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1.0 Introduction

This Discussion Paper has been prepared by Waste Diversion Ontario (WDO) in co-operation with Stewardship Ontario. The Paper is intended to highlight issues and provoke discussions at the consultation workshops and solicit comments through written submissions. Given time constraints with the Minister's request, the Paper has not been prepared to set out exhaustive lists of options nor has the paper been comprehensively supported with research data.

Earlier drafts of this Paper have been reviewed by the WDO's Cost Effectiveness, Municipal-Industry Programs and Municipal Affairs Committees, although all Committees had limited time for review.

1.1 Background

The Waste Diversion Act states that "A waste diversion program developed under this Act for blue box waste must provide for payments to municipalities to be determined in a manner that results in the total amount paid to all municipalities under the program being equal to 50 per cent of the total net costs incurred by those municipalities as a result of the program".

Municipal costs, as defined in the Municipal Datacall, include collection, processing and depot/transfer costs (including associated amortized capital), as well as promotion and education and administration.

1.2 Additional Sources of Information

Additional background material related to cost containment and efficiency and effectiveness can be found in the following documents:

- the Blue Box Program Plan on the Stewardship Ontario web site at www.stewardshipontario.ca;
- tonnages recovered and program costs for municipal residential Blue Box recycling program on the WDO web site at www.wdo.ca under the Municipal Datacall menu item and the 2002 Datacall tab;
- the cost containment principles and strategy developed by WDO's Cost Effectiveness Committee on the WDO web site at www.wdo.ca under the Designated Materials menu item and the Blue Box Waste tab; and
- Ontario Centre for Municipal Best Practices (OCMBP) for documents on best practices for solid waste diversion located on OCMBP's website at www.ocmbp.ca.

The issues of cost containment and efficiency and effectiveness should also be considered in the context of the issues raised in Discussion Paper # 1, Blue Box

Targets and Municipal Benchmarks, and in Discussion Paper # 3, Impacts of the Blue Box Program on Small Businesses & Incentives for Small Business to Improve Diversion of their Blue Box Wastes.

2.0 Cost Containment Plan

2.1 History of the Cost Containment Process

The Blue Box Program Plan (BBPP) was approved by Waste Diversion Ontario (WDO) in February 2003. Included in the plan was a Cost Containment Strategy (Section 7.4.2 of the Blue Box Program Plan).

In July 2003, the Ministry of the Environment requested that Waste Diversion Ontario develop and submit a more comprehensive cost containment strategy for the residential Blue Box recycling system. The Board of Directors of WDO established the Cost Containment Committee (subsequently renamed the Cost Effectiveness Committee) comprised of Board members representing Stewardship Ontario (the Industry Funding Organization for Blue Box Waste) and the Association of Municipalities of Ontario (AMO) to address cost containment while taking into consideration the need to increase diversion.

In December 2003, Minister Dombrowsky approved the Blue Box Program Plan and requested a number of new measures or enhancements to the current plan. Included in the new measures or enhancements was a request for the 2004 schedule of steward's fees, including a cost containment strategy that will ensure that municipal Blue Box program costs are properly managed.

The WDO Board approved a workplan that involved various committees in the development of background papers for public consultation as a result of the Minister's request. The Municipal-Industry Programs Committee (MIPC) and the Cost Effectiveness Committee (CES) have participated in the preparation of this background paper.

This paper presents information on two, linked new measures or enhancements:

- i) Specific cost containment principles and a cost containment strategy for municipalities and stewards to follow with policies and practices that will ensure compliance.
- ii) Policies and practices to encourage effectiveness and efficiency for municipal Blue Box systems.

2.2 Principles

WDO's Cost Effectiveness Committee established the following principles to guide their deliberations in responding to the Ministry's July, 2003 request:

1. Verification (of data reported by municipalities) must be completed to identify real numbers.
2. Costs must be for residential Blue Box materials only.
3. Identify/agree on cost components of Blue Box Program Plan (BBPP)
4. Cost bands must reflect:
 - i. municipal diversity;
 - ii. best practices;
 - iii. incentives to move municipal program costs into bands;
 - iv. opportunities over time to reduce costs and fit within bands.
5. Gap between BBPP cost projections and real municipal cost numbers must be bridged over life of the plan.
6. Cost increases above baseline in years 2 to 5 must be related to increases in tonnage and/or cost of living or must be supported by documentation.
7. Autonomy of municipal government decision-making remains intact.
8. No cross subsidization of materials' costs.
9. Stewards must support packaging reduction and stewards/WDO must support market development through procurement and other initiatives.

The Cost Effectiveness Committee noted, during its deliberations, that the need to achieve diversion targets must be balanced with the need to contain Blue Box system costs. Similarly, the potential to increase material revenues may need to be balanced against the potential to reduce program costs. A natural tension exists between increasing recovery, increasing revenues and reducing costs. This tension must be managed effectively to ensure that the Blue Box system is both effective and sustainable.

2.3 Policies and Practices

Based on these principles, the Cost Effectiveness Committee developed a cost containment strategy framework consisting of nine activity areas. The full strategy is appended to this background paper (Appendix B).

Proposed policies and practices for each of the nine activity areas include:

1. *Market Development*

For materials with low value, insufficient market capacity and quality problems

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Policies and practices for *Market Development* include:

- Prepare and adopt green procurement protocols
- Assess and implement additional market development levies required to support materials with low revenues
- Investigate cooperative marketing service
- Undertake multi-year detailed cost and quality analysis of systems designed to allow commingled collection and single stream processing
- For glass, analyze alternative markets, investigate color sorting technologies, initiate Request for Quotation (RFQ) for processing and end use applications
- For steel and aluminium, investigate inclusion of composite cans
- For papers, assess impact of increasing recovery of 'other papers' on markets and investigate expanding polycoat materials to include other cartons, cups and bags
- For plastics, investigate plastic film market technologies and applications and initiate Request for Quotation (RFQ) for mixed plastics and plastic film processing and end use applications

2. *Best Practices for Revenues*

Highest revenue based on basket of goods and by material considered in relation to processing costs (capital and operating) and contract arrangements with various revenue sharing arrangements

Policies and practices for *Best Practices for Revenues* include:

- Design and implement cooperative marketing service
- Develop and implement policy to account for "unrealized revenues" in Datacall
- Develop Model Collection and Processing Tenders/Requests for Proposals (RFP) incorporating revenue protocols and hold workshops to introduce to municipalities
- Assess Material Recycling Facility (MRF) residue composition
- Implement audits of aluminum used beverage can (UBC) recovery rates and upgrade processing equipment to maximize aluminum recovery from residuals
- Implement maximum aluminum UBC, plastic containers and papers recovery program (e.g. through targeted advertising campaign)
- Implement detailed cost and quality analysis of systems designed to allow commingled collection and single stream processing

3. *Diversion Targets*

Material specific targets designed to promote recovery of the next least costly unit of waste, linked with setting of stewards' fees to discourage selection by stewards of materials that are not widely accepted in Blue Box programs

Policies and practices for *Diversion Targets* include:

- Review and set revised material specific recovery targets, as required
- Assess opportunities for packaging reduction that result in program cost reductions

4. *Municipal Allocation Model*

The model currently takes into account factors for: adjusting glass revenue; enhancing effectiveness and efficiency; considering volume to weight ratios; and reflecting population density. Adjustments will be developed to make the model more sensitive to the relative efficiency and diversion performance of programs

Policies and practices for *Municipal Allocation Model* include:

- Re-calibrate municipal "pay out" model to make the model more sensitive to the relative efficiency and diversion performance of programs
- Consult with municipalities on proposed changes to municipal "pay out" model

5. *Policy Framework*

Develop policies on Generally Agreed Accounting Principles for capital costs, allocation methodologies, accounting for stockpiles, unmarketable materials and revenue sharing agreements, and regulatory requirements regarding mandatory materials and service levels

Policies and practices for *Policy Framework* include:

- Detail principles to guide capital cost reporting, cost allocation, eligibility of costs for non-recyclable, stockpiled materials, and revenue sharing
- Recommend changes to Reg. 101 including mandatory and optional materials, minimum service levels

6. *Year Over Year Increases*

Based on population growth, increase in materials marketed, cost of living increases, verified changes in material market conditions and new investments supported by documentation submitted in advance

Policies and practices for *Year Over Year Increases* include:

- Request information on planned program expansions and capital cost budgets in Datacall

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- Revise annual Blue Box Program Plan (BBPP) cost estimates for next two years taking into consideration reported costs, estimated population growth and tonnage increases, projected COLA, range of revenues by material type, expansion plans and capital cost projections and other items as identified
- Calculate projected annual cost increase by municipality for use as reference during verification of Datacall and inform municipal programs of annual cost increase calculation and reference methodology
- Require Chief Financial Officer to sign Financial Datacall
- Implement follow-up surveys and program audits as required for submissions exceeding projected annual growth rates
- Refer results of surveys and audits to Efficiency and Effectiveness Fund

7. Effectiveness and Efficiency Fund

Dedicate a share of the Effectiveness and Efficiency (E&E) Fund to provide financial assistance to programs with inefficiencies identified through financial data analysis, to fund efficiency program audits and to identify and promote best practices in municipal waste diversion

Policies and practices for *Effectiveness and Efficiency Fund* include:

- Allocate portion to new technologies R&D
- Assess, provide incentives for and focus investments in identified best practices
- Review allocation to E&E fund annually
- Fund investments in least efficient programs with potential for quick returns

8. Best Practices for Cost Efficiency

Examples of best practices for cost efficiency could include service sharing, new technologies, tags-on-bags or pay-as-you-throw systems and community partnership building, pending review and evaluation

Policies and practices for *Best Practices for Cost Efficiency* include:

- Establish WDO Blue Box Efficiency Team to assist high cost, low recovery programs
- Assess performance of programs that have implemented service sharing arrangements and promote processing service sharing (e.g. MRF rationalization)
- Prepare Model Collection and Processing Tenders/RFPs and hold workshops to introduce to municipalities
- Identify cost drivers (through MIPC) for programs with costs in excess of program averages and diversion lower than program averages

- Undertake analysis to identify Best Practices, in co-operation with the Ontario Centre for Municipal Best Practices and hold municipal workshops to introduce Best Practices
- Initiate multi-year analysis for paper collection and processing with detailed cost and quality analysis of systems designed to allow commingled collection and single stream processing
- Initiate multi-year analysis for plastics collection and processing

9. *Cost Bands to Identify Extraordinary Blue Box Costs*

Analysis of costs by groups of municipalities reflecting municipal diversity combined with incentives to move programs from the lower portion of the group into acceptable bands and identify opportunities over time to reduce costs and fit within bands

Policies and practices for *Cost Bands to Identify Extraordinary Blue Box Costs* include:

- Cap the combined indirect and direct administration cost categories at 1% for programs that contract out and 3% for those that manage their own program
- Develop definition of cost bands and filtering criteria and outline filtering process and dispute resolution process for use in identifying, examining, and if necessary assessing the legitimacy of extraordinary Blue Box costs
- Using minimum of three years cost data, identify municipal programs with costs outside agreed cost bands by primary cost categories reflecting municipal diversity
- Apply filtering criteria and implement filtering process to assess legitimacy of outliers

3.0 Efficiency and Effectiveness Fund

3.1 History of the Efficiency and Effectiveness Fund

As described in the BBPP, an Effectiveness and Efficiency Fund has been approved by the Ministry of the Environment, Waste Diversion Ontario and Stewardship Ontario through their respective approvals of the Blue Box Program Plan. Ten per cent of the calculated annual payments due from Stewardship Ontario to municipalities will be directed to supporting improved program effectiveness and efficiency through contributions made to municipalities by an application process. For the calendar year 2004, this will represent approximately \$3.3 million.

3.2 Policies and Practices

The Effectiveness and Efficiency Fund is expected to support projects in two ways:

- *open applications* for effectiveness and efficiency improvements by municipalities from across the province for which 50% of eligible costs for approved projects will be covered; and
- *priority project areas* identified through Stewardship Ontario (and approved annually by MIPC and the WDO Board) with broad consultation with municipalities, waste management experts and affected industry sectors for which municipal applicants (and their potential partners) can submit applications.

The program is scheduled to start on July 1, 2004. A list of projects that will be eligible for up to 50% E&E funding in the second half of 2004 is provided in Appendix C. An initial short list of six priority areas has been identified (for which public comment is encouraged) which includes:

- 1) *Multi-family recycling* – Improving recycling from high-rise multi-family buildings has been identified as probably the single largest potential source of “new tonnes” for Ontario’ blue box system.
- 2) *Material Recycling Facility (MRF) optimization and rationalization* – A report for the Interim Waste Diversion Organization estimated that processing cost savings for residential recyclables of 20% or more could be achieved by reducing the number (and increasing the size/efficiency) of the more than 60 MRFs in the province. Any work in this area must be very focused and directed at achieving measurable results.
- 3) *Support innovative financing/program compliance* – e.g. research/analysis/demonstration projects for user pay programs to increase recovery, establish bag limits and/or support municipalities to investigate legal requirements and by-law enforcement to help citizens to more actively and correctly participate in recycling/diversion programs.
- 4) *Benchmarking studies* – Benchmarking is a complex area because of the wide range of issues related to level of service, number of materials collected, demographics, etc. (Blue Box, waste and co-collection process audits might be considered under this category). Audits and benchmarking studies will be used to identify program performance, opportunities for improvement and key indicators of successful programs.

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- 5) *Communication/education* (e.g., to increase recovery of targeted materials) – Education could help to address specific contamination issues and increase the recovery of higher value materials.
- 6) *WDO Blue Box Efficiency Team* – WDO’s MIPC and Municipal Affairs Committee have proposed establishing a proactive team to help identify and address immediate problems in recycling programs and to provide on-site advice/assistance. This process could also identify programs where more detailed program efficiency audits are needed.

Programs requesting funding in excess of an established threshold (e.g. over \$50K) will be required to complete a baseline assessment of the program using a modeling tool such as the EPIC-CSR Integrated Waste Management tool or FCM’s Partners for Climate Protection tool. On a case by case basis, applicants will also be asked to model improvements from the changes made to their programs. This will help present an environmental review of selected, funded projects to accompany the cost assessment.

Payments will be made by Stewardship Ontario at the project initiation, interim report and final report stages (percentages to be determined). Projects that significantly diverge from the original objectives of the study (i.e., without written consent from Stewardship Ontario) or do not meet the study objectives can be refused payment.

Interim and final reports (i.e., report on technical results, diversion impacts, costs and cost savings, etc.) will be required for all projects. All final project reports will be in the public domain and will be posted on Stewardship Ontario’s website. Projects will be reviewed by Stewardship Ontario staff and the results will be evaluated against the objectives set out in project proposals.

Every effort will be made to properly invest the funds available each year. If funds in one year are not fully allocated, it is proposed they be rolled over into the next year, as long as all funds are expended by the end of June of the following calendar year (or the remaining monies must be distributed to municipalities in the same manner as the primary funds from the Blue Box Program Plan i.e., as per the Municipal Allocation Model).

Funding applications submitted under an agreed threshold level (e.g. \$15K) will be analyzed by Stewardship Ontario technical staff in order to develop recommendations for funding. Applications above this financial threshold level will be submitted to a peer review panel to be established through MIPC for analysis and recommendations before approval for funding. Recommendations from Stewardship Ontario staff and from the peer review panel will be forwarded

to MIPC for review and approval. Projects under the threshold level may be referred to a peer review panel on a case by case basis.

4.0 Questions for Public and Stakeholder Comment

1. Are the cost containment principles, policies and practices outlined in Section 2.2 and 2.3 appropriate?
2. What policies and practices would ensure compliance by municipalities and stewards with the principles of cost containment?
3. Are there cost containment elements, not identified in Section 2.3, that would support municipal recycling program efficiency or the distribution of stewards' funding in ways that support cost effective recycling?
4. How should increasing material recovery be balanced with improving cost effectiveness when selecting policies and practices for cost containment or when reviewing applications to the E&E Fund?
5. Are there priorities or activities for the E&E Fund that that are missing or need to be revised to suit the specific needs of the "Blue Box" program in your community and to address issues that have been raised by industry?
6. Will the cost containment & E&E program elements outlined provide sufficient predictability of future BBPP costs to meet the financial planning needs of stewards and municipalities?

WDO and Stewardship Ontario invite your comments on these issues by written submission by April 30, 2004:

- By email to Stewardship Ontario at chair@stewardshipontario.ca
- By fax to Stewardship Ontario at 416 594 3463
- By mail to Stewardship Ontario, 26 Wellington Street East, Suite 601, Toronto, Ontario M5E 1S2