

2012 Blue Box Program Financial Trends

December 3, 2013

Introduction

Each year, WDO receives financial reports from municipalities on the quantity of printed paper and packaging recycled through their Blue Box programs. The financial data includes the cost of operating the Blue Box program and revenue from the sale of Blue Box materials, after sorting.

Annual reports from municipalities are required by WDO and are used to calculate the industry funding to operate their Blue Box programs. The amount of funding is approximately 50 per cent of the program.

On September 27, 2013, WDO published [2012 Datacall: Residential Highlights](#), an analysis of the different amounts (by tonnes) of materials recycled in 2012. An additional report, Ontario Residential Diversion Rates, will be distributed later this month, which presents the total amounts of all residential waste diverted by municipalities.

This report highlights trends in the financial data associated with the Blue Box program in 2012 and over the previous five years. The data used to generate this analysis can be found in the following three spreadsheets available on the WDO website at <http://wdo.ca/programs/blue-box/> (under “Blue Box Financials”):

1. 2012 Blue Box Financial Summary;
2. 2012 Blue Box Financial Details; and
3. 2012 Blue Box Financial Data by Municipal Group.

The 2012 results show a continued trend of increasing costs in the Blue Box program, while weights and rates of material recycled are constant. As discussed in the [2012 Datacall: Residential Highlights](#) report, this trend is mainly indicative of the shifting composition of printed paper and packaging in the Blue Box. Most notably, containers such as those used for beverages are changing from glass to lighter weight plastics. Other traditionally heavier materials, such as printed paper, are collected in lower quantities due mainly to changing consumer habits.

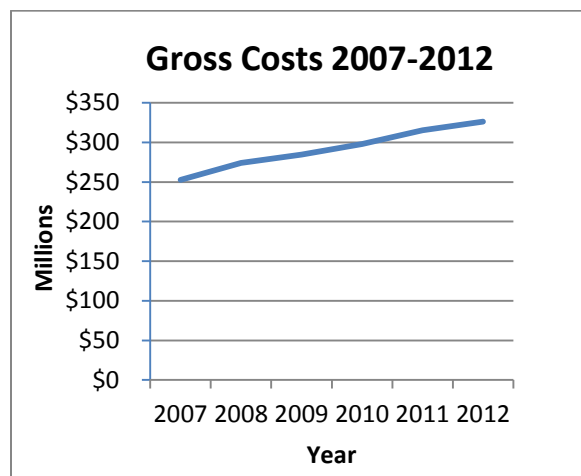
Also, a higher number of lighter units, including PET beverage bottles and plastic tubs and lids, are now in the waste stream and recycling system. This increased quantity may not be reflected through solely measuring tonnage. These patterns are important for the discussions to develop more accurate waste and recycling metrics.

Analysis

Increasing cost, decreasing revenues

In 2012, gross costs reported by municipalities to operate the Blue Box program in Ontario increased by 3.4% from \$315.4 million (M) in 2011 to \$326.3 M. Over the five-year period since 2007, there was an average annual increase in gross costs of 4.7%.

In 2012, revenue reported by municipalities from the sale of Blue Box material¹ decreased 29% from \$125.0 M in 2011 to \$89.1 M.

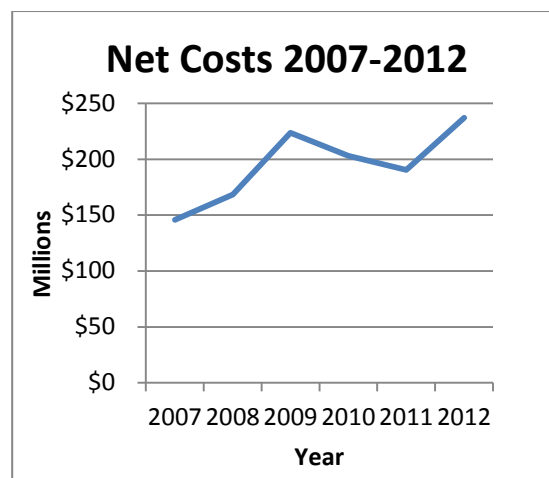


Commodity fluctuations affect revenues

Revenue received for this material is subject to fluctuations in market pricing of commodities including metals and plastics, which saw a decrease in 2012 from 2011. These annual variances can have a marked influence on the net costs of operation.

Net costs of the Blue Box program, after accounting for the sale of recycled material and any possible revenue-sharing agreements with contractors, increased 25% from \$190.4 M in 2011 to \$237.2 M in 2012. This year-over-year increase in net costs is mainly attributable to a

significant drop in revenue. Over the five-year period since 2007, there was an average annual increase in net costs of 12.5%, though over half of the five-year increase occurred in 2011-2012.

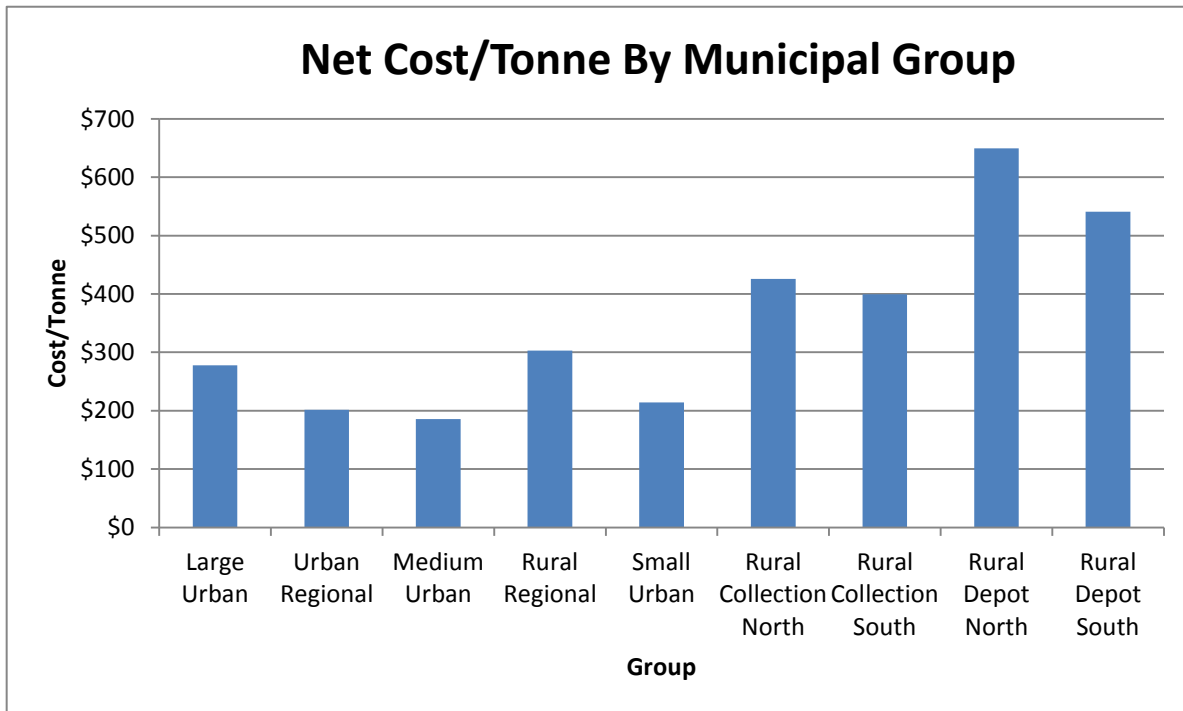


The net cost per tonne of material recycled in the Blue Box program increased 27% from \$210 in 2011 to \$266 in 2012. The per-tonne cost has followed a similar trajectory to the net cost data and has increased by 12.9% each year for the past five years.

Different program types affect operation costs

In the chart on the following page, municipalities are placed into nine groupings, each according to a range of municipal and program characteristics (e.g., rural) with respect to efficiency and effectiveness. Differences in program type can have significant impacts on the net costs of operation, ranging from \$186/tonne (medium urban) to \$649/tonne (Rural Depot - North).

¹Municipalities also report other revenue associated with the program (e.g., sales of Blue Boxes).



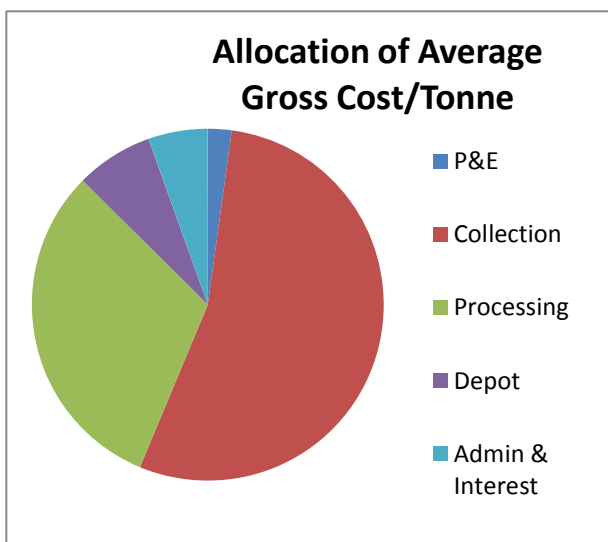
The two largest costs are collection and processing

The posted Blue Box financial spreadsheets also outline the reported total and per-tonne operating and capital costs of the Blue Box program needed for municipalities to:

- Promote and Educate (P&E) their communities about the program;

- Collect curbside waste;
- Process the material; and
- Manage drop-off depots.

Additionally, WDO calculates and includes costs² for the administration of the program, as well as interest³ on amortization of capital equipment. The average gross cost/tonne spent by Ontario municipalities on the Blue Box program is allocated as follows:



- P&E - \$8;
- Collection - \$198;
- Processing - \$114;
- Depot - \$26; and
- Admin & Interest - \$20.

² WDO calculates administration costs of 3% for services that are contracted out and 5% for services provided by the municipality.

³ Interest is calculated as the prime interest rate of the year of capital purchase.