



## Proposal to the Department for Environment, Food and Rural Affairs (Defra)

### Operation of a WEEE Compliance Fee for the 2016 Compliance Period

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September 2016

# Table of Contents

1.	Executive Summary .....	3
2.	Introduction .....	7
3.	Objectives of the Compliance Fee .....	8
4.	Methodology for the calculation of the fee .....	9
4.1.	Introduction .....	9
4.2.	Economic rationale .....	9
4.3.	Principles of proposed methodology .....	15
4.4.	Fee Calculation .....	18
4.5.	Data accuracy .....	20
4.6.	Consultation on our proposals .....	21
5.	Administration of the fee .....	22
6.	Methodology for the dispersal of funds .....	23
6.1.	Introduction .....	23
6.2.	Project fund .....	23
6.3.	PBS .....	24
6.4.	Research and feasibility studies .....	25
6.5.	Administration and timetable of fund dispersal .....	25
6.6.	Procedure for low or minimal uptake of the compliance fee .....	26
6.7.	Validation of project funding .....	27
7.	Timetable for implementation and operation .....	28
8.	Experience of proposer and proposed operator .....	30
8.1.	Proposer .....	30
8.2.	Proposed operator .....	30
9.	IT systems .....	31
	Appendix I – Proposal from Grant Thornton UK LLP .....	32
	Appendix II – Document Templates .....	42

## 1. Executive Summary

This document sets out Valpak's proposals for the operation of a WEEE compliance fee for the 2016 compliance year.

We believe that retaining a compliance fee is an essential feature of the current UK WEEE system in order to provide continuity and to reinforce important signals to operators that it is a mechanism intended to:

- Prevent the potential for excessive costs to be charged by over collectors
- Prevent producers being charged excessively for continuing access to WEEE material, and
- Encourage schemes to meet their collection targets whilst at the same time providing a mechanism whereby schemes which are not able to fully meet their target can instead pay a sum to contribute to valuable projects to improve the system for the future, without jeopardising their approval

We have used our extensive knowledge and experience of the industry as a WEEE compliance scheme operator since 2007, together with our knowledge of the operation of the compliance fee since 2014, to produce this proposal for a compliance fee methodology which:

1. Is easily understood and straight forward to operate
2. Supports the Government in continuing to improve the UK WEEE system by achieving the dual objectives set out by Government of:
  - i. Discouraging compliance schemes from making excessive charges by over collecting WEEE, whilst also
  - ii. Encouraging schemes to take all reasonable steps to meet their collection targets without using the fee
2. Is fair to all operators regardless of their circumstances of excess or deficit in material stream collections
3. Provides the necessary independence and confidentiality undertakings in handling sensitive compliance scheme information through using a respected third party firm of accountants, Grant Thornton UK LLP, as operator of the fee process
4. Facilitates competition in the market to minimise costs to producers whilst also assisting producers considering changing their compliance scheme by increasing the ability of schemes to recruit additional members without the disincentive of excessive compliance costs

Our proposal is supported by an **economic rationale** in section 4.2. This includes our analysis of the likely impacts of our fee proposal on the stability of the household WEEE collection system.

The key points of this proposal are summarised below.

### Methodology for calculation

The key points of our proposed methodology are:

- Schemes would be required to provide actual direct collection & treatment cost data by stream
- A condition of using the compliance fee would be the provision of accurate and detailed cost data to support any submission
- The cost information provided by schemes will also include the necessary direct operational management costs of managing and administering actual collections. This will be restricted to specific closely defined costs including contract and account management, reporting and site auditing. All other scheme overhead costs will be excluded. The weighted average direct operational management cost will be added to the compliance fee
- Further data on actual collection and treatment costs would be requested from the operators of the Producer Balancing System (PBS), a system set up by a number of compliance schemes to deal with Local Authority collection requests under regulation 34
- There would be a participation fee of £2000 per scheme wishing to use the compliance fee as a contribution towards audit and administration costs
- The independent operator will use detailed data provided by schemes and the PBS (if available) to calculate the weighted average cost per stream. This will form the base cost for calculating individual compliance fees
- The compliance fee will be calculated separately for each scheme wishing to use the fee and for each WEEE stream. It will be calculated from a combination of:
  - the weighted average collection and treatment costs, plus
  - an amount to reflect the direct scheme operational management costs which would be avoided if these were not reflected in the fee (avoided transactional cost).
- The collection and treatment costs only will be escalated by a factor related to the degree of scheme shortfall against the national target set by the Government in each stream, so that a greater fee is payable for a shortfall which is more significant compared to the Government's requirement

### Administration

The fee will be administered by Grant Thornton UK LLP, a highly respected and independent UK accountancy firm. Their proposal presenting their credentials and approach is included as Appendix I.

The key elements of their role will be to:

- Communicate and publicise the process to all approved WEEE compliance schemes
- Process and validate applications from schemes that wish to use the fee
- Collect actual cost information from schemes
- Undertake independent audit checks to verify that the data is accurate
- Undertake the data analysis, calculate fees and escalator factors
- Notify schemes who have applied to use the fee of their compliance fee, and issue invoices as appropriate

- Once the invoice has been paid, issue schemes with a confirmation letter for their Declaration of Compliance
- Send a summary to each Environment Agency setting out which schemes have used the compliance fee and the tonnes and streams concerned
- Disperse funding payments to the recipients chosen by Defra to support Local Authority and other WEEE projects

### **Dispersal of funds**

The most effective routes for dispersal of fund depend to a significant extent on the value of funds raised. As the total fund will not be known until March 2017 it is not possible at this stage to specify precisely how the funds should best be used.

We have put forward three options for fund dispersal and propose that once the total fund is known the fee operator has further discussions with Defra to determine the relative amounts assigned to each purpose, depending on Government priorities and the situation at the time.

The options proposed are:

1. To contribute to the Distributor Takeback Scheme (DTS) project fund for suitable Local Authority project applications (assuming that the DTS remains in operation beyond the end of 2016 in a similar form to present). The DTS project fund is well established and has been proven as a constructive vehicle for project funding.
2. To conduct appropriate research and feasibility studies or other projects as may be required by Defra in the national interests to ensure future stability of the UK WEEE system and compliance with the WEEE Directive.
3. To contribute towards the costs incurred by schemes in meeting regulation 34 requests from Local Authorities which do not have regular collection arrangements, particularly in more remote or higher cost areas where these are required, and where schemes do not need these collections to meet their own targets. Our suggested mechanism is by paying an amount into The Producer Scheme Balancing System, a recently established organisation which ensures that Local Authorities continue to have their WEEE collected under regulation 34.

### **Further suggestion**

Valpak is continually looking for positive ways in which the operation of the regulations might be improved and made more efficient and effective. As a result we would like to make two further suggestions for consideration by Government:

1. We believe that there is merit in adopting a compliance fee methodology for several years in order to provide some medium term stability to the system. In particular, provided the chosen methodology is effective, this approach could significantly improve the situation for Local

Authorities who wish to have stable and reliable collection arrangements. This should be considered in the light of experiences of operating the fee in recent years.

2. It is difficult for compliance schemes to precisely balance their actual collections with their prescribed targets because their targets are unlikely to be split in the same proportion as collections arise from the public. This means that even with the best of intentions where a scheme collects approximately the right amount of tonnes overall, it would be most likely to have surpluses in some streams and shortages in others.

We suggest that it would be worth exploring options to allow schemes who over collect in one stream to use some of that tonnage to offset obligations in other streams, provided they are using surplus tonnage of more expensive streams to offset obligations in lower cost streams.

This would enable the UK as a whole to continue to meet its overall targets but give schemes a little more flexibility to manage their own arrangements.

We would be interested in exploring these concepts further with Defra and other stakeholders at a suitable point.

## 2. Introduction

The WEEE regulations make provision for the Secretary of State (SoS) to allow schemes to achieve compliance with their targets by paying a compliance fee as an alternative to providing evidence of WEEE collection and treatment.

Stakeholders are able to make proposals for a fee to the SoS by the end of September in any compliance year. The SoS may then approve only one methodology and is expected to announce the decision by the middle of February following the end of the compliance year.

This document sets out Valpak's proposals for a methodology for 2016 which we believe optimises the requirements of the regulations and Government guidance.

Valpak is the largest and most broadly based operator of producer compliance schemes in the UK. It has been operating since 1997 and has compliance schemes covering packaging, WEEE and batteries. It also provides a number of other related services to members and non-members such as environmental consultancy, comprehensive data collection and analysis services, international compliance and direct material recycling services for all waste streams including WEEE.

Valpak is widely recognised for its expertise in producer responsibility and has developed a number of recommendations for improvements to the existing regimes over the years. It has vast experience of working closely with members, regulators and Government to develop effective solutions.

We have used this expertise and experience to develop a methodology which we believe is practicable and best meets the requirements of the UK WEEE system in the current situation.

If this methodology is accepted by Defra we will appoint Grant Thornton UK LLP as independent compliance fee operator. Grant Thornton are a well-known national accountancy firm who have considerable experience of regulatory processes and possess the proven expertise and capability to perform the required role whilst ensuring the high degrees of confidentiality necessary.

### 3. Objectives of the Compliance Fee

Whilst the regulations and Defra guidance are not prescriptive on the details of a compliance fee, they do establish a number of requirements:

1. The existence of a compliance fee is intended to discourage PCSs from collecting WEEE significantly above their targets and then seeking to sell that surplus at excessive prices to PCSs that are short of their target amount in any category for which they have obligations
2. The methodology will take into account the different costs associated with the collection, treatment, recovery and environmentally sound disposal of each of the WEEE collection streams
3. The fee will be set at a level which encourages schemes to take all reasonable steps to meet their collection target without recourse to the compliance fee.
4. The fee is payable on the tonnage for which a scheme is responsible but which has not been achieved through its own collections from DCFs, regulation 34, 43, 50 or 52 returns, or through arrangements with third parties

In addition to meeting the above requirements we understand that any proposed methodology should:

1. Operate with minimum involvement from Government or the agencies
2. Provide assurances that any exchange of scheme specific cost information is treated as confidential and not disclosed to other schemes or third parties
3. Be fair to all operators regardless of their market size or circumstances of excess or deficit in material stream collections
4. Assist with producer mobility and competition between compliance schemes by reducing some of the barriers which have made this difficult in the past, this should improve choice and service and minimise cost for producers
5. Include details of how fees will be administered and arrangements for the governance and disbursement of funds to suitable projects.

This proposal sets out how Valpak's methodology meets these requirements using the headings from the evaluation criteria in:

**Guidance on submitting proposals for a WEEE Compliance Fee Methodology – July 2016.**



## 4. Methodology for the calculation of the fee

### 4.1. Introduction

The methodology proposed below includes details of how fees are to be calculated for each stream. This document does not include actual fees because it is not possible to calculate the fees until after the end of the compliance year when information on actual tonnages and costs can be obtained.

### 4.2. Economic rationale

#### **Background to rationale**

A WEEE compliance fee has been enabled under the new regulations since 2013, and a fee methodology has been chosen by the Government for 2014 and 2015 based on proposals submitted by the Joint Trades Association (JTa).

We believe that the basic economic rationale for a compliance fee as set out in detail by the JTa in 2014 and 2015 is thorough and comprehensive and remains substantially still valid.

In particular the analysis set out in the following sections of the document below provides a sound analysis of the economic justification for setting a fee and we have based our proposals on this analysis.

#### **Reference:**

Joint Trades Associations (JTa), Proposal to the Department of Business, Innovation and Skills, Operation of a WEEE Compliance Fee for the 2015 Compliance period.

<https://www.gov.uk/government/consultations/weee-compliance-fee-methodology-evaluation-of-proposals-2015>

- Appendix 1 – WEEE Compliance Fee Methodology, Sections 4 and 5 (note: the Government Guidance referred to in 5.4 has been amended subsequently but remains similar).
- Appendix 2 - Economic assessment of the 2014 compliance fee system and potential future changes

This analysis leads us to conclude that

1. Retaining a compliance fee is an essential feature of the current UK WEEE system in order to provide continuity and to reinforce important signals to operators that it is a mechanism intended to:
  - Prevent the potential for excessive costs to be charged by over collectors
  - Prevent producers being charged excessively for continuing access to WEEE material, and

- Encourage schemes to meet their collection targets whilst at the same time providing a mechanism whereby schemes which are not able fully to meet their target can instead pay a sum to contribute to valuable projects to improve the system for the future, without jeopardising their approval
- 2. The level of fee should be differentiated by material collection stream because the costs and tonnages involved in each are significantly different.
- 3. Fees should be based on actual collection and treatment cost information provided to an independent administrator by all schemes wishing to use the fee.
- 4. The basic fee should be escalated by a continuous and gradually rising factor so that schemes which are significantly below their target and need to use the fee for a greater tonnage pay a higher figure per tonne than those which require only a low tonnage. This increases the incentive on schemes to meet their collection targets without using the fee.
- 5. There are benefits in retaining a degree of consistency in fee methodologies from year to year. Adjustments should be made to respond to changing market circumstances but these should not be too abrupt as to lead to instability in the system.
- 6. Data confidentiality should be maintained throughout the process.

We have therefore used these principles as the basis for our 2016 proposals because avoiding radical change will contribute towards the Government's objective of improving the stability of the WEEE system.

However we also believe that the WEEE market situation has changed in some key aspects from previous years, and so we have modified our previous proposals in a number of areas in order to better reflect the market experience over the 2016 compliance period to date.

In particular we have developed these changes in order to improve the stability of the WEEE system over the short to medium term.

### **WEEE market developments**

The WEEE regulations were substantially amended in 2013 to bring in a number of new and improved features. During the first two years of operation of the revised regulations, 2014 and 2015, the WEEE market operated largely effectively in that:

1. The Government's targets for collection were reached or exceeded
2. All Local Authorities which wished to have their WEEE collected from DCF sites were able to make arrangements with schemes for services
3. The potential for a compliance fee methodology to be set meant that the previous tendency for over collecting schemes to be able to charge excessive prices for their surpluses to under collecting schemes was largely eliminated
4. The sums collected from the compliance fee were used to assist valuable Local Authority collection projects

However since the end of 2015 and into 2016 we are aware that a number of Local Authorities have found it difficult to extend or renew their collection contracts with compliance schemes. In some cases we understand that some authorities have had contracts terminated and have had no responses to tenders for new service providers.

In addition we are aware that regulation 34 has been invoked on several occasions in 2016. This regulation allows a Local Authority without a collection contract to demand collections from any compliance scheme. Whilst this ensures that a collection is made, it is not a good long term solution for authorities because of the operational uncertainty and extra administrative burden of making repeated separate requests. It also leads to schemes incurring unnecessarily high costs which are likely to be passed on to producers.

There have been several press articles supporting these statements:

<http://r3cycle.co.uk/environmental-recycling/demand-change-in-weee-market-hits-council-collections/>

<http://www.letsrecycle.com/news/latest-news/demand-change-in-weee-market-hits-council-collections/>

<http://www.letsrecycle.com/news/latest-news/councils-see-decline-in-tenders-for-weee/>

<http://www.adjacentgovernment.co.uk/farming-environment-marine-sustainable-news/council-weee-tenders-decline-following-e-waste-changes/22994/>

From our knowledge of the WEEE market, and contacts with a number of authorities, we believe that a key part of the cause of these difficulties is that there is a perception that the full costs of collecting from some authorities could be higher than the level of compliance fee set, assuming it were based on the same methodology as in previous years.

The situations described above are not desirable for Local Authorities or the WEEE system as a whole because they lead to uncertainty, increased costs and administrative burdens plus unnecessary environmental and operational risks. If not addressed this would lead to further instability of the WEEE system.

We therefore believe that a number of enhancements are required to the methodology in order to reduce as far as possible the perception that the compliance fee may be a lower cost than the actual collection costs involved.

These amendments will help contribute significantly to the Government's objective of improving the stability of the system by ensuring that:

1. The compliance fee better reflects the actual total scheme costs involved in collecting from Local Authorities, and therefore encourages schemes to collect to the level of their targets, and
2. The fee escalator is adjusted so that the impact on schemes requiring a certain tonnage is the same regardless of scheme size. Previously the escalator factor used was relatively insignificant for larger schemes but much more so for smaller schemes, meaning that the incentive for larger schemes to engage in actual collections rather than rely on the fee was lower.

**Rationale for amendments proposed**

The objective of our proposed methodology is to address the market issues referred to above whilst at the same time not setting the fee at too high a level where it would risk excessive costs to producers or encourage a return to the pre 2013 situation where over collectors could charge excessive prices for their surpluses.

Detailed below is our analysis and rationale for the amendments we are now proposing to address the points above for the 2016 compliance year:

**1. The compliance fee should properly reflect the necessary direct operational management and administrative costs of managing collections incurred by schemes.**

The costs of managing physical WEEE collections consist not only of the actual collection and treatment costs, but also of a number of direct resource and operational management costs which are necessarily incurred by compliance schemes in order to properly carry out collections. If the compliance fee does not include an allowance for these costs then the perception will be that the cost of the fee will be lower than the actual costs likely to be incurred by schemes. This would result in insufficient encouragement for schemes to meet their collection target without using the fee.

A PCS will incur additional variable costs in activities necessary to collect WEEE from Local Authorities and other sources. These include:

- preparing bids for collection contracts
- on-going management of operational contracts including ensuring contractors are performing properly, liaising with Local Authorities, addressing any day to day issues which arise
- conducting site audits of both collection sites and treatment operators to ensure that they are operating correctly,
- compiling, checking and making the regular reporting submissions required to the relevant enforcement agencies

These costs are transactional costs and are only incurred as a direct consequence of schemes needing to contract for and carry out actual collections. We believe that not to include these transactional costs in a compliance fee would discourage some schemes from attempting to seek collection arrangements and they may instead be tempted to rely on the compliance fee as a cheaper mechanism to comply. Including these costs would mean that the fee was closer to the true economic cost of collection.

These transactional costs do not include any general scheme management or overhead costs which are not related to managing direct collections. They only include the necessary direct resource and operational management costs which are relevant to the compliance fee and will need to be carefully specified in order to avoid any other unjustified overhead costs being included.

Direct operational management costs would be calculated separately by the fee administrator, and not subject to any escalator which may apply to collection and treatment elements of the fee. We accept the

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feedback on our 2015 fee proposal that to apply the escalator to the transactional costs would be unduly punitive. It would have the effect of increasing the compliance fee beyond a level that was related to the actual costs.

The method proposed of working out the weighted average cost per tonne for this direct operational management cost addresses this concern and ensures that the methodology is not overly punitive.

**2. The cost data used to calculate fee should also include the cost to schemes of complying with regulation 34 collection requests.**

To date in 2016 a number of Local Authorities have found themselves in a position where they have been unable to secure satisfactory long term collection arrangements with schemes and so have had to resort to regulation 34. These collections are managed either by the scheme directly receiving the request, or by a collective which has been voluntarily established by schemes representing the vast majority of producers called the PCS Balancing System (PBS).

Regulation 34 and the PBS are important parts of the WEEE system because they provide a “fall back” mechanism for Local Authorities as well as assisting the Government to maintain an adequate network of collection facilities.

These collections are likely to represent areas where the collection costs are considered unattractive by schemes in comparison with the compliance fee, as otherwise they would be more inclined to enter into longer term arrangements. Including these costs, alongside other collection costs data from participating schemes, would mean that the compliance fee better reflected to full range of costs likely to be incurred and provide a better incentive to schemes to enter into actual collection arrangements. Whilst this is unlikely to eliminate regulation 34 collections entirely it should improve stability and increase the incentive on schemes to meet their targets through arranging their own collections.

Whilst any scheme wishing to use the fee would be required to submit costs for their own regulation 34 requests along with other cost data, this is likely to be only for a very small tonnage. It would be more reflective and preferable to also include cost data from a wider selection of regulation 34 requests, for example those dealt with by the PBS.

We therefore propose, in addition to requiring participating PCS's to include any regulation 34 collection cost data in the information they provide individually to the compliance fee administrator, to request that the PBS provide aggregated data for the tonnages and costs of each stream collected under the joint arrangement.

We recognised that the PBS is under no obligation to do this, and we have not yet secured their agreement, but should our proposal be accepted then we would enter into discussions with the PBS and WEEE Schemes Forum (who established the PBS) accordingly.

**3. Managing collections for a compliance scheme incurs some direct cost, even if the net value of the material is positive.**

Previous proposals have argued that the compliance fee should be set to zero for any stream where the net costs of collection and treatment is positive. We believe that this approach does not properly represent reality because:

- The nature of contractual arrangements means that schemes would not receive any net material value themselves; instead this would be passed back to Local Authorities or netted off by the treatment operator.
- It fails to recognise that the operational management costs described in section 1 above will still be incurred by collecting schemes, even if the net collection and treatment costs are zero.

We therefore propose to include the direct operational management costs in the compliance fee calculation for all streams, even where the material value means that the net collection and treatment costs are zero or negative.

**4. Shortfalls which represent a higher proportion of the national target set by Government should incur a higher fee. The compliance fee should be identical for all schemes with the same tonnage shortfall, regardless of scheme size.**

In previous years the compliance fee methodology adopted has included a quadratic escalator which increases the fee payable in proportion to the shortfall of any scheme compared with its own collection target for the year.

Whilst we agree with the principle of the escalator, this method means that a large scheme with a given tonnage shortfall would pay a significantly lower fee than a smaller scheme with the same tonnage shortfall (see graph below). This is because it would represent a lower proportion of the large scheme's target. The impact of this is that a large scheme could have a lower incentive to engage in additional collection than a smaller scheme for the same tonnage shortfall. It may also lead to smaller schemes being under greater pressure to pay additional costs to over collectors in order to avoid paying the compliance fee.

Neither of these outcomes is desirable in encouraging stability of the WEEE system, and could lead to distortions and unfair competition. We propose to amend this so that the escalator is calculated in relation to a scheme's shortfall against the national target in each stream rather than the scheme target in that stream. This would ensure that the escalator would be identical for a given tonnage shortfall, regardless of scheme size.

The graph below shows the Valpak proposed 2016 fee compared with the previously used JTa methodology for different sizes of schemes. We have used representative example data rather than actual data in order to illustrate the effect for this graph as follows:

Example assumptions:

Total UK target for stream = 155,000 tonnes

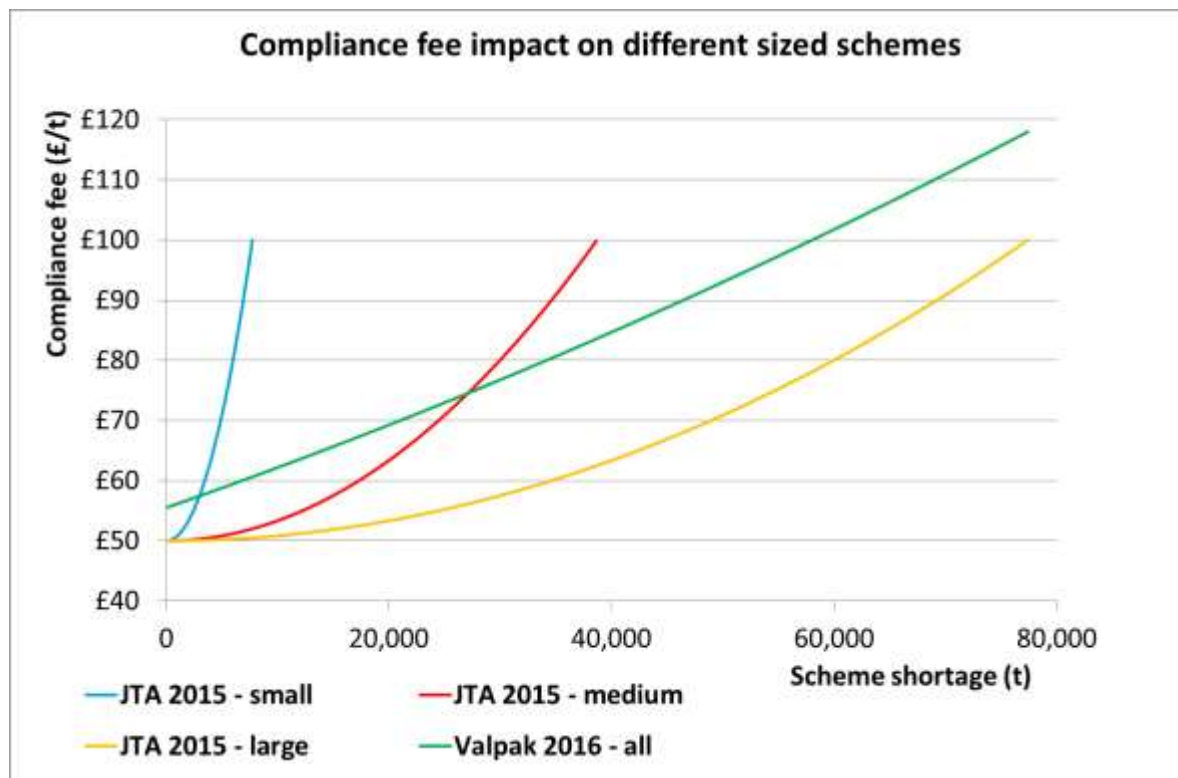
Small scheme = 5% market share

Medium scheme = 25% market share

Large scheme = 50% market share

Weighted average net cost of collection and treatment = £50 per tonne

Weighted average direct operational management cost = £5.50 per tonne



Amending the methodology to reflect this change would also help to facilitate movement of producers between schemes and hence encourage higher level of competition, to the benefit of producers. Higher levels of competition should ensure that longer term compliance scheme charges remain close to the true economic cost.

With this change, we believe that the quadratic escalator used in the previous 2 years has been proven effective and we propose to continue to adopt this method.

### 4.3. Principles of proposed methodology

In summary, Valpak’s proposal is designed to provide schemes with a realistic alternative compliance option which is applicable in all circumstances and fair to all participants.

The methodology aims to produce a compliance fee which provides a balance between:

1. Not imposing excessive costs on schemes (and therefore producers) either directly, because of an excessively high fee, or because of a market perception of a high fee leading to schemes demanding excessively high payment for their surplus collections

whilst at the same time

2. Being set at an appropriate level to encourage schemes to take all reasonable steps to meet their targets without using the fee, as set out in the regulations

We have observed from experience of the process used for the 2014 and 2015 compliance fees that previous methodologies may have led to a perception that, in some circumstances, the fee could be lower than actual collection and treatment costs. In addition we believe that there were a number of areas where the previous methodologies could be further enhanced to improve fairness and operation. These have been described in section 4.2.

Similarly we note that the perception that a fee could be significantly escalated (by up to 100%) for larger shortfalls particularly for smaller schemes has meant that schemes seem reluctant to try to take on significant new member obligations because of the risk of excessive costs. These could be either because they have to pay an escalated compliance fee, or that schemes with surplus collections see the potential of a high fee as justifying inflated prices for their excess evidence. This has led to difficulties for producers wishing to change schemes to seek a preferable compliance service, and a resultant limiting of competition.

We therefore propose to continue with some of the core elements used in the 2014 and 2015 methodologies, but also to modify and enhance some other elements to better reflect the requirements set out by Government and detailed above.

The core elements we propose to continue with from the previous methodologies are as follows:

Core Principles	Rationale
1. Weighted average costs per stream will be the base cost for each stream.	Actual collection and treatment cost and tonnage information will be provided by schemes from which the operator will calculate the weighted average base cost per stream. This ensures the base cost is representative of the situation across the UK.
2. To increase the base cost by an escalator factor so that compliance fees increase for greater tonnage shortfalls.	The escalator provides a greater encouragement to take reasonable steps to meet scheme targets for higher tonnage shortfalls.



<p>3. Providing cost data is a condition of using the fee.</p>	<p>This is to ensure there is a viable data set available on which to base the fee.</p>
<p>4. A third party independent body be appointed to administer the fee and audit the data.</p>	<p>Third party administration will prevent any conflict of interest and ensure confidentiality. The role will include fund collection and dispersal of funds.</p> <p>The requirement for independent audit will ensure data accuracy.</p>

The enhancements and modifications we are now proposing for 2016 are:

Enhancement	Rationale
<p>1. To set the escalator based on the tonnage shortfall that a scheme applies for against the national target for that stream rather than the individual scheme target.</p>	<p>This means all schemes with the same tonnage shortfall will pay the same fee regardless of scheme size, which better reflects the national requirements.</p>
<p>2. To include the potential (depending on actual cost data provided) for a fee for large household appliances (LHAs) rather than assuming an automatic zero fee.</p>	<p>There have been considerable movements in scrap metal prices over the past 12 to 24 months which mean that it is no longer a valid assumption that revenues always more than cover collection and treatment costs.</p>
<p>3. To add to the base fee in each stream an additional cost to properly represent the direct operational management costs necessarily incurred by collecting schemes in managing and administering WEEE collection and treatment arrangements.</p>	<p>These would include, for example, the direct costs of preparing and managing contracts, visiting and auditing sites, managing relationships with AATFs and the necessary mandatory reporting. <u>Other more general scheme management overheads are specifically excluded.</u></p> <p>Valpak expects that operational management cost will be of the order £2.50 to £5.00 per tonne, depending on scheme circumstances.</p>

More information on the justification for these enhancements is given in the economic rationale, section 4.2.

#### 4.4. Fee Calculation

The fee would be calculated based on actual collection, treatment costs plus direct operational management costs obtained from compliance schemes.

Ideally the data collected should be as accurate and representative as possible, and so it would be preferable for data to be provided for all collections from all schemes. However we recognise this is unlikely to be practicable because:

- Schemes not needing to use the compliance fee are likely to be reluctant to provide data voluntarily and subject themselves to unnecessary cost and audit, and
- There is no provision in the regulations compelling schemes to provide data

We therefore propose that it will be a condition of participating in the fee that any scheme that wishes to use the fee must provide their data, otherwise they will not be eligible. If a scheme does not provide the information then it will not have the option of using the compliance fee in its Declaration of Compliance (DoC).

This will be reflected in the detailed terms and conditions for the fee which will be prepared by Grant Thornton in advance of sending out information to schemes. These will also set out the information requirements and the confidentiality arrangements.

The information requested from schemes for each WEEE stream will be:

- Tonnage actually collected (own scheme collections only, excluding collections or evidence provided by other schemes or AATFs)
- Scheme target tonnage
- Tonnage (if any) for which the scheme wishes to pay the compliance fee
- Net total collection, transport and treatment costs from Designated Collection Facilities (DCFs),
- Net total regulation 34 collection, transport and treatment costs (excluding any reg. 34 collections carried out by or on behalf of other schemes)
- Net total regulation 43 collection, transport and treatment costs
- Net total regulation 52 collection, transport and treatment costs
- Costs of providing the necessary containers (delivery, rental and depreciation) if not covered above
- Note: Net total costs above include any income generated from sale of material or parts whether or not this is retained by the scheme

The information collected should reflect only WEEE actually collected by each scheme, not any agreements with other schemes. Costs of collections performed by other schemes or evidence purchases are excluded,

as these may not accurately reflect the actual costs involved and could lead to double counting. (This will be included in the data auditing process).

In addition Grant Thornton will request data from participating schemes on their direct operational management costs involved in organising collection and treatment of WEEE. These will include the cost and staff hours involved in:

- preparing bids for collection contracts
- on-going management of operational contracts including ensuring contractors are performing properly, liaising with Local Authorities, addressing any day to day issues which arise
- conducting site audits of both collection sites and treatment operators to ensure that they are operating correctly
- compiling, checking and making the regular reporting submissions required to the relevant enforcement agencies

No other staff, overhead or general scheme management costs will be admissible.

In addition we propose that Grant Thornton will request collection cost data under confidentiality terms from the operator of the PBS or any similar system established by schemes to carry out regulation 34 collections on their behalf. We understand that some regulation 34 requests have been carried out by schemes directly, and so these would be included in their costs above if they wish to use the fee. Other regulation 34 requests have been passed to the PBS and carried out by other schemes bidding to carry out the work. These costs therefore represent a further source of representative data which should be built in to the calculation to determine the compliance fee (see section 4.2 Economic rationale for more information).

The data requested from the PBS will be simply the total tonnage collected by this arrangement and the total cost, separated for each WEEE stream.

The compliance fee will be calculated separately for each scheme wishing to use the fee and for each WEEE stream. It will be calculated from a combination of the weighted average collection and treatment costs plus an amount to reflect the avoided direct operational management costs (avoided transactional cost). The collection and treatment costs will be escalated by a factor related to the degree of scheme shortfall against the national target set by the Government in each stream, so that a greater fee is payable for a shortfall which is more significant compared to the Government's requirement.

The basic formula used to calculate the compliance fee for each stream of WEEE will be:

$$f = (t - c) \times \left( a \times \left( 1 + \frac{(t - c)}{T} \right)^2 + d \right)$$

Where:

f: the Compliance Fee for the relevant stream (£)

t: the PCS's target for the stream in tonnes (tonnes)

c: the PCS's collected tonnage in that stream (tonnes)

a: the weighted average net cost of collection for the stream (£ per tonne)

T: the UK national target tonnage in that stream (tonnes)

d: the direct operational management cost of undertaking physical collections (£ per tonne)

The operator will use the information provided by participants to calculate the average net collection and treatment cost (£/tonne) by stream over the whole tonnage collected for which they have information. This will form the Base Fee (shown by *a* above). This will be escalated in proportion to the square of the scheme shortfall compared to the national target for the stream, **T**.

The operator will also calculate the average direct operational management cost (£/tonne) over the whole tonnage collected (shown by *d* above).

The operator will then calculate the total compliance fee to be paid by each scheme wishing to do so by adding the escalated base fee to the direct operational management cost and multiplying by the tonnage shortfall for the scheme concerned, as shown in the formula above. All schemes that have applied for the fee will then be notified of their individual compliance fees thus calculated by stream, and an invoice issued accordingly.

See Section 6.6 for details of the process should there be low or minimal take up of the fee.

#### 4.5. Data accuracy

To obtain correct information from which to calculate compliance fees it is essential that the information provided by schemes on costs and tonnages is accurate. In order to verify this we propose to require schemes providing information to be subject to audit by the operator.

Grant Thornton has a highly experienced verification team and their proposed process is described in Appendix I. We propose to make the use of Grant Thornton mandatory for this process to ensure high standards and consistency rather than permitting schemes to use other auditors.

Audits will be conducted by experienced operator staff and as a minimum will cover:

- Checks of collection records and quarterly reports to reconcile with tonnages reported
- Checks of actual invoices and contracts for collection and treatment to reconcile with collection costs reported
- Checks of evidence data with that reported by Approved Authorised Treatment Facilities (AATFs)
- Collation and submission of data to enforcement agencies

- Review of scheme processes to ensure reporting is accurate
- Checks on the accuracy of information supplied on scheme operational management costs including ensuring that inadmissible costs are excluded

Completion of a satisfactory audit process will be a condition of participating in the compliance fee.

The cost of the audit will be covered by the participation fee (see Section 5).

#### 4.6. Consultation on our proposals

In previous years the Government has chosen to consult widely on all proposals for compliance fees it received before making a decision on how to proceed. We support this approach as it provides interested parties with the opportunity to directly compare alternative proposed methodologies and make comments on the pros and cons accordingly.

In addition since the 2013 regulations were introduced Valpak has promoted direct consultation and discussion, both formal and informal, with a wide range of stakeholders who operate in various roles in relation to the WEEE regulations. This has been achieved in a number of ways:

- Via our scheme members both directly and through our Valpak Advisory Group of major members
- Through membership of industry groups such as the Industry Council for Electronics Recycling (ICER) and the WEEE Schemes Forum (WSF)
- By listening to the views of the Local Authorities we service through the work of our commercial account managers
- By engaging with our wide network of collection and treatment partners

This has enabled us to obtain a comprehensive understanding of the views and priorities of different WEEE stakeholders. We have taken these views into account in developing this proposal.

## 5. Administration of the fee

It is proposed to use Grant Thornton UK LLP as an independent third party to operate and administer the compliance fee. If this methodology is chosen then Grant Thornton will be expected to:

- Make contact with all approved WEEE compliance schemes from the public register to inform them of the compliance fee process
- Receive applications from schemes that wish to use the fee
- Collect actual cost information from schemes wishing to use the fee
- Undertake independent audit checks as described above to verify that the cost and tonnage information is accurate
- Make contact with the PBS to request the specified information from them
- Undertake the data analysis described in this proposal in order to calculate fee levels for each stream and the appropriate escalator factors described
- Notify all schemes who have applied to use the fee of their compliance fee for each stream in advance of the deadline for submitting DoCs, and issue invoices as appropriate
- Once the invoice has been paid, immediately issue each scheme with a confirmation of the streams and tonnage for which the fee has been paid so that the scheme can complete their DoC for the relevant enforcement agency
- Once all funds have been received, and the process and timetable for distribution finalised with Defra (see Section 6) make payments (less their agreed administration fee) to the chosen recipients to support Local Authority and other WEEE projects

The operator would also inform the relevant enforcement agencies of the tonnage on which the fee has been paid by each scheme to assist with their assessments of DoCs.

Schemes wishing to use the fee will be charged a participation fee of £2000. This is to cover a contribution towards operator overheads and also the cost of the data verification audit. Payment of the participation fee will be a condition of them being able to use the compliance fee methodology.

The operator would set up a dedicated client bank account to deal with the compliance fee payments.

Note: We propose that the operator would not make any compliance fees public but only notify the schemes involved of their individual fees. The only figure expected to be made publically available by Defra, should they choose to do so, would be the total compliance fee fund once it is made available for WEEE projects – see Section 6.

We have selected Grant Thornton because of their established position as an authoritative and independent accountancy firm and their knowledge and understanding of the WEEE and similar regulatory systems. They also have well proven expertise in data verification in compliance situations, for example from previous work in the WEEE and utility sectors.

Their detailed proposal for this role is attached as Appendix I.

## 6. Methodology for the dispersal of funds

### 6.1. Introduction

It is proposed to distribute funds raised from the compliance fee in three ways, depending on the magnitude of the fund and the priorities of Government at the time funds are available:

1. The principle method of fund dispersal will be to directly fund suitable Local Authority projects intended to support and improve WEEE collections, treatment and reuse in future, as was the case for the 2014 compliance fee fund (2015 compliance fee fund was insufficient to make this viable)
2. By paying an amount into the PBS in order to offset the costs incurred by schemes in meeting regulation 34 requests
3. Through making available some of the fund to conduct appropriate research and feasibility studies as may be required by Defra in the national interests to ensure future UK compliance with the WEEE Directive. Other projects that contribute to stability and efficiency of the system in the interests of all stakeholders could also be considered at Defra's discretion.

It is not possible at this stage to determine the relative size of these elements as the total fund will not be known until March 2017. We propose that once the total fund is known the fee operator has further discussions with Defra to determine the relative merits of the alternatives described above. The amount assigned to each purpose can then be determined.

More details for each funding option are given below.

### 6.2. Project fund

The principle method of fund dispersal is proposed to be to directly fund suitable Local Authority projects intended to develop and improve WEEE collections, treatment and reuse in future. This approach has proved successful in previous compliance fee years.

We understand that, at the request of Government, the compliance fee operators for 2014 agreed to combine the compliance fee with the DTS project fund which has similar objectives, and launch a single request for project funding to Local Authorities. This process provides simpler access for Local Authorities to both funds through a common application. The DTS has launched a number of project funds over the past 3 to 4 years and the process is well established and accepted by Local Authorities.

In addition the processes for launching the fund, assessing bids and distributing the awards are already established meaning that the costs and time to distribute any funds from the compliance fee can be minimised.

Depending on the amount of compliance fee raised, we therefore propose to adopt a similar mechanism, namely that some of the 2016 compliance fee fund be added together with a DTS project fund (assuming that this continues into 2017) and a single call for applications be issued during 2017. We would expect the precise timing and details of this to be agreed with Defra nearer the time.

Note: There would be no conflict with Valpak also being the DTS operator because Valpak would have no role whatsoever in assessing or determining the selected projects, this being undertaken nationally by Defra in conjunction with their appointed selection panel.

Criteria for project bids are expected to be determined by Defra and the DTS by drawing on previous experience and communicated directly to Local Authorities.

### 6.3. PBS

Regulation 34 of the WEEE regulations allows Local Authorities who no longer have a regular collection contract or arrangements with a compliance scheme to require any scheme to collect WEEE from its sites. It was put in place to avoid Local Authorities being left without any mechanism to clear their sites of collected WEEE.

Until recently this regulation has not been used, but recent changes in the market (see section 4.2) have led to a number of Local Authorities finding it difficult to obtain regular collection contracts, and so having to resort to regulation 34.

A scheme which receives a request under regulation 34 has no choice over whether it collects regardless of whether it needs the material to meet its scheme target or not. If the material is not needed by a scheme this effectively represents an additional cost to the scheme which is passed on to its members.

In response to this, the PBS has been established during 2016 by a large number of producer compliance schemes in order to assist with dealing with regulation 34 requests made by Local Authorities. Where these collections are not needed by the schemes receiving the request the PBS arranges the collections, and shares out the cost amongst all participating schemes by market share. The PBS is an important part of maintaining a stable collection system and ensuring that an extensive national network of collection site is supported.

Nonetheless the PBS participating schemes may still be incurring additional cost over and above the costs of meeting their targets, because they are arranging for collections which they are unlikely to need for their own targets, whereas the compliance fee is effectively paid by schemes which are short in lieu of making sufficient actual collections to meet their target.

Therefore it would make sense to use some of the funds so raised from under collecting schemes to compensate those other schemes which have had no option but to make additional collections through regulation 34 that they did not need.

Using the PBS to achieve this is a realistic and practical option.

Should our proposal be accepted we expect that further discussions between Defra and the PBS would be necessary to agree details, but we would suggest that any cost paid to the PBS be used to offset costs of participating schemes in proportion to their market share by stream (which is the method used to determine participant costs).



## 6.4. Research and feasibility studies

We are aware that the UK faces a number of outstanding challenges and uncertainties in implementing the remaining requirements of the WEEE Directive. These include:

1. The move to open scope in 2018
2. Increased recycling and recovery targets from 2018
3. Revised EEE and WEEE reporting categories
4. Achieving increased national collection targets from 2018
5. Researching and quantifying the potential for use of “substantiated estimates” of total WEEE collection and treatment to fully represent UK national performance, and the associated impact on producer compliance scheme targets

Some significant progress has been made on these subjects through the EEEFlow project currently being undertaken on behalf of Defra, however it is expected that a number of opportunities for follow up work may well be identified in order to further refine the information.

Other projects that contribute to the stability and efficiency of the system in the interests of all stakeholders could also be considered at Defra’s discretion.

We propose that a proportion of the compliance fee fund is allocated to this purpose by the operator and agreed in discussion with Defra.

## 6.5. Administration and timetable of fund dispersal

Grant Thornton would inform Defra of the total value of the remaining fund once their costs have been met. Defra, in consultation with Grant Thornton, would then determine the value of the fund to be made available to Local Authority projects and the appropriate value to keep in reserve to fund other projects as described above. The timetable for these other projects will be determined in discussion with Defra during 2017.

If appropriate we propose that Defra, the DTS and the compliance fee fund operators then work together to establish a suitable timetable and process for the launch of the agreed fund to be made available to Local Authorities.

We propose that the process is as follows:

1. Defra and the DTS jointly prepare a common application pack for Local Authorities based on that used previously
2. On the agreed date, likely to be between June and September 2017, the fund is launched by all parties through press releases and web site announcements as appropriate.
3. Applications for project funding are sent by Local Authorities to Defra
4. Defra convene a project assessment panel consisting of representatives from Defra, the DTS (in the form of the British Retail Consortium), WRAP, and a suitable representative of producers and/or schemes (we suggest either the WEEE Schemes Forum (WSF) or JTa is invited).

5. Defra inform successful applicants of their awards
6. Defra inform the DTS and compliance fee operator of the projects and amounts to be funded

The project fund would also be made available to charities and other suitable third sector organisations working in association with Local Authorities.

In the unexpected event that the compliance fee fund is far greater than could reasonably be dealt with by this process then we propose that further discussion is undertaken with Defra to look at further options for appropriate use of the funds, but this will not be known until March 2017.

### 6.6. Procedure for low or minimal uptake of the compliance fee

We propose that if there was very low or minimal uptake of the fee then there should be a minimum level of the total compliance fee which is equivalent to the operational costs of the operator (less participation fees).

This means that if the total fund calculated in accordance with Section 4 is less than the operator’s costs, then the compliance fee for each scheme that wishes to use it will be calculated as follows:

- Calculate the total tonnes of each stream applying to use the fee
- Divide the operator’s costs (after deduction of participation fees) by the tonnes of each stream in proportion to the fee cost/tonne for each scheme defined in section 4.3
- Calculate the increase in cost/tonne for each stream and scheme required
- Issue invoices to the applying schemes using these rates

Example:

Operator’s costs £10,000 and two schemes applied to use the compliance fee

Scheme 1 applies for 10 tonnes of stream A

Scheme 2 applies for 100 tonnes of stream B

Compliance fee cost for scheme 1 is £5/tonne for stream A

Compliance fee cost for scheme 2 is £50/tonne for stream B

At these rates the total compliance fee would be  $(10 \times £5) + (100 \times £50) = £5,050$  which would not cover the operator’s costs.

The compliance fee for each scheme is increased by the same factor “X” where:

$$\left( (10 \times £5) + (100 \times £50) \right) \times X = £10,000$$

$$X = \frac{10,000}{5,050} = 1.98$$

$$5,050$$

Therefore the compliance fees are:

Scheme 1 =  $10 \times £5 \times 1.98 = £99$

Scheme 2 =  $100 \times £50 \times 1.98 = £9,900$

Total compliance fee = £9,999 (rounding)

This process means that the full operator's costs will always be at least covered by the compliance fee plus participation fees.

It will also provide a disincentive to any scheme which did not need to use the fee, but might wish to discover the rate used, to apply for a small tonnage as they may have to pay a significant share if no others apply.

Should there not be any applications to use the compliance fee then the relatively small costs for preliminary work required by the operator will be covered by Valpak and Grant Thornton.

### **6.7. Validation of project funding**

Our understanding is that in previous project funding rounds from the DTS and the 2014 Compliance Fee fund, project evaluation has been carried out by Defra. If Defra wishes to continue to undertake this work then we would not propose any additional work by the compliance fee operator.

If, however, Defra wish Grant Thornton to undertake project verification as part of their responsibility as compliance fee operator then they have the skills and expertise to do so and would produce a separate proposal for this work to Defra. Their fees for this additional work would be funded from the compliance fee.

## 7. Timetable for implementation and operation

Our proposed timetable is set out below:

30 September 2016	Submit methodology to Defra
October to November 2016	Defra consult on methodologies
Mid February 2017	Defra announce chosen methodology
17 February 2017	Grant Thornton publicise the process to all approved WEEE compliance schemes asking for a response directly to Grant Thornton and setting out the information required in a data collection template.
28 February 2017	Grant Thornton receives applications and required information from schemes wishing to use the fee.  Note: If no applications are received by the deadline then further work on the compliance fee is stopped to avoid unnecessary expense and no fee will be available.
1 March 2017	Grant Thornton Non-audit assurance team performs its work on the data submitted by the schemes.
14 March 2017	Grant Thornton calculates base fees and escalators according to the methodology described.  Grant Thornton informs applying schemes of compliance fees applying to the tonnages they have applied for, and invoices each scheme accordingly.
28 March 2017	Deadline for receipt of cleared funds from scheme into Grant Thornton designated client bank account in respect of Compliance fees due.
29 March 2017	Deadline for Grant Thornton to issue Compliance Fee Payment Certificate. Grant Thornton provides confirmation to schemes of payment plus tonnage and streams represented.
31 March 2017	Schemes submit DoC to enforcement agencies accompanied by confirmation of fee payment.

- 7 April 2017 Grant Thornton send a summary report to each Environment Agency listing the names of the registered schemes which have paid the compliance fee for each stream and the number of tonnes covered by the fee.
- April 2017 onwards Discussion with Defra on appropriate size of Local Authority project fund. Defra announce project fund and assess applications. Defra inform compliance fee operator of successful projects for payment.
- Grant Thornton make agreed payment to successful Local Authorities.
- Remainder of compliance fee fund available for research and similar projects as agreed with Defra.

## 8. Experience of proposer and proposed operator

### 8.1. Proposer

Valpak is the UK's largest compliance scheme operator, with over 18 years' experience in producer responsibility and compliance. We operate approved compliance schemes for packaging, WEEE and batteries as well as providing a number of related environmental and data services to our clients. We have a 100% compliance record.

Valpak also has a strong record in developing and proposing practical and constructive ways to improve the operation of producer responsibility and recycling systems. We do this through a combination of liaison with our members through our Valpak Advisory Group which includes major WEEE producers as members, as well as using the detailed knowledge and expertise of our staff.

Some examples where Valpak has conducted research and put forward proposals which have been accepted by Government include:

1. Conducting the cross industry EEFlow project in conjunction with WRAP to provide future projections on likely quantities of EEE and WEEE and the UK's likely position on compliance with future targets.
2. Supporting the introduction of the target and compliance fee approach incorporated into the current WEEE regulations, and suggesting how the fee process should operate.
3. Participating as an active member of the WEEE Schemes Forum (WSF) and Industry Council for Electronics Recycling (ICER) which are often asked for input by Government to assist with developing proposals.
4. Putting the case for introduction of producer responsibility for batteries to allow for competing compliance schemes rather than a single scheme centralised approach. This competition has led to lower costs and better service for producers.
5. Conducting and part funding numerous research and consultancy projects for packaging. For example the GlassFlow study in 2013 led to the Government consulting on new lower targets for glass recycling that have resulted in significantly lower costs for producers.

### 8.2. Proposed operator

Grant Thornton is one of the world's leading organisations of independent assurance, tax and advisory firms. Their experience and expertise relevant to this proposed methodology is set out in their proposal as Appendix I.

## 9. IT systems

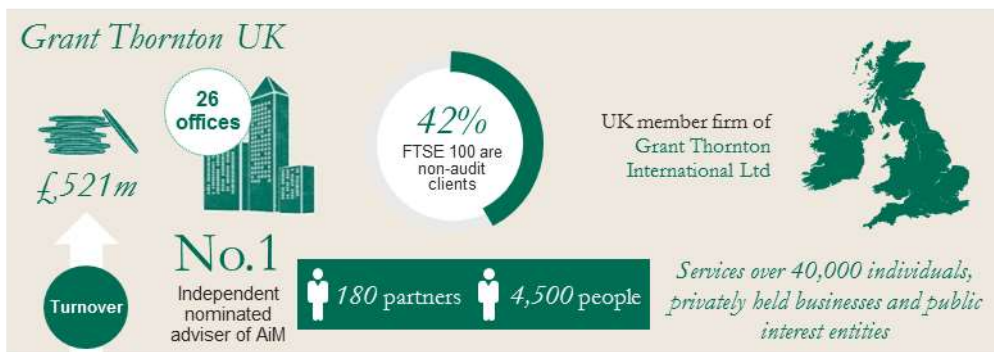
The IT systems necessary to operate the compliance fee will be provided by Grant Thornton as operator.

Details of their proposed arrangements and description of their backup and support processes are provided in Appendix I

# Appendix I - Proposal from Grant Thornton UK LLP

Grant Thornton UK LLP is part of one of the world's leading organisations of independent advisory, tax and audit firms. We help dynamic organisations unlock their potential for growth by providing meaningful, forward looking advice.

In the UK, we are led by more than 185 partners and employ 4,500 of the profession's brightest minds. We provide assurance, tax and specialist advisory services to over 40,000 privately held businesses, public interest entities and individuals nationwide.



Universum 2016  
World's Most Attractive Employers



The FDs' Excellence Awards  
Accountancy Firm of the Year (Larger Clients) 2016



Business Innovation & Skills (BIS) 2016  
Social Mobility Business Compact Champion



Director of Finance Awards 2016  
Accounting and Audit Provider of the Year



The British Accountancy Awards 2015  
Global Firm of the Year



Director of Finance Awards 2015  
Accounting and Audit Provider of the Year





Proactive teams, led by approachable partners, use insights, experience and instinct to understand complex issues for privately owned, publicly listed and public sector clients and help them to find solutions.

At Grant Thornton our underlying purpose is to build a vibrant economy, based on trust and integrity in markets, dynamic businesses, and communities where businesses and people thrive. We work with banks, regulators and government to rebuild trust through corporate renewal reviews, advice on corporate governance, and remediation in financial services. We work with dynamic organisations to help them grow. And we work with the public sector to build a business environment that supports growth, including national and local public services.

More than 40,000 Grant Thornton people, across over 130 countries, are focused on making a difference to clients, colleagues and the communities in which we live and work. In the UK we provided services to over 40,000 privately held businesses, public interest entities and individuals.

Client satisfaction is at the heart of our business, and our clients regularly voice strong appreciation of our services.

Grant Thornton have a team dedicated to the Energy & Environmental (E&E) sector which has been active over the last 10 years as a leading financial adviser supporting dynamic organisations. Our team takes a holistic view of the E&E sector and understands its complexities and interfaces as we have an integrated and focused approach to these areas.

We offer a cohesive international team composed of people across all service lines and sectors in multiple locations. We have a diversified client base of public and private sector organisations and advise major public sector bodies setting policy and regulation or procuring projects as well as debt and equity providers, utilities and independent developers.

We have listed below a sample of our relevant experience. These include providing assurance reviews for regulators, a recent appointment in relation to the WEEE Compliance Fee and also examples of our experience in waste and recycling:

#### WEEE Scheme

As part of the recently introduced WEEE Regulations, in February 2016 Grant Thornton was commissioned by a participating organisation to perform an agreed-upon procedures review with respect to the information included in the WEEE Compliance Fee data collection form completed for submission to the WEEE Compliance Fee Administrator. Our engagement was undertaken in accordance with the International Standard on Related Services 4400 applicable to agreed-upon procedures engagements.

Our review included checking and re-computing calculations, assessing how data was collated and confirming the WEEE evidence received by the scheme by collection stream. The review concluded with a written report provided to the organisation setting out in particular where our procedures identified anomalies with the submission and underlying data.

### Environmental programmes

We have been engaged since 2012 to provide supplier audit assurance for a number of environmental programmes. The assignment comprises site visits to suppliers, culminating in the issue of around 70 reports each year, including our findings for each supplier, along with control recommendations. The work is carried out under ISAE 3000 and we have developed a rating system in order to provide comparability of our findings between suppliers. This also enables a picture to be formed for each supplier across multiple environmental programmes, again providing comparability.

We undertake 'close out' meetings at the end of each supplier visit, so that there is clarity and agreement on the matters identified.

### Energy companies

We were engaged to provide assurance over the integrity of data supplied by 10 energy companies, along with a review of their processes and procedures to provide this data.

The assignment comprised a number of stages. Initial reviews were undertaken of the processes and controls that suppliers had in place to prepare the necessary data returns, along with narrative on supplier progress in meeting the targets set. This enabled comfort to be gained over progress made to date and to assess the likelihood of suppliers achieving targets, enabling early discussions on remedial actions to take place. Furthermore, as a result of the control recommendations identified, suppliers were able to improve their processes, leading to more accurate returns.

### Sandwell Council

We provided financial and commercial advice on a fully integrated waste PPP contract for Sandwell Council, including collection, transfer station operations and recycling. This involved developing mechanisms for recyclate price, volume and quality sharing given the length of contract and volatility of the markets.

### Telford Council

We provided financial and commercial advice on a fully integrated waste PPP contract for Telford Council, including collection, transfer station operations and recycling. This involved developing mechanisms for recyclate price, volume and quality sharing given the length of contract and volatility of the markets.

### Southend Council

We provided financial and commercial advice on a recycling collection, transfer station operations and recyclate processing contract.

### High Peak & Staffordshire Moorlands Councils

We undertook a financial review of collection and recycling contracts, including the impact of the recycling market on the benefit of them being outsourced, and the extent to which marketing of recyclates could be brought in house.

### Sheffield Council

We provided financial and commercial advice on a fully integrated waste PPP contract for Sheffield Council including collection, transfer station operations and recycling.

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## Scheme Administration & Non-Audit Assurance reporting

### Scheme Administration:

Our General Compliance and Outsourcing Services team (GCOS) offers a managed compliance outsourcing service to a variety of clients including large and multinational groups. Designed to assist businesses in meeting their compliance obligations, we provide a single point of contact, transparency over the status of the service and take responsibility for ensuring that our client's meet their obligations.

### Outsourcing team and Non-Audit Assurance teams and sector experience

**Tim O'Connell** - Head- GCOS, will lead the overall service delivery. Tim is a Fellow of the Association of Chartered Certified Accountants and has been with Grant Thornton for over 20 years, working in outsourcing throughout most of that time. Tim leads our outsourcing service and deals with many high-profile clients in a wide range of sectors including international accounting assignments and UK subsidiaries of overseas companies. Services provided include managing the sales ledger, invoicing and debt collection process for a number of clients. Tim's work involves agreeing and embedding agreed processes and procedures, monitoring and controlling on-going accounting work and ensuring excellent service delivery to clients. Tim is also responsible for ensuring compliance with regulations and procedures around the operation of Grant Thornton Client Bank accounts.

**David Newstead** will lead the non-audit assurance element of the assignment. David is an assurance partner and the key liaison point with Defra /WEEE Schemes.

In the Accounting team, each person works on a specific portfolio of clients. Additional team members will be introduced to ensure full coverage in the event of unexpected illness or absence. This will be a highly valued assignment for the firm and the time we spend on delivery will reflect that.

### Project Implementation

We have proven experience implementing assignments such as this and have a tried and tested process to ensure a smooth transition. The following is a summary of our Implementation process:

- We will hold an implementation meeting with representatives of Defra to liaise over the process and detailed timetable.
- We will set up the Chart of accounts in our accounting software.
- We will set up sales invoice templates and other required documents and fee management systems within our software.
- We will set up the Grant Thornton Designated Client Bank Account.
- We will agree protocols for approval of payments out of the Client bank account in respect of dispersal of funds.
- We will complete the ledger set up for each individual scheme which applies to use the fee.

## On-going Process

Grant Thornton will be the point of contact for Producer Compliance Schemes wishing to use the Compliance fee. The following summary sets out how we will carry out the process:

- We will publicise the process to all approved WEEE compliance schemes, by obtaining a list of approved schemes and issuing the appropriate notification and asking for a response directly to ourselves. A pro forma template of the notification is attached at Appendix II. At the same time we will issue a request for information to each applicant scheme in terms of actual collections and treatment costs for each WEEE stream using the pro forma data collection template at Appendix II.
- We will receive applications from schemes that wish to use the fee.
- To ensure the data submitted by each scheme is reliable and accurate, the information is subject to an independent review by a registered auditor. To maintain independence this review will be carried out by a separate assurance team in Grant Thornton and a report issued following completion of the work.
- Following the approved methodology, we will undertake the data analysis and calculate fee levels for each stream and appropriate escalator factor. In accordance with the timetable set out in Section 7 we will notify all schemes who have applied to use the fee of their compliance fee and issue an invoice to the scheme setting out the fee payable for each applicable WEEE stream.
- Payments received from each scheme will be held in a designated Grant Thornton client bank account, used only for the purpose of holding and dispersing the funds and for no other purpose. Therefore there is no danger of these funds being mixed up or misapplied. The invoice issued to the scheme will specify details of the bank account to which the funds should be remitted and the latest date by which cleared funds should be received.
- We will monitor the amounts being received into the bank account and post the amount received against that schemes account in the ledger.
- On receipt of payment in full we will issue the schemes with a Compliance Fee Payment Certificate confirming the streams and tonnage for which the fee has been paid in full to enable them complete their Declaration of Compliance to the Environment Agencies by 31 March 2017. A pro-forma certificate is shown at Appendix II
- We will send a summary report to each Environment Agency listing the names of the registered schemes which have paid the compliance fee for each stream and the number of tonnes covered by the fee. We will not disclose the actual fee paid by any scheme or the fee rate per tonne, in any correspondence with the Agency. If there is discrepancy or any query regarding tonnage covered by a compliance fee payment, the Agency can liaise with us and we will provide clarification.
- To reflect a clear and secure audit trail, invoices and payments will be processed in our Exchequer accounting software (details of which are below) using an accounts receivable ledger with a separate ledger account for each scheme. Each account will be reconciled individually with invoices to each scheme matched against payments received from that scheme. Posting entries made in the software cannot be altered once posted.
- Following the agreed process and timetable for distribution, we will make payments (less our agreed administration fee) to the chosen recipients to support Local Authority WEEE projects approved by the Judging Panel or other uses as determined by Defra. .

- Should any unexpected issues or uncertainties arise in the operation of our proposed process which have not been anticipated we propose to raise these with Defra directly to seek guidance and resolve them.

### **Client Monies**

Grant Thornton will operate a designated client bank account to receive funds from schemes in respect of payment of invoices and for dispersal of the funds. The account will be operated for this purpose only and no other, and all funds dealt with, in accordance with the Clients' Money Regulations of the Institute of Chartered Accountants in England and Wales.

Grant Thornton operates stringent procedures in relation to client monies. The operation of Client bank accounts is subject to regular internal review to ensure compliance with procedures and regulations. Specific to this assignment we will agree protocols around the operation of the account.

This will include as standard, segregation of duties such that people creating payments cannot also approve payments and vice versa. Payments are authorised by senior people in the firm (Partners, Directors and Senior Managers) and every payment must be authorised by two people. No one person can authorise a payment on their own.

### **Commercial Confidentiality**

We will maintain strict confidentiality over information provided to us by the schemes. As an independent and regulated firm we have strict protocols around the maintenance and handling of information relation to our clients. This includes:

- Secure networks which can only be accessed by authorised personnel
- Regular changing and updating of passwords
- Restricting access to our people to the areas of the files and accounting software which are required to perform their role,
- Password protection of Excel files.
- Secure Transfer of files

Specific to this assignment, the names of schemes that have used the fee and streams for which a fee has been paid will be kept strictly confidential by us, as will all data provided by the schemes to us.

### **Impact of and compliance with other relevant Law, in particular competition law**

To avoid breaches of competition law and ensure the market remains competitive, we will maintain strict confidentiality over all information held by us. We have described this in detail above.

Grant Thornton is a leading international accountancy firm and will act independently of all parties in carrying out its work as Administrator of the scheme. Our firm is subject to industry codes and regulated by the Institute of Chartered Accountants in England and Wales.

### **Contingency Plans**

Each client is managed day to day by a qualified accounting manager, supported by suitably qualified staff who hold the required level of experience for the tasks they carry out. In line with the firm's quality control procedures, we have rigorous review processes in place to ensure that all work is checked and service delivery is of the highest quality. We also operate very stringent internal controls around the handling of client monies and payments.

In terms of the time available to our team, we have a process for assessing the work load of each team member to ensure that person has sufficient time available to service their clients. We use a work-planning tool called Retain where we allocate time slots to people to work on their clients and we build in some slack to cater for absences, unexpected additional work or overruns on time taken. We also organize it so that there is sufficient cover for absences, eg holiday or sickness. For example, we ensure that at least one other person works on and is familiar with each task so we have cover at all times. So for this assignment, the team assigned to it will have sufficient time allocated to do all the necessary work and we will always have back up in place to cover absences.

Our most senior staff are heavily involved in the transition phase of an assignment and once they have gained a thorough understanding of the tasks then they pass this knowledge to other members of the assignment team. We are accustomed to reporting to very tight deadlines, often to within two to three working days. All of our staff are either qualified accountants or studying for an accounting qualification.

In terms of IT, we have strict procedures around back-up of data which are described in detail in the IT Systems section below.

As stated previously we have very strict procedures and controls governing the area of client monies and will use a separate designated account for this – therefore there is no risk of funds being misapplied.

## **Non-Audit Assurance reporting:**

### **Executive summary**

#### **We understand what is needed**

Our team is already familiar with many environmental schemes. We have the breadth of experienced team members to deliver each scheme on time, to the highest quality, and with sufficiently trained resources available to be agile and deal with any unscheduled requirements. Our team is passionate about this work.

#### **Flexibility and pragmatism**

We understand the importance of the timetable for delivering the compliance fee; flexing our timings to accommodate last minute changes is expected. We will ensure all deadlines are delivered; oversight through a single contact point.

#### **Innovation as standard**

Our experience across the environmental compliance sector is founded on deep client relationships for both public sector clients (such as Ofgem, DECC, the Crown Estate and the Carbon Trust) and the private sector, including utilities, developers and funders. We have advised on large, complex procurements for

both public and private sector clients. We believe that we are uniquely placed to deliver this engagement because of the specific experience that we have in our proposed team, combined with the depth of experience within Grant Thornton.

#### **Our understanding of the WEEE Compliance scheme and non-audit assurance process**

Our GCOS outsourcing administration team will liaise with the participating schemes and collect data relating to the actual cost from the participating schemes. We will work closely with that team and with each Scheme to obtain the requisite information for the purposes of our audit.

The objective of the assurance assignment is to ensure the data provided by the participating schemes is accurate and is in compliance with the data held by the environment agencies.

On completion of our work we will issue our report to each Scheme.

#### **Scheme non-audit assurance cycle**

The following is a brief summary of our approach:

##### **Team briefing**

- ensure understanding of the schemes and related regulation
- confirm non-audit assurance objectives and scope
- brief new non-audit assurance team members on technical aspects of the scheme
- discuss any specific risks associated with particular schemes
- identify any sector trends and updates that impact on work performed
- determine the type of evidence required
- ensure understanding of escalation process if issues identified during data testing.

##### **Fieldwork - sample testing**

- use data interrogation software IDEA to analyse data and select samples for testing where appropriate
- process walkthroughs
- re-computation of calculations and comparison with independently formed expectations
- observation or re-performance
- inspection of source documentation
- capture evidence of any exceptions identified

##### **Report production**

- any outstanding queries resolved with the schemes
- draft report prepared by assurance team
- Manager review to ensure consistency and accuracy across schemes
- Partner review of draft reports prior to issue to schemes

## **IT systems**

The IT systems necessary to operate the compliance fee will be provided by Grant Thornton as operator.

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Details of the proposed arrangements and description of their backup and support processes are provided below.

We will use a combination of Excel and Exchequer Accounting software. Exchequer and Excel interface very well with the ability to both import data from Excel into Exchequer and to download data from Exchequer into Excel. Therefore, the use of both applications in tandem will provide a flexible, yet secure and robust solution.

### **Excel**

We will request the information provided by the schemes to be provided in Excel format and will provide a data collection template in Excel format for this purpose.

We will undertake the data analysis and calculate the fee levels for each stream using excel.

The Excel files are stored on our secure network and access will be restricted to those of our staff who are assigned to this project. To provide further security, the excel documents will be password protected to ensure confidentiality. We also have a system for secure transfer of files in obtaining information from schemes and also issuing invoices and other documentation to schemes, which we can use to further enhance security and confidentiality of information.

### **Exchequer - our accounting software solution**

Once the data has been analysed and fees calculated, we will use our Exchequer accounting software for the invoicing, receipts and reconciliation process.

Exchequer is an award-winning accounting and financial reporting solution that is:

**Secure** - High level security with individual users' accessing only information appropriate to their role

**Accessible** - Web based platform managed and monitored by a team of experienced professionals

**Flexible** - Can be tailored to the specific requirements of the organisation

**Effective** - A powerful tool that allows for efficient processing of data and effective reporting

We have used this software successfully for several years on a variety of clients and using the various modules within the software on specific clients tailored to their specific requirements. It is a secure extranet facility that is accessible from any computer with internet access - using secure logins and passwords given to specific users.

### **The key features of Exchequer relevant to this assignment are:**

#### Accounts receivable

This is a fully integrated accounts receivable package incorporating invoices to the schemes, the facility to allocate receipts against specific invoices as part of the reconciliation process and book any necessary adjustments on individual scheme ledger accounts. Reports can be run showing the balance on each individual ledger account to easily identify past due amounts and other balances.

#### Integrated Invoicing



Invoices to each scheme are created based on the data provided by the participating schemes. Invoices are generated in PDF format individually or in batches, as required. Statements and reminder letters can be generated to facilitate the collection of past due amounts if any. Each individual scheme record holds the contact details for that scheme, including email addresses which can be used for sending out statements, reminder letters and if required, copy invoices.

#### Electronic Import

The software facilitates the electronic import of data from excel into the ledgers including import of data for the creation of sales invoices and also bank transactions, reducing the requirement for manual intervention.

#### Reporting

If specific or specialized reports are required, the software interfaces with excel to facilitate ease of reporting. In addition, Exchequer has an effective report writing tool which can produce customisable reports tailored to your requirements.

#### Selective access

Each module of the software can be secured so that only specified individuals have access to perform tasks in relation to that module.

#### Back up and support processes

Grant Thornton UK operates a real-time backup routine for the data on its network. All network data is stored within the Document Management system and mirrored across two Storage Area Networks (SANs) that are located at two separate sites. The retention period is 7 years or longer for financial data.

We operate stringent procedures around the security of data and equipment and all of our people undergo training in this area. We have procedures and protocols around the secure transmission of files externally.

Specific to Exchequer access is restricted to the specific tasks which individuals perform. The Exchequer software is a cloud-based solution hosted by a reputable external provider. In order to maintain the integrity and availability of information, the provider performs back-ups of all electronically stored data, systems and devices on a daily basis with all back-ups being replicated to a secondary data centre.

Networks are managed and controlled, in order to be protected from threats and to maintain security for the systems and applications using the network.

The computer systems of Grant Thornton are certified as ISO 27001 compliant, an independent Information Security standard that assures the management and operation of IT.

## Appendix II - Document Templates

### Compliance Fee Payment Certificate

Your Ref PCS12345

“PCS Scheme Name”

Line 1  
 Line 2  
 Line 3  
 Line 4  
 Line 5

30 March 2017

Dear Sirs

#### **“PSC Scheme Name” - WEEE Compliance Fee Payment Certificate**

This is to certify the payment has been received in full in respect of the WEEE Compliance Fee for 2016 in respect of the following:

Streams	Tonnage

Yours faithfully

Tim O’Connell  
 Head of General Compliance & Outsourcing Services  
 For Grant Thornton UK LLP

E: [tim.j.oconnell@uk.gt.com](mailto:tim.j.oconnell@uk.gt.com)

T; +44 (0)1189559183

**Letter to Schemes Inviting Participation**

Your Ref PCS12345

PCS Scheme

Line 1

Line 2

Line 3

Line 4

Line 5

17 February 2017

Dear Sirs

**WEEE Compliance Fee 2016**

I am writing to you to advise you that we have been appointed by the Department of Environment, Food and Rural Affairs, under the Waster, Electrical and Electronic Equipment Regulations 2013 (WEEE), as Administrators of the WEEE Compliance Fee for the year ended 31 December 2016.

In this respect I am writing to you to enquire whether you wish to avail of the WEEE compliance fee for the above year.

In summary the process for those wishing to use the fee is as follows:

- a. Schemes will respond to this letter to confirm their intention to use the compliance fee. The deadline for receipt of confirmation is **24 February 2017**.
- b. Should you wish to avail of the WEEE Compliance fee, I am also attaching a template request for information to be completed. This is in Excel format for ease of use. It requires tonnage collected and costs associated with the collection and treatment of this WEEE for each WEEE stream. Instructions on what information is required are attached to the request. The deadline for receipt of this information is 28 February 2017.
- c. The information provided will need to subject to an independent review by a registered auditor. A separate team in Grant Thornton will perform this work and will issue a report following their work.
- d. Following the approved methodology, we will undertake data analysis and calculate compliance fee levels for each stream.
- e. By **14 March 2017** we will notify you of your compliance fee and issue an invoice setting out the fee per stream and the bank account details to remit payment to. The final deadline for receipt of cleared funds is **28 March 2017**.
- f. On receipt of payment we will issue you with a Compliance Fee Payment Certificate to enable you to complete your Declaration of Compliance by the deadline of **30 March 2017**.

We attach a copy of the methodology for calculation of the fee and the timetable for the process for your further information.

If you wish to use the compliance fee please could you confirm your intention by emailing me at [tim.oconnell@uk.gt.com](mailto:tim.oconnell@uk.gt.com) and copying my colleague Simon Carter, at [simon.m.carter@uk.gt.com](mailto:simon.m.carter@uk.gt.com).

Please contact me if you have any questions regarding the above.

Yours faithfully

Tim O'Connell  
Head of General Compliance & Outsourcing Services  
For Grant Thornton UK LLP

E: [tim.j.oconnell@uk.gt.com](mailto:tim.j.oconnell@uk.gt.com)  
T; +44 (0)1189559183

**Scheme Information Template**

Pro forma template for collection of tonnage and cost information from Producer Compliance Schemes (PCSs)						
PCS NAME						
NET COST OF DIRECTLY COLLECTED WEEE	Target	Evidence	Compliance fee applied for	Collected	Costs	Costs
	Scheme WEEE target tonnage	Total Evidence received and recorded on Settlement Centre		Scheme WEEE tonnage directly collected	Total Direct collection, transport and treatment costs	Total Scheme Direct Operational management costs
Unit	tonnes	tonnes	tonnes	tonnes	£	£
<b>1 January to 31 December 2016 - For submission on or before 28 February 2017</b>						
A - Large Household Appliances						
B - Cooling Appliances Containing Refrigerants						
C - Display Equipment						
D - Lamps						
E - Small Mixed WEEE						
F - Photovoltaics						

<b>Completion instructions</b>						
1 The purpose of the document is to gather information in relation to tonnage, costs and income relating to the direct collection of each WEEE stream in the above period, for the purpose of calculating the WEEE Compliance Fee for the						
2 Compliance fee applied for is the tonnage you wish to use the Compliance fee for. Normally we would expect this to be Target minus Evidence but please confirm.						
3 Tonnage collected should include own scheme collections only, and should exclude collections or evidence provided by other schemes or Approved Authorised Treatment Facilities (AATF's)						
4 Total direct collection, transport and treatment costs should include the following:						
a. Net total collection, transport and treatment costs from Designated Collection Facilities.						
b. Net total regulation 34 collection, transport and treatment costs (excluding any regulation 34 collections carried out by or on behalf of other schemes).						
c. Net total regulation 43 collection, transport and treatment costs						
d. Net total regulation 52 collection, transport and treatment costs						
e. Costs of providing the necessary containers (delivery, rental and depreciation)						

<b>Notes:</b>									
i. Net total costs above include any income generated from sale of material or parts, whether or not this is retained by the scheme.									
ii. The information provided should reflect only WEEE actually collected by each scheme, not any agreements with other schemes.									
5 Total scheme direct operational and management costs should include the staff hours and costs involved in:									
a Preparing bids and contracts for collection arrangements.									
b Ongoing management of operational contracts including ensuring contractors are performing properly, liaising with Local Authorities, addressing any day to day issues which arise.									
c conducting site audits of both collection sites and treatment operators to ensure that they are operating correctly, and									
d compiling, checking and making the regular reporting submissions required to the relevant enforcement agencies.									
<b>Notes:</b>									
i. No other staff, overhead or general scheme management costs should be included in the detail provided above.									
<b>Confidentiality</b>									
Grant Thornton UK LLP maintains strict confidentiality over all information provided to it and as a regulated firm we have strict protocols around the maintenance and handling of information received. All of the information provided by you as part of this request will therefore be treated confidentially in accordance with these protocols.									