

The Treasury

Budget 2024 Information Release

September 2024

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- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
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Treasury Report: Waste Disposal Levy - Additional Savings Options

Date:	12 April 2024	Report No:	T2024/1024
		File Number:	SH-10-1-1-1

Action sought

	Action sought	Deadline
Hon Nicola Willis Minister of Finance	<p>Agree to the recommendations in this report</p> <p>Discuss your preference with Minister Simmonds and Minister Bishop</p>	15 April 2024

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Ashleigh Moss Brown	Senior Analyst, Natural Resources ^[39]	^[35]	✓
James Haughton	Manager - Natural Resources		

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Waste Disposal Levy - Additional Savings Options

Executive Summary

Minister Simmonds (Minister for the Environment), with support from Minister Bishop, is planning to circulate a Cabinet paper titled 'Investment of the Waste Disposal Levy to achieve Government priorities' for Ministerial consultation on 12 April. We understand this paper is scheduled for the Cabinet Business Committee's consideration on 22 April with final financial recommendations to be included in the 29 April Budget Cabinet paper. This paper will deliver on your direction to the Minister for the Environment to realise savings for Budget 2024 and strengthen the investment of levy revenue, as discussed in the Environment multilateral meeting of 18 March.

The Cabinet paper seeks policy decisions to:

- a. increase levy rates by \$5 per annum from 1 July 2025, generating \$236 million in additional revenue over the forecast period for central and local government (based on current projections).
- b. expand the scope of what the Waste Disposal Levy (WDL, or 'the levy') can be spent on to include "activities that reduce environmental harm and/or increase environmental benefits."

The scope expansion will enable \$220 million in savings to be realised across the forecast period at Budget 2024. Budget night legislation will be required to amend the Waste Minimisation Act 2008 to give effect to these changes.

There are options to pursue additional savings by reducing funding allocated to the Contestable Waste Minimisation Fund (where the majority of central government levy revenue is allocated), which is forecast to grow significantly over the forecast period. The Treasury supports identifying further and this could be done as part of Budget 2024 or Budget 2025. The Treasury and the Ministry for the Environment (MfE) recommend the Budget 2025 option to allow for more comprehensive analysis to identify savings options aligned to government priorities and to mitigate risk. However, if you wish to realise further savings, there is an option to achieve this through Budget 2024. There is increased risk associated with this option, including concerns with the legitimacy of the levy and fiscal uncertainty.

Recommended Action

We recommend that you:

1. **note** the Cabinet paper 'Investment of the Waste Disposal Levy to achieve Government priorities' seeks policy decisions on changes to the Waste Disposal Levy that will enable \$220 million in operating savings for Budget 2024
2. **note** that – following discussions with your office – the \$220 million in savings have also been included in your latest Budget 2024 package [T2024/972 refers]
3. **note** that following these savings there is approximately \$30 million remaining in the Waste Minimisation Fund (the WMF) for 2024/25
4. [33]

5. ^[33]

6. **agree** to progress additional savings through Budget 2024 or Budget 2025 (circle one)

Budget 2025

(Treasury and Ministry for the Environment recommended)

OR

Budget 2024

7. ^[33]

8. **discuss** your preference for the quantum and timing around further savings with Minister Simmonds and Minister Bishop ahead of lodgement of the final Cabinet paper

9. **note** the Treasury will provide alternative recommendations for the Cabinet paper based on your decisions in recommendations 5, 6, and 7 above

James Haughton
Manager, Natural Resources

Hon Nicola Willis
Minister of Finance

_____/_____/_____

Treasury Report: Waste Disposal Levy - Additional Savings Options

Purpose of Report

1. This report summarises the 'Investment of the Waste Disposal Levy to achieve Government priorities' Cabinet paper. It also provides advice on options to generate additional savings and seeks your direction on whether you wish to realise these in Budget 2024 or Budget 2025.
2. This advice is based on the latest version of the Cabinet paper which we understand will soon be circulated for Ministerial consultation.

Summary of Cabinet Paper

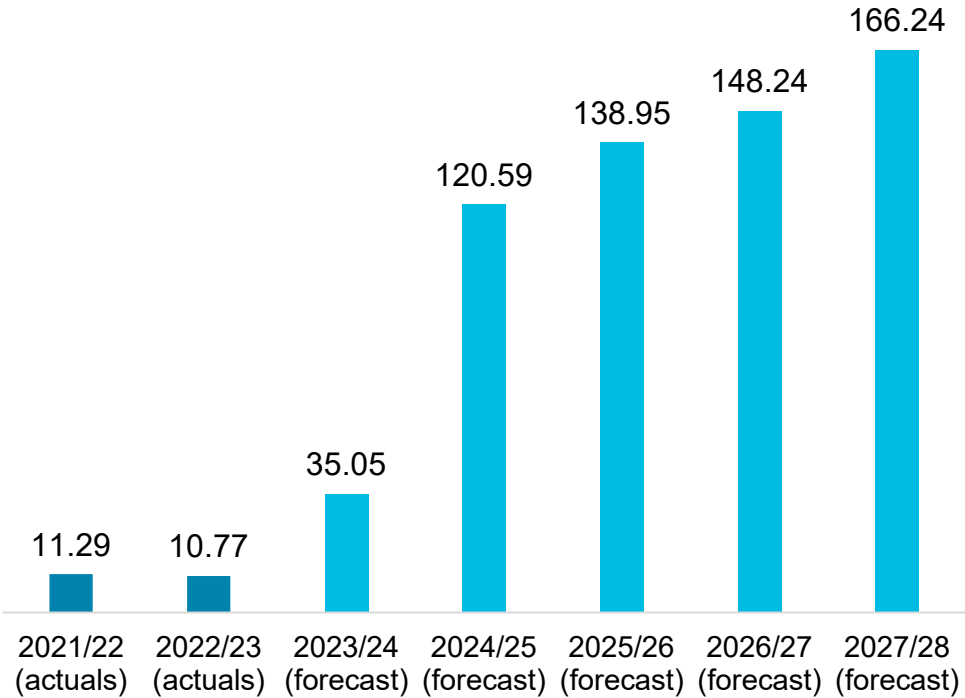
3. A Cabinet paper from Minister Simmonds (Minister for the Environment) on the Waste Disposal Levy (the levy) 'Investment of the Waste Disposal Levy to achieve Government priorities' is scheduled for the Cabinet Business Committee (CBC) on 22 April. The purpose of the paper is to:
 - a) agree changes to the Waste Minimisation Act 2008 (the Act) that will enable the central government allocation of the levy to be spent on a broader range of environmental outcomes;
 - b) agree to further step increases to the levy over three years (2025/26 to 2027/28) that will provide additional revenue for central and local government¹;
 - c) identify activities and Crown responsibilities that can be funded by the levy in order to deliver savings for Budget 2024 (with further opportunities to identify further savings across government in outyears);
 - d) confirm strategic investment priorities for waste (including resource recovery infrastructure, contaminated sites and vulnerable landfill remediation).
4. Cabinet agreement to the above would enable \$220 million total operating in savings for Budget 2024. These savings are based on "offsetting" costs associated with existing funds and responsibilities administered by the Ministry for the Environment (MfE).
5. To enable the proposal, Budget night legislation is required to give effect to the policy decision, as well as additional legislation within six months to give effect to the proposed levy increase.

Growth of the Waste Minimisation Fund

6. In 2020, Cabinet agreed to increase the rate of the levy and apply the levy to a broader range of landfill classes from 2021 [CAB-20-MIN-0264.01]. This has resulted in a significant increase in levy revenue. The levy revenue is allocated 50:50 between central and local government for activities that promote or achieve waste minimisation. Currently, central government levy revenue is allocated to the Contestable Waste Minimisation Fund (the WMF), less administration costs to collect the levy and operate the fund.

¹ In accordance with the Waste Minimisation Act, 50 per cent of levy revenue is allocated to territorial authorities
T2024/1024 Waste Disposal Levy - additional savings options

Figure 1 – Contestable Waste Minimisation Fund Growth over Time (\$ million)



Note that 2023/24 figures onwards are forecast figures (provided by MfE) with a \$5 per annum levy increase factored in from 2025/26, with \$5.906 million per annum assumed for waste minimisation administration.

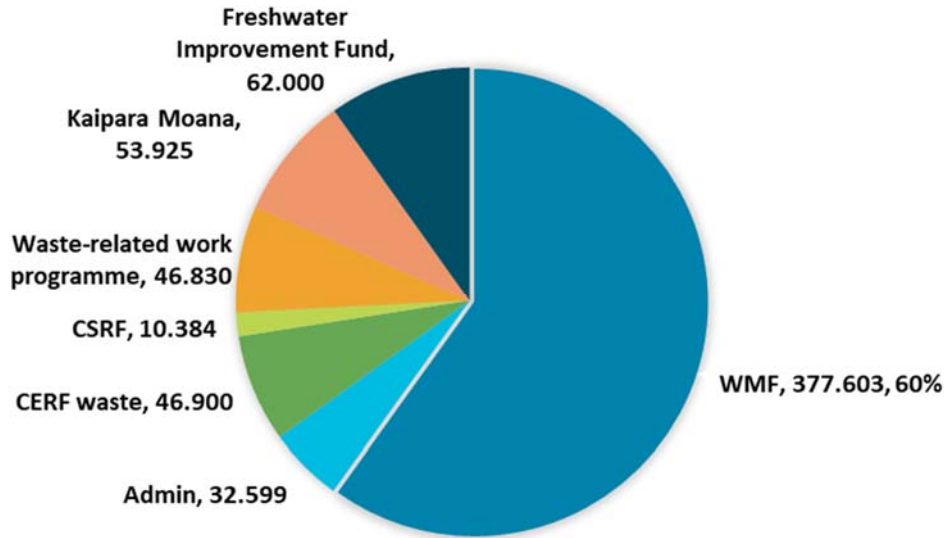
Savings opportunities as a result of the expanded Waste Disposal Levy scope

Approximately \$220 million of savings are proposed for Budget 2024

7. Expanding the scope of the levy will enable wider waste and other environmental priorities to be funded by the central government portion of the levy, including:
 - activities that reduce environmental harm and/or increase environmental benefits;
 - waste-related emergency spending;
 - funding MfE’s waste-related and hazardous substances work programme;
 - projects to achieve remediation of contaminated sites, including landfills vulnerable to the impacts of severe weather events.
8. The expanded scope generates savings by enabling activities already in MfE’s baseline that are currently funded in separate appropriations to be funded from within the waste minimisation multi-category appropriation (the MCA). This then allows for a reduction of those separate appropriations (as these activities are now in scope of levy funding) thus generating savings.
9. Minister Simmonds is proposing that the following activities and functions be in scope of the levy for savings of approximately \$220 million in Budget 2024:

- Contaminated Sites Remediation Fund
- Climate Emergency and Response Fund - Waste Initiatives
- Waste related Work Programme
- Kaipara Moana Remediation
- Freshwater Improvement Fund

Figure 2: Central Government Levy Revenue Allocations Following Savings (\$m over the forecast period)



There are opportunities for additional savings, particularly given the increase in future levy revenue.

- An average of \$94.4 million per annum across the forecast period will remain for the WMF² after the \$220 million is allocated to generate savings (Table 1).

Table 1 – Impact of savings on the WMF

Levy revenue (\$ millions)	2024/25	2025/26	2026/27	2027/28	Total opex	Avg p.a.
Central government levy revenue (with proposed increase)	126.500	144.854	154.143	172.144	597.642	149.411
Total proposed Budget 2024 savings	(96.575)	(74.608)	(24.728)	(24.128)	(220.039)	(55.01)
Remainder of central government levy revenue for the WMF	29.925	70.246	129.415	148.016	377.603	94.401

- This leaves a significant amount of funding available for waste minimisation projects from within the central government allocation. There is also a significant amount of

² This is compared to an average of \$128 million per annum across the forecast period under the status quo (ie. no savings or levy increase).

funding available for local government (\$598 million over forecast period) as that portion is not impacted by the proposed savings.

12. Treasury supports an approach to identify further savings. This is on the basis that:
 - a robust price signal is maintained by increasing the cost of waste disposal activity consistent with the purpose of the legislation;
 - a significant amount of funding will be spent on activities that promote or achieve waste minimisation through local government, which will continue to receive its 50 percent share of levy revenue (set to rise with further increases from 1 July 2025);
 - the WMF currently lacks a robust investment strategy which risks investment in projects that do not demonstrate value for money relative to other environmental or infrastructure priorities;
 - regular underspends in the WMF (average underspend of 25 percent) indicate a funding pool that is disproportionate to the number of worthwhile investments and/or that the market has limited ability to deliver these projects; and
 - increasing the central government portion of levy funding risks crowding out private investment.
13. The Cabinet paper notes there is a limit to how much funding can be strategically invested in waste minimisation, without a risk of crowding out private investment or creating ongoing subsidies for onshore processing. As such, Minister Simmonds has highlighted the opportunity to identify further savings from the WMF (by limiting waste minimisation funding allocation in the future) and is seeking agreement to progress this work in time for Budget 2025.
14. ^[33]
- 15.
- 16.
- 17.

These additional savings could be realised as part of Budget 2024 or Budget 2025

18. You have two timing options for realising additional savings:
 - a. Progress through Budget 2024, or
 - b. Progress through Budget 2025 (**Treasury and MfE recommended**)

Option 1: Progress through Budget 2024

As with the \$220 million proposed savings, to deliver further savings for Budget 2024, baseline funding would need to be reduced from existing appropriations, with these specific activities brought within scope of the Waste Minimisation MCA.

19. The majority of the \$220 million of savings come from large, discrete non-departmental programmes or funds within Vote Environment (eg, Kaipara Moana and the Freshwater Improvement Fund).
20. MfE would need to identify further eligible activities which would likely need to come from Vote Environment operational or policy programmes. It could include non-departmental funding (eg, Environmental Protection Authority hazardous substances), or departmental funding from the Improving New Zealand's Environment appropriation (eg, freshwater or baseline funding for resource management).
21. There are risks and challenges associated with progressing further savings for Budget 2024:
 - With the existing savings, the outputs are more demonstrably aligned with the levy purpose to reduce environmental harm and/or increase environmental benefits. In contrast, there is a risk for diminished alignment between potential options (eg, departmental baseline funding) and the scope of the levy. There is insufficient time to adequately work through this risk in time for Budget 2024.
 - Given the fluctuating level of unallocated revenue that would result after flatlining the WMF, the level of additional baseline activity that MfE would need to identify would vary each financial year. This would require ongoing regular decisions on what activities are in or out of scope of the Waste Minimisation MCA and would exacerbate the risk of unappropriated expenditure given the potential extent of required trade-offs and prioritisation within the appropriation.
 - It would potentially decrease the scrutiny of departmental policy expenditure that now resides within the Waste Minimisation MCA.
 - It would in effect be using a levy to fund functions that are not typically levy funded (eg, a department's core policy function).

Next Steps

26. Confirm with Treasury if you wish to pursue additional savings in time for Budget 2024 or Budget 2025. We recommend you discuss your preference with Minister Simmonds and Minister Bishop. We will provide alternative recommendations for the Cabinet paper based on your preferences for next steps.