



**Proposal to the Department for Environment Food and
Rural Affairs**

**Operation of a WEEE Compliance Fee for the 2017
Compliance Period**

September 2017

Proposal to the Department for Environment Food and Rural Affairs

Operation of a WEEE Compliance Fee for the 2017 Compliance Period

September 2017

Contents

1.	LIST OF APPENDICES	3
2.	EXECUTIVE SUMMARY	4
3.	JTA VIEWS OF THE WEEE MARKET IN 2017, AND THE RATIONALE FOR THE 2017 COMPLIANCE FEE MECHANISM.....	6
4.	JTA PROPOSAL FOR THE WEEE COMPLIANCE FEE CALCULATION METHODOLOGY	12
5.	PRACTICAL OPERATION OF THE JTA WEEE COMPLIANCE FEE	19
6.	CALCULATION AND PAYMENT OF COMPLIANCE FEES	22
7.	ADMINISTRATION AND MANAGEMENT COSTS FOR THE 2017 COMPLIANCE FEE MECHANISM:.....	26
8.	GOVERNANCE	27

1. **List of Appendices**

Appendix 1	DRAFT FORM FOR COLLECTING COST INFORMATION FROM PCSS.....	29
Appendix 2	JTA PROCESS FOR DISBURSEMENTS FROM THE COMPLIANCE FEE FUND IN RESPECT OF THE 2017 COMPLIANCE PERIOD.....	32
Appendix 3	PROPOSED COMPLIANCE FEE CALCULATION METHODOLOGY PREPARED BY FTI CONSULTING.....	39
Appendix 4	INTRODUCTION TO THE JTA AND JTAC.....	50
Appendix 5	OUR CHOSEN ADMINISTRATOR – MAZARS LLP.....	52

2. Executive Summary

2.1 Background to the Fee

The compliance fee is a regulatory tool open to the Government to support the delivery of the UK Waste Electrical and Electronic Equipment (WEEE) regulations. If a Producer Compliance Scheme (PCS) misses their target, they have an option to pay a compliance fee for the tonnage shortfall.

PCS which don't offer a recycling service rely on buying recycling certificates (evidence notes) from other organisations, including PCSs, or on paying a compliance fee. The law requires that the compliance fee is set at a level that encourages compliance through collection.

The fee therefore complements national targets by creating an additional financial incentive to collect WEEE because by definition it must at least reflect the true cost of recycling WEEE.

It is at the discretion of the Secretary of State whether a compliance fee is to be set in any given compliance year. Those interested in running the fee mechanism to support 2017 compliance are required to submit their proposals. New methodologies are typically put forward every year which are modified to reflect in year market conditions.

2.2 Current market conditions this proposal seeks to correct

This year targets are higher than the year before and the most recent data on WEEE collected and EEE placed on the market indicates that fewer products have been placed on the market and less WEEE is therefore being generated than expected. Therefore, there are pro-rata shortfalls compared to 2017 targets.

Nevertheless, a number of the higher cost local authorities do not have contracts in place with PCSs and have relied on Regulation 34 requests to ensure WEEE is collected and treated. Regulation 34 gives local authorities the power to request a PCS to clear WEEE from their site free of charge. The PCS which receives the request must arrange collection or be in breach of its conditions for approval. Last year the PCS Balancing Scheme (PBS) was introduced to help share the cost of Regulation 34 requests fairly amongst compliance schemes. However, it is voluntary and not all of the UK's PCS are members of it.

2.3 How the JTA methodology works

The detailed calculation and some worked examples are below. It has been informed through an independent analysis by economists FTI. The fee is administered by Mazars, which has a proven track record in administering the fee for 2014 and 2015 compliance.

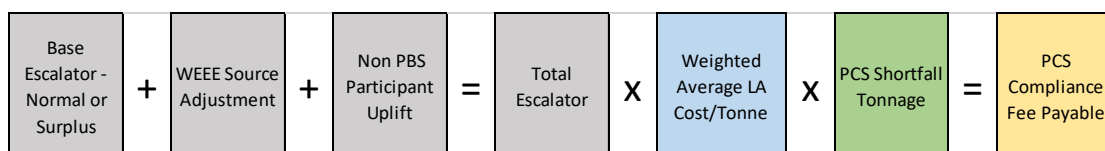
The actual fee to be paid is based on an escalator so the further away a scheme is from its target, the higher the fee it has to pay. The fee will also reflect the extent to which a scheme has been collecting directly from local authorities and whether it is a member of the PBS. The fee will reflect whether nationally a particular stream of WEEE is in surplus or in deficit against the national target.

The intent is to set a fee that encourages collections directly from local authorities and that encourages schemes to be a member of the PBS.

Any fee that is collected is used for projects that support the delivery of the WEEE regulations. In previous years this has ranged from local authority projects and research projects, depending on

how much money has been raised. Decisions on dispersing the funds is taken in discussion with Defra and other actors in the WEEE system including producers, the waste sector, other compliance schemes and academics.

The JTA compliance fee calculation can be simply summarised as follows:



2.4 Features and benefits of the JTA methodology

Features	Benefits
The cost of Local Authority DCF collections is the underlying basis for the calculation	Strengthens the incentive for PCSs to collect directly from local authorities.
Different escalators will apply to streams that are in deficit or in surplus	<p>If a WEEE stream is in deficit, “normal” escalator is applied as less WEEE has arisen than the national target. Schemes will still be incentivised to collect but will not be subject to a higher fee.</p> <p>Where there is more WEEE available in a particular category than the national target, a higher “surplus” escalator is applied. This is because it should have been possible for PCSs to comply using the available WEEE evidence.</p>
An increment will apply to those PCSs that are not members of the PBS	Strengthens the incentive to join the PBS and to contribute to the collections of WEEE from uncontracted local authority sites.
The escalator reflects the extent to which PCSs have collected WEEE from Local Authority sources	<p>A scheme which relies only on purchased evidence, and does not collect WEEE directly from local authorities, will pay more if it misses its targets.</p> <p>This strengthens the incentive to collect directly from local authorities rather than relying solely on lower-cost evidence from other sources.</p>
All PCSs using the fee will need to pay a £2,000 administration fee	The administrative cost ensures that the cost of using the Compliance Fee is less attractive than collecting WEEE to meet targets.
The escalator reflects the extent that the PCS has met its own target.	Incentivises PCSs to meet their own targets and ensures even smaller PCSs are encouraged to collect.
Overheads and direct overheads will not be included in the calculation	Overheads could be manipulated and are difficult to audit. Removing overhead costs from the calculation of the Fee ensures that only readily auditable data is used in the calculation, and that the fee is reflective of the actual avoided costs of collection and treatment.

3. **JTA views of the WEEE market in 2017, and the rationale for the 2017 Compliance Fee mechanism**

Below, we summarise the key characteristics of the WEEE market in 2017, followed by, for each issue, the recommendations for the Compliance Fee.

3.1 **Use of Regulation 34 and use of the PBS**

3.1.1 Continued use of the PBS in a period of target shortfalls

In 2016, the WEEE market was largely characterized by WEEE collections exceeding the Defra targets. The WEEE Regulations allow PCSs to choose how they comply with their WEEE financing obligations and as a consequence of this, (particularly for the Cooling and Display streams), a material number of Local Authorities found themselves without an aligned PCS. This required these Local Authorities to serve a regulation 34 notice in order to obtain a PCS WEEE collection, resulting in significant instability in the market. The majority of PCSs responded to this instability by establishing the PCS Balancing System (PBS) through the WEEE Scheme Forum (WSF), a move that was supported by Defra.

The PBS provided a collection service to the affected Local Authorities, by allowing any PBS member who wished to collect the WEEE for its own account to do so (Stage 1). Where no PBS member wished to voluntarily collect the Local Authority's WEEE, the WEEE was still collected but the mechanism for sharing the costs of the WEEE (and the evidence arising) were shared amongst PBS members (Stage 2).

Although there were collection surpluses in most categories in 2016 compared to the target, Mixed WEEE collections fell short of the target. Yet, a number of Local Authority requests for Mixed WEEE collections submitted to the PBS were processed at Stage 2 of the PBS allocation mechanism (where the collection is not for the account of a specific PCS but the evidence and cost is shared between all PCS). In addition, until the quarter 4 2016 data was released in February 2017, it was unclear whether sufficient Display collections would be undertaken to reach the target. But again, a number of Local Authority requests reached Stage 2. This strongly suggests there was a perception from some PCS that paying a compliance fee was likely to be a cheaper form of compliance than collecting from Local Authority sites. This demonstrates the importance of the compliance fee calculation being based on the cost of collecting from Local Authorities which, by extension of the previous argument, is likely to have higher overall costs than the bulk of other WEEE collections.

The PBS has continued to operate in 2017 albeit with a reduced number of requests that reach stage 2. This is, perhaps in part, because the 2017 targets are, in most cases, higher than those in 2016. The quarters 1 and 2 2017 UK WEEE collections data shows there are currently pro-rata shortfalls when compared to the 2017 targets in all major categories yet 26 local authorities have one or more streams collected at Stage 2 through the PBS in 2017. In addition, 4 requests, covering the display and mixed WEEE streams, have reached Stage 2 since publication of the 2017 targets.

3.1.2 PCSs not participating in the PBS

One of the unavoidable effects of setting up the PBS, is that it is regarded as the *de facto* solution for Local Authorities considering regulation 34 and so PCS's who are outside the PBS are significantly less likely to receive a direct Regulation 34 request. PCSs that have chosen to remain outside of the PBS do not share stage 2 costs and so are likely to benefit commercially as a result.

Although we have no access to the data that would enable us to quantify the scale of this commercial benefit, we are convinced that it is material. The continued submission of Regulation 34 requests in 2017 shows the PBS remains an important security mechanism for Local Authorities. Nevertheless, the ability for some PCSs to be “rewarded” for remaining outside of this mechanism could ultimately result in other PCSs choosing to leave, thereby resulting in this important safeguard ultimately being lost and potentially at worst case, system failure.

3.1.3 Compliance Fee Recommendations: (i) Only the costs of collecting from Local Authorities should be used in calculating the compliance fee, (ii) an escalator should be applied that reflects the extent to which a PCS has used directly collected WEEE from Local Authorities to meet its target, (iii) an increment should be applied to the compliance fees payable by those PCSs that are not PBS members.

(i) Only the costs of collecting from Local Authorities should be used in calculating the compliance fee

The continued need for Local Authorities to avail themselves of Regulation 34, reinforces the need to prioritise Local Authority collections. Accordingly, the JTA proposal states that the Compliance Fee should be calculated using only the cost data association with direct collections from Local Authorities (so excluding lower cost sources of WEEE).

(ii) An escalator should be applied that reflects the extent to which a PCS has used directly collected WEEE from Local Authorities to meet its target

An escalator taking into account the extent to which a PCS has financed WEEE from LAs will further incentivise PCSs to prioritise collections from LAs.

(iii) An increment should be applied to the compliance fees payable by those PCSs that are not PBS members

The decision of some PCSs to decline to join the PBS, and hence to avoid the associated stage 2 costs of WEEE that no PCS wants, does not comply with the Government’s stated desire for the Compliance Fee to prioritise Local Authority collections. Accordingly, an increment will apply to the calculated Compliance Fee in respect of any PCS that needs to use the Compliance Fee, but was not a member of the PBS in 2017.

Note that we understand that the PBS rules allow any PCS to join the PBS at any stage during a compliance period, provided they then take on their share of costs for that compliance period. Accordingly, if Defra choose to consult on the 2017 compliance fee mechanism in October 2017, it would still be possible for any PCS not yet in the PBS, to join the PBS at any time up to the end of December 2017.

3.2 PCSs are not prioritising collections from Local Authorities and concerns expressed by Local Authorities that their WEEE is no longer attractive to PCSs.

3.2.1 Press reports, and statements made by Local Authorities at the June LetsRecycle conference have indicated that they believe that PCSs no longer compete strongly with each other for access to their WEEE. In part, this is an inevitable consequence of the change from the 2006 regulations to the 2013 regulations, which removed the opportunity for some operators to make large profits from

controlling LA WEEE. Nevertheless, this perception from Local Authorities is one that should be taken into account in the Compliance Fee methodology.

Furthermore, at the LetsRecycle conference, one PCS commented that they preferred to avoid LA collections and that instead they seek alternative sources. There are also several organisations that have been established to secure low cost non-LA evidence using techniques such as surface mining.

3.2.2 This is confirmed by an analysis of the Local Authority DCF alignment list periodically published by Defra which shows that 98% of Local Authorities are serviced by just 8 of the 34 registered household PCS.

3.2.3 Compliance Fee Recommendations (i) Only the costs of collecting from Local Authorities should be used in calculating the compliance fee, (ii) an escalator should be applied that reflects the extent to which a PCS has used directly collected WEEE from Local Authorities to meet its target, (iii) Allow all PCSs that collect from LA sites to voluntarily submit data, whether or not they need to use the Fee.

(i) Only the costs of collecting from Local Authorities should be used in calculating the compliance fee

Implementing a Compliance Fee methodology that bases costs on directly collected LA WEEE, and which also encourages PCSs to comply using directly collected LA WEEE would respond to this concern.

(ii) an escalator should be applied that reflects the extent to which a PCS has used directly collected WEEE from Local Authorities to meet its target

An escalator which increases the compliance fee payable where individual PCSs use a greater proportion of WEEE from non-LA sources would create a greater incentive to collect from LAs. As a consequence, LA WEEE would once again start to be more attractive to PCSs.

(iii) Allow all PCSs that collect from LA sites to voluntarily submit data, whether or not they need to use the Fee

Given that the number of PCSs directly collecting from LA sites is small in comparison to the number of registered household PCSs, there is a risk that the Compliance Fee might be set based on a relatively small data set. It is therefore right for the Compliance Fee system to encourage all PCSs that have arranged collections from LA sites to submit that data to the Administrator. This will ensure that the Compliance Fee is more reflective of the widest possible range of LA collections.

3.3 After 6 months, the 2017 WEEE arising in most categories is falling short of the 2017 targets

3.3.1 The excess of WEEE collections compared to target in 2016, particularly for cooling and display, and the associated system instability resulted in Defra taking the decision to increase most of the 2017 targets. The intention was to avoid the over-supply issues that characterized 2016, and to set targets that broadly balanced supply and demand. However, an analysis of the Q1 and Q2 WEEE collected data shows that in most streams, actual WEEE collections so far in 2017 are significantly lower than the pro-rata targets:

	UK HH WEEE Collections to Q2 17	Full Year Target 2017	% Full Year Target Collected
LHA	100,679	232,811	43%
Display	28,051	71,267	39%
Cooling	64,939	148,017	44%
GDL	3,002	6,132	49%
Mixed	74,269	163,763	45%
PV Panels	39	43	91%
	270,979	622,033	44%

Source: UK data issued 01/09/17

Non-obligated WEEE collections reported for the same period have not changed materially when compared to 2016 indicating the shortfall is not the result of more WEEE being financed by organisations other than PCSs. EEE placed on the market in Q1 and Q2 2017 has also fallen when compared to 2016 which will logically account for a reduction in the amount of WEEE disposed of by consumers.

3.3.2 Compliance Fee Recommendation: (i) Exclude “Direct overheads” from the compliance fee calculation, and (ii) base the compliance fee escalator calculation on the shortfall against a PCS’ own target.

(i) Exclude “Direct overheads” from the compliance fee calculation

The impact of an undersupply of WEEE in most streams needs to be carefully factored into the 2017 Compliance Fee methodology. In 2016, Defra chose a mechanism that included “Direct overheads” within the calculation, leading to an increase in the Compliance Fee payable. Given the widespread use of Regulation 34 during 2016, this may well have been the right decision: the JTA understands that Defra wanted to ensure that PCSs that chose to use the Compliance Fee even though there was WEEE available, should pay a Compliance Fee materially higher than the cost of transport and treatment. Defra wanted to modify the behaviour of certain PCSs.

Whereas 2016 was characterized by over-supply, the situation in 2017 is reversed. WEEE is now in short supply, and many PCSs may have no choice but to use the Compliance Fee, despite their best efforts. We therefore consider that the exclusion of “Direct overheads”, which are not avoidable (as they do not vary with tonnage) is entirely appropriate in 2017. To keep them in, would simply be likely to increase PCS (and hence producer) costs, with no behaviour modification required.

(ii) Base the compliance fee escalator calculation on the shortfall against a PCS’ own target

In a situation in which there is a shortage of WEEE, it is important that all PCSs make attempts to maximize their collections, so as to achieve their own targets. This changed environment needs to be recognized by adopting an escalator that is based upon a PCSs’ achievement against their own target, and certainly not against the national target. If a national target approach were adopted, that would encourage PCSs with only a small obligation in any one stream to make no attempts to reach that target, secure in the knowledge that the applicable Compliance Fee would have only a very small increment applied. In such circumstances, it is likely that overall UK collections would be lower, and the UK would miss its national target by a higher margin.

Instead, we need to ensure that all PCSs, whether small, medium, or large, are focused on achieving their individual targets. This requires an escalator based on their own target, and not on the national target. Moreover, it is important that each PCS meet their targets on a stream-specific basis.

3.4 A possibility that by end 2017 some WEEE streams could be in surplus

3.4.1 Although the Q1 and Q2 data currently shows that all streams are under the pro-rata target, it remains possible that this situation could be resolved, at least for one or two streams, by year end.

3.4.2 Compliance Fee Recommendation: two compliance fee escalators are needed, for surplus and deficit streams.

Given that the different streams often perform very differently, it makes sense to apply a higher cost surplus escalator if a PCS chooses to use the Compliance Fee despite there being an oversupply for WEEE in that stream. Taking such an approach would encourage PCSs to make sensible arrangements in future, where WEEE is available.

3.5 Migration from non-obligated WEEE to household evidence

3.5.1 Following the introduction of the dual use definition inevitably some WEEE that was previously reported as non-household or non-obligated has migrated to become household WEEE.

In most cases, the collection of non-obligated WEEE will have been funded by the holders of that WEEE (often business users). As a consequence, AATFs are able to sell the evidence at costs that are usually lower than the costs of collection and treatment from Local Authority DCFs.

This encourages PCSs to seek to such evidence rather than undertake collections from Local Authorities. In 2016 126,999 tonnes of non-obligated WEEE collections were reported and in some of the categories where dual use WEEE is more prevalent there were late adjustments to data previously reported by PCSs and AATFs which suggests there was migration of non-obligated WEEE collected initially by AATFs to PCS obligated WEEE.

	Non-Obligated WEEE						Household WEEE					
	Final Data		Originally Reported		Change		Final Data		Originally Reported		Change	
	Q1 (iii)	Q2 (iii)	Q1 (i)	Q2 (ii)	Q1	Q2	Q1	Q2	Q1 (i)	Q2 (ii)	Q1	Q2
Display	4,126	3,872	5,101	5,367	-976	-1,495	19,830	18,507	19,135	16,931	695	1,576
GDL	38	59	505	452	-467	-393	1,670	1,535	1,527	1,315	143	220
Mixed	10,152	13,538	10,730	14,344	-577	-806	38,251	42,689	36,450	40,861	1,801	1,828

(i) Per UK data published 01/06/16

(ii) Per UK data published 01/09/16

(iii) Per UK data published 31/03/17

3.5.2 Compliance Fee Recommendation: Only the costs of collecting from Local Authorities should be used in calculating the compliance fee

The reliance, by some PCSs, on evidence that was originally non-obligated, and is probably lower cost, means that it remains appropriate to use LA cost data only when calculating the Compliance Fee.

3.6 The ability of large collectors to force PCSs into using the compliance fee

3.6.1 There is a number of organisations whose supply chains place them in a position to collect significant tonnages of WEEE. In a period where WEEE disposed of by consumers falls short of target this increases the ability of these organisations to influence the way in which PCSs can comply with their obligations, particularly in category 1 where the WEEE creates producer responsibility costs that would result in a net revenue stream for that organisation eg by choosing to deal with that WEEE and not making an arrangement with a PCS. A WRAP study (1) published in 2016 confirmed that a large tonnage of LDA is treated within the light iron stream, and hence not reported as WEEE, which they estimated at 273,000 tonnes.

3.6.2 The UK WEEE collections data published by the Environment Agency illustrates the different sources of WEEE for the 6 major WEEE streams. In particular, this shows that organisations associated with retailers control nearly a third of reported LHA collections:

	% DCF	% Retailer (Regulation 43)	% Other (Regulation 50)
LHA	53%	31%	15%
Display	87%	2%	15%
Cooling	73%	21%	5%
GDL	20%	4%	74%
Mixed	79%	1%	20%
PV Panels	23%	0%	77%

Source: EA UK published data

Note: The EA advises not all lines total 100% due to timing differences in collections from DCF's v delivery into treatment

3.6.3 Compliance Fee Recommendation

Accordingly, following the advice received from FTI, we recommend that for categories where it is demonstrable that a significant amount of WEEE is handled outside the official system and generates a positive value for the holder, the compliance fee should be set to zero. We expect that this situation may arise in the Large Domestic Appliances sector which would mean that there should be no applicable fee for a category 1 shortfall in the 2017 compliance fee. The Government accepted a similar approach in the 2014 fee calculation. In any event, much LDA has net positive value, and so in such circumstances, a Compliance fee would not make sense and would be punitive.

¹ UK EEE Flows 2016

4. JTA proposal for the WEEE Compliance Fee calculation methodology

The JTA proposal for a compliance fee mechanism under Regulation 76 of the WEEE Regulations is set out below. Additional details are contained in the appendices.

4.1 Use of professional economic analysis

The calculation of Compliance Fees, per collection stream, is based on a methodology and formula developed and recommended by FTI Consulting LLP (FTI), a leading group of professional economists, for the JTA 2014 proposal. This was reviewed and endorsed by an independent study by a separate group of leading economic consultants, Frontier Economics Ltd in 2015. The JTA 2017 proposal will use an amended version of the same methodology and formula, incorporating some adjustments in response to our analysis of the factors appropriate for the 2017 compliance period.

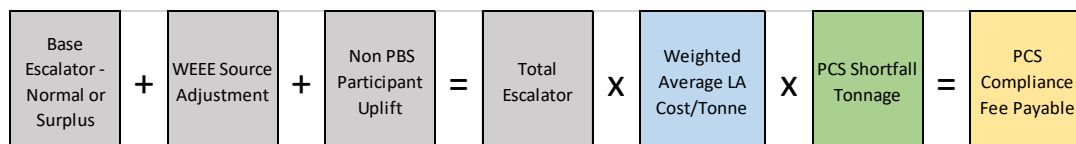
FTI was selected to advise the JTA on the 2014 and 2016 Compliance Fee methodologies, having significant experience of using economic and financial analysis, and econometrics to assess complex pricing and valuation issues that occur in regulated industries. In 2017, the JTA presented FTI with the description of the 2017 WEEE market as given in section 3 above. On the basis of this analysis, FTI were asked to review and propose changes to their calculation methodology. FTI's 2017 report, attached as Appendix 3, sets out their recommended Fee calculation formula. The supporting rationale for their proposed formula are detailed below.

4.2 Compliance Fee calculation - rationale

4.2.1 The recommended process to calculate the 2017 Compliance Fee is based on the methodologies used successfully for the 2014 and 2015 Compliance Fees previously approved by the Secretary of State for BIS, with adjustments to deal with the effect of prevailing conditions in the UK WEEE market. We have also taken into consideration the operation of the 2016 Compliance Fee, and have incorporated into this proposal those elements of the 2016 mechanism that we judge were effective at delivering the Government's requirements.

A separate fee is calculated for each collection stream of WEEE. Costs will be calculated using data submitted on a compulsory basis by those PCSs that decide to use the fee for a collection stream and also from any other PCSs who choose to submit costs on a voluntary basis. In a change from our previous proposals, we now stipulate that our appointed third party administrator (Mazars) should undertake an onsite audit (using an Agreed Upon Procedure) of each PCS submitting data.

The JTA compliance fee calculation can be simply summarised as follows:



4.2.2 Data from Local Authority DCF collections is the basis for the calculation

Our proposal for the 2017 Compliance Fee calculation is based on the weighted average net cost of direct collections and treatment transactions incurred by PCSs when undertaking local authority DCF collections. In line with our proposals for 2014, 2015, and 2016 this excludes fixed direct overheads

and also the costs of indirectly acquired WEEE evidence. The rationale for this decision is taken in the light of our analysis of the WEEE market in 2017. This shows that LA WEEE is now less attractive to PCSs, and that many seek to comply with WEEE from non-LA sources, including what would otherwise be reported as non-obligated WEEE. This is because LA WEEE is generally more expensive than WEEE from other sources. We therefore want to make the Fee more reflective of the higher cost LA WEEE that some PCSs have chosen not to collect. This will start to make LA WEEE more attractive to PCSs.

The WEEE Directive, at its heart, requires member states to establish a national collection infrastructure for WEEE collection. The UK primarily uses the LA DCF network to meet this obligation, and so using LA DCF WEEE collection costs for calculation of the Compliance Fee is very appropriate.

4.2.3 Different escalators will apply to streams that are in surplus or deficit

An escalator mechanism increases the Fee by a greater amount, the further a PCS is from its collection target. This principle is to incentivize PCSs to meet their targets through collections. Two alternative escalation factors (the Escalators) are proposed, the Normal or the Surplus Escalator. The Normal escalator applies to streams in which the UK has fallen short of the national target and the Surplus escalator applies where there is a surplus of evidence in a stream against the national target. This is in line with the recommendations of the economist report submitted with the 2016 proposal.

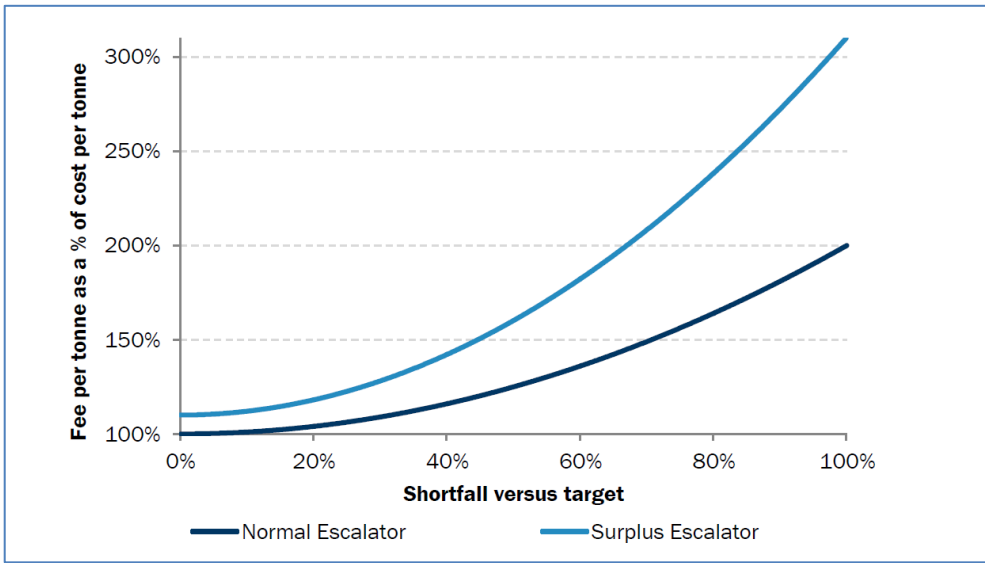
Both escalators are non-linear and so the percentage increase in the fee depends upon how far away a PCS is from their collection target per stream and whether UK WEEE collections for that stream exceed the WEEE collections target set by Defra. For PCSs that marginally miss their target and where total UK WEEE collections for the relevant stream are broadly in line with the WEEE collections target, the effect of the Escalator will be minimal. For a PCS making little or no effort to achieve their collection target per stream the effect of the Escalator would be to double the Compliance Fee; with the escalation factor rising further if UK WEEE collections exceed the WEEE collections target set by Defra. The migration of non-obligated WEEE to obligated, and the current position of WEEE collections for 2017, means it remains important to differentiate between streams that are in surplus, and those that are not.

The Administrator will determine whether the Normal Escalator or the Surplus Escalator applies to each WEEE stream. We propose that a threshold amount should be defined, above which the stream is assessed to be in surplus. We consider that this should be based on the difference between; (i) the sum of household WEEE collections by all PCSs in the relevant stream in the market, in tonnes; and (ii) the national target for that stream, in tonnes. We propose that this should be set as a fixed proportion of the total tonnage of WEEE collected in each stream, of 1.5%. That is, if the sum of household WEEE collections exceeds the national target by more than 1.5%, then the Surplus Escalator should apply. 1.5% was chosen because, in the opinion of the JTA, it allows for the aggregate effect of PCSs that may inadvertently over-collect, but choose not to transfer excess evidence (particularly in streams that are low cost or positive value).

The surplus escalator starts at an uplift over the cost of collection which is proportional to the extent of oversupply in that stream. This means that a PCS will pay a Fee per tonne which exceeds the weighted average cost of collection – even for a shortfall of a single tonne. The surplus escalator also increases the uplift more quickly than the normal escalator, as the extent of the PCS' shortfall

increases. In the example below, the surplus stream is 10% over the national target, and so the starting point for the Surplus escalator is 110% of the base cost.

Effect of the normal and surplus escalator mechanisms on Fee per tonne of shortfall:

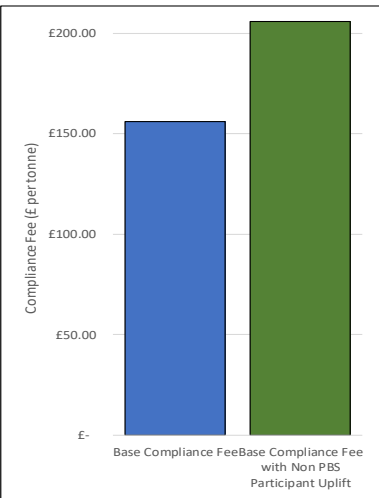


4.2.4 An increment will apply to those PCSs that are not members of the PBS

The PBS was clearly set up by the majority of PCSs as a responsible reaction to the increasing use of regulation 34. However, it does mean that the costs of the excess WEEE handled through the PBS, which tends to be the highest cost WEEE that no PCS wants, are borne only by those PCSs that joined the PBS. Accordingly, where a PCS needs to use the compliance fee, it is appropriate to apply an increment to the compliance fee cost paid by those PCSs that were not members of the PBS for 2017, or who were members in 2017 but have withdrawn from the PBS in 2018. By applying a premium to the compliance fee cost paid by non PBS members, the Fee is encouraging those PCSs that have not yet done so, to join the PBS.

The illustration presented is for a PCS in the following situation:

- WEEE stream with weighted average cost of £150/tonne
- WEEE stream weighted average cost of £200/tonne (through PBS)
- WEEE stream is in deficit so normal escalator applies



4.2.5 A WEEE source adjustment premium will apply that reflects the extent to which PCSs have relied on WEEE from Local Authority DCF sources

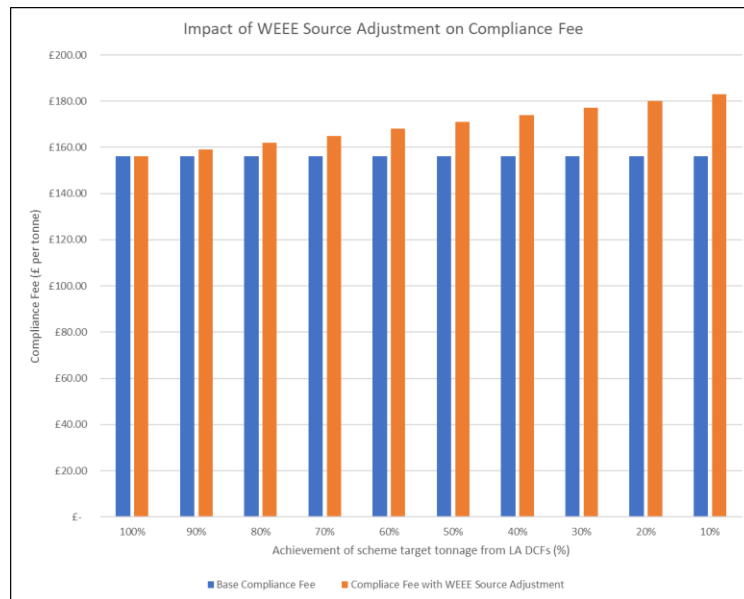
We consider that it is important that PCSs remain fully incentivised to collect Local Authority WEEE. As a result, we propose an adjustment that will increase the compliance fee cost, dependent on the extent to which Local Authority WEEE has been used to meet the target. The JTA proposes Defra has the discretion to propose the maximum effect of the adjustment, however for 2017 considers 20% may be an appropriate level for this. So, if, for example, 75% of national collections have arisen from Local Authorities, and a PCS has used 75% or more LA WEEE directly collected by that PCS to fulfill their obligation, there will be no increment. Conversely, if the PCS has not used any LA WEEE directly collected by that PCS to fulfill their obligation, there would be a 20% increase in the applicable compliance fee. Given that the WEEE regulations are producer responsibility, and that it would be perverse not to also incentivise producers' own collections, the tonnage of direct collections from Producers that are members of the PCS submitting the data should also be included within the DCF figures.

The information on national collections required for this calculation is available from the UK data published by the EA. This provides a breakdown of collections between DCF's, Regulation 43 and 50. Whilst collections from DCF's may contain some non-Local Authority sources we believe these will not be material.

In previous years, it was possible for some PCSs to claim that they had difficulty winning tenders for direct collection from LAs, particularly where their requirements were not for all WEEE streams. This created a barrier for access to LA WEEE. With the PBS in place, this is no longer the case. All participating PCSs can offer to undertake collection of single streams for their own account at stage 1 of the PBS allocation process thereby giving them access to Local Authority WEEE. The argument made by some PCSs in the past is therefore no longer valid.

The chart below illustrates how a PCS base compliance fee would change depending upon how far its Local Authority collection % differed from the national figures. The illustration is presented for a PCS in the following situation:

- WEEE stream with weighted average cost of £150/tonne;
- Shortfall of 20% from the PCS' target;
- 80% of national WEEE collected in this stream arises from DCFs;
- Incentive factor (to be set at Defra's discretion) at the JTA recommendation of 20%;
- WEEE stream is in deficit so normal escalator applies.



4.2.6 Overheads and “Direct Overheads” should not be included in the calculation

Only direct, incremental and avoidable costs and revenues should be included in the calculation. Overheads are not relevant. That is, the calculation should include only the additional costs and income associated with collecting and treating additional WEEE. Overhead costs, including cost of auditing sites, managing collections, bidding for LA contracts, administration, marketing, human resources and office rent are not incremental or directly related to the quantity of WEEE collected and so they should not be included. To include such costs when most streams are in deficit, and so PCSs will have no option but to use the Fee, would needlessly increase PCS and Producer costs, without changing PCS behaviour.

Furthermore, the majority of PCSs undertake a range of other activities outside of the household WEEE sector. This includes activities related to non-household WEEE, other waste management and other producer responsibility regimes. An exercise to correctly and consistently allocate a portion of common overhead costs to household WEEE would be arbitrary and disproportionately time-consuming and costly.

It seems likely that the inclusion of “Direct overheads” in the 2016 calculation, resulted in the payment of compliance fees that were significantly higher than the actual WEEE collection costs. We believe that if the Government were to again opt for a mechanism that includes overheads or direct overheads, this could lead to unintended consequences, with PCSs starting to over-collect again, in the expectation that they could sell the evidence to others PCSs at inflated prices.

4.2.7 All PCSs using the fee will need to pay a £2,000 administration fee

In a change from our previous proposals, we now require that any PCSs needing to use the Compliance Fee mechanism for any stream will be required to pay £2,000 towards the administrative costs of operating the 2017 Compliance Fee mechanism. If a PCS wishes to voluntarily submit data, but does not need to use the Fee, then there will be no administration charge.

4.2.8 The escalators should apply to the extent that the PCS has met its own target, and not against the national target

The 2016 methodology adopted an escalator based on the national target, rather than the individual PCS target. This meant that a PCS with a small target in any category was able to undertake no collections at all (ie miss their target by 100%) but nevertheless only paid a small increment on the compliance fee (because their share of the national target in that stream was very low). The JTA position is that this situation should not be repeated in 2017. The escalator formula in 2017 should be based upon the extent to which a PCS has met its own target. This ensures that each PCS is incentivized to achieve their own target. To do otherwise would mean that PCSs with a low market share in any one stream have little or no incentive to meet their targets through collection.

4.2.9 There may be circumstances where some categories should attract a zero fee

In their economic analysis, FTI recommend that for categories where it is demonstrable that a significant amount of WEEE is handled outside the official system and generates a positive value for the holder, the compliance fee should be set to zero. We expect that this situation may arise in the Large Domestic Appliances sector which would mean that there should be no applicable fee for a category 1 shortfall in the 2017 compliance fee. This recommendation is fully in line with Defra guidance which states *“Proposals may consider circumstances where a negligible or zero fee might be appropriate”*.

4.3 **Characteristics of the JTA calculation methodology that ensure the Fee is set at a level to encourage compliance through collection.**

The JTA methodology is designed to ensure that it will always be more cost effective for a PCS to take all reasonable steps to meet their collection targets without recourse to the Compliance Fee. The factors that combine to achieve this objective are described below.

4.3.1 The Compliance Fee is calculated using the average cost of local authority WEEE collections. These are typically higher in cost than other sources of WEEE. This means that the 2017 Compliance Fee should be materially higher than the low cost WEEE evidence purchased by those PCSs that avoid collecting from Local Authorities. Note that this does not prevent a PCS from seeking to comply how they wish, but if they are short and need to use the Fee, they will pay an amount that is reflective of avoided LA costs.

4.3.2 All PCSs may choose to provide data for audit, in relation to their LA DCF WEEE collections, even though they do not need to use the Fee. This option was not included in the chosen 2016 methodology. However, we continue to believe that this is an important tool to ensure that the Compliance Fee can be properly reflective of the costs of collection from LAs. Although over 30 PCSs are accredited in the UK, only eleven actually collect from Local Authority DCF sites. It is therefore vital that PCSs not needing to use the Fee are given the option to make their data available for audit and inclusion. This again means that the 2017 Compliance Fee should be materially higher than the low cost WEEE evidence purchased by some PCSs.

4.3.3 The Surplus escalator further increases the Compliance Fee payable where there is an excess of household WEEE (when compared to the National target) in the UK system, for that stream.

4.3.4 The proposed £2,000 administration fee will add to a PCS's costs, and hence encourage compliance by collection.

4.3.5 A PCS's own administrative costs of using the Compliance Fee also make compliance by collection more attractive.

4.4 Characteristics of the JTA proposal which support the stability of the UK WEEE system

The stability of the UK WEEE system depends, to a very large extent, on ensuring that Local Authority WEEE is collected, and is attractive to PCSs. It is this factor, more than any other, which has been pivotal in the design of this proposal. The following three criteria are crucial in delivering this policy outcome:

- Data from Local Authority DCF collections is the basis for the calculation
- An increment will apply to those PCSs that are not members of the PBS
- An escalator will apply that reflects the extent to which PCSs have relied on WEEE from non-Local Authority DCF sources

4.5 Origin of the JTA compliance fee formula

The underlying formula used in the compliance fee mechanisms adopted by Defra in 2014, 2015, and indeed in 2016 (when another administrator was selected) was developed by FTI Consulting. For brevity, we have not included their original 2014 submission, which explained the economic background to the formula, but it can be supplied to Defra if requested.

4.6 Discussions with Defra

The JTA will welcome the opportunity to discuss any aspects of this proposal with Defra, and are open to any appropriate amendments. Furthermore, if, in the opinion of Defra, 2017 WEEE collections in any one stream are so far from the national target as to question the validity of that target, the JTA would welcome Defra making any further methodology changes that would take this into account. In addition, if Defra considers that any of the factors used in the JTA calculation are not necessary, we would be happy to discuss removing that element.

5. Practical operation of the JTA WEEE Compliance Fee

5.1 Data collection and onsite audit by Mazars

A standard template form will be used for collecting data from PCSs that choose to participate in the Compliance Fee mechanism. The template will be similar to the one that was used successfully in the 2014 and 2015 Compliance Fee mechanisms, with minor updates to reflect general questions raised to the Administrator by PCSs during the 2015 process. All data submissions, whether or not the PCS will need to use the Fee mechanism, must be subject to independent, on site audit by Mazars.

5.2 Independent Administrator of the Compliance Fee mechanism

5.2.1 Mazars LLP have been selected to be the Administrator of the Compliance Fee mechanism if Defra select this proposal. They have demonstrated their ability to administer the Compliance Fee mechanism through operating it successfully for both the 2014 and 2015 Compliance Periods and have sufficient resources and skills available to extend their service to the provision of onsite audits within the timescales required. This experience and knowledge will ensure an effective and cost efficient process in 2017.

5.2.2 As the JTA is an unincorporated body, a legal entity, JTAC, was formed for the purpose of managing the contract with the independent Administrator. JTAC is a not-for-profit company limited by guarantee and its members are three JTA trade association members with significant household WEEE obligations. They are; AMDEA, LIA and TechUK.

5.2.3 The Administrator will be the contact point for PCSs that wish to use the Compliance Fee and for those PCS who wish to submit cost data voluntarily. It will receive and validate PCS cost data used to calculate the Fee and will advise PCSs of the resulting Fees, and administration fees where they apply, that they need to pay. The Administrator will receive payments into a dedicated client bank account, which they will manage independently. The 2017 client bank account will be separate to the 2014 and 2015 client bank accounts. Once payments have been received the Administrator will issue to the PCS concerned a Compliance Fee Payment Certificate (CFPC), for the PCS to use in making their own Declaration of Compliance.

For the 2014 and 2015 Compliance Fee mechanisms the Administrator confirmed that the process was robust and that the timetable was respected.

5.3 Disbursements of Compliance Fee Funds

The disbursement process is set out in Appendix 2

5.4 Confidentiality

5.4.1 The 2017 Compliance Fee mechanism will be operated by the Administrator on an independent, professional basis with high levels of integrity and open to all relevant parties to use. This is in keeping with the operation of the 2014 and 2015 Compliance Fee mechanisms.

5.4.2 The Administrator will keep strictly confidential all data they receive and handle, as demonstrated in their handling of both the 2014 and 2015 Compliance Fee mechanisms.

5.4.3 Whilst the JTA is the proposer of this mechanism, it has ensured that neither the JTA, nor JTAC, nor any of their members or the three PCSs that cooperate with the JTA, can benefit financially from the scheme or access any confidential data within it or influence any decisions regarding the individual PCS compliance fees or the awarding of funds/grants from it. The mechanism is independent but JTAC will manage the performance of the administrator via a contract and regular reporting.

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

5.5 Underwriting of Compliance Fee costs

In the event that Defra do not accept the JTA proposal, the full Administrator 2017 contract will not be activated and any costs incurred in the preparation work by JTAC directly or through the Administrator will be paid by JTAC.

In the event that the Compliance Fee mechanism is not used by any PCS (or it is used to a very limited extent) any residual costs of the administrator that are not covered by compliance fee and administration fee income will also be met by JTAC.

5.6 Contingency planning

The Q1 and Q2 2017 data show that most WEEE streams are currently in deficit. If that situation continues, there is a possibility that a significant number of PCSs may need to use the Fee in 2017. That in turn makes contingency planning particularly important.

The JTA has assessed its plans thoroughly, and are comfortable that all reasonable contingencies have been addressed including:

- If there is a larger number of PCS users of the Fee, the appointment of Mazars as Administrator means that sufficient audit staff will be available to cope with the applicants.
- If there is no, or insufficient data to support the calculations, then the Administrator may use data from other sources that the Administrator considers are appropriate.
- Should the JTA be appointed, all necessary due diligence steps have already been completed by Mazars, including the establishment of a client bank account, and dedicated email addresses.

5.7 Impact of competition law and other legal requirements.

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

- The requirement for Mazars to be totally independent of any PCS or Producer.
- The requirement for PCSs to sign terms and conditions that keep the compliance fee actually paid confidential.

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

5.8 Responding to the Defra evaluation of the 2016 JTA proposal

The Defra evaluation of the JTA's 2016 proposal made it clear that one of the reasons that the proposal was not accepted, was the decision by the JTA not to include direct overheads, and that the normal escalator for streams on or slightly below target *"was insufficient to "re-set" demand for LA WEEE collections going forward"*

Whilst in 2016, in a market of surplus WEEE, we understand the rationale for including overheads, that is not true in 2017. Accordingly, the JTA have again recommended that overheads and direct overheads are not included, and so it is appropriate to expand on this decision:

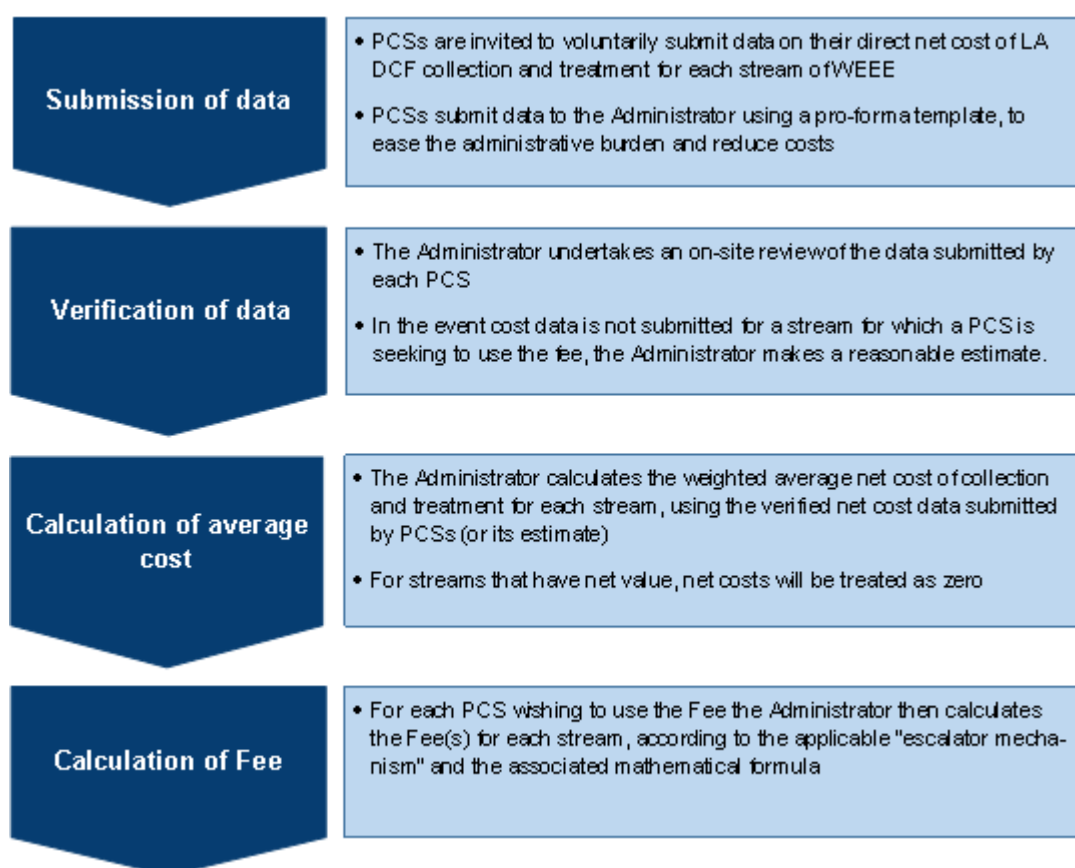
- The WEEE market in 2017 is materially different to that in 2016. The increased targets have helped to "re-set" demand for LA collections.
- We have included other changes to our methodology that are intended to make LA WEEE more attractive, including an increment to apply to those PCSs that are not members of the PBS, and an escalator that reflects the extent to which PCSs have relied on WEEE from Local Authority DCF sources
- Q1 and Q2 2017 data currently indicates that many streams are likely to be in deficit in 2017. To include overheads in a situation in which PCSs have no choice but to use the Fee risks increasing Compliance Fee costs excessively. This in turn risks encouraging PCSs to over-collect in 2018, with a view to selling that evidence at a high price. Defra guidance specifically states *"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."*
- To include overheads would mean that the Fee is not properly reflective of the avoided costs, and effectively means that PCSs are paying overheads twice.
- Experiences of the 2016 compliance fee mechanism indicate that the decision to include, or exclude certain overhead items was subjective, and largely down to the individual PCS submitting data. That does not make for a robust basis upon which to set the Fee. Furthermore, where PCSs are allowed to voluntarily submit data, that subjectivity could mean that PCSs are able to present their own data in a way that could influence the compliance fee costs of their competitors.
- Overheads cannot be allocated to individual streams, and so are *not* stream specific. That would appear to fail one of the key Defra criteria for the Fee.

6. Calculation and payment of Compliance Fees

6.1 Summary flow diagram and timeline

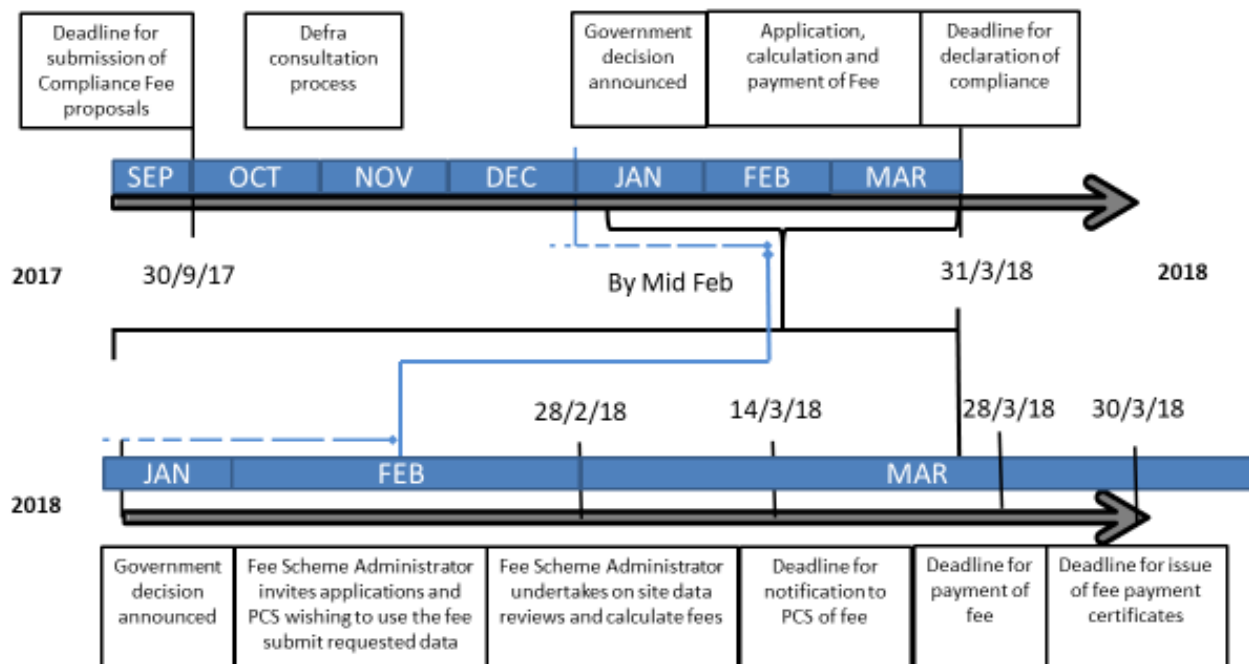
The most time-critical element of the Compliance Fee process remains setting up and completing the PCS Compliance Fee calculation and payment stages, due to the limited time available between the date of the expected announcement by Defra regarding a compliance fee and the 31st March 2017 when all PCSs are required to complete their declarations of compliance to the Environment Agencies. In this context Mazars, as the Administrator of the 2014 and 2015 Compliance Fee mechanisms, already has in place an established and proven process and system to ensure that PCSs can submit data which can be validated and lead to the payment of compliance fees in the limited time available.

The flow diagram for the 2017 mechanism is similar to that used for the 2014 and 2015 mechanisms, updated to reflect the change to an on-site data review.



Compliance Fee Timeline

Applying to use the fee



6.2 Process for the calculation and payment of Compliance Fee

6.2.1 Immediately following any announcement by Defra introducing a Compliance Fee mechanism for 2017, and if the JTA proposal is selected, the Administrator will contact all PCSs and ask them to confirm if they wish to use the Compliance Fee mechanism or voluntarily submit cost data and, if they do, to sign to confirm their acceptance of the Terms and Conditions covering such matters as confidentiality and compliance with the requirements of the mechanism, as set by the Secretary of State. The terms and conditions used in the 2015 process will be used; requiring PCSs to pay an administration fee of £2000 if they need to use the Fee.

6.2.2 A PCS's decision to use the Compliance Fee or submit cost data voluntarily must be advised to the Administrator promptly, and at the latest by 21st February 2018, to allow time for calculations and payment of any resulting fees. PCSs will know by the end of January 2017 whether they are short of evidence for any collection streams and therefore need to use a Compliance Fee. A non-response will be assumed by the Administrator to be a decision that the PCS does not wish to use the Compliance Fee mechanism or does not wish to voluntarily submit cost data (the Administrator has no knowledge of PCSs' individual targets or levels of collection achieved at this point).

6.2.3 All PCSs that choose to use the Compliance Fee for a stream or voluntarily submit cost data are required to inform the Administrator as soon as possible after 1st February, and to submit data for all streams to the Administrator by 21st February 2018, using the pro-forma template supplied to applicant PCSs by the Administrator, which must be signed by a Director. This date may need to be flexible, depending on the date on which Defra announced the chosen Fee mechanism. A draft proforma is presented in Appendix 1. Immediately after confirmation that a PCS wishes to use the

Fee, or to voluntarily submit data, the Administrator will contact the PCS to agree a suitable date for an onsite audit of the data. This will be performed by professionally qualified staff of the Administrator on an “Agreed Upon Procedure” basis. Such a review is naturally proportionate to the size of the PCS and the amount of tonnes and streams involved, but in most cases it should be possible to complete the audit, on a sampling basis, within one day.

6.2.4 The Administrator calculates the weighted average cost per tonne per stream of direct WEEE collections from local authority DCFs using cost data from both PCSs that wish to use the Compliance Fee and from those PCSs who have submitted cost data voluntarily.

This will be calculated by:

- (1) calculating the total direct net cost incurred in the collection from LA-DCFs and treatment of that stream of WEEE by PCSs submitting data in the stream; and
- (2) dividing this by the aggregate amount of that stream of WEEE directly collected from LA-DCFs and treated by those PCSs.

This calculation results in the K parameter, to be used in the applicable Escalator formula as set out in the FTI report, applicable to each stream. There will be six such calculations, assuming at least one PCS needs to use the Fee in every stream. This parameter cannot be negative: if the weighted average net cost of a stream is negative (i.e. there is net income), it will be set to zero.

6.2.5 In the unlikely event that there is no LA DCF cost data submitted to the Administrator for any one stream of WEEE, then the Administrator shall seek and assess alternative sources of cost data that it reasonably considers can be used for the calculation of the Compliance Fee for that stream.

6.2.6 The Administrator will contact the Defra WEEE team on or before 1st March 2017, to request confirmation of the tonnage of household WEEE (by stream), that has been reported for the 2017 compliance period. We propose that Defra use the evidence held on the Settlement Centre, unless Defra is of the opinion that another dataset is more accurate. The administrator will then use this data to determine whether each collection stream is deemed to be in surplus or not so that the appropriate escalator can be used in the calculation of the fee. A collection stream will be in surplus if the chosen data set exceeds the 2017 national WEEE collections target set for that stream by Defra, by 1.5% or more.

6.2.7 The Administrator then applies the appropriate escalator mechanism for each stream and each PCS that needs to use the Fee. The Normal Escalator applies to streams where UK WEEE collections do not exceed the UK WEEE Collections Target by more than 1.5%, and the Surplus Escalator applies to streams where total UK WEEE collections exceed the UK WEEE Collection Target by 1.5% or greater. The calculations are based on the formula developed and recommended by FTI Consulting.

6.2.8 If the applicant PCS was not a member of the PBS, then the total Compliance Fee payable by that PCS will be subject to an additional increment. To calculate this, we understand it will be necessary for a majority of PBS members to agree that the PBS Administrator should release certain data to the compliance fee administrator, on a strictly confidential basis. This comprises the average cost per tonne that was actually charged to PBS members for the 2017 compliance period, for each stream, and a list of PBS members as at 31st December 2017.

6.2.9 The Administrator will also ask the Defra WEEE team for confirmation of the tonnage of household WEEE collected from a DCF (by stream) for the 2017 compliance period. The administrator will then use this data to determine the proportion of DCF WEEE that was collected in each stream, as a percentage of the total household WEEE for each stream. This will then be used by the Administrator to calculate the WEEE source adjustment factor described at section 6.5 of the FTI report.

6.2.10 By 14th March 2018 each PCS that has chosen to use the Compliance Fee will be advised of their Compliance Fee and the applicable administration fee.

6.2.11 PCSs should pay the Compliance Fee and administration fee into the dedicated Compliance Fee client bank account as soon as possible after being advised by the Administrator of the fee(s) to be paid, and at the very latest in sufficient time for funds to clear by 28th March 2018. Once funds are cleared and in the client bank account, the Administrator will issue a Compliance Fee Payment Certificate (CFPC) to the PCS. This will be done as soon as possible after the funds have been cleared and at the latest by 30th March 2018. The CFPC will confirm the information provided by the PCS (i.e. PCS target, actual evidence and resulting evidence gap in tonnes, per collection stream), and confirm that the compliance fee and administration fee(s) have been paid into the Compliance Fee Fund, in respect of the evidence gap per stream, but will not show the value of the fees paid.

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

6.2.13 In May 2018 the Administrator will confirm to Defra and JTAC, the estimated funds available for disbursement to support WEEE projects as set out in the Defra Guidance. In estimating the funds expected to be available the Administrator will assess the total administrative costs of the Compliance Fee mechanism, offset by administration fees paid by PCSs. At this time in the process an estimate will be made of all the administrative costs expected to be incurred through to the close of the 2017 mechanism at the end of December 2019. When the 2017 compliance fee mechanism is completed the Administrator will confirm to Defra and JTAC any residual funds available for disbursement.

6.2.14 Please note that the JTA considers that this proposal represents an effective turnkey solution to the implementation of the 2017 Compliance Fee. However, the JTA is open to discussing any aspects of this proposal with Defra, and where appropriate, amending aspects of the proposal.

7. Administration and management costs for the 2017 Compliance Fee mechanism:

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

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

Costs that would be charged against the Compliance Fee Fund for any year are solely 3rd party costs incurred by JTAC, most of which are the costs for the Administrator services. Costs related to support provided by JTA participants are borne by those participants.

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

PCSs that need and choose to pay a compliance fee will be charged an administration fee of £2000. These administration fees will be offset against the administration costs and onsite audit costs, resulting in a greater proportion of the compliance fees paid being made available to support WEEE projects. In the event that the administration fees charged to PCSs are greater than the total administration costs of the 2017 Compliance Fee mechanism, the surplus will be added to the funds made available for WEEE projects.

It is expected therefore that the net costs of administering and managing the 2017 Compliance Fee, which are charged against the fees paid, will represent good value for money for a professional service with high levels of integrity in handling commercially sensitive and confidential information and data.

8. Governance

Key points of the governance of the system, all of which have been shown to work effectively in respect of the 2014 and 2015 Compliance Fee mechanisms, are given below. Together they ensure that the Compliance Fee mechanism is operated on an independent, professional basis, with high levels of integrity throughout, is open to all relevant parties to use as required and that there are no conflicts of interest.

Whilst the JTA is the Proposer of this Compliance Fee mechanism it has ensured that the process is designed in such a way that neither the JTA, JTAC, nor any of their members can benefit financially from the scheme or access any confidential information within it or influence any awarding of funds/grants from it (other than as one of the judging panel if so appointed by Defra).

- 8.1 This proposal is designed to ensure that the process is open and transparent; accessible on an equal basis to all relevant organisations that wish to use it; operated on an independent, professional basis with high levels of integrity and with no involvement by the JTA in its administration.
- 8.2 The JTA has initiated the establishment of JTAC as the legal entity to manage the independent Compliance Fee Administrator. The independent Administrator is responsible for the operation of the Compliance Fee process in the JTA proposal. The JTA will continue to provide resource and expertise to JTAC, and also to the Administrator, regarding the content and operation of the WEEE Regulations but will not be involved in the management and operation of JTAC or the Administrator contract.
- 8.3 JTAC is a legal entity, formed by three Trade Association members of the JTA with significant household EEE/WEEE obligations. It is a not-for-profit company, limited by guarantee, with no shareholdings and its Constitution prohibits any distribution of funds to its members. It has a Board of Directors, comprising a senior representative from each of the Trade Association members, who are responsible for the proper running of the Company.
- 8.4 JTAC has selected an independent Administrator of the Compliance Fee system, responsible for the calculation of compliance fees and the management of any Compliance Fee funds through a dedicated client bank account. The selected Administrator (Mazars) is a UK Top 10 Accounting firm, experienced in accounting, auditing, managing client bank accounts and managing commercially confidential information in an impartial and independent manner. They successfully operated as Administrator for the 2014 and 2015 Compliance Fee mechanisms.
- 8.5 JTAC will manage the performance of the Administrator of the system, without any access to confidential or commercially sensitive information provided by either PCSs, Local Authorities or other organisations to the Administrator. For further transparency, an appropriate level of confidential oversight reporting by the Administrator of the Compliance Fee system directly to Defra can also be provided, if required by Defra.
- 8.6 The contract for the Administrator services will be between JTAC and the appointed Compliance Fee Administrator. Responsibility for the effective and efficient performance of the Administrator is placed with the Board of Directors of JTAC on the one hand and a Partner of the Compliance Fee Administrator firm on the other hand. The contract will specify the services to be provided and the Key Performance Indicators (KPIs) required for those services, which will be monitored through

regular reporting and meetings. The contract will specify the requirement for confidentiality regarding any commercially sensitive market information in order to ensure no breach of competition law. In this respect the Administrator is required to keep all such information strictly to specified staff members within their own organisation and not to disclose any such information outside their own organisation, including not to JTAC or JTA members.

- 8.7 The Compliance Fee process is open to any organisation entitled to and wishing to use it i.e. all PCSs wishing to make use of the Compliance Fee mechanism or submit cost data; and all organisations that meet the criteria, wishing to apply for grants from any Compliance Fee funds that are available.
- 8.8 PCSs using the mechanism and organisations applying for funds will both be required to use the system in accordance with the agreed procedures, including timing of any decisions or applications.
- 8.9 The Judging Panel for assessing applications from organisations applying for funds will be an independent body representative of the various interests involved. The Compliance Fee Administrator will provide secretarial support to the panel as required and execute the decisions made but will not contribute to the decision-making of the panel.
- 8.10 A PCS that decides to use the Compliance Fee mechanism or submit cost data voluntarily will be required to submit accurate information signed off by a Director.
- 8.11 Approved applications for project funding from the Compliance Fee funds will be subject to post-investment validation by the Administrator to ensure that the funds were applied to the intended use.

Appendix 1

Draft form for collecting tonnage and cost information from PCSs

Draft proforma template intended to capture the costs and revenues attributable to the direct collection of each stream of WEEE in the period specified.

Private and Business Confidential				
PCS NAME				
SHORTFALL / SURPLUS	Target WEEE collection target	Evidence Total WEEE Evidence received	DCF Evidence Tonnage of WEEE directly collected by the PCS from DCFs	
<i>Unit</i>	<i>tonnes</i>	<i>tonnes</i>	<i>tonnes</i>	
1 January to 31 December 2017 - For submission on or before 21 February 2018				
(1) Large Household Appliances				
(2) Small Mixed WEEE				
(3) Display Equipment				
(4) Cooling Appliances Containing Refrigerants				
(5) Lamps				
(6) Photovoltaics				
NET COST OF DIRECTLY COLLECTED WEEE FROM LA-DCFs	Collected Amount of WEEE directly collected	Costs Total direct costs of collection, transport and treatment	Income Gross income from resale or reuse of parts	Net cost Total direct costs minus gross income
<i>Unit</i>	<i>tonnes</i>	<i>£</i>	<i>£</i>	<i>£</i>
1 January to 31 December 2017 - For submission on or before 21 February 2018				
(1) Large Household Appliances				
(2) Small Mixed WEEE				
(3) Display Equipment				
(4) Cooling Appliances Containing Refrigerants				
(5) Lamps				
(6) Photovoltaics				
The data above includes related party transactions as described in the instructions				Yes/No (delete as appropriate)

Instructions for completion of template

PCSs needing to use the Fee are required to provide data for all streams in which they have made direct collections from LA DCFs – even when they do not need to use the Fee for all streams.

PCSs that do not need to use the Fee, but chose to supply data on a voluntary basis are required to provide data for all streams in which they have made direct collections from LA DCFs.

This template is intended to capture the costs and revenues attributable to the direct collection of each stream of WEEE in the period specified.

Costs and revenues should be entered into the template if and only if they are direct, incremental and avoidable in relation to the collections of that stream of WEEE undertaken in the period from LA-DCFs.

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

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

- For collections which the PCS was appointed to manage at stage 1, all costs and evidence arising should be included.
- For collections which the PCS was appointed to manage at stages 2,3, or 4, the PCS should include the tonnage of evidence it received from the PBS, and the prorata costs it charged the PBS for that evidence.
- A PCS should not include tonnage or cost for evidence received from the PBS, but which it did not manage on behalf of the PBS.

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

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

Overhead costs, like management, HR, administration, IT, marketing and rent, do not meet the definitions above and should not be included.

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

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

Examples of costs and revenues that meet these definitions are given in the further instructions below.

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

WEEE collection target

Please enter the exact household WEEE tonnage target for each stream. This should be the target as advised by the relevant environment agency.

Total WEEE evidence received

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

Tonnage of WEEE directly collected by the PCS from DCFs

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

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

Direct costs of collection and treatment

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

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

If you are not able to separate transport and treatment costs from other direct costs due to your cost structure, please provide the total.

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

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

Income

Please enter, in GBP, any revenues associated with WEEE collected directly from LA-DCFs. Revenues may relate to:

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

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

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

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

Net cost

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

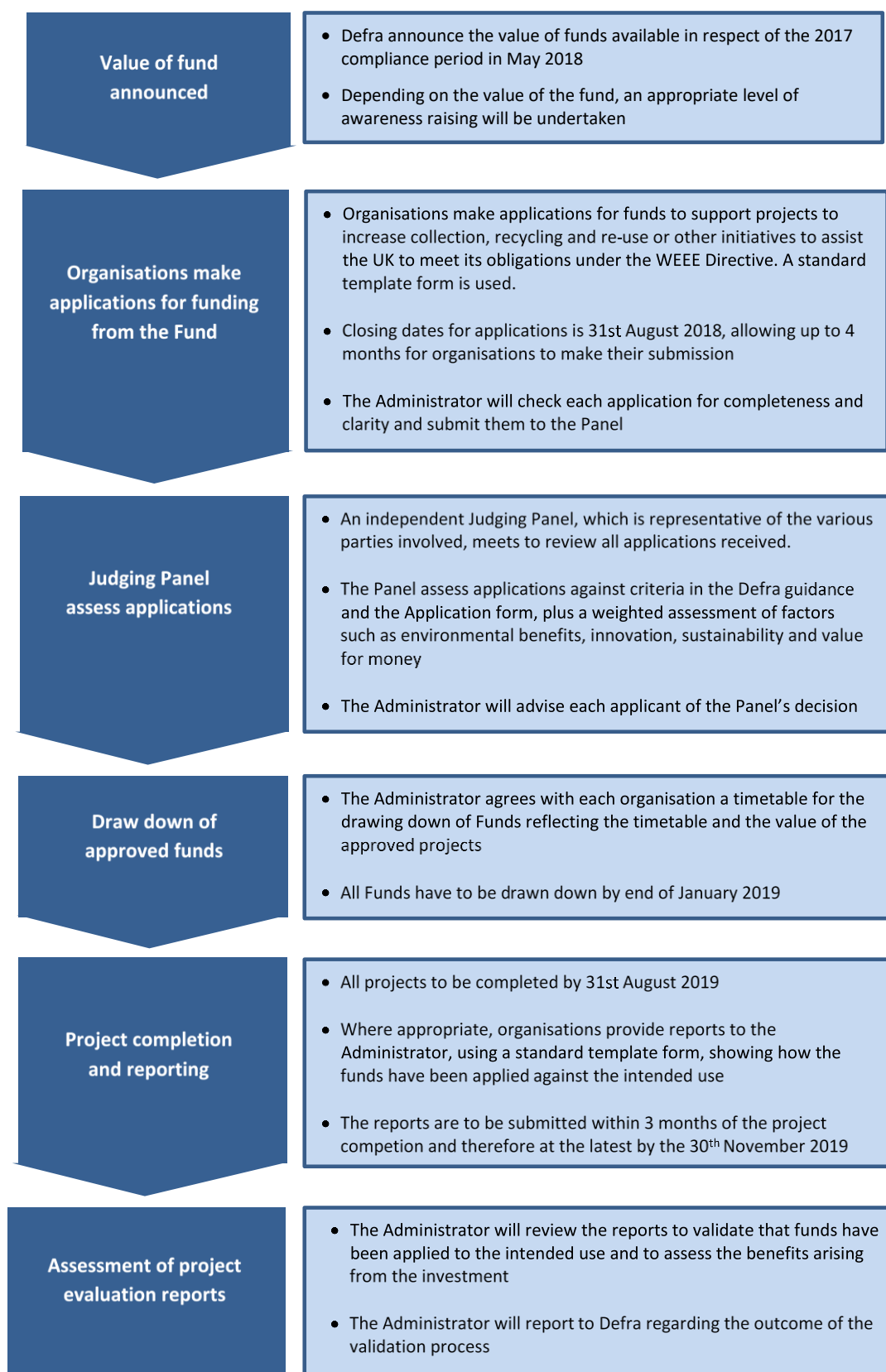
If you were not able to complete both the cost and income sections, please enter here the overall net cost associated with each stream of WEEE. Ensure that all costs and revenues that comprise net cost meet the definitions of direct, avoidable and incremental above.

Audit

All backing information to support data included on the form should be made available to Mazars for audit, where they request this.

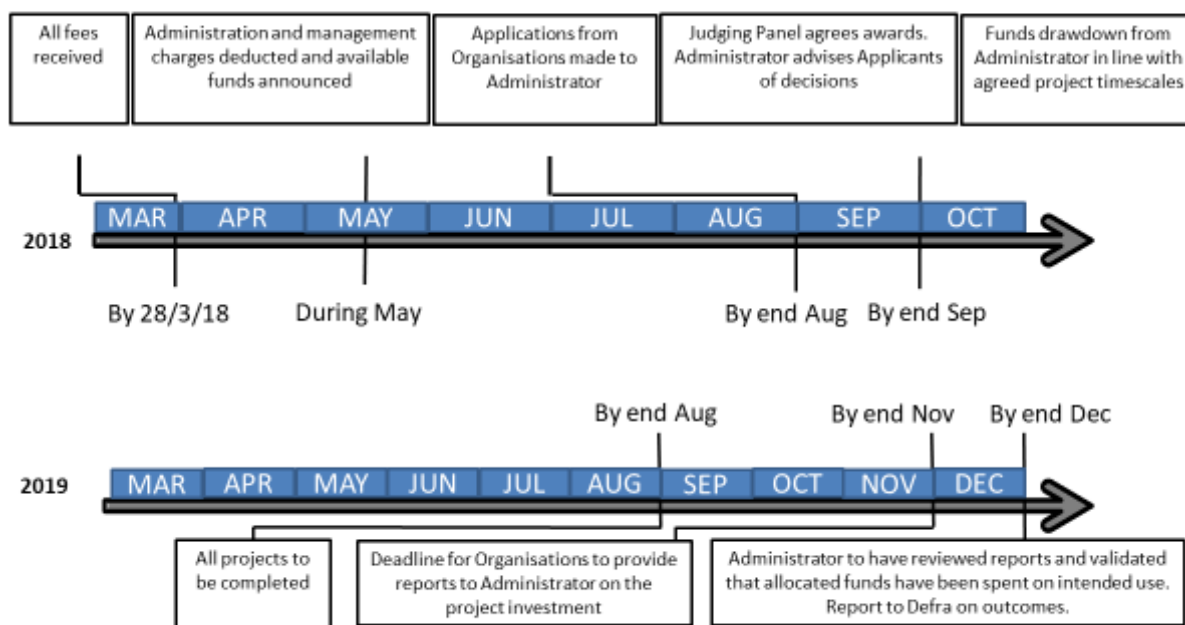
Appendix 2

JTA Process for Disbursements from the Compliance Fee Fund in respect of the 2017 Compliance Period



Disbursements Timeline

Applying for finance from the Compliance Fee Fund



Compliance fee payments by PCSs will form the 2017 Compliance Fee Fund, managed by the Administrator and held in separate client bank account.

The administrative costs of operating the mechanism (less any administration fees paid by PCSs) will be charged against the Fund and all the remaining funds will be available for disbursement to organisations, including Local Authorities, in accordance with the Defra Guidance i.e. to support higher levels of collection, recycling and re-use for household WEEE and or other initiatives designed to assist the UK to meet its obligations under the WEEE Directive.

There will be no set-up costs (the operating systems from the 2014 and 2015 compliance periods will be used) and some of the costs of operating the mechanism are expected to be charged to PCSs that use the mechanism through the administration fees.

In May 2018 the Administrator will confirm to Defra and JTAC the estimated value of the Compliance Fee funds available for disbursement to support WEEE improvement projects as set out in the Defra Guidance. This estimated value will be based on the total of compliance fees and administration fees paid by PCSs minus the estimated costs of administration and management of the Compliance Fee Mechanism for the 2017 Compliance Period through to its close at the end of December 2019.

Defra will then inform interested organisations, including Local Authorities, of the available funds together with details of the process to submit ideas or applications for strategic WEEE projects. Applicants will need to demonstrate how funds will be used to support higher levels of collection, recycling and legitimate re-use of WEEE or other initiatives designed to assist the UK to meet its obligations under the WEEE Directive. JTAC has established a website www.weeefund.uk that will aid applicants.

The process adopted will be agreed with Defra and will be dependent on the size of the fund and national strategic priorities for WEEE. A combined call for funds, with the DTS, will be considered, if appropriate. For smaller funding pots, WEEE stakeholders will be encouraged to submit ideas for WEEE research studies and projects which support the delivery of the UK's national targets which will then be developed into specifications for researchers to bid for. For larger sums, funding will be made available to local authorities for WEEE improvement projects.

The indicative process set out below incorporates feedback from representatives of the National Association of Waste Disposal Officers (NAWDO), the Local Authority Recycling Advisory Committee (LARAC) and the Local Government Association (LGA). The aim is to keep the application process simple and streamlined. Local authority representatives also emphasized the importance of the following points in their feedback, which, where possible, have been built into this Disbursement Process:

- Keep the application process simple, thereby reducing the administrative burden of making an application to a reasonable and proportionate level.
- Promote an appropriate level of awareness of any Compliance Fee Fund that is available.
- Low value applications should require a lower level of detail than higher value applications.
- Provide clear criteria for organisations to meet when preparing their applications e.g. demonstrating that the application is in respect of new projects.

Application process:

This will be kept as simple as possible in order to keep administration work for both the applicant organisations and the Administrator to a minimum. Applications will be assessed based on their compatibility with the criteria specified below. These criteria are based on the Defra Guidance of 2016.

The Administrator will provide a standard template application form for applicant organisations to complete and submit to the Administrator. If the Secretary of State for Defra selects this proposal, the final form of the application form will be agreed with Defra as part of the detailed discussions about the 2017 disbursement process.

Applications will be made either by email or post (choice of the applying organisation) using a standard template form.

Proposed timetable for the process

The proposed timetable is as follows but this will be further refined in discussion with Defra during the implementation phase if the JTA proposal is approved by the Secretary of State for Defra. The timetable includes time for awareness-raising of the availability of the fund.

May 2018: The nature of projects supported by the Fund is agreed with Defra, the estimated amount of Compliance Fee funds available for disbursement will be announced by Defra and an appropriate level of awareness-raising of the Fund commences. This level will be proportionate to the amount of funds available.

End August 2018: The closing date for applications from applicant organisations. This provides a minimum 3 month time window for applications to be submitted and allows time for additional stakeholder engagement if the funds will be directed to strategic research.

End September 2018: An Independent Judging Panel (chaired by Defra) to have reviewed all applications against the criteria set out below and decided which to approve (and to what value) and which to reject. The Administrator will advise applicant organisations of the decisions of the Judging Panel.

End January 2019: All approved funds to be drawn down by the applicant organisations and paid by the Administrator with the possible exception of large projects where a small part of the funds may be held back until completion of the project.

End August 2019: All projects to be completed, with funds spent on the projects proposed in the application approved by the Judging Panel. If WEEE research projects have been funded, the projects are made publicly available.

End November 2019: If WEEE improvement projects have been funded, applicants of approved projects must provide a report to the Administrator showing how the funds have been spent in relation to the intended use by the end of November.

End December 2019: If WEEE improvement projects have been funded, the Administrator will have carried out a validation process of reviewing the reports submitted by the applicant organisations (a desk review) and reported the results of the investments in WEEE improvement projects to Defra. In the unlikely event of the grant/funds having been spent other than on the intended use the Administrator will report this to Defra.

Criteria for Applications

All applications must show how any funds allocated from the Compliance Fee fund will be utilized to improve the UK WEEE system. This could e.g. include projects that contribute to higher levels of collection, recycling and legitimate re-use of household WEEE, or other initiatives designed to assist the UK to meet its obligations under the WEEE Directive. The funds are not available to meet normal operating costs or to pay for the collection or treatment of non-household WEEE.

Applications may be made in collaboration with partner organisations but must meet the criteria of contributing to higher levels of collection, recycling and re-use of household WEEE or other initiatives designed to assist the UK to meet its obligations under the WEEE Directive.

All applications must be submitted in accordance with the timetable set out above, with a commitment to spend any allocated project funding by the end of August 2019.

If funds have been allocated to WEEE improvement projects, applications must include a commitment to provide a written report, using a template format to be provided by the Administrator, within three months of the project funding having been spent and to work positively with the Administrator in reviewing the report to validate that the funds were spent in accordance with the approved application.

Applications must include a commitment that non-confidential information gathered from carrying out these new projects can be published to encourage learning for all parties.

Applications must be signed by a Director, Head of Department, or other senior manager if more appropriate, to confirm that the information provided is correct and that there is full support to the proposed new project/initiative being put forward by the applicant organisation. Where the application is made in collaboration with partner organisations they should also confirm their support to the project by signing the application.

Applications for WEEE improvement projects must include clear measurable targets and performance indicators to ensure projects/initiatives will deliver the benefits to the UK WEEE system that are described in the application e.g. increase the amount of household WEEE collected, recycled or re-used. For WEEE strategic research, the applicant must outline how the work will deliver benefits to the UK WEEE system.

Specifically, the application should include clear targets and performance indicators showing, where appropriate:

- Increases in separately collected household WEEE.
- Increases in the recycling rate of separately collected household WEEE.
- Increases in the amounts/rates of legitimate re-use of separately collected household WEEE.
- Other initiatives which Defra consider are designed to assist the UK to meet its obligations under the WEEE Directive.

Where applications are submitted to encourage increased volumes of separately collected household WEEE and increased recycling in line with Best Available Treatment, Recovery and Recycling Techniques (BATRRT) requirements and legitimate re-use the form must include sufficient information to demonstrate that;

- All volumes of separately collected WEEE will be treated at AATF's in line with BATRRT.
- All separately collected WEEE sent for re-use is sent for legitimate re-use.

Other criteria the application should cover:

- Demonstrate that the project is a new activity, novel research or a significant expansion of an existing activity.
- Degree to which project shows innovation and will inform best practice. Where, appropriate, applicants must prepare a report within three months of the project completion (and be willing to share and publish information from this report in the interests of sharing best practice), which shows how the funds were applied for the intended use.
- Degree of sustainability of the project to continue to deliver benefits after the project completion.
- Overall value for money and environmental impact and benefits of the proposal.

Defra projects

The JTA recognize that Defra may have some specific WEEE projects for which funding may be required. These could, for example, include:

- Work that may be needed to establish protocols to convert the 14 EEE categories to 6 for EU reporting, or to add sub-categories, for the implementation of open scope
- A review of the Small Mixed WEEE protocol
- Further work on establishing reliable substantiated estimates of WEEE collected/treated outside of the producer responsibility system.

The JTA would welcome the use of funds for such projects, which would contribute to the enhancement of the UK's WEEE system.

Processing and approval of applications:

The Administrator will check all applications for completeness and clarify any points necessary with the applicant.

The Administrator will consolidate all applications and submit them to the independent Judging Panel (chaired by Defra) for consideration. If required the Administrator will provide secretariat support to the judging panel in its deliberations but will not be one of the decision-makers.

An independent Judging Panel, representing relevant stakeholders, will be formed, in discussion with Defra. It is proposed that this panel include representatives from local authorities, Defra, a producer representative body and an appropriate WEEE experienced independent body. Costs, if any, associated with the judging panel meeting(s) will be part of the administration costs of the Compliance Fee system.

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

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

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

Validation that funds allocated were applied to their intended use

If funding has been allocated for WEEE improvement projects, organisations that are awarded funds will provide a written report, using a template form, which will be provided by the Administrator, of how these have been spent against their intended use within three months of the project being completed.

The Administrator will carry out a desk review of the report, including contacting the applicant organisation if appropriate, to validate the expenditure against intended use. In exceptional circumstances e.g. high value projects or significant questions arising from the report and review process, the Administrator may carry out a field visit, with the support of the organization concerned, to validate the expenditure.

The Administrator will confirm to Defra the outcomes of their reviews of the projects, any improvement trends that are reported and any concerns they may have.

Residual money in the Compliance Fee fund

The process agreed with Defra and the Judging Panel should ensure that the available funds for projects are allocated and distributed to projects that meet the criteria set out above. In the exceptional event that after the independent judging panel has awarded funding, as it judged appropriate, there are residual funds remaining from the 2017 compliance period, the Administrator will advise Defra and JTAC of that outcome and the amount of money unallocated.

The Administrator will liaise with Defra regarding how the residual money is to be used e.g. offer a second round of applications using the same criteria as before. Other options could include a different range of projects with the objective of improving the UK WEEE system and collection, recycling and re-use levels; transferring the balance of monies to the Compliance Fee fund in respect of the 2018 compliance period, etc.

Low levels of Compliance Fee funding

In the event that the amount of funds available for disbursement after costs have been deducted is too low to justify a call for funding applications, the Administrator and JTAC will discuss and agree with Defra the best way to use the funds that are available to further improve the working of the UK WEEE system in line with the Defra Guidance.

Potential links with other schemes dispersing funding for household WEEE improvements

This proposal sets out a standalone disbursement process. For the 2014 and 2015 Compliance Fee disbursement processes, with the support of Defra, the JTA and the Distributor Take-back Scheme (DTS) cooperated to create a single call for proposals as they both managed funds with very similar criteria for allocation. In the event that the DTS has funds available for disbursement, with similar criteria, during the time that the 2017 Compliance Fee funds are being disbursed the JTA would again be pleased to participate in coordination discussions between the Schemes in the interests of reducing administration work for applicant organisations.

Proposed compliance fee calculation methodology prepared by FTI Consulting



Memorandum

TO: **Susanne Baker**
FIRM: **Joint Trades Association Group**
FROM: **Navin Waghe and Mark Bosley, FTI Consulting LLP**
DATE: **25 September 2017**
RE: **WEEE Compliance Fee for 2017**

1. Introduction

- 1.1 FTI Consulting has been instructed by the Joint Trades Association Group ("JTA") to identify and appraise possible changes to the methodology for calculating the compliance fee (the "Fee") in accordance with Regulation 76 of the Waste Electrical and Electronic Equipment Regulations 2013 (as amended) ("WEEE Regulations"). We understand that this memorandum will help inform the JTA's proposal to the Department for the Environment, Food and Rural Affairs ("Defra") for a Fee calculation methodology for the 2017 compliance year.

Objectives of the WEEE Regulations and the Fee

- 1.2 Regulation 33 of the WEEE Regulations provides that any PCS which does not achieve compliance by collecting and treating WEEE in line with its members' obligations is able instead to pay a compliance fee in respect of the shortfall. The most recent Defra guidance on Fee design proposals was published in July 2016. This specified in particular that:²

"Proposals should:

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

² DEFRA (July 2016), Guidance on submitting proposals for a WEEE Compliance Fee Methodology.

- 1.3 In addition, there is an implicit objective in the WEEE Regulations – that we understand from the JTA is shared by Defra – to incentivise the collection of WEEE from Local Authority (“LA”) Designated Collection Facilities (“DCFs”). Under Regulation 34 of the 2013 Regulations, LAs have an automatic right of uplift for their DCFs. If an LA requests the collection of WEEE by a PCS, that PCS is obliged to organise collection regardless of the location of the LA-DCF. PCSs may not refuse these collections, irrespective of the cost to them, or whether they have met (or will meet) their volume target without this additional WEEE.

Background

- 1.4 We previously prepared an independent report on behalf of the JTA in 2014, which recommended a methodology for calculating the Fee. The Department for Business Innovation and Skills (“BIS”) – which was responsible for WEEE regulation at the time – adopted this proposal for the 2014 compliance year. A very similar methodology was adopted for the 2015 compliance year.
- 1.5 The key features of the Fee methodology originally designed by FTI Consulting and adopted by the JTA for the past three years are that:
- (1) a separate Fee is calculated for each WEEE stream;
 - (2) the Fee per tonne is based on the average direct costs of collection of PCSs; and
 - (3) an escalator is applied which adjusts upwards the Fee per tonne according to the magnitude of the PCS’s shortfall versus its target. The uplift is proportionately higher the larger the shortfall.
- 1.6 A modification was proposed by the JTA for the 2016 compliance year to apply a different Fee escalator formula for a WEEE stream with an aggregate surplus against the aggregate national collection target. This means that the Fee would be higher for streams in surplus to reflect that, in such circumstances, all PCSs should be able to meet their targets through collections.
- 1.7 We consider that the main principles of this methodology remain fundamentally economically sound.

Instructions

- 1.8 We have been asked to consider issues which have affected the functioning of the WEEE market during 2016 and 2017, the use of the Fee and how the design of the Fee might be modified to address these issues.
- 1.9 We understand that the following issues – which are pertinent to the design of the Fee and some of which are interrelated – are currently affecting the WEEE market:
- (1) some LAs continue to make Regulation 34 requests, despite shortfalls currently being forecast in a number of WEEE streams versus targets for 2017;
 - (2) participation in the Producer Balancing Scheme (“PBS”) is currently voluntary, which means that non-participants do not pay any share of Regulation 34 requests fulfilled through this mechanism;
 - (3) “dual use” WEEE previously classified as non-household WEEE qualifies as household WEEE and the associated evidence can be purchased from non-LA DCF sources at lower cost than equivalent collection direct from LAs; and

- (4) most LDA WEEE has a net positive value, which creates an incentive for other organisations to legitimately collect it outside of the producer responsibility system.³ Furthermore, the JTA advise that for some positive value streams, PCSs may withhold evidence rather than offering it to the market.

1.10 We consider in turn whether each issue can be addressed through the design of the Fee and, if so, how. We then conclude on a proposed revised formula for the 2017 Fee.

2. Supply shortfalls and continuing use of Regulation 34 requests

Background and issue

- 2.1 PCSs have an economic incentive to meet their collection target by collecting the WEEE (or purchasing evidence notes) with the lowest cost, irrespective of the source. As noted, under the WEEE Regulations, LAs have an automatic right of uplift for their DCFs under Regulation 34. In 2016, we understand that there were aggregate surpluses against the national target in most WEEE streams. Therefore, the JTA considered that the increasing use of the Regulation 34 reflected that PCSs had been avoiding higher cost LA-DCF when the aggregate surpluses meant that they could meet their target from lower cost sources.
- 2.2 In 2017, a majority of WEEE streams are forecast to have a shortfall versus the national targets. However, we understand that there continues to be some use of Regulation 34 at the cost-sharing stage of the PBS. A possible explanation is that certain outlier higher-cost LA-DCF are not attractive to PCSs.

Fee design implications

- 2.3 First, the 2016 Fee was based on the weighted average costs of LA DCF collections only plus direct overheads.
- 2.4 To maximise the incentive for PCSs to meet their targets through LA-DCF collections, we consider that using **only** the weighted average cost of collecting from LA-DCF remains the right approach. This will reduce the risk that the 2017 Fee may be lower than the cost of LA DCF collections while ensuring that it remains cost reflective.
- 2.5 Second, we understand that, in 2016, the Fee mechanism included “Direct Overheads” in the Fee calculation. We understand that these comprised allocations of overhead costs that:
 - (1) were associated with undertaking collections such as preparing bids, staffing, conducting audits and supplier management; but
 - (2) did **not** vary directly with the tonnage of WEEE collected.
- 2.6 This means that a PCS will incur the same amount of direct overhead costs **irrespective** of whether or not they meet their target. Including these costs would be unduly punitive of PCSs which sought to meet their target as far as possible through collections and would not be **reflective of the cost** of undertaking additional collections. Furthermore, we understand from the JTA that most overhead costs are not stream-specific.

³ Source: WRAP (2016) UK EEE Flows 2016, p5: “A lot of activity occurs outside of the producer responsibility WEEE system and we estimate this to be 475kt (31%) of WEEE generated. This includes: LDA [Large Domestic Appliances] being treated within the light iron stream, which accounts for 57% (273kt) of the tonnage...”

- 2.7 Given that Q1 and Q2 collection data suggests that a significant number of PCSs may need to use the Fee in 2017, we consider that it is important that the Fee is reflective of only the **incremental** costs of collecting the additional WEEE, so that it is not unduly punitive of PCSs which have sought to meet their target without recourse to the Fee.
- 2.8 Third, given that the cost of collections from some LA-DCFs are markedly higher (we understand from the JTA that these are typically remote, rural sites) we consider that the cost burden of meeting legal obligations under Regulation 34 should be shared fairly between PCSs and therefore the PBS is now an important component of the UK WEEE system. We discuss this in the following section.

3. The operation and role of the PBS

Background and issue

- 3.1 The PBS was created in 2016 as a mechanism to manage Regulation 34 requests between participating PCSs in a way that was intended to be fair and efficient.
- 3.2 A request passes through two stages:
- (1) Stage 1: first, PCSs may offer to fulfil directly the submitted Regulation 34 requests; and
 - (2) Stage 2: if no PCS offers to fulfil directly, the PCS submitting the lowest cost quote undertakes the collection and the cost is shared among PBS members according to market share.
- 3.3 The PBS is administered by an independent third party consultancy, Anthesis Consulting, which includes allocating the share of costs between members.
- 3.4 PBS membership is currently voluntary and some PCSs do not participate in the PBS. It was reported in October 2016, that there were 11 PCSs that had not joined the PBS but were approved for household WEEE.⁴ As a result, they do not bear any of the costs of undertaking Regulation 34 requests fulfilled through the PBS.

Fee design implications

- 3.5 We understand from the JTA that Defra has publicly stated that it may introduce mandatory membership of the PBS. However, we consider that this issue can be addressed in the interim by adding an economic incentive for PCSs to be participants of the PBS. That is, PCSs should not be able to avoid the costs of collecting WEEE from higher cost LA sites – which currently rely on Regulation 34 – by declining to join the PBS.
- 3.6 We therefore propose that an additional uplift should be applied to the Fee for non-participants of the PBS. We propose that this uplift should be **reflective of the costs** of Regulation 34 requests fulfilled through the PBS during 2017. In this way, the Fee as a whole would remain cost reflective. We set out the revised fee calculation in Section 6.

⁴ Source: <http://www.letsrecycle.com/news/latest-news/compliance-schemes-to-share-weee-reg-34-requests/>.

4. Impact of dual use WEEE

Background and issue

- 4.1 A change to the guidance on the classification of WEEE between household and non-household took place in 2015.⁵ As a result, there are additional sources of WEEE in some streams which now qualify as household – and therefore may be used towards PCSs’ collection targets – despite being collected from businesses.⁶
- 4.2 Often, businesses generating dual use WEEE pay for its collection. As a result, the collectors may be doubly-remunerated, because they may then also seek to sell the evidence to PCSs. This may lead to the price of this evidence being “artificially” low, because the price need not cover the underlying cost of collection and treatment.
- 4.3 We understand that a large volume of such WEEE affected reported collections in 2016. This suggests that, if the evidence notes could be purchased at lower cost than the cost of collection from LA sites, this may have reduced the incentive for some PCSs to undertake LA collections.

Fee design implications

- 4.4 The fact that there was a material impact on reported collections of dual use WEEE suggests that the volume may be sufficient to reduce materially the incentive to collect WEEE from LA-DCFs. Therefore, some PCSs may be able to fulfil a material proportion of their collection target at a lower cost. The current Fee formula takes no account of the source of the WEEE (or evidence notes) which is used by a PCS to meet its collection target.
- 4.5 We consider that the Fee should reflect the proportion of WEEE collected from LA-DCFs used by a PCS to meet its target, compared to the share of aggregate supply of WEEE which comes from LA-DCFs.
- 4.6 An adjustment can be designed which ensures that PCSs which use a relatively larger proportion of WEEE/evidence notes from lower cost sources pay a higher Fee, which reduces the cost advantage of using WEEE/evidence notes from other sources and therefore the economic incentive to do so. This would support the objective of incentivising collections from LA-DCFs as far as possible, which we discuss above in relation to Issue (1). This adjustment should not be symmetrical: PCSs which collect more than the average share of their WEEE from LA-DCFs should not pay a reduced fee.
- 4.7 A second way to address this issue through the design of the Fee is to ensure that it is based on the costs of collection from LA-DCFs and **not** other sources, as proposed above in response to Issue (1). This incentive should be more effective in the current WEEE market conditions in which there is a predicted shortfall versus aggregate targets and therefore PCSs are more likely to need to use the Fee.

⁵ On 23 February 2015, BIS issued Guidance entitled “Business to consumer (B2C) and business to business (B2B) EEE and WEEE: how to correctly identify”. Available at: <https://www.gov.uk/guidance/business-to-consumer-b2c-and-business-to-business-b2b-eee-and-weee-how-to-correctly-identify>

⁶ The Environment Agency publication “Scope of equipment covered by the UK Waste Electrical and Electronic Equipment (WEEE) Regulations” states that “All products which fall into the categories, regardless of whether they are used in a household or in a non-household environment are covered by the Regulations.” Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/393740/LIT_7876.pdf

5. Incentives for other parties to collect certain WEEE streams

Background and issue

- 5.1 We understand that there is currently forecast to be an aggregate shortfall against the national collection target in the Large Domestic Appliance (“LDA”) WEEE stream.
- 5.2 We understand that LDAs generally have a net positive value to the collecting organisation, whether or not it is a PCS. Therefore, this positive value on its own creates an economic incentive for PCSs to seek to fulfil their target through collections for this WEEE stream. WRAP’s recent EEE Flow study indicated that some 273kt⁷ of LDA does not go through the producer responsibility system.⁸

Fee design implications

- 5.3 In 2016, the Fee formula applied for all WEEE streams. It seems inappropriate and unnecessary to attempt artificially to incentivise the collection of WEEE in any stream for which:
- (1) there is already a natural economic incentive for PCSs to collect this WEEE;
 - (2) the same economic incentive also exists for other organisations; and
 - (3) there is a significant shortfall versus the national target.
- 5.4 Therefore, we propose that the Fee should be zero for positive value WEEE where there is evidence that a substantial volume is being treated outside of the official producer responsibility system. We understand that, based on the WRAP study referenced earlier, the JTA considers that this is likely to apply to the LDA stream for 2017.

6. Proposals for the 2017 Fee

Summary of proposed changes

- 6.1 In summary, we consider that the Fee calculation for 2017 for each stream should:
- (1) be based on each PCS’s collections in each stream against its **own** collection target for each stream, rather than the aggregate national collection target. This would be consistent with methodology adopted for the 2014 Fee and 2015 Fee. We expand on this below;
 - (2) reflect the proportion of WEEE collected from LA-DCFs by a PCS to meet its target;
 - (3) base the Fee on **only** the weighted average direct costs of LA-DCF collections from all PCSs choosing to submit data (whether voluntarily or because they wish to use the Fee);
 - (4) exclude “Direct Overheads” from the escalators as these are **not** incremental costs of collection;
 - (5) apply a cost reflective uplift to the Fee – for both the “normal” and “surplus” escalators for PCSs which do not participate in the PBS; and
 - (6) not apply a Fee to a net positive value WEEE stream where there is evidence that a substantial volume is being treated outside of the producer responsibility system (e.g. LDA).

⁷ For comparison, 273kT is higher than the annual tonnage of LDA collected through the producer responsibility system.

⁸ Source: WRAP (2016) UK EEE Flows 2016, p5.

- 6.2 The escalator mechanism increases the Fee which a PCS must pay per tonne of shortfall. In our view, a non-linear escalator remains appropriate and promotes the effectiveness of the Fee, because it creates a stronger incentive to collect as the shortfall increases. The greater the shortfall, the higher the Fee per tonne.
- 6.3 However, we consider that the 2016 Fee mechanism which bases the escalator on a PCS's absolute shortfall (in tonnes) versus the aggregate national target is less effective in incentivising some PCSs to meet their targets through collections. This is because PCSs vary substantially in scale, measured based on the volume (in tonnes) of WEEE collected and processed. The 2016 Fee formula results in larger PCSs which account for a greater proportion of total collections paying a higher Fee for the same relative shortfall (in percentage terms) as a smaller PCS. Instead, we consider that the escalator should increase in proportion to the size of the PCS's shortfall relative to its **own** target, consistent with the Fee mechanism adopted for the 2014 and 2015 compliance years.

Proposed 2017 Fee formula

- 6.4 We explain below the formulae which we propose should be used to calculate the Fee for the 2017 compliance year for a given WEEE stream (denoted 'n'). We first set out the formula for the proposed adjustment factor for the sources of WEEE used, then we set out the calculation of the Fee uplift for non-PBS participants. We then present the revised formulae for the normal escalator and the surplus escalator.

WEEE source adjustment

- 6.5 As described in Section 4 above, we consider that the Fee should be adjusted to take account of the sources of WEEE/evidence used by a PCS to meet its target. We propose that this would be implemented through an additional adjustment factor applied to the base costs used to calculate the Fee.
- 6.6 This factor would increase the Fee for PCSs which undertake a lower proportion of collections from LA-DCFs compared to the national average for the relevant stream. The magnitude of the adjustment would be multiplied by an incentive factor, to be set at the discretion of DEFRA. This incentive factor would set the maximum percentage by which the base cost per tonne may be increased to reflect the composition of the PCS's collections in that WEEE stream. The percentage uplift to the base costs would be calculated as follows:

$$p_n = i * \frac{e_n - d_n}{e_n}$$

- 6.7 Where:

e_n is the tonnage of WEEE that the PCS would have needed to collect from LA-DCFs to meet its target, to reflect the national average proportion of LA DCF WEEE in that stream. So, if a PCS had a target of 1000 tonnes in a particular stream, and the national data showed that 80% of WEEE in that stream came from LA sources, then e_n would be 800 tonnes.

d_n is the actual volume of collections from LA-DCFs, made by the PCS, in tonnes.

i is the incentive factor to be set at Defra's discretion.

- 6.8 Note that PCSs that collected a higher proportion of LA DCF WEEE should not receive a lower compliance fee.⁹

⁹ We propose that the precise mathematical formula would be: $p_n = i * \frac{\max(e_n - d_n, 0)}{e_n}$.

- 6.9 The incentive factor would allow Defra to adjust the strength of the incentive to collect from LA-DCFs at its discretion. The JTA considers that 20% may be an appropriate level at which to set this incentive for 2017.

Non PBS participant uplift

- 6.10 We consider that an additional uplift should be levied on the Fee per tonne paid by non PBS participants that is proportional to the incremental additional cost per tonne of fulfilling such collections, which the PCS avoids by not being a member of the PBS. This would be calculated as follows:

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

- 6.11 Where:

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

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

r_n is the average cost per tonne of fulfilling Regulation 34 requests, including administrator charges.¹⁰

k_n is the base cost of fulfilling LA-DCF collections, included in the existing Fee formula.

- 6.12 While this adjustment adds a further element to the previous Fee methodology, we foresee that it would be a transitional arrangement to incentivise PBS participants which, in the long run will no longer be required if PBS membership becomes mandatory.

Normal escalator

- 6.13 We consider that the Fee for streams of WEEE where there is a net shortfall versus aggregate targets should be calculated using the following formula, in which the modifications compared to the JTA's 2016 Fee proposal are highlighted in red:

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

- 6.14 Where:

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

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

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

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

p_n is the WEEE source adjustment premium.

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

- 6.15 We set out an illustrative example of the Fee payable per tonne under the previous JTA proposal and the revised proposal in Appendix 1 below.

¹⁰ We understand that this data could be provided by PBS administrator, Anthesis Consulting.

Surplus escalator

- 6.16 We consider that the Fee for streams of WEEE where there is a net surplus versus aggregate targets should be calculated using the following formula. The changes compared to the JTA's 2016 Fee proposal are highlighted in reds:

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

- 6.17 Where:

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

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

and all other terms are as defined for the “normal” escalator.

Appendix 1

Example revised fee calculation

A1.1 Parameters for a PCS (which is not a PBS participant) with a shortfall in a stream not in aggregate surplus:

- (1) Target collections: 5,000 tonnes
- (2) Actual collections: 3,000 tonnes
- (3) Collections from LA-DCFs: 1,000 tonnes
- (4) Aggregate share of WEEE in that stream processed by LA-DCFs: 54%
- (4) Cost per tonne of LA-DCF collections: £1.00

Previous JTA proposal

A1.2 The Fee per tonne payable by this PCS in this stream would have been £1.16 per tonne:

$$\text{Fee/tonne} = 1.00 \times \left(1 + \left(\frac{5,000 - 3,000}{5,000} \right)^2 \right) = \mathbf{1.16}$$

2017 JTA proposal

A1.3 The Fee per tonne payable by this PCS in this stream with the additional WEEE source adjustment would be £1.20 per tonne:

$$\text{Fee/tonne} = 1.00 \times \left(1 + \left(\frac{5,000 - 3,000}{5,000} \right)^2 + 20\% * \left(\frac{3,000 \times 54\% - 1,000}{3,000 \times 54\%} \right) + 20\% \right) = \mathbf{1.40}$$

A1.4 Note that, for illustrative purposes, we assume in the above example that the cost of fulfilling Regulation 34 requests is 20% greater than the average cost of typical LA-DCF collections.

Appendix 2

Restrictions and limitations

Restrictions

- A2.1 This report has been prepared solely for the benefit of the JTA for use for the purpose described in the introduction. FTI Consulting accepts no liability or duty of care to any person other than the JTA for the content of the report and disclaims all responsibility for the consequences of any person other than the JTA acting or refraining to act in reliance on the report or for any decisions made or not made which are based upon the report.

Limitations to the scope of our work

- A2.2 This report contains information obtained or derived from a variety of sources. Where appropriate FTI Consulting has been given assurances regarding the reliability of those sources and information provided. However, we have not sought to independently verify the information we have reviewed.
- A2.3 No representation or warranty of any kind (whether express or implied) is given by FTI Consulting to any person (except to the JTA under the relevant terms of our engagement) as to the accuracy or completeness of this report.
- A2.4 This report is based on information available to FTI Consulting at the time of writing of this report and does not take into account any new information which becomes known to us after the date of this report. We accept no responsibility for updating this report or informing any recipient of this report of any such new information.

Appendix 4

Introduction to the JTA and JTAC

Background

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

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

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

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

Collectively, the members of the Trade Associations that comprise the JTA employ nearly 1m staff in the UK, in around 7000 companies across all sizes of producers, from the very small to the very large. The JTA comprises all the major trade associations representing both business-to-consumer and business-to-business EEE producers in the UK. This proposal therefore strongly represents the voice of the Producer community and we believe it is fully consistent with the WEEE Directive's 'producer responsibility' duties.

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

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

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

Joint Trade Associations (Contracts) Ltd (JTAC)

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

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

Appendix 5

Our Chosen Administrator – Mazars LLP

Our chosen Administrator

Background

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

Decision to outsource

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

- Ensure confidentiality of commercial information;
- Experience in managing client money
- Provide adequate and flexible level of resource to respond to variable workload; and
- Availability of qualified audit staff to perform on-site audits

Evaluation process

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

Mazars have provided a quotation for costs to cover the 2017 compliance period, which reflects their insight and experience gained from the 2014 and 2015 processes. As a result, overall costs are projected to be similar to those for the 2015 compliance period, and hourly rates are comparable to those applied in 2015, although charges will increase given the new requirement to undertake onsite audits of PCSs. Therefore this represents a cost effective solution for a professional independent Administrator service operated with high levels of integrity with regard to handling commercially sensitive data.

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

Mazars' experience

Mazars is an international, integrated and independent organization, specializing in audit, advisory, accounting and tax services. The Group operates in 79 countries and draws on the expertise of 17,000 professionals to assist major international groups, SMEs, private investors and public bodies at every stage in their development. In the UK, Mazars has 141 partners and over 1,750 staff serving clients from 19 offices, and is ranked as the ninth largest accountancy firm nationally.

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

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

Key areas of Mazars' proposal

Segregation of duties and conflicts of interest

Mazars will operate a client account on behalf of JTAC, which will be used to collect funds from the relevant PCS organizations. This account is held separately from any other accounts, including the 2014 and 2015 Compliance Fee client accounts. (N.B: as part of the strict confidentiality conditions regarding payment of Compliance Fees by PCSs, neither JTA nor JTAC nor any of their members has any access to the client bank account nor to any information in it). Should conflicts of interest be identified, Mazars has the scale and resources to mitigate such conflicts through the provision of entirely separate engagement teams.

Industry knowledge

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

Flexible solutions

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

IT systems & security

Currently a straightforward off-line IT led solution has been implemented for administering the compliance fee because this has been most appropriate and has worked well in the 2014 and 2015 compliance years. PCSs email requests to use the compliance fee and cost data using standard templates provided by the Administrator, similarly organisations wishing to apply for funding from the Compliance Fee fund email requests using standard application forms provided by the Administrator. The use of a portal solution to receive requests from PCS and funding applications has been reviewed but not considered to be best value for money at present, this can be revisited as circumstances dictate.

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

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

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

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

Capacity

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

Governance

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

The Administrator services will be led by a Partner, who will be involved in the overseeing of all aspects of the administration of the 2017 Compliance Fee mechanism. A senior manager is allocated to manage the process and system and ensure deadlines are met and that the process is running smoothly. There will also be a team of less senior staff members to work on the processing of transactions and producing the reports for review as required.

Value for money

The services provided by the Administrator comprise the following:

- Communicating with PCSs about the 2017 Compliance Fee mechanism, providing support to PCSs in using it; calculating fees; collecting payments, issuing compliance fee payment certificates and advising the environment agencies concerned, of appropriate information.
- Undertaking on-site audits using an Agreed Upon Procedure of all PCSs that wish to use the Compliance Fee, and those PCSs that choose to voluntarily submit data.
- Receiving payments of fees, holding those in a dedicated client bank account, making approved payments from that account and managing the bank account through to when it is finally closed i.e. when the Compliance Fee mechanism is finally complete with all funds disbursed and accounted for.
- To receive, verify and present to a judging panel all applications received for funds from the Compliance Fee Fund. To disburse funds approved by the Judging Panel to the organisations concerned and in due course to receive back from those organisations Project Evaluation reports on the effectiveness of the funds invested against the original purpose.

- To maintain through to the final close of the 2017 Compliance Fee fund, full accounting records of all transactions including VAT returns and annual accounts information. To provide management reports to JTAC on a regular basis without disclosing any confidential or commercially sensitive information.

In respect of these services Mazars provided a quote for costs to cover the 2017 compliance period, which reflects their insight and experience gained from the 2014 and 2015 processes. As a result, overall costs are projected to be similar to those for the 2015 compliance period, except for the additional cost of onsite audits of PCS data. The Mazars financial offer is commercially confidential and therefore is not included in the JTA proposal, but will be separately disclosed to Defra upon request.