



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.

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.

### *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 and 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

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Chief Executive