



PERFORMANCE AUDIT

26 NOVEMBER 2020

# Waste levy and grants for waste infrastructure

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

# THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983* and the *Local Government Act 1993*.

We conduct financial or 'attest' audits of State public sector and local government entities' financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies' accounts.

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Following a financial audit the Audit Office issues a variety of reports to entities and reports periodically to parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on entity compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

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In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **'Waste levy and grants for waste infrastructure'**.

A handwritten signature in black ink, appearing to read 'Margaret Crawford'.

**Margaret Crawford**  
Auditor-General  
26 November 2020

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# contents

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## **Waste levy and grants for waste infrastructure**

### **Section one – Waste levy and grants for waste infrastructure**

Executive summary	1
Introduction	5
Waste levy	11
Grants for waste infrastructure	16

### **Section two – Appendices**

Appendix one – Response from audited agencies	24
Appendix two – About the audit	27
Appendix three – Performance auditing	30

## **Section one**

Waste levy and grants for  
waste infrastructure

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# Executive summary

Overall, waste generation in New South Wales (NSW) is increasing. This leads to an increasing need to manage waste in ways that reduce the environmental impact of waste and promote the efficient use of resources. In 2014, the NSW Government set targets relating to recycling rates and diversion of waste from landfill, to be achieved by 2021–22. The NSW Waste and Resource Recovery (WARR) Strategy 2014–21 identifies the waste levy, a strong compliance regime, and investment in recycling infrastructure as key tools for achieving these waste targets.

This audit assessed the effectiveness of the NSW Government in minimising waste sent to landfill and increasing recycling rates. The audit focused on the waste levy, which is paid by waste facility operators when waste is sent to landfill, and grant programs that fund infrastructure for waste reuse and recycling.

The waste levy is regulated by the Environment Protection Authority (EPA) and is generally paid when waste is disposed in landfill. The waste levy rates are set by the NSW Government and prescribed in the *Protection of Environment Operations (Waste) Regulation 2014*. As part of its broader role in reviewing the regulatory framework for managing waste and recycling, the EPA can provide advice to the government on the operation of the waste levy.

The purpose of the waste levy is to act as an incentive for waste generators to reduce, re-use or recycle waste by increasing the cost of sending waste to landfill. In 2019–20, around \$750 million was collected through the waste levy in NSW. The government spends approximately one third of the revenue raised through the waste levy on waste and environmental programs.

One of the waste programs funded through the one third allocation of the waste levy is Waste Less, Recycle More (WLRM). This initiative funds smaller grant programs that focus on specific aspects of waste management. This audit focused on five grant programs that fund projects that provide new or enhanced waste infrastructure such as recycling facilities. Four of these programs were administered by the Environmental Trust and one by the EPA.



## Conclusion

**The waste levy has a positive impact on diverting waste from landfill. However, aspects of the EPA's administration of the waste levy could be improved, including the frequency of its modelling of the waste levy impact and coverage, and the timeliness of reporting. Grant funding programs have supported increases in recycling capacity but are not guided by a clear strategy for investment in waste infrastructure which would help effectively target them to where waste infrastructure is most needed. Data published by the EPA indicates that the NSW Government is on track to meet the recycling target for construction and demolition waste, but recycling targets for municipal solid waste and commercial and industrial waste are unlikely to be met.**

### Waste levy

The waste levy rate, including a schedule of annual increases to 2016, was set by the NSW Government in 2009. Since 2016, the waste levy rate has increased in line with the consumer price index (CPI). The EPA has not conducted recent modelling to test whether the waste levy is set at the optimal level to achieve its objectives. The waste levy operation was last reviewed in 2012, although some specific aspects of the waste levy have been reviewed more recently, including reviews of waste levy rates for two types of waste. The waste levy is applied at different rates across the state. Decisions about which local government areas (LGAs) are subject to the levy, and which rate each LGA pays, were made in 2009 and potential changes were considered but not implemented in 2014. Currently, there are no objective and transparent criteria for determining which LGAs pay the levy. The EPA collects waste data from waste operators. This data has improved since 2015, but published data is at least one year out of date which limits its usefulness to stakeholders when making decisions relating to waste management.

### Grants for waste infrastructure

All state funding for new and enhanced waste infrastructure in NSW is administered through grants to councils and commercial waste operators. The government's Waste and Resource Recovery (WARR) Strategy 2014–21 includes few priorities for waste infrastructure and there is no other waste infrastructure strategy in place to guide investment. The absence of a formal strategy to guide infrastructure investment in NSW limits the ability of the State Government to develop a shared understanding between planners, councils and the waste industry about waste infrastructure requirements and priorities. The Department of Planning, Industry and Environment is currently developing a 20-year waste strategy and there is an opportunity for the government to take a more direct role in planning the type, location and timing of waste infrastructure needed in NSW.

The grants administration procedures used for the grant programs reviewed in this audit were well designed. However, we identified some gaps in risk management, record-keeping and consistency of information provided to applicants and assessment teams. In four of the five programs we examined, there was no direct alignment between program objectives and the NSW Government's overall waste targets.

## 1. Key findings

### **The EPA has not conducted recent modelling to test whether the waste levy is set at the optimal level**

The waste levy rate, including a schedule of annual increases to 2016, was set by the government in 2009. As part of its broader role in reviewing the regulatory framework for managing waste and recycling, the EPA can provide advice to the government on the operation of the waste levy. The objective of the waste levy is to encourage waste minimisation and diversion of waste from landfill. To achieve this, it must be set at a level that makes the cost of disposal higher than the cost of re-use or recycling, but not so high that it increases the likelihood of waste being illegally dumped or stockpiled above permitted thresholds.

There is evidence that the waste levy has a positive impact on the diversion of waste from landfill. However, the waste levy operation has not been reviewed since 2012 and waste levy rates and increases have not been reviewed since they were set in 2009. Since 2016, the waste levy has increased annually in line with CPI. Several reviews of specific elements of the waste levy have been conducted since 2012, including reviews of waste levy rates for two types of waste. A review of some aspects of the waste levy was conducted during 2020 as a part of work to develop a broader waste strategy, but this review did not examine the waste levy rates.

Since 2012, a number of significant changes have occurred in the waste industry that may have an impact on the effectiveness of the waste levy. These include:

- introduction of China's 'National Sword' policy, which limited export of waste to China to that with very low levels of contamination
- Council of Australian Governments (COAG) ban on exporting waste (to be phased in from 2020), announced in November 2019
- introduction of a waste levy in Queensland (QLD), which changes the economics of paying the waste levy in NSW compared to transporting waste to QLD to avoid paying the levy
- the EPA's 2018 ban on using mixed waste organic outputs on land.

The absence of a recent comprehensive review of the impact of changes in the waste industry means the current waste levy settings are not based on the most up to date information. This means the current settings may not have the optimal impact on minimising waste sent to landfill.

### **The waste levy is applied at different rates across the state**

Decisions about which LGAs are subject to the waste levy were made in 2009. The EPA advises that affected councils were made aware that these decisions were based on factors including waste generation and disposal trends, the ability of ratepayers to pay, and projected population growth. The EPA consulted with councils in 2014 about potential changes to the application of the waste levy but no changes were made at that time.

Currently, a higher levy applies to LGAs in the Sydney metropolitan area and the Hunter, Newcastle and Illawarra regions. A lower levy applies to LGAs in the north-east coast and LGAs immediately west of Sydney. Most LGAs do not pay a waste levy. The current rationale for why particular LGAs pay the waste levy and others pay a lower levy or none at all is not as clear and objective as it could be.

### **The EPA waste data has improved since 2015 but public reporting on environmental outcomes is not timely**

Data collected by the EPA and used for compliance and reporting has improved since 2015 due to legislative changes and improved technology. Environmental outcomes related to the waste levy such as recycling rates and rates of illegal dumping are reported every two years in WARR Strategy progress reports and every three years in NSW State of the Environment Reports. However, data used in these reports is at least a year out of date at publication which limits its usefulness to stakeholders when making decisions relating to waste management.

### **There is currently no formal strategy in NSW to guide waste infrastructure investment**

The government's 2014 Waste and Resource Recovery (WARR) Strategy does not include waste infrastructure priorities or a strategy for waste infrastructure. A draft waste infrastructure strategy was published for consultation by the EPA in 2017 but was never adopted formally. The absence of a formal strategy to guide infrastructure investment in NSW limits the ability of the State Government to develop a shared understanding between planners, councils and the waste industry about waste infrastructure requirements and priorities.

The EPA and the Environmental Trust currently provide funding for waste infrastructure solely through grants to councils and industry. With no strategy to guide what is funded, investment is being led by proposals from councils and private companies, rather than being driven by strategic objectives and priorities. The NSW Government is currently developing a 20-year waste strategy which may include consideration of waste infrastructure.

**Overall, grant administration procedures support the achievement of program objectives, but were not always applied consistently**

Staff administering waste infrastructure grant programs are supported by internal procedures developed by the Environmental Trust and the EPA. Risk-mitigation practices are in place such as preparing Deeds of Agreement between applicants and funding agencies that outline the expected performance of the grant recipient in terms of agreed outcomes and regular progress reports, and engaging probity officers to oversee assessment committee meetings.

However, we identified gaps in the application of grant administration procedures. For example, in four of the five programs we examined, there was no direct alignment between program objectives and the NSW Government's overall waste target. Within the 12 grant rounds we reviewed, three grant rounds provided inconsistent information to applicants and assessment teams. Of the ten grant rounds administered by the Environmental Trust, two were missing documentation that recorded the rationale for awarding grants and eight were missing one or more conflict-of-interest declarations.

In addition, more than half the grant applications included in the grant rounds reviewed for the audit included flawed cost-benefit analyses, indicating that better support or guidance may be needed to assist grant applicants to meet this requirement. Robust cost benefit analyses for infrastructure projects are an important step in the assessment of whether value for money from the investment will be achieved.

## **2. Recommendations**

**By June 2021 the EPA should:**

1. establish a schedule for reviewing the waste levy settings that includes:
  - regular reviews to ensure the waste levy is set at the optimal level to achieve its policy objective
  - transparent and objective criteria for determining which local government areas are levied
2. improve the timeliness of reporting on the environmental outcomes from its waste levy compliance activities.

**By December 2021 the Department of Planning, Industry and Environment should:**

3. determine the state's waste infrastructure needs to inform planning for and funding of waste infrastructure in NSW.

**By June 2021 the Environmental Trust should:**

4. improve record-keeping during grant program assessment committee meetings
5. ensure that conflict-of-interest declarations are completed for all members of assessment teams and stored in accordance with documented record-keeping requirements.

**By June 2021 the EPA and the Environmental Trust should**

6. ensure that consistent information is provided to applicants and assessment committees within their respective grant programs.



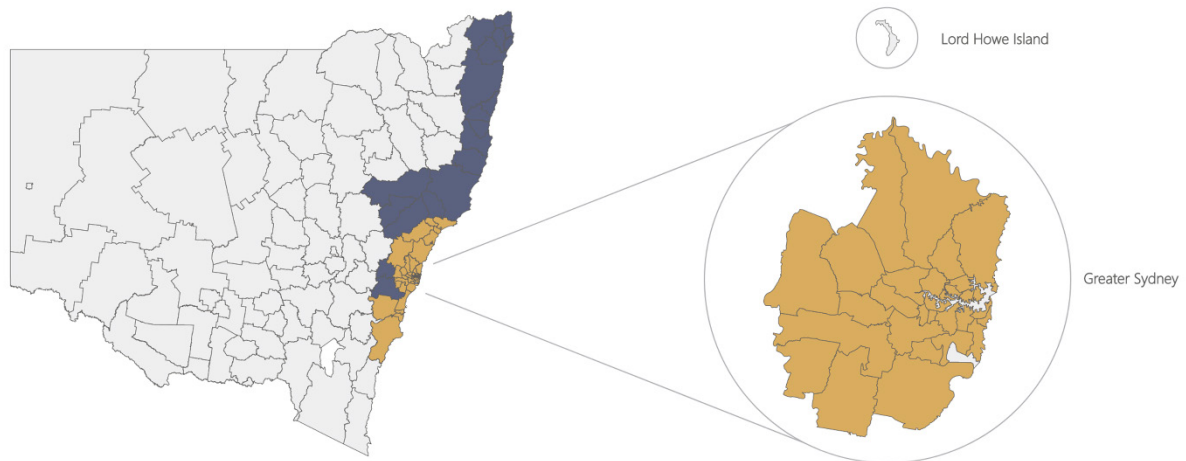
# 1. Introduction

## 1.1 Purpose of the waste levy

The waste levy is a market-based instrument legislated under the *Protection of the Environment Operations Act 1997* (the POEO Act) to discourage landfill disposal and promote the reduction in the use of materials and the re-use, recovery or recycling of materials in New South Wales. The levy works by increasing the cost of sending waste to landfill, thereby providing an economic incentive to reduce waste generation and promote reuse and recycling.

The waste levy applies in the regulated area of New South Wales which is made up of the Metropolitan Levy Area (Sydney, Illawarra and Hunter regions) and the Regional Levy Area (the Blue Mountains, Wollondilly and the area north of Port Stephens to the Tweed). The current application of the waste levy to local government areas in NSW is shown in Exhibit 1. Metropolitan Levy Areas are shown as tan and Regional Levy areas as blue.

**Exhibit 1: Levied and non-levied areas in NSW**



Source: Environment Protection Authority, 2020.

A flat levy is charged on solid waste regardless of the type of waste, but the rate varies across the two geographical regions. In 2020–21, the waste levy is:

- \$146.00 per tonne in the Metropolitan Levy Area
- \$84.10 per tonne in the Regional Levy Area.

Concessional rates apply to some specific waste types.

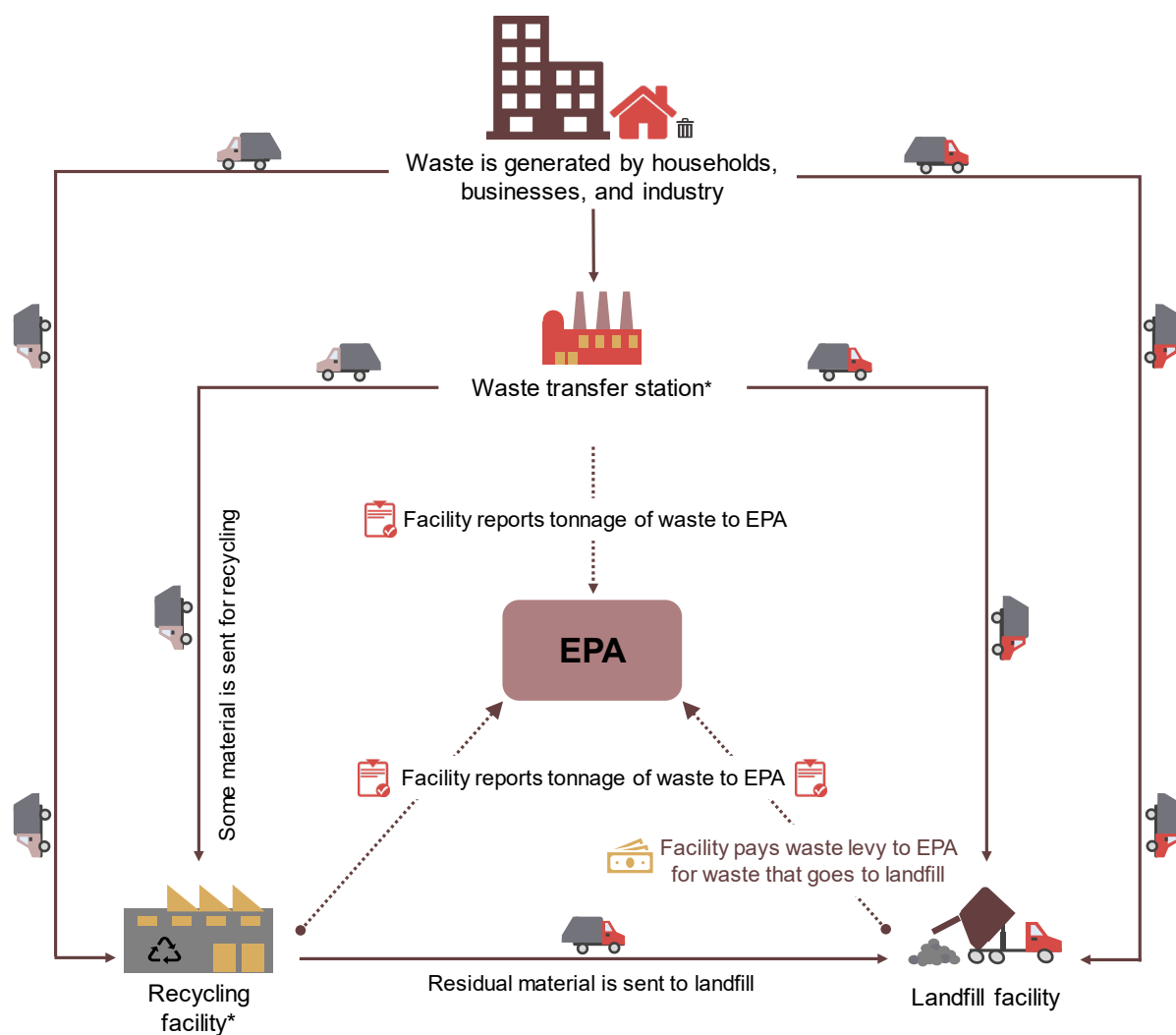
The waste levy is paid on:

- all waste disposed at EPA-licensed landfills in the regulated area
- waste generated in the regulated area disposed at landfills in the non-regulated area.

Certain licensed waste facility operators in New South Wales incur a waste levy liability when waste is delivered to these facilities. These include waste processing, resource recovery and waste storage facilities. The levy liability is then reduced for any waste sent off site for lawful recycling, reuse or disposal.

The waste levy is ultimately paid for by the waste generator through direct payment to landfill operators and council charges paid by ratepayers.

## Exhibit 2: Relationship between waste operations and the waste levy in NSW\*



\* Waste transfer stations, processing facilities and recycling facilities also pay the waste levy when they exceed allowable stockpiles.  
Source: Audit Office research.

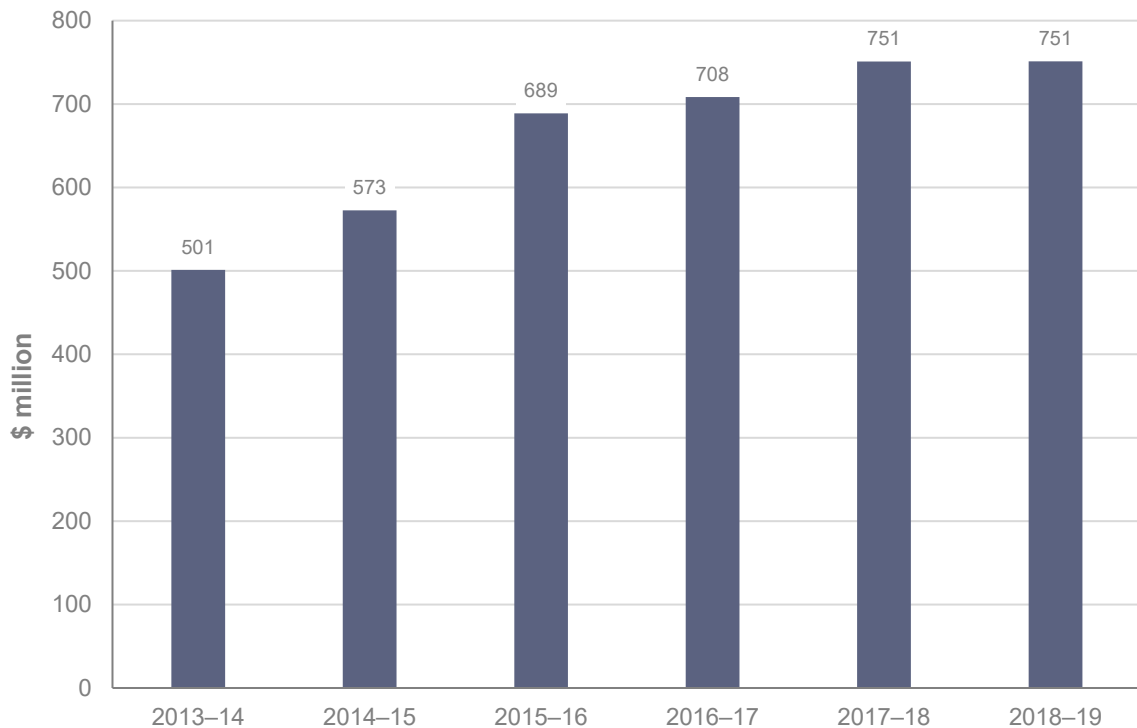
The EPA collects the waste levy from all landfill operators monthly. Other licensed waste facility operators only pay the levy for:

- residual waste sent to landfill
- waste that is stockpiled for more than 12 months or above an authorised limit.

Revenue from the waste levy is placed into the state's consolidated revenue. The waste levy revenue collected between 2013 and 2019 is shown in Exhibit 3. Data published by the EPA in WARR Strategy progress reports indicates that the trend of increasing waste levy revenue is a result of:

- increasing amounts of waste generated and sent to landfill, associated with population growth and construction activity
- increasing waste levy rate per tonne of waste sent to landfill.

**Exhibit 3: Waste levy revenue in NSW 2013 to 2019**

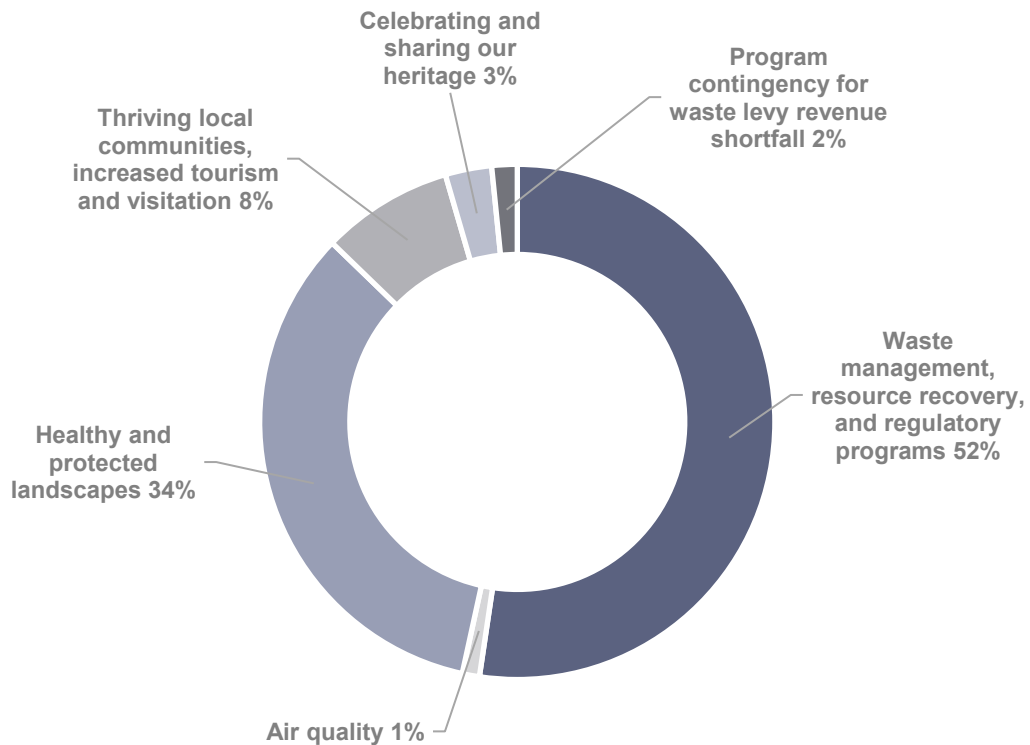


Source: EPA financial statements (audited).

## 1.2 Waste and environment levy envelope

The government makes one third of the waste levy revenue available for waste and environmental programs. The one third allocation of the waste levy revenue is known as the Waste and Environmental Levy Envelope (WELE). Budgets prepared in 2016-17 identify a range of waste and environmental programs funded from the WELE.

#### Exhibit 4: Waste and environmental programs funded from the WELE 2016–2020\*



\* We note that the distribution of the WELE may change from 2020 in line with outcomes-based budgeting.  
Source: Budget data prepared by the EPA in 2016–17 (unaudited).

Waste management programs, which represent 52 per cent of the forecast WELE expenditure, include the Waste Less Recycle More initiative valued at \$802.7 million. \$465.7 million was allocated between 2014–15 and 2016–17 and a further \$337 million between 2017–18 and 2020–21.

Waste Less Recycle More directs funds to programs targeted at different aspects of waste management. These include the following:

- Organics infrastructure fund and program
- Waste and recycling infrastructure fund
- Household problem waste program (e.g. batteries, paint and gas bottles)
- Recycling innovation fund
- Business recycling program
- Local government waste and resource recovery program
- Illegal dumping clean-up, prevention and enforcement fund
- Litter prevention and enforcement fund.

Grants funded through these programs are available to councils, non-profit organisations and businesses.

## 1.3 Waste Avoidance and Resource Recovery Strategy

The Waste Avoidance and Resource Recovery (WARR) Strategy 2014–21 provides a framework for waste management in New South Wales. It sets directions for a range of priority actions with corresponding targets to be achieved by 2021–22:

1. Avoid and reduce the amount of waste generated per person.
2. Increase recycling rates to 70 per cent for municipal solid waste and commercial and industrial waste, and 80 per cent for construction and demolition waste.
3. Increase waste diverted from landfill to 75 per cent.
4. Manage problem waste better by establishing or upgrading 86 drop-off facilities or services for managing household problem wastes state-wide.
5. Reduce the number of litter items by more than 40 per cent compared with 2011–12 levels.
6. Reduce illegal dumping state-wide.

The WARR Strategy identifies the waste levy, a strong compliance regime and funding through the Waste Less, Recycle More initiative as the key tools to achieve these targets. The waste levy increases the cost of waste disposal, making waste avoidance, reduction and recycling more financially attractive than disposal to landfill. The Waste Less, Recycle More initiative provides grant funding to support investment in recycling infrastructure, encourage innovation, improve recycling behaviour and develop new markets for recycled materials, as well as tackle littering and illegal dumping.

The achievement of targets 1, 2, and 3 listed above is linked to the application of the waste levy. The achievement of targets 2, 3 and 4 is linked to the availability of necessary waste processing infrastructure. The waste levy and availability of waste processing infrastructure are only two factors that influence achievement of the targets. Others include:

- regulations and enforcement
- education and behavioural factors
- strong markets for downstream outputs from waste processing.

The Environment Protection Authority (EPA), the Environmental Trust and the Department of Planning, Industry and Environment (DPIE) share responsibilities for delivering the WARR targets:

- The EPA is responsible for developing and enforcing the regulatory framework within which private and public sector entities and individuals manage waste and recycling, and undertaking research, data collection and analysis to ensure a robust evidence base is available for decision-making. The EPA is also responsible for administration of some grants and managing the Waste Less Recycle More program.
- The Environmental Trust is responsible for delivery of the Waste Less, Recycle More grants to Local Government, industry, research institutes, community groups and other stakeholders. These are delivered in partnership with the EPA.
- DPIE's responsibilities include the development of strategic policy and planning for the waste and resource recovery sector.

## 1.4 About the audit

The objective of this audit was to assess the effectiveness of the NSW Government in minimising waste sent to landfill and increasing recycling rates.

The audit focused on two key tools managed by the government that contribute to achieving these outcomes:

- The waste levy

The audit examined whether the EPA regulates the waste levy in a way that reduces waste generation and diverts waste from landfill.

- Grant programs targeted towards providing waste infrastructure

The audit examined whether funds allocated through Waste Less Recycle More effectively support investment in waste infrastructure that supports reuse and recycling. The audit specifically focused on grant programs that provide funding for new or enhanced recycling infrastructure, and increase the capacity for waste recycling and reuse in NSW:

- Organics infrastructure fund and program
- Waste and recycling infrastructure fund (including Major Resource Recovery Infrastructure Program and Resource Recovery Facility Expansion and Enhancement Fund)
- Product Improvement Program
- Household problem waste program.

Audited agencies were the EPA, DPIE and the Environmental Trust.



## 2. Waste levy

### 2.1 Waste levy impact

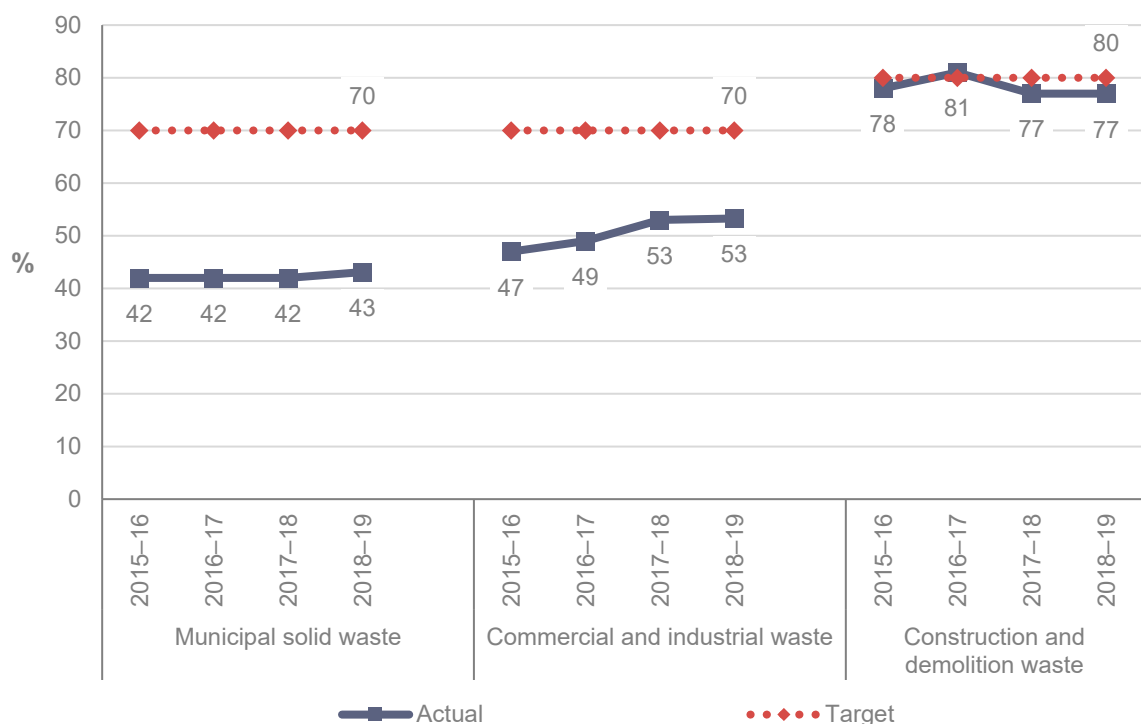
The objective of the waste levy is to provide an incentive for waste generators to re-use or recycle waste rather than send it to landfill. For the waste levy to operate effectively it must be set at a price that results in the cost of disposal being higher than the cost of re-use or recycling, but not so high as to discourage compliance which could lead to waste being illegally dumped or stockpiled above permitted thresholds. The waste levy is not the only cost incurred by waste generators when they send waste to landfill. Transport costs and gate fees imposed by landfill facilities also form part of the overall cost of sending waste to landfill.

#### The waste levy impact varies by waste stream

Data provided by the EPA indicates that the waste levy may be most effective for Construction and Demolition waste (C&D) and delivers only a minimal effect on household waste, also known as Municipal Solid Waste (MSW). This differential impact, based on rates of diversion from landfill for the three waste streams shown in Exhibit 5, was also noted in economic research commissioned by the Office of Environment and Heritage in 2011 and a review of the waste levy commissioned by the EPA in 2012.

Exhibit 5 identifies the rate of diversion from landfill for each of the three solid waste streams: MSW, Commercial and Industrial (C&I) and C&D between 2015–16 and 2018–19. The graph identifies greater diversion rates for C&D compared with the other two waste types as well as a large gap between current and target performance in diversion rates for MSW and C&I.

**Exhibit 5: Changes in diversion rates for the three waste streams 2015–16 to 2018–19**



Source: EPA published waste data.

## **The EPA has not conducted recent modelling to test whether the waste levy is set at the optimal level**

The waste levy settings and operation require review from time to time to ensure the levy is meeting its objectives as an economic instrument to reduce waste generation and promote reuse and recycling.

The EPA advised that waste levy rates were last reviewed in 2009, with a path of pricing changes established to 2016 to provide certainty for the waste industry. Since 2016, the levy rate has been indexed in accordance with the Consumer Price Index (CPI).

The operation of the waste levy was last comprehensively reviewed in 2012. At that time, the EPA commissioned a review of the operations of the NSW waste levy that discussed issues and made recommendations consistent with the levy's objectives. A further examination of the waste levy was commissioned by the EPA in 2017, but this focused on improvements to revenue forecast models and not on the operation of the waste levy itself.

Since 2012, there have been a number of events affecting the waste industry in NSW and Australia to varying degrees. These include:

- introduction of the China's 'National Sword' policy, which limited export of waste to China to that with very low levels of contamination
- the Council of Australian Governments (COAG) ban on exporting waste (to be phased in from 2020), announced in November 2019
- introduction of a waste levy in Queensland (QLD), which changes the economics of paying the waste levy in NSW in comparison to transporting waste to QLD
- the EPA's 2018 ban on using mixed waste organic outputs on land.

The EPA has implemented temporary waste levy discounts and exemptions following studies into the effectiveness of the waste levy on specific types of waste, including metal and mixed waste organic outputs. However, there has been no review of the waste levy rates and operation that considers the cumulative impact of the events listed above upon the effectiveness of the waste levy, nor models the optimal level of the waste levy. Queensland, Victoria and South Australia have all reviewed their waste levy arrangements over the past two years.

DPIE is currently leading a project to develop a 20-year waste strategy and commissioned a review of the specific aspects of the waste levy design and settings to inform that work. This review did not examine whether the levy is set at the optimal level.

The waste levy rates are prescribed in the Waste Regulation, which was last reviewed in 2014. The EPA advised that the Waste Regulation will be reviewed in 2021. This provides an opportunity to review the contribution of the waste levy to achieving its objectives.

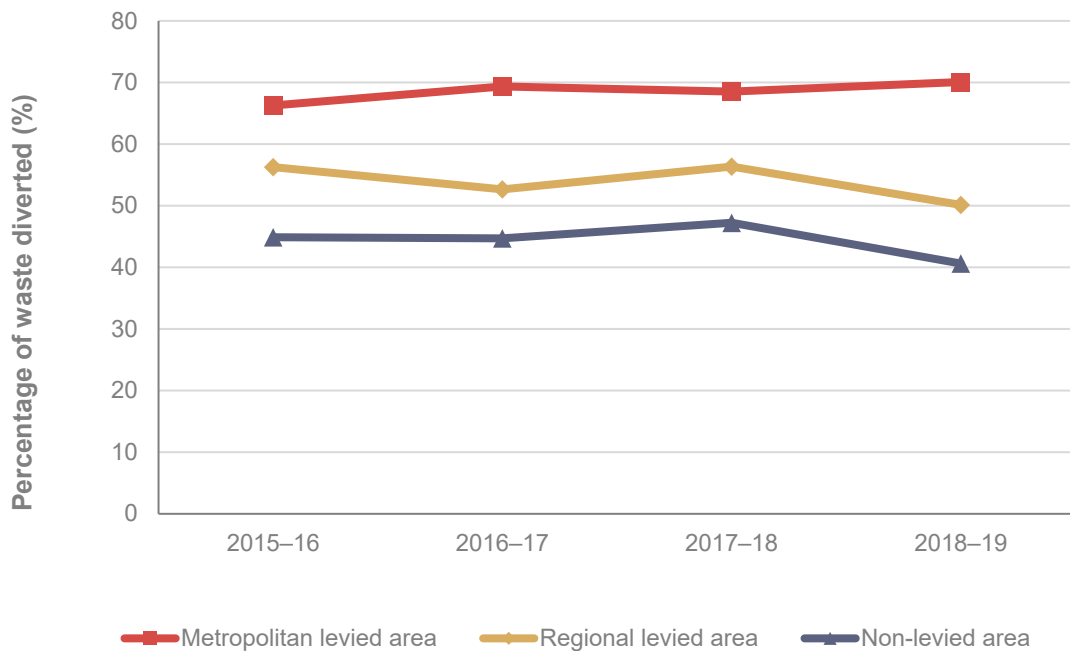
## **There is evidence that the waste levy has a positive impact on recycling**

While the impact of the waste levy is not modelled, there is evidence of a positive relationship between the waste levy and diversion of waste from landfill:

- the 2017 review of the waste levy commissioned by the EPA found that between 2009–10 and 2016–17, waste levy increases corresponded with over 11 per cent waste diversion from landfill in the Sydney metropolitan area relative to what would have occurred if the waste levy had remained constant in real terms
- economists assessing 37 grant applications in 2014 identified four recycling infrastructure projects that were financially viable only because the waste levy would make recycling a more viable option for processing waste than sending the waste to landfill
- waste data published by the EPA since 2015 shows that diversion rates are higher in levied areas of the state.

Exhibit 6 shows the difference in overall diversion rates between the levied and non-levied areas in NSW. The impact of the waste levy in levied areas of NSW is heavily influenced by the impact on construction and demolition waste, most of which is generated in the Sydney metropolitan region. We note that diversion rates are not solely dependent on the waste levy and may be influenced by a range of other factors such as regulations, education and behaviour and markets for outputs from recycling.

**Exhibit 6: Waste diversion rates for levied and non-levied areas in NSW**



Source: EPA published waste data.

### The waste levy is applied at different rates across the state

The waste levy was first implemented in the Sydney metropolitan area in 1971. The geographical coverage was extended to areas immediately outside Sydney in 1996 and then to some regional areas in 2009.

The EPA advised that the changes to the levied areas in 2009 were based on projected population growth, waste generation and disposal trends, ability of ratepayers to pay, and possible waste flows between levied and non-levied areas, and that councils subject to the levy were made aware of the rationale for their inclusion in the levied area at that time. The 2012 review of the waste levy recommended extending the waste levy to apply to more of the state to remove inconsistencies and discourage transport of waste within NSW to areas with lower levy rates. In response to this recommendation, the EPA consulted with councils in 2014 about extending the waste levy beyond the current levied areas. Following this consultation, the geographic coverage of the waste levy was not changed and inconsistencies identified in 2012 remain.

The development of a 20-year waste strategy and the 2021 review of the Waste Regulation provide an opportunity to establish objective criteria for which areas in the state are subject to the waste levy.

## 2.2 Waste levy compliance and oversight

The WARR Strategy identifies compliance with legislation and regulations as an essential tool in achieving waste targets. Similarly, the EPA's 2014 Waste and Environment Levy Compliance Strategy says that "an important aspect of waste compliance programs is evaluating whether the programs have ultimately contributed to environmental improvements."

All licensed waste facility operators must conduct their activities in accordance with Section 88 of the *Protection of Environment Operations Act 1997* Act and the Protection of the Environment Operations (Waste) Regulation 2014 ('the Regulation').

The waste levy regulatory framework requires all such facility operators to:

- pay the required waste levy
- maintain records relating to waste and vehicles
- report monthly to the EPA on quantity and type of waste received
- provide other information to the EPA as required
- maintain verified weighbridges with data capture software to record quantities of waste
- install video monitoring systems, if directed by the EPA.

The Regulation also enables waste facility operators to obtain deductions from the levy in prescribed circumstances, such as when waste is sent for recycling.

### **The EPA implements a risk-based waste levy compliance regime**

There are 531 licensed waste facilities in New South Wales, 268 of which are in the levied areas. To ensure that licensed waste facility operators comply with the requirements of Section 88 of the *Protection of Environment Operations Act 1997* and the Regulation, the EPA implements a risk-based waste levy compliance and enforcement program outlined in its 2014 Waste and Environment Levy Compliance Strategy. Compliance risk is based on the following risk model:

- financial risk – highest priority risk
- operational/control risk – medium priority risk
- legal risk and strategic risk – lowest priority risk.

EPA implements this model by selecting waste facilities for examination based on their risk profile. Examination includes a range of methods such as scrutiny of past audit history, consideration of waste exemptions and deductions, comparison of weighbridge records against data sent to the EPA, surveys of the volume of waste processed, transported and stored, and video surveillance.

### **Waste data used to monitor compliance with the waste levy and other regulations has improved since 2015 but reporting on environmental outcomes is not timely**

Prior to 2015, only licensed landfill operators were required to report to the EPA on waste. The EPA supplemented this data with information on waste activities collected through surveys of waste processing facility operators and local councils.

Since 2015, the data used by the EPA to perform its compliance activities is based on monthly reports submitted by all licensed waste operators through an online portal. These reports use data from independently calibrated electronic weighbridges and include information on the tonnage of waste received, processed and transported off-site. They also include information about waste re-used or recycled. The data collected through the online portal is subject to auditing by the EPA's waste levy compliance team which checks facility reports against the facility's weighbridge records. Since 2015, the EPA also collects data through an online tracking system on the transport of waste from the metropolitan levy area that is over ten tonnes, and transport of waste tyres and asbestos.

There are penalties in the legislation to ensure waste facility operators do not provide false and misleading information and the EPA conducts internal quality reviews of the dataset. This data is currently used for monitoring waste levy compliance and forecasting waste levy revenue. It also provides the EPA with robust data for making decisions about waste management. However, EPA's waste data relating to environmental outcomes is at least a year out of date when published in WARR Strategy progress reports and NSW State of the Environment reports. While the EPA is meeting its legislative reporting obligations, this data would be more useful to stakeholders making decisions about waste management if reported in a more timely way.

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## 3. Grants for waste infrastructure

Achievement of the 2014–21 state targets for waste and resource recovery (WARR targets) is reliant in part on the availability of infrastructure that supports waste diversion and recycling. The state WARR targets dependent on waste infrastructure are:

- Increase recycling rates to 70 per cent for municipal solid waste and commercial and industrial waste, and 80 per cent for construction and demolition waste.
- Increase waste diverted from landfill to 75 per cent.

A further target — manage problem waste better by establishing or upgrading 86 drop-off facilities or services for managing household problem wastes state-wide — is dependent on accessible community waste drop-off facilities across NSW.

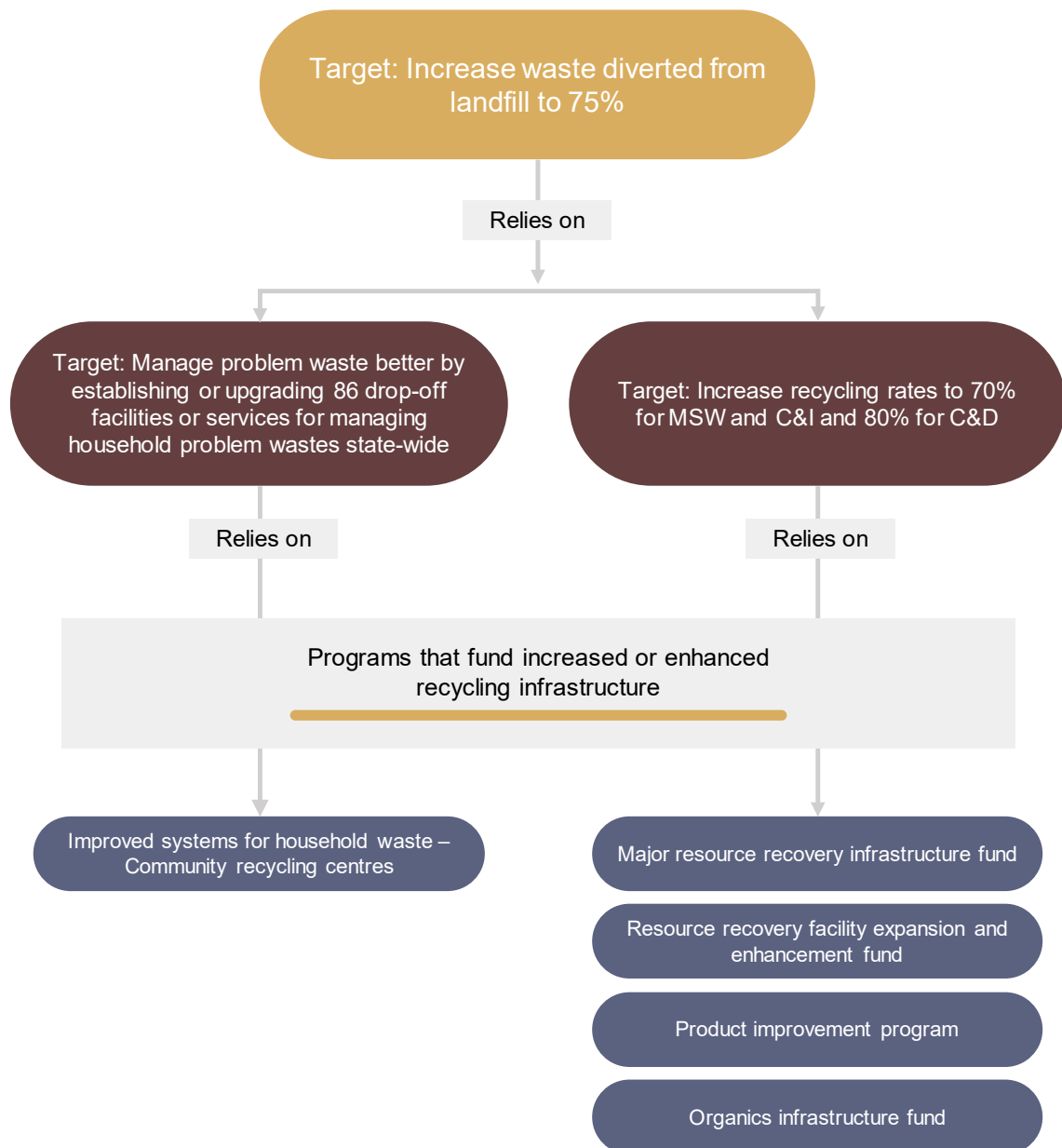
Exhibit 7 identifies the five grant programs that provide funding for new or enhanced waste infrastructure to increase capacity for reuse or recycling of waste. All five of these programs were examined in the audit.

In addition to the grant programs shown in Exhibit 7, other programs provide funding for infrastructure, but at a smaller scale. Examples of these include:

- Bin Trim which provides rebates to small businesses for small scale recycling equipment such as cardboard and soft plastic balers.
- Litter grants which provide funding for litter bins.
- Weighbridges grants for installation of a weighbridge at waste facilities.
- Landfill consolidation and environmental improvement grants for rural councils to replace old landfills with transfer stations or to improve the infrastructure at landfill sites.



## Exhibit 7: Relationship between WARR targets and waste infrastructure grant programs



Source: Audit Office research.

### 3.1 Planning and funding waste infrastructure

#### There is currently no formal strategy in NSW to guide waste infrastructure investment

A draft waste infrastructure strategy was published for consultation by the EPA in 2017 but was never adopted nor further developed into a full strategy.

The absence of a formal strategy to guide waste infrastructure in NSW limits the ability of the State Government to develop a shared understanding between planners, councils and the waste industry about what infrastructure is required, when and where.

DPIE is currently preparing a 20-year waste strategy. There is an opportunity for the government to use this waste strategy to set clear parameters for determining priorities for investment in waste infrastructure.

## All state government investment in waste infrastructure is delivered through grants

The EPA and the Environmental Trust currently support waste infrastructure solely through grants to councils and industry on application. There is evidence that some waste infrastructure projects would not proceed if it were not for government assistance.

Solely funding waste infrastructure through grants means that proposals from councils and private companies are driving decisions about what waste infrastructure is built in New South Wales. There is a risk that some waste infrastructure projects could be designed to maximise returns to commercial waste operators rather than to respond to government objectives. While it is appropriate and desirable that councils and industry have input into waste infrastructure planning for the state, the State Government could play a more direct role in determining what waste infrastructure is built, and in what locations.

Development of a 20-year waste strategy also provides government with an opportunity to consider a range of funding options for waste infrastructure.

## Grant program targets are not clearly aligned with state WARR targets

The audit examined the alignment of targets for the five grant programs included in the audit and the state targets for waste and resource recovery (the WARR targets). We also examined the alignment between program targets and program outcomes.

With the exception of targets for Community Recycling Centres, there is no direct alignment between the WARR targets and targets established for programs that fund waste infrastructure supporting those targets. Programs that fund waste infrastructure set targets for the amount of waste processing capacity they intend to fund. These targets are expressed as tonnages. WARR targets related to waste infrastructure are expressed as per centages of waste to be diverted from landfill and per centage increases in recycling rates. These are related to waste facility throughput. While the WARR targets and program targets are conceptually linked, it is difficult to assess the contribution that waste infrastructure programs make to achieving WARR targets.

Exhibit 8 shows a comparison between the state WARR targets and targets set for individual programs. The table also shows the capacity funded for each of the programs included in the audit.

### Exhibit 8: Comparison of WARR targets, infrastructure capacity needed, program capacity targets and capacity funded

Program	WARR target	Program target*	Capacity funded 2014–2019
Household Problem Waste - CRC	86 facilities	86 facilities	110 facilities
Organics processing facilities	Increase waste diverted from landfill to 75% Increase recycling rates to 70% for MSW and C&I	Additional processing capacity of 480,000 tonnes per annum	Additional processing capacity of 536,717 tonnes per annum
Waste and recycling infrastructure fund:	Increase waste diverted from landfill to 75%	Additional processing capacity of 890,000 tonnes per annum	Additional processing capacity of 2,225,263 tonnes per annum
• Major resource recovery infrastructure grants	Increase recycling rates to 70% for MSW and C&I and 80% for C&D		
• Resource recovery facility expansion and enhancement grants			
• Product Improvement Program			

\* Program targets shown represent the sum of targets set for the 2013–17 WLRM fund and the 2017–21 WLRM extension.

Source: Data provided by the EPA, DPIE and the Environmental Trust (capacity funded is unaudited).

Additional community recycling centres were funded beyond the program targets to respond to gaps in accessibility of households to centres across the Sydney metropolitan area.

Audited agencies informed us that there is a need to fund more capacity than required to meet the targets, as some projects fail to deliver. However, it is unclear why the programs included in the Waste and Recycling Infrastructure Fund have funded capacity that is almost three times in excess of the program target.

## 3.2 Assessing grant applications and monitoring projects

To maximise the impact of a grant program on meeting the state waste targets, the program must be administered so that:

- projects chosen for funding are those that are likely to deliver the greatest impact on state waste targets
- project risks are managed to minimise the risk that the project does not deliver the agreed outcomes.

The audit examined the grant application, assessment and project monitoring documentation from 12 grant rounds and 20 specific grant projects. Ten of the grant rounds were managed by the Environmental Trust and two by the EPA, referred to as the 'funding agencies'.

### Exhibit 9: Grant programs and funding agencies included in the audit

Grant program	Administered by
Household problem waste – Community Recycling Centres	Environmental Trust
Organics infrastructure fund	Environmental Trust
Waste and recycling infrastructure fund	
• Major resource recovery infrastructure grants	Environmental Trust
• Resource recovery facility expansion and enhancement grants	Environmental Trust
• Product Improvement Program	EPA

Source: Audit Office research.

Our sample included completed projects, some that were still in progress and one that was withdrawn. Grant applicants included both councils and private operators. We looked particularly at the contribution of the funded projects to meeting state waste targets, and how the funding agencies managed risk to ensure that the funded project delivered the agreed outcomes.

### Implementation of some grant administration procedures requires improvement

Staff from DPIE administer Environmental Trust programs, guided by the requirements of the *Environmental Trust Act (1988)* and supported by grant administration procedures. The EPA follows almost identical grant administration procedures to the Environmental Trust and also supports the Environmental Trust in the following ways.

- delivering information sessions for all grant rounds, including those administered by the Environmental Trust
- conducting regulatory and compliance checks for all grant applications proposing projects to build or enhance waste infrastructure
- verifying self-reported performance of grant recipients.

Grant applications are initially assessed by the EPA and DPIE for completeness and also compliance with environmental and planning regulations. They then undergo scrutiny and analysis by an independent economist.

Grant applications are then assessed by a Technical Review Committee of independent experts and community representatives. Depending on which agency administers the grant program, recommendations for awarding grants are made by this committee to either the Environmental Trust members or the CEO of the EPA.

Grant administration practices support the achievement of program objectives and management of project risks. Risk-mitigation practices include establishing Deeds of Agreement with applicants which outline the expectations of grant recipients in terms of outcomes of the funded project and regular progress reports and engaging probity officers to oversee the deliberations of assessment committee members when they meet.

The audit found that the relationship between the EPA and the Environmental Trust functions well in relation to administering the grants that fund waste infrastructure. However, we identified some opportunities for improvement in the application of grant administration procedures:

- In the ten grant rounds administered by the Environmental Trust that were reviewed for the audit only two had a full set of conflict of interest declarations and confidentiality agreements for all Technical Review Committee members. As Technical Review Committee members are active in the waste industry and may have commercial relationships with applicants, it is important that their independence and objectivity is carefully assessed and records are maintained. We note that there has been improvement in the retention of these documents in recent years.
- While reports are prepared by probity officers present at meetings of the Technical Review Committees, committee deliberations are not recorded for grant programs administered by the Environmental Trust. Technical Review Committee views are instead documented in spreadsheets that record the scoring and other assessment comments of committee members. For two of the ten grants rounds we examined, these spreadsheets could not be located by the Environmental Trust staff. This exposes the risk that the government would be unable to justify awarding grants to particular applicants if the outcomes of a grant round were challenged at a later date. Government agencies are required to keep documentation in accordance with the *State Records Act 1998* and the NSW Government Standard on Records Management. This includes proceedings of meetings.
- Cost-benefit analyses prepared by applicants to demonstrate the economic value of their projects were often poor quality, despite the availability of free support services provided by the funding agencies. Economists engaged by the funding agencies to assess the cost-benefit analyses identified flaws in 69 per cent of those prepared for the grant rounds included in the audit. Without robust cost benefit analyses, there is a risk that the projects awarded grants may not be those delivering the greatest overall benefit in reference to the program objectives. There is an opportunity to work with the NSW Treasury to develop a cost-benefit analysis template more suited to external grant applicants.

### **Inconsistent information is communicated about grant program priorities**

Setting priorities for individual grant rounds can help the government to address gaps in needed waste infrastructure, both in types of waste and locations where infrastructure is required.

Some grant rounds have priorities which are communicated to grant applicants in application guidelines. Priorities are also communicated to assessors in assessment guidelines. In our audit sample of 12 grant rounds, documentation in three rounds included inconsistent and potentially misleading advice for grant applicants and the assessment team about the priorities for the grant round.

## Exhibit 10: Examples of inconsistent information about grant program priorities

Application guidelines for the 2017 round of the Resource Recovery Facility Enhancement and Expansion Fund stated that construction and demolition waste would be the priority for funding. However, the guidelines provided to the assessment team said that the priority would be waste recovered from business, industry and households.

Application guidelines for the 2019 round of the Product Improvement Program specified the following priority waste types to guide applicants: mattresses, plastic film or other plastics, copper chrome arsenic timber and other treated timbers, tyres and rubber, nappies and incontinence pads. Guidelines provided to the assessment team only identified paper/cardboard, glass and plastics as the priority materials.

Source: Audit Office research.

Inconsistent information provided to grant applicants and assessors limits the effectiveness of setting priorities. It also prevents applicants from receiving due process and creates a risk that the best projects may not be funded. Applicants may decline to apply for a grant because they believe that their project will not be seen as a priority, or an assessment team may erroneously reject a project that it believes is a low priority.

### 3.3 Monitoring results

The Environmental Trust and the EPA both execute Deeds of Agreement with successful grant recipients. These Deeds are a form of contract that includes a schedule of payments based on achievement of project milestones. The Deeds of Agreement also include the original grant application forms in which the applicants have committed to environmental outcomes such as processing capacity and throughput and social outcomes such as increased employment.

#### **Grant recipients provide progress reports on agreed milestones but reporting does not include a re-assessment of risks to agreed environmental and social outcomes**

While project progress is monitored by the funding agencies, other risks that may affect project outcomes are not formally assessed by the funding agencies throughout the project.

Formal processes are in place for grant recipients to report performance against project targets and request variations to project schedules and scope. However, unless the grant recipient requests a variation, or reports a change to their original risk assessment, the funding agency may be unaware of internal or external risk factors impacting upon the project's agreed social and environmental outcomes until the final milestone report and measures are submitted. One project reviewed for the audit delivered all milestone reports on time until the final report revealed that the project scope had been changed and the agreed waste throughput was unlikely to be delivered. Earlier assessment of project risk might have identified the change of scope and led to earlier investigations.

#### **Final project reports may not reveal whether agreed waste diversion rates and throughput have been achieved**

Project infrastructure is typically not yet operating at full capacity when the final milestone payment is made and neither the EPA nor the Environmental Trust follows up to check that the grant recipient achieves the agreed throughput and waste diversion.

Nine completed projects were included in the audit. For those nine, at the time they submitted their final reports:

- 3 had met or exceeded the agreed tonnage of waste diverted from landfill
- 4 had not yet met their agreed outcomes
- 2 had no agreed outcomes relating to waste diverted from landfill.

Successful recipients are expected to deliver outcomes included in their grant applications. For most, these include processing capacity (also known as built capacity) and throughput, which represents commitments to diverting waste from landfill. The funding agencies check that the agreed built capacity has been delivered before the final grant payment is made. They also check six months of throughput data. However, changes in the competitive market for recycling inputs or outputs or regulatory changes mean that the agreed throughput is not always achieved at the time the final reports are received. Neither the Environmental Trust nor the EPA monitor the outcomes of funded projects to know if agreed throughput is ever achieved. This means they do not know if these projects are delivering the expected contribution to WARR targets.



## **Section two**

### Appendices

# Appendix one – Responses from audited agencies



Planning,  
Industry &  
Environment



DOC20/901468-3

Ms Margaret Crawford  
Auditor General  
Audit Office  
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SYDNEY NSW 2001

By email: [mail@audit.nsw.gov.au](mailto:mail@audit.nsw.gov.au)

Dear Ms Crawford, *Margaret,*

Thank you for the chance to consider and respond to your Performance Audit of the Department of Planning, Infrastructure and Environment (DPIE), the Environmental Trust (ET) and the Environment Protection Authority (EPA) - *Waste levy and grants for waste infrastructure*.

We would like to express our appreciation for the significant work of your audit team and their ongoing commitment to working through this process with our teams. The audit has identified areas where we can improve our governance of programs and transparency in relation to the information and policies related to the waste levy. We acknowledge that waste management is highly complex and DPIE, the EPA and the ET have been working collaboratively to progress a number of initiatives to increase reuse, recycling and diversion from landfill. We note that this audit looked at two specific parts of waste management being the waste levy and five waste infrastructure grants, comprising 4.9% of the Waste Less Recycle More program over the period of 2014 through June 30, 2019.

The New South Wales (NSW) Government delivers programs and activities through the *Waste Less, Recycle More* program, which delivers \$802 million in funding over nine years to support infrastructure development, education and compliance management. Aside from grants for waste infrastructure, *Waste Less, Recycle More* also includes works such as:

- Local Government Waste and Resource Recovery Program – which includes the Better Waste and Recycling Fund, support and funding for waste management in Aboriginal communities, the regional coordination and strategy for the voluntary regional and metropolitan waste groups and education campaign and support
- the Illegal Dumping Prevention and Enforcement Fund – including illegal dumping, clean up, prevention and engagement programs, Regional Illegal Dumping (RID) Squads and Programs and Compliance Programs
- the Litter Prevention and Enforcement Fund which comprises the EPA's litter prevention programs, including the Hey Tosser! Campaign which has directly contributed to meeting the NSW Government's priority to reduce waste by 40% by 2021.

NSW also has the most comprehensive regulatory regime to manage waste in Australia. Under this regime waste facilities and transporters are appropriately licenced and continuously monitored ensuring that licensees continue to meet their licence conditions, and where they may be non-compliant that appropriate action, including inspections, audits and other targeted activities, is taken to bring them back to a state of compliance.

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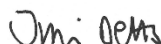
NSW 2150 Australia

To ensure that the management of waste continues to meet the needs of NSW, DPIE is leading the development of a 20-Year Waste Strategy – a whole-of-government initiative for NSW – in partnership with the EPA. The Strategy will provide a long-term strategic focus where communities, industry and all levels of government are working together to build resilient services and markets for waste resources. An issues paper was released in March/April 2020 for consultation and it is expected that the Strategy will be finalised in late 2021.

A detailed response to all recommendations has been provided in the attached Response to Recommendations.

In conclusion, we would like to again thank your team for their professionalism and commitment during the audit and acknowledge the challenging circumstances that the work was undertaken in due to COVID-19 restrictions.

Yours sincerely



**JIM BETTS**  
Secretary

20/11/20

Enclosure



**TRACY MACKEY**  
Chief Executive Officer

16.11.20

**Attachment 1 – Department of Planning, Industry and Environment; Environment Protection Authority; and Environmental Trust responses to recommendations from the performance audit of the waste levy and grants for waste infrastructure final report**

Recommendation	Response
<p><b>By June 2021 the EPA should:</b></p> <p>1. establish a schedule for reviewing the waste levy settings that includes:</p> <ul style="list-style-type: none"> <li>regular reviews to ensure the waste levy is set at the optimal level to achieve its policy objective</li> <li>transparent and objective criteria for determining which local government areas are levied</li> </ul>	<p><b>Noted</b></p> <p>The setting of the waste levy is a matter for Government. The NSW Government is developing a whole-of-government 20-Year Waste Strategy which will set the future direction of the state's waste and resource recovery system. Waste levy settings will be explored as part of the development of that Strategy. At this stage of the development of the Strategy it is premature for the EPA to provide a response to this recommendation.</p>
<p><b>By June 2021 the EPA should:</b></p> <p>2. improve the timeliness of reporting on the environmental outcomes from its waste levy compliance activities.</p>	<p><b>Agreed</b></p> <p>Since implementing best practice methods in measuring waste performance in NSW, the EPA has published recycling, diversion and generation rates for 2015-16, 2016-17 and 2017-18 in the Waste and Resource Recovery Progress Report which was published in June 2019.</p> <p>The EPA continues to improve the timeliness and accessibility of data. The EPA is working towards interactive data being presented via the EPA website and to be in place by June 2021. The roadmap for this work was delayed due to impacts of the 2019-20 bushfires and COVID-19 emergencies which both required response from the team accountable for the roadmap's delivery.</p>
<p><b>By December 2021 the Department of Planning, Industry and Environment should:</b></p> <p>3. determine the state's waste infrastructure needs to inform planning for and funding of waste infrastructure in NSW.</p>	<p><b>Agreed</b></p> <p>The NSW Government is developing a whole-of-government 20-Year Waste Strategy which will set the future direction of the state's waste and resource recovery system. The 20-Year Waste Strategy is intended to enable the state, businesses and the community to reduce waste, improve resource recovery and approach to waste management as well as generate new economic opportunities, reduce costs to citizens and businesses through a smarter approach, and increase resilience to external shocks.</p> <p>The Strategy will include examination of waste, resource recovery and circular economy infrastructure needs and priorities for the state. The Strategy is expected to be finalised in 2021.</p>
<p><b>By June 2021 the Environmental Trust should:</b></p> <p>4. improve record-keeping during grant program assessment committee meetings.</p> <p>5. ensure that conflict-of-interest declarations are completed for all members of assessment teams, and stored in accordance with documented record-keeping requirements.</p>	<p><b>Noted</b></p> <p>The gaps in record-keeping identified during the audit related to Technical Review Committee meetings and assessments held between 2013 to 2017. No gaps in record-keeping were identified during the audit for any committee meetings held since 2018. Current meeting procedures now ensure that all relevant records are kept as evidence of the grant assessment process.</p> <p>The conflict of interest declarations that could not be located related to Technical Review Committee meetings held between 2013 to 2017. All conflict of interest declarations relating to assessment meetings since 2018 were located and provided as part of this audit.</p>

**Attachment 1 – Department of Planning, Industry and Environment; Environment Protection Authority; and Environmental Trust responses to recommendations from the performance audit of the waste levy and grants for waste infrastructure final report**

Recommendation	Response	
		Current meeting procedures now ensure that conflict of interest declarations are completed by all parties involved in the assessment process and that they are maintained in accordance with documented record-keeping requirements.
<p><b>By June 2021 the EPA and the Environmental Trust should</b></p> <p>6. ensure that information provided to applicants and assessment committees is consistent.</p>	<b>Noted</b>	<p>The Environmental Trust and EPA agree that it is important to ensure that there are no discrepancies between information provided to applicants and information provided to Technical Review Committees in the assessment of applications.</p> <p>The Trust has updated its procedures to ensure alignment of all information provided to both applicants and assessment committees.</p>

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# Appendix two – About the audit

## Audit objective

The objective of this audit was to assess the effectiveness of the NSW Government in minimising waste sent to landfill and increasing recycling rates.

## Audit focus

The audit focused on two key initiatives within the government's Waste and Resource Recovery Strategy (2014–21):

- the waste levy
- grant programs targeted towards funding waste infrastructure.

## Audit criteria

We addressed the audit objective by examining the following two criteria:

- the NSW Environment Protection Agency (EPA) regulates the waste levy in a way that reduces waste generation and diverts waste from landfill
- funds allocated through Waste Less Recycle More effectively support investment in waste infrastructure that supports reuse and recycling.

## Audit scope

In assessing the criteria, we checked the following aspects:

1. The NSW EPA regulates the waste levy in a way that reduces waste generation and diverts waste from landfill.
  - a) The waste levy is based on research and modelling.
  - b) The EPA monitors the effectiveness and contribution of the waste levy in diverting waste from landfill.
  - c) The EPA reports on the effectiveness of the waste levy to the Minister and stakeholders.
2. Funds allocated through Waste Less Recycle More effectively support investment in waste infrastructure that supports reuse and recycling.
  - a) Clear criteria for assessing waste infrastructure grant applications were applied consistently.
  - b) Assessment criteria were influenced by strategic infrastructure planning.
  - c) Completed waste infrastructure projects that received grants achieved performance in line with contractual agreements and contributed towards diverting waste from landfill or increased recycling rates.
  - d) There is clear accountability for monitoring and reporting on grants approved.
  - e) There is clear accountability for verifying the outcomes of completed waste infrastructure projects funded through grants.

This audit focused on administration of the waste levy and grants that fund waste infrastructure from 2014–15 to 2018–19.

## Audit exclusions

The audit did not:

- re-perform economic modelling of the waste levy impact
- examine funding of landfill facilities
- examine the effectiveness of Local Government in achieving the WARR targets
- examine the effectiveness of NSW Government initiatives to reduce littering
- examine waste education programs
- examine state government procurement practices
- comment on government policies.

## Audit approach

Our procedures included:

1. Interviewing staff from the EPA and DPIE and consulting with the representatives of the Environmental Trust. These interviews were conducted online due to COVID-19 restrictions in place at the time of the audit.
2. Consultation with stakeholders, including:
  - Treasury
  - NSW Department of Premier and Cabinet
  - Infrastructure NSW
  - Local Government NSW
  - Western Sydney Regional Organisation of Councils
  - Northern Sydney Regional Organisation of Councils
  - Southern Sydney Regional Organisation of Councils
  - Waste Contractors and Recyclers Association of NSW
  - Waste Management Association of Australia, NSW Branch
  - Australian Organics Recycling Association
  - NSW Scrap Metal Recycling Group
  - selected grant recipients, including council representatives, to obtain comment on their experience with the waste infrastructure grant processes.
3. Examining and analysing documentation relating to the waste levy, including:
  - policies, strategy, plans, procedures and guidelines
  - external and internal reports
  - relevant data
  - waste levy modelling assumptions and results.
4. Examining and analysing documentation relating to the selected grant programs, including:
  - policy, strategy, plans, procedures and guidelines
  - external and internal reports
  - relevant data.
5. In-depth examination of documents related to a selection of grant projects summarised in Exhibit 2.1.



## Exhibit 2.1: Summary of grant programs, rounds and projects examined in detail for the audit

Grant program	Administered by	Grant rounds included	Projects included
Household problem waste – CRC	Environmental Trust	1	2
Organics infrastructure fund	Environmental Trust	4	6
Waste and recycling infrastructure fund			
• Major resource recovery infrastructure grants	Environmental Trust	3	7
• Resource recovery facility expansion and enhancement grants	Environmental Trust	2	3
• Product Improvement Program	EPA	2	2

We also examined:

- documentation from stakeholders obtained throughout the audit such as research and studies, statistical data and analysis
- information from other jurisdictions for comparison.

The audit approach was complemented by quality assurance processes within the Audit Office to ensure compliance with professional standards.

## Audit methodology

Our performance audit methodology is designed to satisfy Australian Audit Standard ASAE 3500 Performance Engagements and other professional standards. The standards require the audit team to comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance and draw a conclusion on the audit objective. Our processes have also been designed to comply with requirements specified in the *Public Finance and Audit Act 1983* and the *Local Government Act 1993*.

## Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by staff from the EPA, DPIE and the Environmental Trust, recognising in particular the challenges associated with COVID-19 restrictions. We also gratefully acknowledge the representatives from stakeholder organisations who participated in the audit.

## Audit cost

The audit cost is \$460,000 including expenses.

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# Appendix three – Performance auditing

## What are performance audits?

Performance audits determine whether State or local government entities carry out their activities effectively, and do so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of an audited entity, or more than one entity. They can also consider particular issues which affect the whole public sector and/or the whole Local Government sector. They cannot question the merits of government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in section 38B of the *Public Finance and Audit Act 1983* for state government entities, and in section 421D of the *Local Government Act 1993* for local government entities.

## Why do we conduct performance audits?

Performance audits provide independent assurance to the NSW Parliament and the public.

Through their recommendations, performance audits seek to improve the value for money the community receives from government services.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, State and local government entities, other interested stakeholders and Audit Office research.

## How are performance audits selected?

When selecting and scoping topics, we aim to choose topics that reflect the interests of parliament in holding the government to account. Performance audits are selected at the discretion of the Auditor-General based on our own research, suggestions from the public, and consultation with parliamentarians, agency heads and key government stakeholders. Our three-year performance audit program is published on the website and is reviewed annually to ensure it continues to address significant issues of interest to parliament, aligns with government priorities, and reflects contemporary thinking on public sector management. Our program is sufficiently flexible to allow us to respond readily to any emerging issues.

## What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing.

During the planning phase, the audit team develops an understanding of the audit topic and responsible entities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the audited entity, program or activities are assessed. Criteria may be based on relevant legislation, internal policies and procedures, industry standards, best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork, the audit team meets with management representatives to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with management representatives to check that facts presented in the draft report are accurate and to seek input in developing practical recommendations on areas of improvement.

A final report is then provided to the head of the audited entity who is invited to formally respond to the report. The report presented to the NSW Parliament includes any response from the head of the audited entity. The relevant minister and the Treasurer are also provided with a copy of the final report. In performance audits that involve multiple entities, there may be responses from more than one audited entity or from a nominated coordinating entity.

## **Who checks to see if recommendations have been implemented?**

After the report is presented to the NSW Parliament, it is usual for the entity's audit committee to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report received by the NSW Parliament. These reports are available on the NSW Parliament website.

## **Who audits the auditors?**

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards.

The Public Accounts Committee appoints an independent reviewer to report on compliance with auditing practices and standards every four years. The reviewer's report is presented to the NSW Parliament and available on its website.

Periodic peer reviews by other Audit Offices test our activities against relevant standards and better practice.

Each audit is subject to internal review prior to its release.

## **Who pays for performance audits?**

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament.

## **Further information and copies of reports**

For further information, including copies of performance audit reports and a list of audits currently in-progress, please see our website [www.audit.nsw.gov.au](http://www.audit.nsw.gov.au) or contact us on 02 9275 7100.

## OUR VISION

Our insights inform and challenge government to improve outcomes for citizens.

## OUR PURPOSE

To help parliament hold government accountable for its use of public resources.

## OUR VALUES

Pride in purpose  
Curious and open-minded  
Valuing people  
Contagious integrity  
Courage (even when it's uncomfortable)

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