



Stewardship Ontario

Proposed Amendment to the
Blue Box Program Transition Plan

Revised Fee Setting Methodology
for 2023-2025

Discussion Paper

November 2021

Proposal for Consideration

Should Stewardship Ontario eliminate reporting of supply-to-market data by Stewards in favour of a Simplified Approach to Fee Setting, in which each steward's recent share of the total Stewardship Ontario budget would be used to determine fees for 2023, 2024 and 2025?

Background & Context

How Stewardship Ontario sets fees for stewards has been a subject of debate, review and revision throughout the course of the program. A major review was recently undertaken in cooperation with three other participating programs in British Columbia, Saskatchewan and Manitoba, which recommended the replacement of the "3-Factor-Formula" that was implemented when the Ontario program was launched with the "Four-Step Fee Methodology". Stewardship Ontario also participated in the project to replace "Activity Based Costing", which is used as a key data input into the fee setting model, with "Material Cost Differentiation (MCD)".

The Four-Step Fee Methodology was adopted by Stewardship Ontario for 2021 fees upon approval of the Transition Plan in December 2020. At present, Stewardship Ontario sets fees via the Four-Step Fee Methodology, using the original Activity Based Costing process to determine the relative cost of each material.

On June 3, 2021, the Ontario Government issued Regulation 391/21, triggering the transition process for the Blue Box Program, and ushering in a new era for the recycling of printed paper and packaging in Ontario. Stewardship Ontario's Blue Box recycling program will end in 2025 (the last year for which stewards will pay fees to Stewardship Ontario) and Stewardship Ontario will cease to exist in 2026.

Stewardship Ontario's business model and processes have been developed over time through a process of continuous improvement with a view to meeting stewards' needs over the long term. With its pending end, Stewardship Ontario has examined its processes with a view to meeting stewards immediate needs.

Under the new Regulation, individual "Producers" will be responsible for complying with the requirements to recover and recycle their share of recyclable materials, with the option of establishing their own system or via a "Producer Responsibility Organization" of their choosing. Several PROs have emerged which will compete to attract producers as customers.

This represents a fundamental shift for Stewardship Ontario's stewards. We are conscious of the challenges the new regulatory framework creates for the steward community and of the need for Stewardship Ontario to minimize the demands it makes while the current program and the new framework are operating in parallel. Stewardship Ontario recognizes the impact of having to report supply-to-market data to both Stewardship Ontario and the Resource Productivity and Recovery Authority (RPRA) for the same period, according to a different scope, and in a different format.

Apart from the fees themselves, reporting supply-to-market information to Stewardship Ontario is by far the most significant regulatory cost imposed by Stewardship Ontario on stewards. Accordingly, Stewardship Ontario considered how it might set fees for stewards without receiving any future supply-to-market data.

A preliminary review suggested that Stewardship Ontario could forecast what each individual steward would pay under the current system for a short period using recent data. While there would be some loss of precision, Stewardship Ontario concluded that it should present such an approach to stewards for consideration as it would:

- Eliminate the need to report supply-to-market data to Stewardship Ontario and reduce regulatory compliance costs, and
- Reduce the need for complicated data processing and analytics and other services, and thereby reduce program management and transition costs, and the fees paid by stewards for this purpose.

Switching to the Simplified Approach to fee setting would be a material change to the Blue Box Transition Plan. Therefore, the proposal requires approval by the Resource Productivity and Recovery Authority (RPRA).

This discussion paper sets out how such an alternative approach might work, and the issues that need to be considered and addressed. If after considering this information, there is strong steward support for such a change, Stewardship Ontario will submit the revised model to RPRA for consideration.

The proposed change would apply to Ontario only, and only for fees to be paid to Stewardship Ontario in 2023, 2024 and 2025. If the proposal is accepted, stewards would not need to submit reports in 2022.

Principles for Transitional Fee Setting

A shift in the fee setting model toward simplicity requires an associated shift in the principles upon which steward fees are based. This paper proposes the following principles:

1. Reduce regulatory compliance costs for stewards by eliminating or minimizing the need to provide information to Stewardship Ontario.
2. Reduce Stewardship Ontario transition costs by minimizing the need for detailed research and analytics and other services.
3. Provide stewards with more predictable fees over the transition period when municipalities begin to exit the program and overall Stewardship Ontario fees decrease.
4. Ensure stewards' contribution to the cost of the program during transition is reasonable.

Overview of Proposed Simplified Approach to Fee Setting

Without supply-to-market data, it would not be possible to set a fee rate per kilogram for each material. Stewardship Ontario would be unable to calculate each material's relative share of costs to manage, as required by Step 1 of the Four-Step Fee Methodology, nor each material's relative share of revenue as required by Step 2 of the Four-Step Fee Methodology.

However, despite sometimes significant year-over year fluctuations in material specific fee rates, the distribution of total fees paid by stewards has been comparatively stable. This suggests that recent steward data could potentially be used as a proxy for stewards' share of Stewardship Ontario's total budget over the final three years of the program.

How would it work?

If approved by RPRA, the new Simplified Approach would be based on a "share-of-total", in which the amount an individual steward would pay in 2023, 2024 and 2025 would be a share of the total Stewardship Ontario budget for 2023, 2024 and 2025. The share would be determined based on that steward's average share of the total Stewardship Ontario budget over the last two years.

For example, a steward whose share of the total budget was 0.20% of the total budget in 2021 and 0.24% of the total budget in 2022 would pay 0.22% of the total budget for each year from 2023-2025, if the proposal were accepted.

What are the challenges of this model?

While total fees paid by stewards have been more stable than actual fee rates, steward circumstances do differ, and these differences can have an impact on a steward's share of the total budget.

- How did the COVID-19 period impact stewards share of the total budget?
- How would the Simplified Approach address stewards that have seen their share of the total budget trend up or down in recent years?
- How would the Simplified Approach address prior year anomalies that may impact a stewards' predicted share of the total budget, such as a significant prior year adjustment or corporate restructuring in one of the years used to make the prediction?

A more detailed explanation of the proposed Simplified Approach, and how it proposes to address these questions, is set out in the section below titled **Simplified Approach to Setting Stewardship Ontario Fees.**

While the Simplified Approach seeks to approximate what stewards would have paid if Stewardship Ontario were to continue to use the current fee setting methodology, it cannot replicate that model entirely. The **Factors for Stewards to Consider** section sets out what Stewardship Ontario believes to be the risks of this model to individual stewards, how the Simplified Approach and other measures seek to mitigate them, and other factors stewards may wish to consider in response to the proposal.

Stewards are encouraged to consider how the Simplified Approach might impact their fees and determine whether the benefits of reduced regulatory compliance costs and greater certainty regarding data confidentiality are sufficient to offset the potential impact that may result from a less precise fee setting model.

2023-2025: The Transition Years

When considering these trade-offs, Stewardship Ontario also notes that the years in which the Simplified Approach would be used coincide with the years in which municipalities begin to exit the program and the overall Stewardship Ontario budget will begin to decrease.

With municipalities exiting the program beginning in 2023, we expect steward fees to be lower in 2023 than 2022, and to continue to decline, regardless of which approach to fee setting is used.

Simplified Approach to Setting Stewardship Ontario Fees

The proposed methodology consists of three steps:

- 1) Extract invoiced fees for each steward for 2021 and 2022, including adjustments.
- 2) Calculate invoiced fees for each steward as a percentage of the total SO budget for 2021 and 2022.
- 3) Average the two percentages to set the fee forecast for 2023 – 2025.

For example, if steward “A” was invoiced \$402,000 in 2022 and the total budget was \$167.5 million, the corresponding percentage would be 0.24%. If the percentage for steward “A” in 2021 was determined to be 0.20%, its fee would be equal to 0.22% of the Stewardship Ontario budget in 2023, 2024 and 2025 $((0.20\%+0.24\%)/2)$. This calculation would be repeated for every steward.

Other Approaches Considered

Stewardship Ontario explored several other approaches to predicting what steward fees might be in the years 2023-2025, including approaches that were based on:

- Annual tonnages across all stewards
- Individual fees paid by stewards over the 2017 – 2022 period including forecasts based on subsets of that period
- Individual tonnages by material type by stewards over the 2017 – 2022 period including forecasts based on subsets of that period
- Sophisticated mathematical techniques such as exponential smoothing.

Stewardship Ontario carried out sensitivity analyses to determine how successful these approaches would be in predicting future fees. This evaluation was done by using historic data to forecast recent steward fees and compare them to known actual values. Put simply, various analyses were conducted on how well the alternative approaches were predictive of fees for 2021 and 2022.

These analyses showed that the proposed approach provided the best outcome.

Impact on Determining the Recovery Rate

The Recovery Rate published by Stewardship Ontario is determined by dividing the weight of recyclable material that is sold for reprocessing (“marketed tonnes”) by the weight of material generated by residential consumers (“generated tonnes”).

Stewardship Ontario has determined generated tonnes through a combination of waste characterization studies of material set out at the curb by residents, and steward supply data trends. In recent years, due to a shortage of waste characterization data, Stewardship Ontario has relied more on steward supply data to estimate generated tonnes. In response to concerns about the aging of the dataset, Stewardship Ontario has examined what information it would require from waste characterization studies to re-establish a reliable dataset.

Stewardship Ontario proposes to undertake enhanced waste characterization studies to determine a statistically reliable estimate of “generated tonnes”, supplemented with other available data.

Addressing Incoming & Exiting Stewards

If a steward that is currently obligated claims that it is no longer obligated, Stewardship Ontario would verify this claim in the normal manner and if verified would discontinue fees for that steward.

New stewards would be required to submit a data report to Stewardship Ontario, which would be used to determine that steward’s share of the Stewardship Ontario budget as a proportion of the volume of material reported by all other stewards in 2020 and 2021.

Data indicate that typically 50-60 stewards enter or exit the program per year, representing 1-2% of the total budget. While the net impact is positive in some years and negative in others, net amount is within the range of prior year adjustments Stewardship Ontario addresses each year. Stewardship Ontario therefore plans to manage the annual fluctuations via its budget process.

Impact on Determining In-Kind Amount

Fees for members of News Media Canada are unique in several key respects:

- Newsprint is the only material category to which they report and pay fees.
- The volume they supply has been declining in a substantial and predictable quantity over the past several years, due to the ongoing digitization of the industry, resulting in declining fees.
- They are entitled to pay a portion of their fees to Stewardship Ontario in the form of in-kind advertising space, which has an impact on Ontario municipalities.

Accordingly, this sector requires a unique solution that takes these circumstances into account and can be validated based on actual experience.

Stewardship Ontario would require members of News Media Canada to continue to report their supply-to-market data. The simplified fee rate for these stewards would be adjusted to reflect the change in the amount of material supplied to market each year.

Impact of COVID-19 on the Data

In 2020 (the first year of COVID-19), stewards reported the material they supplied to market in 2019 (the year prior to COVID-19). Due to the pressures and challenges of 2020, stewards had the option of reporting the same data they reported in 2019, and many did so. Approximately 40% of the kilograms reported in 2020 were in fact 2018 data. In 2021 stewards reported material they supplied to market during 2020, the first year of COVID-19.

The proposed Simplified Approach would average data reported by stewards in 2020 and 2021. There is not sufficient data to quantify the impacts of COVID-19; however, qualitatively, we believe it is reasonable to assume that it will take several years for the effects of COVID-19 to normalize, and that some of the changes will be permanent. Accordingly, averaging these two years may be seen as reasonably predictive of what we are likely to experience during the remainder of the transition period.

Shortened Timeline for Prior Year Adjustments

If the new methodology is approved, Stewardship Ontario would need to “lock in” steward fee percentages before the 2022 Annual Steward Meeting. Therefore, the Rules would be changed to require that stewards submit all prior year adjustments no later than June 30, 2022. This is consistent with the shortened deadline for reporting adjustments for the last year that stewards are required to report data under the current Transition Plan.

Factors for Stewards to Consider

While the data suggest that the proposed Simplified Approach could be a reasonable approximation of what stewards would pay under the current fee setting methodology from 2023 – 2025, it is a forward-looking approach. Actual experience will vary.

As stewards have no doubt learned over the years, the complexity of the fee setting methodology and the impact of changing external factors make it nearly impossible to reliably predict future fees. We have no way of knowing what steward fees would be under the current Four-Step Fee Methodology/ABC approach in 2023, 2024 and 2025.

Stewards are therefore encouraged to consider the following factors when evaluating their response to the proposal:

- How might my total fees differ using my two most recent years, versus what they would be if Stewardship Ontario maintained the existing approach?

- What internal savings might I realize if detailed supply-to-market data was no longer required to be submitted to Stewardship Ontario?

Stewardship Ontario Program Management Costs

It would be difficult and premature to attempt to quantify the savings to stewards of the proposed approach. If approved, there is a significant amount of work required to implement the change. Most of the savings would be realized in 2023, 2024 and 2025.

Much of our current budget is dedicated to fee setting, and to supporting the annual steward reporting process. While we would still require analytics, and stewards would still require support, they would not be required at the same level.

Stewardship Ontario management would like to emphasize that, regardless of what decision is made regarding fee setting, we will continue to do our utmost to minimize program spending throughout the transition process and will communicate these savings when they are confirmed.

Next Steps

As noted, any change to the fee setting methodology requires approval from RPRA. If there is a strong consensus amongst stewards that Stewardship Ontario should adopt the Simplified Approach, it will be presented to RPRA.

A **webinar** will be held on January 6, 2022, to provide an overview of this proposal and respond to steward questions, and a **survey** will also be posted providing stewards with an opportunity to express their views on the proposal.

Stewardship Ontario will strive to ensure that the proposal is considered in advance of steward preparations for the 2022 reporting cycle.

In the meantime, stewards are encouraged to submit questions and comments to **consultations@stewardshipontario.ca**

The RPRA Board will receive a comprehensive report on the results of this consultation as part of the decision-making process.