AUSTRALIAN LOCAL
GOVERNMENT ASSOCIATION

The Hon. Greg Combet AM, MP
Minister for Climate Change and Energy Efficiency
PO Box 6022
House of Representatives
CANBERRA ACT 2600

22 August 2011

Dear Minister

The Australian Local Government Association (ALGA) welcomes the opportunity to comment on the important issue of a carbon price mechanism. This submission is divided into two parts, firstly, examining the overall economic impact of the proposed carbon pricing mechanism on local government and secondly, highlighting the technical weaknesses of the legislation as it refers to landfill emissions.

Local Government has played and wishes to continue to play a constructive role in Australia's national effort to reduce greenhouse gas emissions. Over many years local governments have led their communities in a range of programs such as Cities for Climate Protection, water recycling programs and carbon capture and flaring and/or cogeneration of electricity from methane gas on landfills.

ALGA is committed to work with the Government to reduce the sector's greenhouse gas emissions which includes support for a market-based price on carbon. While supporting a price on carbon, care needs to be taken to ensure that the mechanism can actually achieve emissions reduction.

The real costs on local government

The Government's legislative package recognises that some covered sectors require assistance to make the transition to a clean energy future and abate their emissions. As currently drafted, the legislation imposes costs on local government. To accelerate abatement activities, which will achieve environmental benefits and reduce pressure on ratepayers, assistance under the Clean Energy Future package will be required, particularly for landfill reform.

ALGA draws the Government's attention to the incremental and disproportionate impact of this legislation on local government costs which ultimately will be paid by rate payers through higher rates with potentially no environmental benefits. Of the 500 identified major polluters, 191 are landfill entities, and those landfills constitute only 3% of Australia's carbon inventory. Many of those landfill managers are local government authorities.

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In addition to the liabilities arising from waste, there will be an impact on councils from the increase in electricity prices that comes from local government managing 70% of the nation's streetlights and considerable additional costs related to infrastructure construction and maintenance. From ALGA's perspective, the financial impact on specific councils, let alone the sector as a whole, will be significant and in the context of local government's 'national economic footprint', seems disproportionate.

Local Government is not a commercial entity, competing in the market place to maximise production and profits and minimise costs. Local Government is a sphere of government, whose primary aim is to cater for the needs of its community. It is not a profit making concern, in fact quite the opposite; it relies heavily on grants and loans to supplement rate income, which in some cases is "pegged", limiting or capping annual increases.

If Local Government owns or operates a landfill or sewage treatment plant, or provides street-lighting, this is not a corporate venture for profit or return to shareholders. The imposition of a carbon tax on facilities operated by local government therefore effectively becomes one sphere of Government raising tax from another sphere of Government. This is, by necessity, passed on to ratepayers. The Government has made much mention of its disbursement of carbon tax income to the community through tax benefits, especially to low income earners. What has not been factored into the equation or Government pronouncements is the significant cost impact on councils which must of necessity be passed on to those community beneficiaries of carbon tax benefits. In colloquial terms, the money they receive in one hand through tax concession will simply pass out of their other hand to pay the additional rates which must be imposed by councils to meet their carbon tax responsibilities.

ALGA has been assured that Treasury modelling has assessed the economy wide impacts of a carbon price in determining the income compensation for households. The CPI increase attributable to a carbon price is estimated to be 0.7%. Given local government expenditure, estimated to be of $28 billion per annum, the impacts attributable to a price on carbon (excluding costs associated with emissions from landfills) may well be around $200m.

While Local Government Financial Assistance Grants (FAGs) are adjusted annually (at the discretion of the Treasurer (in arrears)) by CPI and population, FAGS comprises only $2.1 billion of total local government revenue. Based on the standard adjustment it is expected that FAGs would therefore include an increase of just under $15 million in 2012/13 to compensate for the CPI impact of the carbon price. This leaves local government with a likely revenue gap of an estimated $185 million at a minimum.

ALGA is aware that Treasury modelling has included slight rates increases. While the Commonwealth compensation might be uniform when based on income, the real-world impacts will not be. The financial impacts on local governments and their constituents will vary widely.

Infrastructure and street lighting costs

Local government spends is in excess of $5 billion per annum on local roads and community infrastructure. Given the CPI impact which is attributable to a carbon price, it is estimated that the additional costs to local government nationally will be at least $35m in 2012/13.

The exposure of local governments to the increase costs associated with the carbon tax also stems from other direct sources such as electricity prices and fuel in 2013/14. Not only will these costs have a direct impact on council costs, they will be reflected in other inputs that council use in the maintenance and construction of local roads and community infrastructure and other services. Where costs cannot be abated, or there is a need for significant up-front investment to abate, councils will need to pass these costs on to ratepayers. For example, currently, almost 50% of council electricity costs are incurred from the provision of street lighting. Nationally this is estimated at a cost to local government of around $175 million. From Treasury modelling papers, electricity prices, attributable to the carbon price, are anticipated to increase by 10% in 2012/ 13 and a further 0.9% in 2013/14. As such it is expected that the additional local government electricity costs for the provision of street lighting could be up to $17.5 million and the total costs of electricity for local government up by around $29 million. This is a direct cost which, without significant ability to abate, will be passed directly onto ratepayers with no environment benefit.

There are costs that can be abated if low carbon lighting technologies are employed but generally these can only be implemented by relevant electricity distributors, who are responsible for the provision and maintenance of the street lighting infrastructure. Unfortunately, the maintenance and replacement costs of street lighting infrastructure is passed directly onto councils and these costs are considerable. It is estimated that full replacement of street lighting infrastructure could be in excess of $1 billion.

ALGA acknowledges that there is potential for some councils to finance this replacement and pay for the costs from savings, however, many councils are not in a position to borrow additional funds required for the replacement or cannot derive sufficient savings to make this strategy viable. Much more work is needed to understand the full cost and benefits of street light replacement programs and the investment models required to accelerate this in order to achieve reduce emissions.

ALGA recognises the increase in funding under the Clean Energy Future Package for the Low Carbon Communities program which will be available to councils for investment in transitioning to sustainable street lighting. Unfortunately the return on investment for this investment varies significantly between States. Electricity Utility Tariffs have been identified as one of the biggest barriers. ALGA believes that transitioning to sustainable street lighting offers one of the best abatement investments available to Government and encourages the Commonwealth to consider a far more substantial financial investment in this area.

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Abatement as an alternative

Local government recognises that there are opportunities to abate greenhouse gas emissions but many of the opportunities will require considerable investment and the return on investment will vary across the States. Some examples that have been presented to ALGA suggest that the cost of the carbon price to councils will be much greater than the installation of systems for abatement, especially in landfills, but the lack of resources available to councils will make it impossible for councils to make the investments in abatement <u>and</u> pay the carbon price liabilities.

ALGA is aware of cases where reductions in annual carbon emissions of up to 50% in the first year are possible through abatement at a cost of less than the carbon price liability but the current scheme offers no incentive for local government to pursue this alternative, which is cheaper and provides greater environmental benefits. ALGA would urge the Government to reconsider the interaction between the carbon price and abatement mechanisms with the aim of removing barriers to emissions reduction.

In summary, while ALGA supports the introduction of a carbon price mechanism to reduce emissions, that mechanism must be designed to maximise reductions and be supported by complementary initiatives such as carbon farming and abatement. ALGA's submission on the proposed legislation (attached) highlights our continuing concerns about some aspects of the scheme's design and we look forward to your consideration of these matters.

Yours sincerely

Adrian Beresford-Wylie
Chief Executive

The Australian Local Government Association's submission on the Carbon Pricing Legislation Package – Landfill coverage

The Australian Local Government Association (ALGA) welcomes the opportunity to comment on the important issue of a carbon price mechanism.

ALGA is the peak national body representing the interests of more than 560 local government authorities across the country. ALGA has been active in the climate change policy discussion over several years and supports the need to reduce greenhouse gas emissions including the introduction of price on carbon through a market-based mechanism.

ALGA made a submission to the Government on the carbon price mechanism in May 2011. That submission highlighted several concerns for local government in relation to the technical and practical application of a carbon price.

With the release on 28 July 2011 of the exposure drafts of the 13 Bills relating to the carbon pricing system, ALGA, working with its state and territory local government association members, has examined the Bills to see which of the issues that were highlighted in ALGA's original submission of May 2011 have been taken into account. This Submission reflects that work.

The National Greenhouse and Energy Reporting System (NGERS)

Under the proposed Clean Energy Future package and the associated carbon price, local councils would be required to register their emissions under the NGERS. While some councils have previously voluntarily reported emissions under the NGERS, most local government bodies have had no interaction with the system since it was established in 2007 since local government was explicitly excluded from the need to report. As a result of this, the education and training that the Department of Climate Change has earlier offered to organisations about NGERs has not generally been utilized by councils.

Concerns have been raised across the local government sector about the process of registration and reporting, relating especially to the definition of 'facility' and 'corporation' under the *National Greenhouse and Energy Reporting Act* 2007. ALGA believes that local government will need considerable support in the lead up to the commencement of the carbon price system, if councils are to meet their compliance obligations. The registration and reporting requirements will need to be clear and unambiguous in any regulations and the Commonwealth will need to provide resources to educate local government staff on the NGERS process.

Waste Management and Landfills

Differing thresholds

ALGA is concerned about the two separate emission thresholds that apply to landfills under the proposed scheme. ALGA believes that the waste sector has been singled out for special treatment under the proposed scheme, unlike other areas or industries.

The 25,000 tonne CO2e emissions threshold applies to landfills, along with every sector in the economy, but a second 10,000 tonne emissions threshold also applies to waste, albeit in specific circumstances (yet to be defined). This remains a special and far more harsh arrangement for landfills which will cause significant cost for councils.

ALGA understands that the motive behind covering lower emission landfills is a pre-emptive move to avoid the possibility of waste diversion from larger landfills by authorities seeking to avoid their liabilities. While such diversion is a theoretical possibility, industry advice on this matter is that in practice contract and license arrangements will more likely than not prevent this from occurring.

These unique and harsh arrangements will impact primarily on local government bodies which own and operate many smaller landfills but which may have little or no capacity to set up compliance mechanisms and which will experience disproportionately high compliance costs. These increased costs will be in addition to the expected general increase in expenses from the carbon pricing mechanism.

Non-legacy waste in the carbon price mechanism

ALGA remains supportive of a market-based mechanism to establish a price on carbon at the lowest cost to the economy. ALGA welcomed the Government's decision not to include legacy waste in the scheme. However, the mechanism this legislation package would create still includes non-legacy waste as a covered sector which means that the carbon price will put a cost on emissions from landfills.

ALGA argued throughout the development of the Carbon Pollution Reductions Scheme (CPRS) that measurement of waste emissions from landfill is problematic. The key issue is that currently there are no cost effective and reliable methods to accurately measure the emissions from waste. Current methodologies rely on estimates, which are unreliable and therefore unsuitable as the basis for applying a carbon price. ALGA believes that applying a price to unreliable estimates of emissions for landfills does not satisfy the principles of sound public policy making or taxation policy. It would be inequitable as well as inconsistent to include landfill emissions based upon such a determination.

Emissions that cannot be affected by a carbon price

It is also important to consider the nature of the production of greenhouse gases from landfill. Unlike many industrial polluters, where a price impact could reduce emissions quickly, methane and carbon dioxide emissions from waste will continue to be produced for a period of more than a decade, regardless of any carbon price placed on them. Therefore local councils which operate landfills will be required to pay for emissions activity which is beyond their control.

The questionable environmental benefits of putting a price on landfill emissions

Putting a price on landfill emissions will not necessarily reduce greenhouse gas emissions. Councils do not charge residents for the volume of household waste produced and are therefore not in a position to send a direct price signal to rate payers to ensure that residents reduce the amount of household municipal waste they produce. If residents continue to produce waste at current levels, emissions will continue at current levels and councils will be required to pay the carbon price on these emissions. As such, there would be no environmental benefit of this initiative but it will cost councils a significant amount of money. This is especially relevant in jurisdictions that are subject to increasing levels of regulated environmental performance for landfill and landfill gas management.

Policy Alternatives

Given the above issues and their implications for the implementation of an effective carbon pricing regime, ALGA believes that it is important to consider some alternatives that would more equitably address the concerns of local government as well as create opportunities for demonstrable positive environmental outcomes.

Using the Carbon Farming Initiative to cover non-legacy waste

The Government has been working on a Carbon Farming Initiative (CFI) that would enable councils to mitigate emissions from landfills as well as generate carbon offsets for the voluntary carbon market. This initiative would provide incentives for councils to mitigate carbon emissions. While there are still measurement issues to be resolved in this approach, ALGA would argue that it is a better option for dealing with emissions from landfills. The CFI would allow councils to create offsets immediately, rather than seeing councils bear the costs of emissions from landfills that would not reduce for years, regardless of any carbon-pricing behaviour change.

Under the Commonwealth's previous carbon offset program, 'Greenhouse Friendly' many local councils put in place costly infrastructure to create offsets under that program. However, when 'Greenhouse Friendly' was terminated, somewhat unexpectedly, in June 2009, many offset projects were left out of pocket, unable to recoup their investment costs.

The CFI legislation contains a provision to review the program after five years. However, ALGA believes that this provisions creates a degree of uncertainly about the duration of the program which, given the history of the 'Greenhouse Friendly' program, the cost of installation/re-installation of offset production infrastructure and certainty of both positive environmental impacts and returns on investment, is likely to have a substantial impact on the take-up of what could be a very beneficial program.

Conclusion

ALGA remains supportive of the Carbon Price mechanism but there are many important issues from ALGA's previous submission on the mechanism design, which have not been resolved and which need to be addressed:

1. Local government has had little exposure to the NGERS process and will require support from the Commonwealth to ensure proper compliance under the Act

2. There are presently no accurate estimation methods to produce a measurement of gas emissions from landfill.

3. Unlike industries that can reduce emissions because of a price impact, the gases from landfill will continue to be produced for many years regardless of the price impact, with the financial effects being felt no matter what the environmental results are.

4. The actual environmental benefit of including non-legacy waste is highly questionable as councils cannot create a quantity-based price signal to rate-payers. There is, therefore, no direct correlation between a carbon price and reduced waste creation.

5. Given the poor correlation between the carbon price impact and proposed reduction of greenhouse gas emissions, ALGA generally supports the use of the Carbon Farming Initiative as an alternative to the carbon price. This approach provides direct incentives to landfill operators to mitigate the production of greenhouse gasses.