



WESTERN AUSTRALIAN
LOCAL GOVERNMENT ASSOCIATION

**MWAC Submission to the Waste
Management Board**

on

*Resourcing the Zero Waste Vision: A
Discussion Paper on the Landfill Levy and
the Programs it Funds;*

and

*Resourcing the Zero Waste Vision: A
Discussion Paper on Re-investing Landfill
Levy Funds in Zero Waste Incentive
Schemes*

PREPARED BY THE



MUNICIPAL WASTE ADVISORY COUNCIL
"Getting the Environment Right"

February 2006

Organisational Profile and Acknowledgements

The Municipal Waste Advisory Council is a standing committee of the Western Australian Local Government Association with delegated authority to represent the Association in all matters relating to waste management.

The Municipal Waste Advisory Council has been formed through collaboration with Regional Waste Management Councils who are not ordinary members of the Association. The resulting body effectively represents the views of all Local Government bodies responsible for waste management in Western Australia.

Decisions and positions adopted by the Municipal Waste Advisory Council are considered by a board of elected member representatives from each member organisation who are supported by an Officers' Advisory Group (OAG) which has officer representatives from each member organisation.

The Municipal Waste Advisory Council's member organisations are:

- The Western Australian Local Government Association
- The Eastern Metropolitan Regional Council
- The Western Metropolitan Regional Council
- The Geraldton Greenough Regional Council
- The Southern Metropolitan Regional Council
- The South East Metropolitan Regional Council; and
- The Mindarie Regional Council

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Introduction

The Submission has been prepared on behalf of the Municipal Waste Advisory Council (MWAC) as a response to the two discussion papers released by the Waste Management Board at the end of 2005, entitled:

- o Resourcing the Zero Waste Vision – A Discussion Paper on the Landfill Levy and the Programs it Funds (referred to in this Submission as *The Landfill Levy Discussion Paper*);
and
- o Resourcing the Zero Waste Vision – A Discussion Paper on Re-investing Landfill Levy Funds in Zero Waste Incentive Schemes (referred to in this Submission as *The Incentive Schemes Discussion Paper*).

The Submission has two parts. The first part of the Submission responds to the proposal to raise the Landfill Levy and the means by which Levy funds are allocated. The second part responds to discussing the proposed incentive programs. A statement of positions and recommendations is provided at the beginning of each part. The Submission extends the discussion of some issues beyond the scope covered by the Board's two discussion papers in order to represent Local Government views and interests as completely as possible.

Local Government has a clear stake in the present discussions, since Councils pay around half of the total amount of Levy. A higher levy means increased operational costs for Local Governments and added pressure on rates, at a time when Council expenditure on waste management is already trending upwards.¹ Local Governments can see realised and potential benefits from the Levy as it currently stands and from a higher Levy in the future. However, in order for Local Government to support the changes which have been proposed by the Board, we believe that a good deal of work remains for the Board. In this Submission, we outline where further work must be done to create a firmer, clearer basis for the Levy and a stronger, more effective suite of programs for reinvesting the Levy funds.

In generating this Submission, we have remained mindful of the potential for the Board to steer the Waste Management sector in Western Australia in positive directions, given sufficient support from Local Government and private industry. With particular emphasis on the proposal to raise the Landfill Levy, MWAC recognises its own responsibility to engage with the issue of strategic funding in a responsible and constructive manner. We believe that the recommendations provided in this Submission offer the Board more than merely a key to unlocking Local Government support for the Board's agenda. The recommendations offer guidance on how to make an enlarged and growing funding supply be an effective resource rather than a source of controversy. Accordingly, we hope that the Board will view the Submission as not simply an assemblage of criticisms but as a genuine effort to firm the foundations on which the Board will expand its role and its activities in the sector.

¹ See figures provided in Local Government Grants Commission Annual Reports, online available <http://www.dlgrd.wa.gov.au/localGovt/grantsComm/publications.asp>, accessed 17/02/2006

PART 1 – Landfill Levy Issues

Background Positions

MWAC takes the following background positions on the Levy, Funding Schemes and surrounding issues which inform our recommendations for the Board:

- 1 MWAC considers that an increase in the Levy is necessary to raise the amount and quality of activity to improve the State's performance in managing waste Further discussion under *Levy Increases*

- 2 MWAC considers that the case for a schedule of ongoing increases in the Levy lacks at least two critical elements, namely:
 - a statement of the objectives/targets that the Board intends to achieve with the money.
 - sufficient detail on all areas of proposed expenditure.Further discussion under *Strategic Planning*

- 3 MWAC considers that the Board's proposed schedule of increases is accompanied by too little information about medium term landfill rates and the nature of expenditure programs; insufficient certainty about the structure of the Board and the Statutory context; and too little detail about how the Board intends to overcome these deficiencies during the coming 12 – 24 months. Further discussion under *Levy Increases*

- 4 MWAC considers that the full-environmental-cost-of-landfilling rationale and the disincentive-to-landfill rationale are not useful for setting the level of the Levy in the absence of meaningful estimates of:
 - the current externalities of landfill in monetary terms; and
 - the landfill price at which large scale substitution of an alternative might occur.Further discussion under *Rationale for the Levy*

- 5 MWAC believes that as the Levy increases, Local Government is entitled to greater levels of confidence regarding the assignment of Levy funds and that:
 - The Board must be granted statutory status;
 - Statutory provisions should tie expenditure from the Waste Management and Recycling Fund (the Fund) to the Board's strategic and business plans; and
 - The prohibition on funding 'normal ongoing operations of the Department' through the Levy should be formalised.Further discussion under *Dedicating the proceeds from the Levy*

- 6 MWAC considers that setting differential levies is consistent with applying the full-environmental-cost-of-landfilling rationale and the disincentive-to-landfill rationales, since different waste streams have different impacts and different sensitivities to price. Further discussion under *Differential Levies*

- 7 MWAC believes that the likely impact of landfill prices on waste management practices over the next five years will be significantly less than is speculated by one of the Board's discussion papers. Further discussion under *Impact of Levy Increase on Waste Disposal*

- 8 MWAC considers that the Board's possible exaggeration of landfill price increases over the next 5 years artificially inflates the reasonableness of the disincentive-to-landfill rationale as it applies in Western Australia. Further discussion under *Impact of Levy Increase on Waste Disposal*

Recommendations on Levy Issues

Recommendations on Immediate Increase in the Levy

MWAC considers that the Board needs additional funding in order to immediately increase its capacity to research and develop new initiatives in waste management. MWAC has the following recommendations for the Board regarding its first proposed increase in the Levy, to take effect on 1 July 2006:

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|---|--|--|
| 1 | That the Board increase the Levy on 1 July 2006 to \$6 for putrescible waste and \$3 for inert waste. | Further discussion under <i>Levy Increases</i> |
| 2 | That the Board clearly earmark the additional income from the Levy as being for programs and schemes (once these have been developed) and that interim surpluses be stored in the Waste Management and Recycling Fund. | Further discussion under <i>Levy Increases</i> |
| 3 | That the Board justify the increase solely on the basis of the raise-strategic-funding rationale. | Further discussion under <i>Rationale for the Levy</i> |

Recommendations on Scheduled Increases in the Levy

MWAC does not consider that the groundwork has been properly laid to justify the Board's proposed schedule of increases to the Landfill Levy from 2007 onwards. There remain too many outstanding issues to support this schedule. However, MWAC recognises that further increases are likely to be required in order to deliver the necessary to deliver the necessary increase in the intensity and quality of activity by the Board. MWAC is committed to assisting the Board to achieve appropriate increases in the Levy in order to advance our shared goal of improving waste management in Western Australia. Accordingly, MWAC makes the following recommendations as the basis of a strategy for the Board to increase in the Landfill Levy further over the medium term:

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| 4 | That, within 12 months of the initial Levy increase, the Board identify a series of physical objectives / targets that it intends to achieve through its application of the Levy funds. | Further discussion under <i>Levy Increases</i> |
| 5 | That, within 12 months of the initial Levy increase, the Board provide further information on the programs it proposes to fund using additional Levy monies. This information should include greater detail than is provided in its 3 year indicative budget found in both discussion papers. | Further discussion under Strategic Planning and Error! Reference source not found. |
| 6 | That, within 12 months of the initial Levy increase, the Board confirm the rationale(s) for the Levy and develop a framework for calculating the level of the Levy on the basis of its stated rationales. | Further discussion under <i>Rationale for the Levy</i> |
| 7 | That the Board promote to the Department and the Minister the incorporation of provisions into the Waste Avoidance and Resource Recovery Bill which:
- create a statutory waste agency and
- tie expenditure from the Fund to the agency's strategic and business plans. | Further discussion under <i>Dedicating the proceeds from the Levy</i> |
| 8 | That the Board commit to develop a 3 – 5 year Strategic Plan and annual business plans <u>in consultation</u> with the community and the sector. | Further discussion under <i>Strategic Planning</i> |
| 9 | That the Board encourage the Minister to adopt a written protocol which sets out disbursement criteria to ensure allocation of Levy funds to new, strategic initiatives in | Further discussion under <i>Dedicating the proceeds</i> |

- waste management rather than to the 'normal ongoing operations of the Department'. *from the Levy*
- 10 That the Board apply a discount to the Levy on residual waste from recycling and resource recovery facilities, whether operated by Local Government or private industry and whether treating inert or putrescible waste. *Further discussion under Differential levies*
- 11 That, If the Board wishes to apply the "disincentive-to-landfill" and the "full-environmental-cost-of-landfill" rationales to assist in setting the level of the Levy...
- 11.1 That the Board show how its different rationales will be collectively applied, in order to establish the correct Levy rate(s); *Further discussion under Differential levies*
- 11.2 That the Board obtain and make available to the public, data and analysis to underpin estimates of the
 - the current externalities of landfill in monetary terms; and
 - the landfill price at which large scale substitution of an alternative might occur. *Further discussion under Differential levies*
- 11.3 That the Board undertake research to better predict metropolitan landfill prices *Further discussion under Impact of Levy Increase on Waste Disposal*

WALGA Policy Statement

In 2005, the Municipal Waste Advisory Council developed a Policy Statement on behalf of WALGA on the Landfill Levy and Strategic Waste Funding (linked [here](#)²). This Policy Statement forms the basis of MWAC's response to the discussion papers and establishes the conditions for Local Government support for any increase in the Landfill Levy. Key points from the Policy Statement include the following:

- o Local Government supports the Landfill Levy as a means of generating secure funding for strategic activities in waste management – that is, to fund the State's Waste Strategy;
- o The Levy rate(s) should be set at a level sufficient to enable the activities identified under the State's Waste Strategy to be fully funded;
- o The State Government should provide evidence to support any claim that the Levy can be effectively used or set on any other basis – such as discouraging landfilling; and
- o The Levy funds are to be administered by an independent statutory body.

Levy Increases

Support for an initial increase

The Municipal Waste Advisory Council wishes to see an expansion in the range and extent of programs to encourage the reduction, diversion and recovery of waste. In order to fund an expanded suite of programs in a secure and ongoing manner, it is recognised that the Landfill Levy will need to be increased. Naturally,

Local Government support for the landfill levy will remain conditional on approval for the allocation and administration of the money raised. MWAC has determined to support the initial Levy increase of \$6 for putrescible waste and \$3 for inert waste from the beginning of the 2006/07 financial year. This support is offered in anticipation of a number of issues being addressed in next 12 to 24 months to enable MWAC to support a schedule of further increases.

Key Points from this Section

- o Support initial increase of \$6 / \$3 per tonne for putrescible / inert waste;
- o concern about the long term increases based on
- o increases must always have clear relationship with rationale.

It has been discretely recognised that the Board will need time to develop some of its proposed programs and schemes to the point where they can be implemented. If collection of an increased Levy commences on 1 July 2006, the Board can be expected to hold over a large portion of the Levy funds from 2006/07 until future periods. MWAC believes that the Board should earmark the funds for these Schemes and keep these monies 'in the bank' until the schemes are ready to be implemented. If this is done, then MWAC believes that the Board will not be unduly hindered by a delay in obtaining further increases in the Levy as proposed in the next subsection.

Further increases

The case for a schedule of ongoing Levy increases depends upon a reasonable level of:

- o Clarity about how the money is intended to be spent;
- o Clarity about the rationale for the Levy; and
- o Confidence in the data and analysis underpinning the proposal.

Similarly, ongoing sector support for the Levy depends on a reasonable level of:

- o Satisfaction and confidence in the processes by which funding will be allocated on an ongoing basis; and

² www.wastenet.net.au/policy/statements/landfill_levy/

- confidence in the hypothecation of the Levy to strategic activities in waste management.

MWAC believes it is feasible and necessary for the Board to address the aforementioned issues systematically over the next 12 to 24 months in preparation for making a case for further increases in the Levy. With an initial increase to \$6 and \$3 in hand, MWAC proposes that the Board begin addressing these issues as a matter of priority. We express no in-principle objection to increases of the magnitude proposed in the Landfill Levy Discussion Paper. However, we strongly object to a regime of increases in the absence of a more rigorous framework.

Staged increases

Subject to the points already made in this section, it is appropriate that the Levy increases be introduced a step-wise manner, since this permits Local Governments to gradually adapt to the additional charges. Gradual increases are also consistent with the practice followed in relation to levies applied in other States and on other items, eg alcohol and cigarettes. Once the Board

Comparisons to other states

The proposed increases are in line with other states with the exception of NSW which has a much larger levy. However, the Municipal Waste Advisory Council's view that the basis for increasing the Levy remains the State's waste strategy, suggests that interstate comparisons may not be especially relevant.

Strategic Planning

MWAC considers that the State's waste strategy should provide the basis for making a medium range forecast for how much funding will be required for strategic waste activities. The Board has engaged in strategic planning processes for a number of years and the latest iteration was the Statement of Strategic Direction for Waste Management in WA. However, we take the view Board's strategic planning has been insufficiently detailed to inform the task of raising strategic funding. For instance, we note that the Board's two discussion papers on increasing the Levy make no detailed reference to Strategic Direction Document.

Key Points from this Section

- Need more information about what is to be done with the Levy funds;
- Provide additional information initially through discussion papers etc;
- In time, formalise the strategic planning process including consultation elements.

We consider that there are significant gaps in the State's strategic planning on waste and, in turn, these gaps have implications for MWAC's support for increasing the levy. The gaps we identify are of two kinds, the first relates to matters of substance and the second to matters of process. The first kind of gap concerns the immediate case made by the Board for why it needs additional funding. The second kind of gap concerns the procedural framework which will exist in the future to ensure that the Levy monies are applied in an effective and appropriate manner. Both gaps need to be filled.

Immediate planning gap

In order to support ongoing increases in the Landfill Levy, MWAC wishes to see greater detail on what the Board intends to achieve with the additional funding and where it proposes to direct that funding to achieve those objectives. The two discussion papers go some way towards filling the gaps that MWAC perceives in the strategic planning documentation supplied to underpin the case

for Levy increases. However, the case for the Board's schedule of ongoing increases (which will raise up to \$20 million) needs more to support it. In particular, the Board needs to provide:

- o A set of physical objectives and quantitative targets that it seeks to achieve through the application of the Levy funds. These might take the form of specific targets for landfill tonnages, recovery rates on key materials (eg National Packaging Covenant targets) and objectives about establishing specific infrastructure or frameworks for managing waste (eg a Container Deposit Scheme).
- o More complete details on the Board's proposed broad funding areas to achieve these targets and objectives. To provide satisfactory detail in this regard, the Board could simply expand upon the information provided in the two discussion papers. For instance, the Board might review the outline provided in pp13-16 of the Landfill Levy Discussion Paper, in light of its objectives and targets. The Board could then elaborate on the expenditure areas – setting aside the Incentive Schemes, which are already discussed in sufficient detail in the Incentive Schemes Discussion Paper. Particular areas of interest for MWAC include the areas of "Institutional Strengthening" and "Waste Management Board Programs

Long term planning gap

MWAC recognises that the Board needs broad discretion in allocating the Levy funds and is prepared to take a leap of faith in supporting the Board to become a significant investment decision maker in waste management. Equally, the Board should recognise that Local Government, as a major contributor to the Fund, will expect transparency and accountability in the Board's application of those funds. MWAC suggests that an ongoing element of this transparency and accountability will be the opportunity to have periodic input into the Board's strategic and business plans.

MWAC envisages that development of a state waste strategy will eventually become streamlined and formalised within a statutory framework similar to that found in Victoria and South Australia. The State's waste strategy and derived annual business plans should provide the basis for allocating any money from the Fund. We discuss these concepts later in this Submission, but for now simply make the point that consultation processes must be part of the planning framework. This would presumably entail extensive consultation on a 3 – 5 year strategic plan and abbreviated consultation on an annual business plan.

Funding and planning - which comes first?

MWAC understands that there may be concerns about a chicken-and-egg like circularity in our assertion that planning should precede funding. In order to plan more effectively about how it will allocate resources, the Board needs additional resources, but in order to win those resources, the Board needs to plan more effectively. Our response to this concern is to support the Board in immediately doubling the putrescible rate and in trebling the inert rate. Before it seeks to advance towards higher Levy rates, we ask that the Board first apply some of its new funds to improving the framework for setting the Levy rate and applying the Levy funds.

Rationale for the Levy

As a matter of long term importance, the link between the stated rationales for the Levy and the proposed increases in its rate requires clarification. This is a long term issue because the Levy looks set to increase for at least the next 15 years. This is an important issue because the legitimacy of the Levy in environmental, economic and social terms rests on its demonstrable contribution to a particular objective or set of objectives. The lack of a clear link between the rationale and the Levy rate fuels debate and resentment and undermines the political capital of the agency involved.³

Key Points from this Section

- only the raise-strategic-funding rationale is unconditionally supported;
- alternative rationales likely to be supported given sound supporting evidence; and
- rationales to be either clearly and coherently applied or removed.

The Discussion Paper offers three rationales which we can summarise as the full-environmental-cost-of-landfilling rationale; the disincentive-to-landfill rationale and the raise-strategic-funding rationale. Of these rationales, only the latter has been unconditionally endorsed by the Municipal Waste Advisory Council, through the WALGA Policy Statement. The Municipal Waste Advisory Council acknowledges that the remaining two rationales may also be valid, but seeks evidence and analysis which shows why and where these rationales are appropriate. In seeking this evidence and analysis, the Municipal Waste Advisory Council aims to clarify how the Board intends to set the Levy rate(s).

To rely on all three rationales simultaneously, the Municipal Waste Advisory Council considers it reasonable that the following minimum assessments be publicly provided by the Board:

1. An estimate of how much money will be required to fund an appropriately ambitious state waste strategy;
2. An estimate of the current externalities of landfill in monetary terms;
3. An estimate of the level at which landfill price would encourage large scale substitution of another waste management option in place of landfill.

We note that only the first of the three pieces of information have been provided in the Discussion Paper. MWAC considers that the Board must obtain data to support the application of the full-environmental-cost-of-landfilling rationale and the disincentive-to-landfill rationale.

Figure 1 (below) represents a plausible depiction of how the disincentive-to-landfill rationale and the raise-strategic-funding rationale might interact to suggest an appropriate level for the Levy. The figure illustrates the idea that two separate rationales might be employed cumulatively to identify a particular rate for the Levy on a particular waste stream. The base rate might be determined by identifying how much the Levy needs to generate to provide the necessary funding for strategic programs under the state waste strategy (diagonal hatching). As the price of landfilling a particular waste type approaches the price of alternatives, then increases in the Levy above the base rate might be justified (grid hatching). The Board could justify such increases where it had identified that a relatively small increase Levy could nudge the price of landfilling up to a level where diversion became cost competitive.

³ Witness for instance, the suspicions of 'revenue-raising' which surrounded the WA Police Force over the years of its expanding use of speed cameras with consequent detriment to public standing.

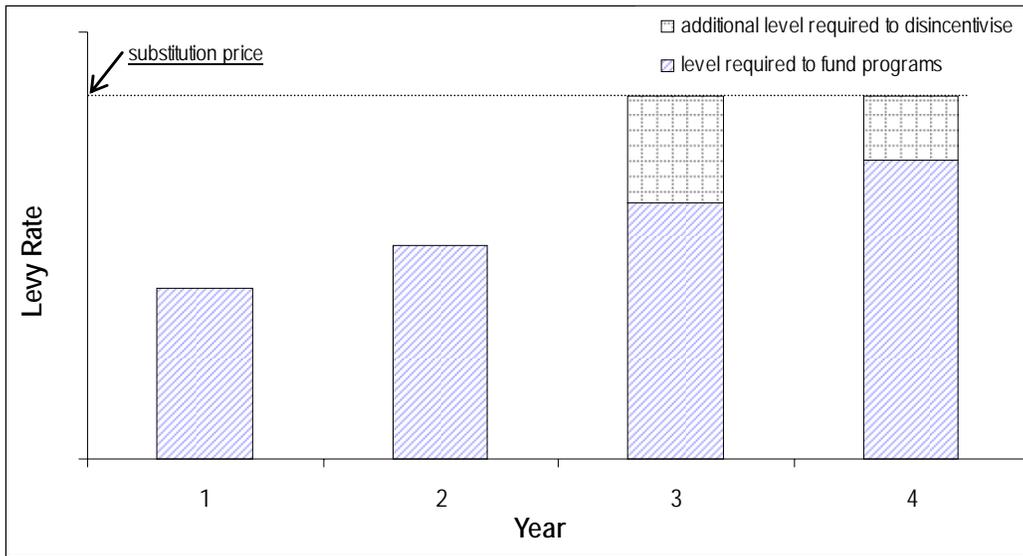


Figure 1: Use the raise-strategic-funding rationale to determine a base level for the Levy rate. Given sound data, this level might be slightly increased in order to reach an identified substitution price. Most appropriate if used in conjunction with differential levies (see following section).

MWAC further believes that the inter-relationships between the rationales must be clarified if they are to be used simultaneously. Figure 1 suggests one possible inter-relationship, but others are not difficult to conceive of. For instance, an approach depicted by the figure 2 (below) is that the raise-strategic-funding rationale would operate as the primary rationale and the Board's first task would be to identify an overall funding requirement. Then other rationales could be applied to weight waste streams so as to increase or reduce their relative contribution to the overall funding requirement. Thus in figure 2 the overall funding requirement increases but only the contribution from waste stream B increases, because waste stream B may have been judged to have more externalities or to be closer to its substitution price point.

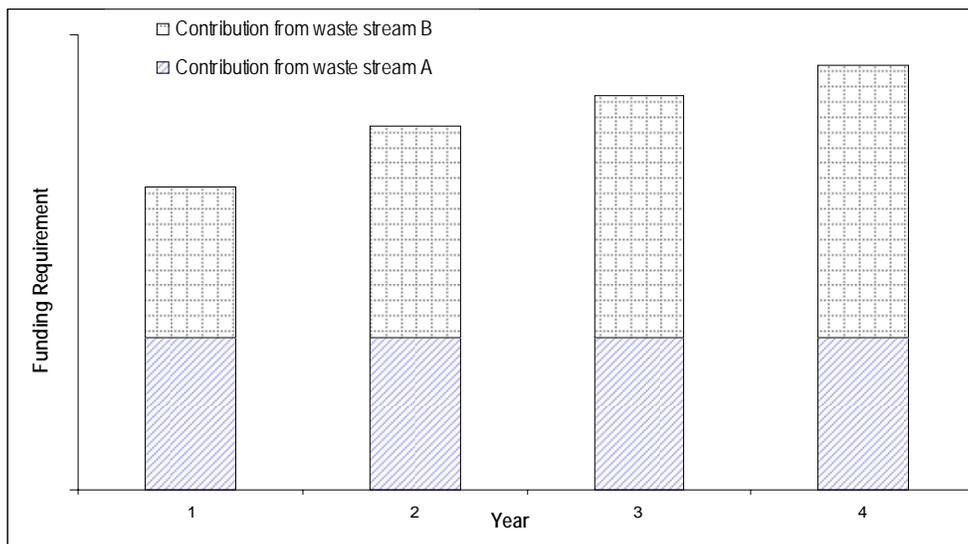


Figure 2: Use the raise-strategic-funding rationale to determine the total to be raised through the Levy. Then use secondary rationales to determine what each waste stream should contribute. This would then inform the setting of differential levy rates (see following section).

MWAC recognises that setting the Levy based on any rationale is unlikely to be an exact science. We also believe that the full-environmental-cost-of-landfilling and the disincentive-to-landfill rationales have considerable merit. We are not proposing that the Board must know everything before it does anything. Nor are we suggesting that the Board should always limit itself to the raise-strategic-funding rationale. The crux of our argument is that there is a considerable amount of work to be done if the Levy is to be used as anything more than a revenue raising tool. We would support the Board in undertaking the necessary work to sharpen the Levy into a market based instrument. We consider that the work required to underpin the full-environmental-cost-of-landfilling and the disincentive-to-landfill rationales would not only improve the overall benefit delivered directly by the Levy but would also inform the Board in setting objectives and targets.

Interim approach to the Levy rationale

MWAC believes that the Board should initially use only the raise-strategic-funding rationale as a justification for the \$6 and \$3 increase in the Levy, while reserving the right to apply other rationales in the near future. This would free the Board from the need to immediately produce data and analysis to underpin the application of the full-environmental-cost-of-landfilling and the disincentive-to-landfill rationales. Over the next 12 to 24 months, the Board would have the opportunity to establish a basis for applying these other two rationales and could include this information in its proposal for a schedule of ongoing increases in the Levy.

Differential levies

Differential levies is the term we use to describe the application of different Landfill Levy rates to different waste streams. Differential levies are an existing structural feature of the current Levy scheme and they fit neatly with the Board's intention to apply the full-environmental-cost-of-landfilling and the disincentive-to-landfill rationales.

Differential levies and the rationales

MWAC takes the view that two additional rationales are of little practical use unless one looks at waste streams with reasonably consistent origins or characteristics. Thus to sensibly apply these additional rationales, the Levy must be set by separately applying the rationales to a number of different waste streams. For instance, the Landfill Levy Discussion Paper notes that the effect of the rising cost of landfill will depend upon the sensitivity of waste generators to changes in prices. We submit that not all waste generators will demonstrate the same elasticity of demand for landfill. Consequently, the disincentive-to-landfill rationale may be valid for some waste streams at a point in time though not for other waste streams.

In response to the Board's stated intention to phase out differential levies, we submit that the logic which held true in 1998 regarding different waste streams holds true today. Specifically, different waste streams are associated with different impacts, financial costs and generation

Key Points from this Section

- to sensibly apply the full-environmental-cost-of-landfilling and disincentive-to-landfill rationales we need differential levies;
- residual waste merits a reduced landfilling rate for special reasons; and
- work to underpin differential levies will have additional benefits.

dynamics. MWAC considers that that domestic waste generation is relatively insensitive to price increases whereas waste generation in the commercial and industrial and construction and demolition sectors can be expected to be more sensitive to price increases. The WALGA Policy Statement supported differential Levy rates on the basis that the full-environmental-cost-of-landfilling and disincentive-to-landfill rationales for increasing the Levy apply to varying degrees to different types of wastes.

Differential levies bring the Board’s application of the three rationales into sharper focus. If all three rationales are to be retained by the Board, then it seems appropriate to us that the Levy rates for putrescible and inert wastes be set through separate assessments. On the other hand, if the Board were to simply set the Levy with reference raise-strategic-funding rationale, then the case for differential levies would fall away. On differential levies, as with other structural questions, MWAC is not promoting a specific model, rather we wish to promote an approach to designing the system which is logical, well founded and internally consistent. Table 1 below, summarises our view about the structural implications (in respect of differential levies) of the Board’s three proposed rationales.

Table 1: Examining the structural implications of the three proposed rationales. Only the raise-strategic-funding rationale is properly supported by a flat rate for the Levy.

Scheme Rationale	Key Structural Criterion	Conclusion about differentiation	Conclusion about the Levy
the raise-strategic-funding rationale	administrative simplicity	differentiation unnecessary	count gross waste and charge flat rate
the full-environmental-cost-of-landfilling rationale	sensitivity to true environmental cost	separately assess environmental cost	count and charge waste streams separately
the disincentive-to-landfill rationale	awareness of the elasticity of demand	separately assess elasticity of demand	count and charge waste streams separately

Levies on residual wastes

MWAC believes that there is a special case for a reduced Levy rate for residual waste. Specifically, a reduced levy should apply to waste which forms the residual left over from recycling and/or resource recovery processing. This reduced rate is desirable and appropriate for a number of reasons. Firstly, it should be apparent that for the most part, the materials left over from these processes represent the least valuable resources and the waste least likely to cause impacts like greenhouse emissions. So on the basis of the environmental-cost-of-landfilling rationale, these are wastes which warrant a ‘discount’. Secondly, these materials exhibit much less potential for being managed by any process other than landfill when compared to a raw waste stream. Therefore, these are not materials for which the disincentive-to-landfill rationale would seem to apply. Finally, providing a discount by means of a reduced Levy on residuals would improve the overall business case for expanding recycling or resource recovery. We recognise that this discount would require strict administration to avoid abuse, but residual wastes should be able defined and audited with a sufficient level of certainty.

Differential levies and opportunities for better understandings of waste

In the section entitled *Rationale for the Levy*, we asserted that the work required to underpin the full-environmental-cost-of-landfilling and the disincentive-to-landfill rationales would inform the

Board's priority setting and other strategic activities. By this we were referring to the opportunities for the Board to learn more about:

- o the environmental impacts associated with specific waste streams; and
- o the behaviours and drivers which characterise different waste streams.

If the Board was to successfully undertake this research, then it would clearly improve the Board's ability to generate physical objectives and quantitative targets in line with its stated priorities. Such information would also assist the Board to design the schemes appropriate to achieve these objectives and targets. This provides a further basis for our belief that differential levies provide a close fit with the rest of the Board's work and thinking.

Impact of Levy Increase on Waste Disposal

The purpose of the section in the Landfill Levy Discussion Paper entitled *Impact of Levy Increase on Waste Disposal* is unclear. The section appears to argue that the Levy increases will be small compared to the market driven increases in landfill costs. The section also appears to suggest that spontaneous increases in the cost of landfilling will be primarily responsible for making resource recovery technologies cost competitive within the next five to ten years.

Key Points from this Section

- o concern about the Board's landfill predictions;
- o strategic investment rather than landfill price most likely driver for MSW diversion; and
- o need for landfill price modelling.

Projected landfill costs

The Municipal Waste Advisory Council expresses discomfort with the projections of landfill costs proposed by the Board. It is not clear how the Board has calculated the increases attributable to external factors. Additionally, the Municipal Waste Advisory Council notes that increases in landfill charges attributable to inflation will not amount to a future disincentive to use landfill. Adjusted for an inflation rate of 3%, the estimated cost of landfill, as represented in Figure 3 of the Landfill Levy Discussion Paper, stabilises by 2016 and goes into decline (in real terms) by 2018.

Oddly, the numbers proposed in Figure 3 suggest a rapid increase in landfilling costs in the near term followed by an even out in the longer term. Based on estimates of landfill life among the major metropolitan putrescible landfills, the squeeze on landfill seems more likely to begin slowly and to increase with time as we approach critical horizons like the forecast 2025 closure date for Tamala Park Landfill. The assumptions underpinning the Board's alternative scenario are not shared. We recognise that waste forecasting is difficult to do with any degree of confidence, but it would be useful to understand the external factors which underpinned the Board's forecasts.

MWAC can see considerable benefit in the Board developing and maintaining a landfill price prediction model. Such a model would be based on estimates of metropolitan landfill capacities and likely waste receipt rates over the next 5 to 10 years. The model should also draw into the assessment estimates of the likely cost (including transport) of alternatives like the development of non-metropolitan landfills to receive Perth's waste. This would provide a useful tool for the Board and a sound basis for Local Government planning in the 5 to 10 year timeframe.

Total landfill costs and the rationale for the Levy

The Municipal Waste Advisory Council draws attention to the Board's projection of costs in Figure 3 of the Landfill Levy Discussion Paper out of concern about how the forecasts artificially bolster

the argument that the Levy can be used as a disincentive to landfill for municipal waste. Using a Levy as a landfill disincentive requires that the total cost of landfilling is approaching a critical threshold beyond which a waste generator will be motivated to switch to alternative modes. For municipal waste this threshold price is probably in the order of \$100 – 200 per tonne, which is the cost of resource recovery alternatives to landfill. Because the Figure 3 projections of total landfill cost are so aggressive, they place the cost of landfilling in the near future in the range at which substitution might occur. Thus, Figure 3 from the Landfill Levy Discussion Paper tends to reinforce the view that the Landfill Levy will be appropriate to use as a disincentive to landfill because it will be applied at a point demand for landfill is liable to switch to demand for alternative technologies. Because of our concerns about their accuracy, we think that the projected landfill costs should not be used in considering which rationales can be sensibly applied for the purpose of setting the level of the Levy for municipal waste.

The medium-term driver for change

We do not predict that the comparative price of landfill will provide the primary driver to adopt alternatives to landfill. In relation to municipal waste at least, we anticipate that the most important drivers for Local Government investment in landfill diversion over the next five years will include a long term attitude to planning, well placed incentives and technical and institutional enabling. This view underpins the emphasis we place on the raise-strategic-funding rationale. Over a five-year timeframe, given the magnitude of proposed increases, we see no basis in applying the disincentive-to-landfill rationale, at least to municipal waste. We remind the Board that we will readily consider alternative rationales for the Levy if the Board provides sound evidence that these are applicable.

Dedicating the proceeds from the Levy

A critical issue for Local Government in relation to the Landfill Levy, remains the certainty with which funds raised by the Levy will remain allocated to appropriate waste management activities. The desire for safeguards against the misallocation of Levy funds is not born of distrust of the Board or the Department. Rather this desire is attributable to the expectation that as the available funds grow, so will the pressure to distribute them across other Government priorities. The Levy feeds money into the Waste Management and Recycling Fund (the Fund) which was created to resource a new range of programs to promote better waste management practices. The Fund was clearly not intended to replace funding from consolidated revenue since, as Parliament was told during the Second Reading Speech of the Landfill Levy Bill, the money was not to be used to pay for the “normal ongoing operations of the Department” (Hansard, 26 November 1997).

Key Points from this Section

- The allocation principles for Levy funds are insufficiently formalised;
- Long term support for the Levy requires trust about how the funds are allocated;
- rules must be formalised regarding allocation of the Levy;

Uncertainties – applying funds outside waste management

The NSW landfill levy has never been hypothecated and its revenue can be allocated to virtually anything. In Victoria, with the creation of Sustainability Victoria, their Landfill Levy has been split across the strategic activities of an Agency with a broad remit, well beyond the boundaries of waste management. Notwithstanding the current statutory limitations preventing the application of funds to areas outside waste management, the experience of other States suggests there may be a broadening of the application of Levy funds in the future.

Local Government will not accept the development of an all purpose fund by stealth. In proposing increases to the Levy, the Board and State Government must be open and explicit about whether this money will in the long term remain allocated to waste management. In light of this, we believe that the Government and the Board must carefully consult with Local Government, years in advance, if they propose to change arrangements such that:

- o the Levy is no longer to be paid into the Waste Management and Recycling Fund; and/or
- o the Fund will no longer be applied "to fund programs relating to the management, reduction, reuse, recycling, monitoring or measurement of waste that are approved by the Minister" (*per* Section 110H, EP Act).

Uncertainties – applying funds within waste management

Local Governments wish to see a clear separation in the funding of new activities associated with the State's waste strategy and the funding of ongoing regulatory functions of the Department which relate to waste management. While we see the former as the appropriate recipient of Levy funds, the latter function is one which we view as properly funded through consolidated revenue. The second reading speech reference to "normal ongoing operations of the Department" is the most explicit guarantee provided to date that the State Government will not substitute Levy funding for consolidated revenue.

On behalf of a number of concerned Local Governments, the Municipal Waste Advisory Council initiated research in 2005 in the historical allocations of Levy funds since 1998. While the research is yet to progress very far, the concerns which underpin it are instructive in understanding Local Government attitudes to increasing the Landfill Levy. The greater the amount of revenue generated by the Landfill Levy, the more important it becomes to clarify the defining boundary between "normal ongoing operations of the Department" and other activities. Local Government concerns in this regard are not the product of churlishness. Rather they are based on an understanding that the Levy exists to augment, rather than replace, the resources provided from Consolidated Revenue to manage waste.

By way of illustration, consider the expenditure areas proposed by the Board under its 3 year indicative budget. There is a substantial increase in funds directed towards the Board's Programs section. This increase is appropriate in principle, but a great many staff activities could conceivably fit within the activities proposed. Some of these activities might really fit more appropriately under the Department's regulatory functions. For instance, researching and developing regulation, is a function which in our view fits within the scope of the "normal ongoing operations of the Department". "Data and information management & reporting" could cover regulatory responsibilities such as Jurisdictional reporting under the NEPM for Used Packaging Materials – again we would view this as part of the "normal ongoing operations of the Department".

Increasing confidence – Ministerial decree

The concerns mentioned above could be partly addressed by means of a formal statement of policy, endorsed by the Minister and Cabinet which sets out the purposes to which Levy funds can be applied. A statement in statute or regulation would go even further in providing certainty about how the funds could be applied.

Increasing confidence – statutory status for the Board

It is proposed that the WARR Bill will provide statutory status to an Agency similar to the Waste Management Board. The Agency, seems likely to bear strong similarities in status, function and powers to sister organisations such as Eco-Recycle (now Sustainability Victoria) and Zerowaste SA. Under legislation, both of these organisations are charged with some clear objectives which are primarily pursued within the framework of a strategic plan. Of the two jurisdictions, South Australia has provided the clearest direction in its enabling legislation to the strategic waste agency. This direction makes clear the agency's role and powers and the purposes to which it will be able to apply funds raised through the Levy. South Australia's Zero Waste SA Act 2004 provides the best example for the WARR Bill to follow, in order to maximise Local Government confidence in the application of the Landfill Levy.

Increasing confidence – strategic plan as funding mechanism

MWAC agrees with the prevailing approach in Victoria and South Australia whereby the funds from the Levy are spent through the strategic planning process of the statutory waste agency. In other words, the Agency should apply the money from the Fund in accordance with its strategic and business plans as approved by the Minister. In practice, it is our expectation that the money from the Levy will be used to fund programs developed under the new Agency's waste strategy, nevertheless, a more dependable procedural arrangement would be required to ensure the confidence of Local Government in supporting an ongoing increase in the quantum of the Landfill Levy into the medium term.

An excellent precedent for this type of arrangement is provided by South Australia's Zero Waste SA Act 2004. Subsection 17(5) of that Act provides:

- (5) The Fund may be applied by Zero Waste SA (without further appropriation than this subsection) in accordance with the business plan or in any other manner authorised by the Minister for the purposes of this Act.

As there is currently no Agency in place to perform this role, we recommend that the forthcoming Waste Avoidance and Resource Recovery Bill (the WARR Bill) include a similar provision when detailing a foreshadowed agency and its relationship to the Minister for the Environment and expenditure from the Fund.

PART 2 –Scheme and Program Issues

Background Positions

MWAC takes the following background positions on the programs and schemes proposed to be funded through the Landfill Levy

- | | | |
|---|--|---|
| 1 | MWAC has no detailed view on the reasonableness or efficacy of the program areas listed the Board's 3 year indicative budget, besides the Zero Waste Incentive Schemes, because no detail has been provided about the other program areas. | Further discussion under <i>Miscellaneous Program Expenditure</i> |
| 2 | MWAC is concerned that Litter may be being moved within the Board's mandate, as a means of shifting budgetary responsibility away from Consolidated Revenue and onto the Levy. | Further discussion under <i>Miscellaneous Program Expenditure</i> |
| 3 | MWAC believes that strategic grant funding should be able to be flexibly applied by the Board to achieve the physical outcomes / targets that it sets for itself. | Further discussion under <i>Strategic Grant Funding: (SWIS); (WRRISS); (WAIS)</i> |

Recommendations on Proposed Schemes

MWAC has the following recommendations for the Board regarding the proposed programs and schemes to be funded through the Levy:

- | | | |
|-----|---|---|
| 1 | That the Board fund schemes or programs to improve waste management in areas such as rural landfill practices. | Further discussion under <i>The Proposed Schemes – General Comments</i> |
| 2 | That the Community Grants Scheme continue, with ongoing provision for public access to the names and descriptions of funded projects and improved public access to any documents of project outcomes. | Further discussion under <i>Community Grants Scheme (CGS)</i> |
| 3 | That the Board collapse the Strategic Waste Initiative Scheme, the Waste & Resource Recovery Infrastructure Support Scheme and the Waste Avoidance Incentive Scheme into a single strategic grant funding scheme. | Further discussion under <i>Strategic Grant Funding: (SWIS); (WRRISS); (WAIS)</i> |
| 4 | That the Board adopt MWAC's proposal for the Resource Recovery Rebate Scheme (RRIS), and specifically that... | |
| 4.1 | The Board allocate additional funding to the RRIS, at least to a level which will ensure that \$2.4 million per annum is available to the Local Government part of the Scheme; | Further discussion under <i>Resource Recovery Incentive Scheme (RRIS)</i> |
| 4.2 | The Board adopt a scheme for the allocation of rebates through the RRIS which:
- permits accrual of funds; and
- requires expenditure on a defined range of investments to improve waste outcomes; | Further discussion under <i>Resource Recovery Incentive Scheme (RRIS)</i> |
| 4.3 | The Board consider a system with two alternative methods of releasing funds to Councils, one based on performance benchmarks and the second based on directed investment. | Further discussion under <i>Resource Recovery Incentive Scheme (RRIS)</i> |
| 5 | That the Board adopt a grant funding or low/zero interest loan model for the Recycled-content Product Purchasing Rebate Scheme | Further discussion under <i>Recycled-Content Product Rebate Scheme (R-CPRS)</i> |

Miscellaneous Program Expenditure

Neither discussion papers provide sufficient details of the Board's on a range of program areas including:

- o Institutional Strengthening
- o Littering
- o Zero Waste Initiatives
- o Business, Government and local government Waste and Resource Efficiency initiatives
- o Priority Waste Product initiatives
- o Communication and education initiatives
- o Data and information management & reporting

Key Points from this Section

- o Board to provide further details of listed program areas;
- o Levy expenditure on litter is a concern.

In the section entitled Strategic Planning, we suggested that the Board provide additional details on these areas over the next 12 to 24 months in order to underpin a claim for a schedule of ongoing increases in the Levy. We reiterate here that we do not propose that the Board produce a detailed strategic or business plan to serve this function. However, we do believe that the Board should identify a set of physical objectives and quantitative targets during the same period prior to revisiting the above list of program areas. The Board could then share with stakeholders, further details of what the programs will entail (in the same level of detail provided in relation to the Zero Waste Incentive Schemes) and details of how the programs will contribute to the objectives and targets identified.

One area of concern to MWAC that emerges from the brief descriptions of program areas provided in the 3 year indicative budget, relates to littering. It is our understanding that the Board is proposed to become an umbrella for the Keep Australia Beautiful Council and/or the Litter Prevention Taskforce to operate under. Whilst we recognise that there are a number of elements which make waste management and litter prevention related policy areas, we are naturally concerned about the implications for Consolidated Revenue contributions to the management of litter. We have made no recommendations in relation to this matter, but seek further information about the terms under which Littering is proposed to be brought under Board scrutiny, with particular emphasis on access to Levy funds.

Zero Waste Plans

The Board clearly wishes to raise the profile and priority attached to the zero waste vision within Western Australian Councils and has proposed that Councils should not qualify for funding until they have lodged a Zero Waste Plan. The required content, verification

processes, implementation requirements and review procedures surrounding Zero Waste Plans remain unclear. Despite this, MWAC recognises the scope for Councils to improve their strategic planning vis-à-vis lifting recycling/resource recovery performance and the potential for Zero Waste Plans to help Councils to do this. As with all good ideas, the capacity of Zero Waste Plans to deliver real benefits will depend on the details.

Key Points from this Section

- o Zero Waste Plans require further work;
- o Need snug fit with existing strategic planning requirements for Councils;

MWAC believes there are a number of issues that the Board should address before it enforces the requirement to lodge a Zero Waste Plan. Firstly, the Board will need to undertake more work in order to be specific about a) the elements of its strategic and business plans that it wishes Councils to particularly respond to; and b) appropriate KPIs and targets for individual Councils.

Secondly, the Board will need to do a considerable amount of educating and liaising with Local Governments to ensure they have a clear understanding of what the Board will look for in a Zero Waste Plan. Thirdly, the Board will need to assign administrative and policy resources to undertake the task of considering any Zero Waste Plans which are lodged. Finally, and perhaps most importantly, the Board will need to establish how Zero Waste Plans will fit within existing Strategic Planning requirements imposed on Local Governments such as those defined under the Local Government Act.

Expanding upon this final point, MWAC believes that the effectiveness of any strategic plan relies on its profile among and perceived relevance to the members of an organisation. The imposition of a requirement to produce a Zero Waste Plan will not guarantee its profile or perceived relevance. Local Governments already produce a range of strategic planning documents with implications for waste management and the Board should investigate how to make elements of the Zero Waste Plan mesh with these other documents. We recommend that the Board consult with Local Government about how to achieve this and note that the alternative may simply achieve a pile of plans to which no-one ever refers.

The Proposed Schemes – General Comments

Scheme aims

The Board states clearly its intention in respect of the Zero Waste Incentive Schemes in the following quotation from the second discussion paper:

The aim of these schemes is to invest the money collected from the levy back into the areas of waste avoidance and resource recovery in a strategic manner that will help drive the transition to zero waste in WA. (p6, *Incentive Scheme Discussion Paper*)

Key Points from this Section

- value of a broader funding scope – eg rural landfill; and
- support for using a range of schemes to achieve a range of objectives.

The Municipal Waste Advisory Council strongly endorses this aim and agrees that strategic investment in waste avoidance and resource recovery is an appropriate priority for the Board. We note that the aim of improving health and environmental protection through better waste management covers activities which sit outside the areas of waste avoidance and resource recovery. Issues such as rural and remote landfilling practices provide examples of the areas excluded from the focus of the proposed schemes.

The Board should note that strategic measures to improve the standard of traditional waste management practices such as landfill management in non-urban centres are consistent with the long term aim of increasing recycling and resource recovery across the state. Experience has shown that the process of rationalising and upgrading landfill sites has been a critical stepping stone for Councils in moving towards recycling programs. The Shire of Manjimup provides an excellent example of this process as it first upgraded its landfills, then consolidated its tipping sites, built transfer stations and moved onto operating recycling operations from those transfer stations.

The use of a range of schemes

The Municipal Waste Advisory Council strongly endorses the approach of using separate schemes to target different sectors and to achieve slightly different objectives. We have promoted this approach to the Board in our submission on the Resource Recovery Incentive

Scheme (the RRIS).⁴ In that submission, the section entitled *Aims* called for the RRIS to be directed at improving data and recycling services and for the Board to develop other schemes to address other objectives. Thus the explicit recognition by the Board that its suite of aims requires a suite of responses is commended by MWAC

Community Grants Scheme (CGS)

MWAC generally supports the CGS continuing on the current basis. As with other grant schemes, the Municipal Waste Advisory Council would like to see all projects given funding briefly described in an on-line summary.

Reporting requirements should be substantially less than for other grant schemes, but any project documents like final reports should still be posted on the Board's website. Public scrutiny rather than narrowly prescribed criteria provides the most appropriate check on allocating funds to the CGS.

Key Points from this Section

- continue the CGS; and
- try to improve public access to outcomes.

Strategic Grant Funding: (SWIS); (WRRISS); (WAIS)

- Strategic Waste Initiative Scheme (SWIS);
- Waste & Resource Recovery Infrastructure Support Scheme (WRRISS); AND
- Waste Avoidance Incentive Scheme (WAIS)

MWAC supports a broad funding scope for strategic projects which will improve waste management beyond local boundaries. Waste avoidance projects would be a welcome addition in view of the lack of projects in this area to date. However, there are likely to be difficulties from one year to the next with finding sufficient quality projects to fund in any particular area. MWAC wonders why the allocations to the SWIS, the WRRISS and the WAIS should be separated from one another. Under all three of these schemes, projects will require an assessment by the Board as to whether they will make a satisfactory contribution to the overall aims of the Board. It makes sense for the Board to retain the flexibility to allocate its strategic project grants to fund an annual suite of projects which is both balanced and of the highest possible quality. In lieu of combining the Schemes, the Board should explore mechanisms to allow cross allocation between the WAIS, the WRRISS and the SWIS in the event of an uneven distribution of quality project applications.

Key Points from this Section

- general support for strategic grant funding;
- concern that 3 schemes unnecessarily constrain the assignment of grant funding; and
- suggest combining all 3 schemes.

⁴ Online, available http://www.wastenet.net.au/policy/reports/pospap_rris/file/at_download.

Resource Recovery Incentive Scheme (RRIS)

In its RRIS Submission, the Municipal Waste Advisory Council provided a detailed description of the elements it favoured for a transitional scheme to replace the Resource Recovery Rebate Scheme in the short to medium term. We will not reproduce all of the elements we proposed in that Submission. Instead, in this Submission, we will attempt to clarify the case for adopting a model like the one we propose and make a number of comments about the application of performance thresholds within such a scheme.

Recapping the MWAC proposal for the RRIS

TRANSITION: MWAC's proposal was for a transitional scheme which would bridge the gap between present capabilities and structures and the Board's vision of a system which constantly motivates improvements. MWAC envisages a transitional period of around three years after which Zero Waste Plans will be operational and influencing action and the state will have the capacity to measure and benchmark performance much more effectively.

DATA: Our proposal also called for a minimum payment to Councils for providing a report to State Government as a means of increasing the proportion of Councils which provide data under the Scheme and providing the basis for requiring consistent quality in reporting.

CREDITS: MWAC proposed that the RRIS establish a credit system which would see Councils accumulate future potential to invest in waste management where credits are calculated by reference to the amount of material they recycle during each period. Importantly, the release of these credits would be conditional on the funds being spent on a projects relating to infrastructure (broadly defined as investment spikes), education or problematic wastes which would improve waste management systems.

PERFORMANCE: Our proposal largely ignored the question of funding thresholds such as performance benchmarks and Zero Waste Plans. In this Submission we will provide some comments on these thresholds and seek to emphasise the potential for our proposal to assist the Board's transition to an approach based on benchmarking and Zero Waste Plans.

A note on funds

The funding hypothetically allocated to the RRIS in the Incentive Scheme Discussion Paper is not adequate. The allocation would be inadequate in most cases to motivate significant additional investment even in the absence of the additional claimants who will enter the scheme when it opens up to industry. It will be profoundly inadequate once the diluting effect of this expansion is taken into account. Unless the Board increases its allocation of money to the RRIS, then it will condemn the scheme to irrelevance. Nothing less than the \$2.4 million per annum previously allocated to the RRRS should be earmarked for the Local Government portion of the RRIS.

All of the following commentary and analysis concerning the structure of the RRIS has been undertaken on the assumption that the funding allocation will be increased. It is entirely appropriate that this be done on the basis of a reduction in the amount of funding allocated to the strategic grants programs. A reduction in the grants area could entail fewer grants whilst the individual level of the grants is maintained. However, a reduction in the RRIS can only result in the funds being smeared into thinner portions shared between all recipients. The Board should realise that these portions are already small in comparison to Council recycling and resource

Key Points from this Section

- o performance benchmark model not presently practical for all councils;
- o directed investment model provides a practical transition;
- o directed investment, coupled with capacity to accrue, will drive investment in improved recycling; and
- o model is consistent with the RRIS principles.

recovery budgets and if they become much smaller they risk vanishing from the decision making ledgers of the majority of Councils. If the Board cannot allocate sufficient funding to offer meaningful incentives, it would be better to abandon the RRIS altogether.

Performance benchmarks

MWAC sees significant opportunities for performance benchmarking to drive improvements in Local Government recycling and resource recovery. Creating a system for quantified comparisons across different Councils and regions would help Councils to identify their areas of relative strength and weakness. Linking funding to demonstrated performance improvement against benchmarks has great potential to provide a positive incentive for Councils to improve. However, MWAC has a number of serious concerns about the practical capacity of the State Government and many Councils to implement and appropriately apply performance benchmarks at this point in time.

In terms of the base data required to establish performance benchmarks, a large number of Councils would be unable to supply the State Government with the necessary information. Since it is reasonable to assume that benchmarks would have some relationship to waste generation rates, waste audit data needs to be gathered by a diverse range of Councils and systems put in place to monitor waste generation and extrapolate findings to un-surveyed Councils. In terms of the analysis of waste data, the Board needs to establish a methodology for comparing the waste performance of different Councils with different demographics and geographical constraints. Similarly, the Board must establish a framework for comparing the performance of system types which exhibit special diversity in their implementation and use such as drop-off and resource recovery systems. These are challenges which are well worth tackling and MWAC will support the Board in overcoming them. Yet, for the next two to four years, these practical difficulties will make performance benchmarks impractical to apply for a majority of Councils.

Zero Waste Plans

Zero Waste Plans could easily fit, in a structural sense, with the model for the RRIS that we propose and discuss in this section. As the Board addresses the issues above regarding Zero Waste Plans, there will be increasing scope for them to be used by the Board to encourage desirable investment. We can readily envisage how properly developed and supervised Zero Waste Plans could fit within and strengthen the RRIS structure we propose here. MWAC would be happy to discuss with the Board how its proposal could leverage better results from the Zero Waste Plans, but the remainder of this discussion about the structure of the RRIS will not be intimately concerned with Zero Waste Plans.

A hybrid proposal

Following further work concerning the appropriate structure of the RRIS, we have prepared a hybrid model for this Submission which addresses some of the separate concerns of the Board and Local Government. As we have set out above, our objections to a straight performance based criterion for determining whether and how much a Council gets paid have always been based on the practicalities of this arrangement – we have no objection to the principle itself. Thus, our hybrid proposal sets out a workable structure within which Council performance can be improved, given current practical constraints. Under our hybrid proposal, the Board can incrementally move Councils into a performance benchmark based arrangement as these Councils and the Board develop the capacity to make this system operate effectively.

Figure 3 below depicts our proposed hybrid structure. The structure consists of two steps, a calculation step and a second step governing the release of funds.

STEP 1: The calculation of rebates would be based on an administrative structure very similar to the existing RRRS system. Councils submit their recycling/recovery returns, demonstrating reuse of materials with quantitative, verifiable data. The Scheme administrator would record the data, calculate the rebates accrued by each Council in the period in question and store this information.

STEP 2: The rebates accrued under step 1 would be released to Councils according to one of two sets of rules. The first set of rules correspond to the *performance benchmark* model, and would apply to Councils willing and able to demonstrate their improved, quantified performance against agreed benchmarks. This set of rules would include no requirements about how the money is to be spent by a recipient Council. The second set of rules correspond to what we have termed a *directed investment* model and would apply to Councils which are unwilling or unable to demonstrate improved, quantified performance against the benchmarks. Under these rules, Councils would need to agree to invest the money they received through the Scheme in appropriate projects to improve recycling / resource recovery.

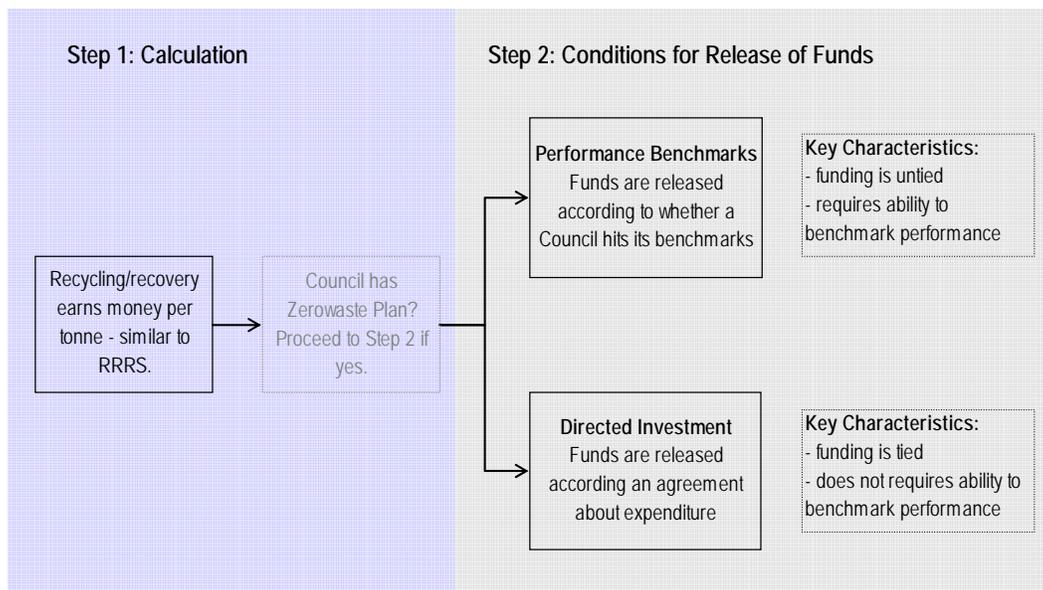


Figure 3: All Councils earn rebates which are calculated on the basis of the quantity of material recycled or collected. To qualify to receive these rebates, Councils must have a zerowaste plan and must agree to one of two arrangements – either they demonstrate performance against benchmarks or they must accept funding tied to specific projects to improve recycling or recovery.

Our hybrid proposal presents the opportunity for the Board to drive improvement in two alternative ways – depending on the preferences and capacity of each participating Council. For those Councils with a system profile which lends itself to benchmarking the opportunity to earn untied funds may be sufficient incentive to agree to be subject to the performance benchmark method of qualifying. For those councils which are not suitable for benchmarking or which lack the data and wherewithal to confidently pursue quantified performance improvements, tied funding provides an alternative method of qualifying. Both qualifying mechanisms should give the Board confidence that Councils will not simply ‘rest on their laurels’ and wait for the RRIS funds to roll in.

The concept of *directed investment* sits at the heart of our original proposal under our RRIS Position Paper. Our hybrid proposal sets out a means of reconciling the *directed investment* model with the Board's *performance benchmark* model. Setting aside the question of whether it would be better to apply a straight directed investment model or the hybrid model, the remainder of this section will demonstrate why it makes good sense for the Board to incorporate directed investment into the RRIS.

Waste management investment – a net financial loss to Councils

Almost all investments in enhancing or expanding waste services represent net financial losses for Councils. When a Council invests in these processes, they increase the net loss associated with their waste management over the life of the investment. Moreover, once a given service level is provided, the Council generally becomes committed to at least maintaining that service level into the future. In spite of this, Councils do invest in improving their waste services and gradually their communities accept higher and higher rates because they value recycling and resource recovery as services provided by Councils. As it seeks to allocate money from the Levy to encourage Councils to improve their recycling systems, the Board should ask the following question:

What are the critical financial impediments (and drivers) which cause Councils to defer (or undertake) significant investment in their waste management systems?

The case for tied lump sum payments

We submit that Local Governments invest in recycling and resource recovery processes for reasons which may differ from those which motivate private investment. A portion of the allocation decision will come down to community sentiments and the level of public support. The decision will also be influenced by comparative assessments of what is a reasonable amount of money to invest in waste services given Council demographics and geography. Other factors might include disruption to the budgeting process and the profile that an issue enjoys at the officer/technical level within a Council. These are factors with real significance for Local Government investment decisions and in the short to medium term they are probably more decisive than relatively small variations in the net value of an average basket of recyclables.

At its most basic level, our argument is that the prospect of tied, lump sum payments will, in many instances, have a bigger impact than untied, incremental payments. In our view, to obtain the best value from the millions of dollars the Board plans to invest through the RRIS, the allocation method must leverage the other decision making factors just mentioned. Tied, lump sum payments can do this by:

- o Promoting the kind of step-change investments which capture community and political attention;
- o Capturing the attention and imagination of technical officers who have ideas to implement and who can make a business case to their Councils for a substantial system improvement by budgeting for a future payment of credits; and
- o Ensuring that funds are directed towards improvements rather than ongoing operational overheads.

Our proposal exhibits some similarities with a grant funding system, although there are some important differences. Under our proposed *directed investment* model:

- o The lump sum payments would be earned rather than applied for. This would relieve the Board from the burden of needing to assess the overall merit of a particular investment

because the credits would be available as a matter of right for any project which fit within a broad definition of recycling or resource recovery projects. Such an arrangement avoids allegations that the Board is “picking winners” with its awarding of grants.

- The magnitude of lump sum payments would be directly proportional to the size of a Council's current efforts in recycling and resource recovery. This would operate as a useful gate-keeping device in a similar fashion to the co-contribution criterion used in many grant schemes and would ensure both engagement and inject an element of fairness into the allocation of Levy funds.
- Regionalisation and strategic investment decisions would be delegated to Local Governments with obvious advantages for Councils willing to pool resources to invest collectively. Councils could plan to invest modestly in local infrastructure or seek opportunities for larger-scale regional investment, knowing that a certain amount of funding would become available at a set point in the future.

Cost spikes

For smaller Councils with systems towards the least sophisticated end of the spectrum, each proposed investment in expanding or improving services represents a step-change rise in costs. While there will be an ongoing increased net loss associated with a system upgrade, it is often the initial funding ‘spike’ which presents the more substantial hurdle for any business case to address. Figure 4 (below) depicts the distinction between ongoing and set-up costs. Where a business case is able to address that initial funding spike, a Council is more likely to accept an ongoing, marginal increase in the cost of maintaining their waste management services.

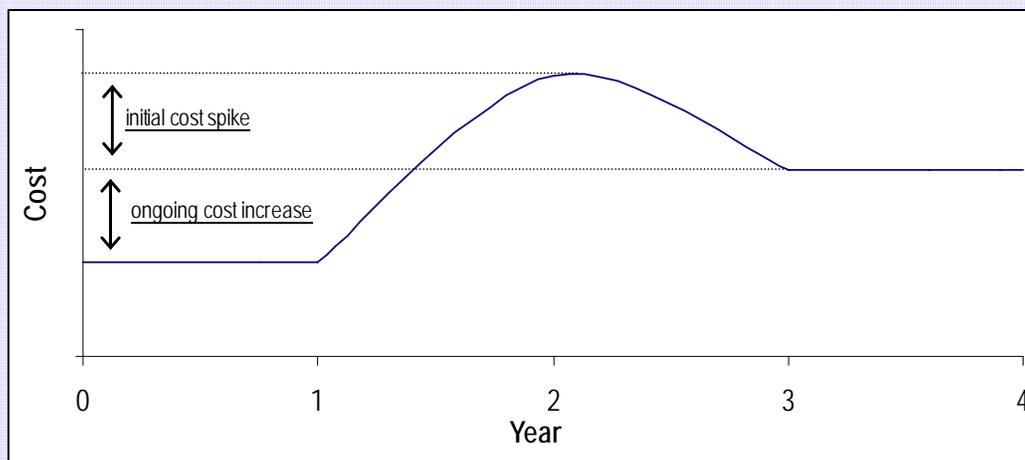


Figure 4: Ongoing cost increases and initial cost spikes have separate implications for Council decision making. Frequently it will be measures which address the spike which are more effective at encouraging Councils to upgrade their services.

It is a reality for business units in a range of sectors, including Local Government, that their operational costs and revenue are subsumed within an organization-wide budgeting process. It is uncommon for business units in Local Government to have the capacity to save up additional operational revenue for the purposes of financing an anticipated cost spike in the future. The annual revenue top-up provided by a per tonne recycling incentive would reduce the size of the

ongoing cost increase but would generally not substantially reduce the size of the initial cost spike.

Examples

Concepts discussed above, let us consider a number of examples of system investments for two different types of Councils.

For a sparsely populated rural Council with 1000 tenements, a basic drop-off centre might already be in place. Assuming that aluminium cans and scrap steel are already recycled and generating around \$1000 of rebate per annum, that Council could expect to accrue \$3,000 over a period of three years. For that Council, \$10,000 might buy a modest shed in which to store newspapers and cardboard deposited by residents. A further \$2,500 pa might be sufficient cover the cost of a weekly visit to the site by a Council officer to tidy, pack and strap this material for storage and subsequent transport. Thus the Council will have to find funding for \$10,000 to \$12,500 in the first year and \$2,500 in subsequent years, minus the additional income from recycling cardboard and paper. The Council would be able to plan for its investment with the prospect of a \$3,000 rebate cheque (contingent on solid recycling performance in the interim) to contribute to the project. The proponent officer will have a stronger case for the project because of this significant contribution to offsetting the initial cost spike.

For a larger Council in a regional centre with 10,000 dwellings, a kerbside recycling system may already be in place and could feasibly be recycling 500 tonnes per period (six monthly). At an average rebate of around \$10 per tonne, the Council might expect to accrue \$5,000 in rebates per period. The Council could thereby accrue \$10,000 each year. Suppose the Council has an opportunity to pay a contractor to undertake a vergeside, greenwaste collection once a year for \$3 per tenement. Vergeside collections impose short-term cash-flow problems on Councils because of the lump sum expenses they entail (in this example \$30,000). The Council officer proposing to introduce vergeside, greenwaste collections would have a better prospect of convincing Council to accept the \$30,000 lump sum payment to the contractor if an annual cheque for \$10,000 could be held up by the officer as a means for the Council to offset this payment.

In both examples, the tied lump sum delivers at least the following encouragements to invest. Firstly, a significant contribution to overcoming the initial cost spike. Secondly, an incentive to waste officers to work towards higher recovery rates in the knowledge that funds will be returned for expenditure on local waste infrastructure improvements. Thirdly, in each case the officer's proposal is lent additional support because of the prospect that the Council will receive none of the RRIS money unless it adopts the proposal (or a similar investment). Finally, a reasonable level of planning certainty – rather than the uncertainty caused by the potential failure to hit the necessary performance threshold.

The proposed model and the RRIS principles

The Zero Waste Incentive Scheme Discussion Paper identifies a series of principles which ought to guide the development of the RRIS. In closing off our proposal for the Board to incorporate directed investment into its RRIS model, we provide the following assessment of how our model fits with these principles.

“Administratively simple” – directed investment can be implemented in a manner which is more administratively simple than performance benchmarking. The key to this simplicity will be to

provide the administrators and participants with a clear description of how appropriate investments will be identified.

“Focused on continuous improvement” – directed investment provides a mechanism for ensuring that services improve, since funding is tied to undertaking new things or improving existing services.

“Socially acceptable” – we are not sure how this principle applies to the RRIS.

“Strategically oriented” – directed investment fits comfortably with a strategic planning approach for the Board. As indicated, Zero Waste Plans can readily be incorporated into the model. Once functioning properly, Zero Waste Plans could provide the mechanism by which investments are directed.

“Funding guaranteed to continue for a set timeframe” – the hybrid model we propose would be able to start sooner and continue for just as long as the performance benchmark focussed alternative. In addition, directed investment avoids some of the uncertainty associated with a benchmarking approach due to inability to predict if a particular benchmark can be achieved.

“Inclusive of a broad range of sectors” – directed investment overcomes the limitations associated with performance benchmarks where appropriate benchmarks are unable to be defined. In addition, there is no reason why directed investment could not be extended beyond Local Government, to other sectors.

“Facilitating permanent change” – we are not sure how this principle applies to the RRIS.

“Working with market forces” – we are not sure how this principle applies to the RRIS.

“Improving the flow of information” – the provision of data is an essential requirement under our proposal, since funds cannot be calculated or accrued without providing data, much in the same manner as is currently done under the RRRS.

Recycled-Content Product Rebate Scheme (R-CPRS)

MWAC endorses the principle of using Levy funds to build markets for recycled materials, but we do not endorse the particular structure contemplated for the R-CPRS. The Board has decided that the Resource Recovery Rebate Scheme is inappropriately structured to drive investment and improvement in recycling and resource recovery. We submit that the structure currently proposed for the R-CPRS applies the same rebate-style incentive provided by the RRRS. Yet, in contrast to the RRRS, the R-CPRS will apply these rebates within the private sector where decisions about increasing recycled content will be made with the bottom line exclusively in mind. Only where the R-CPRS provides a sufficient subsidy to make the recycled feedstock literally cheaper than a virgin alternative, will it actually drive change in production practices. We believe that in most cases, the subsidy will simply be added to the profit margin of existing production processes incorporating recycled content.

Consistent with our views on the appropriate structure for the RRIS, we submit that the R-CPRS ought to be based on a system which ties funding to either performance or specific investments. Since performance benchmarking for recycled content incorporation does not appear to be particularly feasible, MWAC argues that the R-CPRS should be based on a directed investment model. Ideally companies would apply for low or zero interest loans to underpin investment in new processes to create products from recycled materials. Alternatively, companies could apply for research & development grants and possibly infrastructure grants under such a program. We note Californian Integrated Waste Management Board uses a loan scheme while the model used

by EcoRecycle in Victoria is based on R&D grants. Either of these two examples, provided in the Board's Incentive Scheme Discussion Paper, could be used by the Board to guide the development of its own scheme in this area.