Office of the Minister for the Environment

ECO - Cabinet Economic Policy Committee

Cabinet report-back: performance of government spending funded by the waste disposal levy

Proposal

1 This paper reports back on the performance of government spending funded by the waste disposal levy (levy), as I was requested to do in April 2024. The paper sets out my approach to ensure government investment of the levy is targeted and effective and provides value for money.

Relation to government priorities

2 This paper relates to the Government's goals of getting the government's books back in order and restoring discipline to public spending. It will contribute to the Government's target of reduced net greenhouse gas emissions. It will also contribute to wider environmental benefits.

Executive Summary

3 In April 2024, Cabinet agreed to legislative amendments to increase the range of waste and environmental priorities in which the central Government portion of the waste disposal levy (levy) can be invested. I was invited to report back to Cabinet, in conjunction with the Minister for Regulation, on the performance of government spending funded by the levy [CAB-24-MIN-0138 refers].

4 I am now reporting back on this, along with feedback from an independent review of back-office functions funded by the levy which I was also invited to undertake. Independent analyses indicate that the levy is administered and invested efficiently and effectively by the Ministry for the Environment and is delivering net positive outcomes. The independent report did not find any evidence that crowding out of private investment has occurred as a result of investment of the levy to date.

5 Recent progress has been made to ensure the levy is invested strategically. I intend to build on this progress and make further changes, including further work on legislative changes to how the levy is allocated between territorial authorities and what they can spend it on to better reflect their needs; and requiring the Ministry for the Environment to undertake cost-benefit analyses for projects proposed to receive $10 million or more in levy funding. 9(2)(f)(iv)

6 Decisions on levy investment will be made through Budget 2025 processes, including setting a quantum for waste-related investments and identifying additional savings opportunities using the levy [CAB-24-MIN-0138 refers]. Existing commitments include funding for waste minimisation projects that reduce emissions and funding for contaminated sites and vulnerable landfills (a Q4 action plan priority).

7 The scope for investment of the levy is set by the amended Waste Minimisation Act 2008. I consider the government needs to retain a credible level of investment in minimising waste and waste emissions to maintain the clear link between the purpose of the levy and its investment. However, there will be choices for Ministers as part of Budget 2025 about the level of additional savings that could be generated through the levy and whether any new environmental initiatives are funded.

8 Cabinet agreed to revisit the waste minimisation scope change and levy increases prior to Budget 2025 [CAB-24-MIN-0138 decision 24 refers]. I have reviewed these decisions and do not consider further changes are required at this time.

Background

9 Waste levies (or landfill levies) are widely used internationally to achieve objectives including managing market failures such as incomplete costing of negative externalities associated with use of landfills; reducing demand to manage limited space available for landfilling; encouraging diversion of waste from landfill and realising additional value from recovered materials; reducing environmental impacts of "upstream" production of virgin materials by substituting more recycled material for virgin material. Such levies are particularly common in European and Australian jurisdictions.

10 Waste levies can be set at a level that reflects immediate environmental externalities (including discharges to water or air, such as greenhouse gas emissions, and nuisance or disamenity affects). More commonly they are set at a higher level, in order to achieve additional policy objectives (including raising revenue to invest into environmental and other initiatives; making resource recovery activities more financially viable; and to create an economic incentive to minimise waste).

11 Available evidence suggests waste disposal is relatively inelastic – ie, changing the price of waste disposal does not have a substantial effect on waste volumes. In part, this is why many countries have opted for high levies to achieve diversion from the landfilling stream. International evidence suggests that price changes are more effective if they are accompanied by other measures to reduce barriers to recycling and other alternatives.[1]

12 The Waste Minimisation Act 2008 (WMA) establishes a waste disposal levy (levy) as a key tool to achieve waste minimisation. The effectiveness of the levy in achieving government priorities is affected by legislative and policy factors, including:

12.1 levy investment (what the levy can be spent on, systems and processes to ensure central and local government investment is lawful, cost-effective and achieves strategic outcomes);

12.2 levy rates and coverage (which sites must pay the levy, and how much);

12.3 levy distribution (how levy revenue is shared between central and local government, including how it is split between individual councils).

13 My work programme includes actions focused on all of these matters, including through proposed amendments to waste legislation, and related Budget 2025 decisions.

[1] NZIER. 2020. *Waste Levy Extension. Estimates of extending and raising levy*. Wellington: NZIER.

Levy investment

14 In April 2024, Cabinet agreed to legislative amendments to increase the range of waste and environmental priorities in which the central Government portion of the levy can be invested. This has allowed for greater alignment of levy investment with government priorities, including an increase in funding for remediation through the new Contaminated Sites and Vulnerable Landfills Fund, which opened on 1 October 2024.

15 Decisions on levy investment will be made through Budget 2025 processes, including setting a quantum for waste-related investments and identifying additional savings opportunities using the levy [CAB-24-MIN-0138 decisions 28 to 32 refers]. There are some existing commitments that will need to guide decisions on a quantum of waste-related investments, most significantly:

15.1 funding for waste minimisation projects that reduce emissions: the draft second emissions reduction plan includes modelled abatement based on investing $30 million per year into infrastructure projects and systems that reduce organic waste and emissions. This funding is a key policy in the second emissions reduction plan and contributes to the overall plan's sufficiency.

15.2 funding for contaminated sites and vulnerable landfills: this work is one of the Prime Minister's Q4 priorities.

16 I also have other waste priorities to target through levy investment, including emergency waste management, construction and demolition waste, and plastics.

17 Beyond the funding agreed in an envelope for waste investments, Ministers will have choices through Budget 2025 around how much of the remaining funding is directed towards further savings versus new environmental initiatives, particularly over the longer term.

18 Commercial, local government and community groups in waste and resource recovery have raised concerns that the amendments reduce investment into waste reduction, resource recovery, composting and recycling activities that the Waste Minimisation Fund (WMF) has previously been targeted towards.

19 I agree it is important to retain a credible level of investment into these activities, but I am also mindful to ensure that each investment that is made is high value and provides value for money. The *Analysis* section of this paper provides more information on initiatives to ensure this outcome.

Levy rates and coverage

20 Levy rates have been progressively increased since 2021, in response to widespread criticism that the original levy rate (set at $10 per tonne for municipal waste when it was introduced in 2009) was too low to effect meaningful change. Most recently, additional levy increases out to 2027 were implemented through the Waste Minimisation (Waste Disposal Levy) Amendment Act 2024.

21 Cabinet agreed to revisit the waste minimisation scope change and levy increases prior to Budget 2025 [CAB-24-MIN-0138 decision 24 refers]. I have reviewed the changes made by Cabinet in April 2024 and do not propose any further changes at this time. Further changes to levy rates could be made by regulation if required.

22 [One matter I propose to consider further as part of proposed legislative change is whether current legislative provisions create a distortion in the market, because at present a levy can be applied to disposal facilities (ie landfills), but not to plants that generate energy through incineration of waste.] *subject to discussion with the Minister*

23 I will also direct officials to continue to monitor the impacts of differential levy rates at different landfill types, to ensure this does not distort waste markets.

Levy distribution

24 The levy is distributed between central and local government and between individual territorial authorities based on requirements in the WMA. I intend to retain current provisions for allocating 50 per cent of the levy to territorial authorities.

25 However, the requirement to allocate the levy solely on a population basis does not reflect the particular challenges some councils face in providing waste minimisation services for their communities. Smaller councils and those with high numbers of visitors relative to permanent residents face disadvantages which could be addressed through legislative change.

26 Local government remains under significant cost pressures, and I intend to explore options for widening the matters territorial authorities could spend their levy money on as part of my legislative reform work.

Analysis

Report back on levy investment

27 Sapere undertook a rapid cost-benefit analysis, which focused on the most significant and measurable costs and benefits related to investment of the levy. The analysis had some limitations due to data quality and availability and was focused on the central government portion of the levy only.

28 The central estimate for the cost-benefit analysis is that society is better off by around $107.2 million due to investments made via the levy from 2021. This represents a benefit-cost ratio of 1.37.[2]

29 The main quantified benefits were diversion of waste from landfill and avoided emissions. Due to a lack of data, a range of additional benefits were not quantified (including value of recovered materials and a range of social outcomes).[3]

30 The report identified a range of mechanisms that are used to ensure the waste minimisation fund delivers value for money, including:

30.1 internal and independent assessment processes;

30.2 fund applicants providing a forecast of benefits arising from their projects;

[2] Based on sensitivity analysis, the upper and lower bounds of this central estimate are 0.87 and 2.13.
[3] The full range of non-quantified costs includes gained knowledge from feasibility studies; increased awareness; 'warm glow' effects; social cohesion and community engagement; employment opportunities; value of recovered materials; reduced imports; and positive impacts on waste management behaviour and attitudes.

30.3 a focus on the cost per tonne of waste diverted (and associated emissions avoided);

30.4 successful applicants providing actual results against previous targets;

30.5 applications requesting more than $1 million in funding required to provide a business case and subject to ministerial approval.

31 Investment criteria include that funding must support projects where private capital is not available at the level required to enable the project to proceed, or where the project is high-risk/high benefits, and/or where there is high public benefit which might not otherwise be realised.

32 Sapere considers innovative projects, which are comparably risky but may prevent waste production, may be overlooked when considered solely through a value for money lens. I will direct officials to ensure investment decisions continue to consider a range of factors, not just the cost per tonne of waste.

33 The Sapere report considered the question of whether investment of the levy has led to the crowding out of private capital investment, ie where the government invests in the provision of a good or service that might otherwise be provided by private sector businesses.

34 Industry stakeholders consider that crowding out due to levy funding has not been a widespread issue to date. However, some expressed concern that as levy revenue grows, crowding out could become an issue. This is one factor that could be considered when an envelope for waste minimisation funding is agreed, although it will need to be balanced against the need for a credible level of investment, in line with the purpose of the levy outlined in the amended WMA.

35 The report also identified instances in which crowding in has occurred (ie the creation of commercial opportunities for the private sector via public investment), including in relation to investment by territorial authorities.

36 The Sapere report makes the following recommendations:

36.1 *Value for money and crowding out analyses should be conducted on the [territorial authority] allocation and spending of the levy:* I intend to review how the levy is shared between territorial authorities and what they can spend it on as part of my planned review of waste legislation. I don't consider value for money or crowding out analyses will be required once my proposed changes are implemented, but this could occur in the future if required.

36.2 *A cost-benefit analysis of projects exceeding $1M investment value should be introduced*: Ministry for the Environment processes include rigorous assessment of the costs and benefits of projects exceeding $1 million in investment value, including requirements for a business case, assessment by an independent investment panel, and close scrutiny of project plans. Assessment processes also carefully consider the case for government intervention/funding. I do not consider it would provide good value for money to commission cost-benefit analysis for projects above $1 million, but I will direct officials to consider this for projects exceeding $10 million investment value, where data allows. This figure aligns with the point at which Cabinet has agreed I will consult with the Minister of Finance, Minister for Infrastructure,

Minister for Regional Development, and any other relevant portfolio Ministers to make investment decisions.

36.3 *The Ministry for the Environment (MfE) should seek to improve data collection and monitoring of projects ex-post*: Changes made to funds investment since 2021 include improved data collection and reporting through an online funds management system, both during project delivery and after completion. I will direct officials to continue to refine data collection and reporting provisions to ensure outcomes are measurable.

36.4 *MfE should consider alternative funding models*: Sapere suggested loans or equity arrangements should be considered as an alternative to grant funding. 9(2)(f)(iv) 9(2)(f)(iv) 9

36.5 *MfE should increase focus on criteria that signal an applicant's ability to deliver a project*: I am confident that existing processes (including a recent change to project scoring criteria) appropriately weight an applicant's ability to deliver (alongside other criteria).

36.6 *MfE should increase [its] appetite for waste prevention projects and [undertake] routine assessment of funding priorities*: Cabinet agreed my investment priorities in April 2024. I will review these investment priorities again in 2025. As noted above, decisions to be made on the second emissions reduction plan are also relevant to this recommendation.

36.7 *MfE [should] consider long-term waste management planning:* I see an enabling role for government here, helping to identify overall priorities (including through a new waste strategy [xx refers]); helping identify waste infrastructure needs and gaps, including through waste dashboards and periodic stocktakes; and supporting the sector's own initiatives, such as a recent BRANZ resource recovery map that was created with MfE funding support.

37 Sapere also recommended that MfE consider a significant change to how funding is distributed, including moving away from the project-by-project assessment approach towards a more direct and purposeful investment strategy, focused on waste prevention and infrastructure investments, supported by use of lending and equity as alternative funding models.

38 The current application-based model has advantages and drawbacks. It provides a mechanism to capture ideas from the sector within defined priorities, and a transparent process for selecting those that deliver the best value for money. However it may not address all the gaps (for example if no applications are received for projects identified as a government priority). I have directed officials to consider whether alongside the application model there is opportunity to proactively identify specific gaps and use targeted mechanisms such as requests for proposals to elicit proposals. A similar approach has been undertaken recently to support territorial authorities to develop

kerbside collections of organic waste such as food scraps, which the KPMG report identified as a cost-effective means of providing funding.

39 The Sapere report recommended maintaining a territorial authority allocation, while moving to a strategic and collaborative partnership between MfE and territorial authorities to encourage local government spending of the allocation in a way that complements national priorities. My intentions in relation to the territorial authorities' portion of the levy are outlined at paragraphs 26 to 27.

Independent review of back-office functions funded by the levy

40 KPMG undertook an independent review of back-office functions funded by the levy. Key conclusions from this review are summarised in table 1.

Table 1: Key conclusions from KPMG review of levy collection, investment, and compliance monitoring and enforcement functions at Ministry for the Environment

Topic	KPMG conclusions
Investment processes	Overall, the Ministry has robust and effective processes for investment decision-making but there is inherent risk as Waste Investment Funds shift focus to higher scale, more complex projects with the potential for a wider scope of initiatives. There are opportunities to increase the efficiency of decision-making through some process changes and automation of activities. The current Waste Investment decision-making process is delivering high value for money through efficient and effective services within the [Expression of Interest], Application, and Contracting phases.
Back-office processes and funding	Overall, the Ministry has robust and effective processes for levy collection, administration, and compliance. The current level of funding is sufficient to undertake these activities, but there is a degree of unmitigated risk around both revenue collection and perverse behaviours of [disposal facility operators]. Any reduction in funding would exacerbate this risk. Throughout this analysis, KPMG has concluded the back-office functions are delivering efficient and effective value for money back-office services on limited funding. Within the current delivery of services, there are still risks and opportunities for improvement. As a result, KPMG would recommend that the current levels of departmental funding should be considered as closer to the minimum cost to deliver these services. Improved service delivery would require a greater amount of funding to deliver more effective and efficient value-for-money services. Investing in the recommendations [in the KPMG report] would support the Ministry to be well-placed to do so.

41 I have directed officials to implement the recommendations of the report as appropriate. Recommendations in relation to appropriate funding levels for back-office functions associated with the levy will be addressed through Budget 2025 processes.

Cost-of-living Implications

42 The main cost-of-living impact of this paper relates to my proposed changes to how territorial authorities could spend the levy revenue they receive. If the legislation is changed to enable them to spend the levy on other matters, this may contribute to a slight reduction in cost pressures for councils and ratepayers.

Financial Implications

43 Officials at the Ministry for the Environment are working on a levy investment framework to help identify high-priority savings, in discussion with the Treasury. Additional savings that can be made through investment of the levy will be identified through Budget 2025 processes.

Legislative Implications

44 A legislative bid has been submitted for the review of the WMA and the Litter Act.

Impact Analysis

45 Impact analysis and Climate Implications of Policy Assessment provisions do not apply to this paper.

Population Implications

46 No specific population implications have been identified for these proposals.

Human Rights

47 These proposals are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Use of external resources

48 The following external resources were used in developing this paper:

48.1 KPMG NZ (to undertake an independent review of back-office functions funded by the levy);

48.2 Sapere Research Group NZ (to contribute to the assessment of performance of government spending funded by the levy which is outlined in this paper).

49 These companies were commissioned to provide independent viewpoints and enable an objective assessment of performance.

Consultation

50 The following departments were consulted on this paper: Department of Internal Affairs (DIA), Environmental Protection Authority, Ministry of Business, Innovation and Employment, Ministry for Primary Industries, Ministry for Regulation, Te Arawhiti, Te Puni Kōkiri (TPK) and the Treasury. The Department of Prime Minister and Cabinet was informed.

51 I have not consulted externally on the contents of this paper, although my views are informed by ongoing engagement with the sector. Sapere engaged with the waste and recycling and local government sectors in completing its report.

Communications

52 No communications associated with this paper are planned.

Proactive Release

53 I intend to proactively release this paper and associated Cabinet committee papers and minutes within 30 business days of final decisions being confirmed by Cabinet, subject to redaction as appropriate under the Official Information Act 1982.

Recommendations

The Minister for the Environment recommends that the Committee:

1 **note** the Minister for the Environment has reviewed the decisions Cabinet made in April 2024, in line with the agreement to revisit the waste minimisation scope change and levy increases prior to Budget 2025 [CAB-24-MIN-0138 decision 24 refers], and does not consider any further changes are required at this time;

2 **direct** officials at the Ministry for the Environment to do further work on changes to the Waste Minimisation Act 2008 including:

2.1 how the levy is allocated between territorial authorities

2.2 the matters territorial authorities can spend the levy on to better reflect their needs

2.3 what activities can be made subject to a levy, including scope for waste-to-energy plants to be included, in order to remedy potential market distortions;

3 9(2)(f)(iv) [redacted]

4 **require** the Ministry for the Environment to undertake cost-benefit analyses for projects proposed to receive $10 million or more in levy funding.

Authorised for lodgement

Hon Penny Simmonds

Minister for the Environment