

Guide to the Blue Box Program



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1. The Waste Diversion Act

The Waste Diversion Act (WDA)¹ was passed into law on June 27, 2002. The purpose of the WDA is to promote the reduction, reuse and recycling of waste in Ontario and to provide for the development, implementation and operation of waste diversion programs.

The Minister of the Environment may designate a material through a regulation under the WDA and request that Waste Diversion Ontario (WDO) develop a diversion program for the designated material. The Minister has designated Blue Box Wastes, Used Tires, Used Oil Material, Waste Electronic and Electrical Equipment and Municipal Hazardous or Special Waste.

WDO, working co-operatively with an Industry Funding Organization (IFO), responds to the Minister's request by developing a diversion program plan and submitting it to the Minister for approval. After the Ministry of the Environment posts the plan on the Environmental Registry website for a minimum of 30 days for comment, the Minister will approve or reject the plan.

If approved, the Minister files a regulation under the WDA designating the IFO as the organization responsible for implementing the approved plan, with authority to collect fees from industry stewards to cover implementation costs, administer the IFO and contribute to the costs of WDO.

2. The Blue Box Program Plan

Blue Box Wastes were designated under the WDA by regulation O. Reg. 273/02 on September 23, 2002². For the purpose of the *Act*, the regulation defines Blue Box Wastes as: *Waste that consists of any of the following materials, or any combination of them:*

- Glass;
- Metal;
- Paper;
- Plastic;
- Textile³.

On September 23, 2002 the Minister requested that WDO develop a diversion program for Blue Box Wastes⁴. In response, WDO created an IFO for Blue Box Wastes, called Stewardship Ontario⁵. Stewards of Blue Box Wastes, defined as brand owners and first importers in the

¹ The Waste Diversion Act can be found at <http://www.ene.gov.on.ca/envision/land/wda/bluebox/bluebox.htm>.

² O. Reg. 273/02 designating Blue Box Wastes and amended to designate Stewardship Ontario as the IFO for Blue Box Wastes can be found at <http://www.ene.gov.on.ca/envision/land/wda/bluebox/bluebox.htm>.

³ Textile is defined in the Blue Box Program Plan (Table 9.2) as 'Natural and synthetic based textile packaging'.

⁴ The Minister's correspondence requesting a diversion program plan for Blue Box Wastes can be found at <http://www.ene.gov.on.ca/envision/land/wda/bluebox/bluebox.htm>.

⁵ For more information on Stewardship Ontario, refer to www.stewardshipontario.ca.

Minister's program request to WDO, can fulfill their financial obligations under the WDA either through membership in Stewardship Ontario or by implementing their own plan, called an Industry Stewardship Plan (ISP)⁶, with approval from WDO.

Stewardship Ontario, in consultation with industry stewards and interested stakeholders, developed the Blue Box Program Plan⁷ (BBPP). The Plan further defines Blue Box Wastes as consumer packaging material and printed papers commonly found in the residential waste stream.⁸ The goal of the BBPP is to increase the diversion of municipal Blue Box materials in an economically sustainable manner.

Under the BBPP, stewards are invoiced by Stewardship Ontario for the following costs:

- Payments to municipalities (outlined in Section 3.4); and
- Direct program delivery, market development and program administration costs (outlined in Section 4.2 and 4.3).

The Guide to the Blue Box Program is issued annually in conjunction with WDO's approval of Blue Box stewards fees to provide stewards and stakeholders with updated information on the Blue Box program.

3. How WDO Calculates Municipal Blue Box System Costs

3.1 Allowable program costs

The BBPP specifies expenses to be included in calculating gross Blue Box system costs:

- *Direct Service Delivery Costs* include collection and processing costs for residential Blue Box Wastes, whether the service is contracted to the private sector, delivered by the public sector, or a combination thereof.
- *Public Awareness and Public Education Costs* including graphic design, production costs, printing, postage, lineage rates, air time, etc.;

⁶ For more information on Industry Stewardship Plans, refer to WDO's Procedures for Industry Stewardship Plans at <http://www.wdo.ca/content/?path=page81+item38390>.

⁷ The Blue Box Program Plan can be found at www.stewardshipontario.ca/plans/bbpp2003.htm.

⁸ For more information on the definitions of printed papers and packaging, refer to Section 2.1.1 and 2.1.2 of the Blue Box Program Plan at www.stewardshipontario.ca/pdf/BBPP2003/BBPP_Feb28_Chapter2.pdf.

- *Amortized Capital Costs* including the amortized capital cost of municipally-owned collection vehicles, Material Recovery Facilities (MRF), fixed and mobile equipment within the material collection facility, collection containers and Blue Boxes,⁹ where the capital costs do not form part of the contract service price from a private sector contractor.
- *Indirect Administrative Costs* including financial, human resources, information technology and legal costs directly related to direct service delivery issues such as review of tender documents or contract disputes.

For the 2005 Datacall, interest on municipal debt to acquire buildings, equipment or vehicles with an amortization period of seven years or more is calculated at the average of the prime interest rate for the year in which the item was commissioned for items commissioned in or after 2004 and at the average of the prime interest rate less 1¼% for the year in which the item was commissioned for items commissioned prior to 2004.

For the 2005 Datacall, administration costs are calculated at 3% of gross cost for programs that contract for Blue Box services and 5% for programs that provide Blue Box services directly.

The BBPP outlines the following revenues to be included in the calculation of the gross Blue Box system revenues:

- *Revenue from the Sale of Blue Box Wastes*, excluding revenue retained by private sector contractors under revenue sharing agreements with municipalities, on the basis that this risk sharing arrangement reduces direct service delivery costs;
- *Processing Fees*, including processing fees charged at municipal MRFs for processing residential Blue Box Wastes from other municipalities;
- *Revenue from the Sale of Curbside Containers*, where the purchase cost of containers is included in the gross cost calculation;
- *Revenue from Grants or Other Funding*, including funds intended to offset direct service delivery or public awareness and education costs.

3.2 Annual WDO municipal survey

WDO is responsible for collecting program data from municipalities. The Municipal Tonnage Datacall requests program data and previous year's tonnage data for Blue Box materials. The program and tonnage data are used to populate the Municipal Funding Allocation Model which is used to allocate funding to municipal programs.

The 2003 Blue Box Financial Datacall was the first comprehensive survey of all municipal Blue Box programs in Ontario and provides a baseline for year-over-year comparison of future costs.

⁹ The WDO Board has approved an amortization policy for Blue Boxes to apply only to boxes purchased for distribution to the majority of a municipality's households. Boxes purchased for annual replacement are expensed.

The Blue Box Financial Datacall is used to determine the net Blue Box system cost and to calculate stewards' 50 percent contribution.

The Blue Box Tonnage and Financial Datacall results by municipality are available on the WDO website at www.wdo.ca.

See **Appendix A** for a detailed definition of residential Blue Box materials used to support the Blue Box Tonnage and Financial Datacall.

3.3 Verifying municipal costs

WDO undertakes a comprehensive verification process of both the Tonnage and Blue Box Financial Datacall submissions to confirm that the data are accurate and attributable to the Blue Box program.

Verification of Blue Box Tonnage Datacall submissions involves a year-over-year comparison of Blue Box tonnes marketed in relation to households served; materials marketed in relation to materials available in the residential waste stream; and household recovery rates by material.

Verification of Blue Box Financial Datacall submissions involves year-over-year comparison of Blue Box costs in relation to households served, year-over-year variance calculation for each cost category for each program, and analysis of gross costs, revenues and net costs by groupings of similar municipalities.

See **Appendix B** for a more detailed description of the verification process.

3.4 Adjusting for wine and spirits deposit system

On Sunday September 10, 2006, the Premier of Ontario announced that, as of February 1, 2007, wine and spirits containers would be subject to a deposit at the point of sale with redemption of the deposit available upon return of the containers to The Beer Store.

Under WDA S. 35, Stewardship Ontario is prohibited from providing for the diversion of Brewers Retail Inc. products and for levying stewards' fees on Brewers Retail Inc. For consistency, the WDO Board adjusted the reported Blue Box data, on which 2007 fees would be based, to remove tonnes, costs and revenues associated with the containers which would be managed in a wine and spirits deposit system rather than in the Blue Box Program.

Tonnes were adjusted by calculating the quantity of wine and spirits containers as a percentage of all containers marketed and deducting 11/12ths of the wine and spirits containers reflecting the deposit system commencement date of February 1, 2007. Costs were adjusted by multiplying the tonnes of wine and spirits containers removed by the average gross cost per marketed tonne. Revenues were adjusted by multiplying the tonnes of wine and spirits containers removed by the average revenue per marketed tonne.

3.5 Calculating Stewardship Ontario's funding to municipal programs

Following verification of the Blue Box Tonnage and Financial Datacall submissions, WDO calculates Stewardship Ontario's annual obligation as follows:

Total gross cost
- reasonable cost band
- three-year rolling average revenue
= Net Blue Box system costs
X 50%
= Stewardship Ontario funding to municipal programs

A weighted three-year rolling average for Blue Box revenue is used to balance fluctuations in commodity markets and thereby minimize volatility for stewards and municipalities. It is obtained by:

- Calculating the revenue per tonne for the previous two years and the year of the current Datacall;
- Taking an average of these three figures;
- Multiplying the number of tonnes marketed in the Datacall year by the resulting average revenue per tonne.

For 2007, in recognition that all programs have opportunities to improve, 80% of the \$7 million municipal share of the \$14 million reasonable cost band reduction will be shared by all programs. The remaining portion of the reasonable cost band reduction will be allocated to programs above the cost band for their group, pro-rated to their funding.

A reasonable cost band has been calculated for the 2005 data year or the 2007 funding year using an Efficiency and Effectiveness Factor for each program:

$$\frac{\text{Net Cost per Tonne (representing Efficiency)}}{\text{Percent Recovery (representing Effectiveness)}}$$

Programs considered to be better performing have a low E&E Factor resulting from a relatively low per tonne in the numerator combined with a relatively high recovery rate in the denominator.

The reasonable cost band for the 2005 data year and the 2007 funding year is set at the mean of the E&E Factors plus one standard deviation for the better performing programs in each of the municipal groups as defined by similar characteristics. Reasonable cost bands for the 2005 data year and the 2007 funding year were set at about the 70th percentile (the better 70% of programs) as measured by the E&E Factor.

After adjusting for the wine and spirits container deposit system commencing on February 1, 2007 and deducting the \$14 million reasonable cost band and the 3 year rolling average revenue, the net 2005 Blue Box system cost is \$110,096,332. The stewards' portion of the 2005 net Blue Box system cost is \$55,048,166 (see Table 3.1).

Table 3.1
Summary of 2001 to 2005 Blue Box System Costs and 2003 to 2007 Stewards Fees

	2001 Data for Feb – June 2004 Fees	2002 Data for July - Dec 2004 Fees	2003 Data for 2005 Fees	2004 Data for 2006 Fees	2005 Data for 2007 Fees
Tonnes recovered	693,547	726,726	779,844	823,635	786,948 ³⁾
Gross system cost	na	na	na	\$194.54 m	\$200.97 ³⁾
Reasonable cost band	na	na	na	\$10 m	\$14 m
3 year rolling average revenue	na	na	na	\$73.61 m	\$76.88 ³⁾
Agreed net cost	\$62.5 m	\$84.0 m	\$117.5 m	\$110.9 m	\$110.1
Industry funding	\$13.0 m ¹⁾	\$21.0 m ²⁾	\$58.77 m	\$55.46 m	\$55.05 ³⁾

¹⁾ 5/12ths of annual funding

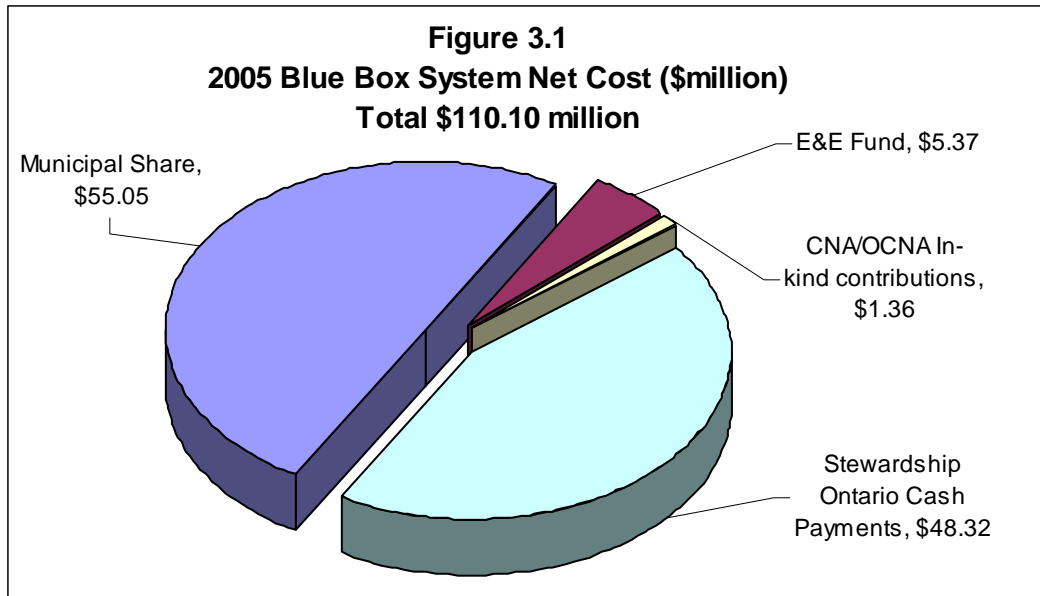
²⁾ 6/12ths of annual funding

³⁾ Adjusted to exclude containers to be managed in the wine and spirits deposit system after February 1, 2007

3.6 Distributing municipal program funding

Funding for municipal programs is based on Stewardship Ontario's share of the net Blue Box system cost, which is distributed in the form of quarterly cheques to municipal programs as shown in Figure 3.1. The amount available for distribution is equal to:

- Fifty percent of the net Blue Box system costs;
- Less an in-kind contribution from the Canadian Newspaper Association (CNA) and the Ontario Community Newspapers Association (OCNA);
- Less 10 percent, which is set aside for an Efficiency and Effectiveness (E&E) Fund (see Section 5.1).

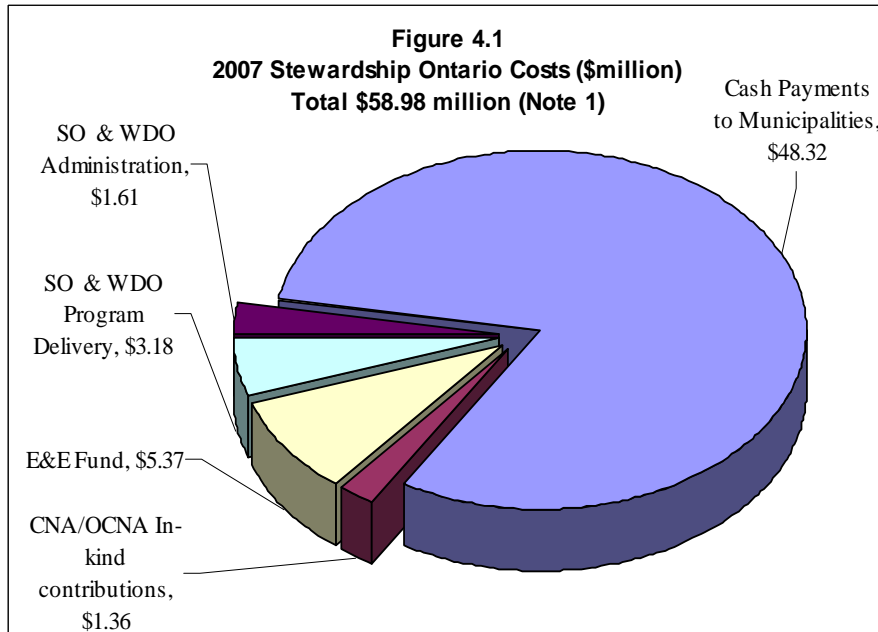


Stewardship Ontario fees for 2007 are based upon reported municipal data for 2005 (given the lag time to collect and verify program data). The total funding available for distribution is then apportioned to each municipal program based on their costs, less their applicable share of the 2007 reasonable cost band. The application of the reasonable cost band provides municipalities with an incentive for continuous improvement. A program may increase the level of funding it receives by increasing recovery cost-effectively and by reducing its program costs.

4. How Stewardship Ontario Calculates Fees for Stewards

The Stewardship Ontario costs for 2007 total about \$59 million and, as shown in Figure 4.1, comprise:

1. Payments to municipalities;
2. CNA/OCNA in-kind contributions;
3. E&E Fund;
4. WDO and Stewardship Ontario direct program delivery costs;
5. WDO and Stewardship Ontario administration costs.



Note 1: This figure reflects total fees prior to a credit for the current operating surplus of \$3.39 million

After applying a credit for the current operating surplus of \$3.39 million, stewards' fees for 2007 total about \$56 million.

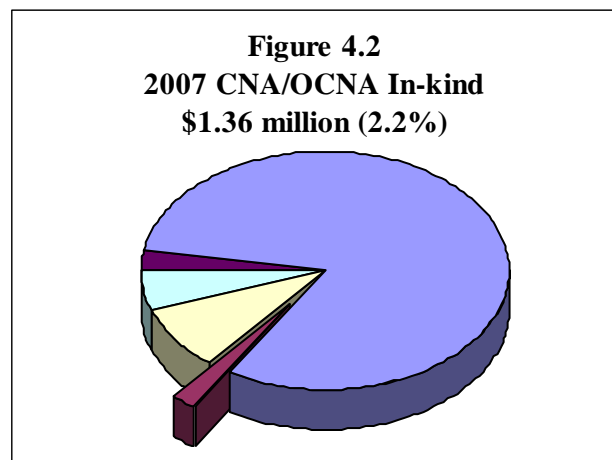
4.1 Municipal financial payments

Payments to municipalities make up by far the largest portion of the stewards' fees before the credit of surplus – approximately 92 percent of the total program costs for 2007 and about 97.5 percent of fees for 2007 after the credit for the current operating surplus. Stewards' annual obligation to municipalities is calculated to be 50 percent of the net 2005 system cost (after adjustment for the wine and spirits deposit system), amounting to \$55.05 million for 2007 (cash payments plus CNA/OCNA plus the E&E Fund).

4.1.1 CNA/OCNA in-kind advertising

The CNA/OCNA share of the municipal financial payments is paid through an in-kind contribution of advertising space.

The CNA/OCNA municipal financial obligation for 2007 is \$1.36 million. This amount represents about 2.2 percent of the total cost before the credit for the current operating surplus (Figure 4.2).



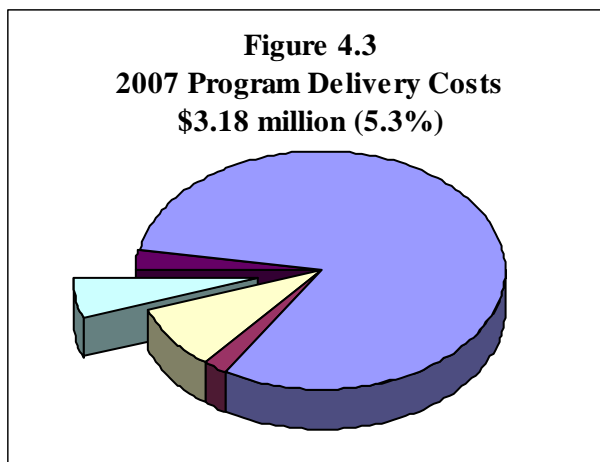
4.2 Program delivery and administration costs

In addition to the payments to municipalities, stewards' fees include the cost of additional program delivery activities required as part of the approved BBPP and the cost of Stewardship Ontario and WDO administration.

4.2.1 Direct program delivery

There are many activities required of Stewardship Ontario and WDO to implement the approved BBPP. These primarily relate to:

1. Assessing the cost of the Blue Box system and setting fees for specific materials.
2. Registering stewards, collecting fees and ensuring compliance.
3. Distributing funding to municipalities.
4. Ministry of the Environment enforcement and Stewardship Ontario compliance costs.



These costs, totaling about \$3.18 million for 2007, are incorporated into the stewards' fees and make up approximately 5 percent of the total cost before the credit for the current operating surplus (Figure 4.3).

4.2.2 Market development costs

Under the BBPP, Stewardship Ontario has the authority to charge fees to stewards of specific materials to:

1. Ensure there are sufficient markets for recovered Blue Box material – to meet overall and material-specific recovery targets to be established over time.
2. Enhance the revenue received for materials – to lower the overall net Blue Box system cost.

In the first year, the market development program focused on green and mixed glass – which represents a large portion of the weight in the packaging stream – because municipalities typically incur a cost when they market this material.

The glass market investment program includes two initiatives currently being implemented:

1. Approximately \$2 million to develop a processing system for glass collected by programs in and around the GTA.

After a competitive tender process, a contract has been signed between Stewardship Ontario and Unical Inc., to build a 50,000 to 80,000 tonnes per year glass processing plant with a \$1.75 million grant from Stewardship Ontario. Execution of this contract depends on Unical securing sufficient glass from municipal and potentially other sources.

2. Support for smaller glass diversion projects in other regions for which approximately \$500,000 has been earmarked.

To date, five projects have been funded with an investment of about \$300,000. An additional \$200,000 may be invested.

In addition to the glass market investment program, anticipating higher recovery rates for plastics in the future, \$100,000 was incorporated into the 2005 fees for preliminary plastics market development feasibility and planning in 2005. To date four projects have been supported with a commitment of \$90,000.

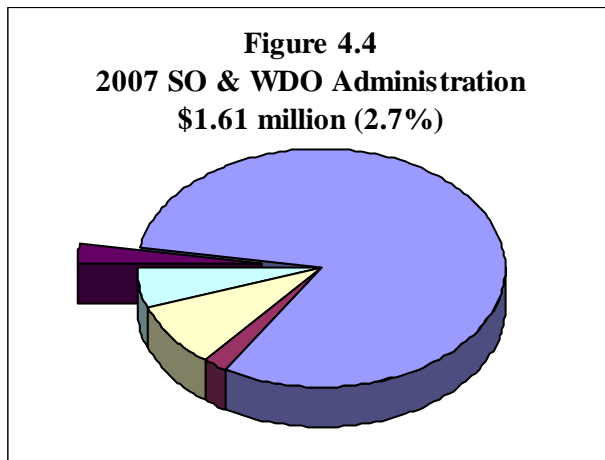
No new market development fees have been included in the 2007 fees, but additional fees may be considered in the future based on an assessment of the need and business case.

4.2.3 WDO and Stewardship Ontario administration costs

When the Minister approved the BBPP, she requested policies and practices be established to ensure that Stewardship Ontario and WDO administration costs do not exceed 5 percent of total program costs. For 2007, these costs total \$1.61 million, representing 2.7 percent of the fees before the credit for the current operating surplus (Figure 4.4).

In accordance with the policies approved by the Minister¹⁰, administration costs for Stewardship Ontario and WDO include:

- Legal and accounting fees;
- Information technology support;
- Stewardship Ontario customer service centre;
- General administration costs, e.g. salaries, rent and supplies.



4.3 Calculating material-specific fees

The cost of the Blue Box Program is apportioned to specific materials according to rules approved by the Stewardship Ontario Board. There are separate formulas for allocating each of:

1. Municipal financial payments.
2. Market development costs.
3. Program delivery and administration costs.

Stewardship Ontario undertook an extensive review of the steward fee setting methodology between September 2005 and March 2006. The recommended revisions to the methodology were approved by WDO in March 2006 and approved by the Minister in October 2006. The fees

¹⁰ Refer to the approved policies and practices to ensure administration costs incurred by Stewardship Ontario and WDO are no more than 5% of total program costs at <http://www.ene.gov.on.ca/envision/land/wda/bluebox/bluebox.htm>.

resulting from the revised methodology are more closely linked to the performance of the specific materials in the Blue Box system because of improvements to the accuracy of the input data and the way in which fee rates for each material category are grouped.

4.3.1 Fees associated with municipal payments

After determining the cost and recovery rate for each material within the Blue box system, the total municipal payments are apportioned to Blue Box Wastes according to three factors:

1. Net Cost – 40 percent

The WDA stipulates that stewards' fees reflect the cost to manage each material in the Blue Box system. Therefore, 40 percent of municipal payments are allocated in direct proportion to the net cost to manage each material. The higher the net cost to manage a material, the higher the net cost payment assigned.

The net effect of the three-factor formula is to transfer a small portion of the costs that would have been incurred by those materials with the highest recycling rates, to those materials with the lowest recycling rates.

The cost to manage each material is determined through detailed, activity-based cost studies of representative recycling programs and takes into consideration the average price for recycled materials over the previous three years.

The formula is intended to offset the costs of increased diversion.

2. Recovery Rate – 40 percent

The funding formula is also designed to provide an incentive to increase the recovery of Blue Box materials. Therefore, 40 percent of the municipal payments are allocated according to the relative percent recovery rate of each material. The higher the recovery rate of a material, relative to others, the lower the recovery rate payment assigned for each tonne of that material. Materials with the same recovery rate would assume the same recovery rate payment.

The recovery rate is determined through the annual Datacall, together with generation estimates obtained through an on-going program of waste audits and stewards' reports.

3. Equalization – 20 percent

This factor is designed to add an element of fairness to the formula, by considering the cost to achieve a common recovery rate for each material. Twenty percent of the municipal payments are allocated in direct proportion to the incremental cost to achieve a recovery rate of 60 percent for each material. Therefore the lower the current recovery rate and the higher the cost to manage a material, the higher the equalization payment.

4.3.2 Market development fees

Any market development costs required are apportioned to specific materials that benefit from targeted market development activities for those materials. There are no market development fees for 2007.

4.3.3 Program delivery and administration fees

Since Stewardship Ontario and WDO program delivery and administration costs are incurred to the benefit of all materials, these costs are allocated according to the relative number of stewards in each category of material (i.e. printed paper, paper packaging, plastic, steel, aluminum and glass). Costs are further allocated to sub-categories according to the relative quantity of each material in the group.

4.3.4 Calculation of fees

The fee rates (dollars per tonne or ¢ per kilogram) are calculated by dividing the total fee for each material type by the corresponding number of tonnes of each material generated. Companies that fall below a threshold of \$2 million in sales in Ontario, or that generate less than 15 tonnes of Blue Box Wastes in Ontario, are exempted from paying fees.

4.3.5 Schedule of stewards' fees - 2003 to 2007

Table 4.1
Schedule of Stewards' Fees - 2003 to 2007

Category	2003 Fee Rate	2004 Fee Rate	2004 Annualized Fee Rate	2005 Fee Rate	2006 Fee Rate	2007 Fee Rate
	(cents/kg)					
PRINTED PAPER						
Newsprint	0.028	0.026	0.025	0.271	0.182	0.198
Newsprint - Non CNA/OCNA	0.028	0.026	0.025	0.786	0.733	0.674
Magazines and catalogues	0.081	0.310	0.189	0.862	1.479	1.840
Telephone books	0.081	0.687	0.377	1.302	1.190	
Other printed paper	0.251	1.318	0.764	9.029	7.961	
PACKAGING						
Cardboard and Boxboard	4.728	5.987	4.964	7.904	7.673	7.166
Other Paper Packaging						10.055
PET Bottles and Jars	6.692	9.610	7.593	13.907	13.556	11.644
HDPE Bottles and Jars						9.929
Other Plastic Packaging						14.720
Steel packaging	3.633	4.391	3.709	4.745	4.601	4.398
Aluminum cans	-5.465	-3.193	-3.874	-1.093	-0.476	-1.863
Foil & other aluminum pckg.	-5.465	-3.193	-3.874	5.502	3.577	5.863
Clear glass packaging	3.723	3.682	3.392	3.761	3.309	3.596
Coloured glass packaging	4.016	3.916	3.631	4.432	3.602	4.077

4.3.6 Changes to BBPP for 2008 fees

The approved funding formula was used successfully for setting fees for the first three program years of the plan during the start-up period of 2003 through 2005. Revisions to the way in which revenue is allocated to each material and the way in which material-specific fees are aggregated were approved by the Minister for setting fees for 2007.

Also as part of the review of the fee-setting methodology in 2006, the Minister approved an adjustment to the weightings of the three factors of the formula for setting fees for 2008 to provide an additional incentive for greater diversion and support the overall objective of the BBPP. The approved weightings for allocation of the municipal payments for 2008 are 35% for recovery, 40% for net cost and 25% for equalization resulting in a further shift of cost from materials with high recovery rates to those with low recovery rates.

In addition to the revisions to the fee-setting methodology for 2008, as directed by the Minister and the approved WDO Cost Containment Plan¹¹, the fees for 2008 will be based on best practice costs for municipal recycling programs. Work is currently underway to identify and define best practice costs for the purpose of setting 2008 fees.

5. Increasing the Recycling of Blue Box Wastes

On December 22, 2003, the Minister of the Environment requested that WDO consider a series of new measures and enhancements to the BBPP, including achieving a goal of 60 percent diversion of Blue Box materials. This is consistent with the Province of Ontario's goal of 60 percent diversion of waste from disposal by 2008.

The quantity of residential Blue Box materials recovered¹² by Ontario municipal programs in 2003 was 779,844 tonnes. Recovery in 2004 was 823,635 tonnes, an increase of 5.6 percent over 2003. Recover in 2005 was 861,062 tonnes, a further increase of 5 percent over 2004. This represents a diversion rate for Blue Box materials of 57.6%.

Due to the announcement by the government of a deposit on wine and spirit containers, these containers have been excluded from the calculation of fee rates. Table 5.1 shows generation estimates and reported recovery by material group, excluding the wine and spirit containers that will be part of a deposit system, used in the calculation of the 2007 fees.

¹¹ The Cost Container Plan can be found at <http://webservices.siriusweblabs.com/dotconnector/files/domain4116/Final%20Revised%20Cost%20Containment%20Plan%20January%2031%202005.pdf>

¹² The quantity of materials recovered is calculated by subtracting the quantity of residue as a result of processing materials from the quantity of materials collected.

Table 5.1
Generation and Recovery of Blue Box Wastes in 2005¹

Material	Quantity Generated ¹ (tonnes)	Quantity Recovered ¹ (tonnes)	Recovery Rate ¹
Printed Paper			
Newspapers & Magazines	494,048	392,149	79.37%
Other Printed Paper	143,172	64,369	44.96%
Printed Paper Total	637,220	456,519	71.64%
Packaging			
Paper Packaging	349,456	185,836	53.18%
Plastics	225,763	45,759	20.27%
Steel	58,210	33,484	57.52%
Aluminum	26,252	11,050	42.09%
Glass	89,191	54,298	60.88%
Packaging Total	748,871	330,429	44.12%
GRAND TOTAL	1,386,091	786,947	56.77%

¹⁾ Adjusted to exclude containers to be covered by the wine and spirits deposit system after February 1, 2007

Note: Blue Box materials are also recovered through recycling channels other than municipal Blue Box programs. Province-wide recovery rates for materials (e.g. aluminum) will be higher than reported here.

The quantity of Blue Box material recovered and recycled is projected to continue to increase through population growth, new programs, extended recycling services and higher capture rates.

6. Improving the Efficiency and Effectiveness of Municipal Recycling

6.1 Effectiveness and Efficiency Fund

Ten percent of the Stewardship Ontario municipal transfer payments are distributed through projects designed to encourage greater effectiveness and efficiency of the municipal Blue Box system. The Effectiveness and Efficiency (E&E) Fund began in July 2004 with a total of \$3.3 million, an additional \$5.7 million was allocated for 2005 and another \$5.55 million will be allocated in 2007. The objective of the fund is to reduce system costs and minimize future increases in these costs while recovering more materials. Since municipal funding will be based on best practice costs in 2008, E&E Fund activities are increasingly focused on identification and implementation of best practices.

The E&E Fund priority areas for 2007 continue to be as outlined below, although there is an emphasis on identification and implementation of best practices.

-
1. MRF rationalization and optimization
 2. Promoting recycling in apartment and other multi-family buildings
 3. Innovative financing and compliance schemes
 4. Benchmarking studies and waste audits
 5. Communication and education
 6. Cost containment, including the identification and implementation of best practices for collection, processing and transfer, recycling contracts and enhancing material revenue

Funding priorities are reviewed annually and funds are allocated to projects on the basis of applications from municipalities. After a project concept is approved, detailed applications are evaluated by a team of peer reviewers before consideration by Stewardship Ontario, AMO and WDO.

Examples of approved E&E Fund projects include:

- \$2.5 million Recycling Best Practice Assessment Project to support identification and definition of best practice activities and best practice costs for setting 2008 fees
- \$142,000 to develop an optimization guide for Promotion & Education
- \$28,000 to study opportunities and optimization for Peterborough's MRF
- \$40,000 to assist in the development and release of a co-operative collection tender for the 6 northern municipalities in York Region
- \$1.5 million to install and test optical sorting technology in two single-stream facilities in Toronto.

Funding for project applications is generally up to 50 percent, but greater than 50 percent funding may be available for priority projects.

Stewardship Ontario, together with AMO and WDO, are proactive in developing projects with municipalities to ensure the effectiveness of the E&E Fund.

6.2 Municipal program reviews

Stewardship Ontario or AMO may also recommend that a municipal recycling program be reviewed because its reported costs are high relative to similar communities for no obvious reasons. Program reviews are intended to identify areas where improvements can be made, possibly through application to the E&E Fund. A recycling program advisor has been engaged under the E&E Fund to assist municipalities to identify opportunities to improve their recycling programs and to identify potential best practices. The recycling program advisor also assists with the development of applications to the E&E Fund.

6.3 Cost containment initiatives

When the Minister approved the BBPP, the Minister also requested that WDO establish principles, policies and practices to contain the cost of the Blue Box Program. The Minister approved WDO's report entitled *Cost Containment Principles, Policies and Practices* on December 30, 2004. WDO's cost containment report outlines cost containment initiatives to be implemented by municipalities, WDO, Stewardship Ontario and stewards.

WDO facilitated an agreement between Stewardship Ontario and AMO for the following system cost containment:

- A *reasonable cost band* that reduced the 2004 system cost by \$10 million for setting 2006 fees; and

-
- A *reasonable cost band* that reduced the 2005 system cost by \$14 million for setting 2007 fees.

WDO is currently working with Stewardship Ontario and AMO to define best practice costs to reduce the system cost from the reported 2006 system cost for setting 2008 fees.

See Appendix C for a more detailed list of cost containment initiatives.

Definition of Residential Blue Box Materials

For the purpose of the Blue Box Tonnage and Financial Datacall, WDO has defined residential Blue Box materials as materials originating from the following sources:

For collection

- Municipal collection¹³ of single and multi-family dwellings of permanent or seasonal residences (including rental, cooperative or condominium residential);
- Municipal collection of senior citizen residences and long-term care facilities;
- Municipal collection from public and secondary schools, collected as part of a residential collection route;
- The residential component of publicly operated (municipally-owned or contracted) drop-off depots, at dedicated depots or depots at landfill sites;
- Permanently-placed, public-space recycling containers anchored in the ground – if they are collected as part of a residential collection route.

For processing

- Public or municipal contract-based collected materials from single and multi-family dwellings of permanent or seasonal residences (including rental, cooperative or condominium residential);
- Public or municipal contract-based collected materials from senior citizen residences and long-term care facilities;
- Privately collected materials from senior citizen residences and long term care facilities, where the materials are processed at a municipally-owned Material Recovery Facility;
- Public or municipal contract-based collected materials from public and secondary schools;
- Privately collected materials from public and secondary schools where the materials are processed at a municipally-owned MRF;
- Residential components of publicly operated (municipally owned or contracted) drop-off depots, located either at dedicated depots or landfill sites;
- Permanently-placed bins that may be anchored in the ground (e.g. OMG Media Bins or equivalent) or permanent fixtures within a location (e.g. bins in public parks) public-space recycling containers where the materials were collected as part of a residential collection route.

¹³ Municipal collection includes collection by municipal forces or collection by private companies under contract to municipalities.

Verification of Municipal Datacall Submissions

Verification of Blue Box **Tonnage Datacall** submissions involves the following activities:

- Year-over-year comparison of Blue Box tonnes marketed, in relation to households served;
- Comparison of materials marketed to materials available in the residential waste stream, to ensure materials recovered from industrial, commercial and institutional generators are excluded;
- Comparison of household recovery rates, by material, to ensure that materials recovered from industrial, commercial and institutional generators are excluded;
- Direct communication with municipal programs to request clarification or additional information where discrepancies are identified;
- Adjusting Blue Box tonnes marketed where discrepancies are confirmed or where the municipal program cannot provide additional supporting information.

Verification of Blue Box **Financial Datacall** submissions involves the following activities:

- Year-over-year comparison of Blue Box costs in relation to households served;
- Year-over-year variance calculation for each cost category for each program;
- Analysis of gross costs, revenues and net costs by municipal groups; to calculate the mean and one standard deviation above and below the mean;
- Direct communication with municipal programs for all costs greater than one standard deviation above the mean, to request additional information to support higher-than-average costs for that program's municipal group;
- Direct communication with municipal programs for all revenues less than one standard deviation below the mean, to request additional information to support the lower-than-average revenues for that program's municipal group;
- Adjusting Blue Box costs and revenues where discrepancies are confirmed or where additional supporting information cannot be provided by the municipal program;
- Removing costs associated with tonnage adjustments.

Cost Containment Initiatives

Municipal cost containment initiatives

Municipal programs typically use a number of different strategies to control program costs, such as:

To contain incurred service costs:

- Multiple-bidder publicly advertised tender processes;
- Stringent review of bids or 'managed competition';
- Regular contractor reviews/audits;
- Standard contract wordage for cost-of-living escalators and extension of unit pricing to added households;
- Use of publicly-owned material recovery facilities to ensure a competitive bidding process for operations.

To contain incurred departmental costs:

- Annual budgetary reviews of all items from first principles;
- Specific reviews of new, special and/or additional projects;
- Review by council of annual Municipal Performance Measurement Program data related to collection costs, number of public complaints per 1,000 households;
- Analysis of the usefulness of public information and education activities.

Other cost containment programs

- User pay and bag limits;
- Landfill bans of specific recyclable material;
- Regular reviews of market pricing/revenues from sale of recycled material;
- Membership in professional organizations, to facilitate exchange of best practices.

Municipal programs may be constrained to achieve cost containment where circumstances are outside of their control such as:

- Wages and benefits for employees as determined by the provincially-run arbitration process;
- Costs of the Ontario Municipal Employees Retirement System pension fund;
- Provincial regulatory requirements and program standards.

Initiatives outlined in *Cost Containment Principles, Policies and Practices* that will be implemented by Ontario municipalities include:

- Adopting user-pay waste management charges/bag limits;
- Co-operating with other municipalities and private sector operators to integrate recycling program services - to improve economies of scale and cost effectiveness;
- Adopting best practices identified by WDO through analysis of municipal Datacall data and other research.

WDO cost containment initiatives

Working co-operatively, through the Municipal-Industry Program Committee (MIPC) of Waste Diversion Ontario, Stewardship Ontario and the Association of Municipalities of Ontario are implementing initiatives outlined in the cost containment plan. They include:

- Setting a \$10 million reasonable cost band to reduce the 2004 net system cost for the purpose of setting fees for 2006 and a \$14 million reasonable cost band to reduce the 2005 net system cost for the purpose of setting fees for 2007;
- Identifying collection and processing contract arrangements and program characteristics that reduce costs, while maintaining or increasing material recovery, and sharing these best practices with municipalities;
- Determining the best practice costs, for setting fees in 2008.

Stewardship Ontario cost containment initiatives

Initiatives outlined in the cost containment plan, to be implemented directly by Stewardship Ontario, include:

- Establishing green procurement protocols;
- Developing higher-value glass markets;
- Assessing market development levies for materials other than glass, to support stronger markets for these materials;
- Administering the Efficiency and Effectiveness (E&E) Fund;
- Designing a voluntary, co-operative marketing service.

Stewards cost containment initiatives

Stewardship Ontario is also responsible for coordinating initiatives that will be implemented by stewards of Blue Box Wastes. These include:

- Minimizing use of materials that generate Blue Box Wastes;
- Using, where possible, materials that can be cost-effectively managed in the Blue Box program;
- Enhancing material markets through procurement and other market development initiatives, to maximize revenues;
- Promoting householder participation in municipal recycling programs, through education and marketing campaigns.

Sources of Additional Information

Waste Diversion Ontario

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North York, Ontario M2N 5W9
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F: 416 226 1368
Email : wdo@wdo.ca
www.wdo.ca

Stewardship Ontario

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Toronto, Ontario M5E 1S2
T: 1-888-288-3360 - Customer Service
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Email: customerservice@stewardshipontario.ca / info@stewardshipontario.ca
www.stewardshipontario.ca

Association of Municipalities of Ontario

393 University Avenue, Suite 1701
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Ministry of the Environment

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Glossary

BBPP	Blue Box Program Plan
CNA	Canadian Newspaper Association
CNA/OCNA	Canadian Newspaper Association / Ontario Community Newspapers Association
E&E	Effectiveness and Efficiency (Fund)
IFO	Industry Funding Organization
ISP	Industry Stewardship Plan
MIPC	Municipal-Industry Program Committee
MRF	Material Recovery Facility
OCNA	Ontario Community Newspapers Association
WDA	Waste Diversion Act
WDO	Waste Diversion Ontario