



# Memo: Risks and trade-offs of further scaling levy departmental increases

**Date:** 1 April 2025

## Purpose

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The Minister of Finance asked the Ministry for the Environment (MfE) to provide information on the specific risks and trade-offs of further scaling departmental increases by 50% and 75%, to support realisation of additional savings at Budget 2025 and the expectation that agencies meet cost pressures through reprioritisation.

MfE had already reduced the recommendation from an additional \$47.107m over four years (and into out-years) to \$44.586m in response to Treasury's earlier feedback to reduce costs to MVP levels.

## Background and Key Messages

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An adjustment to a reasonable baseline level was always going to be required to support the delivery of departmental functions (even at MVP levels), on the basis that the waste work programme had several time limited funding streams that were finishing and funding for the waste minimisation administration category would drop back to 2022/23 levels.

The intent was to recalibrate to a reasonable baseline across both departmental categories, noting that given the fiscal environment, modelling was already done with MVP in mind and reflected MfE's agreed operating model.

For the waste minimisation administration category, given the independent review supporting the level of funding being requested and recommending against further reductions (see Waste Minimisation Administration section) reducing funding for these functions would be difficult.

Given the waste and hazardous substances work programme has also been scaled back in the last 12 months, further reductions would require the Minister for the Environment and Cabinet to consider which aspects of the recently agreed work programme to stop or slow down (see Environment Work Programme section). As the policy team is relatively evenly spread across the programme, reducing the uplift by 50% or 75% would create material risk to the delivery of most if not all elements agreed by Cabinet.

This is a summary of key messages provided to the Treasury on the 27<sup>th</sup> of March 2025:

- Given the fiscal environment modelling was already done with MVP in mind and reflected MfE's agreed operating model. However, as per the above, we remodelled salary costs (refined salary assumptions) at MVP levels, saving \$2.521m.
- The overall departmental funding reduces significantly from the approved MBU levels for 24/25 (eg \$17.6m down to \$13.1m for the environment work programme).
- In general, FTE numbers from 30 June 2025 will be around 20-25% less than this time last year and therefore we already consider this to be the MVP - less funding than this will materially affect ability to deliver.
- Non-people costs are in-line with the current year rather than requesting any form of uplift. Current year funding has gone through a rigorous budget process and with detail approved by Deputy Secretaries.

## **Waste Minimisation Administration**

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From 2025/26 there is a known funding drop (back to 2022/23 levels which were set before the levy was expanded). Those levels do not reflect the increased costs of collecting the levy from more landfills and distributing more money through waste investments, and therefore it has been signalled that this departmental increase is required.

Through Budget 2024, Cabinet invited the Minister for the Environment to independently review the process for making investment decisions using the waste disposal levy and back-office functions relating to the waste disposal levy [Waste minimisation administration] with a focus on value for money. This efficiency and effectiveness review led by KPMG 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.

KPMG also advised not to reduce funding below the current 2024 levels due to compliance risk in Waste Operations and the robustness of the Waste Investments applications and contract management processes. We note the KPMG findings were based on current FTE levels not FTE levels post 30 June 2025 which are reducing

further. Thus, the KPMG review supports the level of funding for waste administration being requested.

The below table sets out the impact of a 50% and 75% reduction in requested funding:

<b>Waste Minimisation Administration (\$'000m)</b>					
	<b>2025.26</b>	<b>2026.27</b>	<b>2027.28</b>	<b>2028.29</b>	<b>Total Reduction</b>
50%	\$ 3,598	\$3,692	\$3,692	\$3,692	\$14,674
75%	\$ 5,397	\$5,538	\$5,538	\$5,538	\$22,010

## **Waste investments**

For waste investments, in addition to administering the Waste Minimisation Fund (WMF), this team will also need to administer the expanded Contaminated Sites and Vulnerable Landfills Fund and emergency waste management. Even with a \$30m annual cap for new initiatives via the WMF, there will continue to be significant funds under management. WMF currently has an \$80m portfolio and between the two funds the overall portfolio size is not expected to decrease due to multi-year contracts.

KMPG concluded that “the Ministry has robust and effective processes for investment decision-making” and is “delivering high value for money through efficient and effective services.” A further reduction in funding risks weakening oversight, slowing delivery and reducing value-for-money outcomes. Efficient fund administration is critical to safeguarding public money.

## **Waste operations**

On the waste operations side, this team plays a critical function with regards to waste levy collection and administration, compliance, monitoring and enforcement. These are statutory obligations under the Waste Minimisation Act 2008 (WMA). The increase and expansion of the levy since 2021 across landfill classes is significant. There are now 180 landfills with a projected peak of \$300m per annum in revenue compared to ~30 landfills (\$35m per annum) in 2021. In addition to levy liable sites there are 400 transfer stations, monofills and cleanfills with reporting obligations. This has significantly increased compliance, monitoring and enforcement activity to ensure the levy is received as intended.

KPMG concluded that “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 DFOs [Disposal Facility Operators who pay the levy]. Any reduction in funding would exacerbate this risk”, with a high likelihood of increased levy avoidance and in turn, reduced levy revenue. Whilst this has not been modelled in the time available, it would heavily outweigh the cost saving. The ministry would also need to reduce administrative support to disposal

facility operators and territorial authorities, with potential delays in, for example, processing levy waiver applications, providing less assistance to disposal facility operators and territorial authorities, ultimately leading to non-compliance under the WMA.

## **FTE impact**

These are business as usual (BAU) functions, rather than policy work that can be stopped, slowed or scaled.

Since non-people/systems costs for both functions have several core BAU components such as three key IT systems to maintain and essential travel for compliance, monitoring and enforcement (CME) site visits, there is less scope for reduction in that area. Thus, unless MfE reprioritised Vote Environment funding to meet the shortfall, likely resulting in less reprioritisation towards the Resource Management reform, further FTE reduction would be required<sup>1</sup>. This would entail acceptance of high risk to levy revenue, efficient levy distribution and effective investment of the levy.

Under the timeframes we have not broken this down between waste operations and waste investments, but both areas would be significantly impacted. However, preliminary analysis indicates:

- For a 50% reduction, up to 13 FTE<sup>2</sup> would have to be made redundant (leaving 25 FTE across both functions). This would be dependent on the amount of cost savings achieved within the environment work programme category.
- For a 75% reduction, up to 20 FTE would have to be made redundant (leaving 18 FTE across both functions).

## **Environment Work Programme**

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The waste and hazardous substances work programme (Environment work programme category) was recently agreed by Cabinet [ECO-24-MIN-0254]. The level of funding requested is what is required to deliver this programme. Any reduction to the request requires MfE to either:

- Stop and/or slow aspects of that programme (a further restructure of this function would be required resulting in redundancies); or
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<sup>1</sup> MfE would need to assess whether using Crown funding to subsidise the difference would be appropriate in this case.

- Continue at the current level by using Vote Environment funding to fully or partially cover the shortfall. This would result in potential reductions in work programmes in other areas of the organisation and be highly likely to directly impact MfE's ability to contribute, via baseline reprioritisation, to the Government's priority Phase 3 Resource Management programme, which is proceeding at pace. This would have to be worked through during MfE business planning processes.

The below table sets out the impact of a 50% and 75% reduction in requested funding:

<b>Environment Work Programme (\$'000m)</b>					
	<b>2025.26</b>	<b>2026.27</b>	<b>2027.28</b>	<b>2028.29</b>	<b>Total Reduction</b>
50%	(\$628)	\$2,749	\$2,749	\$2,749	\$7,619
75%	(\$943)	\$4,124	\$4,124	\$4,124	\$11,429

To achieve the 50 or 75 percent using a 'stop or slow' scenario a decrease of approximately 10 FTE<sup>2</sup> and 15 FTE respectively would be required. The relative priority of each workstream would need to be tested with the Minister for the Environment and Cabinet. However, as the policy team is relatively evenly spread across the programme, reducing the uplift by 50% or 75% would create material risk to the delivery of most if not all elements agreed by Cabinet.

Our perspective is that the following workstreams are government priorities that there is unlikely to be support to stop or slow:

- Waste Minimisation Act amendments (which includes proposed levy changes)
- Supporting changes to HSNO Act to support proposed new gene tech regulator and implementation of HSNO Act changes resulting from Ministry for Regulation led chemical sector review
- Implementing actions contained within the Emissions Reduction Plan – e.g. improved organic waste management, F gas RPS, organic waste management improvements
- Product stewardship

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<sup>2</sup> Calculated at a senior \$\$ level. FTE figures provided as whole numbers rather than reflecting part FTE

In addition to the above there are a number of existing International conventions that we have commitments to.

Other workstreams that would need to be considered for stopping or slowing to support a reduction in funding include:

- The final tranche of plastic phase outs
- Global plastics treaty negotiations
- Food waste and organics reduction policy
- Contaminated land and soil reuse policy

MfE could explore whether it is possible to switch out \$2.125m in departmental levy costs associated with food waste initiatives (funding agreements already in place) with historic unallocated WMF non-departmental funding. If this is possible (has not been able to be tested in the timeframe) then in FY 25/26 only, this could reduce the impact on the waste administration category (while these costs sit in the environment work programme category, the category does not need an uplift in funding in FY 25/26).