



Proposal to the Department for Environment Food and Rural Affairs

Operation of a WEEE Compliance Fee for the 2018 Compliance Period

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1. Executive Summary

- 1.1. This proposal is submitted by the Joint Trade Associations (JTA). Background to the JTA, its constitution and its membership is provided in Appendix 5.
- 1.2. The detailed JTA proposal for a compliance fee mechanism (JTA Mechanism) under Regulation 76 of the WEEE Regulations is set out in section 2 below. This proposal is based upon the following work:
 - 1.2.1. A review of the Defra guidance for submission of a Compliance Fee (Fee) methodology;
 - 1.2.2. A review of the 2017 JTA Mechanism, including feedback received from Defra and how this should influence the design of the 2018 JTA mechanism – Appendix 1;
 - 1.2.3. An assessment of 2018 market conditions and a summary of the aspects that should influence the design of the 2018 JTA Mechanism. The assessment also considered whether updated professional economic analysis was required – Appendix 2;
 - 1.2.4. Professional economic analysis commissioned with FTI Consulting on areas identified by the JTA for further consideration during its assessment of 2018 market conditions. This includes a review of variable administrative costs that are stream specific. FTI recommends that the 2018 JTA Mechanism should be based on the 2017 JTA Mechanism, with two modifications (a modified WEEE source adjustment premium and the inclusion of stream-specific variable administrative costs). The JTA has incorporated these recommendations in its 2018 Fee methodology proposal – Appendix 3.
- 1.3. In conclusion of this work the 2018 JTA Mechanism proposal contains the following features:

Features	Benefits
Fees should be stream specific.	Ensures PCSs pay costs that are reflective of the cost to collect WEEE.
The weighted average net cost per tonne of direct WEEE collections from Local Authority (LA) DCF's incurred by PCSs submitting cost data is the underlying basis for the calculation.	Strengthens the incentive for PCSs to collect directly from LAs.
A non-linear escalator will be applied to the weighted average net cost of direct WEEE collections from LA DCF collections, to reflect the extent that the PCS has met its own target.	Incentivises PCSs to meet their own targets and ensures all PCSs, regardless of obligation are encouraged to collect.
The type of non-linear escalator used will be dependent upon whether national collections are in deficit or in surplus when compared to the target.	<p>If a WEEE stream is in deficit, the "Normal" escalator is applied as less WEEE has arisen than the national target. PCSs will still be incentivised to collect but will not be subject to a higher Fee.</p> <p>Where there is more WEEE available in a WEEE stream than the national target, a higher "Surplus" escalator is applied. This is because it is more reasonable to expect a PCS to comply.</p>

A non-PBS participant uplift will apply to those PCSs that are not members of the PBS.	<p>Ensures that any PCSs who choose to use the fee contribute to the cost incurred by other PCS in funding collections of WEEE from uncontracted LA sites.</p> <p>This strengthens the incentive for PCSs to collect directly from LAs.</p>
A WEEE source adjustment premium is included which reflects the extent to which PCSs have collected WEEE from LA sources.	<p>A PCS which relies only on purchased evidence, and does not collect WEEE directly from LAs, will pay more if it misses its targets.</p> <p>This strengthens the incentive to collect directly from LAs rather than relying on lower-cost evidence from other sources.</p>
All PCSs using the fee should pay an administration charge.	The administration charge ensures that the cost of using the Fee is less attractive than collecting WEEE to meet targets.
Stream specific, variable administrative costs should be included in the Fee calculation	The inclusion of stream specific variable administrative costs helps to ensure that the cost of using the Fee is less attractive than collecting WEEE to meet targets. This also strengthens the incentive to collect directly from LAs.
All PCSs should be permitted to submit cost data, providing this is subject to audit. Those PCSs not needing to use the fee should not pay an administration charge.	Ensures the Fee is based on as wide a pool of data as possible and is therefore fully reflective of the cost of collecting WEEE directly from LAs.
There may be circumstances where some categories should attract a zero Fee.	Ensures fees paid by PCSs are reflective of the cost of collecting WEEE and avoids PCSs paying fees where WEEE is not accessible to them because collectors are receiving a net income from that WEEE.

- 1.4. The JTA will welcome the opportunity to discuss any aspect of this proposal with Defra and is open to any appropriate amendments.
- 1.5. In addition, if Defra considers that any of the factors used in the JTA calculation are not necessary, we would be happy to discuss removing that element.

2. JTA proposal for the 2018 WEEE Compliance Fee calculation methodology

2.1. Background to JTA Fee Methodology

The JTA Fee mechanism is based on a methodology and formula developed and recommended by FTI Consulting LLP (FTI), a leading group of professional economists, for the JTA 2014 proposal. FTI was selected to advise the JTA, having significant experience of using economic and financial analysis, and econometrics to assess complex pricing and valuation issues that occur in regulated industries. FTI recommended seven criteria against which Fee methodologies should be assessed:

- (1) **Effective.** The Fee must incentivise PCSs to achieve compliance by direct collection of WEEE where possible, without encouraging over-collection.
- (2) **Cost reflective.** The Fee must be directly related to the true cost of directly collecting and treating WEEE in each stream. If it is not, undesirable market distortions may arise.
- (3) **Transparent.** The Fee must be straightforward. The methodology should be understandable to all stakeholders, while maintaining confidentiality.
- (4) **Reasonable.** The administrative burden and cost of calculation must not be excessive.
- (5) **Feasible.** The financial and other data needed to calculate the Fee must be available. It must be possible to complete all necessary calculation procedures within the timeframe set out by BIS.
- (6) **Robust.** The Fee should be calculated in such a way that it cannot be manipulated by any individual PCS to harm other PCSs.
- (7) **Competition issues.** The Fee should improve competition.

The FTI methodology was reviewed and endorsed by an independent study by leading economic consultants, Frontier Economics Ltd in 2015. FTI undertook further reviews of the methodology in 2016 and 2017 based on the JTA's assessment of the WEEE market in those years, which were incorporated into the 2016 and 2017 JTA Mechanisms.

Copies of the FTI and Frontier reports were included in the relevant previous year JTA submissions and are available upon request.

Following the feedback received from Defra on the 2017 JTA Mechanism (Appendix 1) and the JTA's assessment of the 2018 WEEE market (Appendix 2), FTI was asked to review the points below and propose whether changes were required to the JTA 2017 Mechanism, specifically:

- The escalator mechanisms: both "Normal" and "Surplus";
- Whether a zero fee for some streams remains appropriate;
- The WEEE source adjustment premium calculation;

- The inclusion of stream specific PCS variable administrative costs;
- The justification for using a PCS's achievement against its own target in the escalator calculation versus performance against national targets

The changes recommended by FTI are set out in its report in Appendix 3, but are also summarised below:

- The provision of a methodology for calculating the WEEE source adjustment premium;
- The inclusion of stream specific PCS variable administrative costs in the Fee calculation.

2.2. Fee calculation – overview

The JTA 2018 Mechanism calculates a Fee for each stream for which a PCS is applying to use the fee, as follows:

Compliance Fee payable	=	PCS evidence shortfall v target	x	Weighted average net cost per tonne of direct WEEE collections from LA DCF's	x	Escalator applicable to PCS	+	Total variable administrative cost
\pounds		$t_n - c_n$ (Tonnes)		k_n See section 2.3.2 (£/t)		(see below) %		v_n See section 2.3.8 (£)

The escalator applicable to the PCS is based on three factors:

- how far the PCS is from its target, with a different escalation factor being used dependent upon whether the national target has been met or not;
- the extent to which the PCS has been collecting directly from local authorities; and
- whether the PCS is a member of the PBS.

Escalator applicable to PCS	=	Base escalator (Normal or Surplus)	+	WEEE Source Adjustment Premium	+	Non-PBS Participant Uplift
%		See section 2.3.4 %		p_n See section 2.3.6 %		u_n See section 2.3.5 %

The full calculation formulae are set out in sections 6.15 and 6.18 of the FTI Report in Appendix 3.

2.3. Fee calculation – in detail

2.3.1. Fees should be stream specific

A separate Fee is calculated for each collection stream of WEEE for which a PCS is applying to use the Fee. Costs will be calculated using data submitted on a compulsory basis by those PCSs that decide to use the Fee for a stream and any other PCSs that choose to submit costs on a voluntary basis. The JTAC appointed third party Administrator will undertake a review of

the data submitted by each PCS using an Agreed Upon Procedure approach; this review will most likely include a site visit, unless the Administrator is satisfied the review can be conducted without this.

2.3.2. The weighted average net cost per tonne of direct WEEE collections from LA DCF's incurred by PCSs submitting cost data is the underlying basis for the calculation

The Fee calculation uses the weighted average net cost of direct collections and treatment transactions incurred by PCSs when directly contracting with a DCF operator to finance WEEE collection and treatment from a LA DCF (k_n). This is based on the direct, incremental and avoidable costs and revenues incurred and excludes the costs of indirectly acquired WEEE evidence. The rationale for this decision is consistent with the JTA's 2017 Compliance Fee methodology and is taken in the light of our analysis of the WEEE market in 2018. This shows that despite shortfalls in collections against national targets some LAs remain unable to make arrangements with PCSs and have needed to use the PBS to secure collection. This indicates that PCSs still seek to comply with WEEE from non-LA sources, including purchasing evidence rather than undertaking collections. This is because some LA WEEE is more expensive than WEEE from other sources.

Making the Fee more reflective of the higher cost LA WEEE that some PCSs have chosen not to collect should encourage more PCSs to make arrangements to collect LA WEEE. In addition, the WEEE Directive, at its heart, requires Member States to establish a national collection infrastructure for WEEE collection. The UK primarily uses the LA DCF network to meet this obligation, and so using LA DCF WEEE collection costs for calculation of the Fee is very appropriate.

The weighted average net cost per tonne of direct WEEE collections from LA DCFs will be calculated by stream using the information provided by the PCSs submitting data as follows:

- calculating the total direct net cost submitted by those PCSs for the collection of that stream from LA DCFs and its subsequent treatment; and
- dividing this by the corresponding aggregate tonnage submitted by those PCSs for that stream.

2.3.3. A non-linear escalator will be applied to the weighted average net cost of direct WEEE collections from LA DCF collections, to reflect the extent that the PCS has met its own target.

An escalator increases the Fee paid by a greater amount, the further a PCS is from its collection target.

The principle underlying the escalator is to incentivise PCSs to meet their targets through collection, and to penalise those that do not collect, whilst recognising that a PCS may have reasonable justification for falling modestly short of its targets for some WEEE categories.

In its report FTI concluded that an escalator based on a PCS's absolute shortfall (in tonnes) versus the aggregate national target was less effective in incentivising some PCSs to meet their targets through collection. This is because PCSs can vary substantially in scale, measured on the volume (in tonnes) of WEEE collected and processed, and that such an

approach would result in PCSs which have a larger producer obligation, and thus accountable for a greater proportion of total collections, paying a higher Fee for the same relative shortfall (in percentage terms) as a PCS with a smaller producer obligation. Instead, FTI considered that the escalator should increase in proportion to the size of the PCS's shortfall relative to its own target, as this incentivises all PCSs to collect WEEE, rather than pay the Fee. FTI reasoned that this would also encourage PCSs, to be as efficient as possible so as to reduce their costs, and ultimately act as an incentive for innovation for all operators.

The importance of using the PCS target, as opposed to the national target, to incentivise target achievement through collection is illustrated in the table below:

	PCS A	PCS B
Key Figures		
National Target (t)	100,000	100,000
PCS Market Share	50%	5%
PCS target	50,000	5,000
Scenario A		
PCS WEEE collected (t)	40,000	4,000
PCS shortfall v target (t)	10,000	1,000
Shortfall as % of own target	20%	20%
Shortfall as % of national target	10%	1%
Scenario B		
PCS WEEE collected (t)	45,000	0
PCS shortfall v target (t)	5,000	5,000
Shortfall as % of own target	10%	100%
Shortfall as % of national target	5%	5%

Under Scenario A, both PCSs are 20% short of their respective targets, so have collected proportionately to their scale, however measured against the national target PCS A is 10% short, whereas PCS B is only 1% short. Here, PCS A would face a higher Fee escalator than PCS B if the Fee was based on the shortfall from the national target, yet PCS A has contributed 40% toward the national target collections, whereas PCS B only 4%.

Under scenario B, both PCSs are 5% short of the national target and would face the same Fee escalator if the Fee was based on the shortfall from the national target, however PCS A has collected 90% of its obligation and contributed to 45% of the national collections target, whereas PCS B has collected nothing.

Paying a Fee is a legitimate form of compliance, however collection should remain the preferable route for PCSs to achieve this. The Fee should therefore be set such that PCSs are always incentivised to collect WEEE directly where it has been made available to them. This outcome is an explicit requirement in the WEEE Regulations and a principle in the Fee guidance published by Defra.

2.3.4. The type of non-linear escalator used will be dependent upon whether national collections are in deficit or in surplus compared to the target

Two alternative escalation factors (the escalators) are proposed, the Normal and the Surplus escalator. This is to ensure that the Fee takes account of the national position for each stream and reflects the collective responsibility of all PCSs to meet the national targets.

The Normal escalator applies to streams in which the UK has fallen short or met the national target and is calculated as follows:

$$\left(1 + \left(\frac{t_n - c_n}{t_n}\right)^2\right)$$

Where:

t_n is the PCS's target for the stream, in tonnes.

c_n is the total amount of WEEE in that stream collected by that PCS, in tonnes.

The PCS's target for the stream (t_n) and the total amount of WEEE in that stream collected by that PCS (c_n) is obtained from those PCSs wishing to use the Fee.

The Surplus escalator applies where there is a surplus of evidence in a stream against the national target and is calculated as follows:

$$\left(\frac{C_n}{T_n} + 2 \times \left(\frac{t_n - c_n}{t_n}\right)^2\right)$$

Where:

C_n is the sum of household WEEE collections by all PCSs in the relevant stream in the market, in tonnes.

T_n is the national target for that stream, in tonnes.

and all other terms are as defined for the "Normal" escalator.

The sum of household WEEE collections by all PCSs in the relevant stream in the market, (C_n) will be obtained from the Defra WEEE team on or before 1 March 2018. We propose that Defra use the evidence held on the Settlement Centre, unless Defra is of the opinion that another dataset is more accurate. The national target for that stream (T_n) will also be obtained from Defra.

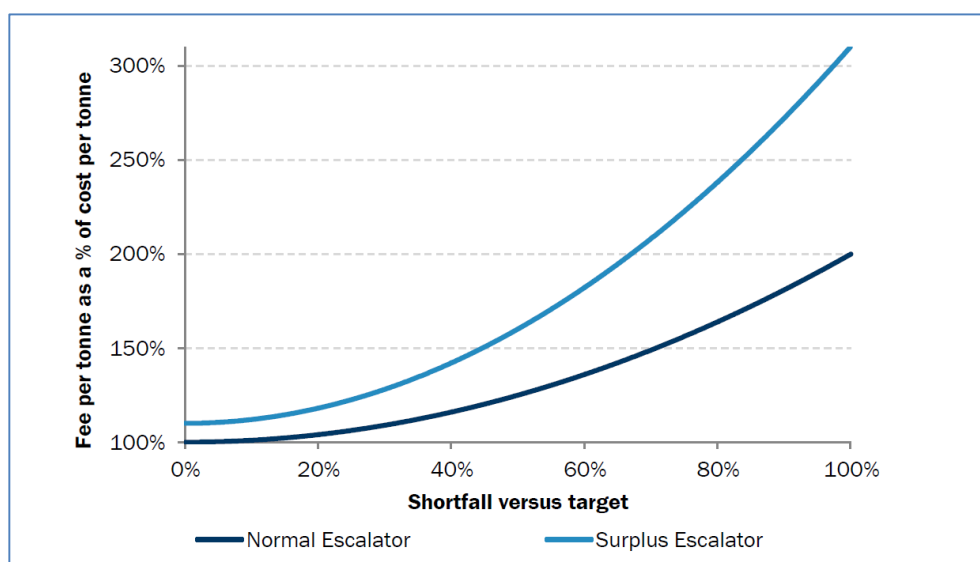
Both escalators are non-linear and so the percentage increase in the Fee for each PCS depends upon how far away that PCS is from its collection target per stream and whether UK WEEE collections for that stream exceed the WEEE collections target set by Defra. For PCSs that marginally miss their target and where total UK WEEE collections for the relevant stream are broadly in line with the WEEE collections target, the effect of the escalator will be minimal. For a PCS making no effort to achieve their collection target per stream the effect of the escalator would be to double the Fee; with the escalation factor rising further if UK WEEE collections exceed the WEEE collections target set by Defra.

The Administrator will determine whether the Normal escalator or the Surplus escalator applies to each WEEE stream. We propose that a threshold amount should be defined, above which the stream is assessed to be in surplus. We consider that this should be based on the difference between; (i) the sum of household WEEE collections by all PCSs in the relevant stream in the market, in tonnes; and (ii) the national target for that stream, in tonnes. We

propose that this should be set as a fixed proportion of the total tonnage of WEEE collected in each stream, of 1.5%. That is, if the sum of household WEEE collections exceeds the national target by more than 1.5%, then the Surplus escalator should apply. 1.5% was chosen because, in the opinion of the JTA, it allows for the aggregate effect of PCSs that may inadvertently over-collect but choose not to transfer excess evidence (particularly in streams that are low cost or positive value).

The Surplus escalator starts at an uplift over the weighted average net cost of direct LA DCF collections which is proportional to the extent of oversupply in that stream. This means that a PCS will pay a Fee per tonne which exceeds the weighted average net cost per tonne of direct WEEE collections from LA DCFs – even for a shortfall of a single tonne. The Surplus escalator also increases the uplift more quickly than the Normal escalator, as the extent of the PCS' shortfall increases. In the example below, the surplus stream is 10% over the national target, and so the starting point for the Surplus escalator is 110% of the base cost.

The graph below shows the effect of the Normal and Surplus escalator mechanisms on Fee per tonne of shortfall:



2.3.5. A non-PBS participant uplift factor will apply to those PCSs that are not members of the PBS

The PBS was established by the majority of PCSs as a responsible reaction to the increasing use of Regulation 34 by LAs wishing to secure a free of charge collection by a PCS. However, it does mean that the costs of the WEEE handled through the PBS, which tends to be the highest cost WEEE that no PCS wants, are borne only by those PCSs that joined the PBS. Following its recent open scope consultation on the 2013 WEEE Regulations¹, Defra have advised their intention to make membership of a PBS mandatory in 2019, but despite this, a number of PCSs remain outside the current voluntary system. Accordingly, where a PCS that is not a member of the PBS needs to use the Fee, it is appropriate to apply an increment to the Fee paid by that PCS. Applying this increment means the cost paid by non-PBS members

¹ Consultation on the proposed amendments to the 2013 WEEE Regulations, 20th October 2017 to 8th December 2017
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reflect the cost incurred by other PCS in funding collections of WEEE from uncontracted LA DCF's.

The non-PBS participant uplift (u_n) is calculated using the formula set out in section 6.12 of the FTI Report:

$$u_n = m_n \times \left(\frac{r_n}{k_n} - 1 \right)$$

Where:

u_n is the uplift applicable for a non-participant of the PBS (expressed as a percentage).

m_n is a binary variable equal to 0 for a PBS member and 1 for a non-participant.

r_n is the average cost per tonne of fulfilling Regulation 34 requests, including administrator charges.

k_n is the weighted average net cost of collections from LA-DCFs for the stream, in GBP per tonne.

The non-PBS participant uplift reflects the additional cost per tonne of fulfilling PBS collections, which the PCS avoids by not being a member of the PBS, compared to the cost per tonne of collecting from LA DCFs. By way of example, if the weighted average cost per tonne of direct WEEE collections from LA DCFs was £100, and the average cost per tonne of fulfilling Regulation 34 requests was £150, applying the formula above for a PCS that was not a member of the PBS would result in a non-PBS participant uplift of 0.5.

The Administrator will obtain the information required for the escalator calculations as follows:

- The average cost per tonne of fulfilling Regulation 34 requests including administrator charges (r_n), as charged to PBS members for each stream, will be obtained from Anthesis, the PBS Administrator. Permission for the supply of the PBS cost information by Anthesis has been given by its members.
- The weighted average net cost per tonne of direct WEEE collections from LA DCFs for each stream will be as calculated in 2.3.2 above.

This non-PBS participant uplift may not be required for the 2019 Fee mechanism as membership of a PBS is expected to be mandatory for all PCS. It is unclear however whether transitional arrangements may apply in the first compliance year of operation, dependent upon when the revised Regulations are laid. To be consistent with the JTA's 2017 Mechanism we therefore propose the non-PBS participant uplift applies to PCS that are not members of the PBS in 2018 and in 2019 at the date of submission of data to the Administrator. The table below sets out the full decision criteria for application of this increment:

Member of the PBS for 2018	Member of a PBS on date of submission of data to the CF administrator	Compliance Fee increment applies?
Yes	Yes	No
Yes	No (but still a scheme in 2019)	Yes
No	Yes	Yes
Yes	No (but not a scheme in 2019)	No
No	No	Yes

2.3.6. Application of a WEEE source adjustment premium which reflects the extent to which PCSs have collected WEEE from LA sources

We consider that it is important that PCSs remain fully incentivised to collect LA WEEE and that an adjustment should be applied to increase the Fee paid, to reflect the extent to which (i) non-LA WEEE has been used by a PCS to meet its target rather than LA WEEE and (ii) where that non-LA WEEE has been collected at a lower cost.

In the early years of the WEEE Regulations, it was feasible for some PCSs to claim that they had difficulty winning tenders for direct collection from LAs, particularly where their requirements were not for all WEEE streams. This created a barrier for access to LA WEEE. With the PBS in place, this is no longer the case. All participating PCSs can offer to undertake collection of single streams at stage 1 of the PBS allocation process thereby giving them access to LA WEEE, indeed some of the requests received have been for a small number of a LA's DCFs rather than all its DCFs. The argument made by some PCSs in the past is therefore no longer valid, and accordingly the inclusion of the WEEE source adjustment premium acts as a further incentive for all PCSs to collect WEEE from LAs.

The JTA has taken account of Defra's comments on its 2017 Fee methodology and asked FTI to propose how the adjustment premium should be set.

The WEEE source adjustment premium (p_n) will be calculated using the formula set out in section 6.6 to 6.11 of the FTI Report:

$$p_n = d * \left(a - \frac{l_n + s_n}{t_n} \right)$$

Where:

d	is the percentage amount by which the weighted average net cost of collection from LA-DCF's for the stream, in GBP per tonne, k_n exceeds the cost of other WEEE sources, in GBP per tonne, 0_n , expressed as a ratio.
a	is the average share of collections from LA-DCF's (in tonnes), as a proportion of all household collections in that WEEE stream (in tonnes), expressed as a ratio.
l_n	is the actual volume of collections from LA-DCF's, made by the PCS itself, in tonnes.
s_n	is that PCS's shortfall, in tonnes.
t_n	is the PCS's target for the WEEE stream, in tonnes.

The WEEE source adjustment premium reflects the extent to which a PCS's collections meet the proportion of national collections from LA DCFs, and whether the cost of LA DCF collections exceed those of all other collections. Where the PCS collects less than the national proportion of LA DCF WEEE in a stream, and the average cost of LA DCF WEEE for that stream exceeds that of all other collections, the PCS will pay a WEEE source adjustment premium.

To undertake the calculation the Administrator will obtain information as follows:

- the average share of collections from LA DCFs as a proportion of all household collections (a), will be obtained from the quarterly “WEEE Collected in the UK” report issued by the EA. Whilst the figures reported for household WEEE collections from DCFs will contain non-LA DCF collections, the JTA understands this will not be a significant figure. The final report for 2018 will not be available until 31 March 2019 so the Administrator will use the interim report, which is expected to be published by the EA on 1 March 2019.
- the percentage amount by which the cost of LA-DCF collections exceed the cost of other WEEE sources (d), will be calculated by the Administrator using the weighted average net cost per tonne of direct WEEE collections from LA DCFs calculated in 2.3.2 above, and the cost per tonne of other WEEE sources calculated using information obtained from those PCSs wishing to use the Fee. The average cost per tonne of PCS collections from other sources will be calculated by stream by calculating the total direct net cost for such collections incurred by PCSs submitting data for that stream and dividing this by the aggregate tonnage of such collections undertaken by PCSs submitting data for that stream. The Administrator will review the information provided on the cost of PCS collections from other sources and after making enquiries may disregard any outlier results.
- the actual volume of collections from LA-DCF, made by the PCS itself (t_n), that PCS’s shortfall (s_n) and the PCS’s target for the WEEE stream (t_n) will be calculated using information obtained from those PCSs wishing to use the Fee.

2.3.7. All PCSs using the Fee will need to pay an administration charge

To cover the cost of undertaking independent verification of PCS data submissions all PCSs needing to use the Fee for any stream will be required to pay £2,000 towards the administrative costs of operating the 2018 Fee Mechanism. If a PCS wishes to voluntarily submit data, but does not need to use the Fee, then there will be no administration charge.

2.3.8. Stream specific variable administrative costs should be included in the Fee calculation

Following feedback from Defra on its 2017 Fee Methodology the JTA proposes to include a stream specific variable administrative cost as part of the Fee calculation (v_n). This will reflect the weighted average variable administrative cost per tonne incurred by PCS for each WEEE stream when undertaking household WEEE collections, and will include costs such as undertaking audits, managing collections and bidding for LA contracts. The JTA considers it appropriate to add the weighted average variable administrative cost per tonne to the Fee calculated for each PCS after the escalator, WEEE source adjustment premium and non-PBS participant uplift (where applicable) have been applied to the weighted average net cost per tonne of direct WEEE collections from LA DCFs. To add this prior to this calculation could result in an unduly punitive Fee.

The JTA has previously been concerned that the inclusion of variable administrative costs could result in an arbitrary figure and that applying a standard cost per tonne across each WEEE stream is neither cost reflective nor stream specific. The three PCS advising the JTA;

- ERP, Recolight and REPIC - have therefore provided their 2017 compliance year variable administrative cost and collections data to the consultancy firm Anthesis on a one-to-one confidential basis, accompanied by an auditor's assurance statement, for Anthesis to calculate the weighted average variable administrative cost per tonne for each stream, which will be provided directly to the Administrator.

As most PCSs are likely to undertake WEEE collections from a variety of sources, in order to identify only the variable administrative cost of undertaking household WEEE collections and avoid inconsistent cost allocations, Anthesis requested information on the variable administrative costs incurred by each PCS when undertaking all collections, the number of collections made by the PCS in each WEEE stream, and the tonnage collected. Anthesis then calculated the average cost per collection, per WEEE stream, and converted this back into a weighted average variable administrative cost per tonne of undertaking household WEEE collections for each WEEE stream using the collection and tonnage data provided.

Using data from 2017 provided sufficient time for this to be calculated robustly by the three PCSs and to be externally reviewed. It is not anticipated the result will be materially different from using actual 2018 variable administrative cost data, and so no further adjustment is proposed.

The three PCS advising the JTA have shared the cost of the work undertaken by Anthesis but the outcome has not been, and will not be, shared with them, nor JTA nor JTAC.

We anticipate that Defra will consult on the Fee methodology in October 2018. Any PCSs may, on a voluntary basis, arrange for their own 2017 variable administrative cost and collection data to be included in the calculation by contacting Anthesis (richard.peagam@anthesisgroup.com). Anthesis will charge £250 to receive data and build it into its calculations. This data should be accompanied by an auditors' assurance statement. The deadline for submitting data is 21 February 2019. Anthesis will review all submissions received and may ask for further clarification of any outlier data or exclude such data if not satisfied with the explanations provided. Anthesis will then include all accepted data submissions in the calculation, by stream, of the weighted average variable administrative cost per tonne, and provide this to the Administrator.

2.3.9. There may be circumstances where some categories should attract a zero Fee

If the sum of the weighted average net cost per tonne of direct WEEE collections from LA DCFs calculated by the Administrator (2.3.2 above) and the variable administrative cost per tonne provided to the Administrator by Anthesis (2.3.8 above) generates a positive value for a WEEE stream the Fee for that stream will be set at zero.

In addition, in its economic analysis, FTI recommend that for categories where it is demonstrable that a substantial volume of WEEE is being treated outside the official producer responsibility system and generates a positive value for the holder, the Fee should be set to zero. The JTA expects that this situation may arise for Category 1, Large Household Appliances, and if suitable evidence of this be provided to Defra there should be no applicable Fee for a Category 1 shortfall (and no variable administrative cost per tonne should be applied). Such evidence will necessarily contain cost information so it will be confidential to the organisation providing it, therefore for this aspect of the JTA 2018 Mechanism the JTA

considers Defra to be the appropriate body to make such a decision. This recommendation is fully in line with Defra guidance which states *“Proposals may consider circumstances where a negligible or zero fee might be appropriate”*.

3. Practical operation of the JTA WEEE Compliance Fee

3.1. Independent Administrator of the Compliance Fee mechanism

3.1.1. Mazars LLP has been selected by JTAC to be the Administrator of the JTA 2018 Mechanism if Defra select this proposal. The reason for this choice is set out in Appendix 4.

3.1.2. The Administrator will be the main contact point for PCSs wishing to use the Fee and for those PCSs who wish to submit cost data voluntarily, and will undertake the process set out in section 3.2 below to review data provided by PCSs, calculate the Fees that PCSs need to pay and spend the Compliance Fee Funds collected.

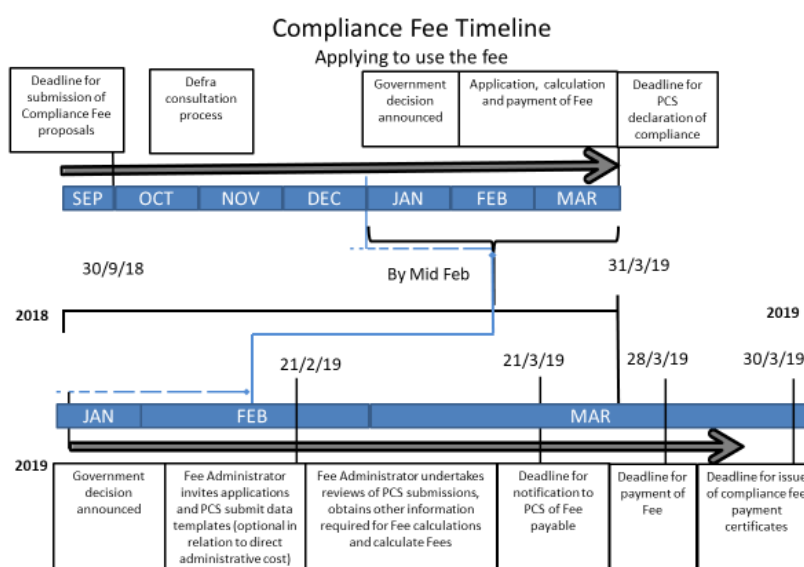
3.1.3. In addition, JTAC will itself appoint an Independent Expert, with no affiliation to any PCS, to ensure that the 2018 Fee is administered and managed in a smooth and professional manner.

3.2. Calculation and payment of Fees

3.2.1. Timetable

3.2.1.1. The most time-critical element of the Fee process remains setting up and completing the PCS Fee calculation and payment stages, due to the limited time available between the date of the expected announcement by Defra regarding a Fee and 31 March 2018, when all PCSs are required to complete their declarations of compliance to the environment agencies.

3.2.1.2. The timetable for the JTA 2018 Mechanism is set out below. It is similar to that used for the 2017 JTA Mechanism, updated to reflect the changes proposed for 2018. This timetable is indicative and would be amended if Defra wished to make changes to the JTA's proposal or if the number of participating PCS necessitated this; for instance if a longer period were required for review of data by the Administrator, which may involve a site visit.



3.2.2. Process for the calculation and payment of Compliance Fee

The process for the calculation and payment of the Compliance Fee is summarised in this chart, and expanded upon below:



3.2.2.1. PCSs contacted by the Administrator

Promptly following any announcement by Defra introducing a Fee mechanism for 2018 based on this proposal, the Administrator will contact all PCSs and ask them to confirm if they wish to use the Fee or voluntarily submit cost data. If they do, they will be asked to sign to confirm their acceptance of the Terms and Conditions covering such matters as confidentiality and compliance with the requirements of the

mechanism, as set by the Secretary of State. The terms and conditions used for the 2017 JTA Mechanism will be used, updated where appropriate; requiring PCSs to pay an administration charge of £2,000 if they wish to use the Fee.

3.2.2.2. PCSs submit data to the Administrator

Having advised the Administrator of their intention to use the Fee or submit cost data voluntarily, PCSs will be asked to submit the data required by the Administrator by 21 February 2019, to allow time for calculations, invoicing and payment of any resulting fees. This date is based on the Secretary of State both deciding to operate a Compliance Fee for 2018 and announcing the methodology to be used in early February. Should this not be the case the deadline may be extended in agreement with Defra and this will be advised to PCSs by the Administrator at the time. However, PCSs will know by the end of January 2019 whether they are short of evidence for any collection streams and therefore wish to use the Fee, so the JTA considers it unlikely such an extension would be required. A non-response from a PCS will be assumed by the Administrator to be a decision that the PCS does not wish to use the Fee nor wishes to voluntarily submit cost data (the Administrator has no knowledge of PCSs' individual targets or levels of collection achieved at this point).

PCSs must submit data using the pro-forma template supplied to them by the Administrator, which must be signed by a Director. The template will be similar to that used for the 2017 Fee, with minor updates to reflect general questions raised to the Administrator by PCSs during the 2017 process. A draft proforma is presented in Appendix 6. Due to the tight timescales for data submissions, JTAC will engage an Independent Expert to support the Administrator on any questions raised.

3.2.2.3. Administrator review

Once a PCS confirms it wishes to use the Fee, or to voluntarily submit data, the Administrator will contact the PCS to agree a suitable date for review of the data. This will be performed by professionally qualified staff of the Administrator on an "Agreed Upon Procedure" basis and will most likely involve a site visit. Such a review is naturally proportionate to the activity of the PCS and the amount of tonnes and number of streams involved, but in most cases it should be possible to complete the data review, on a sampling basis, within one day.

3.2.2.4. PCSs may submit data for variable administrative cost calculation

If a PCS choosing to use the Fee or voluntarily submitting cost data wishes to provide its variable administrative cost information to Anthesis for inclusion in the calculation of the variable administrative cost per tonne, the PCS should inform Anthesis using the pro-forma template supplied to the applicant by the Administrator and provide the completed template and an assurance report from a Registered Auditor to Anthesis (richard.peagam@anthesisgroup.com) by 21 February 2019. The Administrator will contact Anthesis to obtain the calculated variable administrative cost per tonne by stream.

This information provides the v_n parameter as set out in the FTI report, applicable to each stream. There will be six such calculations, assuming at least one PCS needs to use the Fee in every stream.

3.2.2.5. *Calculation of weighted average net cost per tonne of direct WEEE collections from LA DCFs by stream*

The Administrator will calculate the weighted average net cost per tonne of direct WEEE collections from LA DCFs by WEEE stream using cost data from both PCSs that wish to use the Fee and from those PCSs who have submitted cost data voluntarily.

This calculation results in the k_n parameter, to be used in the relevant escalator formula as set out in the FTI report, applicable to each stream. There will be six such calculations, assuming at least one PCS needs to use the Fee in every stream.

In the unlikely event that there is no LA DCF cost data submitted to the Administrator for any one stream of WEEE, then the Administrator shall seek and assess alternative sources of cost data that it reasonably considers can be used for the calculation of the Fee for that stream. If no alternative data sources are available, the Administrator shall calculate a weighted average value for k_n using data from other streams.

3.2.2.6. *Administrator obtains other information required for Fee calculations*

The Administrator will contact the Defra WEEE team on or before 1 March 2018, to request confirmation of the tonnage of household WEEE evidence (by stream), held on the Settlement Centre for the 2018 compliance period, unless Defra is of the opinion that another dataset is more accurate (see 2.3.4). The Administrator will then use this data to determine whether each collection stream is deemed to be in surplus or not so that the appropriate escalator can be used in the calculation of the Fee. A collection stream will be in surplus if the chosen data set exceeds the 2018 national WEEE collections target set for that stream by Defra, by 1.5% or more.

The Administrator will contact Anthesis to obtain the weighted variable administrative cost per tonne for each stream calculated from PCS data submissions.

The Administrator will also request from Anthesis the weighted average cost per tonne by stream charged to PCS for PBS Regulation 34 collections, including Anthesis administration costs, to calculate the non-PBS participant uplift u_n .

3.2.2.7. *Administrator determines whether the Fee for a stream should be set at zero*

For each WEEE stream the Administrator will add the weighted average variable administrative cost per tonne to the weighted average net cost per tonne of direct collections from LA DCF's and if this results in a negative total cost per tonne (i.e. there is net income per tonne), the Fee for that stream will be set to zero.

The Administrator will contact Defra to ascertain if evidence has been provided that the Fee in any stream should be set to zero, irrespective of the calculation undertaken in 3.2.2.8 above.

3.2.2.8. Administrator calculates Fee for each PCS by stream

For each PCS that needs to use the Fee, the Administrator will calculate the WEEE source adjustment premium p_n by stream using the formula set out in section 6.9 of the FTI report. The non-PBS participant uplift u_n will be calculated, where applicable, using the formula set out in section 6.12 of the FTI report.

The Administrator will then, by WEEE stream, apply the appropriate escalator, along with the WEEE source adjustment premium and the non-PBS participant uplift, where relevant, to the weighted average net cost of direct collections from LA DCF's. The resulting cost per tonne will then be added to the weighted average variable administrative cost per tonne, to calculate the Fee payable by the PCS for that WEEE stream.

3.2.2.9. Invoicing and payment of the Fee

By 21 March 2019 each PCS that has chosen to use the Fee will be advised of its Fee, payable by WEEE stream, and the applicable administration charge.

PCSs should pay the Fee and administration charge into the dedicated Fee client bank account as soon as possible after being advised by the Administrator of the fee(s) to be paid, and at the very latest in sufficient time for funds to clear by 28 March 2019. Once funds are cleared and in the client bank account, the Administrator will issue a Compliance Fee Payment Certificate (CFPC) to the PCS. This will be done as soon as possible after the funds have been cleared and at the latest by 30 March 2019. The CFPC will confirm the information provided by the PCS (i.e. PCS target, actual evidence and resulting evidence gap in tonnes, per collection stream), and confirm that the Fee and administration charge(s) have been paid into the Compliance Fee Fund, in respect of the evidence gap per stream, but will not show the value of the fees paid.

The Administrator will send a summary to each of the environment agencies concerned, confirming which PCSs have used the Fee for which streams and showing, for those streams, the PCS target in tonnes and the tonnes for which a compliance fee has been paid.

3.2.3. Process for spending Compliance Fee Funds

3.2.3.1. In or around May 2019 the Administrator will confirm to Defra and JTAC, the estimated funds available to spend on WEEE projects ("Fund") as set out in the Defra Guidance. In estimating the funds expected to be available the Administrator will include the amounts paid by PCS using the Fee, including the administration charge, and deduct its assessment of the administrative costs expected to be incurred through to the close of the 2018 mechanism at the end of December 2020.

3.2.3.2. The JTA's proposed 2018 Fee Fund process is set out in more detail in Appendix 7.

3.2.4. Underwriting of Compliance Fee mechanism costs

- 3.2.4.1. In the event that Defra do not accept the JTA proposal, the full Administrator 2018 contract will not be activated, and any costs incurred in the preparation work by JTAC directly or through the Administrator will be paid by JTAC.
- 3.2.4.2. In the event that the Compliance Fee mechanism is not used by any PCS (or it is used to a very limited extent) any residual costs of the administrator that are not covered by compliance fee and administration fee income will also be met by JTAC.

3.2.5. Contingency planning

- 3.2.5.1. The Q1 and Q2 2018 data show that most WEEE streams are currently in deficit compared to target. If this situation continues, there is a possibility that a significant number of PCSs may need to use the Compliance Fee in 2018. This in turn makes contingency planning particularly important.
- 3.2.5.2. The JTA has assessed its plans thoroughly, and is comfortable that all reasonable contingencies have been addressed including:
- 3.2.5.3. If there is a larger number of PCS users of the Fee, the appointment of Mazars as Administrator means that sufficient audit staff will be available to cope with the applicants. This situation arose in relation to the 2017 Compliance Fee and Mazars advised JTAC that they conducted all data reviews in the timescale required to ensure all PCS that wished to use the Fee were able to do so.
- 3.2.5.4. If there is no, or insufficient, data to support the calculations, then the Administrator may use data from other sources that the Administrator considers are appropriate.
- 3.2.5.5. Should the JTA be appointed, all necessary due diligence steps have already been completed by Mazars, including the establishment of a client bank account, and dedicated email addresses.

3.2.6. Flexibility

Please note that the JTA considers that this proposal represents an effective turnkey solution to the implementation of the 2018 Compliance Fee. However, the JTA is open to discussing any aspects of this proposal with Defra, and where appropriate, amending aspects of the proposal.

4. Governance

The JTA's 2018 Mechanism, set out in detail in sections 2 and 3 and the supporting Appendices, incorporates important governance features, these are summarised below.

4.1 Independence

- 4.1.1. There is clear separation between the Administrator and JTAC, JTAC and the JTA, and the JTA and the three PCS that advise the JTA. This is crucial in eliminating any conflict of interest,

especially when PCSs need to communicate with the Administrator. This also minimises the burden on Defra, who will not need to be involved in the administration process.

- 4.1.2. As explained in Appendix 4 the JTA established JTAC as the legal entity to manage the independent Administrator. JTAC was formed by three Trade Association members of the JTA with significant household EEE/WEEE obligations. It is a not-for-profit company, limited by guarantee, with no shareholdings and its Constitution prohibits any distribution of funds to its members. It has a Board of Directors, comprising a senior representative from each of the Trade Association members, who are responsible for the proper running of the Company.
- 4.1.3. The independent Administrator is solely responsible for the operation of the Compliance Fee process in the JTA proposal, including the management of any Compliance Fee funds through a dedicated client bank account. The selected Administrator (Mazars) is a UK Top 10 Accounting firm, experienced in accounting, auditing, managing client bank accounts and managing commercially confidential information in an impartial and independent manner. Mazars successfully operated as Administrator for the 2014, 2015 and 2017 Compliance Fee mechanisms.
- 4.1.4. The JTA will continue to provide resource and expertise to JTAC, and also to the Administrator, regarding the content and operation of the WEEE Regulations but will not be involved in the management and operation of JTAC or the Administrator contract.
- 4.1.5. For further transparency, an appropriate level of confidential oversight reporting by the Administrator of the Compliance Fee system directly to Defra can also be provided, if required by Defra.
- 4.1.6. The Judging Panels for assessing applications from organisations applying for funds will be an independent and representative of the various interests involved. The Independent Expert will execute any decisions agreed by the Panels.
- 4.1.7. Approved applications for project funding from the Compliance Fee funds may be subject to post-investment validation to ensure that the funds were applied to the intended use.

4.2 Confidentiality

- 4.2.1 The 2018 Compliance Fee mechanism will be operated by the Administrator on an independent, professional basis with high levels of integrity and open to all relevant parties to use. This is in keeping with their operation of the 2014, 2015 and 2017 Compliance Fee mechanisms.
- 4.2.2 The Administrator will keep strictly confidential all data they receive and handle, as demonstrated in their handling of the 2014, 2015 and 2017 Compliance Fee mechanisms.
- 4.2.3 Whilst the JTA is the proposer of this mechanism, it has ensured that neither the JTA, nor JTAC, nor any of their members or the three PCSs that cooperate with the JTA, can benefit financially from the scheme or access any confidential data. The mechanism is independent but JTAC will manage the performance of the Administrator via a contract and regular reporting.

4.2.4 All PCSs submitting data to the Administrator will be required to sign an agreement to keep the Fee payable confidential.

4.3 Impact of competition law and other legal requirements.

4.3.1 The JTA has carefully considered the impact of this proposal on competition law, and other legal requirements. There are several features of the proposal that are implemented specifically to ensure competition law compliance. These include:

4.3.1.1 The requirement for Mazars to be totally independent of any PCS or Producer.

4.3.1.2 The establishment of JTAC Ltd to ensure members of JTA do not have access to confidential information.

4.3.1.3 The requirement for PCSs to sign terms and conditions that keep the compliance fee actually paid confidential.

4.3.1.4 The fact that a PCS pays a compliance fee based on the shortfall against its own target, and that there is an escalator based on the extent to which a PCS has used directly collected LA WEEE to meet its target both mean that compliance fees actually payable will vary materially. This reduces the risk of appreciable cost commonality.

4.3.1.5 The Compliance Fee process is open to any organisation entitled to and wishing to use it i.e. all PCSs wishing to make use of the Compliance Fee mechanism or submit cost data; and all organisations that meet the criteria, wishing to apply for grants from any Compliance Fee funds that are available.

4.3.1.6 PCSs using the mechanism and organisations applying for funds will both be required to use the system in accordance with the agreed procedures, including timing of any decisions or applications.

Appendix 1

Responding to the Defra evaluation of the 2017 JTA proposal

1. Inclusion of PCS stream specific variable administrative costs in the Fee calculation

1.1 Whilst the JTA's 2017 proposal was selected by Defra, the JTA agreed to modify the Fee calculation for each WEEE stream by the inclusion of a sum to represent the variable administrative costs incurred by those PCS collecting and treating WEEE from LA DCF's. In the timeframe available the JTA suggested a flat rate of £3.50 per tonne that had been used in the 2016 Fee calculation.

1.2 The JTA recognises Defra sees the inclusion of such costs as an important factor in the Fee calculation so has considered how they can be included in its 2018 proposal but to more accurately reflect stream specific costs. Details of the JTA's approach can be found in sections 2.3.8 and 3.2.2.5.

2. Use of a discretionary WEEE source adjustment premium

2.1 Whilst Defra advised it supported the principle behind the adjustment premium, it was concerned about the discretionary nature of the calculation. As a result, Defra opted to set the adjustment factor to zero.

2.2 Following its review of the 2018 WEEE market the JTA still considers the inclusion of a WEEE source adjustment premium in the Fee calculation as important and has therefore asked FTI Consulting to propose a method for calculating this. The conclusion from FTI's review is set out in Appendix 3, section 6.6 to 6.11, and is further explained in the JTA's proposal in sections 2.3.6 and 3.2.2.10.

3 Calculation of Fee based upon achievement against a PCS's target as opposed to the national target

In light of the 2017 market conditions, Defra advised it was content with the use of a formula based on a PCS's shortfall against its own target as opposed to the national target. This was welcomed as a drive to ensure that every PCS, regardless of size of obligation, is incentivised to meet their own collection target. Defra also recognised that this approach would increase the demand for LA WEEE to meet collection target rather than reliance on the compliance fee.

Appendix 2

JTA views of the WEEE market in 2018 and the rationale for the 2018 Compliance Fee mechanism

Below, we summarise the key characteristics of the WEEE market in 2018 and the implications of these on the design of the Fee, followed by the JTA's conclusions.

1. JTA views of the 2018 WEEE Market

1.1 Use of Regulation 34 and use of the PBS

Market characteristic

- The cost a PCS incurs in collecting and treating WEEE is impacted by many factors, including the location, accessibility and size of collection points, its proximity to treatment facilities, and the ability of the PCS to manage the size and frequency of collections. LA WEEE can often be more expensive to collect and treat because it is difficult for a PCS to influence these factors. LAs collect many different waste streams at their DCFs, often leading to sub-optimal load sizes being available for collection, and DCF opening times can be limited, reducing the ability of PCS to organise “milk-round” or consolidated collections. This effect is compounded for those LAs in more rural or geographically remote locations. Such market conditions have resulted in some LAs finding themselves without an aligned PCS (particularly for the Cooling and Display streams). The majority of PCSs responded to this instability by establishing the PCS Balancing System (PBS) through the WEEE Schemes Forum (WSF), a move that was supported by Defra.
- In 2017 collections were below target in every category except Category 14 (PV Panels) and in 2018 this trend continues. Despite this some LAs continue to make Regulation 34 requests to obtain a PCS collection - the table shows the number of LAs for which a new collection request was posted on the PBS for collections commencing in 2017 or 2018. This strongly suggests that high cost LA DCFs are still seen as unattractive to PCSs.

	LHA	Cooling	Display	GDL	Mixed	PV
2017	5	10	13	-	7	-
2018	8	17	16	-	9	1

Impact on compliance fee methodology

- The continued use of the PBS demonstrates the importance of the Fee being based on the cost of collecting from LAs which, by extension of the previous argument, is likely to have higher overall costs than other WEEE sources.
- The Fee calculation should also include the variable administrative costs incurred by PCS when collecting from LAs.

- The JTA also considered it appropriate to obtain updated professional economic analysis on the appropriateness of the 2017 escalator mechanisms to 2018 market conditions to ensure these remain appropriate.

1.2 PCSs not participating in the PBS

Market characteristic

- One of the unavoidable effects of setting up the PBS, is that it is regarded as the *de facto* solution for LAs not able to secure a free of charge collection and so PCSs outside the PBS are significantly less likely to receive a direct Regulation 34 request. PCSs that have chosen to remain outside of the PBS do not share stage 2 costs and so are likely to benefit commercially as a result. Although we have no access to the data that would enable us to quantify the scale of this commercial benefit, we are convinced that it is material. The continued submission of Regulation 34 requests in 2018 shows the PBS remains an important security mechanism for LAs.

Impact on compliance fee methodology

- The Government has announced its intention to make membership of a PBS mandatory however this will not become effective until 2019. For 2018, a PCS can still choose not to belong to the PBS yet use the Fee if it falls short of its target. This further demonstrates the importance of the Fee calculation being based on the cost incurred by PCSs in collecting from LAs and the inclusion of the variable administrative costs incurred by those PCS.
- An additional adjustment to the Fee has therefore been included for those PCS who are not members of the PBS in 2018, and in 2019 if membership of the PBS is not mandatory at the time of the calculation of the Fee due to transitional arrangements in the revisions to the WEEE Regulations.

1.3 PCSs are not prioritising collections from Local Authorities.

Market characteristic

- The LA DCF alignment list periodically published by Defra which shows that LAs are serviced by just 10 of the 32 registered household PCSs.

Impact on compliance fee methodology

- The JTA propose that the Fee should be based on LA DCF collection costs, including the variable administrative costs incurred. But in addition, the JTA considers it is appropriate for the Fee mechanism to take account of the extent to which a PCS has sought to comply using WEEE from non-LA sources.
- The JTA noted Defra's concern over the suggestion, at the time, that an element of the WEEE source adjustment premium calculation proposed for 2017 should be set by Defra. Accordingly, the JTA has obtained further professional economic analysis of this for the 2018 mechanism and has proposed a calculation methodology to be used for this.

1.4 After 6 months, the 2018 WEEE arising in most categories is falling short of the 2018 targets

Market characteristic

- An analysis of the Q1 and Q2 2018 household WEEE collected data published by the Environment Agency shows that in most streams, actual WEEE collections so far in 2018 are lower than the pro-rata targets:

UK Household WEEE Collections	To Q2 18 (tonnes)	% 18 Target
Large Household Appliances	88,281	46%
Display Equipment	24,525	49%
Cooling Appliances Containing Refrigerants	63,698	46%
Gas Discharge Lamps and LED Light Sources	2,557	46%
Mixed WEEE	73,267	48%
Photovoltaic Panels	4	5%
Total	252,332	47%

Impact on compliance fee methodology

- This means the setting of a Fee will be essential to enable PCS to comply with their obligations.

1.5 A possibility that by end 2018 some WEEE streams could be in surplus

Market characteristic

- Although the Q1 and Q2 2018 data currently shows that household WEEE collections in all streams are below the pro-rata target, it remains possible that this situation could be resolved, for a number of the two streams, by year end.

Impact on compliance fee methodology

- This means there could be a situation where PCSs seek to use the Fee despite LAs seeking an arrangement with the PBS. This demonstrates the importance of the Fee calculation being based on the cost of collecting from LAs.
- In addition, it supports the use of different escalators dependent upon whether UK WEEE collections are in excess of target or not.

1.6 Potential migration from non-obligated WEEE to household WEEE evidence

Market characteristic

- Following the introduction of the dual use definition inevitably some WEEE that was previously reported as non-household or non-obligated has migrated to become household WEEE.
- In most cases, the collection of non-obligated WEEE will have been funded by the holders of that WEEE (often business users). As a consequence, AATFs are able to sell the evidence at costs that are usually lower than the costs of collection and treatment from LA DCFs.

- The table below shows the non-obligated WEEE collections reported by AATF's to Q2 2018, compared to the same period in 2017. Whilst not all of these collections will be of household type appliances, a proportion is likely to be. The recent guidance note issued by the EA to PCS and AATF's regarding when evidence can be issued to PCS for WEEE collections undertaken by an AATF, and how these should be reported, indicates the potential for such migration still exists and may have been taking place.

Non-Obligated WEEE Collections	To Q2 17	To Q2 18
Large Household Appliances	21,748	25,031
Display Equipment	7,386	2,369
Cooling Appliances Containing Refrigerants	11,505	8,669
Gas Discharge Lamps and LED Light Sources	138	45
Mixed WEEE	19,591	17,505
Photovoltaic Panels	0	0
Total	60,368	53,619

Impact on compliance fee methodology

- This may encourage some PCSs to seek to such evidence rather than undertake collections from LAs. Therefore, where a PCS wishes to use the Fee the calculation should take account of the way in which a PCS has sought to comply i.e. the extent to which it has sought to undertake LA WEEE collections.

1.7 The ability of large collectors to force PCSs into using the Fee

Market characteristic

- There are a number of organisations, such as retailers, whose supply chains place them in a position to collect significant tonnages of WEEE. In a period where WEEE disposed of by consumers falls short of target this increases the ability of these organisations to influence the way in which PCSs can comply with their obligations, although this factor equally applies in periods where collections are in excess of target. This applies particularly to Category 1, Large Household Appliances (LHA), where the WEEE generates a net revenue stream for that organisation and they can choose to deal with that WEEE and not make an arrangement with a PCS. A WRAP study (2) published in 2018 confirmed that a large tonnage of LHA is treated within the light iron stream, and hence not reported as WEEE, estimated at 269,000 tonnes.
- The UK WEEE collections data published by the Environment Agency illustrates the different sources of WEEE for the 6 major WEEE streams. In particular, this shows that organisations associated with retailers control nearly a third of reported LHA collections:

² UK EEEFlow 2018

UK Household WEEE Collections to Q2 2108	Household WEEE deposited at a DCF* (tonnes)	Household WEEE returned under regulation 43 (tonnes)	Household WEEE returned under regulation 50 (tonnes)
Large Household Appliances	62%	32%	6%
Display Equipment	87%	2%	11%
Cooling Appliances Containing Refrigerants	74%	20%	6%
Gas Discharge Lamps and LED Light Sources	24%	6%	70%
Mixed WEEE	81%	1%	18%
Photovoltaic Panels	31%	45%	24%
Total	73%	17%	10%

Impact on compliance fee methodology

- This indicates there may continue to be circumstances in which it may be appropriate to set a zero Fee.
- To ensure this recommendation remains appropriate the JTA requested updated professional economic analysis of this from FTI Consulting.

1.8 Restriction in recycle outlets

Market characteristic

Potential difficulties in recycling plastics derived from WEEE could increase disposal costs, particularly in relation to LA WEEE over which there is no control on the content collected. This means those PCS collecting WEEE could be disadvantaged over those who buy evidence.

Impact on compliance fee methodology

The JTA considers the Fee mechanism takes this into account through the use of cost data submitted by PCS undertaking collections and the Fee calculation being based on the cost of collecting from LA DCFs.

FTI Consulting Report



Memorandum

TO: **Susanne Baker**
FIRM: **Joint Trade Associations**
FROM: **Navin Waghe and Mark Bosley, FTI Consulting LLP**
DATE: **27 September 2018**
RE: **WEEE Compliance Fee for 2018**

1. Introduction

- 1.1 FTI Consulting has been instructed by the Joint Trade Associations ("JTA") to propose a calculation methodology for the compliance fee (the "Fee") in accordance with Regulation 76 of the Waste Electrical and Electronic Equipment Regulations 2013 (as amended) ("WEEE Regulations"). We understand that this memorandum will help inform the JTA's proposal to the Department for the Environment, Food and Rural Affairs ("Defra") for the Fee calculation methodology for the 2018 compliance year.

Objectives of the WEEE Regulations and the Fee

- 1.2 Regulation 33 of the WEEE Regulations provides that any PCS which does not achieve compliance by collecting and treating WEEE in line with its members' obligations (a target defined in tonnes) is able instead to pay a compliance fee in respect of the shortfall. The most recent Defra guidance on Fee design proposals was published in July 2016.
- 1.3 This guidance specifies in particular that:¹

"Proposals should:

- set out a methodology for calculation of a compliance fee across each WEEE collection stream that encourages schemes to take all reasonable steps to meet their collection target without recourse to the compliance fee;"

¹ DEFRA (July 2016), Guidance on submitting proposals for a WEEE Compliance Fee Methodology.

- 1.4 In addition, there is an implicit objective in the WEEE Regulations to incentivise the collection of WEEE from Local Authority Designated Collection Facilities (“LA-DCFs”). We understand from the JTA that this view is shared by Defra. The WEEE Directive requires member states to establish a national network of “public collection points” for consumers.² The UK primarily uses the LA-DCF network to meet this obligation. This is further reinforced under Regulation 34 of the WEEE Regulations³. If an LA requests the collection of WEEE by a PCS, that PCS is obliged to organise collection regardless of the location of the LA-DCF. PCSs may not refuse these collections, irrespective of the cost to them, or whether they have met (or will meet) their collection target without this additional WEEE.

Background

- 1.5 We previously prepared an independent report on behalf of the JTA in 2014, which recommended a methodology for calculating the Fee. The Department for Business Innovation and Skills (“BIS”) – which was responsible for WEEE regulation at the time – adopted this proposal for the 2014 compliance year. A similar methodology was adopted for the 2015 and 2017 compliance years.
- 1.6 The key features of the Fee methodology originally designed by FTI Consulting and proposed by the JTA for the past four years are that:
- (1) a separate Fee is calculated for each WEEE stream;
 - (2) the Fee per tonne is based on the average direct costs of collection of PCSs (since 2017, a further refinement means the cost data used is for WEEE collected from LA DCFs); and
 - (3) an escalator is applied which adjusts upwards the Fee per tonne according to the magnitude of the PCS’s shortfall versus its target. The uplift is proportionately higher the larger the shortfall.
- 1.7 The fee methodology proposed by the JTA and adopted by Defra for the 2017 compliance year was modified to apply a different Fee escalator formula for a WEEE stream with an aggregate surplus against the aggregate national collection target. This means that the Fee would be higher for streams that are in aggregate in surplus to reflect that, in such circumstances, all PCSs should be able to meet their targets for that stream through collections. It also included an additional escalator for those PCSs that were not members of the PCS Balancing System (“PBS”).

² EU Directive 2012/19/EU, recital 14. Source: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32012L0019>

³ Under which LAs have an automatic right of uplift of WEEE for their DCFs.

- 1.8 We consider that the main principles of this methodology remain fundamentally economically sound.

Instructions

- 1.9 We have discussed with the JTA the issues that it considers have affected the functioning of the WEEE market during 2017 and 2018. In addition, the JTA has provided us with feedback from Defra in respect of the 2017 Fee. We have been engaged to consider how the design of the Fee might be modified for 2018.

- 1.10 Specifically, we have been asked to consider the following matters:

- (1) sources of WEEE other than LA-DCFs typically have a lower cost per tonne of collection than the cost of collection from LA-DCFs. PCSs can collect WEEE or can make arrangements for WEEE from these sources (which include “dual use” WEEE previously classified as non-household WEEE) and therefore may have a reduced incentive to undertake LA-DCF collections;
- (2) in 2017 and 2018, LAs have used the PBS to obtain a collection service under Regulation 34 of the WEEE Regulations, despite WEEE collections being below national targets. Participation in the PBS is currently voluntary (although Defra has announced membership of a PBS will be mandatory in the future) and so PCSs which are not PBS members can avoid the associated costs of these collections;
- (3) periodically, some WEEE streams (typically Large Household Appliances (LHA)) have a net positive value. This creates an incentive for other organisations to collect it legitimately outside of the producer responsibility system.⁴ Furthermore, the JTA advises that for some positive value streams, PCSs or other organisations may withhold evidence rather than offering it to the market;
- (4) Defra considers that the Fee should include the variable administrative costs associated with making collections; and
- (5) the most recent data published by the Environment Agency shows that, in the first half of 2018, household WEEE collections in all streams are below the national targets set by Defra, on a pro rata basis; see Table 1 below. If this position continues, the setting of a Fee for 2018 will be essential to enable PCSs to comply with their obligations. Collections in some streams are however close to target, so the possibility of a stream being in surplus by year end remains.

⁴ Analysis shows that, of a total volume of 1545kt, only 651kt (42%) is “reported” i.e. processed within the producer responsibility system. Source: Valpak UK EEEFlow 2018, p5.

Table 1 – Total WEEE collection volumes 2018 to date, by stream

Items	To Q2 2018 (tonnes)	% 2018 Target
Large Household Appliances	88,281	46%
Display Equipment	24,525	49%
Cooling Appliances Containing Refrigerants	63,698	46%
Gas Discharge Lamps and LED Light Sources	2,557	46%
Mixed WEEE	73,267	48%
Photovoltaic Panels	4	5%
Total	252,332	47%

Source: Environment Agency (2018) “WEEE collected in the UK”.

- 1.11 We consider in turn whether and how each of these matters might be addressed through the design of the Fee for 2018. We then present a proposed revised formula for the 2018 Fee.

2. Impact of low cost sources of WEEE

Background and issue

- 2.1 We understand that PCSs can collect or make arrangements for WEEE from sources other than LA-DCFs. 2017 WEEE collection data shows that for three of the six WEEE streams, more than 40% of the WEEE collected came from non-LA-DCF sources.⁵ For the other three streams it was more than 20%. This suggests that the impact of other sources of WEEE is material and may affect the incentives faced by market participants.
- 2.2 PCSs have an economic incentive to meet their collection target by collecting or making arrangements to obtain WEEE with the lowest cost, irrespective of the source. WEEE from sources other than LA-DCFs is typically lower cost.

⁵ Environment Agency (2018) “WEEE collected in the UK”. Source: <https://www.gov.uk/government/statistical-data-sets/waste-electrical-and-electronic-equipment-weee-in-the-uk>.

- 2.3 A change to the guidance on the classification of WEEE in 2015 means that there is additional WEEE in some streams which now qualifies as household despite being collected from businesses.^{6,7} Businesses generating such dual use WEEE often pay for its collection. As a result, the price for such arrangements may be artificially low because it need not cover the underlying cost of collection and treatment.
- 2.4 If WEEE can be sourced at lower cost than the cost of collection from LA-DCFs, this reduces the incentive for some PCSs to undertake LA collections. There is evidence that some LAs have had difficulty securing collections. Only a minority of PCSs bid for collection contracts with LAs; there are 32 PCSs accredited in the UK for household WEEE, however only 12 were listed as collecting from LAs in November 2016.⁸ Since then, the JTA advises that the number contracting has fallen further to 10.
- 2.5 In addition, LAs have an automatic right of uplift of WEEE from their DCFs under Regulation 34 of the WEEE Regulations. Regulation 34 was introduced in 2014, and this right has been used regularly. This suggests that higher cost LA-DCFs are not attractive to PCSs.

Fee design implications

- 2.6 To increase the incentive for PCSs to meet their targets through LA-DCF collections, the 2017 Fee was based on only the weighted average cost of collecting from LA-DCFs. This reduces the risk that the Fee is lower than the cost of LA-DCF collections while ensuring that it remains cost reflective.
- 2.7 We consider that this remains appropriate. However, a PCS can still achieve a lower cost base by obtaining WEEE from other sources, even if it uses the Fee. PCSs therefore still face a disincentive to collect from higher cost LA-DCFs.

⁶ On 23 February 2015, BIS issued Guidance entitled “Business to consumer (B2C) and business to business (B2B) EEE and WEEE: how to correctly identify”. Available at: <https://www.gov.uk/guidance/business-to-consumer-b2c-and-business-to-business-b2b-eee-and-weee-how-to-correctly-identify>

⁷ The Environment Agency publication “Scope of equipment covered by the UK Waste Electrical and Electronic Equipment (WEEE) Regulations” states that “*All products which fall into the categories, regardless of whether they are used in a household or in a non-household environment are covered by the Regulations.*” Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/393740/LIT_7876.pdf

⁸ Source: <https://www.gov.uk/government/publications/weee-list-of-local-authority-designated-collection-facilities/weee-list-of-local-authority-designated-collection-facilities>

- 2.8 In its 2017 proposal, the JTA proposed that the Fee should also reflect the sources of the WEEE used by a PCS to fulfil its collection target. That is, the Fee should be set according to the national proportion of WEEE collected from LA-DCFs, such that PCSs which obtain a greater proportion of WEEE from non LA-DCF sources pay a higher Fee.
- 2.9 Defra accepted the JTA proposal but left the adjustment factor at zero. The JTA understands that this reflects that the JTA did not provide a specific proposal and economic rationale for the Fee uplift factor that should apply.
- 2.10 We consider that such an adjustment is appropriate in principle, as it would reduce the cost advantage of obtaining WEEE from other sources and therefore would incentivise PCSs to collect from LA-DCFs. This would support Defra's objective of incentivising collections from LA-DCFs as far as possible.
- 2.11 We have obtained data on an individual basis from PCSs acting as advisers to the JTA on the direct costs of collections from different sources. This shows that:
- there is considerable variation in the costs of collection from different sources;
 - the costs of collections from LA-DCFs are higher than other sources for all WEEE streams; and
 - the average cost of collections from LA-DCFs is over double the cost of collecting from other sources for most streams for which data are available.
- 2.12 Based on our analysis of the data, we have designed a revised proposal for the WEEE source adjustment factor. This adjustment is not proposed to be symmetrical. That is, PCSs which collect less than the average share of their WEEE from LA-DCFs should pay a higher Fee but, for those that collect more than the average share, there will be no adjustment. The calculation of the adjustment is set out in Section 6.

3. The role of the PBS

Background and issue

- 3.1 The PBS was created in 2016 as a voluntary mechanism to manage Regulation 34 requests between participating PCSs in a way that was intended to be fair and efficient.
- 3.2 A request passes through two stages:
- (1) **Stage 1:** PCSs may offer to fulfil directly the submitted Regulation 34 requests; and
 - (2) **Stage 2:** if no PCS offers to fulfil directly, PCSs submit quotes to fulfil the request and the PCS submitting the lowest cost quote undertakes the collection. The cost is shared among PBS members according to market share of the streams collected.

- 3.3 The PBS is administered by an independent third party consultancy, Anthesis Consulting, which allocates the share of costs between members. The JTA's 2017 fee methodology included an uplift for PCSs which did not participate in the PBS, as they did not bear any of the costs of undertaking Regulation 34 requests fulfilled through the PBS.

Fee design implications

- 3.4 We understand that participation in a PBS system will be mandatory for all PCSs in the future, however participation remains voluntary for 2018.⁹ Therefore, we consider that an uplift to the Fee for PCSs which are not PBS members is required for the 2018 compliance period.

4. WEEE streams with net positive value

Background and issue

- 4.1 We understand that LHAs periodically have a net positive value to the collecting organisation, whether or not it is a PCS. This positive value on its own creates an economic incentive for PCSs to seek to fulfil their target through collections for the LHA WEEE stream.
- 4.2 The value also creates an incentive for other organisations, such as retailers, to collect and process LHA WEEE, which means that PCSs may be unable to meet their collection targets for this stream, even though they are incentivised to do so. An EEE Flows study by Valpak indicated that some 269kt¹⁰ of LHA does not go through the producer responsibility system (i.e. is not processed by PCSs).¹¹
- 4.3 Up to Q2 2018, total LHA collections by PCSs were 7.2% below the pro-rata Defra 2018 target. It therefore appears there will again be a net shortfall in collections for the year.

Fee design implications

- 4.4 In 2017 Defra agreed that no Fee was required for any stream for which:
- (1) there is already a natural economic incentive for PCSs to collect this WEEE;
 - (2) other organisations also face the same incentive and thus compete with PCSs to collect WEEE, potentially making it difficult for them to meet collection targets.

⁹ WEEE Regulations consultation responses (May 2018), paragraph 43. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/709447/weee-consult-sum-resp.pdf

¹⁰ For comparison, 269kT is higher than the annual tonnage of LDA collected through the producer responsibility system.

¹¹ Source: Valpak UK EEEFlow 2018, p5 ("LDA in Light Iron").

- 4.5 We propose that the Fee should continue to be zero in 2018 for WEEE streams with net positive value, where there is evidence that a substantial volume is being treated outside of the official producer responsibility system. We understand that, based on the analysis in the Valpak EEE Flow report, the JTA considers that this is likely to apply to the LHA stream for 2018.

5. Administrative costs

Background and issue

- 5.1 Defra has stated that it considers that the Fee should be based on direct costs of collection plus “variable administrative costs”. We understand that these comprise allocations of variable administrative costs associated with:
- preparing bids for collection contracts;
 - on-going management of operational contracts including ensuring contractors are performing properly, liaising with LAs, 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; and
 - compiling, checking and making the regular reporting submissions required to the relevant enforcement agencies.
- 5.2 The 2017 Fee included a flat-rate overhead cost of £3.50 per tonne for all WEEE streams. We understand from the JTA that variable administrative costs are driven principally by the number of collections, rather than the volumes collected in tonnes. This has a material impact, given that very different volumes are associated with different WEEE streams. On this basis, we consider that a mechanism based on number of collections better meets the objectives of being cost reflective and stream specific.

Fee design implications

- 5.3 We consider that the material variation in the volumes of WEEE collected in different streams (in tonnes) means that applying the same flat-rate adjustment per tonne to all WEEE streams is unlikely to be cost reflective. Therefore, we consider that it would be more appropriate to estimate individual variable administrative costs per tonne for each WEEE stream.
- 5.4 We understand that PCS do not generally allocate variable administrative costs directly to WEEE streams as they are incurred, therefore an allocation methodology is required. Based on our understanding that the underlying driver of costs is number of collections, we consider that it would be appropriate to allocate these costs across the WEEE streams in proportion to the number of collections in each stream.

- 5.5 The variable administrative costs per tonne would be calculated for each stream as follows, based on data provided by multiple PCSs:
- (1) data on variable administrative costs, number of collections by WEEE stream and collection volumes by WEEE stream (in tonnes) would be aggregated across PCSs submitting data;
 - (2) an average cost per collection would be calculated by dividing the aggregate variable administrative cost by the aggregate number of collections;
 - (3) the aggregate number of collections by WEEE stream would be calculated;
 - (4) the average cost per collection would be multiplied by the aggregate number of collections for each WEEE stream, to calculate an aggregate variable administrative cost per WEEE stream; and
 - (5) the aggregate variable administrative cost per WEEE stream would be divided by the aggregate collection tonnage to calculate a variable administrative cost per stream, in £/tonne, for inclusion in the Fee.
- 5.6 To ensure that the Fee is cost-reflective, the calculation will allow for the following factors:
- some PCSs undertake collections of other non-WEEE waste, such as batteries, etc. These collections will be included in the variable administrative cost per collection calculation because it is not possible to isolate the associated costs, to ensure that the cost per collection is not overstated; and
 - some PCSs collect WEEE from two (or more) streams in the same collection. Given that costs are substantially driven by the number of collections, these will be recorded as a single collection (and the corresponding fraction included in total collections for relevant WEEE streams), so that costs are not understated. We understand that pragmatic assumptions may need to be made where a PCS has more complex logistics chains, such as milk round collections.
- 5.7 PCSs acting as advisors to the JTA confirm that they have data on 2017 direct overheads that could be prepared on a consistent basis and be presented for review by an independent auditor. Other PCSs would also be able to submit their data for inclusion in the calculation, provided that it was prepared on a consistent basis and audited in the same way.
- 5.8 PCSs' data on variable administrative costs, collections and volumes are commercially sensitive therefore the data should only be provided to an independent third party. FTI would be willing to sense check provisional estimates of cost per tonne for each stream prepared by another independent third party, if provided.

6. Proposals for the 2018 Fee

Summary of proposed changes

- 6.1 In summary, we consider that the Fee calculation for 2018 for each stream should:
- (1) be based on the same principles as were adopted for the 2017 Fee; in particular, the fee should be based on the weighted average direct costs of LA-DCF collections from all PCSs choosing to submit data;
 - (2) reflect the proportion of WEEE collected from LA-DCFs by a PCS to meet its target;
 - (3) include an uplift for those PCSs that are not members of the PBS;
 - (4) not apply a Fee to a net positive value WEEE stream where there is evidence that a substantial volume is being treated outside of the producer responsibility system (e.g. LHA);
 - (5) incorporate an escalator mechanism which increases the Fee per tonne which a PCS must pay per tonne as its shortfall increases; and
 - (6) add “Variable Administrative Costs” to the Fee for each WEEE stream unless it is a stream that has a zero Fee.
- 6.2 We consider that the principles of the escalator in the 2017 Fee – which is based on the size of an individual PCS’s shortfall relative to its **own** target – remain appropriate, because it both effectively incentivises compliance by collection for **all** PCSs and is fair. This is because an individual PCS’s collections are fully within its own control and the Fee increases with every additional tonne of shortfall for that PCS. The uplift to the Fee becomes increasingly material as the PCS falls further short of its target. Thus, all PCSs are discouraged from deliberately under-collecting, irrespective of their size.
- 6.3 Conversely, an escalator formula based on a PCS’s shortfall as a share of the aggregate national target would not create an effective incentive for some PCSs to meet their targets through collections. This is because PCSs vary substantially in scale (in terms of volumes of collections in tonnes) and such a Fee formula would result in PCSs with larger obligations, which account for a greater proportion of total collections, paying a higher Fee for the same relative shortfall (in percentage terms) as a PCS with a smaller obligation in that stream. This would not be fair, nor would it create an effective incentive for PCSs with smaller obligations to meet their targets through collections.
- 6.4 We also consider that a non-linear escalator remains appropriate and promotes the effectiveness of the Fee, because it creates a stronger incentive to collect as the shortfall increases. The greater the shortfall, the higher the Fee per tonne.

Proposed 2018 Fee formula

- 6.5 We explain below the formulae which we propose should be used to calculate the Fee for 2018 for a given WEEE stream (denoted ' f_n '). We first set out the formulae for the proposed adjustment factor for the sources of WEEE used and the non PBS participant uplift. We then present the revised Fee formulae under the normal escalator and the surplus escalators, which are unchanged from the 2017 Fee.

WEEE source adjustment

- 6.6 As described in Section 2 above, we consider that the Fee should be adjusted to take account of the sources of WEEE used by a PCS to meet its target. We propose that this would be implemented through an additional adjustment factor applied to the base costs used to calculate the Fee.
- 6.7 This factor would increase the Fee for PCSs which undertake a lower proportion of collections from LA-DCFs compared to the national average for the relevant WEEE stream. The calculation of a PCS's share of collections from LA-DCFs would take into account the amount of its shortfall, given that the Fee paid on the shortfall reflects the cost of collection from LA-DCFs. This ensures that the Fee is not unduly punitive.
- 6.8 As noted in Section 2.11, the average cost of collections from LA-DCFs is typically more than double the cost of evidence from other sources.
- 6.9 The WEEE source adjustment premium – p_n – would be calculated as follows:

$$p_n = d * \left(a - \frac{l_n + s_n}{t_n} \right)$$

- 6.10 Where:

- d is the percentage amount by which the weighted average net cost of collection from LA-DCFs for the stream, in GBP per tonne k_n exceeds the cost of other WEEE sources, in GBP per tonne, o_n expressed as a ratio.
- a is the average share of collections from LA-DCFs (in tonnes), as a proportion of all household collections in that WEEE stream (in tonnes), expressed as a ratio.
- l_n is the actual volume of collections from LA-DCFs, made by the PCS itself, in tonnes.
- s_n is that PCS's shortfall, in tonnes.
- t_n is the PCS's target for the WEEE stream, in tonnes.

- 6.11 Note that PCSs that collect a higher proportion of WEEE from LA-DCFs than the average would not have a lower Fee.¹²

Non PBS participant uplift

- 6.12 We consider that the non PBS participant uplift should be calculated in the same way as for the 2017 Fee. It would be calculated as follows:

$$u_n = m_n \times \left(\frac{r_n}{k_n} - 1 \right)$$

- 6.13 Where:

u_n is the uplift applicable for a non-participant of the PBS (expressed as a percentage).

m_n is a binary variable equal to 0 for a PBS member and 1 for a non-participant.

r_n is the average cost per tonne of fulfilling Regulation 34 requests, including administrator charges.¹³

k_n is the weighted average net cost of collection from LA-DCFs for the stream, in GBP per tonne.

- 6.14 The JTA considers that this adjustment would be a transitional arrangement to incentivise non PBS participants which, in the long run will no longer be required if PBS membership becomes mandatory.

Fee formula with normal escalator

- 6.15 We consider that the Fee for streams of WEEE where there is a net shortfall versus aggregate targets should be calculated using the following formula, in which the modifications compared to the 2017 Fee are highlighted in red:

$$f_n = (t_n - c_n) \times \left[k_n \times \left(1 + \left(\frac{t_n - c_n}{t_n} \right)^2 + u_n + p_n \right) + v_n \right]$$

- 6.16 Where:

f_n is the Fee for the relevant stream, in GBP.

k_n is the weighted average net cost of collection from LA-DCFs for the stream, in GBP per tonne.

t_n is the PCS's target for the stream, in tonnes.

¹² We propose that the precise mathematical formula would be: $p_n = d * \max\left(a - \frac{l_n + s_n}{c_n}, 0\right)$.

¹³ We understand that this data could be provided by PBS administrator, Anthesis Consulting.

c_n is the total amount of WEEE in that stream collected by that PCS, in tonnes.

u_n is the uplift applicable for a non-participant of the PBS.

p_n is the WEEE source adjustment premium.

v_n is the variable administrative cost per tonne, for that WEEE stream.

- 6.17 We set out illustrative examples of the Fee payable per tonne under different scenarios in Appendix 1 below.

Fee formula with surplus escalator

- 6.18 We consider that the Fee for streams of WEEE where there is a net surplus versus aggregate targets should be calculated using the following formula. The changes compared to the 2017 Fee are highlighted in red:

$$f_n = (t_n - c_n) \times \left[k_n \times \left(\frac{c_n}{T_n} + 2 \times \left(\frac{t_n - c_n}{t_n} \right)^2 + u_n + p_n \right) + v_n \right]$$

- 6.19 Where:

C_n is the sum of household WEEE collections by all PCSs in the relevant stream in the market, in tonnes.

T_n is the national target for that stream, in tonnes.

- 6.20 All other terms are as defined for the “normal” escalator.

Appendix 1

Revised fee calculation examples

A1.1 Below, we calculate the Fee that would be payable for an example WEEE stream under in various scenarios, under this proposal.

A1.2 The example calculations are based on the following assumptions:

- (1) PCS' own collection target (t_n): 5,000 tonnes
- (2) Average share of household WEEE collected from LA-DCFs by all PCSs (α): 70%
- (3) PCS' total evidence collected (c_n): 3,000 tonnes
- (4) PCS' own collections from LA-DCFs (l_n): 2,500 tonnes
- (5) Weighted average cost per tonne of LA-DCF collections for all PCSs submitting data (k_n): £50
- (6) Weighted average cost per tonne of all other collections for all PCSs submitting data (o_n): £30
- (7) variable administrative cost per tonne (v_n): £3.50
- (8) National target (T_n): 20,000 tonnes

National shortfall (normal escalator)

A1.3 Assuming UK collections are below the national target, and this PCS is a member of the PBS, the Fee per tonne payable by this PCS in this stream under the normal escalator would be £61.50 per tonne:

$$£50 \times \left(1 + \left(\frac{5,000 - 3,000}{5,000} \right)^2 + 0 + 0 \right) + £3.50 = £61.50/\text{tonne}$$

A1.4 This is unchanged from the Fee/tonne which would have been calculated for this PCS in 2017.

National surplus (surplus escalator)

- A1.5 Assuming UK collections are 22,000 tonnes (C_n), so above the national target, and this PCS is a member of the PBS, the Fee per tonne payable by this PCS in this stream under the surplus escalator would be £74.50 per tonne:

$$£50 \times \left(\frac{22,000}{20,000} + 2 * \left(\frac{5,000 - 3,000}{5,000} \right)^2 + 0 + 0 \right) + £3.50 = \text{£74.50/tonne}$$

- A1.6 This is unchanged from the Fee/tonne which would have been calculated for this PCS in 2017.

WEEE source adjustment premium

- A1.7 The WEEE Source Adjustment Premium for this example PCS using the parameters above would be zero. This is because the total of the PCS's LA-DCF collections and the tonnes for which it pays a fee exceed the national average share of PCS collections from LA-DCFs:

$$\frac{(2,500 + 2,000)}{5,000} = 0.95 = 95\% > 70\%$$

- A1.8 Whereas, if the PCS's own LA-DCF collections were only 1,000 tonnes (and its total collections remained 3,000 tonnes), the WEEE Source Adjustment Premium would apply. In this case, an additional uplift to the Fee per tonne would apply, calculated as follows:

$$\frac{50}{30} * \left(0.70 - \frac{(1,000 + 2,000)}{5,000} \right) = 0.17 = 17\%$$

PBS uplift factor

- A1.9 There would be no PBS uplift factor for the PCS using the parameters above because the PCS is assumed to be a member of the PBS.
- A1.10 Whereas, if this PCS were not a member of the PBS, and the cost per tonne of fulfilling PBS collections provided by the PBS Administrator were (for example) £65, an additional uplift to the Fee per tonne would apply, calculated as follows:

$$\left(\frac{£65}{£50} - 1 \right) = 0.3 = 30\%$$

Revised normal escalator calculation including a WEEE source adjustment premium and PBS uplift factor

- A1.11 The Fee payable by this PCS in this stream under the normal escalator, using the revised assumptions in A1.8 and A1.10, would be £85.00 per tonne:

$$£50 \times \left(1 + \left(\frac{5,000 - 3,000}{5,000} \right)^2 + 0.3 + 0.17 \right) + £3.50 = \text{£85.00/tonne}$$

Appendix 2

Restrictions and limitations

Restrictions

- A1.12 This report has been prepared solely for the benefit of the JTA for use for the purpose described in the introduction. FTI Consulting accepts no liability or duty of care to any person other than the JTA for the content of the report and disclaims all responsibility for the consequences of any person other than the JTA acting or refraining to act in reliance on the report or for any decisions made or not made which are based upon the report.

Limitations to the scope of our work

- A1.13 This report contains information obtained or derived from a variety of sources. Where appropriate FTI Consulting has been given assurances regarding the reliability of those sources and information provided. However, we have not sought to independently verify the information we have reviewed.
- A1.14 No representation or warranty of any kind (whether express or implied) is given by FTI Consulting to any person (except to the JTA under the relevant terms of our engagement) as to the accuracy or completeness of this report.
- A1.15 This report is based on information available to FTI Consulting at the time of writing of this report and does not take into account any new information which becomes known to us after the date of this report. We accept no responsibility for updating this report or informing any recipient of this report of any such new information.

Appendix 4

JTAC's Chosen Administrator – Mazars LLP

1. Background

In considering how the administrator services would be provided, the options studied were; the use of in-house resources from a JTA or JTAC member, recruitment of staff by JTAC, and outsourcing the key administrative and audit functions.

2. Decision to outsource

It was decided to outsource the administrator role for the following reasons:

- Ensure confidentiality of commercial information;
- Experience in managing client monies;
- Provision of adequate and flexible level of resource to respond to variable workload; and
- Availability of qualified audit staff to perform data reviews.

3. Services to be provided by the Administrator

The services provided by the Administrator comprise the following:

- Communicating with PCSs about the Fee mechanism, providing support to PCSs in using it, including liaison with the Independent Expert; calculating fees; collecting payments, issuing compliance fee payment certificates and advising the environment agencies concerned, of appropriate information.
- Undertaking data reviews, which may include site visits, using an Agreed Upon Procedure, of all PCSs that wish to use the Compliance Fee, and those PCSs that choose to voluntarily submit data.
- Receiving payments of fees, holding those in a dedicated client bank account, making approved payments from that account and managing the bank account through to when it is finally closed i.e. when the Compliance Fee mechanism is finally complete with all funds disbursed and accounted for.
- To disburse funds approved by the Judging Panel(s) to the organisations concerned.
- To maintain, through to the final close of the Compliance Fee fund, full accounting records of all transactions including VAT returns and annual accounts information. To provide management reports to JTAC on a regular basis without disclosing any confidential or commercially sensitive information.

4. Evaluation process

JTAC initially selected a number of potential organisations to provide a proposal to deliver Compliance Fee services, including Environmental Consultants, Accountancy firms and Trade Associations/outourcing companies. Of these, three were shortlisted for final consideration by JTAC. The decision of JTAC was to appoint Mazars LLP, a Top 10 UK Accountancy firm, as the Compliance Fee Administrator to support the JTA proposal.

Mazars have carried out the role of independent Administrator to the 2014, 2015 and 2017 Compliance Fee mechanisms in accordance with their contract with JTAC. They have demonstrated their professionalism and integrity in executing their tasks in all years.

5. Mazars' experience

Mazars is an international, integrated and independent organization, specializing in audit, advisory, accounting and tax services. The Group operates in 86 countries and draws on the expertise of 20,000 professionals to assist major international groups, SMEs, private investors and public bodies at every stage in their development. In the UK, Mazars has 141 partners and over 1,750 staff serving clients from 19 offices, and is ranked as the ninth largest accountancy firm nationally.

The core values of Mazars define how the firm operates. These values are; integrity, independence, respect, responsibility, diversity and continuity. They translate into a clear obligation to provide independent advice of the highest quality.

In understanding that no two clients are the same, Mazars is practiced in developing and implementing customized solutions. Combining expertise in outsourcing, working with 'public interest' entities and clients across many industries, Mazars has the capacity to deliver each element of the administrator role to the highest standards.

6. Key areas of Mazars' proposal

6.1 Segregation of duties and conflicts of interest

Mazars will operate a client account on behalf of JTAC, which will be used to collect funds from the relevant PCS organizations. This account will be held separately from the Compliance Fee client accounts of other years. (N.B: as part of the strict confidentiality conditions regarding payment of Compliance Fees by PCSs, neither JTA nor JTAC nor any of their members has any access to the client bank account nor to any information in it). Should conflicts of interest be identified, Mazars has the scale and resources to mitigate such conflicts through the provision of entirely separate engagement teams.

6.2 Industry knowledge

Mazars has experience of working with companies in the WEEE sector and has familiarity with the relevant WEEE legislation. They also have substantial experience in the not-for-profit sector and working with government agencies. This experience combined with their knowledge of the Compliance Fee process will help to deliver a highly cost effective and commercially confidential solution.

6.3 Flexible solutions

The organization has the ability to be flexible in the services it provides and can tailor these to the relevant take up of the scheme in any compliance period for which it was appointed as the Administrator.

6.4 IT systems & security

Currently a straightforward off-line IT led solution has been implemented for administering the compliance fee because this has been most appropriate and has worked well. PCSs email requests to use the compliance fee and submit cost data using standard templates provided by the Administrator, similarly organisations wishing to apply for funding from the Compliance Fee fund email requests using standard application forms provided by the Administrator. The use of a portal solution to receive requests from PCS and funding applications has been reviewed but not considered to be best value for money at present, this can be revisited as circumstances dictate.

Mazars uses its own internal IT systems to perform the compliance fee calculations, record information on receipts and expenditure into and out of the dedicated client bank account, track applications for funding, raise invoices to PCSs and issue CFPCs.

Mazars considers the information it holds as of the utmost importance. It is essential that this information is protected from a wide range of threats in order to preserve confidentiality and integrity. Mazars protects its information by establishing and maintaining an information management system following the best practice controls set out in ISO/IEC 27001.

Within this context, Mazars has in place controls over both virtual and physical security including disaster recovery plans, automatic data back-ups and power outages. With regards to access controls, each individual at the firm has separate log-ins, which are enforced with regular updating of passwords and on-going training regarding information security. Access to networks and data is restricted based on individual credentials and mobile working is supported by full encryption.

From an operational perspective, Mazars has extensive capabilities to develop technology driven solutions either through intelligent use of software or the development of technology, such as portals, to the benefits of its clients. This could provide innovation in the way the Compliance Fee service is delivered both to the PCSs and the local authorities or other organisations when applying for grants.

7. Capacity

The firm has 141 partners and over 1,750 staff in the UK and offices across the country. This provides the capacity to deal with the possible fluctuations in demand, support field visits to validate project spending if needed and generally respond to issues that might arise.

8. Governance

Mazars operates in a regulated environment and is principally regulated by the ICAEW. The team members chosen for the assignment are members of their professional body and are bound by its code of conduct.

The Administrator services will be led by a Partner, who will be involved in the overseeing of all aspects of the administration of the 2018 Compliance Fee mechanism. A senior manager is allocated to manage the process and system and ensure deadlines are met and that the process is running smoothly. There will also be a team of less senior staff members to work on the processing of transactions and producing the reports for review as required.

9. Administrator 2018 Costs

Providing an accurate estimate of administrative costs for the Compliance Fee mechanism in respect of any particular compliance year is not practical at this proposal stage because there are a number of unknowns that will influence the costs, some examples of which are:

- The number of PCS's that choose to use the mechanism or voluntarily submit cost data and the number of streams they wish to use it for;
- The number of organisations that submit applications for compliance fee funding and the number that are approved by the Judging Panel for payment; and
- The time it takes to complete the whole process from the time that Defra announce whether there will be a compliance fee for a particular year through to when all the projects that are funded are completed and report their results.

Costs that would be charged against the Compliance Fee Fund for any year are solely third party costs incurred by JTAC, most of which are the costs for the Administrator services and technical support. Costs related to support provided by JTA participants are borne by those participants.

Part of the costs for the Administrator services are fixed e.g. managing the client bank account and maintaining full accounting records, including VAT returns and providing details for annual accounts.

It is expected therefore that the net costs of administering and managing the 2018 Compliance Fee, which are charged against the fees paid, will represent good value for money for a professional service with high levels of integrity in handling commercially sensitive and confidential information and data.

In respect of these services Mazars have provided a quote for costs to cover the 2018 compliance period, which reflects their insight and experience gained from the previous processes. As a result, overall costs are projected to be similar to those for the 2016 compliance period (the size of the 2017 fund inevitably meant that the Mazars charges were higher than anticipated). The Mazars financial offer is commercially confidential and therefore is not included in the JTA proposal, but can be separately disclosed to Defra upon request.

Appendix 5

JTA and JTAC

1. Background

The Waste Electrical and Electronic Equipment (WEEE) Directive is a 'producer responsibility' measure where those entities that place goods on the Community market are required to take financial responsibility for items once they have finished their use phase, so that the costs associated with treating and disposing of electrical and electronic equipment do not fall on society as a whole. It therefore follows that producers have the responsibility for paying a fair and reasonable price that is truly reflective of the costs associated with treating WEEE and disposing of resulting materials (taking into account the fact that many of the materials resulting from treatment are themselves re-sold as commodities).

2. The Joint Trade Association Group (Producer Responsibility) (JTA)

In order to ensure that the opinions of the Producer community could be formulated and communicated to the Government in as clear and effective a manner as possible, the major trade associations representing producers of electrical and electronic equipment (EEE) decided to work together on matters of common interest relating to producer responsibility, including the WEEE Regulations. Thus, in 2010 the 'Joint Trade Associations' group was formed. Today it comprises:

- AMDEA: the Association of Manufacturers of Domestic Appliances;
- BEAMA: (Originally an acronym for the British Electrotechnical and Allied Manufacturers' Association);
- BIPA: British and Irish Portable Batteries Association;
- BTHA: British Toys and Hobbies Association;
- EEF, the Manufacturers' organisation;
- Gambica Association: (Originally an acronym for the Group of Association of Manufacturers of British, Instruments, Control and Automation);
- tech UK: (The trade association for the Information and Communication Technology and Consumer Electronics sectors);
- LIA: Lighting Industry Association;
- PETMA: Portable Electrical Tool Manufacturers' Association; and
- SEAMA: Small Electrical Appliance Marketing Association.

Collectively, the members of the trade associations that comprise the JTA employ nearly 1m staff in the UK, in around 7,000 companies across all sizes of producers, from the very small to the very large. The JTA comprises all the major trade associations representing both business-to-consumer and business-to-business EEE Producers in the UK. This proposal therefore strongly represents the voice of the

Producer community and we believe it is fully consistent with the WEEE Directive's 'producer responsibility' duties.

Since its formation the JTA and its members have engaged with Government in a number of WEEE related consultations including the Recast WEEE Directive, the Red Tape and Cutting Red Tape Challenges and the Circular Economy review, making proposals on future policy development as appropriate. The JTA has also submitted proposals for a Compliance Fee methodology for every compliance year it has been in operation. The JTA methodology was chosen by the Government for 2014, 2015 and 2017 and used as a basis for the Valpak proposal chosen in 2016.

In preparing this proposal, the JTA has called upon the expertise of three PCSs. These PCSs (ERP, Recolight and REPIC) between them are representative of all WEEE streams and moreover are viewed by the JTA as organisations which seek the long term success and stability of the WEEE system in the interests of both Producers and other actors in the WEEE system. They are closely linked with JTA members and support the aims of the JTA actively and participate in the JTA by providing expertise and technical support. As PCSs working in the regulated producer responsibility environment they regularly engage with Government in both formal and informal consultations on future policy development, making proposals both individually and collectively through relevant trade bodies. Such proposals include the Recast WEEE Directive, the Circular Economy Review and the establishment and operation of the PCS Balancing System (PBS). The combination of the JTA and these three PCSs means it is estimated that the combined memberships represents approximately 90% of all WEEE Producer obligations in the UK.

The JTA operated on an informal basis until 2014 and put in place a formal constitution in early 2014. This body is still a grouping of trade associations i.e. it is an unincorporated body and not a legal entity. The constituted group is known as the Joint Trade Association Group (Producer Responsibility), although for brevity it uses the initials JTA.

3. Joint Trade Associations (Contracts) Ltd (JTAC)

As the JTA is not a legal entity a separate company, Joint Trade Associations (Contracts) Limited (JTAC), was formed for the express purposes of entering into contracts with third-party organisations for services such as the Fee administration. JTAC is a not-for-profit company, limited by guarantee rather than by shareholdings so that no distribution of funds to its members is possible. The Members of JTAC are three trade associations within the JTA, namely AMDEA, LIA and TechUK, whose members have significant household WEEE obligations. The Directors of JTAC are senior representatives of these three trade associations.

By forming JTAC as described above and contracting-out responsibility for administering the Fee to a well-established, independent, organisation we have ensured that all commercially sensitive information reported into the Fee administration system will be kept confidential within the independent Administrator organization only. We consider that a clear separation between the entity (JTAC Ltd) that contracts with the Administrator, and the entity that comprises Producer and PCS representatives (in our case the JTA) is vital for all compliance fee submissions. However, it should be noted that the existence of JTAC does not preclude the Government from taking a role in engaging or contracting with the Fee Administrator should it wish to do so.

Appendix 6

Draft forms for collecting information from PCSs

1. Administrator data template

Draft proforma template intended to capture the data required by the Administrator to calculate the Fee for each stream of WEEE in the period specified.

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PCS NAME

Please refer to the corresponding numbered sections in the instructions provided. This form relates to household WEEE only.

1. SHORTFALL / SURPLUS	1a. Target WEEE collection target	1b. Evidence Total WEEE Evidence received	1c. LA DCF Collections Tonnage of WEEE directly collected by the PCS from LA DCFs
<i>Unit</i>	<i>tonnes</i>	<i>tonnes</i>	<i>tonnes</i>

1 January to 31 December 2018 - For submission on or before 21 February 2019

(1) Large Household Appliances			
(2) Small Mixed WEEE			
(3) Display Equipment			
(4) Cooling Appliances Containing Refrigerants			
(5) Lamps			
(6) Photovoltaics			

2. NET COST OF DIRECTLY COLLECTED WEEE FROM LA-DCF's	2a. Collected Tonnage of WEEE directly collected by the PCS from LA DCF's	2b. Costs Total direct costs of collection, transport and treatment	2c. Income Gross income from resale or reuse of parts	2d. Net cost Total direct costs minus gross income
<i>Unit</i>	<i>tonnes</i>	<i>£</i>	<i>£</i>	<i>£</i>

1 January to 31 December 2018 - For submission on or before 21 February 2019

(1) Large Household Appliances				
(2) Small Mixed WEEE				
(3) Display Equipment				
(4) Cooling Appliances Containing Refrigerants				
(5) Lamps				
(6) Photovoltaics				

3. NET COST OF WEEE FROM ALL OTHER SOURCES	3a. Collected Tonnage of WEEE from all other sources	3b. Net cost Net cost of WEEE from all other sources
<i>Unit</i>	<i>tonnes</i>	<i>£</i>

1 January to 31 December 2018 - For submission on or before 21 February 2019

(1) Large Household Appliances		
(2) Small Mixed WEEE		
(3) Display Equipment		
(4) Cooling Appliances Containing Refrigerants		
(5) Lamps		
(6) Photovoltaics		

The data above includes related party transactions as described in general requirements section of the instructions

Yes/No (delete
as appropriate)

Instructions for completion of template

General requirements

PCSs needing to use the Fee are required to provide data for all streams – even when they do not need to use the Fee for all streams.

PCSs that do not need to use the Fee, but choose to supply data on a voluntary basis, are required to provide data for all streams.

Tonnages should be entered to three decimal places (i.e. do not round to the nearest tonne).

Please indicate on the template if data submitted includes any related party transactions. Related party transactions for the purpose of this template are those that take place between the PCS and other organisations within the same corporate grouping as the PCS, for instance with other divisions within the same legal entity as the PCS, or with associate, joint venture or subsidiary companies, as defined by the Companies Act. Examples of related party transactions would be WEEE transport and treatment services provided to the PCS by a subsidiary company, or by an AATF operated by the PCS itself.

If data submitted does include any related party transactions, please provide further explanation to the Administrator with your submission. The Administrator will consider the related party nature of such transactions.

If you have any further questions or need to modify the template in any way, please consult the Administrator.

All backing documentation that supports the data included on the form should be made available to Mazars for their data review. The PCS should be prepared to demonstrate how the data on the form reconciles to its quarterly WEEE collections returns to the relevant environment agency, its accounting records, or other supporting documentation, as appropriate.

Guidance for numbered sections of the template

1. Shortfall/Surplus

1a. WEEE collection target

Please enter the exact household WEEE tonnage target for each stream. This should be the final target for the PCS for this compliance year and as advised by the relevant environment agency.

1b. Total WEEE evidence received

Please enter the exact household WEEE tonnage that the PCS has received evidence for, as recorded on the settlement centre. This may be different from the amount of WEEE directly collected, as it may include WEEE indirectly collected through other routes (e.g. directly purchased from AATFs or third parties such as PCSs or waste management companies). This will be used to calculate the shortfall against the target.

1c. Tonnage of WEEE directly collected by the PCS from DCFs

Please enter the number of tonnes of household WEEE in each stream directly collected by the PCS from LA-DCF, or Producer members of the PCS, in the period specified.

Direct collections are those where the PCS has been contracted by the DCF Operator (LA or Waste Management Company operating the DCF on behalf of a Local Authority) to finance the collection and treatment activity, or where a PCS Producer member has contracted to treat WEEE collected through its supply chain activity, and for which evidence has been issued to the PCS. Evidence obtained from other sources (e.g. WEEE collected from other third parties, or evidence purchased from PCSs, AATFs or waste management companies) should not be included.

2. Net costs of directly collected WEEE from LA DCF's

2a. Amount of WEEE directly collected

Direct collections are those where the PCS has been contracted by the DCF Operator (LA or Waste Management Company operating the DCF on behalf of a Local Authority) to finance the collection and treatment activity. Collections from, or evidence obtained from any other sources (e.g. WEEE collected from other third parties, or evidence purchased from PCSs, AATFs or waste management companies) should not be included.

2b. Costs

Please enter, in GBP, the direct, incremental and avoidable costs associated with collections undertaken for each stream in the period specified, from LA-DCF's. Direct costs may include:

- transport costs;
- container costs (e.g. rental or empty container delivery costs);
- other collection costs;
- treatment costs;
- environmental levies (e.g. waste transfer or consignment notes); and
- any other categories that meet the definitions of direct, incremental and avoidable above.

Direct, incremental and avoidable all relate to the same concept:

- Direct: Direct, or variable, costs and revenues are those that change in proportion to the amount of WEEE collected by the PCS.
- Incremental: Incremental, or marginal, costs and revenues are those additional costs and revenues that arise as further WEEE is collected.
- Avoidable: Avoidable, or separable, costs and revenues are those that could be eliminated if the WEEE was not collected.

Submitting only selected transactions is not acceptable. All transactions meeting these criteria must be included.

Cross-subsidisation of costs and revenues between streams is not acceptable. All costs and revenues relating to each *stream should be included in that stream*.

You should exclude direct administrative (overhead) costs. These may be provided for inclusion in the calculation of the stream specific direct administrative cost using the separate template provided. See section 2.3.8 of the JTA proposal for further information. Administrative costs, like management, HR, administration, IT, marketing and office rent, do not meet the definitions above and should not be included.

Collections made on behalf of the PBS should be handled as follows:

- For collections which the PCS was appointed to manage at stage 1, all costs and evidence arising should be included, either under headings 2b and 2c, or 2d, as appropriate.

- For collections which the PCS was appointed to manage at stages 2,3, or 4, the PCS should include its share of the collections (in tonnes) it undertook on behalf of the PBS, at the cost per tonne it charged the PBS for those collections. As the PCS will not know its PBS market share it should use its market share for the compliance year as notified by the relevant environment agency in its final household WEEE obligation notification. The calculated cost should be included in column 2d.
- A PCS should not include tonnage or cost for evidence received from the PBS, but which it did not manage on behalf of the PBS.

If you are not able to separate costs and income for a WEEE stream, please leave this section blank

2c. Income

Please enter, in GBP, any revenues associated with WEEE collected directly from LA-DCFs.

Revenues may relate to:

- (1) reuse of EEE;
- (2) sale of material parts; and
- (3) any other income that meets the definitions of direct, incremental and avoidable above.

Please include all income, including any income redistributed to local authorities or others.

If income for a stream is zero, please enter 0.

Collections made on behalf of the PBS should be handled as set out in 2b. above

If you are not able to separate costs and income for a WEEE stream, please leave this section blank.

2d. Net cost

If you were able to complete both the cost and income sections, this section will calculate the net cost automatically. No further data is required.

If you were not able to complete both the cost and income sections, please enter here the overall net cost associated with each stream of WEEE. Ensure that all costs and revenues that comprise net cost meet the requirements specified in the Cost and Income sections above, including the definition of direct, avoidable and incremental.

Collections made on behalf of the PBS should be handled as set out in 2b. above

3. Net costs of WEEE from all other sources

The tonnage and cost of all other evidence obtained by the PCS should be included in this section, with the exception of:

- (1) tonnage or cost for evidence received from the PBS;
- (2) tonnage in relation to evidence issued to the PCS where no cost has been incurred by the PCS, for instance in relation to collections undertaken by a PCS Producer member.

2. Direct administrative cost template

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PCS NAME

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Total direct administrative cost
£0.00

Instructions for completion

Insert the direct administrative cost incurred in relation to those 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

Number and weight of collections by stream

UK WEEE collection streams	Number of collections *	Weight of collections (Tonnes)
(1) Large Household Appliances		
(2) Small Mixed WEEE		
(3) Display Equipment		
(4) Cooling Appliances Containing Refrigerants		
(5) Lamps		
(6) Photovoltaics		
Non-WEEE		
Total	0	0

Instructions for completion

* Where one collection activity has resulted in two (or more) streams being collected, record two (or more) collections in the data

Appendix 7

JTA Process for spending the Compliance Fee Fund in respect of the 2018 Compliance Period

1. The 2017 Process

- 1.1 In 2017, the JTA's methodology was adopted by Government. This year was notable because the fund was considerably larger than seen in previous years (2017, £7.9m; 2016, £665k (with DTS); 2015, £46k; £2014, £375k). To manage such a considerable fund, JTAC: appointed an Independent Expert to oversee the process; worked with stakeholders to determine the best approach for spending the Fund; and, engaged in significant communication efforts to raise awareness of the funds available.
- 1.2 Following an initial stakeholder meeting in June 2018, JTA agreed with Defra a broad approach to managing spend of the fund. The fund has been divided into three elements: a three-year programme of funding for technical projects with annual calls for research; local projects covering reuse, repair and LA support; and, a communications and behavior change fund. Dedicated judging panels, agreed with Defra, and with representation from across the WEEE supply chain have been established to agree spend in each area, applications and pitches, and agree which to approve (and to what value) and which to reject.

A dedicated website has been refreshed to support the new process, see www.weeeefund.uk

- 1.3 At the time of writing, the technical project strand is the furthest progressed. A call for research proposals was issued in June with a deadline for submission by 31 August. Two significant Defra-supported technical projects have been fast-tracked. Discussions to determine the best way to support LAs is underway, following feedback from the National Association of Waste Disposal Officers (NAWDO) and the Local Authority Recycling Advisory Committee (LARAC) that the traditional form of project-led support was considered bureaucratic and burdensome. Preparations are also underway to run a national public communications campaign in 2019.
- 1.4 Funding principles are as follows:
- Keep the process as simple as possible, thereby reducing the administrative burden of making an application to a reasonable and proportionate level.
 - Low value applications should require a lower level of detail than higher value applications.
 - Provide clear criteria for organisations to meet when preparing their applications, e.g. demonstrating that the application is in respect of new projects, and encourage collaboration.
 - All applications must demonstrate how it will improve the UK WEEE system. The funds are not available to meet normal operating costs or to pay for the collection or treatment of non-household WEEE.
 - All approved funds are drawn down by the applicant organisations and paid by the Administrator with the possible exception of large projects where a small part of the funds may be held back until completion of the project.

- On satisfactory completion, technical research will be made public, circulated to stakeholders and posted on the www.weeeefund.uk site. Additional publicity will be considered on a case-by-case basis.

1.5 Prospective applicants are encouraged to engage with the Independent Expert when formulating research ideas so that potential synergies and collaborations can be identified and encouraged.

1.6 Applications can be made by email using a standard template form. Standard template application forms for applicant organisations are available via the Independent Expert. Applications are assessed based on their compatibility with the criteria specified below. These criteria are based on the Defra Guidance of 2016.

2. Proposal for 2018 Fund disbursement

2.1 In view of the extensive arrangements in place, and as many of the projects being funded via the 2017 Fund will span several years, should this 2018 proposal be accepted and approved by Defra, we propose to:

- Retain the existing Independent Expert to continue to manage the disbursement of the fund for consistency and to minimise stakeholder confusion.
- Roll any funds from the 2018 Compliance Fee process into the 2017 Fund to support the activities and workstreams already underway.

2.2 Applications for funding

Where further calls for funding applications are issued specifically in relation to the 2018 Fund, applications must:

- Be submitted with a commitment to spend allocated project funding by the end of August 2021.
- Include a commitment that non-confidential information gathered from carrying out these new projects can be published to encourage learning for all parties.
- Be signed by a Director, Head of Department, or other senior manager if more appropriate, to confirm that the information provided is correct and that there is full support to the proposed new project/initiative being put forward by the applicant organisation. Where the application is made in collaboration with partner organisations they should also confirm their support to the project by signing the application.
- Include clear measurable targets and performance indicators to ensure projects/initiatives will deliver the benefits to the UK WEEE system that are described in the application. For strategic research, the applicant must outline how the work will deliver benefits to the UK WEEE system.
- Where applications are submitted to encourage increased volumes of separately collected household WEEE and increased recycling in line with Best Available Treatment, Recovery and Recycling Techniques (BATRRRT) requirements and legitimate re-use the form must include sufficient information to demonstrate it.

- Demonstrate that the project is a new activity, novel research or a significant expansion of an existing activity.
- Demonstrate the degree of sustainability of the project to continue to deliver benefits after the project completion.
- Demonstrate overall value for money, environmental impact and the benefits of the proposal.

2.3 Defra projects

The JTA recognise that Defra may have some specific WEEE projects for which funding may be required. The JTA would welcome the use of 2018 Fund for such projects if they contribute to the enhancement of the UK's WEEE system.

2.4 Processing and approval of applications:

The JTA proposes to use the appropriate judging panel(s) established for the 2017 Fund process to agree strategic interventions and assess and approve applications.

The Independent Expert will: check all applications for completeness; clarify any points necessary with the applicant; consolidate all applications and submit them to the appropriate judging panel for consideration; and may issue calls for research proposals, if appropriate. Costs, if any, associated with the judging panel meeting(s) will be part of the administration costs of the Compliance Fee system.

The independent judging panel(s) will assess all applications using the criteria set out above plus an assessment of factors such as environmental benefits, innovation, sustainability and value for money. The panel will then allocate funds, taking into account the Funds available and instruct the Administrator to implement the decisions.

The Independent Expert will advise each applicant whether they have been successful or not, the extent of the funds allocated to them, and agree with them the expected drawdown of funds.

The Independent Expert will report to Defra periodically as to progress of the draw down of the funds.

3. Potential links with other schemes dispersing funding for household WEEE improvements

This proposal sets out a standalone process. For the 2014 and 2015 Compliance Fee Fund process, with the support of Defra, the JTA and the Distributor Take-back Scheme (DTS) cooperated to create a single call for proposals as they both managed funds with very similar criteria for allocation. In the event that the DTS has funds available, with similar criteria, during the time that the 2018 Compliance Fee funds are being disbursed the JTA would again be pleased to participate in coordination discussions between the Schemes in the interests of reducing administration work for applicant organisations.