EXAMPLE

WHAT A **WASTE PERFORMANCE CONTRACT** FOR BULKY WASTE COULD LOOK LIKE

KERBSIDE COLLECTION, PREPARATION FOR REUSE AND RECYCLING ACHIEVEMENTS.

ASSUMPTIONS

- The contractor is responsible for the collection of all household bulky waste from households directly on a door-to-door collection basis within the municipality's area;
- The contract does not include the collection of refuse, dry recycling or biowaste from households or commercial premises;
- The municipality is responsible for communications with residents but can delegate this to the contractor if wanted (this could increase the chances the contractor has of meeting the performance targets).
- The contract does not include the collection of bulky waste from container parks or Civic Amenity Sites (CAS);
- The contractor has control over the method of collection but not over the waste types that residents can place outside for collection under the bulky waste scheme, which is for the municipality to decide;
- The contractor covers the cost of disposal for any waste that is separated, for preparation for re-use or recycling, but that is eventually found to be unsuitable for these purposes; and
- The reduction in the amount of refuse sent for disposal generates a financial saving (per tonne) for the municipality.

PRINCIPLES

The payment mechanism model outlined below is based on the contractor being incentivised to achieve a minimum level of performance related to the following two measures:

- Amount of material collected that is prepared for re-use as a proportion of the total collected; and
- Amount of material collected that is sent for recycling.

The municipality uses historic waste flow data to establish a baseline figure for the above performance indicators and sets out the level of performance required by the contractor (Performance Target) for each successive contract year. This information should be clearly set out within the tender documents sent to prospective bidders for the contract.

Where the successful contractor exceeds the target set, it receives an additional performance payment.

In the model below, the basis of the performance payment is that the contractor shares the financial benefit accruing to the municipality from avoided residual waste disposal costs (net cost of transport and other associated costs) and from a reduction in the tonnage of waste collected that is neither prepared for re-use or sent for recycling.

PERFORMANCE AND PAYMENT MECHANISM PROCESS

Following the end of each contract year, for each performance indicator, the actual performance is calculated against the two targets ('Actual Rate' (AR)) from which is subtracted the target figure ('Performance Target (PT)). The result is multiplied by the total tonnage of bulky waste collected under the contract (T) to give a 'Performance Against Target Tonnage' (PATt) as follows:

$$PATt = ((AR-PT) \times T) \div 100$$

AR = Actual performance rate as a percentage for the contract year;
PT = Performance Target as a percentage for the contract year; and
T= Tonnes of waste that is in scope for the Actual Rate calculation collected for the contract year.

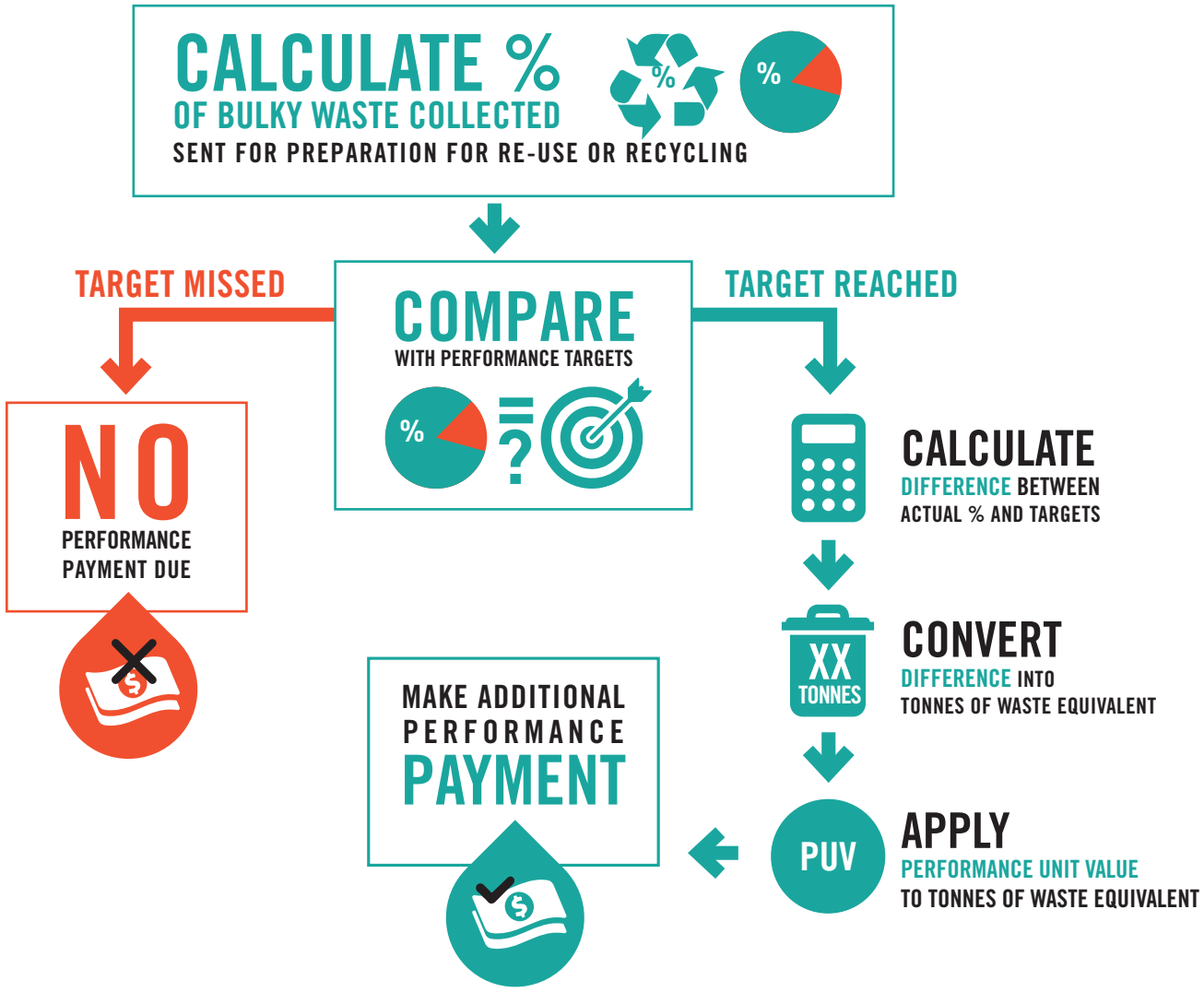
The resulting '**P**erformance **A**gainst **T**arget **T**onnage' for each performance indicator is then added together to produce a Combined PATt or CPATt. For each contract year where the CPATt calculation produces a positive number and the contractor exceeds the Performance Target, the municipality makes a payment in addition to the annual sum paid to the contractor, the 'Performance Payment' (PP), which is calculated as follows:

$$PP = CPATt \times PUV$$

PUV = 'Performance Unit Value' e.g. 60% share of the per tonne disposal cost, for the contract year.

This process is summarised in the figure below and an example is available in the table that follows.

Figure: Bulky Waste Performance Payment Process



In the worked example in the table below the contractor has missed the performance target for recycling in year 1 resulting in no performance payment being made for that year. The targets are exceeded in each successive contract year, generating a payment to the contractor.

Table: Bulky Waste Performance Payment Worked Example

	CONTRACT YEAR				
	1	2	3	4	5
Tonnes bulky waste collected (T)	800	825	815	850	900
Prep for re-use target (PT)	8%	9%	10%	11%	12%
Prep for re-use actual (AR)	10%	12%	15%	16%	17%
PATt	16	25	41	43	45
Sent for recycling target (PT)	15%	18%	22%	26%	30%
Sent for recycling actual (AR)	10%	17%	22%	27%	33%
PATt	-40	8	00	8.5	27
Combined PATt	-24	16.5	41	51	72
PUV	€ 76	€ 77	€ 78	€ 79	€ 81
Payment	€ 0	€ 1,273	€ 3,191	€ 4,053	€ 5,808

CONSIDERATIONS

Municipalities introducing this performance payment mechanism, or one based on this model, should take the following considerations into account:

- The contract needs to include a clear definition of both 'preparation for re-use' and 'recycling' in the context of bulky waste collections so that there is no ambiguity in the method of calculation of the contractor's performance in relation to performance targets. This should be related where possible to national/industry-recognised definitions, preferably enshrined in legislation or regulations; should this legislation or these regulations change then a contract conditions may.
- A weight-based performance mechanism may incentivise the collection of heavier items, such as furniture or white goods, at the expense of lighter ones, such as electrical or electronic waste. There could be a categorisation of the dfferent bulky waste types within the mechanism.
- If the municipality retains control of the price charged to the resident for collection (if any), then there should be the possibility to review and agree new performance targets in case the price changes.

- The more successful the contractor is in sending material for preparation for re-use, then the lower the proportion sent for recycling is. It is therefore worth applying different weighting which favours preparation for re-use performance over recycling in the calculation of the performance payment.
- In the event that the municipality decides to significantly alter either the service rules relating to the type of material permitted to be set out for collection under the bulky waste scheme, or the household collection methodology in place (e.g. changing the collection method or frequency of refuse collections or provision of Civic Amenity (CA) sites/container parks), and there is evidence that this change has significantly altered the composition of bulky waste set out for collection, then there will need to be a mechanism for reviewing and agreeing any amendment to the performance payment mechanism.
- The municipality will need to ensure that there is similar provision for review in any contract for the provision of CA Sites/container parks since increases or decreases in the amount of bulky waste set out for collection at the kerbside can have an effect on the amount of this type of waste which is deposited at these sites. If appropriate, municipalities may need to review the definitions or service rules relating to the type of bulky waste that is accepted/not accepted at CA Sites/container parks versus kerbside bulky waste collections.
- Additionally care is needed in applying a performance mechanism for bulky waste contracts in EU member states where a Producer Responsibility Organisation scheme is already in place which covers items likely to fall under the scope of both schemes(e.g. Waste Electrical and Electronic Equipment). The annual sum payment and Performance Unit Value should be subject to annual adjustment to take account of inflation. An appropriate mechanism for this adjustment (e.g. with reference to a government-set inflation index or to an industry-recognised index such as one relating to commercial fuel cost and other relevant measures) will need to be defined by the municipality as part of the contract payment schedule. This is the case for each of the examples provided here.
- In the example above, performance is incentivised via a performance payment payable after the targets set by the municipality are exceeded; this could be extended to include a payment deduction which is imposed when the targets are missed.

This example relates to a report prepared by Dr Dominic Hogg, Joe Papineschi, Rob Gillies, Andy Grant, Amy Slack, Clare Pitts-Tucker and Hara Xirou of Eunomia Research & Consulting for ACR+ and European Environmental Bureau in 2015. Our thanks go to the peer reviewers Pilar Chiva and Christof Delatter.
The full report can be downloaded here.

For further information, please contact:
Françoise Bonnet - ACR - fb@acrplus.org
Stéphane Arditi - EEB - stephane.arditi@eeb.org

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