



Independent Pricing and Regulatory Tribunal

# Effects of the carbon price on local councils

**Local Government — Information Paper**  
December 2011





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## 1 Executive Summary

The Federal Government is establishing a carbon price mechanism to reduce the amount of carbon dioxide that Australia emits into the atmosphere. This carbon price mechanism will commence on 1 July 2012. From 1 July 2015, the carbon pricing mechanism will transition to a 'cap and trade' emissions trading scheme.

The introduction of a carbon price of \$23 per tonne of carbon dioxide equivalent (CO<sub>2</sub>-e) emissions will affect local governments in New South Wales directly through increased electricity, waste management and fuel costs, and indirectly through increased costs of other raw materials (such as steel, bitumen, concrete and timber) and services.

This information paper outlines how the introduction of a carbon price mechanism could affect local governments and what IPART has done to address some of these effects in determining the rate peg for 2012/13.

Councils have indicated to us that they expect to respond to the introduction of the carbon price in a variety of ways, including:

- ▼ offsetting their carbon price liability by creating credits through the capture of emissions from landfill
- ▼ raising their waste management charges to reflect the higher cost of landfill and related operations
- ▼ increasing energy efficiency and investing in renewable energy sources, possibly with assistance from the Federal Government
- ▼ increasing user pays charges for other selected services
- ▼ absorbing higher costs through operational savings and service reviews
- ▼ increasing their revenue from ratepayers.

The first 2 actions respond to the fact that many councils provide landfill services to their communities for which they levy their own charges. The remaining strategies reflect the fact that councils may be able to reduce their use of carbon-price affected goods and services (specifically electricity), or make cost savings in other areas, or increase their income from rates and charges.

Councils' ability to increase their rates revenue is limited by the rate peg and the special variation process.

Last year the 2011/12 rate peg was based on the rise in the Local Government Cost Index (LGCI) less a productivity factor. While the introduction of the carbon price will, in time, be reflected in the LGCI, the effect will not be recorded until after the 2012/13 rate peg has been determined. This is because, in setting the 2012/13 rate peg, we use the rise in the LGCI up to the September quarter 2011.

We have decided to make a specific carbon price related advance of 0.4% to the 2012/13 rate peg that will increase councils' general income and assist in meeting the extra costs they will face from the introduction of the carbon price.

When the effects of the carbon price are measured in the LGCI, we will reverse the up-front advance. We will do this over 2 years by removing 0.1% from the 2013/14 rate peg and 0.3% from the 2014/15 rate peg.

The remainder of this paper outlines:

- ▼ the carbon price mechanism
- ▼ the projected impact of the carbon price on councils
- ▼ the carbon price advance in the 2012/13 rate peg
- ▼ programs for offsetting the impact of the carbon price.

## 2 The carbon pricing mechanism

The Federal Government's carbon pricing mechanism is a cap-and-trade scheme that will apply to approximately 500 of the largest polluters.

Under the cap-and-trade scheme liable businesses will need to buy a permit for every tonne of carbon pollution that they produce. At the end of each year these businesses will need to surrender their permits to the Government.

The price that these businesses have to pay for each tonne of CO<sub>2</sub>-e emitted will be \$23 from 1 July 2012. It will then increase by 2.5% in real terms for the next 2 years (estimated to be \$24.15 per tonne CO<sub>2</sub>-e in 2013/14 and \$25.40 per tonne CO<sub>2</sub>-e in 2014/15). The price will move to a flexible, market-driven price on 1 July 2015.<sup>1</sup>

In the fixed price period, as many carbon permits as businesses require to meet their obligations will be available at the set price. In the flexible price period, the number of permits issued by the Government each year will be limited by a cap on annual carbon pollution. The price will then be determined by the market. Businesses will compete to buy the number of permits they need to meet their obligations.<sup>2</sup>

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<sup>1</sup> Australian Government, *Securing a clean energy future*, July 2011, pp 25-26.

<sup>2</sup> Australian Government, *Securing a clean energy future*, July 2011, p 26.

While costs will rise for some products and services, households, smaller businesses and farmers will have no direct obligations under the carbon price mechanism. The carbon price will not apply to agricultural emissions or emissions from light on-road vehicles.<sup>3</sup>

The Federal Government's *Clean Energy Future* plan aims to cut pollution by 2020 by at least 5% compared with 2000. This will require cutting net expected pollution by at least 23% by 2020. The Government's long term target is to cut pollution by 80% below 2000 levels by 2050.<sup>4</sup>

## 2.1 Coverage of the carbon price mechanism

Around 60% of Australia's carbon pollution will be covered by the carbon price, including pollution from energy generation, waste, rail, domestic aviation and shipping, industrial processes and fugitive emissions.<sup>5</sup> The Federal Government also intends to expand the coverage of the carbon price to include heavy on-road vehicles from 1 July 2014.<sup>6</sup>

The Federal Government estimates that 500 companies and organisations, including some councils, will be required to pay for their carbon pollution under the carbon pricing mechanism. The 500 that will pay the carbon price include:

- ▼ Those operating facilities that have direct greenhouse gas emissions of 25,000 tonnes of CO<sub>2</sub>-e a year or more (excluding emissions from transport fuels and some synthetic greenhouse gases). This includes councils which operate large landfills.
- ▼ Retailers of natural gas.

Of the 500 businesses:

- ▼ around 60 are primarily involved in electricity generation
- ▼ around 100 are primarily involved in coal or other mining
- ▼ around 40 are natural gas retailers
- ▼ around 60 are primarily involved in industrial processes (cement, chemical and metal processing)
- ▼ around 50 operate in a range of other fossil fuel intensive sectors.

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<sup>3</sup> Australian Government, *Securing a clean energy future*, July 2011, p 21.

<sup>4</sup> Australian Government, *Securing a clean energy future – The Australian Government's Climate Change Plan in Summary*, July 2011, p 3.

<sup>5</sup> Local Government and Shires Association, *Clean Energy Future Package*, Accessed 2 September 2011.  
<http://www.lgsa-plus.net.au/www/html/2222-news-items.asp>.

<sup>6</sup> Australian Government, *Clean Energy Future – Transport Fuels: Fact Sheet*, 2011.

The remaining 190 operate in the waste disposal sector. This figure will now be lower as it includes landfills with emissions of over 10,000 and below 25,000 tonnes CO<sub>2</sub>-e a year which were originally intended to be covered by the carbon pricing mechanism.<sup>7</sup>

### **3 Effects of the carbon price at the local council level**

In this section we consider how the carbon price will affect local councils as producers and consumers. We base our analysis on what councils have told us and estimates by Commonwealth Treasury.

#### **3.1 Councils as producers and consumers**

The carbon price will impact councils as producers of emissions and as consumers of goods and services:

- ▼ As producers of emissions exceeding 25,000 tonnes of CO<sub>2</sub>-e per annum:
  - through the operation of landfills.
- ▼ As consumers of inputs:
  - through electricity consumption (for example for street lighting, council buildings, water and sewerage operations and swimming pools).

We estimate that the rise in electricity prices will account for around half the impact of the carbon price on council costs (excluding waste management costs). The other council costs most affected are likely to be those related to construction (steel, bitumen, concrete and timber).

The effect of the carbon price on costs will differ between councils because their waste management practices and input cost structures vary significantly.

#### **3.2 Council assessments on the expected impact of the carbon price**

In October we asked councils if they had undertaken analysis of the projected impact of the carbon price on council expenses both directly and indirectly, as well as potential ways these impacts might be offset. We thank the councils for their input and their assistance more generally during the course of this project.

Although more than 20 councils responded, they found it difficult to quantify the likely impacts for the carbon price. In general, they indicated that the main impacts would be from increased costs for electricity, fuel and waste management.

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<sup>7</sup> Australian Government, *Clean Energy Future – 500 Biggest Polluting Companies: Fact Sheet*, 2011.

### 3.2.1 Waste

Landfills with emissions that exceed 25,000 tonnes of CO<sub>2</sub>-e per annum will be required to pay the carbon price. It will not apply to waste deposited at landfills before July 2012 (legacy waste). However, emissions from this waste will be counted towards the threshold.

The Government's original intention was to cover smaller landfill facilities with emissions of 10,000 tonnes of CO<sub>2</sub>-e per annum within a prescribed distance of large landfill facilities.<sup>8</sup> The legislation was amended to exempt landfill facilities with emissions lower than 25,000 tonnes CO<sub>2</sub>-e per annum for at least 3 years. The Climate Change Authority will review arrangements for these smaller landfills (ie between 10,000 and 25,000 tonnes) no later than 2015/16.<sup>9</sup>

The Australian Landfill Owners Corporation estimates that the carbon price per tonne of waste will be \$35.70, which may broadly indicate the likely size of any maximum increase in waste charges facing residents.<sup>10</sup>

In NSW councils recover their waste management costs by levying their own charges on a cost-recovery basis. We propose that this arrangement remain in place.

### 3.2.2 Other costs

Among non-waste costs, street lighting was raised as a particular concern because councils felt that they were not in the best position to improve the energy efficiency of their public lighting as they do not have direct control over the replacement and maintenance of these assets. Councils also expected secondary supply chain costs for building and construction materials such as steel, bitumen and concrete.

### 3.2.3 Councils' likely responses

To meet the impending cost increases, councils indicated to us that they were likely to respond in several ways, including:

- ▼ seeking to offset their carbon price liability by creating credits through the capture of emissions from landfill, reducing waste to landfill, or using landfill gas to create electricity generating renewable energy certificates
- ▼ raising waste management charges to reflect the higher cost of landfill and related operations

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<sup>8</sup> The Australian Local Government Association submission on the Carbon Pricing Legislation Package - Landfill coverage, 22 August 2011.

<sup>9</sup> Australian Government, *Clean Energy Future - Emissions from landfill facilities: Fact Sheet*, 2011.

<sup>10</sup> Australian Landfill Owners Corporation, *The Carbon Tax and Local Government*, 20 July 2011. On average, it is estimated households will pay an extra \$34.76 per annum for waste management.

- ▼ undertaking to increase energy efficiency and invest in renewable energy sources, possibly with assistance from the Federal Government (this could include energy demand management programs, retrofitting council facilities and lighting, and improved monitoring and reporting of energy consumption)
- ▼ increasing user pays charges for services
- ▼ seeking to absorb the increased costs through operational savings and service reviews
- ▼ increasing rates.

### 3.3 Impact of carbon price on the CPI

The Commonwealth Treasury has made public its estimates that carbon pricing will raise the CPI by 0.7% in 2012/13. A second CPI increase of 0.2% is expected in 2015/16 as the carbon price moves to the world carbon price of \$29/t CO<sub>2</sub>-e, for a total of 0.9% by 2015/16. Beyond 2015/16 there would be minimal implications for ongoing inflation.<sup>11</sup>

#### 3.3.1 Electricity

The Commonwealth Treasury expects the carbon price to lead to an average rise in household electricity prices of 10% in 2012/13. Average weekly expenditure on electricity is estimated to increase by \$3.30 in 2012/13.<sup>12</sup>

In addition, the Federal Government will negotiate the closure of around 2,000 megawatts of high polluting electricity generating capacity across Australia by 2020. An Energy Security Fund will provide an estimated \$5.5 billion to assist generators.<sup>13</sup>

#### 3.3.2 Fuel

The current fuel tax regime provides fuel tax credits that remove or reduce the incidence of fuel tax for some fuel uses. The fuel tax primarily falls on non-business consumers and light commercial vehicles.

By reducing existing fuel tax credits by an amount approximately equal to the carbon price, the Government will impose an effective carbon price on businesses liquid and gaseous fuel emissions through the existing fuel tax regime.

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<sup>11</sup> Commonwealth Treasury, *Strong growth, low pollution – Modelling a carbon price, Overview*, July 2011, p 8.

<sup>12</sup> Commonwealth Treasury, *Strong Growth, Low Pollution Modelling a Carbon Price, Overview*, July 2011, p 8.

<sup>13</sup> Australian Government, *Securing a clean energy future*, July 2011, p 71.

The equivalent of the carbon price will be applied to these fuels acquired after 1 July 2012 by reductions in fuel tax credits approximately equal to the fixed carbon price from 2012/13 to 2014/15. Table 3.1 shows the tax credit reductions by fuel type.<sup>14</sup>

When Australia moves to an emissions trading scheme in 2015/16, the fuel tax credit changes will be determined on a 6-monthly basis, based on the average carbon price over the previous 6-months.<sup>15</sup>

**Table 3.1 Fuel tax credit reductions, cents per litre**

<b>Fuel</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
Petrol	5.520	5.796	6.096
Diesel and other liquid fuels	6.210	6.521	6.858
LPG <sup>a</sup>	3.680	3.864	4.064
LNG <sup>b</sup> and CNG <sup>c</sup> (cents per kilogram)	6.670	7.004	7.366

<sup>a</sup> Liquefied Petroleum Gas.

<sup>b</sup> Liquefied Natural Gas.

<sup>c</sup> Compressed Natural Gas.

**Source:** Australian Government, *Clean Energy Future - Transport Fuels, Fact Sheet, 2011*, p 2.

Light commercial vehicles (4.5 tonnes or less, gross vehicle mass) and households currently pay the full rate of excise and will not pay a carbon price on fuel. The Government intends to apply a carbon price to heavy on-road transport from 1 July 2014.<sup>16</sup>

<sup>14</sup> Australian Government, *Clean Energy Future - Transport Fuels: Fact Sheet, 2011*.

<sup>15</sup> Australian Government, *Clean Energy Future - Transport Fuels: Fact Sheet, 2011*.

<sup>16</sup> Australian Government, *Securing a clean energy future*, July 2011, p 27.

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### **Box 3.1 Treatment of Transport Fuels**

A carbon price will be applied to:

- ▼ domestic aviation
- ▼ domestic shipping
- ▼ rail transport
- ▼ off-road transport use of liquid and gaseous fuels
- ▼ non-transport use of liquid and gaseous fuels.

A carbon price will not apply to:

- ▼ fuel used by households for transport
- ▼ light on-road commercial vehicles
- ▼ off-road fuel use by the agriculture, forestry and fishing industries
- ▼ gaseous fuels used for on-road transport
- ▼ ethanol, biodiesel and renewable diesel
- ▼ transport fuels when used as lubricants and solvents.

**Source:** Australian Government, *Securing a clean energy future*, p 29.

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We use the likely effects of the carbon price on electricity, fuel and other CPI-related items and other costs in the LGCI in the next section when we estimate the effect of the carbon price on local government input costs (other than waste management costs).

## **4 Adding a carbon price advance to the 2012/13 rate peg**

We have decided to set the carbon price advance in the rate peg for 2012/13 at 0.4%. The following section explains how we have determined this figure.

### **4.1 Rationale for a carbon price advance to the 2012/13 rate peg**

Last year, the rate peg was based on the Local Government Cost Index (LGCI) adjusted by a productivity factor. While the introduction of the carbon price will, in time, flow through into the LGCI, this will not be reflected in the rate peg until at least 2013/14.

Including an adjustment for the carbon price in the 2012/13 rate peg will provide councils with an advance to compensate for the expected carbon price effects on their cash flow.

This is an exception to our standard practice of basing the LGCI on past, known, increases in prices. We are able to do this because the impact of the carbon price is expected to be significant and we have reasonable estimates of its possible effects on input costs in 2012/13. The alternative would be to do nothing and allow the impact of the carbon price on the LGCI to flow through over the next 2 financial years. However, we consider that it would be unfair to set a rate peg that ignored the likely effects of the carbon price on council costs when councils must fund those costs in 2012/13.

## **4.2 Determining the upfront adjustment to the rate peg for the carbon price**

Estimates of the effect of the carbon price on a range of consumer prices have been made by the Commonwealth Treasury. The single largest price impact is for electricity where the Treasury expects average household electricity prices to rise by 10% in 2012/13 in response to the carbon price.<sup>17</sup>

Other estimates of the electricity price impact of the carbon price are possible, depending, among other things, on the speed and size of the pass through of the carbon price by the electricity generation sector to the transmission and distribution systems and thus to retail prices.

For example, the Energy Supply Association of Australia asserts that the Treasury estimates do not account for the heightened difficulties the price places on obtaining forward contracts. Its consultant estimates that such difficulties could significantly increase retail prices of electricity.<sup>18</sup>

NSW Treasury estimated how the regulated retail prices of the 3 standard electricity retailers in NSW in 2012/13 would be affected by pro-rating earlier estimates by IPART based on a \$26 carbon price. The pro-rated estimates showed residential and business tariffs rising 14% for all Country Energy customers, 16% for EnergyAustralia customers and 19-20% for Integral Energy customers. NSW Treasury did not reconcile these estimates with those made by the Commonwealth Treasury.<sup>19</sup>

Several councils attempted to quantify the expected effect on their electricity bills and fuel bills. One council expects the carbon price to add 7% to its electricity bill; another estimates the addition to be between 3% and 8%.<sup>20</sup>

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<sup>17</sup> Commonwealth Treasury, *Strong Growth, Low Pollution Modelling a Carbon Price, Overview*, July 2011, p 8.

<sup>18</sup> ACIL Tasman, *National Electricity Market Modelling: Projecting changes to prices with changes to electricity contracting levels*, Report Prepared for the ESAA, August 2011.

<sup>19</sup> NSW Treasury *Evaluation of the impacts of the Commonwealth's carbon price package announced 10 July 2011*, undated, Table A-2, p 23.

<sup>20</sup> Hornsby Shire Council and Lake Macquarie City Council, private correspondence.

We decided to rely on the Commonwealth Treasury's estimates, because its estimates cover all the items in the CPI. For 2012/13, these estimates are that:

- ▼ prices for utilities (electricity, gas and water and sewerage) will increase by 7.9%, of which electricity is expected to increase by 10%, leaving the other utilities prices in the CPI to rise on average by a residually calculated 5.32%
- ▼ motor vehicle costs will increase by 0.3%
- ▼ insurance costs will increase by 0.3%
- ▼ telecommunications will increase by 0.5%
- ▼ IT and software will increase by 0.4%.<sup>21</sup>

Other assumptions are required if other local government costs are to be included in the calculation of the carbon price effect on the LGCI. The Commonwealth Treasury has not made public its estimates of the effect of the carbon price on prices in the producer price index so we have used its CPI-related estimates for most of the other components of the LGCI. These are expected to increase by 0.45%. This figure is the expected increase in CPI excluding utilities, motor vehicles, insurance, telecommunications and IT and software. We have used it in the absence of better estimates.

We made our own estimates for other cost items:

- ▼ The average price of fuel used by councils will increase by 0.72%, reflecting a reduction in credits under the fuel tax credit scheme applied to certain fuel types. This figure is the 4.8% average rise in fuels that are used only for off-road transport and non-transport (which is about 15% of all fuel used by councils).<sup>22</sup>
- ▼ Employee costs will not rise because the compensation packages of the Federal Government to many households should limit any extra wage demands.
- ▼ Emergency services levies and other expenses will increase by 0.7%.<sup>23</sup>

Table 4.1 shows the result of combining the assumed changes in prices with their relative importance in local government costs (measured by the effective weights in the LGCI as at September 2011).

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<sup>21</sup> Commonwealth Treasury, *Modelling the impact of a carbon price on household expenditure*, 18 September 2011, <http://www.treasury.gov.au/contentitem.asp?NavId=035&ContentID=2118>.

<sup>22</sup> In 2012/13, the simple average of the expected carbon-related price increases in petrol, diesel and LPG is 4.8%, of which we have taken 15% as representing the proportion used on off-road or non-transport vehicles (based on limited council data). We will collect more data on this proportion. The small fuel adjustment will remain in the rate peg because it will not be captured in the LGCI which uses CPI automotive fuel as its proxy.

<sup>23</sup> Both have been increased by the expected rise in the overall CPI.

On this basis, local government costs are estimated to increase by 0.60% in 2012/13 as a result of carbon pricing. This is slightly lower than the Commonwealth Treasury estimate of a 0.7% increase in the CPI. One reason for the difference is that employee costs (no carbon-price-related increase) represents 41.9% of the LGCI.

AECOM and the CSIRO have recently published an independent analysis of the impacts of the carbon price on the cost of living for Australian households. This report estimates that the consumer prices will rise by 0.6% in 2012/13 and 0.1% in 2015/16.<sup>24</sup> These estimates are slightly lower than the Australian Government estimates of 0.7% and 0.2% in 2012/13 and 2015/16 respectively.

The Commonwealth Treasury believes that its estimates may overstate the effect of the carbon price on the CPI because its modelling assumes:

1. immediate and full pass-through of the carbon price
2. no substitution by buyers that sees them shift away from the carbon-price-affected products to cheaper substitutes.<sup>25</sup>

In all likelihood, there may be either a delay in passing on the effects of the carbon price or the pass-through may only be partial as businesses absorb some of the impact.

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<sup>24</sup> Hatfield-Dodds, S, Feeney, K., Shepherd, L., Stephens, J., Garcia, C., and Proctor, W., *The Carbon Price and the Cost of Living – Summary report: Assessing the impacts on consumer prices and households*, a report to The Climate Institute prepared by the CSIRO and AECOM, 2011, p 5.

<sup>25</sup> Commonwealth Treasury, *Strong Growth, Low Pollution Modelling a Carbon Price*, July 2011, p 135.

**Table 4.1 Estimated impact of the carbon price on local government costs**

<b>Cost items</b>	<b>Effective weights for year ended Sep 2011<sup>a</sup></b>	<b>Price Change (% annual average)</b>	<b>Contribution to annual change in LGCI (% pts)</b>
Employee benefits and on-costs	41.9%	0.00	0.0000
Plant & equipment leasing (excl waste mgt)	0.4%	0.45	0.0018
Operating contracts (excl waste management)	1.3%	0.45	0.0060
Legal and accounting services	1.1%	0.45	0.0049
Office and building cleaning services	0.2%	0.45	0.0011
Other business services	6.0%	0.45	0.0269
Insurance	1.8%	0.30	0.0053
Telecommunications, telephone & internet services	0.5%	0.50	0.0024
Printing publishing and advertising	0.5%	0.45	0.0023
Motor vehicle parts	0.5%	0.30	0.0015
Motor vehicle repairs and servicing	0.7%	0.30	0.0021
Automotive fuel	1.2%	0.72	0.0086
Electricity	3.0%	10.00	0.3035
Gas	0.1%	5.32	0.0030
Water and Sewerage	0.5%	5.32	0.0287
Road, footpath, kerbing, bridge & drain bldg mats	3.0%	0.45	0.0135
Other building and construction materials	0.8%	0.45	0.0036
Office supplies	0.4%	0.45	0.0017
Emergency Services Levies	1.4%	0.70	0.0101
Other expenses	8.7%	0.70	0.0610
Buildings – non-dwelling	6.4%	0.45	0.0290
Construction works - road, drain, footpath, bridge	13.6%	0.45	0.0611
Construction works - other	1.4%	0.45	0.0061
Plant and equipment – machinery	3.9%	0.45	0.0175
Plant and equipment – furniture etc	0.2%	0.45	0.0010
Information technology and software	0.3%	0.40	0.0014
<b>Total change in LGCI in percentage growth</b>	<b>100.0%</b>		<b>0.6044</b>

Source: IPART.

Further, the 0.6% calculation takes no account of the opportunities councils may have to offset the effect of the carbon price on the volumes of various goods and services that they buy in 2012/13.

In particular, there are several Federal Government programs available to councils that will fund various energy efficiency and other schemes. To the extent that councils receive such funding and reduce their inputs, they will not need an increase in rate revenue to meet higher costs. This means that there should be some offset to the effect of the carbon price on councils' total costs even if they cannot avoid the impact on the unit costs they face.

It is difficult to know how much individual councils, and the NSW local government sector as a whole, will be able to take advantage of the various schemes to contain their costs as the carbon price is introduced. It seems likely that there will be *some* action in this regard taken by every council.

In regard to pass-through, the Australian Competition and Consumer Commission has warned businesses that it must take account of compensation received under the carbon price when setting prices. In particular "companies should not pass on the full costs of carbon if they were receiving assistance to meet their carbon liability or had reduced their energy use to lessen the impact of the scheme".<sup>26</sup>

As we cannot be certain of the size of the pass-through and the size of the offsets councils as a whole are likely to gain, as a matter of judgement we decided to set the carbon price advance in the rate peg for 2012/13 at 0.4%.

Once the effect of the carbon price has flowed through to electricity and other prices that are used in the LGCI, the up-front advance made to the 2012/13 rate peg will be reversed. We will do this over 2 years by removing 0.1% from the 2013/14 rate peg and 0.3% from the 2014/15 rate peg.

## **5 Offsetting the impacts of the carbon price**

In addition to recovering some of the costs of the carbon price through a rate peg adjustment and waste management charges, councils may be able to take advantage of various programs to offset the impacts of the carbon price. Two Federal Government programs are the Low Carbon Communities Program and the Carbon Farming Initiative.

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<sup>26</sup> Australian Financial Review, *ACCC warns against carbon price rorts*, 25 October 2011.

## 5.1 Low Carbon Communities Program

The Low Carbon Communities program has been expanded from \$80m to \$330m over 6 years from 2010/11.<sup>27</sup> Grants are available to local councils and community organisations through 3 funding streams:

- ▼ the \$200m Community Energy Efficiency program to support energy efficiency upgrades to council and community-use buildings, facilities and lighting
- ▼ a new \$100m Low Income Energy Efficiency Program to support consortia of local councils, community organisations and energy service companies to trial energy efficiency approaches in low income households
- ▼ a new \$30m Household Energy and Financial Sustainability Scheme to assist low-income households find more sustainable ways to manage their energy consumption.<sup>28</sup>

The \$200m Community Energy Efficiency program is the most likely stream of funding for councils. It is to be made available through a competitive grants scheme for councils and community organisations to undertake energy efficiency upgrades and retrofits to council and community-use buildings, facilities and lighting.

Examples of projects that may be funded under this program include:

- ▼ improving public lighting by replacing inefficient incandescent street lights with high efficiency technologies and replacing incandescent traffic lights with modern LED versions
- ▼ installation of co-generation (combined heating and power) and/or tri-generation systems (combined cooling, heating and power)
- ▼ energy efficient retro-fitting of council and community premises
- ▼ installing sub metering/smart metering/building energy management systems.<sup>29</sup>

## 5.2 Carbon Farming Initiative

Local Government may also be able to take advantage of the Federal Government's Carbon Farming Initiative (CFI) which will provide a revenue stream for lowering emissions of greenhouse gases from legacy waste stored in landfills.<sup>30</sup>

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<sup>27</sup> Australian Government, *Securing a clean energy future*, July 2011, p 83 and Freehills, *Carbon Price: What do we do now?*, 12 July 2011, <http://www.freehills.com/7337.aspx>.

<sup>28</sup> Department of Climate Change and Energy Efficiency, <http://www.climatechange.gov.au/government/initiatives/low-carbon-communities.aspx>.

<sup>29</sup> Australian Government, *Securing a clean energy future*, July 2011, p 83.

<sup>30</sup> Australian Government, *Clean Energy Future – Local Government: Factsheet*.

The CFI is a carbon offsets scheme which will enable landholders to create credits through saving or storing carbon pollution in the landscape, agricultural industries and the legacy waste stored in landfills. These credits can be sold to other businesses and individuals wanting to offset their carbon pollution.<sup>31</sup>

Landfill operators are able to offset up to 100% of their carbon price liability using credits issued under the CFI during the fixed price years of the carbon pricing mechanism.<sup>32</sup>

Where landfill gas is used to create electricity, renewable energy certificates are also available under the *Renewable Energy Target*, aimed at ensuring that at least 20% of Australia's electricity comes from renewable sources by 2020. Power stations using landfill gas to generate electricity can apply to become renewable energy power stations. This will allow them to create a tradeable certificate for each megawatt-hour of electricity generated using landfill gas.<sup>33</sup>

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<sup>31</sup> Australian Government, *Securing a clean energy future*, July 2011, p 93.

<sup>32</sup> Australian Government, *Clean Energy Future - Emissions from landfill facilities: Factsheet*.

<sup>33</sup> Australian Government, *Clean Energy Future - Emissions from landfill facilities: Factsheet*.

