



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

### Operation of a WEEE Compliance Fee for the 2018 Compliance Period

Valpak Limited  
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# 1 Table of Contents

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1.	Executive Summary .....	3
2.	Introduction .....	7
3.	Objectives of the Compliance Fee .....	9
4.	Methodology for the calculation of the fee .....	10
4.1	Introduction .....	10
4.2	Economic rationale .....	10
4.3	Points raised in Defra's evaluation of the 2017 methodology.....	15
4.4	Principles of proposed methodology .....	16
4.5	Methodology summary .....	21
4.6	Fee Calculation .....	24
4.7	Data accuracy .....	29
4.8	Consultation on our proposals.....	30
5.	Administration of the fee .....	31
5.1	Proposed Structure and Governance .....	32
6.	Methodology for the dispersal of funds.....	33
6.1	Introduction .....	33
6.2	Technical Projects .....	33
6.3	Local Authority projects and communications and Communications and behavior change funds.....	33
6.4	Administration and timetable of fund dispersal .....	34
6.5	Procedure for low or minimal uptake of the compliance fee .....	34
6.6	Validation of project funding .....	35
7.	Timetable for implementation and operation .....	36
8.	Experience of proposer and proposed operator .....	38
8.1	Proposer .....	38
8.2	Proposed operator .....	38
9.	IT systems .....	39
	Appendix I – Proposal from Grant Thornton UK LLP .....	40
	Appendix II – Document Templates Contents Page .....	51

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## 1. Executive Summary

This document sets out Valpak's proposals for the operation of a WEEE compliance fee for the 2018 compliance year.

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

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

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

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

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

The key points of this proposal are summarised below.

### Methodology for calculation

The key points of our proposed methodology are:

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- The compliance fee will be calculated separately for each scheme wishing to use the fee and for each WEEE stream. It will be calculated from a combination of three main elements:
  - A base cost calculated from the weighted average collection and treatment costs of all schemes using the fee
  - A standard amount to reflect the direct scheme operational management costs which would be avoided if these were not reflected in the fee (avoided transactional cost)
  - Additional adjustments as appropriate to reflect:
    - whether or not the scheme using the fee participated in the PCS Balancing Scheme (PBS) during the year
    - the degree to which the scheme undertook its own WEEE collections from Local Authorities compared with its market share of the national total, and
    - if appropriate, the degree to which national targets were missed and the scheme's performance relative to their market share.
- Schemes would be required to provide actual direct collection and treatment cost data by stream to the independent operator, Grant Thornton UK LLP, who will administer the compliance fee process under strict confidentiality provisions
- A condition of using the compliance fee would be the provision of accurate and detailed cost data by schemes to support any submission
- A zero-fee for the LDA stream was incorporated in to the 2017 compliance fee. We believe that during the 2018 compliance year, it is likely that there has been similarly high level of collection activity occurring outside the official system and therefore we acknowledge that the rationale for this element remains substantially valid and so we propose to also apply this for 2018.
- That an additional uplift fee is calculated to apply to schemes wishing to use the compliance fee depending on whether or not they are a member of the PCS Balancing Scheme (PBS) or a similar arrangement for dealing with regulation 34 requests. This uplift fee is added at the end of the formula.
- That a standard fee is added to allow for schemes estimated direct operational management costs of administering and managing actual collection contracts. This fee will be £3.50 per tonne, which has been used in the 2017 methodology and we believe continues to be broadly representative of average costs of, for example, contract and account management, reporting and site auditing. Other scheme overheads are excluded from this figure.
- In the event of there being an application to use the fee for 2018 in a stream where there is no 2018 actual collection cost data available then the cost data from 2017 will be used for that stream.
- There will be a participation fee of £2000 per scheme wishing to use the compliance fee as a contribution towards audit and administration costs
- The independent operator will use detailed data provided by schemes to calculate the weighted average cost per stream. This will form the base cost for calculating individual compliance fees

- The collection and treatment costs only (not direct operational management costs) will be escalated by a factor related to the degree of scheme shortfall against the national target set by the Government in each stream, so that a greater fee is payable for a shortfall which is more significant compared to the Government's requirement
- If the total of national collections for the year is less than the target set by Government in any stream then the escalator mentioned above is not applied to the first proportion of the tonnage applied for by any scheme, up to a maximum of their market share of the national shortage.
- We recognise that the 'WEEE source adjustment' in the 2017 compliance fee methodology submitted by the Joint Trades Association (JTa) was an effective uplift in incentivizing schemes to collect WEEE from local authorities. Therefore we have proposed that the same adjustment a similar calculation element is incorporated in this fee calculation. See details of the calculation in section 4.6.

### **Administration**

The fee will be administered by Grant Thornton UK LLP, a highly respected and independent UK accountancy firm. They have proven ability for this having successfully administered the compliance fee as proposed by Valpak for 2016.

Their proposal presenting their credentials and approach is included as Appendix I.

The key elements of their role will be to:

- Communicate and publicise the process to all approved WEEE compliance schemes
- Process and validate applications from schemes that wish to use the fee
- Collect actual cost information from schemes
- Undertake independent audit checks to verify that the data is accurate
- Undertake the data analysis, calculate fees and escalator factors
- Notify schemes who have applied to use the fee of their total compliance fee for each stream, and issue requests for payment as appropriate
- Once the requests for payment have been paid, issue schemes with a confirmation letter for their Declaration of Compliance
- Send a summary to each Environment Agency setting out which schemes have used the compliance fee and the tonnes and streams concerned
- Disperse funding payments to the recipients chosen by Defra to support Local Authority and other WEEE projects

Should this proposal be accepted, Valpak Limited will establish a separate subsidiary company, Compliance Fee Services Limited, through which the process of compliance fee payments will be managed. No Valpak executive directors will be involved.

Grant Thornton will engage with Compliance Fee Services Limited and set up and operate a designated Grant Thornton client bank account. This account will be the sole vehicle through which funds are received and out of which payments are distributed. This process will ensure that the funds will be treated as client monies over which Valpak has no visibility or influence whatsoever.

**Dispersal of funds**

The most effective routes for dispersal of compliance fee funds depend to a significant extent on the value of funds raised. As the total fund will not be known until March 2019 it is not possible at this stage to specify precisely how the funds should best be used.

There has been a significant change in the way the 2017 fund is being dispersed compared with previous years, due to the size of the fund, including that the fund will be dispersed over a three-year period as opposed to over the course of 2018 only.

The published WEEE collection data which is currently available show that there could be another significant shortfall in actual WEEE collections this year, suggesting that if a WEEE compliance fee is approved for 2018 there could again be a sizable compliance fee contribution for 2018.

The 2017 fund dispersal methodology appears to be a sensible approach and we fully support the objectives of the suggested split of funds. However the project selection process is still underway and there will be no firm evaluations of the fund dispersal process until quarter one 2019 at the earliest. We therefore feel it would be prudent to undertake a planning workshop with Defra and other key stakeholders in early 2019 to assess how the 2018 fund could best be dispersed,. This workshop could then account for any adjustments to the dispersal methodology needed, or amended priorities based on, for example: the results of current projects and studies (e.g. protocol and POPs project); new information becoming available (e.g. The Lancaster University report); changes to the WEEE system from 2019 e.g. target increases and open scope.

**Further suggestion**

Valpak is continually looking for positive ways in which the operation of the regulations might be improved and made more efficient and effective. We believe that there is merit in adopting a consistent compliance fee methodology for several years in order to provide some medium term stability to the system. In particular, provided the chosen methodology is effective, this approach could significantly improve the situation for Local Authorities who wish to have stable and reliable collection arrangements. This should be considered in the light of experiences of operating the fee in recent years.

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

## 2. Introduction

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

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

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

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

We have used this expertise and experience to develop a methodology which we believe is practicable and best meets the requirements of the UK WEEE system in the current situation, fully taking into account the requirements of the regulations and Government guidance. It builds on the methodology we proposed for 2016 which was accepted by Defra, and on our 2017 methodology. Whilst the approach is broadly similar we have incorporated some enhancements and detailed improvements for 2018 based on feedback, operational experience and market changes.

If this methodology is accepted by Defra we propose to appoint Grant Thornton UK LLP as independent compliance fee operator. Grant Thornton have direct experience of the compliance fee process having been appointed as administrator and successfully managed the process for the 2016 compliance year. They are a well-known national accountancy firm who have considerable experience of regulatory processes and possess the proven expertise and capability to perform the required role whilst ensuring the high degrees of confidentiality necessary.

The key enhancements we are proposing for the 2018 methodology are:

1. An escalator will be applied dependent on the percentage of collections a scheme makes via Local Authority sites. This incentivizes schemes to seek Local Authority collections, rather than being reliant on purchased evidence.
2. The methodology for calculating an increased cost for PCSs which are not PBS members has been simplified (see section 4.6)
3. A zero-fee for the LDA stream was incorporated in to the 2017 compliance fee. We believe that during the 2018 compliance year, it is likely that there has been similarly high level of collection

activity occurring outside the official system and therefore we acknowledge that the rationale for this element remains substantially valid.

4. That a fee is added to allow for required direct operational management costs of administering and managing actual collections. The fee will be £3.50 per tonne, which has been used in the 2017 methodology and appears to be representative of average costs of, for example, contract and account management, reporting and site auditing. Other scheme overheads are excluded from this figure.



### 3. Objectives of the Compliance Fee

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

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

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

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

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

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

## 4. Methodology for the calculation of the fee

### 4.1 Introduction

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

### 4.2 Economic rationale

#### **Background to rationale**

A WEEE compliance fee has been enabled under the new regulations since 2014. A fee methodology has been chosen by the Government for 2014, 2015 and 2017 based on proposals submitted by the Joint Trades Association (JTa) and for 2016 based on the proposal submitted by Valpak.

Similarly to the approach taken in our submission last year, we believe that the original basic economic rationale for a compliance fee as set out in detail by the JTa in 2014 and 2015 is thorough and comprehensive and remains substantially still valid.

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

#### **Reference:**

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

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

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

This analysis leads us to conclude that

1. Retaining a compliance fee is an essential feature of the current UK WEEE system in order to provide continuity and to reinforce important signals to operators that it is a mechanism intended to:
  - Prevent the potential for excessive costs to be charged by over collectors
  - Prevent producers being charged excessively for continuing access to WEEE material, and
  - Encourage schemes to meet their collection targets whilst at the same time providing a mechanism whereby schemes which are not able fully to meet their target can instead pay a

sum to contribute to valuable projects to improve the system for the future, without jeopardising their approval

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

We have therefore used these principles as the basis for our 2018 proposals because avoiding radical change will contribute towards the Government's objective of improving the stability of the WEEE system.

However we also believe that the WEEE market situation continues to evolve in some key aspects from previous years. In our 2016 and 2017 proposals we put forward some significant changes to the methodology compared to the approach adopted for the two previous years which were based on our assessment of the WEEE market at that time. We explain below how our assessment of the WEEE market for 2018 leads us to conclude that the changes we put forward for 2016 and 2017 should largely continue to be adopted in the methodology for 2018 and further built on with some detailed enhancements and changes as highlighted in sections 4.3, 4.4 and 4.5.

In our view adopting Valpak's methodology for 2018 will continue to improve the stability of the WEEE system over the short to medium term.

### **WEEE market developments**

#### **2018 Compliance Scheme Targets**

During the 2017 compliance year, the total of the WEEE B2C collection targets set for compliance schemes was missed by around 16% across almost all categories with the exception of PV panels.

At present, the position for 2018 appears to be leading towards a similar outcome; an overall market shortfall, although the scale remains uncertain. Collection volumes published for the first two quarters of 2018 are indicating the possibility of deficits across all categories.

<b>Stream</b>	<b>2018 Collections YTD</b>	<b>2018 Target</b>	<b>2018 Position YTD</b>
LDAs	88,281	190,171	46%
Cooling	63,698	138,891	46%
Display	24,525	50,350	49%
GDLs	2,557	5,517	46%
SDAs	73,267	152,060	48%
PVPs	4	76	5%
<b>Total</b>	<b>252,333</b>	<b>537,065</b>	<b>47%</b>

If 2018 continues to yield WEEE at the rates seen so far, achieving the collection targets in most of the categories is going to be challenging. There is therefore a high likelihood of some schemes being unable to meet their collection targets and so the requirement for a compliance fee will be clear to maintain an orderly and stable system and the credibility of targets. The fee methodology should therefore be set at levels that consider, as far as is practicable:

1. That any schemes that have collected above their target have an incentive to make available surplus evidence to other schemes that are short at realistic, but not punitive rates, and
2. That there should not be an excessive fee imposed on schemes that have made reasonable efforts to collect but been unable to meet their target because national collection rates were below expectations.

Set too low, the fees would encourage under collecting schemes to rely on the fee for their shortfalls rather than taking steps to collect themselves or make arrangements with other schemes that have surpluses. There would also be the potential for schemes that have inadvertently collected more than they require to be over-burdened with unrecoverable costs for doing the right thing by collecting WEEE in a market that may end the compliance period in overall deficit.

Set too high, the fees provide an opportunity for excessive charging by over collecting schemes as they attempt to recover far more than the real cost of collection and treatment.

#### **UK plastic exports**

China imposed significant restrictions on imports of plastic waste at the start of 2018, however WEEE treatment facilities appear to have reacted quickly to find new end markets for plastic waste from Mixed WEEE and to a lesser extent, fridges. We believe that the capacity of alternative end markets will be an ongoing concern as the world adapts to managing its plastic waste and needs to be a consideration as we go into the 2019 compliance year.

**WEEE diversion**

WEEE diversion from the established systems should be a consideration for the 2018 WEEE market. Leakage from the system hampers targets being met due to under collection, undermines the public's confidence that proper recycling will occur and slows the impact of investment and initiatives to grow recycling. This operational reality, which is difficult to quantify, may have removed a substantial quantity of material from the collection network.

**Gas discharge lamps**

There has been a significant decline in gas discharge lamps arising in the waste stream over the last 2 years. This has likely occurred due to GDLs being actively replaced since LEDs consume less energy. A possible suggestion for why collections have dropped so significantly is that people have just switched to the more modern technologies relatively quickly rather than waiting until things products need to be replaced. Further collection national data will reveal whether this under collection continues.

**Regulation 34/PBS**

The Producer Compliance Scheme Balancing Scheme (PBS) was launched in the second half of 2016 as a voluntary agreement between the majority of producer schemes to deal fairly with regulation 34 collection requests by Local Authorities.

It has proved to be a largely successful operation to date, both in 2017 and 2018. The number of requests made in quarter 1 of 2018 was similar to figures in quarter 1 of 2017; twenty six and twenty two respectively. A number of the requests made in quarter 1 2018 were due to the previous year PBS contracts coming to a close. Under PBS rules requests must be serviced by the applicable PCS for 6 months or until the end of the year, whichever is longest. There are currently approximately 30 active requests which have resulted in commitments to collect to December 31<sup>st</sup>, representing an estimated 25,000 tonnes of WEEE towards 2018 scheme targets.

The activity in Q1 appeared to result from some or all of the following:

- Regulation 34 requests of 2017 coming to an end, and being re-requested for 2018.
- Unrealistic expectations of some DCF operators in what compliance schemes should be prepared to provide, both financially and in terms of value-added services, for the right to collect and treat their WEEE. These expectations have also been reflected in the terms and conditions required to be met by the schemes in order to provide the services. As a consequence, invitations to tender for the collection of WEEE where preconditions and onerous terms have been stipulated have resulted in few or no responses from schemes.
- Efforts by some schemes to reduce their unwanted surplus collections, fine-tuning their collections to meet their own targets at the most advantageous cost.
- Moves by some schemes to reduce their financial responsibility for collecting WEEE streams in areas that are expensive and difficult to service, the likely intention being to replace these with collections in cheaper areas.

Some producer schemes have declined to join the PBS to date. This is likely to mean that; firstly they are unlikely to be approached by any Local Authorities and asked to collect themselves, and secondly that as a result their average collection costs are likely to be significantly lower than PBS member schemes who have taken on their fair share of regulation 34 request costs. These issues are likely to be resolved in 2019 as membership of a PBS is expected to be mandatory for all PCSs, however they are still applicable for 2018.

The development of the PBS has led to some complaints from AATFs. Those that collect and treat multiple streams (many of the larger ones) are now required to report and administer their activities to more than one compliance scheme in WDA areas serviced by Regulation 34 requests. They claim that their systems and administrative processes were configured to handle one scheme servicing all streams under each WDA contract. Handling multiple schemes and the added complication of issuing WEEE evidence to the order of the PCS operator is likely to lead to increased charges in future for all their customers. Other concerns, and potential models, have also been put forward by industry. We expect Defra will decide on the process for consulting on potential PBS models in 2019.

### **Conclusions**

The impact of these market developments on our proposed compliance fee methodology is that whilst there are a number of elements of our 2016 and 2017 methodologies that remain highly relevant there are also some other elements where we propose to make adjustments.

We believe that the 2016 methodology had the desired intention of reducing the perception from previous years that the compliance fee may be a lower cost than the actual collection costs involved. The main elements we therefore propose to carry forward from 2016 methodology are:

1. Including an allowance for direct operational management costs meant that the compliance fee better reflected the actual total scheme costs involved in collecting from Local Authorities, and therefore encouraged schemes to collect to the level of their targets. This is also in line with Defra's decision for 2017.
2. The fee escalator was designed so that the impact on schemes requiring a certain tonnage was the same regardless of scheme size. (Previously the escalator factor used was relatively insignificant for larger schemes but much more so for smaller schemes, meaning that the incentive for larger schemes to engage in actual collections rather than rely on the fee was lower).

There are also two key elements which we propose to maintain from the 2017 methodology:

1. To include a differentiator in compliance calculations between those producer schemes that are a member of the PBS (or equivalent arrangement) for sharing regulation 34 requests and those that are not.
2. To maintain the way in which the fee escalator is applied so that schemes (and their members) are not unduly penalised where their shortfall has been at least partly caused by national collection levels falling short of national targets.

However there are also four elements which we propose to introduce or enhance in the 2018 methodology:

1. An escalator will be applied dependent on the percentage of collections a scheme makes via Local Authority sites. This incentivises schemes to seek Local Authority collections, rather than being reliant on purchased evidence.
2. The direct operational management costs will be set at £3.50 per tonne, as opposed to requesting additional data from schemes and applying an average. We believe that this figure is broadly representative of the costs likely to be incurred by schemes and this simpler method is in line with Defra's decision for the 2017 methodology. It is consistent with our belief that direct operational costs should be included when calculating compliance fees.
3. The method to apply a differentiator in compliance calculations between those producer schemes that are a member of the PBS and those that are not has been simplified and amended.
4. A zero-fee for the LDA stream was incorporated in to the 2017 compliance fee. We believe that during the 2018 compliance year, it is likely that there has been similarly high level of collection activity occurring outside the official system and therefore we acknowledge that the rationale for this element remains substantially valid.

These amendments will help contribute significantly to the Government's objective of improving the long-term stability of the system.

#### 4.3 Points raised in Defra's evaluation of the 2017 methodology

Following our evaluation feedback for the 2017 compliance fee methodology we have addressed 2 points which were raised by Defra:

1. Setting the compliance fee against shortfall against the national target may leave larger PCSs exposed to economic impacts of deliberate over collecting schemes

*"However, the panel noted that although this formula was approved for 2016, feedback to Valpak at the time indicated that such approach might not be reflective of future market conditions. I was also highlighted in the feedback that such an approach might in the past had left larger PCSs exposed to economic rents from deliberate "over collectors".*

*The panel noted that the prevailing market conditions through 2017 do indicate that a proposal in which a PCS's shortfall is measured against the national target could result in two schemes both short by the same tonnage paying the same fee irrespective of whether that shortage represented say 1% of their target or 100% of their target. In the current climate of rising recycling costs the panel felt that this could dis-incentivise collections. For this reason, the panel was not content with a formula that used the national target for 2017."*

As described in more detail in section 4.4. (6) below, an escalator which uses the proportion of the shortfall of a scheme against its own collection target means that a larger scheme with a given tonnage shortfall would pay significantly lower fees than a smaller scheme with the same shortfall. However the reverse impact is then that a larger scheme may have a lower incentive to actively seek collections, as the compliance fee they would need to pay if they are unable to collect would be significantly lower. In contrast, it could put smaller schemes under more pressure to pay higher fees for over collecting larger schemes as their compliance fee for a set tonnage is likely to be significantly higher. In a market such as 2017, and as may be the case again in 2018 as indicated by the current figures, a compliance fee escalated against its own collection targets may prove to be a disincentive for larger schemes to collect.

On balance we believe that an escalator that is based on national target and is therefore identical for both large and small schemes remains the best solution in a range of possible circumstances, and therefore propose this methodology for 2018.

2. The methodology should include zero fee where streams show a net positive value.

We therefore propose to set the compliance fee for LDA for 2018 to zero, as described above.

#### 4.4 Principles of proposed methodology

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

Detailed below is our analysis and rationale for the main elements of the methodology we are now proposing to address the points above for the 2017 compliance year:

- 1. The compliance fee should include a flat-rate that properly reflects the necessary direct operational management and administrative costs of managing collections incurred by schemes.**

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

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

- preparing bids for collection contracts
- on-going management of operational contracts including ensuring contractors are performing properly, liaising with Local Authorities, addressing any day to day issues which arise



- conducting site audits of both collection sites and treatment operators to ensure that they are operating correctly,
- compiling, checking and making the regular reporting submissions required to the relevant enforcement agencies

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

These direct operational management and administration costs do not include any general scheme management or overhead costs which are not related to managing direct collections. We propose a flat-rate of £3.50 per tonne for this cost, as seen in the 2017 compliance fee methodology set out by JTa. Following assessment, we feel that this rate is representative of the necessary direct resource and operational management costs which are relevant to the compliance fee.

This direct operational management cost would not be subject to any escalator which may apply to collection and treatment elements of the fee as we believe this would be unduly punitive.

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

During 2016, 2017 and 2018 a number of Local Authorities have found themselves in a position where they have been unable to secure satisfactory long term collection arrangements with schemes and so have had to resort to regulation 34. These collections are managed either by the scheme directly receiving the request, or by a collective which has been voluntarily established by schemes representing the vast majority of producers called the PCS Balancing System (PBS).

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

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

We therefore propose that any scheme applying to use the compliance fee and providing cost data should include their cost for any regulation 34 collections they perform directly or collections that they perform on behalf of the PBS.

**3. The compliance fee should incorporate an additional uplift applicable only to non-PBS member schemes**

As described earlier the PBS is a voluntary approach implemented by a number of compliance schemes to deal fairly and effectively with regulation 34 requests from Local Authorities. We recognise that Defra has announced that it intends to amend the WEEE regulations to introduce a mandatory requirement for producer compliance schemes (PCSs) to be part of a Producer Balancing System (PBS). However, unfortunately not all compliance schemes joined the PBS for the 2018 compliance year, and so may not have incurred any regulation 34 costs.

In order to address this situation, we propose that for 2018, there is an additional uplift calculated by the operator for non-members of the PBS. The methodology we propose to calculate this uplift is set out in section 4.6.

The cooperation of the PBS had been agreed in the 2017 compliance year and, if successful, we would ensure suitable assurances are put in place to ensure data confidentiality by only requiring exchange of summary information between the third party PBS operator and the independent compliance fee operator.

**4. Where collection streams have a positive average cost value and it can be shown that a significant volume is being treated outside the official producer responsibility system, the fee should be set to zero.**

A zero-fee for the LDA stream was incorporated in to the 2017 compliance fee. We believe that during the 2018 compliance year, it is likely that there has been similarly high level of collection activity occurring outside the official system and therefore we acknowledge that the rationale for this element remains substantially valid.

**5. The compliance fee should incorporate an additional uplift that considers the source of a scheme's WEEE collections in a particular stream**

An escalator will be applied dependent on the percentage of collections a scheme makes via Local Authority sites. This incentivizes schemes to seek Local Authority collections, rather than being reliant on purchased evidence. See calculation in section 4.6.

**6. Shortfalls which represent a higher proportion of the national target should incur a higher fee**

In 2014, 2015 and 2017 the compliance fee methodology adopted has included a quadratic escalator which increased the fee payable in proportion to the shortfall of any scheme compared with its own collection target for the year.

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

As neither of these outcomes is desirable in encouraging stability of the WEEE system, and could lead to distortions and unfair competition, for 2017 we proposed to amend this so that the escalator was calculated in relation to a scheme's shortfall against the national target in each stream rather than the scheme target in that stream. This ensured that the escalator would be identical for a given tonnage shortfall, regardless of scheme size. Each tonne collected is important to reach the national target, therefore all tonnes collected should be treated equally, meaning schemes should not be penalised for being either larger or smaller.

We believe that this approach appeared to have been successful in 2016 and we propose to retain this element with the same principle for 2018. However, as described in the Market Developments in section 4.2, we also acknowledge that it appears likely that in 2018 many WEEE streams will fall short of their national collection targets again. The exact reasons for this are not yet fully clear and we believe that research around the dynamics of the WEEE market should continue in order to get a better understanding of how targets can be set an appropriate level. An unintended consequence of this is that it could result in schemes that have fallen short of their collection targets incurring an escalated compliance fee on tonnage which was simply not available for collection even with the best of intentions. This would appear to be unduly punitive on schemes and their members.

As in our 2017 proposal, we therefore propose to vary the point from which the main escalator applies. If a particular collection stream is actually short in total compared with its national target at the year end, any scheme wishing to use the compliance fee in that stream would pay the un-escalated base cost per tonne up to their market share of the national shortfall, and an escalated compliance fee only on any tonnage beyond that. Note that other elements of the fee calculation (uplift for non-PBS members, direct operational cost and uplift for low LA collection rates) will still be included in the fee calculation for every tonne that a scheme is short, regardless of the national position.

So, for example:

- A collection stream has a national target of 100,000 tonnes but only 90,000 tonnes is actually collected nationally by all schemes combined, so the national shortfall is 10,000 tonnes.
- An individual compliance scheme has a collection target of 10,000 tonnes in that stream, but actually only collects 7,000 tonnes.
- The scheme applies for the compliance fee for their 3,000 tonne shortage.
- Their market share of that stream is  $10,000/100,000 = 10\%$
- The scheme's maximum "escalator-free" tonnage is  $10\% \times 10,000T = 1,000T$ . The scheme therefore pays for 1,000T at the base fee, applying appropriate uplifts for non-PBS members and LA collection rates.
- The remaining 2,000T is charged at an escalated rate (using the main escalator that relates the scheme's shortfall to the national target).
- The escalator for the remaining tonnage is calculated by using the same expression as in the compliance fee formula in Valpak's 2017 proposal where the scheme's total shortfall ( $t-c$ ) is

replaced in the formula by their remaining shortfall after the “escalator-free” tonnage is deducted. (see graphs below and section 4.6 for further details).

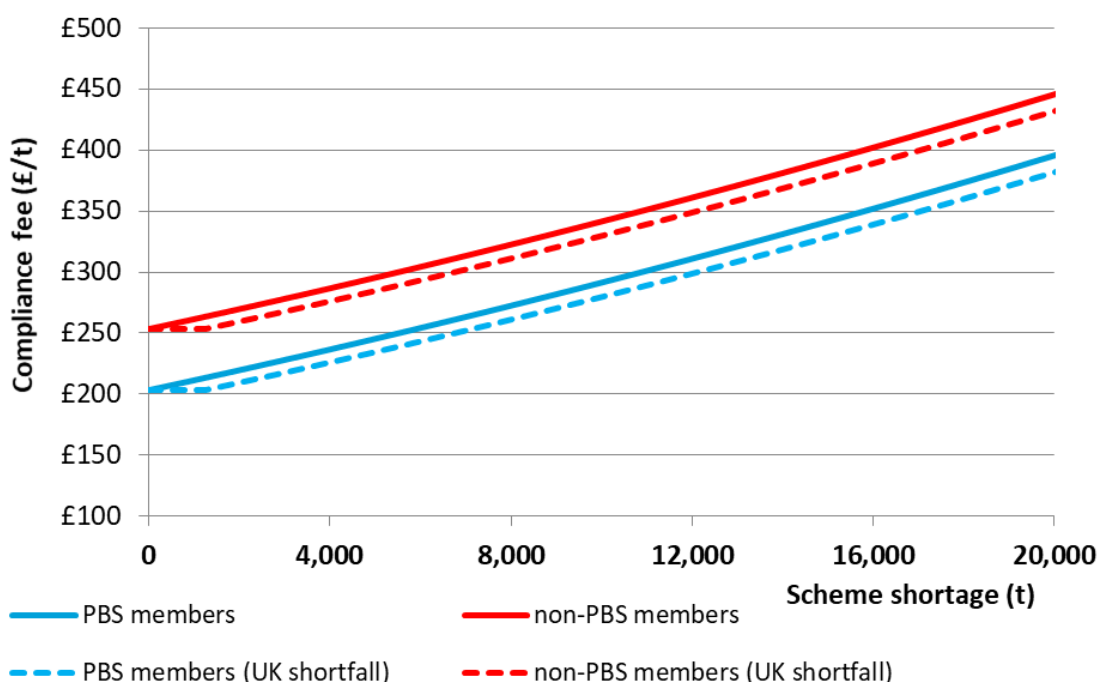
This approach means that a scheme in these circumstances would have some recognition of the fact that, for reasons at least partly out of their control, they have fallen short of their target but would also still have a financial incentive (through the delayed escalator) to take steps to increase their own collections or make arrangements with other schemes where possible.

This approach also minimises the potential for schemes which may individually have over collected, despite an overall national shortage, to take advantage of their position by attempting to charge excessive prices for their surpluses.

The graph below shows the impact of the proposed escalator for varying tonnage shortfalls using the illustrative assumptions below:

- Total UK target for stream = 50,000 tonnes
- Weighted average net cost of collection and treatment = £200 per tonne
- Weighted average net cost of regulation 34 requests (including administrative charges) = £250 per tonne
- Flat-rate for direct operational management costs = £3.50 per tonne
- National shortfall = 5,000 tonnes
- Market share for both schemes = 25%

**Compliance fee impact on schemes**



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

## 4.5 Methodology summary

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

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

1. Not imposing excessive costs on schemes (and therefore producers) either directly, because of an excessively high fee, or because of a market perception of a high fee leading to schemes demanding excessively high payment for their surplus collections  
  
whilst at the same time
2. Being set at an appropriate level to encourage schemes to take all reasonable steps to meet their targets without using the fee, as set out in the regulations

The core elements we propose to continue with from the 2016 and 2017 methodologies are :

Core Principles	Rationale
1. Weighted average costs per stream will be the base cost for each stream.	Actual collection and treatment cost and tonnage information will be provided by schemes from which the operator will calculate the weighted average base cost per stream. This ensures the base cost is representative of the situation across the UK.
2. To increase the base cost by an escalator factor so that compliance fees increase for greater tonnage shortfalls.  The escalator is based on the tonnage shortfall that a scheme applies for against the national target for that stream rather than the individual scheme target.	The escalator provides a greater encouragement to take reasonable steps to meet scheme targets for higher tonnage shortfalls.  All schemes with the same tonnage shortfall will pay the same fee regardless of scheme size, which better reflects the national requirements.

<p>3. To add to the escalated base fee in each stream an additional cost to properly represent the direct operational management costs necessarily incurred by collecting schemes in managing and administering WEEE collection and treatment arrangements.</p>	<p>These would include, for example, the direct costs of preparing and managing contracts, visiting and auditing sites, managing relationships with AATFs and the necessary mandatory reporting. <u>Other more general scheme management overheads are specifically excluded.</u></p> <p>This is also in line with Defra's decision to apply a cost per tonne fee to the JTa proposal for 2017.</p>
<p>4. Providing cost data for all streams collected is a condition of using the fee.</p>	<p>This is to ensure there is a viable data set available on which to base the fee.</p>
<p>5. A third party independent body be appointed to administer the fee and audit the data.</p>	<p>Third party administration will prevent any conflict of interest and ensure confidentiality. The role will include fund collection and dispersal of funds.</p> <p>The requirement for independent audit will ensure data accuracy.</p>
<p>6. A different fee is calculated to apply to schemes wishing to use the compliance fee depending on whether or not they are a member of the PCS Balancing Scheme (PBS) or a similar arrangement for dealing with regulation 34 requests.</p>	<p>Members of the PBS (a voluntary agreement between schemes to deal fairly with regulation 34 requests) incur additional Local Authority collection costs in accordance with their market share. Some schemes are not members of the PBS and so are unlikely to requested to carry out any regulation 34 collections and therefore not incur the costs. If a non-PBS member scheme wishes to use the compliance fee then its shortfall can be at least partly attributed to its failure to participate in the PBS. As a result, it is fair that the base compliance fee for such schemes should be set at a higher level compared to PBS member schemes.</p>
<p>7. In the event that national collections in any particular stream at year end fall below the level of national target set then a proportion of any compliance fee tonnage applied for by a scheme would be</p>	<p>It would be unduly punitive for schemes and their members to pay escalated compliance fees where, despite best intentions, at least part of the reason is that national collections have fallen short of targets and insufficient WEEE is available for collection.</p>

calculated at the base fee and any further tonnage fee escalated in accordance with the formula described.

8. In the unlikely event of an application being made to use the compliance fee for a particular stream but where none of the participating schemes are able to provide actual collection cost data, the administrator should use the base fee from the 2017 methodology.

This was a potential difficulty with the methodology for 2016 but adopting this approach is a practical way to deal with the eventuality for 2018.

The key enhancements we are proposing for the 2018 methodology are:

Enhancement	Rationale
1. An escalator will be applied dependent on the percentage of collections a scheme makes via Local Authority sites.	This incentivises schemes to seek Local Authority collections, rather than being reliant on purchased evidence.
2. The methodology for calculating an increased cost for PCSs which are not PBS members has been simplified	The rationale is as per the explanation provided above, however the calculation has been simplified.
3. Zero-fee for LDA stream	During the 2018 compliance year, it is likely that there has been similarly high level of collection activity occurring outside the official system and therefore we acknowledge that the rationale for this element remains substantially still valid.
4. Simplification of the escalated base fee to properly represent the direct operational management costs necessarily incurred by collecting schemes in managing and administering WEEE collection and treatment arrangements.	The fee will be £3.50 per tonne, which has been used in the 2017 methodology and appears to be representative of average costs of, for example, contract and account management, reporting and site auditing. Scheme overheads are excluded from this figure.

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

## 4.6 Fee Calculation

The fee would be calculated based on actual collection and treatment costs obtained from compliance schemes and cost of regulation 34 requests obtained from the PBS operator. Ideally the data collected should be as accurate and representative as possible, and so it would be preferable for data to be provided for all collections from all schemes. However we recognise this is unlikely to be practicable because:

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



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

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

### Data required from schemes

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

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

The information collected should reflect only WEEE actually collected by each scheme, not any agreements with other schemes. Costs of collections performed by other schemes or evidence purchases are excluded, as these may not accurately reflect the actual costs involved and could lead to double counting. (This will be included in the data auditing process).

Data on the direct operational management costs involved in organising collection and treatment of WEEE will not be requested from participating schemes as a flat-rate of £3.50 per tonne will be used instead. Costs represented by this fee are outlined in section 4.4

### Data required from PBS operator

Additional cost and evidence data will be requested from the operator of the PBS during 2018, Anthesis, for the calculation of an uplift incurred by schemes that are not a member of the PBS. This uplift for a single collection stream would be the proportion by which the average cost of regulation 34 requests (including administrative costs) is higher than the overall average cost of collections.

As with other schemes, if UK collections do not meet the target for a particular stream, the scheme would first be allocated an “escalator-free” tonnage that is at most, the scheme’s market share of the national

shortfall. Note that tonnage below this threshold is still subject to the uplift for non-PBS members, uplift for low LA collection rates and the direct operational cost.

The data required from the PBS operator for each stream needs to include:

- Total tonnage of evidence issued collectively to all schemes in the PBS as a result of any Stage 2, 3 and 4 activities.
- Total costs incurred by all members of the PBS collectively as a result of any Stage 2, 3 and 4 activities. This should include both the cost of collections and any administrative or transactional costs that may be charged by the PBS operator for operating the PBS. A full list of PBS member compliance schemes

### Calculation

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

There is an alternative formula for any streams where the national target is not met through total collections, but this similarly involves an escalator.

### Uplift for non-PBS member

$$p = \left( \frac{b}{a} - 1 \right)$$

Where:

p: the uplift for non PBS members (%)

b: weighted average cost of regulation 34 collections via PBS including administrative costs (£ per tonne)

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

### Example

*PBS operator provides data to calculate  $b = £250$  per tonne*

*Schemes provide collection cost data and then compliance fee operator calculates  $a = £200$  per tonne*

*A scheme applying for the compliance fee was not a member of the PBS during 2018 compliance year and therefore, the compliance fee operator incorporates the calculation below in that scheme's fee calculation:*

$$p = \left( \frac{£250}{£200} - 1 \right) = (1.25 - 1) = 0.25$$

**Uplift for LA collection rates**

$$l = i \times \left( \frac{M}{C} - \frac{m}{c} \right)$$

Where:

$l$ : the uplift for LA collection rates (%)

$i$ : a coefficient decided upon discussion with Defra

$M$ : the volume of LA DCF collections carried out by all schemes in that stream (tonnes)

$C$ : the volume of collections carried out by all schemes in that stream (tonnes)

$m$ : the volume of LA DCF collections carried out by the scheme (tonnes)

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

Note that data for  $M$  and  $C$  would be obtained from the national WEEE data. We would suggest a coefficient,  $i$ , of 0.2 however this would be finalised upon discussion with Defra.

**Example**

*A scheme collects 5,000 tonnes in a selected stream and 3,500 tonnes of this is from LA DCF sources. In that same stream, the UK collects a total of 75,000 tonnes, 60,000 tonnes of which have arisen from LA DCF sources. Assuming the coefficient,  $i$ , has been set at 0.2, this uplift calculation for the scheme is:*

$$\begin{aligned} l &= 0.2 \times \left( \frac{60,000}{75,000} - \frac{3,500}{5,000} \right) \\ &= 0.2 \times (0.8 - 0.7) \\ &= 0.2 \times 0.1 = 0.01 \end{aligned}$$

The basic formula used to calculate the compliance fee for each stream of WEEE (where UK collections are either balanced or in excess of the UK target for that stream) will be:

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

Where:

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

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

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

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

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

p: the uplift for non PBS members (%)

l: the uplift for low local authority collection rates (%)

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

Alternatively, if there is a national shortfall in a stream, then a similar formula is used below:

$$f = f_1 + f_2$$

$$f_1 = s \times (a \times (1 + p + l) + d)$$

$$f_2 = (t - c - s) \times (a \times \left(1 + \frac{t-c-s}{T}\right)^2 + p + l) + d$$

Where:

s: the PCS's market share in that stream multiplied by the national shortfall in that stream(tonnes )

In the latter case, the operator will be required to obtain both market share data and national collection data in order to establish each scheme's "escalator-free" tonnage. This escalated fee will only be charged against tonnage applied for above this threshold. Note that if a scheme's "share" of the national shortfall, s, is larger than that scheme's own shortfall, t-c, then  $f_2$  is not applicable as it would be negative and the escalator in  $f_1$  would apply to the scheme's shortfall, t-c, rather than s. In this case, where t-c-s is negative, then the following formula should instead be used:

$$f = (t - c) \times (a \times (1 + p + l) + d)$$

The operator will collate all the information provided by participants to calculate the weighted average net collection and treatment cost (£/tonne) by stream (shown by  $a$  above). This will then be escalated by a variety of uplifts that vary depending on the scheme concerned and the national position:

- **The main shortfall escalator**,  $\left(1 + \frac{t-c}{T}\right)^2$  or  $\left(1 + \frac{t-c-s}{T}\right)^2$  – this quadratic expression relates the size of a scheme's shortfall (or remaining shortfall after an "escalator-free" deduction) to the national target,  $T$ . It is removed from the formula when applying the fee to an "escalator-free" volume in the event of a national shortfall in a single stream.
- **The non-PBS member uplift**,  $p$  - this uplift is applicable only to non-PBS members (shown by  $p$  above) and it takes the proportional difference between the cost of regulation 34 requests and overall cost of collections shown by  $a$  above. If a scheme was a member of the PBS in the 2018 compliance year, then  $p$  above is zero.

- **The LA collection rate uplift,  $l$**  – this uplift is applicable to all schemes applying for the compliance fee and it compares the collection rate of a scheme specifically for LA DCF collections to the UK's same LA collection rate.

The operator will then add the flat-rate for direct operational management costs (£3.50 per tonne), (shown by  $d$  above) to the escalated base-fee following the above calculations. The direct operational management cost will not be subject to the escalator, similarly to our 2017 methodology, as this was judged to be unnecessarily punitive.

Using the formulas detailed above, the operator will then calculate the total compliance fee to be paid by each scheme wishing to do so by applying the final escalated base-fee with all uplifts over the tonnage specified in the formula,  $(t - c - s)$  and  $(s)$ , or  $(t - c)$ .

All schemes that have applied for the fee will then be notified of their individual compliance fees thus calculated by stream, and a request for payment issued accordingly.

See Section 6.5 for details of the process should there be low or minimal take up of the fee.

## 4.7 Data accuracy

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

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

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

- Checks of collection records and quarterly reports to reconcile with tonnages reported
- Checks of actual invoices and contracts for collection and treatment to reconcile with collection costs reported
- Checks of evidence data with that reported by Approved Authorised Treatment Facilities (AATFs)
- Collation and submission of data to enforcement agencies
- Review of scheme processes to ensure reporting is accurate
- Checks on the accuracy of information supplied on scheme operational management costs including ensuring that inadmissible costs are excluded

Should any errors within a scheme submission be identified, these will be discussed with the management of the scheme and a re-submission will be requested from the scheme. Completion of a satisfactory audit process will be a condition of participating in the compliance fee.

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

## 4.8 Consultation on our proposals

In previous years the Government has chosen to consult widely on all proposals for compliance fees it received before making a decision on how to proceed. We support this approach and assume it will be repeated for 2018 as it provides interested parties with the opportunity to directly compare alternative proposed methodologies and make comments on the pros and cons accordingly.

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

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

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

## 5. Administration of the fee

It is proposed to use Grant Thornton UK LLP as an independent third party to operate and administer the compliance fee. Grant Thornton UK LLP administered the 2016 compliance fee and we understand that feedback on their processes was very positive.

If this methodology is chosen then Grant Thornton will be expected to:

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

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

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

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

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

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

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

### **5.1 Proposed Structure and Governance**

Should this proposal be accepted, Valpak Limited will establish a separate subsidiary company, Compliance Fee Services Limited, through which the process of compliance fee payments will be managed. This company will have no other operations and will be a wholly owned subsidiary of Valpak Limited. The directors will be two long standing independent non-executive directors of Valpak. No Valpak executive directors will be involved. A similar structure has operated effectively for a number of years for the operation of the Distributor Takeback Scheme via Valpak Retail WEEE Services Limited.

Grant Thornton will engage with Compliance Fee Services Limited and set up and operate a designated Grant Thornton client bank account, in the name of the separate entity. This account will be the sole vehicle through which funds are received (according to the process described in this proposal) and out of which payments are distributed (based on instructions received from Defra). This process will ensure that the funds will be treated as client monies over which Valpak has no visibility or influence whatsoever.



## 6. Methodology for the dispersal of funds

### 6.1 Introduction

The most effective routes for dispersal of compliance fee funds depend to a significant extent on the value of funds raised. As the total fund will not be known until March 2019 it is not possible at this stage to specify precisely how the funds should best be used. The figures which are currently available show that there could be another significant shortfall in actual WEEE collections, suggesting if a WEEE compliance fee is set for 2018 there could again be a sizable compliance fee contribution for 2018.

There has been a significant change in the way the 2017 fund is being dispersed, due to the size of the fund (c.£8million), including that the fund will be dispersed over a three-year period as opposed to over the course of 2018 only. It has been proposed that the fund be split into the below categories:

- Technical projects (c.£800,000)
- Local Authority projects and communications (£4million)
- Communications and behavior change fund (£3million)

The 2017 fund dispersal methodology appears to be a sensible approach and we fully support the objectives of the suggested split of funds and would propose a similar dispersal approach for the 2018 fund. However the project selection process is still underway and there will be no firm evaluations of the fund dispersal process until quarter one 2019 at the earliest. We therefore feel it would be prudent to undertake a planning workshop in early 2019 to assess how the 2018 fund could be dispersed, including Defra and other key stakeholders. This workshop could then account for any adjustments to the dispersal methodology needed, or amended priorities based on, for example: the results of current projects and studies (e.g. protocol and POPs project); new information becoming available (e.g. The Lancaster University report); changes to the WEEE system from 2019 e.g. target increases and open scope.

### 6.2 Technical Projects

It has been agreed that this will include one project run by ICER to assess the prevalence of Persistent Organic Pollutants (POPs) in WEEE and also a project run by the WSF to update the WEEE protocols in line with open scope. Further technical project proposals have been submitted and are currently being evaluated.

### 6.3 Local Authority projects and communications and Communications and behavior change funds

The JTa compliance fee working group are currently evaluating possible Local Authority projects, which could also link to a national communications and behavior change project. Some initial ideas include a focus

on SMW from households and increasing the amount of reuse which is being completed. As mentioned above, the funding is being dispersed over a three year period, so it is currently not possible to assess the process for dispersal, or success of projects. The dispersal of the fund is also assessing the possible pros and cons to different types of projects which were completed in 2015 (where the compliance fee and DTS fee were amalgamated) in order to ensure projects completed add to the WEEE system.

## 6.4 Administration and timetable of fund dispersal

Grant Thornton would inform Defra of the total value of the remaining fund once their costs have been met. Defra, in consultation with Grant Thornton, would then determine the value of the fund to be made available. As mentioned previously, depending on the size of the fund, we would then suggest a planning workshop was held with Defra and other key stakeholders to discuss the dispersal of the fund. The timetable for these other projects will be determined in discussion with Defra during 2019.

## 6.5 Procedure for low or minimal uptake of the compliance fee

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

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

- Calculate the total tonnes of each stream applying to use the fee
- Divide the operator's costs (after deduction of participation fees) by the tonnes of each stream in proportion to the fee cost/tonne for each scheme defined in section 4.6
- Calculate the increase in cost/tonne for each stream and scheme required
- Issue requests for payment to the applying schemes using these rates

Example:

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

Scheme 1 applies for 10 tonnes of stream A

Scheme 2 applies for 100 tonnes of stream B

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

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

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

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

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

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

5,050

Therefore the compliance fees are:

$$\text{Scheme 1} = 10 \times £5 \times 1.98 = £99$$

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

Total compliance fee = £9,999 (rounding)

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

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

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

## 6.6 Validation of project funding

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

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

## 7. Timetable for implementation and operation

Our proposed timetable is set out below:

30 September 2018	Submit methodology to Defra
October to December 2018	Defra consult on methodologies
Early February 2019	Defra announce chosen methodology
7 February 2019	Grant Thornton publicise the process to all approved WEEE compliance schemes asking for a response directly to Grant Thornton and setting out the information required in a data collection template.
15 February 2019	Deadline for Grant Thornton to receive applications from schemes wishing to use the fee.  Note: If no applications are received by the deadline then further work on the compliance fee is stopped to avoid unnecessary expense and no fee will be available.
22 February 2019	Deadline for Grant Thornton to receive required information from participating schemes.
25 February to 8 March 2019	Grant Thornton Non-audit assurance team performs its work on the data submitted by the schemes.  Grant Thornton calculates base fees and escalators according to the methodology described.
w/c 11 March 2019	Grant Thornton informs applying schemes of compliance fees applying to the tonnages they have applied for, and issues requests for payment to each scheme accordingly.
25 March 2019	Deadline for receipt of cleared funds from scheme into Grant Thornton designated client bank account in respect of Compliance fees due.

26 March 2019	Deadline for Grant Thornton to issue Compliance Fee Payment Certificate. Grant Thornton provides confirmation to schemes of payment plus tonnage and streams represented.
29 March 2019	Schemes submit DoC to enforcement agencies accompanied by confirmation of fee payment.
2 April 2019	Grant Thornton send a summary report to each Environment Agency listing the names of the registered schemes which have paid the compliance fee for each stream and the number of tonnes covered by the fee.
April 2019 onwards	Defra announce project fund and assess applications. Stakeholder workshop to be convened depending on size of fund for dispersal.

## 8. Experience of proposer and proposed operator

### 8.1 Proposer

Valpak is the UK's largest compliance scheme operator, with over 20 years' experience in producer responsibility and compliance. We operate approved compliance schemes for packaging, WEEE and batteries as well as providing a number of related environmental and data services to our clients. We have a 100% compliance record.

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

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

1. Conducting the cross industry EEFlow project in conjunction with WRAP to provide future projections on likely quantities of EEE and WEEE and the UK's likely position on compliance with future targets. This included an update to the figures, completed in 2018 and submitted to Defra.
2. Coordinating WSF research on possible free-riders for online sales of EEE
3. Valpak's proposed methodology for the operation of a WEEE compliance fee for 2016 was accepted by the Government.
4. Supporting the introduction of the target and compliance fee approach incorporated into the current WEEE regulations, and suggesting how the fee process should operate.
5. Participating as an active member of the WEEE Schemes Forum (WSF) and Industry Council for Electronics Recycling (ICER) which are often asked for input by Government to assist with developing proposals.
6. Putting the case for introduction of producer responsibility for batteries to allow for competing compliance schemes rather than a single scheme centralised approach. This competition has led to lower costs and better service for producers.
7. Conducting and part funding numerous research and consultancy projects for packaging, including a large amount of work to input into the current EPR Reform discussions.

### 8.2 Proposed operator

Grant Thornton is one of the world's leading organisations of independent assurance, tax and advisory firms. They have been selected by Valpak as administrator for all our compliance fee proposals and operated the process for 2016. They therefore have excellent direct relevant experience and a successful track record of the necessary processes.

Their additional relevant experience and expertise relevant to this proposed methodology is set out in their proposal as Appendix I.

## 9.IT systems

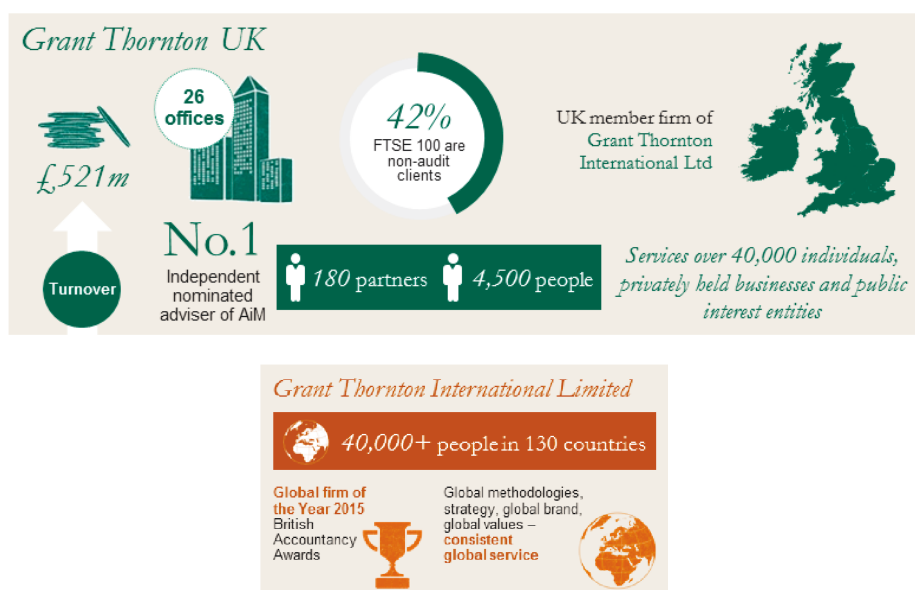
The IT systems necessary to operate the compliance fee will be provided by Grant Thornton as operator.

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

## Appendix I - Proposal from Grant Thornton UK LLP

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

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



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

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

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

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



Universum 2016  
World's Most Attractive Employers



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



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



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



The British Accountancy Awards 2015  
Global Firm of the Year



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



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

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

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

#### Administrators of the 2016 WEEE Compliance Fee

Following DEFRA's approval of Valpak's 2016 proposal, Grant Thornton were appointed as Administrators of the 2016 WEEE Compliance Fee cycle. We have first-hand and recent experience of administering the compliance fee and would bring our knowledge and expertise to the process having undertaken this role in the 2016 compliance year. We perform our work professionally, effectively and efficiently against expectations and are responsive to matters that arise. If we were to be appointed for the 2018 cycle we would seek to utilize the same resources from the 2016 year for consistency and to benefit from previous experience. We have used our experience of the 2016 cycle and related feedback to modify the approach that we would take in the 2018 cycle. For instance, we have updated the notes on the scheme information template to provide clarification on the data required from schemes, and we have adjusted, and provided further detail on, the proposed timeline for the process.

#### 2015 WEEE Compliance Fee – agreed upon procedure for participating organisation

As part of the WEEE Regulations, in February 2016 Grant Thornton was commissioned by a participating organisation to perform an agreed-upon procedures review with respect to the information included in the WEEE Compliance Fee data collection form completed for submission to

the WEEE Compliance Fee Administrator. Our engagement was undertaken in accordance with the International Standard on Related Services 4400 applicable to agreed-upon procedures engagements.

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

#### Environmental programmes

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

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

#### European regulations relating to packaging materials

Grant Thornton are engaged by several organisations to provide validation over declarations being made in relation to the material weights of packaging used in their products, which are placed upon the market in certain territories such as France and Germany. The validation includes visits to the organisations to assess underlying systems which produce the packaging data, in addition to sample weighing products to support the conclusions reached as part of the validation audit.

#### Sandwell Council

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

#### Telford Council

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

#### Southend Council

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

#### High Peak & Staffordshire Moorlands Councils

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

#### Sheffield Council

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

## Scheme Administration & Non-Audit Assurance reporting

### Scheme Administration:

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

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

**Tim O'Connell**, Head of Outsourced Accounting Services (Outsourcing), will lead the overall service delivery. Tim is a Fellow of the Association of Chartered Certified Accountants and has been with Grant Thornton for over 22 years, working in outsourcing throughout most of that time. Tim leads our outsourcing service and deals with many high-profile clients in a wide range of sectors including international accounting assignments and UK subsidiaries of overseas companies. Services provided include managing the sales ledger, invoicing and debt collection process for a number of clients. Tim's work involves agreeing and embedding agreed processes and procedures, monitoring and controlling on-going accounting work and ensuring excellent service delivery to clients. Tim is also responsible for ensuring compliance with regulations and procedures around the operation of Grant Thornton Client Bank accounts.

**Simon Carter**, Outsourcing Senior Manager, will coordinate and manage the day to day administrative requirements of the scheme. Simon is a Fellow of the Institute of Chartered Accountants in England and Wales and has been with Grant Thornton for over 17 years, working originally in audit and then in outsourced accounting for much of that time. Simon was extensively involved in the administration of the fee for the 2016 compliance year and would bring his wealth of experience to the process if appointed again.

**David Newstead** will lead the verification non-audit assurance element of the assignment. David is an assurance partner and the key liaison point with Defra /WEEE Schemes, having undertaken the role for the 2016 compliance year.

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

## Project Planning and Implementation

We have proven experience implementing assignments such as this, as we did in the prior year, and have a tried and tested process to ensure a smooth transition. The following is a summary of our Implementation process:

- We will hold a planning meeting with representatives of Defra to liaise over the process, protocols for dispersal of payments, and detailed timetable focusing on any changes from the prior year cycle.
- We will utilise the tools which were configured for the 2016 cycle (updated for any further refinements needed), including the accounting software, template documents and the Grant Thornton Designated Client Bank Account.
- We will update our processes and systems for any changes required, such as modifying the compliance fee calculator.
- We will gather the relevant data, such as the official PCS register, in preparation for the commencement of the work.

## On-going Process

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

- We will publicise the process to all approved WEEE compliance schemes, by obtaining a list of approved schemes and issuing the appropriate notification and asking for a response directly to ourselves. A pro forma template of the notification is attached at Appendix II. At the same time we will issue a request for information to each applicant scheme in terms of actual collections and treatment costs for each WEEE stream using the pro forma data collection template at Appendix II.
- On Friday 8 February 2019 we will send an email and a hard copy letter to each PCS using the contact details on the official public register inviting participation and requesting positive or negative confirmation. We will send a reminder email to the PCSs we have not heard from on Wednesday 13 February. If we have received no response from a PCS by Friday 15 February we will assume that the PCS does not wish to participate.
- We will receive applications from schemes that wish to use the fee.
- To ensure the data submitted by each scheme is reliable and accurate, the information is subject to an independent review by a registered auditor. To maintain independence this review will be carried out by a separate assurance team in Grant Thornton and a report issued following completion of the work.
- Following the approved methodology, we will undertake the data analysis and calculate fee levels for each stream and appropriate escalator factor. In accordance with the timetable set out in Section 7 we will notify all schemes who have applied to use the fee of their compliance fee and issue a request for payment to the scheme setting out the fee payable for each applicable WEEE stream.
- Payments received from each scheme will be held in a designated Grant Thornton client bank account in name of Compliance Fee Services Limited, used only for the purpose of holding and dispersing the funds and for no other purpose. Therefore there is no danger of these funds being mixed up or misapplied. The request for payment issued to the scheme will specify details of the bank account to which the funds should be remitted and the latest date by which cleared funds should be received.

- We will monitor the amounts being received into the bank account and post the amount received against that schemes account in the ledger.
- On receipt of payment in full we will issue the schemes with a Compliance Fee Payment Certificate confirming the streams and tonnage for which the fee has been paid in full to enable them complete their Declaration of Compliance to the Environment Agencies by 29 March 2019. A pro-forma certificate is shown at Appendix II
- We will send a summary report to each Environment Agency listing the names of the registered schemes which have paid the compliance fee for each stream and the number of tonnes covered by the fee. We will not disclose the actual fee paid by any scheme or the fee rate per tonne, in any correspondence with the Agency. If there is discrepancy or any query regarding tonnage covered by a compliance fee payment, the Agency can liaise with us and we will provide clarification.
- To reflect a clear and secure audit trail, requests for payment and payments will be processed in our Exchequer accounting software (details of which are below) using an accounts receivable ledger with a separate ledger account for each scheme. Each account will be reconciled individually with requests for payment to each scheme matched against payments received from that scheme. Posting entries made in the software cannot be altered once posted.
- Following the agreed process and timetable for distribution, we will make payments (less our agreed administration fee) to the chosen recipients to support Local Authority WEEE projects approved by the Judging Panel or other uses as determined by Defra.
- Should any unexpected issues or uncertainties arise in the operation of our proposed process which have not been anticipated we propose to raise these with Defra directly to seek guidance and resolve them.

### **Client Monies**

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

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

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

### **Commercial Confidentiality**

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

- Secure networks which can only be accessed by authorised personnel

- Regular changing and updating of passwords
- Restricting access to our people to the areas of the files and accounting software which are required to perform their role,
- Password protection of Excel files.
- Secure Transfer of files

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

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

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

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

**Contingency Plans**

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

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

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

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

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

## Verification reporting:

### Executive summary

#### We understand what is needed

Our team is already familiar with many environmental schemes and has undertaken this work in the 2016 year. We have the breadth of experienced team members to deliver each scheme on time, to the highest quality, and with sufficiently trained resources available to be agile and deal with any unscheduled requirements. Our team is passionate about this work.

#### Flexibility and pragmatism

We understand the importance of the timetable for delivering the compliance fee; flexing our timings to accommodate last minute changes is expected. We will ensure all deadlines are delivered; oversight through a single contact point. All schemes are contacted up-front to agree dates of verification fieldwork on site.

#### Innovation as standard

Our experience across the environmental compliance sector is founded on deep client relationships for both public sector clients (such as Ofgem, BEISDECC, the Crown Estate and the Carbon Trust) and the private sector, including utilities, developers and funders. Our verification activities extend beyond WEEE to product packaging materials (paper, plastic, metal) and refrigerant gases (for example, R134A). We have advised on large, complex procurements for both public and private sector clients. We believe that we are uniquely placed to deliver this engagement because of the specific experience that we have in our proposed team, combined with the depth of experience within Grant Thornton.

#### Our understanding of the WEEE Compliance scheme and verification process

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

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

On completion of our work at each scheme, we will discuss and share our findings with management, including where applicable, requesting that a re-submission is made in the scenario that data errors are identified.

#### Verification cycle

The following is a brief summary of our approach:

##### Team briefing

- ensure understanding of the schemes and related regulation
- confirm verification objectives and scope
- brief new verification team members on technical aspects of the scheme, if necessary



- discuss any specific risks associated with particular schemes, taking into consideration learning from previous verification
- identify any sector trends and updates that impact on work performed
- determine the type of evidence required
- ensure understanding of escalation process if issues identified during data testing.

#### Fieldwork - sample testing

- select a random sample of transactions for testing, agreeing back to source data
- carry out a 'walkthrough' to understand how the submission is populated ie identify sources of data
- select a random sample of transactions for testing, agreeing back to source data
- re-computation of calculations and comparison with independently formed expectations
- observation or re-performance of certain system reports
- inspection of source documentation
- capture evidence of any errors identified

#### Completion

- agree any outstanding queries to be resolved with the schemes
- discuss any errors identified from the fieldwork and request resubmission where appropriate
- report outcomes of verification for manager review to ensure consistency and accuracy across schemes
- Partner review of scheme outputs for completeness

### IT systems

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

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

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

#### Excel

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

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

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



**Exchequer - our accounting software solution**

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

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

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

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

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

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

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

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

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

Integrated Invoicing

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

Electronic Import

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

Reporting

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

Selective access

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

Back up and support processes

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

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

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

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

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

## Appendix II - Document Templates Contents Page

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• Letter to Schemes Inviting Participation	50
• Template for collection of tonnage and cost information	52
• Payment request letter template	54
• Payment certificate letter template	56
• Environmental agency letter template	57

**Letter to Schemes Inviting Participation**

PCS Scheme

8 February 2019

Dear Sirs

**WEEE Compliance Fee 2018**

I am writing to you to advise you that we have been appointed by the Department of Environment, Food and Rural Affairs under the Waste, Electrical and Electronic Equipment Regulations 2013 (WEEE) and Compliance Fee Services Limited, as Administrators of the WEEE Compliance Fee for the year ended 31 December 2018.

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

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

- a. Schemes will respond to this letter to confirm whether or not they intend to use the Compliance Fee. The deadline for receipt of confirmation is **15 February 2019**. If we do not hear from you either way by this date we will assume that your PCS does not wish to participate.
- b. Should you wish to avail of the WEEE Compliance Fee, I am also attaching a template request for information to be completed. This is in Excel format for ease of use. It requires tonnage collected and costs associated with the collection and treatment of this WEEE for each WEEE stream. Instructions on what information is required are attached to the request. The deadline for receipt of this information is **22 February 2019**.
- c. The information provided will need to be subject to an independent review by Grant Thornton. A separate team in Grant Thornton will perform this work and will issue a report following their work. Once you have submitted the information the audit team will contact you to arrange a visit on a mutually agreed date in the week commencing **25 February 2019** or the week commencing **4 March 2019**. Please make yourself available for their visit.
- d. Following the approved methodology, we will undertake data analysis and calculate Compliance Fee levels for each stream.
- e. By **Friday 15 March 2019** we will notify you of your Compliance Fee and issue a request for payment setting out the fee per stream and the bank account details to remit payment to us. The final deadline for receipt of cleared funds is **25 March 2019**.
- f. On receipt of payment we will issue you with a Compliance Fee Payment Certificate to enable you to complete your Declaration of Compliance by the deadline of **29 March 2019**.

The methodology for calculation of the fee is detailed in the proposal available on the DEFRA website.

Please note, that if you intend to use the fee then you must provide the data for **ALL** streams, and not just the stream(s) for which you are using the fee.

Please note that the provision of a valid return containing accurate and detailed cost data, where relevant, to support your submission is a condition of being able to use the Compliance Fee.

Please note that all information will be held in the strictest confidence by ourselves and will not be shared with any external organisations except in confirming to the relevant Environment Agencies the names and approval numbers of the Schemes that have used the Compliance Fee, the streams and tonnage by stream to which the usage refers.

There is a participation fee of £2,000 per scheme wishing to use the Compliance Fee as a contribution towards audit and administration costs. This fee will be raised on the same request for payment as the Compliance Fee and will be payable at the same time as the Compliance Fee. We will be unable to issue a Compliance Fee Payment Certificate if the participation fee or the Compliance Fee have not been paid by the deadline stated above.

If you wish to use the Compliance Fee please could you confirm your intention by emailing my colleagues Simon Carter at [simon.m.carter@uk.gt.com](mailto:simon.m.carter@uk.gt.com) and Sophia Sanderson at [sophia.l.sanderson@uk.gt.com](mailto:sophia.l.sanderson@uk.gt.com).

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

Yours faithfully

Tim O'Connell  
Head of Outsourced Accounting Services  
For Grant Thornton UK LLP

E: [tim.j.oconnell@uk.gt.com](mailto:tim.j.oconnell@uk.gt.com)  
T: +44 (0)118 955 9183

Template for collection of tonnage and cost information from Producer Compliance Schemes (PCSs)				Scheme Information Template	
PCS NAME					
<b>NET COST OF DIRECTLY COLLECTED WEEE</b>					
	Target WEEE Scheme target tonnage	Evidence Total Evidence received and recorded on Settlement Centre	Compliance fee applied for	Collected Scheme WEEE tonnage directly collected from Local Authorities only	Costs Total Direct collection, transport and treatment costs relating to Local Authority collections only
Unit	tonnes	tonnes	tonnes	tonnes	£
<b>1 January to 31 December 2018 - For submission on or before 22 February 2019</b>					
A - Large Household Appliances					
B - Cooling Appliances Containing Refrigerants					
C - Display Equipment					
D - Lamps					
E - Small Mixed WEEE					
F - Photovoltaic (PV) panels					
Total only (for all streams combined)					
<b>Completion instructions</b>					
1 The purpose of the document is to gather information in relation to tonnage, costs and income relating to the direct collection of each WEEE stream in the above period, for the purpose of calculating the WEEE Compliance Fee for the scheme.					
2 Compliance fee applied for is the tonnage you wish to use the Compliance fee for. Normally we would expect this to be Target minus Evidence but please confirm.					
3 Tonnage collected should include own scheme collections only from Local Authorities after any relevant national protocols have been applied, and should exclude collections or evidence provided by other schemes, waste management companies or Approved Authorised Treatment Facilities (AATF's) direct.					
4 Total direct collection, transport and treatment costs should consist of the following:					
a Net total collection, transport and treatment costs from Local Authority Designated Collection Facilities.					
b Net total regulation 34 collection, transport and treatment costs (excluding any regulation 34 collections carried out by or on behalf of other schemes).					
c Costs of providing the necessary containers (delivery, rental and depreciation).					

<b>Notes:</b>									
i. Net total costs above include any income generated from sale of material or parts which is retained by the scheme.									
ii. The information provided should reflect only WEEE actually collected by each scheme. For clarification, this should include the actual cost of WEEE you have collected even where you have an arrangement to transfer Evidence to another scheme.									
<b>Confidentiality</b>									
Grant Thornton UK LLP maintains strict confidentiality over all information provided to it and as a regulated firm we have strict protocols around the maintenance and handling of information received. All of the information provided by you as part of this request will therefore be treated confidentially in accordance with these protocols.									

**Payment Request Letter**

Our Ref:

PCS Scheme Name  
Address Line 1  
Address Line 2  
City  
Postcode

15 March 2019

Dear Sirs

**The Waste Electrical and Electronic Equipment Regulations 2013 (The Regulations)  
Request for payment of the Compliance Fee for the 2018 compliance period**

In our capacity as the appointed Administrator under Regulation 76 of The Regulations, we write to request payment of the compliance fee due under Regulation 33 *ibid*.

Following the independent review of your data submission, we have undertaken the data analysis and calculated the Compliance Fee level for each stream.

Please find below details of the 2018 Compliance Fee payable by your Producer Compliance Scheme:

Stream	Compliance Fee applied for	Compliance Fee payable
	tonnage	£ GBP
A – Large Household Appliances		
B – Cooling Appliances containing Refrigerants		
C – Display Equipment		
D – Lamps		
E – Small Mixed WEEE		
F – Photovoltaic (PV) panels		
<b>Sub total</b>		
Participation Fee		£2,000
<b>Total Compliance Fee</b>		



Please arrange for the above fee to be paid into the following bank account so that we are in receipt of cleared funds by Monday 25 March 2018.

Please note that it is a requirement under the Regulations that the compliance fee must be paid by the deadline.

Bank: Barclays

Bank Account Name: GRANT THORNTON UK LLP CLIENT ACCOUNT RE Compliance Fee Services Limited.

Bank Sort Code: **xx xx xx**

Bank Account Number: **xxxxxxxxx**

On receipt of cleared funds we will issue you with a Compliance Fee Payment Certificate to enable you to complete your Declaration of Compliance.

Please note that the above bank account is a designated client bank account which is operated in accordance with the Clients Money Regulations of the Institute of Chartered Accountants in England and Wales.

Grant Thornton UK LLP will collect the Compliance Fee payment in the above account as the Administrator of the 2018 WEEE Compliance Fee, as appointed by the Department for Environment, Food and Rural Affairs (DEFRA), as part of the administrative services we are supplying to DEFRA.

In our view, payment of the Compliance Fee by a Producer Compliance Scheme (PCS) into the above account is not in consideration for any taxable supply made by Grant Thornton UK LLP to the PCS.

As this is a statutory fee, and collected in our capacity as Administrator, VAT is not chargeable.

Grant Thornton UK LLP does not have a requirement to charge VAT and raise VAT invoices to the PCS in relation to the above Compliance Fee payment.

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

Yours faithfully

Simon M Carter

For Grant Thornton UK LLP

Appointed Administrators of the 2017 WEEE Compliance Fee.

T +44 (0)118 955 9115

E [simon.m.carter@uk.gt.com](mailto:simon.m.carter@uk.gt.com)

**Payment Certificate Letter**

Our Ref

PCS Scheme  
Address  
Address  
ADDRESS  
POST CODE

26 March 2019

Dear Sirs

**PCS Scheme – WEEE Compliance Fee Payment Certificate**

This is to certify the payment has been received in full in respect of the WEEE Compliance Fee for 2018 in respect of the following:

<b>Streams</b>	<b>Tonnage</b>
X - XXX	ZZ.ZZZ
Y - YYY	ZZ.ZZZ

Yours faithfully

Simon M Carter  
Senior Manager, Outsourced Accounting Services  
For Grant Thornton UK LLP

T +44 (0)118 955 9115  
E [simon.m.carter@uk.gt.com](mailto:simon.m.carter@uk.gt.com)

**Environmental Regulator Letter**

Our Ref

Environmental Regulator  
Address  
ADDRESS  
POST CODE

5 April 2019

Dear Sir

**The Waste Electrical and Electronic Equipment Regulations 2013 (The Regulations)  
Summary of 2018 WEEE Compliance Fee Payments Received**

In our capacity as the appointed Administrator under Regulation 76 of The Regulations, we write to inform you of the Producer Compliance Schemes (PCSs) that have paid a WEEE Compliance Fee in respect of the 2018 compliance period.

Payment has been received in full in respect of the following:

PCS Name	PCS approval number	Stream compliance fee paid for	Tonnage compliance fee paid for
		X – XXX	ZZ.ZZZ
		Y - YYY	ZZ.ZZZ

If you have any queries, please let me know.

Many thanks.

Yours sincerely,

Simon M Carter  
For Grant Thornton UK LLP  
Appointed Administrators of the 2017 WEEE Compliance Fee

T +44 (0)118 955 9115  
E [simon.m.carter@uk.gt.com](mailto:simon.m.carter@uk.gt.com)

