

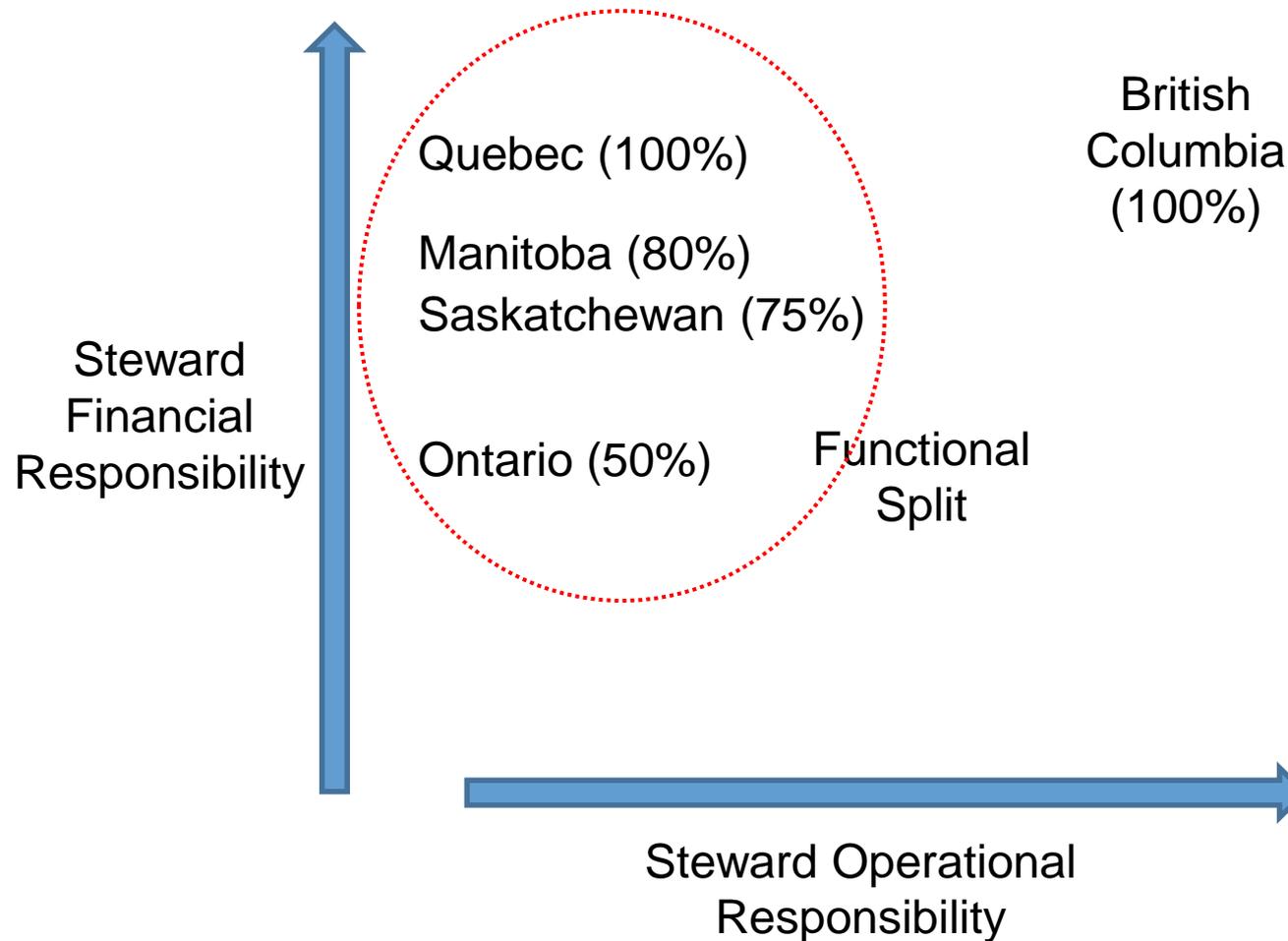
NOVA SCOTIA PRINTED PAPER & PACKAGING SUMMIT

Funding Approaches in Canadian Printed Paper &
Packaging Stewardship Programs

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Printed Paper & Packaging EPR Implementation in Canada



Topics for today

1. How are total cost & funding established
2. How is funding distributed to municipalities
3. Support for improvement
4. Setting steward fees

1. Defining Total Funding

Focus on programs with municipal operation & steward funding

1. Need to define what is included
 - a) Source, e.g. residential, public space, commercial
 - b) Services, e.g. collection, processing, administration
2. Should funding be based on cost reported by municipalities or on efficient program costs?
3. Subject to intensive negotiations during program development & implementation
4. Data to support funding typically obtained through an annual survey / datacall

Ontario – Annual Datacall

Comprehensive & detailed annual online survey of municipal recycling programs

- i. Administered by Waste Diversion Ontario (WDO)
- ii. Covers
 - a) Collection, depot, transfer, processing, P&E, material marketing
 - b) Contractual arrangements
 - c) Capital, labour and operating costs for municipal operations and prices for all operating contracts
 - d) Revenue from the sale of materials
 - e) Services provided to other municipalities
- iii. Continues to evolve to address reporting issues & program developments and arrangements
- iv. Summary data are made public

Ontario – Obtaining Accurate Data

Reporting accuracy improved over several years

- i. Adjust municipal accounting systems to separate information
- ii. Substantial effort required to define eligible costs & how to account for them, e.g.
 - Administration
 - Capital depreciation & interest
 - Services provided to/by other municipalities
 - Stockpiled materials
- iii. Develop protocols to allocate costs
 - Shared facilities
 - Residential vs IC&I
 - Co-collection
 - Designated waste vs other materials

Ontario – Defining Total Funding

1. Waste Diversion Act (WDA)

“...total amount paid to all municipalities ... equal to 50 per cent of the total net costs incurred ... as a result of the program.”

2. Program cost

- i. Costs initially negotiated based on limited information
- ii. Reported cost increases led to calls from stewards for a reasonableness or efficiency standard
- iii. Minister amended Program Plan directing stewards to pay to best practice costs by 2008

Ontario – Defining Best Practice Cost

Extensive work to define best practice costs

- i. Engaged KPMG to identify best practices & best practice costs*
- ii. Resulted in a best practice cost model, based on:
 - Better-performing programs in each group
 - Parameters to reflect the cost of operating at best practices
- iii. Model used to inform negotiation of steward funding
 - Intensive negotiation each year
 - Model has been modified at various times
 - Negotiation for 2014 broke down – currently in arbitration

* Volume 1 - http://www.stewardshipontario.ca/wp-content/uploads/2013/03/KPMG_final_report_vol1.pdf
Volume 2 - http://www.stewardshipontario.ca/wp-content/uploads/2013/03/KPMG_final_report_vol2.pdf

Manitoba & Quebec - Efficient Cost Standard

Funding also based on an efficient cost standard

1. In Quebec this is defined in regulation
2. Use costs reported by municipalities
3. Apply statistical calculations
4. Clearly defined & simple to understand

2. Distributing Funding to Municipalities

1. Generally accounts for differences among municipalities
 - i. Characteristics beyond their control
 - ii. Performance – recovery & cost
2. Grouped by physical characteristics
 - Population density, size, depot vs curbside collection system, geographic location
3. Has included performance or efficiency standards
 - i. To recognize investments in infrastructure & practices
 - ii. To provide an incentive for improvement

Ontario - Distributing Funding

1. Constant tension between paying same level of funding & including a measure of performance
 - i. Municipalities often called for flat funding rate (% of reported cost)
 - ii. Producers wanted to maintain an incentive for improvement
 - iii. Some municipalities that had invested in program improvements also wanted recognition within funding
2. Different formulas used over time, considering to varying degrees
 - i. Municipal characteristics
 - ii. Reported costs
 - iii. Extent of implementing best practices (identified in the KPMG report* & addressed in the datacall)
 - iv. Performance, e.g. recovery, efficiency

* Volume 1 - http://www.stewardshipontario.ca/wp-content/uploads/2013/03/KPMG_final_report_vol1.pdf

Manitoba & Quebec – Funding Distribution

Funding allocation also uses groupings & performance

1. Different statistical calculations that are very clear & simple
2. Better performing programs receive a higher level of funding (% of cost)
3. Poorer performing programs receive a lower level of funding

3. Providing Support for Improvement

1. Additional program elements have been required & implemented to improve program performance
 - i. Improvement funds
 - ii. Enhancement programs
 - iii. Market development funds
2. Generally prescribed in guidance from regulator

Ontario – Continuous Improvement Fund

Effectiveness & Efficiency Fund / Continuous Improvement Fund

- i. Holdback of portion of stewards' funding
- ii. Intended to enable increased diversion & lower cost
- iii. Support research on policies & practices, pilot studies & capital, e.g.
 - Implementing best practices
 - Optimizing system of sorting facilities & transfer stations
 - Innovative initiatives

Ontario – Market Development

1. Projects to overcome barriers to recycling & to increase value of recovered materials
2. Initially focussed on mixed glass, later on mixed plastics & recently on composite paper packaging
3. Funding provided through fees paid for materials that benefit
4. Initiatives had a significant effect on market – price & recovery
5. Multi-year initiatives, risks, require collaboration

4. Setting Stewards' Fees

1. Stewards' fees set each year, to:
 - i. Cover cost of program
 - Municipal payments (MB, ON, QC) or supply chain costs (BC)
 - Other program elements, e.g. market development, etc.
 - Program management & administration
 - ii. Allocate costs equitably among stewards
 - iii. Provide incentive to increase recycling & reduction
2. First methodology developed for ON
 - Meet legal requirements & objectives under Waste Diversion Act (WDA)
 - Fees paid by a steward should reflect cost attributable to that steward
 - Purpose of Act to promote reduction, reuse & recycling
3. Adopted in each province with printed paper & packaging stewardship programs (with small variations)

Setting Stewards' Fees - Next Least Cost Tonne

Three elements to achieve fairness, effectiveness & sustainability

i. Recovery rate

- Higher recovery leads to higher cost - stewards should not be penalized for materials with high recovery

ii. Net cost

- Net cost to manage materials varies widely - fees should provide stewards an incentive to select material/packaging with low recycling costs

iii. Higher contribution from some materials to reach target

- Responsibility for meeting overall target is shared - fees should support meeting target in most cost-effective way & the cost shared equitably

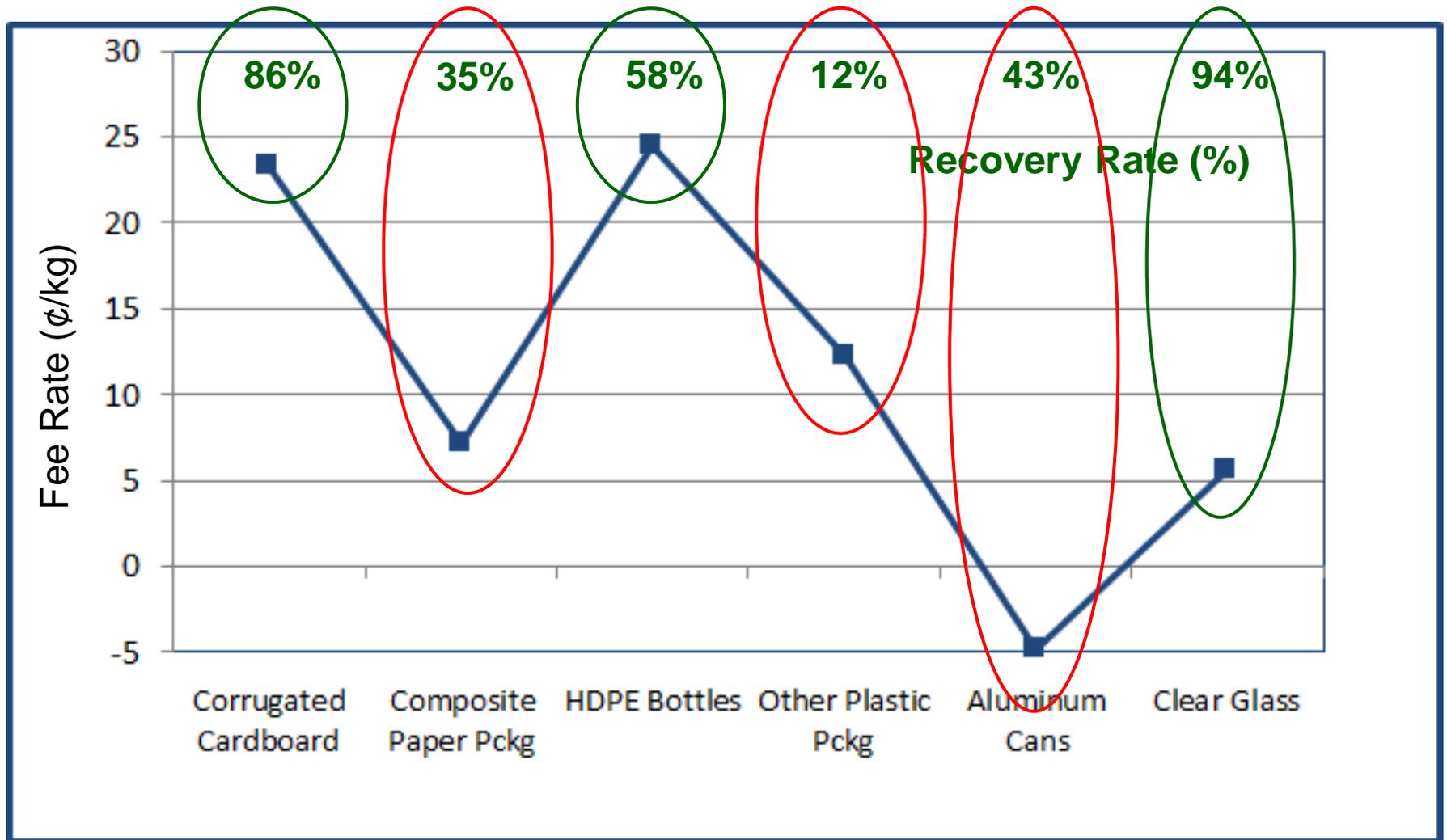
In this way, reach target by capturing ***next least cost tonne*** of material

Setting Stewards' Fees - 3-Factor Formula (1)

Total net cost is allocated to specific materials

- i. Municipal funding (MB, ON, QC) & supply chain cost (BC)
- ii. Gross cost less revenue from sale of each material
 - activity based costing studies in sample programs or a model
 - 3-year average to modulate fluctuation in markets
 - Average for revenue - ON & QC
 - Average net cost - MB

Fees if completely based on cost

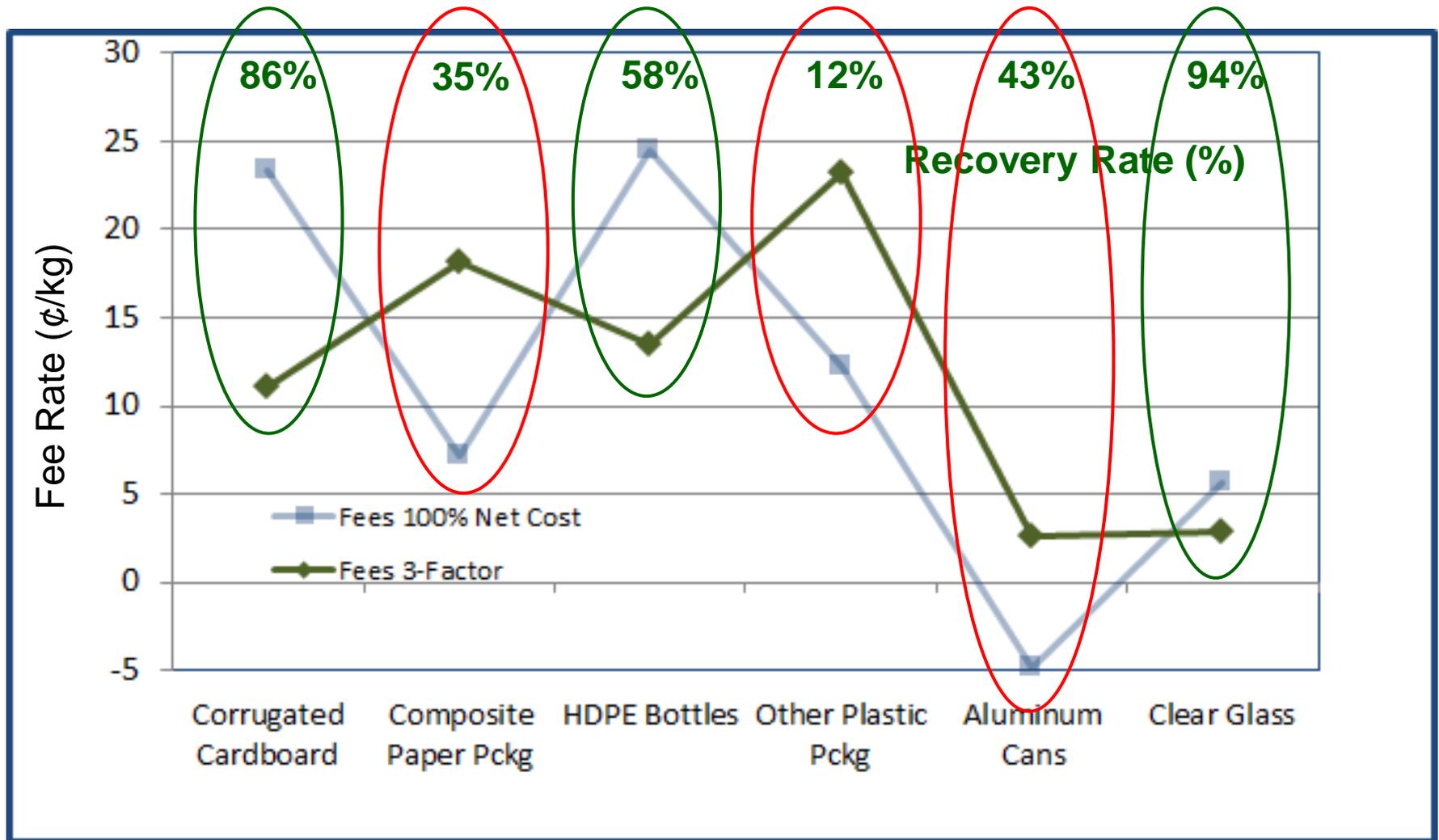


Based on Stewardship Ontario 2013 fees

Setting Stewards' Fees - 3-Factor Formula (2)

1. Only a portion (40%) of total net cost is allocated based on the net cost of managing each material
2. Rest (65%) of the total net cost is allocated based on two additional factors:
 - i. Recovery rate for each material
 - ii. Cost for each material to reach the overall target

Effect of 3-Factor Formula



Based on Stewardship Ontario 2013 fees

Setting Stewards' Fees – Other Elements

1. Other program costs added to municipal obligation or supply chain cost
 - i. Common costs, e.g. program management, administration,
 - ii. Material-specific costs, e.g. market development
2. Total costs allocated to each material divided by tonnes of that material supplied to the market, as reported by stewards
 - Result in material-specific fee rates (¢/kg)

Setting Stewards' Fees – Some Concerns Raised

1. Some concerns raised at various times, include:
 - i. Complexity – stakeholder understanding of methodology & results
 - ii. Volatility & lack of predictability of fees due to:
 - Fluctuations in commodity markets
 - Changes to material handling
 - Data precision
 - Changes to reported materials supplied
 - iii. Difficult to access operations to make measurements, particularly relating to material-specific costs
 - iv. Limited steward influence on system in response to fees
2. Have led to reviews of methodology in the past
3. Methodology likely to evolve as landscape of programs evolves

In Summary ...

1. Establishing Total Funding

- i. Detailed annual surveys to obtain municipal cost data
- ii. Clear definition of eligible costs required
- iii. Time required to establish accurate reporting
 - Benefit from existing datacall in NS & experience & data elsewhere
- iv. Stewards have insisted on an efficiency standard
 - To define financial obligation, and
 - Payments to municipalities

2. Distributing Funding to Municipalities

- i. Accounted for differences in municipalities through grouping
- ii. Stewards have sought to include a performance element to incentivize improvement
- iii. Simplicity, clarity & fairness are important to municipalities

In Summary (cont'd) ...

3. Support for Improvement

- Use of improvement & market development funds

4. Setting Stewards' Fees

- i. Essentially same methodology currently used in each province
- ii. Three elements used to allocate municipal / supply chain costs
 - a) Recovery rate
 - b) Net cost
 - c) Contribution to achieve shared target
- iii. Supports concept of next least cost tonne to meet shared target
- iv. Additional common costs & material-specific elements
- v. Methodology continues to evolve to address program developments

THANK YOU
QUESTIONS?
