



## Briefing: Further advice on the waste levy

Date submitted: 11 March 2024

Tracking number: BRF-4418

Security level: Policy and Privacy

MfE priority: Urgent

Actions sought from Ministers		
Name and position	Action sought	Response by
Hon Penny SIMMONDS <b>Minister for the Environment</b> Hon Simon WATTS <b>Minister of Climate Change</b> Hon Chris BISHOP <b>Minister Responsible for RMA Reform</b>	Review and discuss with officials	11 March 2024

Actions for Minister's office staff
Return the signed briefing to the Ministry for the Environment ( <a href="mailto:ministerials@mfe.govt.nz">ministerials@mfe.govt.nz</a> ).

Appendices and attachments
Appendix 1 – overview of waste disposal levy and Waste Minimisation Fund

Key contacts at Ministry for the Environment			
Position	Name	Cell phone	First contact
Principal Author	Jonathan Ryan	022 292 866	
Secretary for the Environment	James Palmer	022 059 8100	✓

Minister's comments

# Further advice on the waste levy

## Key messages

---

1. The Minister of Finance previously requested that you identify potential targeted savings of at least \$100m over the four-year forecast period relating to the Waste Disposal Levy (levy) and Waste Minimisation Fund (WMF).
2. On 16 February 2024 the Ministry submitted to the Treasury your preferred option of expanding the scope of the levy to fund a broader set of Government waste-related activities and in doing so, achieve savings by offsetting costs currently borne by the Crown, achieving a targeted savings initiative of \$102 million over four years. This option also enables \$25.6m of baseline savings for the Ministry over four years (part of the baseline savings initiative of \$196.4m over four years / \$49.1m per annum).
3. Following review of the draft Budget package and discussion by Budget Ministers, the Minister of Finance has requested further advice on changes to hypothecation settings for the levy, to include scaled options to return funding to the centre in relation to both the central and local government portion of levy revenue. This is to be provided directly to Treasury officials by 12 March using the savings initiative template, subject to your approval.
4. This briefing outlines these options and implications, as well as our advice on the preferred options, and seeks your agreement to submit these to the Treasury.

## Recommendations

---

We recommend that you:

- a. **note** that a change to the hypothecation of the levy to allow any portion to be redirected to the Crown account will turn the levy into a tax on the waste sector, which would be a more complex piece of legislative reform.
- b. **note** that all targeted savings options for the waste levy will reduce investment in waste minimisation and resource recovery infrastructure, and potentially reduce the Government's options for meeting emissions targets, primarily from biogenic methane.
- c. **note** the ability of a waste investment programme to progress Government priorities diminishes as the level of levy revenue diverted for non-waste purposes increases.
- d. **note** that reducing funding by more than 50 per cent would make it insufficient to materially address the estimated \$2.1 - \$2.6 billion funding deficit in waste and resource recovery infrastructure.
- e. **note** that both the Minister for the Environment and the Ministry have statutory obligations to ensure collection, compliance, and administration of the levy under the Waste Minimisation Act 2008 (WMA).
- f. **agree** that collection, administration and compliance, monitoring and enforcement costs be excluded from all savings options

Yes | No

- g. **agree** to submit the following central government de-hypothecated levy options (and implications) in line with the requests by the Minister of Finance (over four years):

i \$490 million (full amount – 100%) of central government levy revenue; or

Yes | No

ii \$245 million (50%) of central government levy revenue; or

Yes | No

iii \$100 million (a portion – 20%) of central government levy revenue (preferred)

Yes | No

- h. **note** that realising savings from levy revenue given to councils will create an additional cost pressure that will likely need to be met from rates or user charges.

- i. **note** that the risks of realising savings from the local government portion of levy revenue will vary across councils based on their levels of service, debt, existing contractual obligations.

- j. **note** that the Ministry recommends to not proceed with any options which would reduce the portion of the levy revenue allocated to councils.

- k. **agree** to submit the following local government de-hypothecated options (and implications) in line with the requests by the Minister of Finance (over four years):

iv without offering any savings from local government levy revenue; or

Yes | No

v \$50 million (a portion – 10%) of local government levy revenue; or

Yes | No

vi \$377 million (majority – 75%) of local government levy revenue

Yes | No

- l. **note** that given the fiscal risks and impacts of any reduction in funding to local government, under any option that involves a significant reduction in funding for councils, Ministers might consider options for engaging with councils on both impacts and phasing of potential changes.

- m. **note** the Ministry still recommends expanding the scope of the waste levy to fund a broader set of Government waste-related activities (e.g. vulnerable landfill remediation) and in doing so achieve savings by offsetting costs currently borne by the Crown for consideration as the preferred way of achieving savings.

- n. **note** \$25.6 million of baseline savings proposed by the Ministry are reliant on broadening the scope of the waste levy to fund a wider set of Government waste-related activities

- o. **agree** to also include in the submission to the Treasury your previously indicated preferred option of expanding the scope of the waste levy for consideration.

Yes | No

- p. **note** that the analysis undertaken on the level of savings and cost implications to central and local government under the options assume that the final increase of the levy planned for 1 July 2024 will proceed.

- q. **discuss** with officials the level of savings you expect and detail of any options to enable these to be included in a submission to the Treasury by the deadline of 12 March 2024.

Yes | No

## Signatures

---



James Palmer  
**Secretary for the Environment**  
**11 March 2024**

Hon Penny SIMMONDS  
**Minister for the Environment**  
**Date**

Hon Simon WATTS  
**Minister of Climate Change**  
**Date**

Hon Chris BISHOP  
**Minister Responsible for RMA Reform**  
**Date**



# Further advice on the waste levy

## Purpose

---

5. This paper provides advice requested by the Minister of Finance on potential changes to the hypothecation settings for the Waste Disposal Levy (levy). We seek your agreement to submit the options presented in a savings initiative template due to Treasury officials on 12 March.

## Background

---

6. The statutory purpose of the levy is to raise revenue for promoting and achieving waste minimisation; and increase the cost of waste disposal (and incentive materials recovery) to recognise that disposal imposes costs on the environment, society, and the economy.
7. The Waste Minimisation Act 2008 (WMA) requires the Ministry to collect and distribute the levy by paying 50 per cent to councils for spending on waste minimisation activities such as recycling collections; and spending the remainder on funding Waste Minimisation Fund (WMF) and Plastics Innovation Fund (PIF) projects and collecting and administering the levy and funds (including assurance, compliance and monitoring activities, and refunds).
8. The Minister for the Environment has recently sought an update on scheduled increases on waste levy rates. Assuming the final increase to the levy rate takes effect on 1 July 2024, modelling shows the levy will peak around \$260 million per annum from July 2024 before tapering off as waste volumes gradually decline. Should any change to the scheduled increases occur, this would reduce the revenue available for savings by approximately \$35 million a year under these options.
9. Through Budget 2024, the Ministry was asked to submit targeted policy savings relating to the levy and WMF of at least \$100 million over four years. Following your feedback, on 16 February the Ministry submitted your preferred option of expanding the scope of the levy via appropriate changes to the WMA to fund a broader set of Government waste-related activities, and in doing so, achieve savings of \$102 million over four years, whilst retaining the hypothecated nature of the waste disposal levy. The savings would be achieved by using levy funds to offset other waste-related costs currently borne by the Crown.

### Additional advice requested by the Minister of Finance

10. Following review of the draft Budget package and discussion by Budget Ministers, the Minister of Finance has requested that the Ministry provide further advice on changes to the hypothecation settings for the levy. The advice (due by 12 March 2024) needs to include:
  - i Options to return funding to the centre for the central Government allocation of waste levy revenue, including return of the full amount; return of the majority with some remaining for waste minimisation activities; and return of a portion.

- ii Options to return funding to the centre for the local government allocation of waste levy revenue, including return of the majority, and return of a portion.
11. The advice needs to provide justification for any portion retained, and a clear articulation of the risks (including relevant legal advice) and trade-offs, as well as what specific steps are required to deliver savings from 2024/25 (e.g. legislative change and consultation requirements).
  12. If the savings options are not considered feasible or deliverable from 1 July 2024, the rationale for this needs to be explicit and alternatives should be provided. The extent of legislative changes should be set out, but legislative change should not be considered as a roadblock to Budget decisions. Indicative costings should also be included as part of each option.

## Analysis and advice

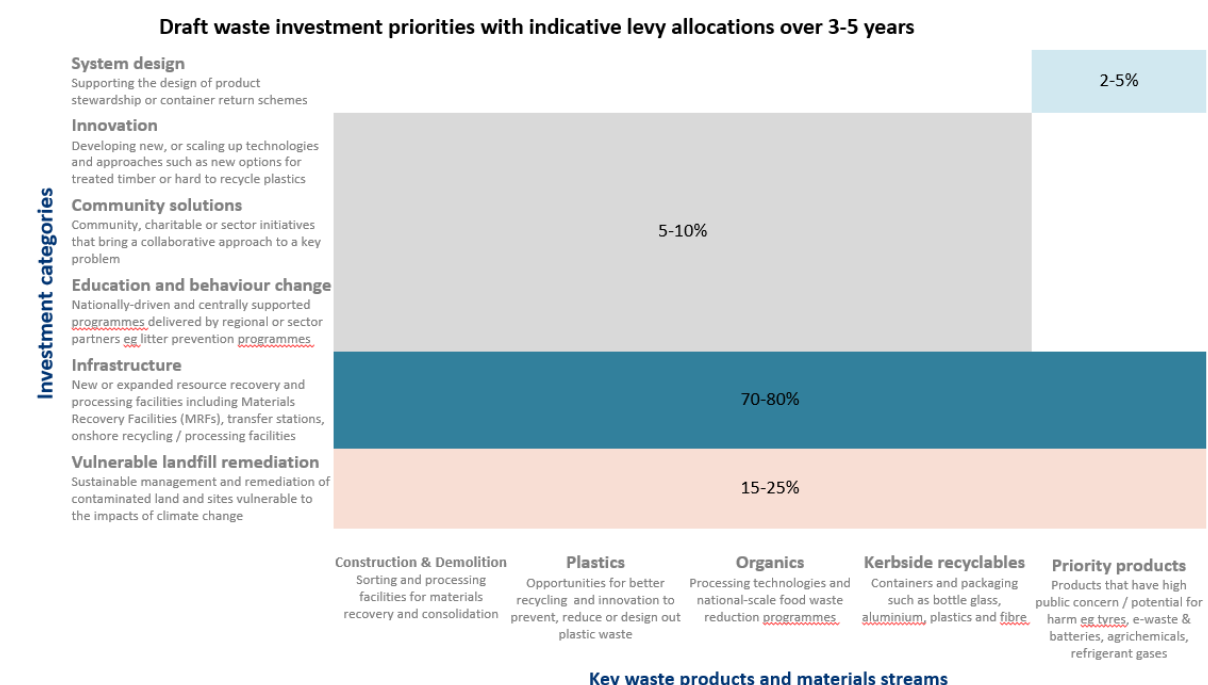
---

### Preferred options

13. Advice on the different options requested by the Minister of Finance is provided below. We intend to provide these to the Treasury on 12 March as requested. Of these options, the Ministry recommends the following as preferred:
  - i *Central government allocation:* our preferred option remains to retain the levy as hypothecated and broaden the scope. However, the Minister of Finance has requested options to change the hypothecation of the levy. We recommend that under this scenario this apply to only a portion (\$100 million over four years) of the levy funding to enable the Government to continue to fund its waste-related priorities, address New Zealand's waste and resource recovery infrastructure deficit, enable remediation of vulnerable landfills and contribute to emissions targets as well as a mitigation to the risks associated with this approach as outlined below.
  - ii *Local government allocation:* our preferred option remains to not proceed with any options which would reduce the portion of the levy revenue allocated to councils. Councils must allocate their levy on activities that promote or achieve waste minimisation, such as recycling collection services, and are frequently committed to long-term contracts. Waste-related costs for local government extend well beyond what levy revenue can cover. A drop in levy revenue will likely result in service level reductions or rate increases. However, the Minister of Finance has requested options to change the hypothecation of the levy. We recommend that under this scenario this apply to only a portion (\$50 million over four years) of the levy funding, because of the many risks associated with this approach. Additional funding to achieve targeted savings of \$100 million could be sourced from the central government portion of the waste levy.
14. Both of these options would retain funding for the Ministry to ensure that revenue (whether a levy and/or a tax) from waste disposal is collected, administered and compliance, monitoring and enforcement be undertaken.

### Other impacts of diverting levy funding


15. There are several non-financial impacts arising from diverting levy funding partially or completely away from waste purposes. These impacts increase as the proportion of funding to be diverted increases.
16. The more that levy revenue is allocated for non-waste purposes, the higher the risk of failing to achieve environmental outcomes and government targets, particularly those in the 2023 Waste Strategy and biogenic methane targets in the Climate Change Response Act 2002. If all future revenue is diverted to general Crown accounts, this option would preclude ring-fenced expenditure on a broader set of waste-related funding needs including Government priorities, such as addressing environmental harm from historic landfills, and remediating landfills vulnerable to the impacts of severe weather events and climate change.
17. The graphic below shows the draft Government waste investment priorities previously discussed with you and the indicative proportion of the levy that would be assigned to each:



18. The ability of a waste programme to have an impact across the Government's priorities will reduce as the level of levy revenue diverted to non-waste purposes increases. For example, if there is a greater than 50 per cent reduction in levy funding, the remaining funding would be unlikely to make a material difference to addressing the estimated \$2.1 - \$2.6 billion funding deficit in waste and resource recovery infrastructure.
19. Further, as the Ministry's baseline savings proposals included savings from the Contaminated Sites Remediation Fund, if the levy cannot be used for this purpose, this would mean there is no funding support for local authorities to address these landfills and wider contaminated sites. This will limit the Government's ability to meet the commitments to address vulnerable landfills under the National Adaptation Plan.
20. Waste accounts for nine per cent of New Zealand's biogenic methane, (and four per cent of New Zealand's overall emissions) and contributes (with agriculture) towards the statutory target of a ten per cent reduction by 2030 under the Climate Change Response Act 2002. The waste sector's contribution is currently calculated at an average levy



investment rate of \$39 per tonne of CO<sub>2</sub>e, around half the current NZ ETS price (NZU, January 2024, \$69).<sup>1</sup>

21. Levy funding for emissions reductions has been modelled into emissions abatement under the emissions reduction plan and forecast achievability of emissions budgets. Alternative emissions reduction opportunities may be considered as part of the Emissions Reduction Plan Two process, however we may lose the benefit of cost-effective abatement (including biogenic methane) if the enabling infrastructure investment is significantly reduced in the interim.
22. Any reduction in levy revenue to fund organic waste infrastructure will impact the Government's ability to achieve biogenic methane emissions abatement. A number of variables, such as outcomes of budget decisions on returning waste CERF funds, future decisions on investment priorities for the use of the levy mean the extent to which biogenic methane emissions would no longer be abated cannot be accurately quantified. However, the current focus of the WMF towards addressing the deficit in organic waste infrastructure highlights the significant impacts this funding can achieve in reducing emissions from organic waste.
23. s 9(2)(f)(iv)  

24. Diverting levy funds away from resource recovery infrastructure will also leave an increasingly large deficit in waste and resource recovery infrastructure which will result in us lagging further behind other OECD countries. New Zealand is one of the largest waste producers in the world. Lower investment will also impact what we are able to deal with onshore and elevates the risk of exposure similar to what we experienced in 2018 as a result of the Chinese Government's Operation National Sword (ONS) policy, which banned the import of certain types of waste and recyclables. There will also be less ability to attract private co-investment for WMF projects.
25. \$25.6m of baseline savings proposed by the Ministry are reliant on broadening the scope of the waste levy to fund a wider set of Government waste-related activities. This includes using levy revenue to fund contaminated sites and vulnerable landfills (savings to be realised by closing the Contaminated Sites Remediation Fund and funding \$10.4m from 2025/26-2027/28 via the levy); and aspects of the Ministry's wider waste work programme (\$15.2m in savings across 2026/27 and 2027/28).

---

<sup>1</sup> In recent years investment of the waste levy, supplemented by the CERF, has been focussed on reducing emissions from waste. These investments have leveraged significant private sector funding and achieved biogenic methane abatement to date, at an average levy investment cost of \$39 per tonne of CO<sub>2</sub>-e, around half the current NZ ETS price of \$69 per tonne, as at 24 January 2024). Investments are ordinarily co-funded at between 50-75% and costs per tonne are expected to rise as 'low-hanging fruit' in organic waste infrastructure projects are funded.

## Financial analysis of options relating to the central government allocation

26. Three options are assessed below regarding the central government allocation of waste levy revenue: return the full amount; return half; or return a portion.

### *Return the full amount of the central government allocation*

27. This option would require savings be returned for 50 per cent of future revenue applied to waste disposed of at landfills (the central government allocation). Over a four-year period this is estimated at \$490 million. This implies that the WMF and PIF would close, with only existing contracts being honoured.
28. The \$490 million is net of the funding that needs to be retained by the Ministry to ensure that there is sufficient administrative funding to:
- honour existing contractual obligations for WMF project recipients (approximately 110 projects with an approximate value of \$115 million)
  - manage existing contracts, the majority of which are multi-year deeds of funding (e.g. staff and IT costs) – \$8.6 million over three years (24/25 – 26/27)
  - administer and ensure monitoring, compliance and enforcement of a waste tax from 183 levied landfills – \$30 million over four years (24/25 – 27/28)
29. There would also be additional costs to the Ministry associated with redundancy for WMF staff and back-office staff that support them (through a reduction in overhead funding). This is estimated to be \$0.6 million based on the current personnel forecast less those required to manage the existing contracts and manage monitoring, compliance, and enforcement.

### *Return half of the central government allocation*

30. This option would require savings be returned for 50 per cent of future revenue which is allocated to the Ministry for investment through the WMF (approximately 25 per cent of overall revenue). This would provide \$245 million in net savings over four years and would see the WMF scale back to provide funding at a level of \$61 million per year.
31. The ability of a waste programme to have a material impact across the Government's priorities will reduce as the level of levy revenue diverted to non-waste purposes increases. At greater than 50 per cent reduction in levy funding, the remaining funding would be unlikely to make a material difference to addressing the estimated \$2.1 - \$2.6 billion funding deficit in waste and resource recovery infrastructure. Other investment priorities would need to be balanced against the amount of funding available and the ability of the Government to achieve waste minimisation and contribute towards biogenic methane targets would be impaired.
32. Such an approach would significantly impact the operations of the WMF and would likely see a return to the approach taken in earlier years, where grants were made at a much smaller level. While there would be some benefits from retaining a smaller WMF fund (e.g. supporting community initiatives and providing some seed funding for smaller waste minimisation initiatives), funding at this level would not address the concerns and challenges of industry and councils about New Zealand's infrastructure deficit for waste.

33. This option would also result in additional costs to the Ministry including redundancy costs for WMF staff and back-office staff that support them. This is estimated to be \$0.5 million (as per assumptions above).

*Return a portion of the central government allocation*

34. This option would require savings be returned for 20 per cent of future revenue which is allocated to the Ministry for investment through the WMF. This would provide \$100 million in net savings over four years and would see the WMF be scaled back to accommodate this at a level of \$97 million per year.
35. This would, however, retain funding at a level whereby investment in waste and resource recovery infrastructure could continue to be made at a level such that New Zealand's infrastructure deficit could be addressed as New Zealand's population increases to 'catch up' to our OECD peers in relation to minimising waste per capita.
36. This level of funding would also enable the Government to continue to fund priorities such as addressing landfills vulnerable to the impacts of severe weather and climate change and reducing biogenic methane emissions from organic waste.
37. This option would also likely not impose any significant additional costs for the Ministry as a staff reduction to right-size towards a WMF at this level is already factored into the Ministry's baseline savings proposals.

**Financial analysis of options relating to the local government allocation**

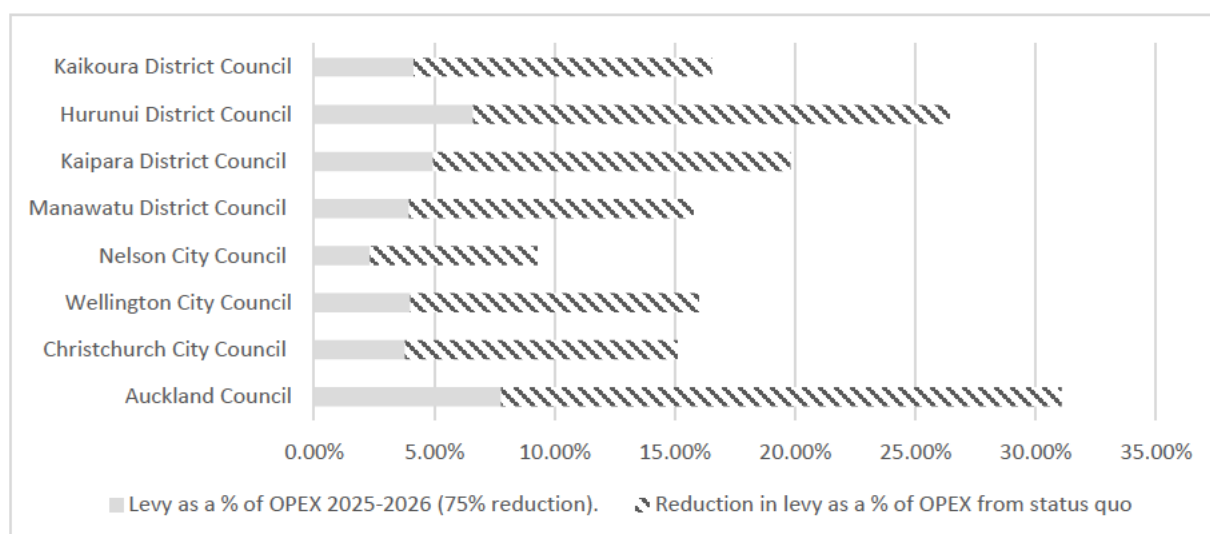
38. Councils have the statutory responsibility for promoting effective and efficient waste management and minimisation in their districts under the WMA 2008. Councils can only use their waste levy revenue under section 32 on matters to promote or achieve waste minimisation; and in accordance with their waste management and minimisation plan.
39. The Ministry's preferred option remains to not proceed with any options which would reduce the portion of the levy revenue allocated to councils. Council waste levy revenue can only be spent on waste minimisation, not on disposal. Further, all proceeds from their activities under their waste plan must also be spent only on waste management and minimisation in accordance with that plan.
40. Under a scenario where the levy is de-hypothecated, two options are assessed below regarding the local government allocation of waste levy revenue: return the majority; or return a portion.

*Return the majority of the local government allocation*

41. This option would require savings be returned for \$94 million per year, equivalent to 75 per cent of future projected revenue applied to waste disposed of at landfills that is apportioned to local government. This would provide \$377 million in savings over four years.
42. This option will have significant impacts for councils. Realising savings from levy revenue given to councils will create an additional cost pressure that is likely to still need to be met from elsewhere eg rates or user charges. The risks associated with options to achieve savings from the local government portion of levy revenue will vary across councils based on the level of service, debt, and nature of contractual obligations they face.

43. Most councils have significant operating and capital expenditure relating to core waste and waste minimisation services eg recycling collection and resource recovery services and facilities. Under the status quo, at the levy's peak in FY25/26, councils will have anticipated receiving increased levy revenue. At its peak, the levy revenue would amount to an average of 23 per cent of waste operating expenditure (excluding capital expenditure).<sup>2</sup>
44. Forecast levy revenue from FY25/26 is \$43 million a year for Auckland Council. For Wellington, peak levy revenue is estimated at \$5.5 million per year; and for Christchurch it is estimated at \$10 million per year.

Council levy revenue as a proportion of waste OPEX – Change in levy as a % of OPEX with 75% reduction (2025/26 projection)



45. s 9(2)(f)(iv)

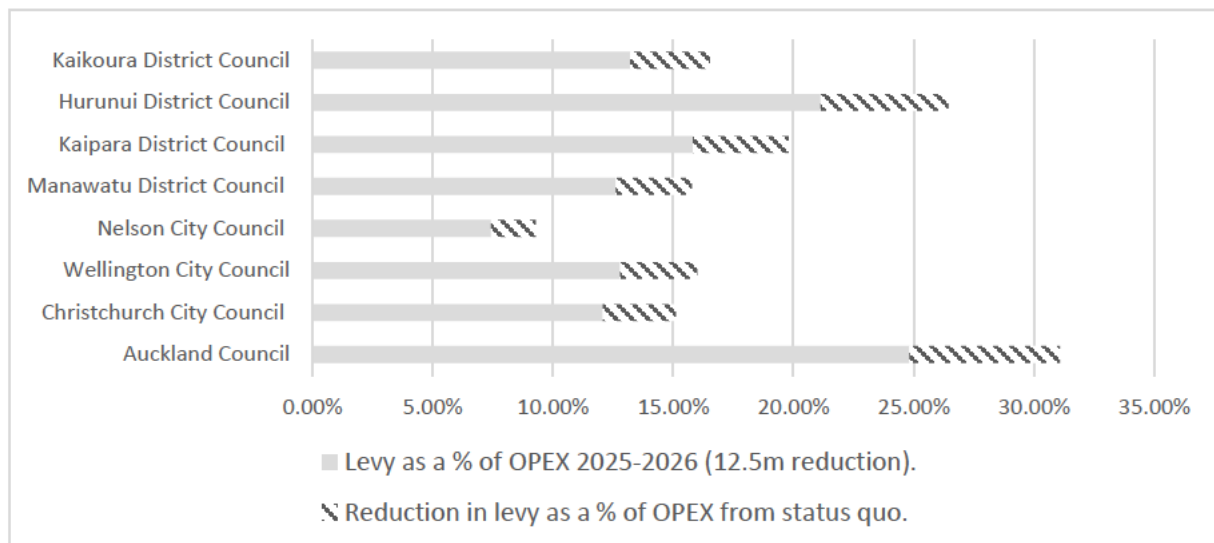


*Return a portion of the local government allocation*

46. This option would require savings be returned for \$12.5 million per year, equivalent to 10 per cent of future projected revenue applied to waste disposed of at landfills that is apportioned to local government. This would provide \$50 million in savings over four years. It is proposed under this option that council savings be shared with corresponding savings from the central government portion of levy revenue to ensure that risks to councils are mitigated to the greatest extent possible.

<sup>2</sup> This average waste operating expenditure for councils is based on a sample of twenty councils of a range of sizes, through data on their waste operating expenditure forecasts as drawn from their LTPs for FY23.

47. This option, while likely to be controversial, will allow for levy revenue to the value of \$453m to be disbursed to councils, which amounts to 90 per cent of the levy revenue councils are projected to receive.



48. Councils are required to implement the Standard Materials for Kerbside regulations that came into effect on 1 February 2024. The aim of the standards is ultimately to secure end markets for recyclable materials, by ensuring the quality and quantity of materials collected at kerbside. These activities are supported by funding received by councils through their portion of the levy.

## Other considerations

### Legal issues and legislative process (legally privileged)

s 9(2)(h)

s 9(2)(h)

**Other matters**

56. There are greater stakeholder risks associated with a proposal to transform the levy into a tax than expanding the use of a levy for a wider-set of waste-related purposes. For this reason and due to the nature of a tax bill being much more complex, we recommend that targeted engagement be undertaken to better understand and reduce risks. A longer select committee process would also be advisable than what a targeted amendment under your preferred option for savings from the waste levy would require.
57. If you were to agree, this would mean that savings from the waste levy would not be able to be achieved under each of the options presented below by the start of the 2024/25 financial year.
58. Depending on the size of the proportion that is transformed into a tax, this would also have implications for the Ministry's baseline savings proposal.

**Consultation and engagement**

59. Given the targeted savings initiative is Budget sensitive, no external consultation or engagement has been undertaken.
60. Public consultation on a range of changes to the WMA took place in 2021. That consultation proposed to continue hypothecation of the waste levy, including to broaden its use to include measures to minimise harm from waste; for cleaning up closed landfill

sites or other contaminated sites; data collection; ongoing partnerships and long-term education programmes; litter clean-up activities; and a wider range of compliance and enforcement activities by central and local government.

61. There was a wide variety of views on what waste levy funds should be spent on. A general theme was that levy funds should continue to be used to increase waste minimisation but with a wider scope and more flexibility to facilitate a transition to a circular economy. Many local government submitters also wanted levy funds to be used to address concerns over historic or vulnerable landfills and contaminated sites.

## Risks and mitigations

62. The main risks associated with these proposals are process risks and risks of failing to meet priorities and targets as outlined above.
63. In terms of process risk, proceeding with proposals under urgency does lead to a higher risk of overlooking details or unforeseen consequences which may require subsequent amendment. This risk is assessed as higher under a proposal for the levy to be substituted by a tax as opposed to a more limited legislative amendment required to achieve savings under your preferred option. The more complex the legislative amendment, the greater the risk of not achieving savings in 2024/25.
64. There is also likely to be a high degree of sector interest in the proposals. There are risks associated with options to achieve savings from the local government portion of levy revenue, which would likely vary significantly across councils based on the level of service, debt, and nature of contractual obligations they face. Should savings be sought from council levy revenue, the Ministry recommends engagement as part of any legislative amendment.
65. Elements of the waste sector have expressed a preference for increasing contestability of funds over time. These proposals would likely see a reduction or removal in the availability of contestable funds. Transparency about how priorities are set and what can and cannot be funded could help to mitigate these risks to an extent should some funding be retained. Targeted engagement with key sector stakeholders, including existing funding recipients would mitigate risks associated with a complete halt of the WMF.
66. Waste levy revenue is projected to reduce over time as investment outcomes and other shifts reduce waste volumes to landfill. Revenue forecasts will also need to be revised should the final increase of the levy, planned for 1 July 2024, not proceed. This could result in insufficient revenue to fund an increased set of priorities. To the extent possible, this could be mitigated by making forecasting as accurate as possible. Amendments to legislation could also help to mitigate this, for example by including consideration of other disposal activities that should also be made subject to a levy (eg waste-to-energy); and/or making targeted improvements to compliance, monitoring and enforcement tools available in the Act (which would maximise the Ministry's ability to collect the levy from all eligible sites).
67. Waste levy funding for emissions reductions has been modelled into emissions abatement under the emissions reduction plan and forecast achievability of emissions budgets. Alternative emissions reduction opportunities may be considered as part of the emissions reduction plan two process. However, they may not be sufficient (or more

costly) to meet targets (including biogenic methane) if the enabling infrastructure investment is significantly reduced in the interim.<sup>3</sup>

## Next steps

---

68. We recommend that you meet with officials to discuss this advice and agree on any changes needed to finalise the options to be submitted to the Treasury on 12 March. While a joint meeting has not been scheduled for all Ministers, we can work with your offices to arrange one if needed.
69. We will complete the mandatory templates provided by the Treasury and give these to your office for information.
70. You are scheduled to meet with the Minister of Finance to discuss the broader Budget package on Monday 18 March.