unable to assess Sydney Metro CMA's effectiveness according to these criteria because it does not have an approved CAP. The NRC assumed that Sydney Metro CMA's rank

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<sup>22</sup> The NSW Government chose to adopt Option 1.

was equal to the lowest rank of the other CMAs. If this assumption is not correct, then Sydney Metro's 'ideal allocation', and its allocation under both options, is not accurate.

Perhaps more importantly, without a quality CAP in place there is no strategic plan that can provide the NSW Government with confidence that any funding allocated to Sydney Metro CMA will be invested in activities that will contribute to achieving the state-wide targets.

To mitigate this risk, the NRC recommended that the allocation for Sydney Metro CMA under both options should be conditional on the CMA having a CAP that is approved by the Minister. The NRC recommended approval of Sydney Metro CMA's draft CAP in June 2008. However, the CMA's funding should be reassessed if their CAP is not approved.

**Recommendation 2:**

*That the NSW Government make Sydney Metro CMA's funding conditional on the approval of a quality CAP in order to mitigate the risk that further funding is invested in activities that will not promote the state-wide targets.*

There are several other risks associated with each of the options that the NSW Government should have regard to when choosing and announcing allocations for each CMA. These are outlined in the sections below.

### **3.3.2 Risks associated with business continuity**

Under the recommended option (Option 2) seven CMAs will face a fall in funding between 2007/08 and 2008/09. These amount to reductions of between 1 per cent and 55 per cent. The NRC understands that CMAs were advised to budget on funding for 2008/09 approximately equal to their three-year average. However, for some CMAs, and particularly those that previously benefited from the priority on salinity, the drop-off in funding compared to the current financial year may place programs at risk.

The fall from 2008/09 to 2009/10 is likely to be even greater as NHT2 and NAP funding that was carried forward from 2007/08 runs out.

One way in which any risk of under-funding may be reduced is through the contestable component of the *Caring for our Country* program. The NSW Government may wish to consider identifying those CMAs that are most likely to win additional funding and use these results in making its funding allocation decision.

### **3.3.3 Risks associated with uncertainty in the funding allocation model**

A risk relevant to both options is that the modelled 'ideal allocation' profile may not be as accurate as we would like due to data and time constraints. The potential risks with this are:

- some CMAs would receive too much funding and others too little compared to the NSW Government's investment priorities
- some CMAs may not agree with their allocation.

We have necessarily had to rely on a rapid assessment which does not reflect the best available information. The NRC does not consider this to be a major risk for the 2008/09 year. New NSW Government funding for 2008/09 only makes up twelve per cent of the total funding pool. Therefore any uncertainties in the data used to undertake the rapid assessment will not have a

significant impact on most CMA's total funding for the upcoming year, particularly under Option 1.

However, consistent with Recommendation 2 in our earlier report,<sup>23</sup> the NRC recommends that the initial assessments of priorities for investment should be checked and refined before they are used for any future funding decisions.

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<sup>23</sup> As per footnote 2.

## Attachment 1: Terms of Reference

# Terms of Reference: 2008-09 Funding Allocations to Catchment Management Authorities

The Commonwealth Government has announced its new investment program for natural resource management, 'Caring for our Country'. The program includes arrangements for a transitional year in 2008-09, including specified Commonwealth allocations to NSW's 13 Catchment Management Authorities (CMAs).

The NSW Government seeks advice on how available State and Commonwealth government funding would be optimally allocated to the CMAs in 2008-09, to maximise the likelihood of improvements in natural resource condition across NSW.

The Commission will:

- recommend a preferred funding profile for the CMAs for 2008-09;
- advise on any adjustments to the Commonwealth's proposed 2008-09 allocations to the CMAs that NSW should pursue in negotiations; and
- advise on any significant risks to natural resource management outcomes and CMA viability as a result of the proposed 2008-09 funding allocations.

The Commission should consider at least:

- the proposed Commonwealth funding to CMAs for 2008-09
- the carry-over funding from the National Action Plan for Salinity and Water Quality and Natural Heritage Trust Extension programs
- new NSW funding
- risks and impacts of the preferred funding profile, and ways to manage those risks.

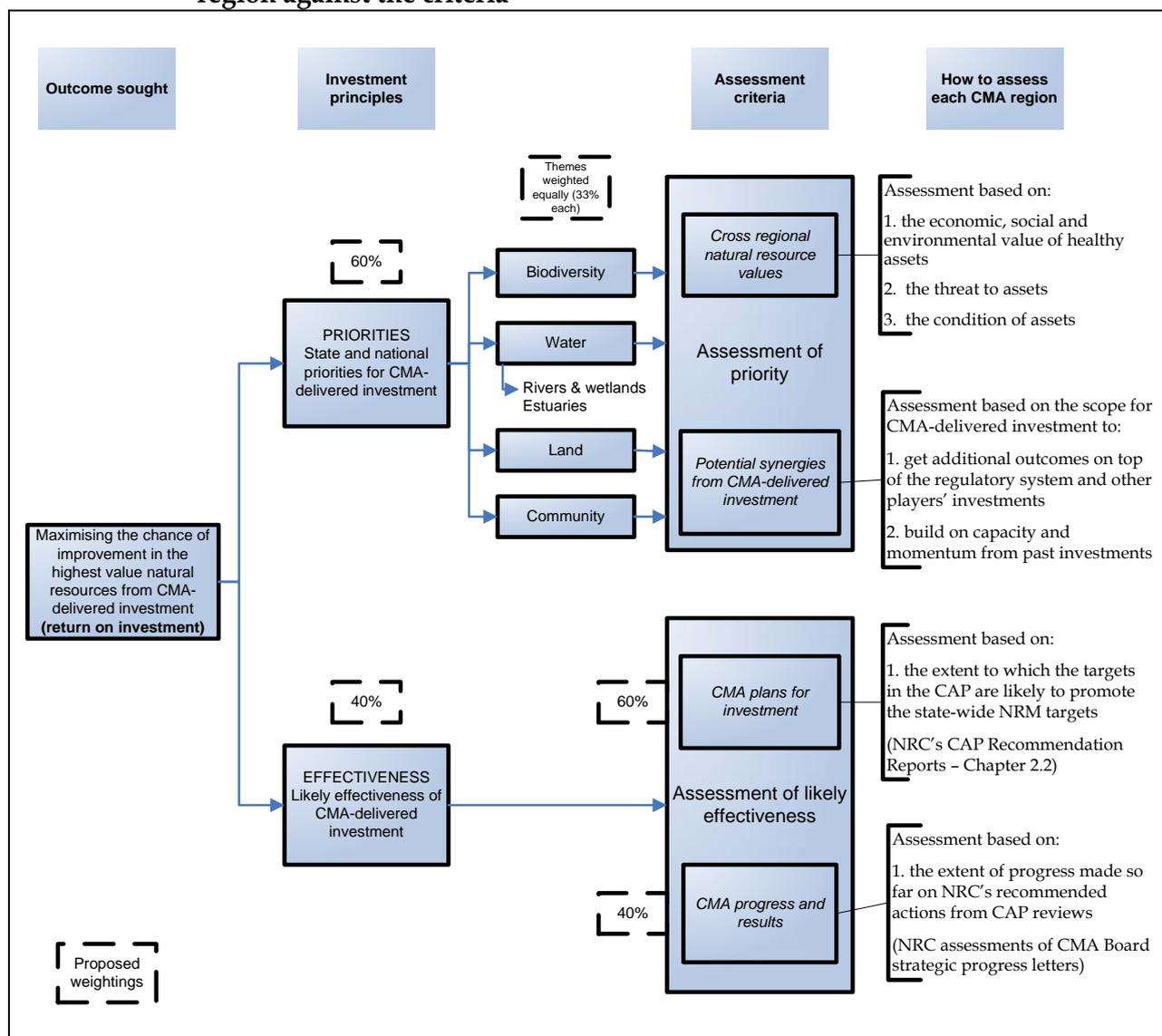
In undertaking this task the Commission is to consult with the Department of Environment and Climate Change, NSW Treasury and the Department of Premier and Cabinet.

The Commission is to provide a draft report no later than 28 March 2008.

## Attachment 2: Analytical framework for allocating NRM funding

These figures are from the NRC's report *Allocating NRM funding between NSW Catchment Management Authorities*.

**Figure A2.1 Analytical framework including weights and method of assessing each CMA region against the criteria**



**Figure A2.2** Priorities assessment process

