



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

Operation of a WEEE Compliance Fee for the 2019 Compliance Period

Valpak Limited
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1. Executive Summary

This document sets out Valpak's proposals for the operation of a WEEE compliance fee for the 2019 compliance year.

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

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

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

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

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

The key points of this proposal are summarised below.

Methodology for calculation

The key points of our proposed methodology are:

- The compliance fee will be calculated separately for each scheme wishing to use the fee and for each WEEE stream. It will be calculated from a combination of three main elements:
 - A base cost calculated from the weighted average collection and treatment costs of Local Authority (LA) collections of all schemes using the fee
 - A standard amount per tonne to reflect the direct scheme operational management costs which would be avoided if these were not reflected in the fee (avoided transactional cost)
 - Additional adjustments as appropriate to reflect:
 - whether or not the scheme using the fee participated in the PCS Balancing Scheme (PBS) during the year (this element has been adjusted to allow for the PBS becoming mandatory in August 2019)
 - the degree to which the scheme undertook its own WEEE collections from Local Authorities compared with its market share of the national total, and
 - if national targets were missed overall, the degree to which the scheme's performance fell short of their own targets relative to their market share of the national shortfall.
- Schemes would be required to provide actual direct collection and treatment cost data by stream to the independent operator, Anthesis (UK) Ltd., who will administer the compliance fee process under strict confidentiality provisions
- A condition of using the compliance fee would be the provision of accurate and detailed cost data by schemes to support their application
- A zero-fee for collection and treatment of the LDA stream was incorporated in to the 2017 compliance fee. We believe that during the 2019 compliance year, it is likely that there has been similarly high level of collection activity occurring outside the official system and therefore we acknowledge that the rationale for this element remains substantially valid and so we propose to also apply this for 2019. If only an LDA stream was applied for the administration and overheads costs would still apply.
- An additional uplift fee is calculated to apply to schemes wishing to use the compliance fee who were not a member of the voluntary PCS Balancing Scheme (PBS) or a similar arrangement for dealing with regulation 34 requests for the first part of 2019. This uplift fee is added at the end of the formula and has been adjusted in the 2019 methodology to allow for the PBS becoming mandatory during 2019
- That a standard fee is added to allow for schemes estimated direct operational management costs of administering and managing actual collection contracts. This fee will be £3.50 per tonne, which we believe continues to be broadly representative of average costs of, for example, contract and account management, reporting and site auditing. Other scheme overheads are excluded from this figure.
- In the event of there being an application to use the fee for 2019 in a stream where there is no 2019 actual collection cost data available then the cost data from 2018 will be used for that stream.

- There will be a participation fee of £2000 per scheme wishing to use the compliance fee as a contribution towards audit and administration costs
- The independent operator will use detailed data provided by schemes to calculate the weighted average cost per stream. This will form the base cost for calculating individual compliance fees
- The collection and treatment costs only (not direct operational management costs) will be escalated by a factor related to the degree of scheme shortfall against the national target set by the Government in each stream, so that a greater fee is payable for a shortfall which is more significant compared to the Government's requirement
- However, if the total of national collections for the year is less than the target set by Government in any stream then the escalator mentioned above is not applied to the first proportion of the tonnage applied for by any scheme, up to a maximum of their market share of the national shortage.
- We recognise that the 'WEEE source adjustment' in the 2017 compliance fee methodology submitted by the Joint Trades Association (JTa) was an effective uplift in incentivizing schemes to collect WEEE from local authorities. Therefore we have proposed that a similar calculation element is incorporated in this fee calculation. See details of the calculation in section 4.6.

Administration

The fee will be administered by Anthesis (UK) Ltd. Anthesis (UK) Ltd. are a well-respected independent consultancy who have demonstrated a sound track record of operating in various capacities in the WEEE system for some time including operating the PBS and conducting various WEEE research studies for Defra and others.

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

The key elements of their role will be to:

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

Should this proposal be accepted, Anthesis (UK) Ltd. would set up a separate bank account to receive the compliance fees paid by compliance schemes. Once all the transfers have been received, the net balance (i.e. minus Anthesis (UK) Ltd. administration fees) would be transferred to the existing WEEE Fund as set out in section 6 relating to the dispersal of funds. This process will ensure that Valpak has no role, visibility or influence whatsoever over any funds raised.

Dispersal of funds

The funds raised from the compliance fee would be added to the existing WEEE Fund which funds projects, technical research, communication campaigns and behaviour change activities which aim to increase the collection and treatment of WEEE. This approach has been agreed in principle by Defra and will help to improve the efficiency in the spend of the Fund over a period of time, avoid the need for duplicating administrative bodies and will reduce confusion in the market. Under this arrangement, funds accrued through the use of the Fee, regardless of the operator, will be transferred to the WEEE Fund who will provide the Fund disbursement services.

Further suggestion

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

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

2. Introduction

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

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

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

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

We have used this expertise and experience to develop a methodology which we believe is practicable and best meets the requirements of the UK WEEE system in the current situation, fully taking into account the requirements of the regulations and Government guidance. It builds on the methodology we proposed for 2016 which was accepted by Defra, and on our 2017 and 2018 methodology. Whilst the approach is broadly similar, we have incorporated one change to compensate for the PBS becoming mandatory in August 2019, and have included worked examples to show how the methodology operates in practice in different scenarios.

If this methodology is accepted by Defra we propose to appoint Anthesis (UK) Ltd. (“Anthesis”) as independent compliance fee operator. Anthesis are a well-respected consultancy who have direct experience of the UK WEEE System as they are the administrator of the WEEE Producer Compliance Scheme Balancing System (PBS). Anthesis therefore have demonstrated expertise and capability to perform the required role whilst ensuring the high degrees of confidentiality necessary – see Appendix I for more information.

3. Objectives of the Compliance Fee

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

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

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

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

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

Guidance on submitting proposals for a WEEE Compliance Fee Methodology – July 2019.

4. Methodology for the calculation of the fee

4.1 Introduction

The methodology proposed below includes details of how fees are to be calculated for each stream. This document does not include actual fees because it is not possible to calculate the fees until after the end of the compliance year when information on actual tonnages and costs can be obtained. However the methodology is supplemented by worked examples of the fee calculation and how it would apply in a range of scenarios.

4.2 Economic rationale

Background to rationale

A WEEE compliance fee has been enabled under the WEEE regulations since 2014. A fee methodology has been chosen by the Government for 2014, 2015, 2017 and 2018 based on proposals submitted by the Joint Trades Association (JTa) and for 2016 based on the proposal submitted by Valpak.

We believe that the original basic economic rationale for a compliance fee as set out in detail by the JTa in 2014 and 2015 is thorough and comprehensive and remains valid for 2019, although we have supplemented and updated this with our assessment of the specific market situation experienced in 2019 to date below.

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

Reference:

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

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

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

This analysis clearly demonstrates that:

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

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

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

However we also believe that the WEEE market situation continues to evolve in some key aspects from previous years. We explain below how our assessment of the WEEE market for 2019 leads us to conclude that the changes we put forward for 2016, 2017 and 2018 should largely continue to be adopted in the methodology for 2019.

In our view adopting Valpak's methodology for 2019 will continue to improve the stability of the WEEE system over the short to medium term.

2019 WEEE market developments

2019 Compliance Scheme Targets

During the 2018 compliance year, the total of the WEEE B2C collection targets set for compliance schemes was missed by on average around 10% across almost all categories with the exception of PV panels, small household appliances and medical devices.

At present, with the challenging increase in collection targets, the position for 2019 appears to be leading towards a similar outcome; a significant market shortfall, although the exact scale remains uncertain. Collection volumes published for the first half of 2019 are indicating the possibility of deficits across all categories.

Stream	2019 Collections YTD	2019 Target	2019 Position YTD
LDAs	85,024	188,282	45%
Cooling	63,764	135,415	47%
Display	22,360	48,708	46%
GDLs	2,360	5,168	46%
SDAs	70,649	172,919	41%
PVPs	22	87	25%
Total	244,181	550,579	44%

If 2019 continues to yield WEEE at the rates seen so far, achieving the collection targets in most of the categories is going to be challenging. There is therefore a high likelihood of at least some schemes being unable to meet their collection targets and so the requirement for a compliance fee will be clear to maintain an orderly and stable system and the credibility of targets. The fee methodology should therefore be set at levels that consider, as far as is practicable:

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

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

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

UK plastic exports

China imposed significant restrictions on imports of plastic for recycling at the start of 2018, however WEEE treatment facilities appear to have reacted quickly to find new end markets for plastic from Mixed WEEE and to a lesser extent, fridges. We believe that the capacity of alternative end markets will be an ongoing concern as the world adapts to managing its plastic waste. The recent amendment to the Basel Convention, to come into effect in 2021 and affecting mixed plastic should also be taken into consideration in future compliance years, along with the ongoing concern of POPs plastic (see below).

Persistent Organic Pollutants (POPs)

Persistent Organic Pollutants, or POPs, are chemicals which persist in the environment and bio-accumulate, and are therefore detrimental to human health and the environment. Having previously been used in a number of applications, including as a flame retardant in plastics in certain electrical and electronic equipment, chemicals on the POPs restriction list are now banned from being placed onto the market. However they are still present in some types of products coming off the market and arising in the waste stream and therefore must be segregated and dealt with in a specific way; either via chemical recycling (pyrolysis) or by high temperature incineration to ensure the product is transformed or irreversibly destroyed. "Legacy products" are those products which were placed on the market lawfully at the time, but as they contain POPs they must follow the POPs waste management rules when arising in the waste stream.

In July 2019 the European Union recast the list of POPs reducing the overall limit of POPs allowed, and introducing a new POP, DecaBDE, to the list.

This promoted an ICER-led research project into the presence of POPs in WEEE which concluded that POPs may be present in WEEE plastic in small mixed WEEE (SMW) and display categories of WEEE. This means that for these product streams, the presence of POPs is assumed, and any affected products collected for recycling must be segregated and treated correctly. There is currently an industry-wide concern of a shortage in UK capacity of the waste management options available (high temperature incineration only, as pyrolysis is still a very new technology). Whilst there may be some capacity, WEEE would need to replace other materials, and with a number of high temperature incineration plants there are strict requirements for the make up of the waste used as fuel. It is likely this would take a number of months testing, and then a further number of months, and cost, for permits to be varied to allow WEEE to be used.

Whilst there may be capacity in other parts of Europe for this waste, the waste is classified as hazardous and therefore has to go through the more difficult and costly notification shipment of waste procedures.

There have therefore been sector-wide increases in treatment costs for these WEEE streams during 2019. This is likely to have a significant impact on the cost of the two streams currently confirmed from the point that the requirements took effect (July 2019). This will be incorporated into the compliance fee as any compliance scheme applying to use the compliance fee would include the increased costs for the second part of the year as part of their data requirements to use the fee.

WEEE diversion

WEEE diversion from the established systems should be a consideration for the 2019 WEEE market. Leakage from the system hampers targets being met due to under collection, undermines the public's confidence that proper recycling will occur and slows the impact of investment and initiatives to grow recycling. This operational reality, which is difficult to quantify, may have removed a substantial quantity of material from the collection network, particularly for commercially valuable streams such as LDA.

Gas discharge lamps

There has been a significant decline in gas discharge lamps arising in the waste stream over the last 3 years. This has likely occurred due to GDLs being actively replaced with LEDs because they consume less energy. A possible suggestion for why collections have dropped so significantly is that people have just switched to the more modern technologies relatively quickly rather than waiting until things products need to be replaced. Further collection national data will reveal whether this under collection continues.

Regulation 34/PBS

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

The voluntary PBS has proved to be a largely successful operation. Some producer schemes declined to join the voluntary PBS. This is likely to mean that; firstly they are unlikely to be approached by any Local Authorities and asked to collect themselves, and secondly that as a result their average collection costs are likely to be significantly lower than PBS member schemes who have taken on their fair share of regulation 34 request costs.

From 19 August 2019 the PBS has become a mandatory mechanism within the WEEE system, requiring all PCSs to join the PBS and share the costs of regulation 34 requests. The WEEE Compliance Fee methodology for 2019 should take into account a mechanism to differentiate those schemes which were or were not part of the voluntary PBS during its period of operation to 18 August 2019.

This element of the calculation mechanism will not be required for 2020 as membership of a PBS will be mandatory for the whole of the compliance period.

SDA Protocol

The initial protocols review report has recommended that the SDA protocol for 2020 be amended and we are awaiting the final outcome from that study. This should be considered for the compliance fee in future.

Conclusions

The impact of these market developments on our proposed compliance fee methodology is that many of the elements of our 2016, 2017 and 2018 methodologies remain highly relevant.

We believe that the compliance fee methodology outlined in this document fulfils the intention of ensuring that the perception of that the compliance fee is lower than the cost of actual collections is minimised. The main elements of the calculation are:

1. Including an allowance for direct operational management costs meant that the compliance fee better reflects the actual total scheme costs involved in managing collections from Local Authorities, and therefore encourages schemes to collect to the level of their targets.

2. The fee escalator was designed so that the impact on schemes requiring a certain tonnage was the same regardless of scheme size (other factors being equal). (Previously the escalator factor used was relatively insignificant for larger schemes for a given tonnage shortfall but much more so for smaller schemes, meaning that the incentive for larger schemes to engage in further actual collections rather than rely on the fee was lower).
3. To include a differentiator in compliance calculations between those producer schemes that were a member of the voluntary PBS (or equivalent arrangement) for sharing regulation 34 requests and those that were not. This will only apply for the year up until August 18th, after which the mandatory PBS came into effect on August 19th (please see key change for 2019 below)
4. To maintain the way in which the fee escalator is applied so that schemes (and their members) are not unduly penalised where their shortfall has been at least partly out of their control and results from national collection levels falling short of national targets.
5. An escalator will be applied dependent on the percentage of collections a scheme makes via Local Authority sites. This incentivises schemes to seek Local Authority collections, rather than being reliant on purchased evidence.
6. The direct operational management costs will be set at £3.50 per tonne, as opposed to requesting additional data from schemes and applying an average. We believe that this figure is broadly representative of the costs likely to be incurred by schemes and is a fair and simple methodology. It is consistent with our belief that direct operational costs should be included when calculating compliance fees for all streams.
7. A zero-fee for the LDA stream was incorporated in to the 2017 and 2018 compliance fee. We believe that during the 2019 compliance year, it is likely that there has been similarly high level of collection activity occurring outside the official system and therefore we acknowledge that the rationale for this element remains substantially valid. However, we propose to charge the direct operational management cost for all streams because this would be incurred internally by schemes in managing collection contracts even if the net external cost was zero.
8. The PBS was a voluntary system in 2019, until August 2019 when it became mandatory. Therefore some schemes may not have been a member of the PBS for the first part of the year. We therefore intend to keep, but amend, the element of the calculation which adds a differentiator between those schemes which were part of the voluntary PBS, and those which were not, up to the introduction of the mandatory system.

4.4 Principles of proposed methodology

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

Detailed below is our analysis and rationale for the main elements of the methodology:

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

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

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

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

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

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

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

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

In 2016 to 2019 a number of Local Authorities have found themselves in a position where they have been unable to secure satisfactory long term collection arrangements with schemes and so have had to resort to regulation 34. These collections are managed either by the scheme directly receiving the request, or by a collective which has been established voluntarily by schemes representing the vast majority of producers called the PCS Balancing System (PBS).

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

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

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

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

As described earlier the PBS had been a voluntary approach implemented by a number of compliance schemes to deal fairly and effectively with regulation 34 requests from Local Authorities. Defra has now announced a mandatory PBS system, which came into effect in August 2019. However not all compliance schemes joined the voluntary PBS for the first part of 2019 compliance year, and so may not have incurred any regulation 34 costs for that part of the year.

In order to address this situation, we propose that for 2019, there is an uplift calculated by the operator for non-members of the PBS for the proportion of the year where the scheme was not part of the PBS system. The methodology we propose to calculate this uplift is set out in section 4.6.

The cooperation of the voluntary PBS to this proposal had been agreed in the 2019 compliance year and, if successful, we would ensure suitable assurances are put in place to ensure data confidentiality by only requiring exchange of summary information between the third party PBS operator and the independent compliance fee operator (note: if this proposal is accepted then both arrangements would be operated by Anthesis and so transfer of information would be more straight forward and not require external parties).

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

A zero-fee for the LDA stream was incorporated in to the 2017 and 2018 compliance fee. We believe that during the 2019 compliance year, it is likely that there has been similarly high level of collection activity occurring outside the official system and therefore we acknowledge that the rationale for this element remains substantially valid. However, the direct operational management cost to schemes in managing collection contracts would still be incurred internally even if the net external cost was zero, and so even if a zero fee for collection and treatment applied the administration and direct overhead costs (£3.50) would still be applicable.

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

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

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

In 2014, 2015, 2017 and 2018 the compliance fee methodology adopted has included a quadratic escalator which increased the fee payable in proportion to the shortfall of any scheme compared with its own collection target for the year.

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

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

7. National Shortfall against the National Target

Despite the commercial incentive of a compliance fee we also acknowledge, as described in the Market Developments in section 4.2, that it appears likely that in 2019 many WEEE streams will fall short of their national collection targets again. The exact reasons for this are not yet fully clear and we believe that research around the dynamics of the WEEE market which is currently underway should continue in order to get a better understanding of how targets can be set an appropriate level. An unintended consequence of this is that it could result in schemes that have fallen short of their collection targets incurring an escalated compliance fee on tonnage which was simply not available for collection even with the best of intentions. This would appear to be unduly punitive on schemes and their producer members.

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

for low LA collection rates) will still be included in the fee calculation for every tonne that a scheme is short, regardless of the national position.

So, for example:

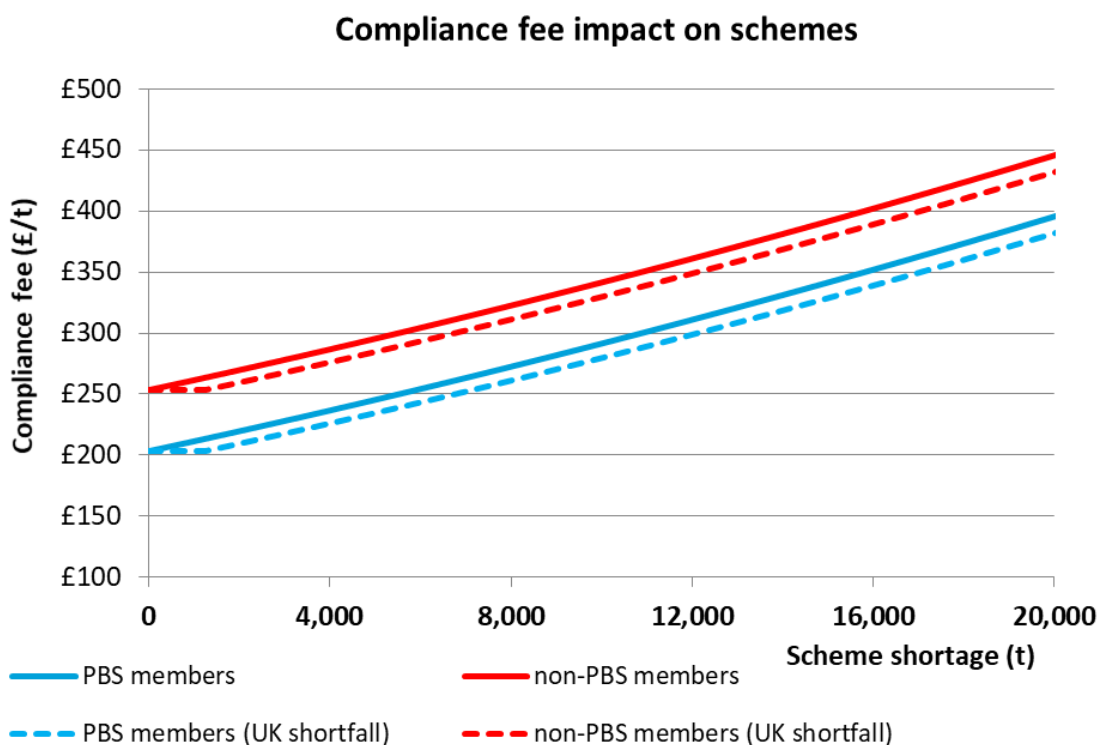
- A collection stream has a national target of 100,000 tonnes but only 90,000 tonnes is actually collected nationally by all schemes combined, so the national shortfall is 10,000 tonnes.
- An individual compliance scheme has a collection target of 10,000 tonnes in that stream, but actually only collects 7,000 tonnes.
- The scheme applies for the compliance fee for their 3,000 tonne shortage.
- Their market share of that stream is $10,000/100,000 = 10\%$
- The scheme's maximum "escalator-free" tonnage is $10\% \times 10,000T = 1,000T$. The scheme therefore pays for 1,000T at the base fee, applying appropriate uplifts for non-PBS members and LA collection rates.
- The remaining 2,000T is charged at an escalated rate (using the main escalator that relates the scheme's shortfall to the national target).
- The escalator for the remaining tonnage is calculated by using the same expression as in the compliance fee formula in Valpak's 2018 proposal where the scheme's total shortfall ($t-c$) is replaced in the formula by their remaining shortfall after the "escalator-free" tonnage is deducted (see graph below and section 4.6 for further details).

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

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

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

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



4.5 Methodology summary

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

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

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

In summary the key elements we propose for our 2019 methodology are:

Core Principles	Rationale
1. Weighted average costs per stream will be the base cost for each stream.	Actual collection and treatment cost for Local Authority collections and tonnage information will be provided by schemes from which the operator will calculate the weighted average

	base cost per stream. This ensures the base cost is representative of the situation across the UK.
<p>2. To increase the base cost by an escalator factor so that compliance fees increase for greater tonnage shortfalls.</p> <p>The escalator is based on the tonnage shortfall that a scheme applies for against the national target for that stream rather than the individual scheme target.</p>	<p>The escalator provides a greater encouragement to take reasonable steps to meet scheme targets for higher tonnage shortfalls.</p> <p>All schemes with the same tonnage shortfall will pay the same fee regardless of scheme size (other factors being equal), which better reflects the national requirements.</p>
<p>3. To add to the escalated base fee in each stream an additional cost to properly represent the direct operational management costs necessarily incurred by collecting schemes in managing and administering WEEE collection and treatment arrangements.</p>	<p>These would include, for example, the direct costs of preparing and managing contracts, visiting and auditing sites, managing relationships with AATFs and the necessary mandatory reporting. <u>Other more general scheme management overheads are specifically excluded.</u></p>
<p>4. Providing cost data for all streams collected is a condition of using the fee.</p>	<p>This is to ensure there is a viable data set available on which to base the fee.</p>
<p>5. A third party independent body will be appointed to administer the fee and audit the data.</p>	<p>Third party administration will prevent any conflict of interest and ensure confidentiality. The role will include fund collection and dispersal of funds.</p> <p>The requirement for independent audit will ensure data accuracy.</p>
<p>6. In the event that national collections in any particular stream at year end fall below the level of national target set then a proportion of any compliance fee tonnage applied for by a scheme would be calculated at the base fee and any further</p>	<p>It would be unduly punitive for schemes and their members to pay escalated compliance fees where, despite best intentions, at least part of the reason is that national collections have fallen short of targets and insufficient WEEE is available for collection.</p>

tonnage fee escalated in accordance with the formula described.

- | | |
|--|---|
| <p>7. In the unlikely event of an application being made to use the compliance fee for a particular stream but where none of the participating schemes are able to provide actual collection cost data, the administrator should use the base fee from the 2018 methodology.</p> | <p>This was a potential difficulty with the methodology for 2016 but adopting this approach is a practical way to deal with the eventuality for 2019.</p> |
| <p>8. An escalator will be applied dependent on the percentage of collections a scheme makes via Local Authority sites.</p> | <p>This incentivises schemes to seek Local Authority collections, rather than being reliant on purchased evidence.</p> |
| <p>9. The methodology for calculating an increased cost for PCSs which are not PBS members has been simplified. The methodology will include a differentiator for those schemes which were or were not a member of the voluntary PBS which was applicable until August 2019.</p> | <p>Those schemes which were a party to the mandatory PBS were likely to incur higher costs for the period of the 2019 compliance period prior to the mandatory PBS. This differentiator will take into account the proportion of the year to which the voluntary system was in place.</p> |
| <p>10. Zero-fee for collection and treatment of LDA stream</p> | <p>During the 2018 compliance year, it is likely that there has been similarly high level of collection activity occurring outside the official system and therefore we acknowledge that the rationale for this element remains substantially still valid. Direct operational management costs would still apply.</p> |
| <p>11. An addition to the base fee to properly represent the direct operational management costs necessarily incurred by collecting schemes in managing and administering WEEE collection and treatment arrangements.</p> | <p>The fee will be £3.50 per tonne, which has been used in the 2017 methodology and appears to be representative of average costs of, for example, contract and account management, reporting and site auditing. Other scheme overheads are excluded from this figure.</p> |

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

4.6 Fee Calculation

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

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

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

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

Data required from schemes

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

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

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

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

Data required from PBS operator

Additional cost and evidence data will be requested from the operator of the voluntary PBS to August 2019 for the calculation of an uplift incurred by schemes that are not a member of the PBS. As the PBS is also operated by Anthesis then this will be an internal exercise and not require third party information transfer. This uplift for a single collection stream would be the proportion by which the average cost of regulation 34 requests (including administrative costs) is higher than the overall average cost of collections.

As with other schemes, if UK collections do not meet the target for a particular stream, the scheme would first be allocated an “escalator-free” tonnage that is at most, the scheme’s market share of the national shortfall. Note that tonnage below this threshold is still subject to the uplift for non-PBS members, uplift for low LA collection rates and the direct operational cost.

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

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

Calculation

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

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

Uplift for non-voluntary PBS member

This is the uplift to take account of schemes that weren't a member of the PBS for the first part of the year, as the mandatory PBS came into effect in August. We propose that collection costs only take into account PBS costs from January to July as an approximation, rather than January 1st to August 18th, for ease of reporting and calculating the weighted cost (the full year weighted cost would be much more difficult to use).

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

Where:

p: the uplift for non voluntary PBS members (%)

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

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

Example

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

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

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

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

Uplift for LA collection rates

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

Where:

l: the uplift for LA collection rates (%)

i: a coefficient decided upon discussion with Defra

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

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

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

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

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

Example

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

$$\begin{aligned} l &= 0.2 \times \left(\frac{60,000}{75,000} - \frac{3,500}{5,000} \right) \\ &= 0.2 \times (0.8 - 0.7) \\ &= 0.2 \times 0.1 = 0.02 \end{aligned}$$

This would result in a 2% uplift in the cost of the compliance fee for the scheme, due to collecting a lower proportion of LA DCF sources when compared with the national average.

Basic Formula: Used when national targets have been met or exceeded

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

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

Where:

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

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

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

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

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

p: the uplift for non voluntary PBS members (%)

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

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

Formula used when national target shortfall

Alternatively, if there is a national shortfall in a stream, then a similar formula is used below. This applies in a situation where national targets have not been achieved in total for any particular stream because either they may have been set too high or collections may have fallen short of expectations despite efforts of schemes. In this situation we propose to reduce the point at which the compliance fee escalator takes

effect by a tonnage amount reflecting that scheme's market share of the national shortfall in the stream concerned. This effectively provides a fair and proportional compensation to avoid schemes being unjustifiably penalised when targets could not be met. This needs to be done by market share because the national targets are set by market share. For example, if there was a 10k tonne shortfall in the national target in a stream, and 10 compliance schemes requesting the use of the compliance fee, it would not be logical to attribute 10% of the shortfall tonnage to each compliance scheme. However, once this adjustment has been made the escalator from that point onwards should be related to the tonnage shortfall against the national shortfall as every further tonne of shortfall should be treated equally despite scheme size to avoid market distortions and the ability for one scheme to overcharge for evidence to another scheme.

$$f = f_1 + f_2$$

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

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

Where:

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

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

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

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

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

overall cost of collections shown by ***a*** above. If a scheme was a member of the voluntary PBS in the 2019 compliance year, then ***p*** above is zero.

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

The operator will then add the flat-rate for direct operational management costs (£3.50 per tonne), (shown by ***d*** above) to the escalated base-fee following the above calculations. The direct operational management cost will not be subject to the escalator, similarly to our 2018 methodology, as this was judged to be unnecessarily punitive.

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

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

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

4.7 Worked examples

Aim of Example Scenarios:

The aim of the example scenarios in this section is to illustrate how the various factors would work in practice and also to help consultees and other relevant stakeholders objectively compare the methodologies. The “example scenarios” include a set of consistent criteria to illustrate how the proposed methodology would operate in a range of scenarios, for example different market situations and different types and sizes of PCS.

In these examples for simplification it is assumed all PCSs are members of the PBS for the full year. This would be adjusted as described for PCSs that were not members of the voluntary PBS for the first part of 2019 when applying calculations.

Scenario 1: Impact of scheme sizes

Aim: To show if the fee methodology would vary the £/tonne depending on scheme size, with the same tonnage shortfall.

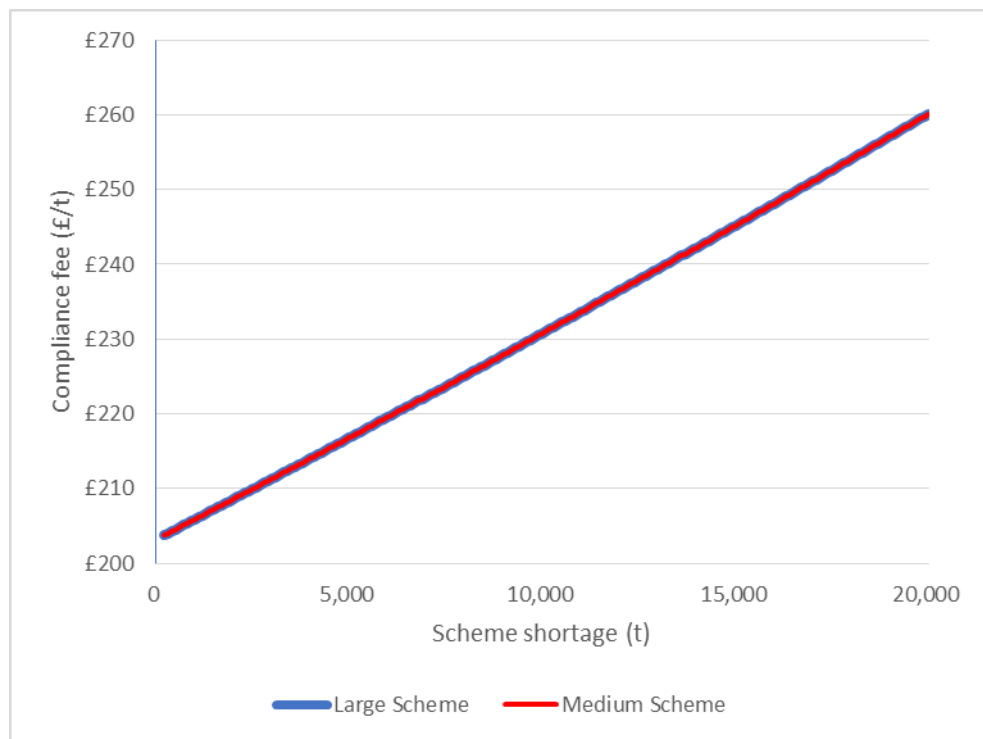
Variables: Medium (20%) and large (45%) scheme market share size

Fixed: UK target (150,000), UK proportion collected from LA sources (65%), scheme proportion collected from LA sources (65%), no UK shortfall position (collections are 150,000 tonnes), the weighted average net cost of collection £200/tonne, direct overhead (£3.50/tonne)

Scenario 1a: Impact of fee on a large scheme with a shortfall of 15,000 tonnes, £246/tonne

Scenario 1b: Impact of fee on a medium scheme with a shortfall of 15,000 tonnes, £246/tonne

The changing fee is shown in the graph below.



This graph illustrates how in the case of UK collections hitting the target, all schemes, no matter the size, would pay the same fee with all other variables remaining equal (such as LA DCF collections rates). This would be the same in any case of surplus UK collections compared to the UK target.

In order to illustrate the impact of the delayed escalator of the compliance fee for schemes of different sizes in the case of a UK shortfall in collections please see the scenario below, where the only thing that has changed from above is the UK position has a 20,000 tonne shortfall.

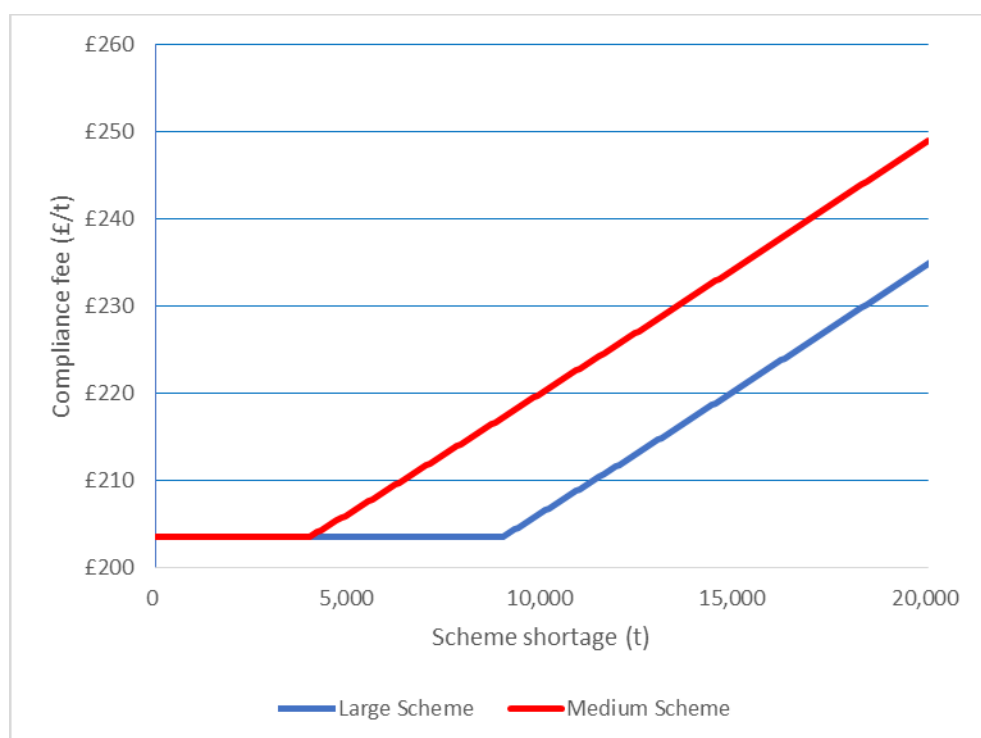
Variables: Medium (20%) and large (45%) scheme market share size

Fixed: UK target (150,000), UK proportion collected from LA sources (65%), scheme proportion collected from LA sources (65%), UK shortfall position (20,000 tonnes), the weighted average net cost of collection £200/tonne), direct overhead (£3.50/tonne)

Scenario 1c: Impact of fee on a large scheme with a shortfall of 15,000 tonnes, £220/tonne

Scenario 1d: Impact of fee on a medium scheme with a shortfall of 15,000 tonnes, £234/tonne

The changing fee is shown in the graph below.



This graph illustrates the impact of the delayed escalator of the compliance fee for schemes of different sizes, due to their escalator free tonnage being their market share of the national shortfall. In this scenario, the escalator doesn't kick in for the medium size scheme with 20% market until 4,000 tonnes (20% of 20,000 tonne shortfall), and for the large scheme of 45% market share, 9,000 tonnes (45% of 20,000 tonne shortfall).

Scenario 2: Impact of UK position

Aim: To show if the fee methodology would vary the £/tonne depending on the UK position, i.e. a shortfall or surplus of WEEE collections at a national level.

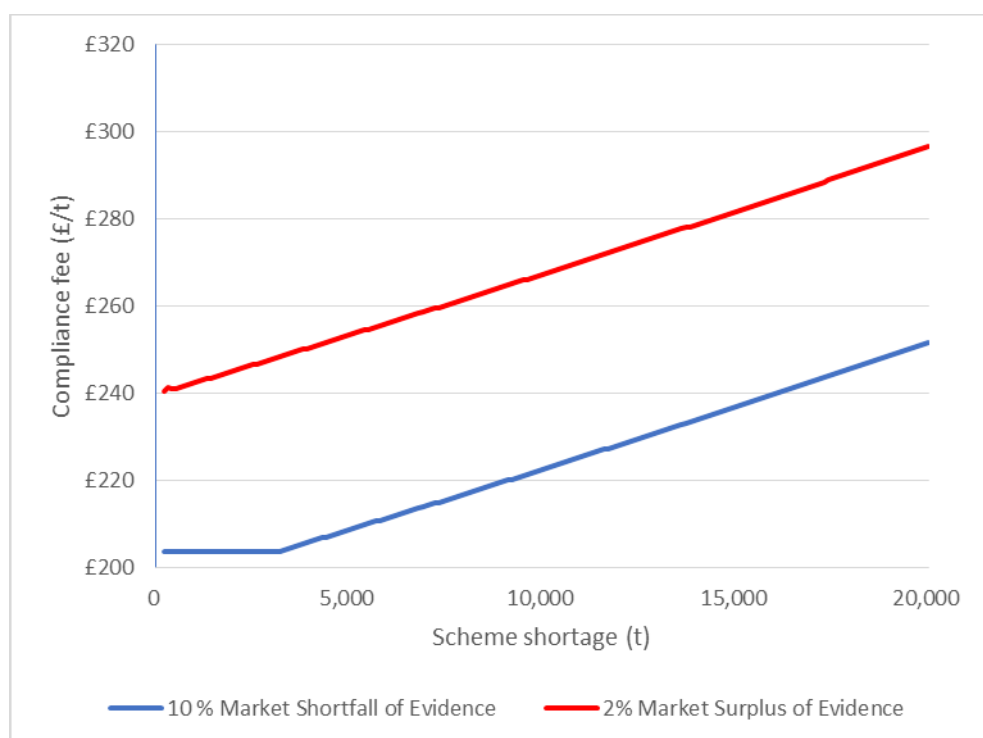
Variables: UK collections are in surplus of 2% vs., UK collections are in shortage of 10%

Fixed: Scheme size (medium, 20%), UK target (150,000), UK proportion collected from LA sources (65%), scheme proportion collected from LA sources (65%), the weighted average net cost of collection (£200/tonne), direct overhead (£3.50/tonne)

Scenario 2a: Impact of a shortage of evidence (10%), on a scheme with a shortfall of 5,000 tonnes, £209/tonne

Scenario 2b: Impact of a surplus of evidence (2%) on a scheme with a shortfall of 5,000 tonnes, £254/tonne

The changing fee is shown in the graph below.



This graph illustrates how there would be a higher fee for the scheme shortfall in a scenario of surplus evidence to reflect the fact that UK collections had been more than sufficient to meet targets, and a lower fee for a market shortfall of evidence.

Scenario 3: Impact of the volume of evidence sourced from LA sources

Aim: To show how the fee (£/tonne) would vary depending on the volume of evidence sourced from actual LA collections. The position is that collections from LA DCFs would generally be more expensive than evidence sourced from non-LA DCF sources.

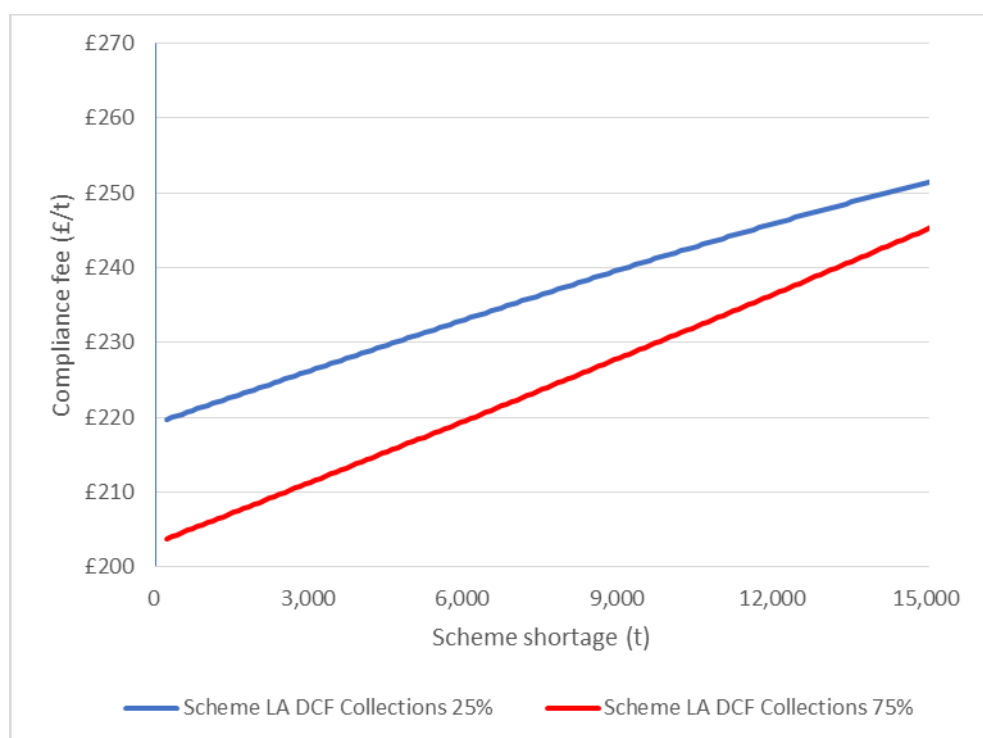
Variables: Scheme % proportion of evidence sourced from LA sources

Fixed: Scheme size (medium, 20%), UK target (150,000), no UK shortfall position (collections are 150,000 tonnes), UK proportion collected from LA sources (65%), the weighted average net cost of collection £200/tonne), direct overhead (£3.50/tonne)

Scenario 3a: Impact of 25% proportion of evidence sourced from LA collections on a scheme with a shortfall of 5,000 tonnes, £231/tonne

Scenario 3b: Impact of 75% proportion of evidence sourced from LA collections on a scheme with a shortfall of 5,000 tonnes, £217/tonne

The changing fee is shown in the graph below.



This graph illustrates the LA DCF uplift for schemes that have a lower proportion of collections from LA DCF sources. It shows how a scheme with a lower proportion of LA DCF collections when compared with the UK average has a higher compliance fee than those with a higher or the same proportion of LA DCF collections.

4.8 Data accuracy

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

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

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

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

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

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

4.9 Consultation on our proposals

In previous years the Government has chosen to consult widely on all proposals for compliance fees it received before making a decision on how to proceed. We support this approach and assume it will be repeated for 2019 as it provides interested parties with the opportunity to directly compare alternative proposed methodologies and make comments on the pros and cons accordingly.

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

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

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

5. Administration of the fee

It is proposed to use Anthesis as an independent third party to operate and administer the compliance fee.

If this methodology is chosen then Anthesis will be expected to:

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

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

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

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

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

We have selected Anthesis because of knowledge and understanding of the WEEE and similar regulatory systems. They also have well proven expertise in data verification in compliance situations, for example from previous work in the WEEE sector.

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

5.1 Proposed Structure and Governance

Should this proposal be accepted it is expected that the operator, Anthesis, would set up a separate bank account to receive any funds from the compliance fee. The net (i.e. minus any administration fees) balance would then be transferred to the WEEE Fund for dispersal, as per the section referring to dispersal of the compliance fee fund.

6. Methodology for the dispersal of funds

6.1 Introduction

The most effective routes for dispersal of compliance fee funds depend to a significant extent on the value of funds raised. The figures which are currently available show that there could be another significant shortfall in actual WEEE collections, suggesting if a WEEE compliance fee is set for 2019 there could again be a sizable compliance fee contribution for 2019.

There has been a significant change in the way the WEEE Fund dispersal has been managed over the last two years, due to the size of the fund. It has been proposed that the fund be split into the below categories:

- Technical projects
- Local Authority projects and communications
- Communications and behavior change fund

The existing WEEE Fund dispersal methodology appears to be a sensible approach and we fully support the objectives of the suggested split of funds. We therefore propose the funds raised from the compliance fee would be added to the current WEEE Fund to continue with and further enhance the programme of projects, technical research, communication campaigns and behaviour change activities which aim to increase the collection and treatment of WEEE.

Recognising the substantial funds accrued by the Fee in recent years, the nature of the work being carried out through the Fund (which requires contractual commitments that extend beyond the single Fee year), and the level of commitment required to ensure that the WEEE Fund operates as a professional, standalone entity to disperse these funds, JTAC (now referred to by stakeholders as “The WEEE Fund”) has agreed to offer to continue as the disbursement entity if any other organisation is appointed operator of the 2019 Fee.

Valpak therefore proposes that, if its methodology is accepted, then any compliance fee funds raised (less administrator fees) will be added to the existing WEEE Fund and dispersed through the same process and governance as existing funds. This approach has been agreed in principle by Defra and will help to improve the efficiency and continuity in the spend of the Fund, avoid the need for duplicating administrative bodies and will reduce confusion in the market. Under this arrangement, funds accrued through the use of the Fee, regardless of the operator, will be transferred to the WEEE Fee Fund under the management of its Administrator and the Executive Director.

Further details of the proposed fund dispersal process and governance arrangements are included in Appendix III.

6.2 Administration and timetable of fund dispersal

Anthesis would inform Defra of the total value of the remaining fund once their costs have been met. Defra, in consultation with Anthesis, would then determine the value of the fund to be made available and transferred to the WEEE Fund.

6.3 Procedure for low or minimal uptake of the compliance fee

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

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

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

Example:

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

Scheme 1 applies for 10 tonnes of stream A

Scheme 2 applies for 100 tonnes of stream B

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

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

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

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

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

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

$$5,050$$

Therefore the compliance fees are:

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

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

Total compliance fee = £9,999 (rounding)

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

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

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

7. Timetable for implementation and operation

Our proposed timetable is set out below:

30 September 2019	Submit methodology to Defra
October to December 2019	Defra consult on methodologies
Early February 2020	Defra announce chosen methodology
7 February 2020	Anthesis publicise the process to all approved WEEE compliance schemes asking for a response directly to Anthesis and setting out the information required in a data collection template.
14 February 2020	Deadline for Anthesis to receive applications from schemes wishing to use the fee. Note: If no applications are received by the deadline then further work on the compliance fee is stopped to avoid unnecessary expense and no fee will be available.
21 February 2020	Deadline for Anthesis to receive required information from participating schemes.
24 February to 6 March 2020	Anthesis audit team performs its work on the data submitted by the schemes. Anthesis calculates base fees and escalators according to the methodology described.
w/c 9 March 2020	Anthesis informs applying schemes of compliance fees applying to the tonnages they have applied for, and issues requests for payment to each scheme accordingly.
24 March 2020	Deadline for receipt of cleared funds from scheme into Anthesis designated client bank account in respect of Compliance fees due.
26 March 2020	Deadline for Anthesis to issue Compliance Fee Payment Certificate. Anthesis provides confirmation to schemes of payment plus tonnage and streams represented.

27/30 March 2020	Schemes submit DoC to enforcement agencies accompanied by confirmation of fee payment.
1 April 2020	Anthesis send a summary report to each Environment Agency listing the names of the registered schemes which have paid the compliance fee for each stream and the number of tonnes covered by the fee.

8. Experience of proposer and proposed operator

8.1 Proposer

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

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

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

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

8.2 Proposed operator

Anthesis has a track record within the UK WEEE System as the administrator of the Producer Compliance Scheme Balancing System (PBS). Further details of their experience can be found in Appendix I.

9. IT systems

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

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

Appendix I - Proposal from Anthesis

Background and context

The 2013 Waste Electrical and Electronic Equipment (WEEE) Regulations (WEEE Regulations) require obligated producers to finance the treatment, reuse, recovery, recycling and environmentally sound disposal of the EEE that they put on the market. Producers must join a Producer Compliance Scheme (PCS) to fulfil this requirement, who often contract with Local Authorities (LA) to clear WEEE from their Designated Collection Facilities (DCFs), to collect enough WEEE to cover the market share of their members.

The overall collection target for WEEE is increasing to 65% of the WEEE put on the market this year and in recent years, the UK has missed lower targets than this. To stimulate investment in the sector, Defra has backed a Compliance Fee mechanism, whereby PCSs who cannot meet their targets via WEEE collection can pay a fee based on the shortfall instead. Such fees are used to fund improvements in collections and treatment infrastructure, distributed by the WEEE fund.

The precise value of the Compliance Fee is highly sensitive, if set too low then PCSs will have no incentive to collect more WEEE pulling the UK from the target. Conversely, if set too high, there is the potential unintended consequence of PCSs charging excessive costs for evidence to those PCSs which have been unable to meet their targets. Both could have a negative impact on the sector, and mean that producers would incur excessive costs.

Each year industry stakeholders are able to propose calculation methodologies for the compliance fee. Following consultation, the Secretary of State can then decide if a compliance fee should be applied for the previous year, and which methodology will be used.

Valpak have proposed a methodology for 2019 and Anthesis (UK) Ltd. ("Anthesis") are proposing to administer the collection and dispersal of the Compliance Fee in line with the approach proposed by Valpak.

Anthesis group

Anthesis brings together expertise from countries around the world and has offices in the US, Canada, UK, Ireland, Italy Germany, Sweden, Finland, Middle East, China and the Philippines. We have a track record of pioneering new approaches to sustainability. We have a market leading global EPR practice, providing strategy, expertise, managed solutions and operational support for a more circular economy.

We are independent to any compliance scheme, local authority, recycler or government body, yet have a deep understanding of the UK WEEE system, having operated the PCS Balancing System since 2016. Furthermore, our team members have:

- Supported local authorities with their waste management solutions, since London Remade was operational in this space in the early 2000s,
- Provided WEEE advice to obligated producers across Europe, including the UK, in Canada, the US, India and beyond,
- Helped to develop the e-waste clearinghouse in the state of Illinois,
- Provided market intelligence on the WEEE management sector to a number of stakeholders over many years, and;
- Disseminated funds through the ERDF funded Enhance and Inspired Recycling projects, for improvements in waste collections and management.

- In support of the £8m raised by the compliance fee for 2017, we reviewed all previous projects supported by the WEEE Fund, for efficacy and value for money.

We have a good network and profile in the UK WEEE sector and feel that our experience, expertise and status, makes us ideal as administrators for the Compliance Fee. Our qualifications are presented below, we have provided specific project examples in Schedule 1.

Client testimonial:

“Anthesis is an excellent environmental consultancy. I've worked with the principals for more than ten years, from before they broke off from their prior agency to form Anthesis. They've been excellent partners with their concentration on technical excellence and offering top client value. They are environmental experts, big enough to provide global services but small enough to provide the independence and agility that provides great results.”

Darrel Stickler - People, Society and Planet at Cisco.

Proposed methodology

We will conduct this work in accordance with the processes outlined in this proposal.

The key elements of Anthesis's role will be to:

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

Programme inception

We will hold a planning meeting with the relevant Defra representatives to confirm the project details, contacts and timescales. At this meeting we will discuss the proposed administration approach, updates required, and initial data gathering required prior to commencement of work (such as the official PCS register). We will provide a meeting note summarising the outcomes of the meeting within 10 days of the meeting date. The meeting will be attended by our Project Director, Finance Representative, Programme Manager, and Valpak and Defra Representatives (including the nominated Defra key point of contact). We will work with Valpak and Defra to ensure a smooth transition from the previous scheme administrators.

Programme management

Our Programme Manager will be responsible for day-to-day administration of the programme, and will be the key point of contact for communications with Valpak and Defra. We will provide Defra with offline summaries and can schedule calls as required.

Our Programme Director will be available as an additional point of contact in the absence of the Programme Manager or in cases where any aspects require escalation. Should any unexpected issues or uncertainties arise in the operation of our proposed process which have not been anticipated we propose to raise these with Defra directly to seek guidance and resolve them.

Communicate and publicise the process to all approved WEEE compliance schemes

Anthesis will be the point of contact for Producer Compliance Schemes wishing to use the Compliance fee. We will communicate the process to all approved WEEE compliance schemes in February 2020 via letter, giving the appropriate notification and requesting a response by 14 February 2020 directly to the relevant Anthesis contact. It will also request information from the applicant scheme in terms of actual Local Authority collections and treatment costs for each WEEE stream. The letter will be sent to all schemes on the list of approved schemes provided by Defra. A template of the letter and using the pro forma data collection template is provided in Appendix II.

Anthesis will then send an email and a hard copy letter to each PCS using the contact details on the official public register inviting participation and requesting positive or negative confirmation. We will send a reminder email to non-respondents after 11 February 2020. If we have received no response from a PCS by 14 February 2020 we will assume that the PCS does not wish to participate.

Process and validate applications from schemes that wish to use the fee (including collection of cost information and independent audit checks)

Applications from schemes wishing to participate will then be received. Data will be collected from applicants. All data collected will be held in an independent, ring-fenced data room, accessible only to the relevant personnel. To ensure the reliability and accuracy of the data submitted by each scheme, an independent review will be conducted by our team on-site.

We will contact schemes to schedule an onsite audit at each, within the time period specified in this proposal. Availability during this period will be a condition of using the compliance fee. In advance, we will share a guide to the data we will be looking to review (e.g. collection records, invoices, collection contracts, AATF reports etc.), evidence data and scheme procedures. On the day, our auditor will review the evidence supporting the scheme in questions application, asking for more detail and for clarifications where appropriate. The auditor will then prepare a short report, detailing any deviations or necessary amendments to the submission and in support of the fee calculation activity.

Data analysis, fee calculation and notification

Following the approved methodology, we will undertake the data analysis and calculate fee levels for each stream and appropriate escalator factor. In accordance with the timetable set out in Section 7 we will notify all schemes who have applied to use the fee of their compliance fee and issue a request for payment to the scheme setting out the fee payable for each applicable WEEE stream, including overhead fee and applicable administration charges. The request for payment issued to the scheme will specify details of the bank account to which the funds should be remitted and the latest date by which cleared funds should be received.

Receive and process payments, issue confirmation for Declaration of Compliance

When payments are received, they will be held in a designated bank account in name of Anthesis (UK) Ltd, which we will set up as a new and separate account, used only for the purpose of holding and dispersing the funds and for no other purpose, so as to ensure no administrative errors can occur. To ensure a clear and secure audit trail, requests for payment and payments will be processed in our specialist accounting software, using an accounts receivable ledger with a separate ledger account for each scheme. Each account will be reconciled individually with requests for payment to each scheme matched against payments received from that scheme. Posting entries made in the software cannot be altered once posted. A Compliance Fee Payment Certificate will be issued to the scheme on receipt of payment in full, confirming the streams and tonnage for which the fee has been paid to enable them to complete their Declaration of Compliance.

Send a summary to each Environment Agency setting out which schemes have used the compliance fee and the tonnes and streams concerned

At the required interval, we will send a summary report to each relevant Environment Agency listing the registered schemes that have paid the compliance fee for each stream and the tonnages covered by the fee. We will not disclose the actual fee paid by any scheme or the fee rate per tonne, in any correspondence with the Agency. If there is discrepancy or any query regarding tonnage covered by a compliance fee payment, the Agency can liaise with us and we will provide clarification.

Disperse funding as per this proposal

In accordance with the process and agreed timetable for distribution set out in sections 6 and 7 of this proposal document, we will make payments (less our agreed administration fee) to the WEEE Fund to support approved WEEE projects.

Contingency planning for staffing

Anthesis is a global professional services operation, employing more than 250 sustainability specialists, and more than 100 of these are based in the UK. There will be a core team of four operating the Compliance Fee and who monitor the dedicated email account, all of whom will be familiar with the requirements of the compliance fee process to ensure continuity in the system, rapid responses, and to mitigate any risks of staff absences or other potential disruptions.

Internal procedures and processes for administering the Compliance fee activities will be codified into a series of task based procedures, allowing for easy training of new staff, to maintain a core of at least four active potential operators at all times, with a wide range of potential substitutes to draw on in the event of staff turnover. All transactions will be recorded in a central tracking spreadsheet, which will be shareable online to avoid duplication of live versions. It will have built in data validation processes and each allocation is assigned to a specific member of staff, who logs key milestones in their outlook diaries to ensure that timelines are met.

Many of the calculations and processes will be automated, to maintain efficiency, continuity and to reduce the risk of inaccuracy. Anthesis also operate within a formal quality assurance programme. We aim to continually improve with further automation and process improvements

Confidentiality

Anthesis maintains strict confidentiality processes to ensure integrity and confidentiality of our clients' information. These processes will be applied rigorously for this programme. We maintain strong Quality and Data Management protocols regarding client information that is compliant with regulator requirements including GDPR. Our confidentiality processes include:

- Secure networks which can only be accessed by authorised personnel
- Secure and regularly updated access passwords
- Data systems which restrict access to information and files on our system so that staff only have access to information and files relevant to performance of their role.
- Secure file transfer and back up procedures.

Proposed timetable for implementation and operation of the compliance fee

The timetable will be as per the timetable outlined in section 7 of this proposal document.

Staffing proposals

Dr Richard Peagam will have overall responsibility for the Compliance Fee within Anthesis. He will manage the strategic governance of the programme, its development and is accountable for quality assurance. The day to day management of operations will be the responsibility of programme manager Mark Sayers. Two other members of staff (in addition to Mark and Richard, so four in total) are always made available and kept aware of PBS activity, to maintain continuity of operations and to assist in the administration of the programme. The Compliance Fee sits in the team managed by Anthesis Director Debbie Hitchen, who provides another layer of governance and quality assurance.

Experience of proposed administrator

Delivery team

Anthesis are proposing a leadership team for the Compliance Fee, who have experience running the voluntary and Mandatory PBS and of operational responses to EPR requirements globally. Pen profiles of core team members have been provided below, full CVs are available on request.

1.1.1 Dr Richard Peagam - Associate Director

Richard is the global lead for producer responsibility at Anthesis, ensuring that our diverse service offering aligns with multiple sectors across key geographies (the US, Asia and Europe). He began his career at Hewlett Packard, working in their sustainability team for five years, before beginning a career as a consultant in 2012, building sustainability performance into the operating models and products of manufacturing companies. Key clients include some of the largest electronics manufacturers in the world, key players in the minerals and extractives sectors, market leaders in FMCG and retail and national governments and policy makers. Richard manages delivery teams across multiple geographies, particularly Europe, Asia and the US.

He developed the manufacturer clearinghouse for e-waste in the state of Illinois to manage EPR commitments, is the Director of the voluntary PBS in the UK, and has provided expertise to both the regulator and manufacturer groups working on the emerging legislation in Ontario. He also led on the development of a global EPR costing tool on behalf of a US based FMCG company, testing it in Brazil, Ontario, France and Spain and directs multiple global managed compliance programmes for tech sector clients. Richard also manages circular economy projects across Europe; works on recycling infrastructure projects in China and has led the development of global takeback programs for multiple manufacturers, which are global in scope.

1.1.2 Mark Sayers – Programme manager

Mark has more than 12 years of experience in producer responsibility compliance and data management, with a strong background in Electricals. In his previous role managing producer responsibility compliance schemes, including on behalf of not for profit Trade Association led organizations. He managed contracts and compliance accounts for major brands, supporting analysis of legislation and product information, scope for reporting and managing large datasets fulfilling WEEE batteries and packaging compliance needs.

Mark has also worked with several set top box manufacturers and retailers in establishing a WEEE and battery takeback system to offset compliance requirements and extracting maximum secondary commodity value from the metals and plastics. Mark has recently overseen the launch and management of an international compliance service and reporting compliance in Europe for businesses with fragmented approach and understanding of legal requirements. Working with global supply chains and identifying risk hot spots, a targeted methodology was developed for each client, to successfully deliver a report oversight and compliance reassurance in each country.

For the last 18 months Mark has been the lead for the Paper Cup Recycling and Recovery Group (PCRRG), a voluntary collaborative of over 40 fee-paying businesses in the cup supply chain. As part of his work he oversees the annual delivery and communications programme, which has included providing support and advice to the group throughout the Environment Audit Committee's review of single use plastics and compliance change as part of EPR, including advising on cup taxes and deposit return schemes. The PCRRG has established a funding mechanism for their programme of additional project and research work, and Mark is responsible for the development of pipeline projects, management of the funding allocation and delivery of project management to ensure value for money. In this role, he reports monthly to the Treasurer of the PCRRG and quarterly to the Chairman and Board.

1.1.3 Debbie Hitchen –Director

Debbie has a strong track record in project and client management. She is recognised for her ability to build and manage multi-stakeholder teams and her capability to deliver complex, collaborative and politically

sensitive projects. She has an extensive understanding of the drivers and challenges of compliance and WEEE recycling having worked for four years in a local authority, four years at leading producer responsibility compliance organisation, Valpak, and over 15 years in consultancy with public, private and third sector organisations at London Remade and LRS before joining Anthesis.

As the Anthesis lead for Circular Economy and Producer Responsibility, Debbie has overseen and managed a significant number of compliance projects, both in UK and internationally. She is well known to members of the WEEE sector and has strong relationships with the wider stakeholder group required to deliver projects and research to enhance the recycling performance nationally.

1.1.4 Jason Urry – Group Finance Director

A commercial Chartered Accountant (ICAEW) with 20+ years' experience in global, high performing listed companies across a variety of high growth sectors including: professional services; media; food manufacturing; security services; chemicals and process engineering. Experience of profit generation, systems improvements, M&A, business integration, multi-cultural environments and treasury management.

Team experience

Anthesis has a strong track record of delivering the competencies required to manage a Compliance Fee globally. A full list of projects has been provided in schedule 1, case studies for each competency have been profiled below.

UK WEEE management and compliance

Anthesis have successfully managed the existing voluntary PBS since 2016 and the Mandatory PBS since 2019. The current leadership team have overseen establishment, implementation, secure cash management and the development and improvement of the system over time as it has grown to scale. The PBS successfully passed its audit and every single Local Authority request has been allocated within the period of time specified by the legislation. Feedback from Local Authorities and users has been positive.

International WEEE management and EPR

Anthesis developed operating procedures for an e-waste clearinghouse in a US state with diverse demographics. These were based on market research and engagement with manufacturer, retailer, county, EPA and recycler stakeholders. The system is now live.

Cash and Fund management.

Anthesis managed £100,000s in funding for recycling projects, as administrators of the Enhance Fund.

IT systems

Anthesis have the state of the art (GDPR compliant) systems and processes that would be expected of a global professional services organisation, with in house software teams to develop a bespoke and robust management system for the Compliance Fee.

We take data privacy, governance and security very seriously. We are acutely aware from our work with clients where data is stored and shared between potential competitors of sensitivities in this area and have

developed suitable digital privacy and security measures that ensure data confidentiality already. Our high-level process for security action planning is given below.



We will run security scans to coincide with each major release (or more frequently where vulnerabilities become apparent). Status on security updates will form part of Anthesis performance reporting to Valpak.

Schedule 1

Example UK WEEE experience

Client name/type	Project description
WEEE Fund	Report on the fate of WEEE being processed outside of the mainstream system that generates evidence. Engaged with recyclers, compliance organisations, waste managers and more.
WEEE Scheme Forum	Providing independent management and administration of the PCS Balancing Scheme (PBS), a system to match unallocated local authority WEEE collection contracts to compliance schemes from 2016. In 2017 we allocated ~4% of UK WEEE.
Producer	Providing market intelligence on compliance costs in the UK (as well as other countries), EPR operating models, collection rates, the B2B sector and on reuse. We have also covered Germany, Spain, Denmark, France, Italy and more in similar work.
Trade body	UK wide sampling of LDA WEEE in the light iron scrap stream, as potential substantiated estimates for Defra WEEE reporting to the European Commission.
Trade body	Impact and value for money analysis of collection, communication and reuse projects funded by the WEEE Fund since its inception. Recommendations were made to guide future priorities for allocation.

Example global WEEE management

Client type	Project description
Global manufacturer	Implementing a global takeback strategy for used EEE products, developing operating specs and KPIS, identifying and onboarding delivery partners.
Global manufacturer	Management consultancy for a global takeback business unit with a revenue target of \$1Bn dollars. Developing a business plan and goto market strategy.
Multiple global manufacturer	Managing EPR compliance reporting in Canada, India and the EU
Global manufacturer	Compliance health check for EPR registration and reporting, in more than 80 countries.
Industry Group	Set up of a clearinghouse to allocate e-waste collections to manufacturer representatives by market share in the State of Illinois.

Example consortia, group and panel management

Anthesis manages eight consortia for companies in the chemicals and related sectors to support compliance under the European REACH legislation. Also:

Steering groups and committees:	
PCRRG (Paper Cup Recovery and Recycling Group), members include Costa, Nestle, Mars, Starbucks, Mondelez.	Defra: New Technology Demonstrator Programme
MRF code of practice working group	WRAP: Organic Capital Funding Programme
GLA: Economic Development Infrastructure Building Programme	LDA: Major of London's Green Procurement Code
WRAP: Food waste working groups	Zero Waste Scotland: Groups on materials acceptance and service standards
WRAP: Product Sustainability Forum	North West Sustainable Business Quarterly
UK soft drinks industry sustainability roadmap	Merseyside and Manchester Energy Clubs
EU ecolabel for cleaning products and services	Cool Farm Alliance
World Resources Institute GHG protocol	Carbon Disclosure Project: ICT working group
Montreal Protocol	Defra: Green Food Project
WRAP: Courtauld Commitment working group	WRAP: Hospitality and Food Service Agreement
LDA: Enhance fund	GLA: biodiesel supply chain development
London Textiles Forum	The textiles leaders' forum
WRAP and BIS: Fund for circular economy in EEE	Business in the Community
British Standards Institution	Nestle Supplier Network

Appendix II - Document templates

- Letter to Schemes Inviting Participation
- Template for collection of tonnage and cost information
- Payment request letter template
- Payment certificate letter template
- Environmental agency letter template

Letter to Schemes Inviting Participation

PCS Scheme

DATE

Dear Sirs

WEEE Compliance Fee 2019

I am writing to you to advise you that we have been appointed by the Department of Environment, Food and Rural Affairs under the Waste, Electrical and Electronic Equipment Regulations 2013 (WEEE) as Administrators of the WEEE Compliance Fee for the year ended 31 December 2019.

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

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

- a. Schemes will respond to this letter to confirm whether or not they intend to use the Compliance Fee. The deadline for receipt of confirmation is **14 February 2020**. If we do not hear from you by this date we will assume that your PCS does not wish to participate.
- b. Should you wish to avail of the WEEE Compliance Fee, I am also attaching a template request for information to be completed. This is in Excel format for ease of use. It requires tonnage collected and costs associated with the collection and treatment of this WEEE for each WEEE stream. Instructions on what information is required are attached to the request. The deadline for receipt of this information is **21 February 2020**.
- c. The information provided will need to be subject to an independent review by Anthesis. A separate team in Anthesis will perform this work and will issue a report following their work. Once you have submitted the information the audit team will contact you to arrange a visit on a mutually agreed date in the week commencing **24 February or week commencing 6 March 2020**. Please make yourself available for their visit.
- d. Following the approved methodology, we will undertake data analysis and calculate Compliance Fee levels for each stream.
- e. By **week commencing 9 March 2020** we will notify you of your Compliance Fee and issue a request for payment setting out the fee per stream and the bank account details to remit payment to us. The final deadline for receipt of cleared funds is **24 March 2020**.
- f. On receipt of payment we will issue you with a Compliance Fee Payment Certificate to enable you to complete your Declaration of Compliance by the deadline.

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

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

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

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

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

If you wish to use the Compliance Fee please could you confirm your intention by emailing my colleagues xx

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

Yours faithfully

Name

Title

Contact details

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

[illegible]

Payment Request Letter

Our Ref:

PCS Scheme Name
Address Line 1
Address Line 2
City
Postcode

xx

Dear Sirs

**The Waste Electrical and Electronic Equipment Regulations 2013 (The Regulations)
Request for payment of the Compliance Fee for the 2019 compliance period**

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

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

Please find below details of the 2019 Compliance Fee payable by your Producer Compliance Scheme:

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

Please arrange for the above fee to be paid into the following bank account so that we are in receipt of cleared funds by Monday 24 March 2020.

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

Bank: Barclays
Bank Account Name: ANTHESIS Compliance Fee
Bank Sort Code: **xx xx xx**
Bank Account Number: **xxxxxxxxx**

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

Anthesis UK will collect the Compliance Fee payment in the above account as the Administrator of the 2019 WEEE Compliance Fee, as appointed by the Department for Environment, Food and Rural Affairs (DEFRA), as part of the administrative services we are supplying to DEFRA.

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

Yours faithfully

Xx

Title

Contact details

Payment Certificate Letter

Our Ref

PCS Scheme
Address
Address
ADDRESS
POST CODE

XX March 2020

Dear Sirs

PCS Scheme – WEEE Compliance Fee Payment Certificate

This is to certify the payment has been received in full in respect of the WEEE Compliance Fee for 2019 in respect of the following:

Streams	Tonnage
X - XXX	ZZ.ZZZ
Y - YYY	ZZ.ZZZ

Yours faithfully

Name

Title

Contact details

Environmental Regulator Letter

Our Ref

Environmental Regulator
Address
ADDRESS
POST CODE

date

Dear Sir

**The Waste Electrical and Electronic Equipment Regulations 2013 (The Regulations)
Summary of 2019 WEEE Compliance Fee Payments Received**

In our capacity as the appointed Administrator under Regulation 76 of The Regulations, we write to inform you of the Producer Compliance Schemes (PCSs) that have paid a WEEE Compliance Fee in respect of the 20xx compliance period.

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

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

If you have any queries, please let me know.

Many thanks.

Yours sincerely,

Name

Title

Contact details

Appendix III - Dispersal of the WEEE Fee Fund for the 2019 Compliance Period

The 2017 and 2018 Process

In both 2017 and 2018, the WEEE Fee Fund was considerably larger than seen in previous years. In these years, the Joint Trade Association's (JTA) Compliance Fee Methodology was chosen by Defra. To manage such a considerable fund, JTAC (the legal entity set up by the JTA to administer the funds – from here the "WEEE Fund"): appointed an Expert Adviser to oversee the process; worked with stakeholders to determine the best approach for spending the Fund; and, engaged in communication efforts to raise awareness of the Fund available. A dedicated website was been refreshed to support the new process, see www.weeefund.uk

Following an initial stakeholder meeting in June 2018, the WEEE Fund and the Expert Adviser agreed with Defra a broad approach to managing spend of the Fund. The Fund has been divided into three elements: technical projects with annual calls for research; local projects covering reuse, repair and local authority support; and, a communications and behaviour change programme. Separate judging panels, agreed with Defra, and with representation from across the WEEE sector have been established to agree strategic interventions and assess applications for technical and local projects. The approach adopted for communications and behaviour change was agreed with Defra and other stakeholders representing the WEEE sector and comprised of three planning stages: market research, the development of a communications and behaviour change strategy, and the development of a brief for agencies to pitch to deliver.

Recognising the substantial Funds accrued by the Fee in recent years and the need for a professional and standalone entity to disperse these funds, the WEEE Fund has now employed the Expert Adviser as WEEE Fund Executive Director to manage the spend of Funds accrued through the Fee. In the coming months, further staff will be directly employed, for a minimum of three years, to ensure effective project management of the communications and behaviour change strategy and on-the-ground projects. A dedicated office space in London has been sourced for the small team. A suite of policies and procedures are in place to ensure robust governance of the WEEE Fund including policies on anti-bribery and corruption, data protection, business conduct, security, and on handling complaints as well as those covering expenses, privacy, diversity and equality, and employment rights.

Progress to date

Technical Projects: Two calls for research proposals have been issued to date. The responses to the second call will be considered by the judging panel in October 2019. To date, six technical projects have been funded, two of which were Defra fast-tracked projects.

Local Projects: Following extensive discussions to determine the best way to support LAs, in August 2019 a £3m small mixed WEEE kerbside collection infrastructure fund was launched alongside a £0.5m fund for

help reuse organisations build capacity and help expand their small mixed WEEE collections. The responses will be considered by the judging panel in November 2019.

Communications and Behaviour Change: Market research carried out by Ipsos MORI was used to develop a WEEE Communications and Behaviour Change Strategy, developed by expert PR and marketing consultants, Trust PR and VG Consulting. Messaging has been tested in the field and briefs issued to PR and marketing agencies who will be pitching to run the campaign at the end of September. The campaign will launch in January 2020, initially in a few target areas to test the approach, before nationwide roll out.

Funding principles for projects and research are as follows:

- All projects and applications for funding must demonstrate how it will improve the UK WEEE system. The funds are not available to meet normal operating costs or to pay for the collection or treatment of non-household WEEE.
- Keep the process as simple as possible, thereby reducing the administrative burden of making an application for funding to a reasonable and proportionate level. Low value applications should require a lower level of detail than higher value applications.
- Provide clear criteria for organisations to meet when preparing their applications, e.g. demonstrating that the application is in respect of new projects and encourages collaboration.
- All approved funds are drawn down by the applicant organisations and paid by the Administrator. Payment scheduled are agreed with the applicants. Typically, a proportion of the funds will be held back until completion of the project.

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

The effectiveness of interventions is evaluated and made public following the conclusion of projects using an appropriate range of indicators.

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

Applications for funding can be made by email using a standard template form, available via the WEEE Fund website. Applications are assessed based on their compatibility with the evaluation criteria.

Proposal for 2019 Fund disbursement

Should this 2019 proposal be accepted and approved by Defra, we propose:

In recognition of the need for a higher degree of transparency on the spend of a now substantial Fund, The WEEE Fund will invite representatives of the WEEE community, to participate in a new Fund Disbursement Strategy Committee. Committee members will not have any oversight of the day-to-day operation of the Fee itself, thus ensuring compliance with Competition Law. The roles of the Fund Disbursement Strategy Committee are outlined below in Figure 1.

Should a further significant amount of Funds be accrued through the 2019 Fee, the process for determining the spend of funds will be determined through stakeholder consultation and following endorsement from

the Fund Disbursement Strategy Committee and with Defra. This will provide an opportunity for a refreshed assessment of current needs of the UK WEEE system. For more modest amounts, the Funds will be used to extend the life of workstreams already underway: technical research, local projects, and communications and behaviour change.

Table 1: The roles and responsibilities of the Fund Disbursement Strategy Committee.

Fund Disbursement Strategy Committee
<p>Remit:</p> <p>To advise on the strategic direction of the WEEE Fund disbursement plan.</p> <p>To monitor progress against agreed goals and targets set out by the WEEE Fund Executive Director and endorsed by the Committee.</p>
<p>Composition</p> <p>Consists of a Chair of JTAC and representatives of the stakeholder community, including but not limited to representatives of EEE producers, WSF, WEEE recyclers, local authorities, waste management companies and Defra.</p>
<p>Meetings</p> <p>The Committee will meet as required to fulfil its remit and will meet at least twice a calendar year.</p> <p>Minutes, agenda and papers will be circulated to those in attendance at least four working days in advance.</p> <p>The quorum for meetings is three.</p>

Recognising the substantial funds accrued by the Fee in recent years, the nature of the work being carried out through the Fund (which requires contractual commitments that extend beyond the single Fee year), and the level of commitment required to ensure that the WEEE Fund operates as a professional, standalone entity to disperse these funds, the WEEE Fund will offer to continue to act as the disbursement entity if any other organisation is appointed operator of the 2019 Fee. Valpak agrees with this approach which will help to improve the efficiency and continuity in the spend of the Fund, avoid the need for duplicating administrative bodies and will reduce confusion in the market. Under this arrangement, funds accrued through the use of the Fee, regardless of the operator, will be transferred to the Administrator and the Executive Director will follow the process described in the proposal for disbursement. Furthermore, the

disbursement entity could undertake the function of a central administrative body covering a wider scope of WEEE activities, should Defra consider this appropriate.

Application for funding

Where further calls for funding applications are issued specifically in relation to the 2019 Fund, 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.
- Be signed by a Director, Head of Department, or other senior manager if more appropriate, to confirm that the information provided is correct and that there is full support to the proposed new project/initiative being put forward by the applicant organisation. Where the application is made in collaboration with partner organisations they should also confirm their support to the project by signing the application.
- Include clear measurable targets and performance indicators to ensure projects/initiatives will deliver the benefits to the UK WEEE system that are described in the application. For strategic research, the applicant must outline how the work will deliver benefits to the UK WEEE system and how it intends to communicate to stakeholders through the life of the project.
- Where applications are submitted to encourage increased volumes of separately collected household WEEE and increased recycling in line with Best Available Treatment, Recovery and Recycling Techniques (BATRRRT) requirements and legitimate re-use the form must include sufficient information to demonstrate it. Where appropriate, it should include a proposal for the fair sharing of any resulting evidence raised.
- Demonstrate that the project is a new activity, novel research or a significant expansion of an existing activity.
- Demonstrate the degree of sustainability of the project to continue to deliver benefits after the project completion.
- Demonstrate overall value for money, environmental impact and the benefits of the proposal.

Defra projects

Valpak recognise that Defra may have some specific WEEE projects for which funding may be required. Valpak would welcome the use of 2019 Fund for such projects if they contribute to the enhancement of the UK's WEEE system.

Processing and approval of applications

The WEEE Fund Executive Director will ensure that: all applications are checked for completeness; any points of clarification are given to potential applicants; all applications are consolidated and submitted to the appropriate judging panel for consideration; and may issue calls for research proposals, if appropriate. Costs, if any, associated with the judging panel meeting(s) will be part of the administration costs of the Fee system.

The independent judging panel(s) will assess all applications using the criteria set out above plus an assessment of factors such as environmental benefits, innovation, sustainability and value for money. The full suite of evaluation criteria is available on the WEEE Fund website.

The panel will then allocate funds, taking into account the Funds available and instruct the WEEE Fund Executive Director to implement the decisions.

The WEEE Fund Executive Director 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 WEEE Fund Executive Director will report to Defra and stakeholders periodically as to progress of the projects and ensure stakeholders receive quarterly updates on the spend of the Fund and the level of residual funds available.