INFORMATIVE REPORT

Riga

06.02.2015. No.2.4.1-14/2014

Municipal Waste Management Compliance with Planned Objectives and Legal Requirements
Legal Justification of the Audit

1. According to the Section 2 of the State Audit Office Law and the Audit Assignment No. 2.4.1-14/2014 of 06.05.2014 of the Fourth Audit Department of the State Audit Office, a performance audit “Municipal Waste Management Compliance with Planned Objectives and Legal Requirements” was conducted.

2. The audit was conducted by the Senior State Auditor Jānis Salenieks (team leader), Senior State Auditor Kristīne Loča and State Auditors Iveta Mansura-Garsija, Olga Loginova and Zane Reizniece.

Objective of the Audit

3. The objective of the audit is to verify whether the organisation of municipal waste management complies with the planned objectives and the legal requirements.

Scope of the Audit

4. The audit was conducted in accordance with international audit standards recognised in the Republic of Latvia.

5. In order to obtain sufficient assurance concerning compliance of organisation of municipal waste management with the planned objectives and legal requirements, the audit was performed:

5.1. in the Ministry of Environmental Protection and Regional Development coordinating implementation of the national waste management plan and drafting legal acts for waste management\(^1\);

5.2. in the State Environmental Service issuing respective permits to waste managers for performance of certain operations and controlling their operations on a periodic basis\(^2\);

5.3. in selected eight local governments included in the audit sample, which are in charge for organisation of municipal waste management in their respective administrative territory\(^3\) by selecting a waste manager to perform collection, transportation and storage of municipal waste\(^4\);

5.4. in selected three enterprises of municipal waste disposal service providers included in the audit sample (hereinafter – the managers of landfill sites), which are making estimates of draft tariff rates for disposal of municipal waste\(^5\).

6. In order to test how the sample local governments are supervising the selected waste managers, information was obtained from them as well within course of the audit.

7. 12 audit reports are prepared as a result of the audit, as well as this informative report. The audit reports were prepared:

7.1. to the Ministry of Environmental Protection and Regional Development (hereinafter – MEPRD);

7.2. to eight local governments – local government of Aizkraukles municipality, local government of Cesvaines municipality, local government of Jelgavas city, local government of Kuldīgas municipality, local government of Lubānas municipality,

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1 Sub-Paragraphs 1 and 2 of the Paragraph One of the Section 7 of the Waste Management Law.
2 Paragraph One of the Section 12 and Paragraph One of the Section 14 of the Waste Management Law.
3 Sub-Paragraph 1 of the Paragraph One of the Section 8 of the Waste Management Law.
4 Paragraph One of the Section 18 of the Waste Management Law
5 Paragraph 1 of the decision of the Public Utilities Commission of 09.03.2011 No.1/1 „Methodology for calculation of tariff rate for disposal service of municipal waste”
local government of Neretas municipality, local government of Preiļu municipality, and local government of Vārkavas municipality;

7.3. to three managers of landfill sites – SIA „Ventspils labiekārtošanas kombināts” (Reg. No. 41203001052), SIA „Vidusdaugavas SPAAO” (Reg. No. 55403015551) and SIA „ZAAO” (Reg. No. 44103015509).

8. The objective of the audit, carrying out checks in local governments, is to verify whether local governments:

8.1. have ensured that only reasonable expenses are included in the payment for waste management;

8.2. ensure compliance with the environmental protection requirements (incl. separated waste collection).

9. The objective of the audit, carrying out checks in the managers of landfill sites, is to verify whether the landfill site managers:

9.1. have ensured that tariff rate for disposal of waste in landfill sites and natural resources tax for disposal of waste is applied only for the amount of waste disposed in landfill sites;

9.2. which were providing waste management in local governments, have ensured that in the payment for waste management calculated by them, a proper conversion factor is applied from the weight units of waste to volume units.

10. The sample for auditing of a conversion factor applied by the waste managers for conversion the amount of waste from tons to cubic meters included:

10.1. nine local governments, as the Jelgavas city waste manager SIA „Jelgavas komunālie pakalpojumi” during the audited time period was providing waste management also in the local governments of Jelgavas and Ozolnieku municipalities;

10.2. two landfill site managers, which were providing also waste management in 25 local governments,

thus auditing this issue in total of 34 local governments.

11. The sample for auditing of a correctness for application of the landfill tariff rate and natural resources tax for disposal of municipal waste included the following managers of waste sorting lines:

11.1. SIA „Jelgavas komunālie pakalpojumi”, sorting waste originating from territories of three local governments;

11.2. SIA „Ventspils labiekārtošanas kombināts”, sorting waste originating from territories of four local governments;

11.3. SIA „Vidusdaugavas SPAAO”, sorting waste originating from territories of 15 local governments;

11.4. SIA „ZAAO”, sorting waste originating from territories of 22 local governments,

thus auditing this issue in total of 44 local governments.

12. The following areas were not audited:

12.1. actions taken by MEPRD in implementation of the State Plan for the Waste Management as it was approved in 2013 and the first reports on the course of performance of the plan are planned to be prepared only by 01.07.2016.;

6 SIA „Ventspils labiekārtošanas kombināts” and SIA „ZAAO”.
12.2. management of packaging as a separate type of waste, since mandatory deposit system for recyclable and single use packaging of drinks is planned to be implemented only as of 01.01.2015;

12.3. justification for involvement of companies owned by the local governments in commercial activities and compliance with legal requirements, as well as potential distortion of competition in the waste management area, taking into account that uniform and consistent court practice has not yet been developed concerning the issue of application of in-house principle in the selection of municipal waste manager;

12.4. actions of the regulator of public services in approval of tariff rates for disposal of municipal waste in landfill sites;

12.5. correctness of estimates of payment for municipal waste management in multi-apartment residential buildings according to legal requirements, when the owners of apartments have not mutually agreed on other calculation procedure.

13. Within the course of audit local governments were surveyed concerning application of charge for waste management in respective municipality. Answers to survey questions were provided by 97% of surveyed local governments.

14. The audit was performed for the time period from 01.01.2012 to 30.06.2014.

15. Since the audited time period included transition from national currency of the Republic of Latvia - lats to euro, then in the audit report all numerical values have been expressed in euros according to the currency exchange rate – one euro being 0,702804 lats.

**Accountability of the Auditors of the State Audit Office**

16. Auditors of the State Audit Office are responsible for issue of the audit report based on appropriate, sufficient and reliable audit evidence obtained within course of the audit.

**Accountability of the Audited Entities**

17. MEPRD, local governments and managers of landfill sites are responsible for adherence to legal requirements and correctness of information provided to auditors.

**Brief Description of the Audited Area**

18. Waste management in Latvia is regulated by the Waste Management Law and the Cabinet regulations based on it.

19. Waste management shall be carried out so as to avoid any danger to human life and health. Waste management shall not have negative environmental impact.

**Role of the Ministry of Environmental Protection and Regional Development in the municipal waste management**

20. MEPRD is responsible for:

20.1. implementation of the state plan for waste management;

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7 State Plan for the Waste Management 2013 - 2020 (approved by the order of the Cabinet of Ministers (hereinafter – the CoM) of 21.03.2013 No. 100).
8 State Plan for the Waste Management 2013 - 2020 (approved by the order of the CoM of 21.03.2013 No. 100), pages 20-21; Concept on introduction of deposit system for the packaging of drinks (approved by the order of the CoM of 17.05.2013 No.195).
9 Paragraph One of the Section 88 of the State Administration Structure Law.
10 Section 40 of the Waste Management Law.
11 Sub-Paragraph 17.4 of the CoM Regulations of 09.12.2008. No.1013 „Procedure pursuant to which the owner of apartment in a multi-apartment residential building pays for services concerned with use of the apartment property”.
12 Section 4 of the Waste Management Law.
20.2. drafting of legal enactments concerning area of waste management;
20.3. coordination of setting up of municipal waste landfill sites.\(^{13}\)

21. The State Plan for Waste Management 2013 - 2020\(^{14}\) sets the following objectives:

21.1. to prevent creation of waste and to ensure significant decrease in the total quantities of waste created;
21.2. to ensure rational use of waste as a resource;
21.3. to ensure that created waste is not hazardous, that to the extent possible the waste is reused in environmentally friendly way, as well as that waste is recycled as close as possible to its origin;
21.4. to ensure decrease of volumes of waste to be disposed.\(^{15}\)

**Role of the local governments in the municipal waste management**

22. One of the functions of local governments is to organise municipal waste management in its administrative territory pursuant to binding local regulations on municipal waste management.\(^{16}\)

23. The local government on the basis of estimates submitted by the waste manager\(^{17}\), determines charge\(^{18}\) for municipal waste management and issues binding regulations.

24. In selection of waste manager the local government chooses one of the following options:

24.1. performs public procurement or a procedure of public private partnership\(^{19}\);
24.2. delegates the task to a capital venture of the local government on the basis of exclusion set in the law for application of the public procurement procedure\(^{20}\).

The local government signs an agreement for municipal waste collection with the selected waste manager, including for collection, transportation and storage of separate waste within the respective administrative territory\(^{21}\).

In turn, the municipal waste manager selected by the municipality signs agreement with waste producers located in the administrative territory of the municipality for management of municipal waste\(^{22}\).

The waste producer is any natural or legal person whose activities produce waste\(^{23}\).

**Role of the landfill site managers in the municipal waste management**

25. In order to ensure a waste disposal infrastructure compliance with environmental requirements, ten waste management regions have been defined in Latvia\(^{24}\) (see Annex 1).
A waste management region is a part of state administrative territory, from which originating municipal waste, not suitable for recycling, is disposed in the landfill site of the region\textsuperscript{25}.

26. The municipal waste originating from administrative territories located within respective waste management region is disposed only in the particular municipal waste landfill site of the respective waste management region\textsuperscript{26}.

Landfill site is a specially constructed and equipped site for the disposal of waste, in which all the measures for environmental protection prescribed in regulatory enactments are ensured\textsuperscript{27}. There are 11 municipal landfill sites operating in Latvia (see Annex 1) managed by ten inter-municipal companies\textsuperscript{28}.

27. Amounts of municipal waste produced in Latvia and disposed in landfill sites see in the Figure 1.

![Figure 1. Amounts of municipal waste produced in Latvia and disposed in landfill sites\textsuperscript{29}](image)

28. An average of 83\% from the household and similar municipal waste produced are disposed in landfill sites.

29. Manager of municipal waste landfill site can provide also waste management in local governments, if necessary permits are received.

\textsuperscript{25} Paragraph 2 of the CoM Regulations of 25.06.2013 No. 337 “Regulations on the Waste Management Regions”.

\textsuperscript{26} Paragraph One of the Section 21 of the Waste Management Law.

\textsuperscript{27} Paragraph 10 of the Section 1 of the Waste Management Law.

\textsuperscript{28} Page 15 of the State Plan for the Waste Management 2013–2020.gadam (approved by the order of the CoM 21.03.2013 No. 100).


Summary of Audit Findings and Conclusions

As a result of audit, it has been concluded that during the period from 01.01.2012 to 30.06.2014 in 44 local governments a payment for waste management of 3 647 341 euro (see Annex 2) has been improperly charged from the waste producers, including inhabitants.

Such overpayment was established because waste managers have applied an incorrect methodology for calculation of the payment contrary to the actual situation, as well as by improperly charging the natural resources tax for disposal of waste not actually disposed in the landfill site.

I

Application of incorrect methodology for conversion from the volumes units to weight units has resulted in overcharge of 2 076 380 euro from waste producers of 25 municipalities for the period from 01.01.2012 to 30.06.2014 for disposal of actually non-existent waste in the landfill site

30. In order to charge the payment for waste management to the waste producers, including inhabitants, the waste managers are issuing invoices.

31. The payment for waste management, indicated in the invoices, is made up from three components and these can be expressed in different units – cubic meters or tons.

32. In order to issue an invoice to the waste producers and to set the overall payment for a cubic meter, the waste manager converts amount of waste from tons to cubic meters.

33. For the conversion from tons to cubic meters the waste managers:

33.1. either use the waste volume – mass conversion factors, summarised in the Manual for Application of Factors in Accounting of Municipal Waste by Conversion from Volume to Weight Units (hereinafter – the methodology) developed in 2002, where a factor of 0.2 is set for mixed non-pressed municipal waste, thus assuming that one cubic meter of waste corresponds to 200 kilograms of waste.

33.2 or apply a factor determined as a result of measurements and observations based on the past experience, i.e., what was the weight of one cubic meter of waste over the previous period in a particular territory.

34. Following audit of conversion factor rates applied by waste managers for transition of volumes from tons to cubic meters in 34 municipalities, it was concluded that:

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30 Paragraph 5 of the Annex No. 5 to the CoM Regulations of 22.12.2008 No.1075 „Regulations on the forms of state statistical reports of the environmental protection”

31 Table 6 of the Manual for Application of Factors in Accounting of Municipal Waste by Transition from Volume to Weight Units (Latvijas Vides aģentūra, 2002)
34.1. In nine local governments waste managers are applying the transition rates set as a result of measurements within range from 0.133 to 0.18, thus assuming that one cubic meter of waste weights from 133 to 180 kilograms; 34.2. In 25 local governments waste managers automatically apply the factor rate set in the methodology for mixed non-pressed municipal waste – 0.2, thus assuming that one cubic meter of waste weights 200 kilograms (see Table 1).

35. In order to establish the actual weight of one cubic meter of waste in the territory managed by the particular waste manager, the calculations were performed within course of the audit.

Within course of such calculations the number of cubic meters of waste indicated in the invoices issued to waste producers was compared against the weight of waste submitted to the landfill sites. It was concluded that inhabitants of the territories, where waste managers automatically apply the standard conversion factor 0.2, i.e., assume that one cubic meter weights 200 kilograms, actually are producing less waste and thus are paying for management of non-existent waste.

Summary of factor rates for ratio between volume and weight of municipal waste applied by waste managers, as well as actual numbers calculated by the audit of municipalities is provided in the Table 1.

Table 1

<table>
<thead>
<tr>
<th>N. p. k.</th>
<th>Local government</th>
<th>Factor applied by the waste manager</th>
<th>The actual factor calculated by the auditors and based on the data of landfill sites</th>
<th>Difference between the factor applied by the waste manager and calculated by the auditors (kilograms per cubic meter)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Jelgavas city, Jelgavas and Ozolnieku municipality</td>
<td>0.20</td>
<td>200</td>
<td>0.13</td>
</tr>
<tr>
<td>2</td>
<td>Kuldīgas municipality</td>
<td>0.18; 0.13; 0.12; 0.15</td>
<td>120 to 180</td>
<td>0.15</td>
</tr>
<tr>
<td>3</td>
<td>Aizkraukles municipality</td>
<td>0.14</td>
<td>140</td>
<td>0.11</td>
</tr>
<tr>
<td>4</td>
<td>Neretas municipality</td>
<td>0.14</td>
<td>140</td>
<td>0.11</td>
</tr>
</tbody>
</table>

32 Local governments of the Kuldīgas municipality, Aizkraukles municipality, Neretas municipality, Lubānas municipality, Preili municipality, Vārkvānas municipality, Ventspils city, Ventspils municipality and Alsungas municipality
33 Jelgavas city, Jelgavas municipality and Ozolnieku municipality local governments, as well as local governments of Ziemeļvidzeme waste management region (Valmieras city, as well as Alojas, Amatas, Beverīnas, Burtnieku, Čēsu, Jaunpiebalgas, Kocēnu, Krimuldas, Limbažu, Līgatnes, Mazsalacas, Naukšēnu, Pārgaujas, Priekulu, Raunas, Rūjienas, Salacgrīvas, Smiltenes, Strenču, Valkas and Vecpiebalgas municipality local governments).
34 Table 6 of the Manual for Application of Factors in Accounting of Municipal Waste by Transition from Volume to Weight Units (Latvijas Vides aģentūra, 2002)
35 From comparison of number of cubic meters of municipal waste collected as given in the invoices with an amount of municipal waste submitted to the landfill site.
36 Waste manager SIA „Jelgavas komunālie pakalpojumi” (registration No.43603022128) for the audited time period (from 01.01.2012 to 30.06.2014) waste management had been providing not only in Jelgavas city, but also in Jelgavas and Ozolnieku municipalities.
37 Waste management is handled by SIA „Kuldīgas komunālie pakalpojumi” (registration No.56103000221).
38 Various factors were applied in various periods – 0.18 for the period from 01.01.2012 to 19.08.2012; 0.13 for the period from 20.08.2012 to 31.12.2013; 0.12 for the period from 01.01.2014 to 31.01.2014; 0.15 for the period from 01.02.2014.
39 Waste management is handled by SIA „Aizkraukles KUK” (registration No.48703000438).
<table>
<thead>
<tr>
<th>N. p. k.</th>
<th>Local government</th>
<th>Factor applied by the waste manager</th>
<th>The actual factor calculated by the auditors and based on the data of landfill sites</th>
<th>Difference between the factor applied by the waste manager and calculated by the auditors (kilograms per cubic meter)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.</td>
<td>Lubānas municipality</td>
<td>0.14; 0.16</td>
<td>from 140 to 160</td>
<td>0.14</td>
</tr>
<tr>
<td>6.</td>
<td>Preiļu municipality</td>
<td>0.133</td>
<td>133</td>
<td>0.11</td>
</tr>
<tr>
<td>7.</td>
<td>Vārkaivas municipality</td>
<td>0.133</td>
<td>133</td>
<td>0.11</td>
</tr>
<tr>
<td>8.</td>
<td>Ventspils city, Ventspils and Alsungas municipality</td>
<td>0.18</td>
<td>180</td>
<td>0.13</td>
</tr>
<tr>
<td>9.</td>
<td>Local governments of the Ziemeļvidzeme Waste Management Region</td>
<td>0.20</td>
<td>200</td>
<td>0.12</td>
</tr>
</tbody>
</table>

**Average actual factor:**
- 0.12

36. Thus the factor of 0.2 provided in the methodology assuming that one cubic meter of waste represents 200 kilograms of waste does not correspond with the actual situation in the 25 local governments covered by the estimates.

37. Recalculation of payment for waste management was done in the municipalities where the set factor of relation between the volume and weight of municipal waste was significantly different from the actual factor (i.e., in Jelgavas city and 22 local governments of the Ziemeļvidzemes Waste Management Region), as in these cases unjustified payments for waste management were set for the waste producers, including inhabitants.

38. In order to recalculate payment for waste management in the above referred local governments, the number of cubic meters of waste indicated in the invoices issued by the waste managers was compared against the weight of waste disposed in the landfill site, which was recalculated by auditors in cubic meters by applying the factor chosen by the manager.

The results of such calculations indicate that the number of cubic meters of waste collected from the waste producers is artificially increased and thus for the time period from 01.01.2012 to 30.06.2014 waste producers of 25 local governments, including the inhabitants have overpaid total of 2 076 380 euro for disposal of actually non-existent waste in the landfill site, incl.:
38.1. in Jelgavas city, Jelgavas municipality and Ozolnieku municipality – 491 018 euro;
38.2. in Ziemeļvidzemes Waste Management Region – 1 585 362 euro.

39. The State Audit Office has recommended:

39.1. for the local governments and waste managers to ensure that a transition rate from the units of weight to units of volume of waste corresponding to the actual situation be set;
39.2. MEP RD to improve regulation of legal enactments to request that factor for transition from units of weight to units of volume to be used for calculation of the payment for waste management be set as a result of measurements of waste manager.

II

The amount of waste disposed in landfill sites were decreased as a result of introduction of waste sorting lines, but the amount of natural resource tax collected from waste producers, including inhabitants, remained at the previous level, thus waste producers of 44 local governments, including inhabitants, for the period from 01.01.2012 to 30.06.2014 have overpaid the total of 1 570 961 euro

40. For purposes of decreasing quantities of unsorted municipal waste, for the period up to 2014 four lines of sorting of unsorted municipal waste were installed, the operations of which have led to significant decrease of quantities of waste to be disposed in waste landfill sites:

40.1. in 2010 the landfill site manager SIA „ZAAO” launched a mechanical pre-treatment workshop of waste in the landfill site „Daibe”50 (hereinafter – the sorting line);
40.2. in 2011 the landfill site manager SIA „Vidusdaugavas SPAAO” installed a sorting line of unsorted municipal waste in the landfill site „Dzīļā vāda”51, which started its operations in 201352;
40.3. in 2012 the landfill site manager SIA „Ventspils labiekārtošanas kombināts” launched a mechanical pre-treatment workshop of waste in the landfill site „Pentuļi”53 (hereinafter – the sorting line);
40.4. in 2013 the waste manager SIA „Jelgavas komunālie pakalpojumi” launched a sorting station of unsorted waste (hereinafter – the sorting line).

41. Although the quantities of waste disposed in the landfill site has decreased as a result of operations of sorting lines of unsorted municipal waste, the managers of sorting lines are still charging natural resources tax for the entire amount of waste – also for the waste not disposed at all in the landfill as a result of sorting.

42. In order to establish the amount of natural resources tax charged by the managers of sorting lines for the waste which is not disposed at all at the landfill sites as a result of sorting, the calculations were made within course of the audit.

50 Statement of the SIA „ZAAO” of 30.12.2010 No.38, No.39, No.41, No.42 “Par pamatlīdzekļu nodošanu eksploatācijā” (On commissioning of fixed assets for use).
51 Delivery procurement agreement No. SPAAO 2010/3ES KF-01 between SIA „Vidusdaugavas SPAAO” and association of persons SIA „Ecotechfrom Baltic” and Komptech GmbH of 25.03.2011
The card of fixed assets No.P110013 „Waste compactor KOMPTECH TERMINATOR 3400”;
The card of fixed assets No.P110019 „Compost sieve KOMPTECH MULTISTAR L3 FLOWERDISC”.
The calculations lead to a difference between the unsorted municipal waste accepted at the sorting line and disposed in the landfill site, which was multiplied by the natural resource tax rate.

43. It was concluded that for the period from 01.01.2012 to 30.06.2014 unjustified expenses of 1 570 961 euro were created to waste producers of 44 local governments54, including inhabitants, including:

43.1. in the Jelgavas city, Jelgavas municipality and Ozolnieku municipality – 856 156 euro;
43.2. in the Ventspils Waste Management Region55 – 213 815 euro;
43.3. in the Vidusdaugavas Waste Management Region56 – 32 265 euro;
43.4. in the Ziemeļvidzemes Waste Management Region57 – 468 725 euro.

44. In order to ensure that only appropriate expenses of waste disposal are invoiced to waste producers, including inhabitants, considering that waste management can decrease the amount of waste to be disposed, the State Audit Office has recommended:

44.1. for the managers of sorting lines to charge natural resources tax and tariff rates of the landfill site58 only for the part of waste actually disposed in the landfill site;
44.2. MEPRD to improve legal regulation so as to set a uniform procedure for charging of natural resources tax only for the part of waste actually disposed at the landfill site59.

45. The auditors also draw the attention to the fact that introduction of waste sorting line has caused significant changes in economic operations and structure of expenses, e.g., by creating additional expenses and additional revenues for waste manager of Jelgavas city and Ventspils landfill site manager, however the waste manager of Jelgavas city has not reviewed the payment for waste collection and transportation and the Ventspils landfill site manager has not reviewed the tariff rate of the landfill site, thus, it is possible:

45.1. that costs of introduction and maintenance of waste sorting lines are compensated from the improperly charged payment for waste disposal;

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55 Ventspils city and three municipalities: Alsungas, part of Kuldīgas municipality (Kuldīgas city, Ēdoles, Gudenieku, Ivandes, Kurmāles, Padures, Pelēcī, Rumbas, Snēpeles, Turlavas pagasts) and Ventspils municipality.

56 Jēkabpils city and 14 municipalities: Aizkraukles, Aknīstes, Ērgļu, Jaunjelgavas, Jēkabpils, Kokneses, Krustpils, Madonas, Neretas, Plāvini, Salas, Skrīveru, Viesītes and Varakļānu municipalities.


58 Recommendation on charging of the landfill rate applies only to the waste manager of the Jelgavas city SIA „Jelgavas komunālie pakalpojumi”, who is not a landfill site manager, since according to explanations of the Public Utilities Commission, the managers of landfill sites in calculation of the tariff rate of the landfill for disposal of the waste shall consider also that as a result of operation of the sorting line the amount of waste to be disposed decreases.

59 Sub-Paragraph 2 of the Paragraph One of the Section 39 of the Waste Management Law and Annex 3 to the Natural Resource Tax Law.
45.2. that not only technically and economically justified expenses are included in the tariff rates.

46. The State Audit Office has recommended to the sorting line managers\textsuperscript{60} to review payment charged for waste collection and transportation, as well as landfill site tariff rates in order to ensure that only technologically and economically justified expenses are included in these and to demonstrate to their inhabitants the economic benefits of introduction of sorting line.

47. Schematic depiction of waste management system after installation of sorting line of unsorted waste please see in the Figure 2.

\textsuperscript{60} Waste manager of the Jelgavas city and Ventspils landfill site manager.
As a result of installation of waste sorting lines the amount of waste disposed in the landfill sites decreased, but the tariff rate of the landfill site* and natural resources tax was charged for the previous amounts of waste disposed thus waste producers of 44 local governments, incl. inhabitants, have overpaid total of 1 570 961 euro for the two and a half years period.

Waste producers are paying to the waste manager:
• for waste collection and transportation;
• for disposal of waste at the landfill site;
• natural resources tax on waste disposal.

Amounts of waste to be disposed decrease by introduction of waste sorting line.

Expenses of waste manager for disposal of waste also decrease, as the sorted waste is not taken to the landfill site, but sold for recycling.

The payment charged from the waste producers, including inhabitants, for disposal of waste in the landfill site* and natural resources tax for disposal of waste creates an additional revenue of the waste manager, which might have been used for covering cost of installation of sorting line and its operational costs.

* Additional income from the payment charged for disposal of waste in the landfill site is gained only by the Jelgavas city waste manager SIA „Jelgavas komunālie pakalpojumi”, who is not a landfill site manager, since according to explanations of the Public Utilities Commission, the managers of landfill sites in calculation of the tariff rate of the landfill for disposal of the waste shall consider also that as a result of operation of the sorting line the amount of waste to be disposed decreases.

Figure 2. Waste management system after installation of sorting line of unsorted waste
I

Agreements signed by local governments and municipal waste managers

48. Municipalities in signing agreement with a selected waste manager for provision of waste management services in their administrative territory shall adhere to provisions of the legal enactments\(^61\) and recommendations developed by MEPRD\(^62\) for critical terms and conditions of the waste management agreements.

49. Agreements signed by local governments with waste managers not always comply with legal requirements\(^63\) and MEPRD requirements, thus negatively affecting interests of local governments and inhabitants, and restricting ability of local governments to efficiently organise waste management in their administrative territory.

50. Agreements signed by municipalities with waste managers not always provide for (1) procedure for review of payment for waste management and notification of inhabitants on changes in the set payment, (2) procedure for transfer of information of agreements signed with inhabitants to the new waste manager, as well as (3) procedure according to which the waste manager agrees with the local management draft agreements with inhabitants; (4) the agreements do not set requirements for the quality of services, thus the local government is unable to assess quality of service provided by the waste manager and pass decisions for purposes of improving it in the interests of inhabitants; (5) the agreements do not provide for contractual fines in the cases of contractual breach; (6) in several cases these agreements do not comply with legal requirements\(^64\).

51. The State Audit Office has recommended for MEPRD to develop a draft legal enactment by setting minimum requirements to be included in the agreement between the local government and municipal waste manager, thus facilitating protection of interests of local government and inhabitants, as well as application of principle of proportionality.

II

Agreements signed by inhabitants and municipal waste managers

52. Waste management agreements to be signed with inhabitants are drafted by the waste manager, and their contents and terms vary in each municipality.

53. Following analysis of agreements, the Consumers Rights Protection Centre as a competent institution has identified in the agreements signed by waste managers with inhabitants an array of unfair provisions\(^65\) – e.g., (1) concerning the procedure for dispute resolution and

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\(^{61}\) Waste Management Law, Public Procurement Law, Paragraph of the Section of the State Administration Structure Laws, Sub-Paragraph of the Paragraph of the Section of the Law “On Municipalities”.

\(^{62}\) Annex No. 2 to the letter from the MEPRD of 23.05.2013 No.2.18-1e/4605 „On recommendations in organisation of procurement procedures when local governments are selecting a waste manager, and recommendations for critical terms of the municipal waste management agreements” to all local governments.

\(^{63}\) Waste Management Law, Public Procurement Law, the State Administration Structure Laws, the Law “On Municipalities”.

\(^{64}\) Waste Management Law, Public Procurement Law, the State Administration Structure Laws, the Law “On Municipalities”.

\(^{65}\) Report of the Centre for Protection of Consumer Rights on the supervision project “Supervision of terms and conditions of the agreements and commercial practice/ advertisements in the municipal waste management area”, 2014 [Available at: http://www.ptac.gov.lv/page/212&news_id=552 (seen on 24.11.2014.).]
submission of claims; (2) application of contractual fines or other type of compensation; (3) rights of service provider to refrain from provision of service; (4) allowing for the service provider to introduce unilateral amendments in the provisions of the agreement, etc.

54. Thus it can be concluded that the current practice of signing of waste management agreements between the waste managers and inhabitants in most cases and in several aspects does not provide for protection of interests of consumers.

55. The State Audit Office has recommended to the MEPRD to develop a draft legal act in cooperation with the Consumers Rights Protection Centre, by defining minimum requirements to be included in the agreement between the inhabitants and municipal waste manager, thus promoting protection of interests of inhabitants and application of proportionality principle.

The municipalities have not performed sufficient actions to ensure fulfilment of requirement of the Waste Management Law that inhabitants have to sign agreements for collection and transportation of municipal waste.

An average of 56% of individual households have not signed waste management agreements, which in practice means that the households which have not signed the agreements are either polluting environment, or are disposing their waste in containers of other inhabitants. This in turn means that inhabitants who have signed the agreements are forced to pay also for those inhabitants which have not signed the agreements.

Two of the municipalities included in the sample did not have any information at all on the number of households located within their administrative territories.

56. The Waste Management Law\textsuperscript{66} provides that waste management shall not have negative environmental impact, including its pollution and littering. Therefore every person\textsuperscript{67}, whose activities produce waste, shall sign agreement on municipal waste collection and transportation with a waste manager chosen by the municipality\textsuperscript{68}.

57. Relation between number of agreements signed and not signed by the households against the total number of households located at the territory of municipalities included at the sample of 30.06.2014 can be seen in the Table 2.

<table>
<thead>
<tr>
<th>No.</th>
<th>Houses by the type of municipality</th>
<th>Multi-apartment building</th>
<th>Individual house</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Number of signed agreements, %</td>
<td>Number of agreements not signed, %</td>
</tr>
<tr>
<td>1.</td>
<td>Aizkraukles municipality</td>
<td>99</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>Cesvaines municipality</td>
<td>80</td>
<td>20</td>
</tr>
</tbody>
</table>

\textsuperscript{66} Paragraph Two of the Section 4 of the Waste Management Law

\textsuperscript{67} Paragraph 6 of the Section 1 of the Waste Management Law

\textsuperscript{68} Sub-Paragraph 1 of the Paragraph One of the Section 16 of the Waste Management Law
58. The law *On Municipalities* provides that municipality controls collection and removal of waste within its administrative territory.

59. Within framework of the audit, local governments provided information that in order to promote interest of inhabitants in signing of agreements on municipal waste collection and transportation, the local governments informs and warns inhabitants on the need to sign agreements and organises signing of agreements at the premises of local governments.

60. For the period from 01.01.2012 to 30.06.2014 only two from eight local governments included in the sample have discovered only four violations of legal enactment concerning failure to sign waste management agreement.

61. Thus it can be concluded that local governments have not performed sufficient activities to ensure fulfilment of the requirements of the *Waste Management Law*, that inhabitants have to sign agreements for collection and transportation of municipal waste, because:

61.1. the local governments of Jelgava city and Kuldīga municipality have no information at all concerning number of households in the local government;

61.2. in the other municipalities included in the sample still an average of 56% of individual households and 8% of the households in multi-apartment buildings have not signed waste management agreements, thus environmental pollution is not duly restricted and possibly the inhabitants which have signed the agreements are forced to pay for waste management services also instead of the inhabitants without service agreements.

62. The State Audit Office has recommended to local governments considering the particular situation either to significantly improve the control system or to take additional actions for the purpose of facilitation of signing of waste collection and transportation agreements with all waste producers in the territory of the respective municipality.

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69 Sub-Paragraph 2 of the Paragraph One of the Section 15 of the Law “On Municipalities.

70 Paragraph Two of the Section 75 of the Latvian Administrative Violations Code.
The audit discovered also the violations which were not systemic and typical for several waste managers and landfill sites managers, but were identified just in particular local governments.

1 Waste transportation costs have been escalated

Jelgava’s city local government partly owned company SIA „Jelgavas komunālie pakalpojumi” has not managed funds properly, by leasing specialised waste collection vehicles from its other private owner – SIA „KULK”, instead of purchasing them, thus overpaying at least 575 385 euro for the period of time from 01.03.2006 to 30.06.2014.

While in 2014 by signing new agreement with the same SIA „KULK” for lease of the same vehicles, the costs of lease and service of specialised vehicles of transportation were further increased by 39%.

63. On 01.03.2006 SIA „Jelgavas komunālie pakalpojumi”, without carrying public procurement procedure, signed an open term agreement with the holder of its capital shares SIA „KULK” for lease of specialised waste collection vehicles and maintenance services.

64. The payment for waste management set to inhabitants includes also the transportation costs of the waste manager.

In order to compare lease costs of specialised waste collection vehicles with potential purchasing costs, a sample of vehicles required for operations of SIA „Jelgavas komunālie pakalpojumi” was formed, including in it the waste collection vehicles in the long-term lease. In calculation of potential purchasing costs of specialised vehicles included in the sample, the market price of such vehicles in the particular period was considered, along with possible additional fees (lease costs and vehicle tax). The estimates did not include repair costs of specialised vehicles of waste collection, since the lease agreement did not provide car repair services, and also the insurance costs, which shall be covered at the expense of leaseholder.

65. Considering the estimates made within course of the audit it was established that purchase of specialised waste collection vehicles in the ownership of SIA „Jelgavas komunālie pakalpojumi” would have been more beneficial than their lease.

For the time period from 01.03.2006 to 30.06.2014 SIA „Jelgavas komunālie pakalpojumi” would have saved at least 575 385 euro, by decreasing transportation costs at least by 44%, thus allowing for decrease of payment for waste management set to the waste producers, including inhabitants.

66. The local government of the Jelgava’s city, without providing any written evidence, stated that in 2006 it was impossible to acquire specialised waste collection vehicles in the ownership, as the equity capital of SIA „Jelgavas komunālie pakalpojumi” in 2006 was negative.

The State Audit Office believes that in 2006 there still was an opportunity to acquire specialised waste collection vehicles by using the funding spent on lease payments on purchase of new vehicles of transportation.

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71 Waste collection vehicles which were leased for longer than 50 months.
Regardless of the equity capital of SIA „Jelgavas komunālie pakalpojumi” being positive as of 2010, the company continued leasing of specialised waste collection vehicles, without considering an option of purchasing the vehicles, as a result of which the transportation costs increased at least by 420 700 euro over the period from 01.01.2010 to 30.06.2014.

During the audit SIA „Jelgavas komunālie pakalpojumi” did announce procurement tender on full service lease of specialised equipment. As a result of procurement tender, on 17.10.2014 an agreement was signed with the SIA „KULK” for lease of the same vehicles, which were covered by the lease agreement signed in 2006, however with increased costs of transportation by 39%, which leads to the risk of increasing cost of payment for waste management to the waste producers, including the inhabitants as a result of increase in these expenses.

Schematic comparison of costs of specialised waste collection vehicles used by the SIA „Jelgavas komunālie pakalpojumi” is shown in the Figure 3.
Figure 3. *Cost of specialised waste collection vehicles used by SIA „Jelgavas komunālie pakalpojumi”*

70. The State Audit Office has recommended to local government of Jelgavas city as owner of holding package of shares in SIA „Jelgavas komunālie pakalpojumi” to assess alternative options of provision of specialised vehicles of transportation and to take measures for...
decreasing cost of specialised transportation included in the waste management cost to the waste producers, including inhabitants.

II Unjustified amount of subsidy from the local government for maintenance of separate waste collection sites

SIA „Zemgales EKO”, company which is owned by the local governments of Jelgavas city and Bauskas municipality, has requested and received larger amount of subsidies from the local government of Jelgava city for maintenance of separate waste collection sites than necessary, as the estimates used for requesting of subsidies do not take into account revenues gained by the company from realisation of waste collected at the sites.

71. SIA „Zemgales EKO”, company which is owned by the local governments of Jelgavas city and Bauskas municipality, is providing maintenance of three separate waste collection sites in Jelgava and transportation of separately collected waste to the centre for sorting and handling of waste.

72. Management of two sites of separate waste collection are subsidised by the local government of Jelgava city and for the period of time 01.01.2012 to 30.06.2014 SIA „Zemgales EKO” has used for this purpose 196,163 euro from the subsidies received.

73. For the period from 01.01.2012 to 30.06.2014 SIA „Zemgales EKO” has earned revenues of 232,129 euro from realisation of recycled raw materials, but these revenues have not been assigned to the operations of separate waste sorting sites, although the waste accepted at the waste collection sites has been further sorted and realised as recyclable raw materials.

74. The State Audit Office has recommended for the local government of Jelgava city to assess option of decreasing amount of subsidies assigned to maintenance of separate waste collection sites taking into account revenues obtained from realisation of waste collected at the sites.

III The payment for waste management includes services not received

Local government of Vārkavas municipality has not supervised the agreements of management of municipal waste signed with waste managers concerning fulfilment of the provisions, as a result of which inhabitants of the municipality are paying for the services of separately collected (sorted) waste management, which actually has not been received.

75. The agreements signed by the local government of Vārkavas municipality for the municipal waste management provide for an obligation of the waste manager in the Vārkavas municipality to ensure options of separate waste collection within the municipality.

76. Waste managers are not providing this obligation and the inhabitants of Vārkava municipality still are unable to carry out sorted collection of waste, although the inhabitants of the municipality are paying for the service of separate management of separately collected (sorted) waste.

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72 Paula Lejiņa street 6, Jelgava, Salnas street 20, Jelgava and Ganību street 84, Jelgava.
73 Paula Lejiņa street 6, Jelgava and Salnas street 20, Jelgava.
77. It was recommended to the local government of Vārkavas municipality to ensure that waste manager provides inhabitants of the municipality with possibility to carry out separate collection of waste according to provisions of the agreement signed.

IV Use of landfill sites in breach of legal requirements

In relation to municipal waste disposal, the requirement of the Cabinet Regulations that municipal waste shall be disposed in the municipal waste landfill site associated with the waste management region is not ensured in the Kuldīgas municipality.

Although the waste produced in the Kuldīgas municipality has to be disposed in three various landfill sites, for the period from 01.02.2014 the waste produced in the municipality is transferred to only one landfill site, thus endangering sustainable operations of the landfill sites.

78. Territory of the Kuldīgas municipality fall within three Waste Management Regions – Liepājas, Piejūras and Ventspils74, and municipal waste produced by the Kuldīgas municipality shall respectively be disposed in municipal waste landfill sites associated with respective regions75:

78.1. „Ķīvītes”, managed by SIA „Liepājas RAS” (Reg. No. 42103023090);
78.2. „Janvāri”, managed by SIA „Atkritumu apsaimniekošanas sabiedrība „Piejūra”” (Reg. No. 40003525848);
78.3. „Pentuļi”, managed by SIA „Ventspils labiekārtošanas kombināts” (Reg. No. 41203001052)76.

79. At the time of foundation of landfill sites total capacity of each landfill site was defined for the 20 years period considering number and density of population of each management region, direction of waste flow and forecasts of waste production for the next 20 years.

80. Until 31.01.2014 the waste produced by the Kuldīgas municipality was disposed in the landfill sites associated with the waste management region – „Ķīvītes”, „Janvāri” and „Pentuļi”.

While as of 01.02.2014 waste produced by the Kuldīgas municipality is being disposed only in one landfill site – „Pentuļi” (see Figure 4).

81. Starting from 01.02.2014 the Kuldīgas municipality is not ensuring fulfilment of the legal requirement77 - to dispose municipal waste in the landfill site associated with the waste management region, since regardless of the requirement to dispose waste produced by the Kuldīgas municipality in three various landfill sites, the waste produced by the municipality is being disposed in one landfill site – „Pentuļi”, thus leading to the risk that no sustainable operations of landfill sites „Ķīvītes”, „Janvāri” and „Pentuļi” will be supported.

82. It was established within course of the audit that MEPRD has offered78 to the local government of the Kuldīgas municipality to propose legal amendments79 in the case of

74 Paragraph 5 of the Table 3, Paragraph 5 of the Table 5 and the Paragraph 2 of the Table 7 of the Annex to the CoM Regulations of 25.06.2013 No. 337 “Regulations on the Waste Management Regions”.
75 Paragraph 2 of the CoM Regulations of 25.06.2013 No. 337 “Regulations on the Waste Management Regions”.
76 Pages 13 and 15 of the State Plan for the Waste Management 2013 - 2020 (approved by the order of the CoM 21.03.2013 No.100).
77 Paragraph 2 and Paragraph 5 of the Table 3, Paragraph 5 of the Table 5 and the Paragraph 2 of the Table 7 of the Annex to the CoM Regulations of 25.06.2013 No. 337 “Regulations on the Waste Management Regions”.
78 Meeting of the MEPRD with representatives of local governments of Kuldīgas municipality of 16.04.2013.
economical feasibility, so that waste produced by the Kuldīga municipality could be disposed in just one landfill site.

The local government of Kuldīgas municipality has not used this option.

Figure 4. Split of Kuldīgas municipality in waste management regions and landfill sites associated with regions

83. It was recommended to the local government of the Kuldīgas municipality to ensure adherence to the requirements of the legal act so that municipal waste collected in the territory of the municipality are disposed in respective landfill sites.

V Non-efficient economic operations of the waste landfill sites

Due to unsuitable technical conditions the sorting line installed in the municipal waste landfill site „Dzīļā vāda” does not ensure achievement of planned waste sorting objectives, as it is being used only for 21% of the planned amount, thus the waste producers, including inhabitants, are forced to pay for ineffective use of the sorting line.

84. SIA „Vidusdaugavas SPAAO” in 2011 bought and installed the sorting line of unsorted municipal waste. Contrary to legal requirements the line was not installed indoors, but outdoors.

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79 Paragraph 2 and Paragraph 5 of the Table 3, Paragraph 5 of the Table 5 and the Paragraph 2 of the Table 7 of the Annex to the CoM Regulations of 25.06.2013 No. 337 “Regulations on the Waste Management Regions”.
80 Paragraph 2 of the CoM Regulations of 25.06.2013 No. 337 “Regulations on the Waste Management Regions”.
81 Paragraph 20 of the CoM Regulations of 22.11.2011 No.898 „Regulations on waste collection and sorting places”.
85. As a result this the line can be operated only for a few months per year, and currently only 21% from the planned amount is sorted. Acquisition costs of the sorting line of unsorted municipal waste were 873 982 euro and these expenses are included in the tariff rate of the landfill site. Thus the waste producers, including inhabitants are paying for operations of ineffectively used sorting line.

86. SIA „Vidusdaugavas SPAAO” was recommended to perform actions in order to ensure effective use of the sorting line according to its planned capacity, thus achieving the planned waste sorting objectives.

VI Inhabitants of private houses are “subsidising” residents of multi-apartment buildings

Inhabitants of private houses and enterprises of the Preiļu municipality have overpaid 6808 euro for waste management services for the period from 01.01.2012 to 30.06.2014 by covering costs of waste containers of multi-apartment residential buildings.

87. The payment for waste management of the Preiļu municipality, which is applied to all inhabitants of the municipality, includes cost of waste containers placed by the multi-apartment residential buildings. While the inhabitants of private houses and enterprises in addition to payment for waste management are paying also for purchase or lease of the waste containers.

88. By including the payment for waste management applicable to all consumers the costs concerned only with some group of consumers (residents of multi-apartment houses) the situation is caused, when inhabitants of private houses and enterprises are overpaying 0.32 euro for every cubic meter of waste managed, thus subsidising residents of multi-apartment houses.

89. Thus the inhabitants of private houses and enterprises of the Preiļu municipality have overpaid 6808 euro for municipal waste management services received during the period from 01.01.2012 to 30.06.2014 by covering costs of waste containers used by the residents of multi-apartment residential buildings.

90. The local government of the Preiļu municipality was recommended to review the set payment for waste management, providing that inhabitants are paying only for actually received services.

91. The State Audit Office appreciates rapid reaction of the local government of the Preiļu municipality – upon introduction with the results of audit by the State Audit Office the local government of the Preiļu municipality has ensured that as of 01.01.2015 the waste manager is offering waste containers to inhabitants of private houses free of lease or purchase fee, thus ensuring equal treatment of all inhabitants.

Other violations

The Latvian Association of Waste Management Companies for the time period from 01.01.2012 to 30.06.2014 has unlawfully charged from waste managers fee for issue of opinion for total amount of 32 508 euro.

At the same time need for involvement of the Latvian Association of Waste Management Companies in the process of issue of waste management permits shall be reconsidered.

82 Letter of local government of Preiļu municipality of 28.01.2015 No.4-10/90.
92. In order to carry out waste management operations, the waste manager must receive a permit issued by the State Environmental Service (hereinafter – the waste management permit).

The State Environmental Service ensures the process of issue of waste management permit, which includes the need to receive an opinion of independent experts commission (hereinafter – the Commission of the Association) of the Latvian Association of Waste Management Companies (hereinafter – the Association) concerning technical ability of the waste manager to perform waste management operations (hereinafter – the Opinion).

93. Before receipt of the waste management permit the waste manager must pay the state dues.

The Board of the Association in addition to the state dues has set a charge for issue of the Opinion, notwithstanding the *The Law on State Administration Systems* 83 which provides that the Cabinet of Minister defines procedure for setting and approval of fee for services provided by private persons within framework of the order from the state administration.

Therefore for the period from 01.01.2012 to 30.06.2014 the Association has unlawfully charged from the waste managers a fee for issue of the Opinion for total amount of 32 508 euro.

94. Schematic design of involvement of the Association in the process of issue of waste management permit is shown in the Figure 5.

Figure 5. *Involvement of the Latvian Association of Waste Management Companies in the process of issue of waste management permits*

95. The State Audit Office has recommended to the MEPRD to take actions in order to prevent situation when the Association contrary to the *Law on State Administration System* 84 is charging along with the state dues also a fee for issue of the Opinions.

96. The need for involvement of the Association in the process of issue of waste management permits shall be assessed because:

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83 Paragraph Two of the Section 43.1 of the State Administration Structure Law.
84 Paragraph Two of the Section 43.1 of the State Administration Structure Law.
96.1. the State Environmental Service on several occasions has issued the waste management permit without the Opinions of the Commission of the Association, as they were not received by the set deadline;

96.2. the negative Opinions of the Commission of the Association did not provide sufficient justification, therefore the State Environmental Service had to invest additional resources in order to verify whether the waste manager actually was lacking sufficient capabilities to perform waste management operations;

96.3. five from six waste management operations can be performed without receipt of the Opinion of the Commission of the Association.

97. The State Audit Office has recommended to the MEPRD to assess need for involvement of the Latvian Association of Waste Management Companies in the process of issue of waste management permits.

Summary of recommendations of the State Audit Office

98. The State Audit Office has issued a total of 26 recommendations for elimination of deficiencies discovered within course of audit. The audited entities have agreed to implement the recommendations of the State Audit Office according to the time schedules for implementation of audit recommendations, agreed by the officials in charge.

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Annex 1 to the Informative Report of the Audit No. 2.4.1-14/2014 dated 06.02.2015

Waste Management Regions and Landfill Sites in Latvia

Audit Team Leader,
Senior State Auditor

85 Page 13 of the State Plan for the Waste Management 2013 –2020 (approved by the order of the CoM 21.03.2013 No.100)
Total of 3 647 341 euro were overpaid in 44 local governments