

The Continuous Improvement Fund (CIF)

**3-Year Strategic Plan
December 2007**

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1. Purpose and Objectives

The Continuous Improvement Fund (CIF) exists to provide funding to municipalities in support of projects and programs that increase cost-effectiveness, increase diversion of Blue Box (BB) materials and/or increase the performance of Ontario's residential BB recycling programs. Through projects funded by the CIF, the Fund seeks to maximize the efficiency of both individual municipal recycling programs as well as the system as a whole.

The goal of the CIF is both to identify and apply 'best practices' and preferred approaches within and across municipalities as well as to help foster and support innovation throughout the system. The CIF will also play a key role in helping to establish, measure and share benchmarks and best practices across the entire province to ensure that all municipalities have access to the information and resources necessary to maximize the performance of their local "blue box" recycling program, and to take advantage of scale efficiencies or other opportunities that might exist across multiple municipalities or regions.

The CIF will be directed by an annual Operational Plan developed by the Fund manager in consultation with the CIF's governing body, the Municipal Industry Programs Committee and ultimately approved by Waste Diversion Ontario (WDO).

The CIF comprises 20% of the annual financial obligation of stewards to municipalities under the Blue Box Program Plan (BBPP) and is the successor to the Efficiency & Effectiveness (E&E) Fund, which has been funding municipally-sponsored projects to increase the efficiency and effectiveness of municipal Blue Box programs since July, 2004. In order to help minimize barriers to accessing funds available through the CIF, the Fund will be open to a variety of funding models including both grants and loans at or below market rates.

The CIF will operate under an initial 3-year mandate through WDO with the potential to extend this mandate should it demonstrate success in achieving the objectives and results set forth in this document.

2. Performance Objectives & Measures of Success

In three years, the CIF will have been successful if:

- A majority of both stewards and Ontario municipalities agree that the CIF has made prudent investments in projects that have helped to materially improve cost-effectiveness, increase system efficiencies, share and apply best practices and/or increase diversion of BB materials in the province of Ontario;
- At least 75% of CIF-funded projects have met or exceeded performance expectations or are demonstrably on track to meet their longer-term performance objectives;
- There has been more demand for the funds available within the CIF from projects that meet the established funding criteria than the CIF was able to fund within its available allocation of funds; and
- Consensus exists among both stewards and municipalities to continue the CIF under broadly the same mandate for at least another three year period.

In most cases, individual projects will be selected, measured and evaluated based on their ability to help achieve one or more of the overarching objectives described above. Individual performance metrics will be established and measured on a project-by-project basis as appropriate, and may include:

- Individual performance targets and expectations (e.g., meeting a pre-defined target Return on Investment (ROI))
- Relative performance expectations (e.g., achieving an X% reduction in cost per unit of volume, weight or per item, as appropriate)
- Ability to meet certain industry standards and/or benchmarks (e.g., an X% diversion rate)
- Other common measures of return

In this context it will be critical for the CIF to work with industry and municipal representatives to develop standardized and broadly accepted approaches to performance measurement and evaluation.

3. Funding Guidelines & Principles

3.1. Guiding Principles

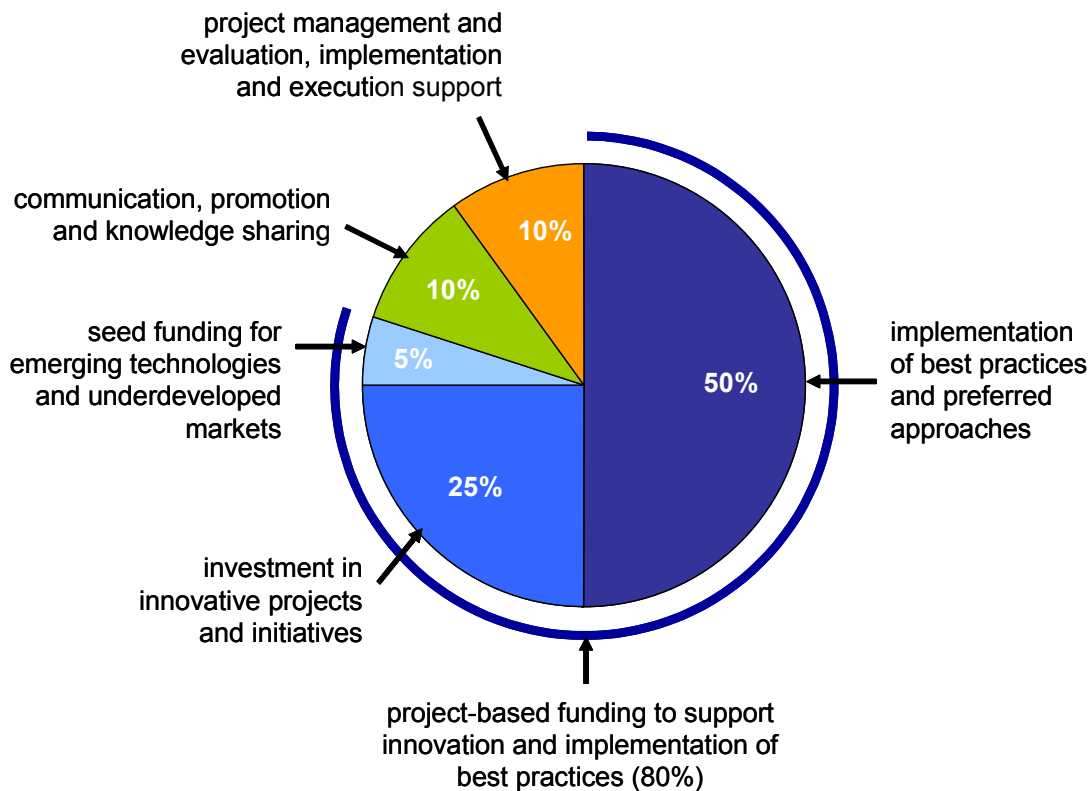
In general, the CIF will demonstrate a bias toward and seek to allocate its funding to projects that:

- increase cost-effectiveness, improve performance and/or increase diversion of BB materials in one or more of a predefined set of priority areas
- can be implemented across multiple municipalities and/or represent collaborative efforts on behalf of two or more municipalities to share facilities, resources and expertise
- generate quantifiable, easily measured positive results

The CIF will also seek to equitably distribute its funding in such a way that a majority of Ontario municipalities derive tangible benefits from either their direct participation in funded projects or the application of knowledge and results generated and shared by the CIF through other funded initiatives.

3.2. Funding Focus and Mix

Priority areas for funding will be set and reviewed on an annual basis by the CIF governing body in consultation with CIF management and sector representatives. Although the specific mix of funding in any given year will depend in part on the number and nature of applications for funding that are solicited and/or received by the CIF, the Fund generally seeks to allocate its funding as follows:



3.2.1. Primary focus on funding projects that identify and apply best practices or proven processes to increase system efficiencies and/or fund innovative approaches to solving system problems (80% of available funds)

Within this broader mandate, it is anticipated that:

- 50% will be applied toward projects that aim to leverage and help implement preferred approaches and proven processes, systems and best practices from Ontario and other jurisdictions to increase cost-effectiveness, improve performance and/or increase blue box waste diversion, e.g.,
 - optical sorting of containers
 - compaction during collection
 - training on tendering and contracting
- 25% will promote investments in innovative new projects and initiatives using existing or latest generation technologies and practices for which there may or may not be an established track record of success in Ontario and other jurisdictions, e.g.,
 - projects designed to pool resources/waste at a regional level (e.g., a GTA MRF; a regional processing arrangement for eastern Ontario)
 - optical sort for contamination in fibre stream
 - increasing performance of multi-family recycling through financial incentives, outreach & technology
 - enhancing plastics market capacity (e.g., a shared plastics recycling facility (PRF) for the GTA & surrounding areas)
- 5% will be directed toward co-investment in emerging technologies or underdeveloped markets with the goal of helping to establish and/or commercialize their application within the Ontario waste recycling sector, e.g.,
 - applying new technologies to address specific systemic challenges (e.g., film removal)
 - providing seed funding for work by stewards on packaging design for recyclability

In the context of supporting projects and programs that achieve one or more of these objectives, CIF funding will be available for both capital and non-capital investments (i.e., human resources, training and education, etc.).

3.2.2. Focused support for communication and dissemination of results to promote further adoption of best practices and latest successes (10% of available funds)

The CIF will provide funding for training and education and knowledge sharing initiatives that aim to better educate and engage municipalities, stewards and/or consumers. The CIF will also seek to establish both internal and external vehicles and mechanisms for better collecting, evaluating and disseminating best practices and results. As part of this process, a knowledge capture and dissemination strategy will be developed to ensure that key learnings and results from each funded project are captured and shared with municipalities, stewards and any other interested parties.

The CIF will also evaluate co-investments in public promotion and education programs, particularly those that have province-wide application and benefits.

3.2.3. A separate allocation of funds to provide implementation and execution support for funded projects, over and above the administration currently provided by Stewardship Ontario staff (10% of available funds)

The CIF recognizes that in many cases municipalities may not have access to, nor be able to afford the specialized resources necessary to identify, implement and/or evaluate desirable projects. As a result, the CIF will allocate a portion of its funding toward supporting project management, marketing and/or other consultative services and resources to better ensure the successful implementation of each project.

3.3. Performance Measurement & Evaluation

A core component of every CIF-funded project will be a performance measurement and evaluation mechanism through which the success of each project will be measured based on mutually agreed-upon performance objectives. Specific performance objectives and the process for measuring success will be determined on a project-by-project basis by CIF management in consultation with the applicants for funding and where necessary the CIF governing body or other expert resources.

In general, however, performance indicators must address the overarching fund objectives and the broader mandate of the Blue Box Program overall, including:

- Enabling the system to manage the changing mix of “blue box” materials more cost-effectively
- Enabling the system to manage greater quantities of “blue box” materials
- Supporting and enabling the adoption of best practices to increase system efficiencies and improve performance; and
- Effectively managing total system cost by minimizing the relative increase in total cost as diversion rates increase and as the mix of products recycled grows and becomes more complex

Performance indicators must also recognize:

- Packaging mix is changing
 - Packaging generally is becoming lighter
 - Packaging is becoming flatter
 - Some packaging is becoming more complex
 - Cost and recovery may need to be measured in several ways (e.g., not simply by weight of materials but also by volume and by units of material collected)
- Performance measures, targets and benchmarks may vary by project and/or municipality (i.e., what is achievable in terms of performance targets in a large urban centre may not be achievable in smaller rural communities)
 - May be addressed by having different criteria, thresholds and/or measures of success for different situations/locations (e.g., factoring in such criteria as population density, household composition, etc. in addition to more common metrics such as weight of materials processed)
- Projects can be viewed as benefiting an individual program/municipality but also as providing potential benefit to the system overall (i.e., assuming the project/results can be replicated in other communities/regions in the future)

- Simple financial payback is generally easier to measure for capital investments
 - However, for some projects, including capital projects, the benefit may not be measurable directly in financial terms. For example the flexibility to manage a wider range or greater quantity of materials may be a performance criterion to meet the objectives.

3.4. Funding Guidelines & Application Procedures

3.4.1. Proactive Solicitation of Projects

More so than was the case with the E&E Fund, which the CIF replaces, both CIF management and its governing body will take a more proactive role in working with municipalities and stewards to identify and prioritize projects and programs that would be strong candidates for funding through the CIF. This applies particularly to smaller and more rural and northern communities who in some instances may not have the internal resources or expertise to identify needs/priorities and/or successfully apply for funds.

In these cases, the CIF manager will be responsible for identifying and seeking projects in priority areas, developing and issuing RFPs (where appropriate), working with local municipalities to respond to project opportunities, evaluating the responses received, and recommending specific projects for funding to the CIF governing body for approval.

3.4.2. Simplified & Streamlined Application Process

The CIF will also continue to solicit and receive applications for funding on an ongoing basis through an established application process, but will endeavour to streamline and simplify this application process so as to reduce both the amount of effort and time required to complete an application, and the time required to process and approve received applications. In particular, there is a strong desire to simplify the application process for projects that are seeking relatively smaller amounts of funding (e.g., \$50,000 or less). This may lead to the development of two streams of application processes for smaller and larger projects with similar criteria but slightly different application procedures, timelines and expectations.

The CIF manager will be responsible for redeveloping the current application process as part of his/her Operational Plan.

3.5. Equitable Distribution of Funds

Over the 3-year mandate of the Fund the CIF will make best efforts to fund projects from a representative sample of jurisdictions such that overall allocation of funds roughly approximates population distribution in terms of both geography and urban/rural mix at a relatively aggregate level (e.g., roughly six percent of funds are allocated to projects sponsored by and/or which will create a material positive benefit for communities in Northern Ontario). To this end, CIF management will engage proactively with smaller, more rural and northern municipalities to increase both the number and quality of funding applications and prospective projects and/or to promote the implementation of agreed best practices within these communities.

The CIF does reserve the right, however, to allocate funds in any given year to the set of projects that ultimately will best help it achieve its objective of reducing cost, improving performance and increasing waste diversion of the Ontario “blue box” program, which may mean that it funds

projects in only a select number of municipalities/regions but where the overall benefit derived from these projects has a greater impact on total performance and cost of the system than would distributing the funds more broadly.

4. Operating Guidelines and Principles

4.1. Operating Principles

The CIF will operate under the following core values and principles:

- **Maximizing Benefits to the BBPP as a Whole:** The CIF will promote and support investments which provide the greatest potential benefits toward increasing cost-efficiency, improving performance and increasing total BB material recycling rates
- **Balanced Funding:** The CIF will strive wherever possible to preserve fair representation and equitable distribution of its funding while maintaining a high level of rigour in screening and evaluating the projects selected for funding.
- **Transparency:** The CIF will operate in an open and transparent manner to ensure that all funding criteria, decisions and results are well-documented, broadly communicated, readily accessible and consistently applied.
- **Results-Based Orientation:** The CIF will demonstrate a clear bias toward funding projects that are able to articulate clearly defined performance objectives and return expectations. This does not suggest the CIF will prioritize those projects with the highest anticipated rates of return or those with purely financial return expectations; rather, that the benefits and performance expectations of each project must be clearly documented and understood. The CIF recognizes that in some cases it will be a critical role in working with municipalities to help develop these performance objectives and expectations.

4.2. Management of the Fund

The CIF will be managed by a dedicated, full-time person whose primary responsibility is to work with, municipalities, stewards and the CIF governing body to effectively and efficiently allocate the funds available within the CIF to projects and programs that meet the objectives and criteria outlined earlier.

The CIF manager will also be responsible for managing the Blue Box Assistance Team (A-team) staff, which currently includes the A-team Manager and the Northern Ontario Recycling Advisor on contract to MIPC.

Where appropriate, and with the approval of the Governing Body, the CIF manager may additionally engage contract and/or paid staff to assist in management, implementation and evaluation of the Fund or of specific projects.

4.3. Annual Operating Plan

The CIF manager is expected to develop an annual Operating Plan which includes an operating budget for the CIF. This Operating Plan and budget will be reviewed and approved by the CIF governing body as described in the next section.

It is currently anticipated that the CIF manager will be authorized to allocate up to 10% of the total funding available annually toward management, implementation and evaluation of the CIF, which will include both direct salary costs and overhead, but also the ability to hire/contract specialized resources to assist in the identification, prioritization, implementation and evaluation of funded projects. In particular, it is anticipated that the CIF manager will require the ability to contract specialized project management resources to assist in the implementation of particular projects where this expertise does not exist at the municipal level and/or is more cost effective to provide over a short period of time.

5. Governance

The CIF will be governed by a sub-group selected from within the Municipal-Industry Programs Committee (MIPC). This sub-group will have equal representation from both Ontario municipalities and Stewardship Ontario and as such will fairly represent the interests of both stewards and municipalities. It is currently envisioned that this sub-group will be comprised of three representatives from each side, but that only two votes will be permitted from each side for governance and decision-making purposes. It is anticipated that this will help to mitigate the potential for conflict of interest and/or the requirement for all representatives to be present at every CIF Governing Body (GB) meeting. It is further suggested that a neutral, non-voting Chair be appointed to organize and manage this governing body. This non-voting Chair will serve not only as an independent and unbiased party to provide guidance to and supervision of CIF management but will also act as an important advocate for the CIF within each of the key stakeholder groups. He/she will also help ensure that both sides' interests and perspectives are fairly represented and shared.

A set of guiding principles for managing and resolving potential conflicts will be developed as part of the CIF Operational Plan, and to preserve the need for balanced representation in any voting or decision-making processes.

The GB is ultimately responsible for setting the CIF budget and funding priorities and for ensuring that appropriate performance metrics and accountability standards are met by CIF management in the allocation and management of CIF funds.

In terms of funding decisions for specific projects it is not currently anticipated that GB approval will be required in all cases; rather, that within specific guidelines and up to a certain amount, CIF management will have the authority to allocate funds to projects without prior approval. In many cases, however, the GB will act as the final decision-making body in approving funding for CIF projects, and has responsibility overall for the strategic direction of the CIF.

The Governing Body shares a strong desire and commitment to providing as much autonomy and day-to-day operating authority to the CIF manager as possible to ensure that the Fund has maximum flexibility in achieving its objectives. To aid in this process, CIF management will provide a formal progress report on a quarterly basis to the Governing Body and a more detailed annual update including any necessary revisions to the Operating Plan.

More so than in the past, it is also expected that members of the CIF GB will be active advocates and champions of the CIF within their respective organizations and/or communities, and will actively seek to support CIF management both in increasing awareness and positive perceptions of the CIF as well as the number and quality of applications for funding received from municipalities and other qualified funding recipients.

As the mandate and composition of both MIPC and WDO continue to evolve, it is recommended that this governance structure be reviewed after the first year to ensure that it has successfully delivered against the obligations described above and continues to be representative of the varied stakeholders accountable for supporting and delivering Ontario's municipal recycling programs.