

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

# Operation of a WEEE Compliance Fee for the 2020 Compliance Period

Presented by Valpak Limited

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# 1. Executive Summary

## Overview

This proposal has been developed in response to Defra's guidance for proposals for the methodology of the 2020 WEEE Compliance Fee, found [here](#). The guidance requests that proposals for 2020 include a mechanism that acknowledges the extraordinary impacts of the COVID-19 pandemic on the WEEE sector in respect of collections. This proposal sets out how Valpak's methodology reflects this requirement as well as those recurring requirements found within Defra's most recent guidance document.

Valpak has been a WEEE compliance scheme operator since 2007 and has operated within a WEEE system featuring a compliance fee mechanism since 2014. We have used this knowledge and experience of the sector to produce the proposal for the operation and methodology of a WEEE compliance fee mechanism for 2020.

**Retaining a compliance fee option within the UK WEEE system for 2020 is essential, given the extraordinary circumstances experienced by all in the WEEE sector across the year as a result of the COVID-19 pandemic and resulting national lockdown.** Its retention will also provide continuity within the UK's compliance regime for WEEE. We believe that the original basic economic rationale for the general concept of a compliance fee mechanism within the producer responsibility regime for WEEE, as set out in previous proposals, is comprehensive and remains largely valid for 2020.

We believe that the selected WEEE compliance fee methodology for 2020 must reinforce important signals to operators that it is a mechanism intended to:

- Encourage producer compliance schemes to meet their collection targets by making arrangements for the physical collection of WEEE;
- Enable schemes which are not able to fully meet their target to instead pay a sum to contribute to valuable projects to improve the WEEE system for the future, without jeopardizing their approval for future compliance years;
- Prevent the potential for excessive costs to be charged by over collectors; and
- Prevent producers being charged excessively for continuing access to WEEE material.

With that in mind, our proposal for the 2020 WEEE compliance fee methodology is designed to:

1. Acknowledge the extraordinary circumstances experienced by the WEEE sector throughout 2020 due to the COVID-19 pandemic and the resulting national lockdown, which significantly reduced WEEE collections and treatment activities.
2. Provide the right balance of incentives and encourage the right behavior;
3. Support the Government in continuing to improve the UK's producer responsibility system for WEEE, achieving the dual objectives of:
  - a. Discouraging producer compliance schemes from setting excessive charges to other schemes by over collecting WEEE, whilst also;
  - b. Encouraging producer compliance schemes to take all reasonable steps to meet their own targets through collections, without using the fee.
4. Provide a fair mechanism to all operators, regardless of their circumstances of excess or deficit in respect of material stream collections;
5. Provide the necessary independence and confidentiality in handling sensitive compliance scheme information through using a respected third party, Anthesis (UK) Ltd., as the administrator of the compliance fee collection process.
6. Facilitate competition in the market to minimise costs to producers, whilst also assisting those producers considering changing their compliance scheme by increasing the ability of schemes to recruit additional members without introducing the disincentive of excessive compliance costs;

Our proposal is supported by an economic rationale (see section 4.1) that outlines our analysis of the likely impacts of our fee proposal on the stability of the household WEEE collection system.

## Methodology for the Calculation of the Fee

Compliance fees would be calculated separately for each scheme wishing to use the fee and for each WEEE stream, from a combination of three principal elements:

1. A **base cost per tonne** calculated from the weighted average collection and treatment costs of Local Authority (LA) collections of all schemes using the fee.
2. 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).
  - i. In previous years, this has been proposed to be set at **£3.50 per tonne**. We believe this figure continues to be broadly representative of average costs of, for example, contract and account management, reporting and site auditing therefore we propose to maintain this fee for 2020. Other scheme overheads are excluded from this figure.
3. An **allowance for schemes that fall short of their targets, in any stream, as a direct result of the reduction in national collections caused by the COVID-19 pandemic** and its impact on WEEE collections across 2020.
  - i. This allowance would be based on the degree to which a scheme's performance fell short of their own targets in each stream separately, **relative to a scheme's market share of the national shortfall judged to be caused by the pandemic and resulting national lockdown**. This is calculated by comparing actual national collection performance for 2020 in each stream with our projections of where collections would have been if lockdown had not occurred, based on performance in previous years (see section 4.1 for further detail).
  - ii. Valpak propose that **this tonnage allowance in each stream will be at a zero compliance fee**.

**Additional adjustments will be made, as appropriate, to reflect the degree to which the scheme undertook its own WEEE collections** from Local Authorities compared with its market share of the national total.

There will also be a **£2,000 participation fee** for each compliance scheme wishing to use the compliance fee. The fee will act as a contribution towards audit and administration costs.

Further, **collection and treatment costs** (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. This is designed to encourage greater collection where possible.

In the event that national collections in any stream are less than Valpak have projected they would have been in a 'normal' non-pandemic year, and provided this shortfall is deemed to have directly resulted from the national lockdown, the first proportion of the tonnage applied for in that stream by a scheme will be at zero fee and the escalator mentioned above

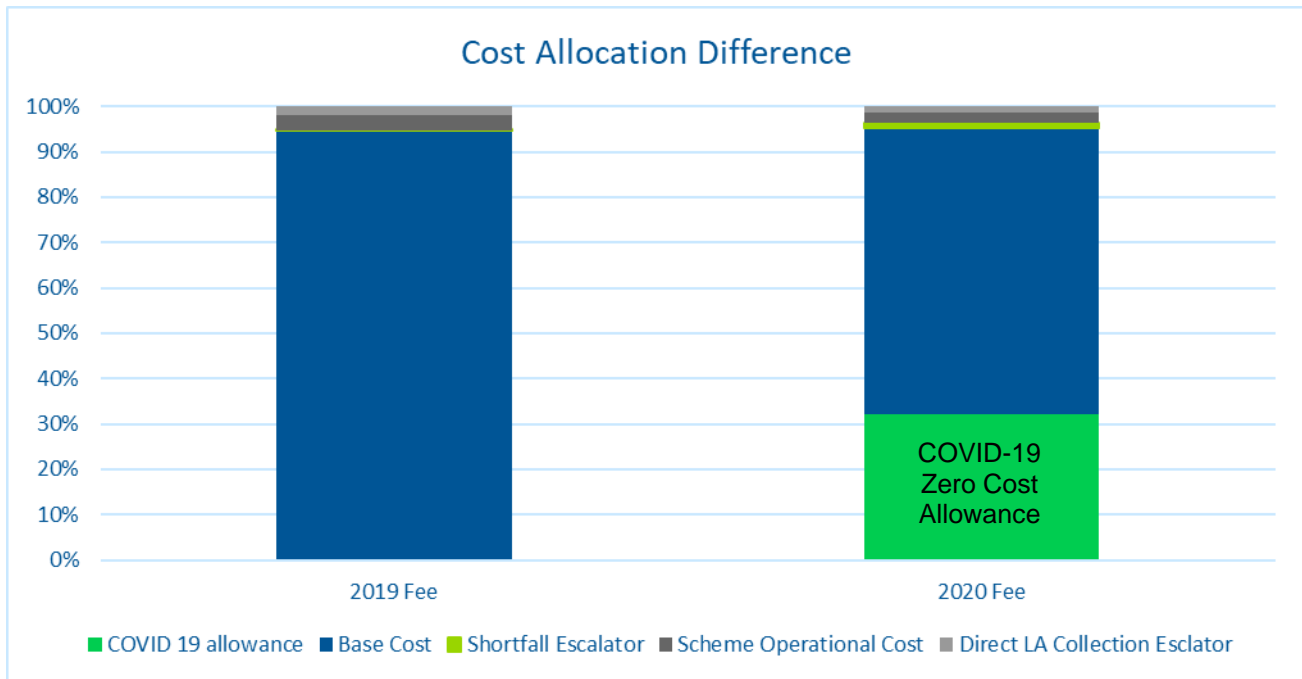
will not be applied to that proportion, up to a maximum of their market share of the tonnage allowance (see section 4.1 and 4.4 for more details).

An example of how the overall cost of the compliance fee would differ from last year's fee methodology should this methodology be chosen is shown in the figure overleaf. This illustrates how the fee would work under an example scenario where:

- UK target for the WEEE stream is 100,000 tonnes.
- In a non-COVID year (i.e. under normal circumstances) it is forecast that UK collections in 2020 would have totaled 90,000 tonnes. Actual UK collections for the year totaled 80,000 tonnes with the remaining 10,000 tonne shortfall directly resulting from the pandemic lockdown.
- A scheme has a 10,000 tonne target. It collects 7,000 tonnes, leaving a 3,000 tonne shortfall.

Using our proposed compliance fee methodology, the scheme in question would have 1,000 tonnes of their fee in this stream allocated at zero cost (£0/tonne), as this proportion of their shortfall is deemed to be caused by the impact of COVID 19. [Scheme market share =  $10,000t/100,000t = 10\%$ . Scheme share of national shortage due to COVID-19 =  $10\% \times 10,000 \text{ tonnes} = 1,000 \text{ tonnes}$ .]

The remaining 2,000 tonnes of their shortage which they have applied to use the compliance fee for would then have the normal compliance fee calculation that has been presented in previous Valpak proposals applied to it. So, in this example, if the average cost of collections is £100/t, and the UK LA collection rate was 75% compared to the schemes LA collection rate of 65%, the allocation of cost in 2020, compared to 2019's methodology (without COVID 19 impact) is shown below.



## Additional Key Features of our Methodology

1. Participating schemes would be required to provide their actual direct collection and treatment cost data by stream to the proposed independent operator (Anthesis UK Ltd), who will administer the compliance fee process under strict confidentiality provisions and with the oversight of an independent verifier (Grant Thornton UK LLP). A condition of using the compliance fee would be the provision of accurate and detailed cost data by schemes to support their application. 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.
2. During the 2020 compliance year, as in previous years, we believe it is likely that there has been similarly high level of collection activity of the LDA stream occurring outside the official system. We therefore propose to continue to apply a zero collection and treatment cost for the LDA stream for 2020. Administration and overheads costs would still be applicable.
3. In the unlikely event of there being an application to use the fee for 2020 in a stream where there is no 2020 actual collection cost data available, cost data from 2019 will be used for the relevant stream.
4. We propose to include a 'WEEE source adjustment' in our compliance fee methodology to incentivise schemes to collect WEEE from local authorities (see section 4.4 for further detail of this calculation).



5. Due to the extraordinary circumstances endured throughout 2020 and the significantly different calculation methodology Valpak propose for this year in comparison to our previous proposals, **we propose that Defra bring forward the announcement of the successful compliance fee methodology to a point prior to the end of the 2020 compliance year.**

Delaying an announcement until after the compliance year has completed, as has occurred in previous years, may lead to some compliance schemes continuing to try to meet their WEEE collection targets – which in 2020 are largely unattainable due to the impact of the COVID-19 pandemic – up until the end of the compliance year. Such action may unreasonably cost producer members of those compliance schemes more, in comparison to the members of other schemes whom have not met the required targets and instead applied to use the compliance fee.

We recommend the announcement of the successful compliance fee methodology be made by the end of November 2020 if possible, and by mid-December at the latest. We believe such an approach remains entirely consistent with the current regulations.

## Administration of the Fee

### Valpak propose the 2020 Compliance Fee be administered by Anthesis (UK) Ltd.

Anthesis are a well-respected independent consultancy who have demonstrated a proven 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.

The key elements of Anthesis' role in the administration of the fee would be to:

- Communicate and publicise the compliance fee 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 selected, it is envisaged that Anthesis (UK) Ltd. would set up a separate bank account to receive the compliance fees paid by producer compliance schemes. Once all the transfers have been received, the net balance (i.e. minus any applicable administration fees) would be transferred to the existing Material Focus programme, as set out in section 6, who will manage the dispersal of funds. This process will ensure that Valpak has no role, visibility or influence whatsoever over any funds raised via the compliance fee mechanism.

In addition, **we propose that Anthesis appoint their auditors, Grant Thornton UK LLP, to provide an independent oversight and verification role to give an extra level of assurance in the governance of the Compliance Fee process.** The letter outlining the terms of engagement between Anthesis and Grant Thornton is included as Appendix II.

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

## Dispersal of Funds

The **funds raised from the compliance fee would be added to the existing funds of Material Focus**, whom fund 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 of the spend of the fees raised by the mechanism over time, avoiding the need for duplicating administrative bodies which would otherwise introduce confusion in the market.

Under this arrangement, funds accrued under the compliance fee, regardless of the operator, will be transferred to Material Focus who will provide continuing fund disbursement services.

## Points for Further Consideration

Valpak continually seeks to recommend positive ways in which the operation of the WEEE regulations could be improved to make the producer responsibility regime more efficient and effective. We would like to recommend Defra consider the following:

- In light of the extraordinary circumstances endured by all within the WEEE sector through 2020, it is possible that some compliance schemes continue to collect WEEE in line with their original target, incurring additional costs compared with a similar scheme which did not meet its original targets and instead paid a zero compliance fee on some of their

tonnage. Although we believe this situation is unlikely to occur on a widescale basis, due in part to the overall reduction in WEEE collections in 2020, it may be prudent to suggest that in this event **the regulators should consider adopting a temporary regulatory position statement to allow schemes to carry forward an element of their WEEE collection and treatment evidence into the following compliance year.** More specifically, we believe a position statement could be made in respect of the enforcement of Part 8, Regulation 60 (Approval of Authorised Treatment Facilities and Exporters, Requirement for Approval) of the 2013 WEEE Regulations. Further investigation may need to be undertaken by the regulators to determine which other provisions would be affected by such an RPS.

- We believe that **there is merit in adopting a consistent Compliance Fee methodology for several consecutive years, to provide some medium-term stability to the system.** Provided any chosen methodology is effective, this approach could significantly improve circumstances for Local Authorities wishing to have more stable and reliable collection arrangements. This should be considered in the light of experiences of operating the fee in recent years. In adopting a more consistent approach, there should also be flexibility for updates or changes based on changing market conditions each year, which could then be consulted on should such action be required. This is especially pertinent to the condition endured throughout 2020.
  - Lastly, we would like to suggest that Defra work closely with Material Focus and consult with the wider WEEE supply chain regarding how the funds collected through the operation of the compliance fee be spent in the best interests of the entire industry.
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## 2. Introduction

The WEEE regulations make provision for the Secretary of State 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 Secretary of State by the end of September in any compliance year. The Secretary of State may then approve only one methodology and has typically announced the decision by the middle of February following the end of the relevant compliance year.

Valpak has been in operation since 1997. We are the largest and most broadly based operator of producer compliance schemes in the UK, offering compliance schemes covering the packaging, WEEE and batteries producer responsibility regimes. Over time, our service offering has expanded to include 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 the producer responsibility sector and has a track record for developing a number of recommendations for improvements to the existing regimes and working closely with members, regulators and Government to develop effective solutions. We have used our expertise to develop a proposal for the methodology of the WEEE Compliance Fee for 2020 which we believe is practicable and best meets the requirements of the UK WEEE system, fully taking into account the requirements of both the regulations and Government guidance. For 2020, we believe our proposal appropriately acknowledges the extraordinary circumstances experienced by the WEEE sector over the course of 2020 due to the COVID-19 pandemic and the resulting national lockdown in the UK.**

Despite adjusting the mechanisms present within our proposed methodology for the 2020 Compliance Fee to account for the COVID-19 pandemic, our proposal still builds upon key elements of the methodology proposed and accepted by Defra for 2016, as well as the methodologies we proposed in 2017, 2018 and 2019. We have removed the mechanism to compensate schemes that are members of the PBS in light of it becoming mandatory in August 2019.

We have included worked examples in section 4.5 to show how the methodology operates in practice under different scenarios.

If this proposed methodology is accepted by Defra, we propose to appoint Anthesis (UK) Ltd. ("Anthesis") as the 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 have therefore demonstrated

extensive expertise and a 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 associated Defra guidance are not prescriptive on the details of a WEEE Compliance Fee and the methodology underpinning it, they do establish several requirements for stakeholders seeking to submit proposals for the methodology of the compliance fee mechanism:

1. The existence of a compliance fee is intended to discourage Producer Compliance Schemes (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 obligation;
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 for the WEEE compliance fee 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.

In their guidance for proposals for methodology of the WEEE Compliance Fee for 2020, Defra have requested proposals include a mechanism that acknowledges the extraordinary impacts of the COVID-19 pandemic on the WEEE sector in respect of collections. This proposal sets out how Valpak's methodology meets this requirement as well as those recurring requirements found within Defra's most recent guidance document (accessible via link below):

[Guidance on submitting proposals for a WEEE Compliance Fee Methodology for 2020](#)

## 4. Methodology for the Calculation of the Fee

The methodology we have proposed below includes details of how compliance fees are to be calculated for each stream. This document does not include actual fees, as it is not possible to calculate the fees until after the end of the relevant compliance year to which the methodology will apply, at which point information on actual tonnages and costs to compliance schemes can be obtained.

The methodology is supplemented by worked examples of the fee calculation and how it would apply in a range of scenarios. These are outlined in section 4.5.

### 4.1 Economic Rationale

#### Background

A WEEE compliance fee has been enabled under the WEEE regulations since 2014. The methodology chosen by the Government for 2014, 2015, 2017, 2018 and 2019 was based on proposals submitted by the Joint Trades Association (JTA). For 2016, the adopted methodology was based upon the proposal submitted by Valpak.

We believe that the original basic economic rationale for the general concept of a compliance fee as set out by the JTA in 2014 and 2015 (accessible via link below) is comprehensive and remains largely valid in 2020. The analysis set out in the paper provides a sound analysis of the general economic justification for the ability to set a WEEE compliance fee. In the years we have submitted a proposal for the methodology of the compliance fee, we have based our proposals on this analysis.

*Joint Trades Associations (JTA), Proposal to the Department of Business, Innovation and Skills, Operation of a WEEE Compliance Fee for the 2015 Compliance period. Appendix 1 - WEEE Compliance Fee Methodology, Sections 4 and 5 and Appendix 2 - Economic assessment of the 2014 compliance fee system and potential future changes.*

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

**Note: Government Guidance referred to in the paper's section 5.4 has been amended subsequently but remains similar.**

In our view, the analysis within the JTA's paper clearly demonstrates a number of salient principles outlined below. We have used these principles as the basis for our proposals in previous years, not least to avoid radical



change and contribute towards the Government's objective of improving the stability of the WEEE system, and we believe they remain valid today.

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:
  - a. Prevent the potential for excessive costs to be charged by over collectors;
  - b. Prevent producers being charged excessively for continuing access to WEEE material, and;
  - c. 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 for further compliance years.
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 compliance 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.

Whilst our proposed approach to the compliance fee methodology in 2020 remains largely consistent to those proposed in previous years, we also believe that the WEEE market situation continues to evolve in some key ways and is distinct from previous years, most notably in respect of the COVID-19 pandemic. In the following sub-section, we have outlined how our assessment of the WEEE market in 2020 has led to the conclusion that many of the core aspects of our proposals from years previous should be largely retained for 2020, subject to the addition of a mechanism that acknowledges for the extraordinary impacts of the COVID-19 pandemic on the WEEE sector.

In our view, adopting Valpak's methodology for 2020 will continue to improve the stability of the WEEE system over both the short and medium term.

## 2020 WEEE Market Developments

2020 has presented unprecedented challenges for all businesses due to the COVID-19 pandemic. In particular, the decisions to close Local Authority Civic Amenity (CA) sites earlier this year and then only allow them to re-open with **limited access has significantly reduced the amount of electrical waste arising from households and the amount of recycling and treatment activities undertaken.**

Whilst the final scale of the impact is not yet known, it seems clear that WEEE collections will fall well short of the national collection targets originally set by Defra for 2020, even allowing for these being lower than in previous years.

Whilst Q1 figures indicated some promising progress was being made in respect of WEEE collections, collection rates across streams were uneven. Across Q1, SDA collections were slightly down on 2019 Q1 figures, whilst LDA (Cat 1, Large HH) collections were significantly higher than at the same time last year; the latter being judged to have been an actual increase in collected volumes as opposed the implementation of revised LDA and small mixed WEEE protocols which changed the allocation of evidence for certain collections.

With the national lockdown being announced in mid-March and resulting in the closure of all non-essential retail and most CA sites, it was expected the pandemic would significantly impact WEEE collections through Q2 and potentially further into the year. In order to mitigate this anticipated impact, initial WEEE targets for 2020, already cumulatively set 12,000 tonnes lower than the 2019 target, were lowered again at the end of March. Even with the significant decrease in target volume from the 2019 targets (550,577 tonnes), the newly adjusted target volume for 2020 (497,338 tonnes) was still likely to be challenging given the circumstances.

It is estimated that **the national lockdown resulted in 95% of local authority waste sites being closed for 1 to 3 months** over Quarter 2, as well as most AATFs ceasing to operate or significantly scaling down operations for a period. WEEE collections were down 47% during Q2 2020, when compared with Q2 2019 and 53% down on Q1 2020. Across Valpak's portfolio of Waste Disposal Authorities that we collect from, all but two WDAs closed sites for some period of time, with the average length of time being closed being 54 days (7.7 weeks). This represents approximately 15% of the year, which, is bound to have a significant impact on total collections.

Due to the scale of the downturn in operations, an increased number of AATFs faced potentially permanent closure during Q2. Funding raised from previous years' Compliance Fees was used to offer an emergency WEEE Support Grants and Loans Package to struggling facilities to help survive the shutdown period; highlighting the importance of a compliance fee mechanism within the system to raise fees that can be utilised to mitigate the impacts of particularly extraordinary circumstances.

Even as most collection sites began to re-open at the start of Quarter 3, social distancing measures continued to place limits on footfall and the number of waste streams being accepted, prolonging the impact of the pandemic on the amount of WEEE arising from civic amenity sites. Ultimately, even during this time it is likely that collected volumes varied across schemes, depending on the portfolio of WDAs they manage, as the opening date of HWRCs varied across the UK. During this time there were no alternative WEEE recycling routes available for householders and so some may have resorted to disposal of smaller equipment instead, although it is expected that some catching up will occur as some households will have retained WEEE through the lockdown until access to disposal options returned.

Table 1 below outlines the year to date position for 2020 (up to Q2). It depicts a particularly weak position for collections, indicating it is unlikely that the target will be met, unless significant increases in Q3 and Q4 collections occur. The data also shows the marked degree to which LDA collections are supporting the position of other streams. If the LDA volume is taken out of collections and targets, the overall year to date position is only 36%.

Stream	2020 Year to Date Collections (tonnes)	2020 Collection Target (tonnes)	2020 Year to Date Position (%)
LDAs	86,025	185,354	46
Cooling	49,966	134,200	37
Display	14,615	39,495	37
GDLs	1,558	4,553	34
SDAs	45,498	133,699	34
PVPs	90	87	104
<b>Total</b>	<b>197,753</b>	<b>497,388</b>	<b>40</b>

Table 1: Year to date position of WEEE Collections

It is hard to gauge how collection volumes will recover over the rest of 2020, with each nation of the UK responsible for the implementation of local lockdowns to prevent a 'second spike' in national COVID-19 infection rates. That said, **if 2020 continues to yield WEEE at the reduced rates seen so far, achieving the collection targets in most of the categories, even after being adjusted further to account for the impact of the COVID-19 pandemic on them, is going to be challenging.** There is therefore a high likelihood of some schemes being unable to meet their collection targets, and so the requirement for a compliance fee will be clear to maintain an orderly and stable system and the credibility of targets.

**In order to account any lockdown-related impacts of COVID-19 on WEEE collections, we believe it is appropriate to consider a 2020 forecast for WEEE collections in relation to a counterfactual scenario where the COVID-19 pandemic and its impact did not occur in 2020.** To do this accurately, appropriate forecast collection rates for 2020 must first be made. We have chosen to use the protocol adjusted data circulated to all PCSs and AATFs/AEs in March as part of the WEEE targets announcement ('2020 Final Household Targets Paper').

Using this data, the average year on year collection volume change for each category between 2017 and 2019 can be used to forecast collection volumes for 2020. Tables 2 and 3 summarise this data by category and stream respectively.

Category	Business to consumer waste collected (tonnes)					
	2015	2016	2017	2018	2019	Forecast 2020
1 - Large Household Appliances	193,352	230,745	199,301	181,666	185,354	<b>179,035</b>
2 - Small Household Appliances	35,404	37,964	36,556	36,590	34,152	<b>33,030</b>
3 - IT and Telecoms Equipment	41,310	45,875	42,091	39,204	39,121	<b>37,738</b>
4 - Consumer Equipment	25,370	27,606	27,082	24,508	24,106	<b>22,763</b>
5 - Lighting Equipment	5,095	5,370	5,152	5,044	5,559	<b>5,785</b>
6 - Electrical and Electronic Tools	25,796	26,815	25,881	24,946	24,733	<b>24,181</b>
7 - Toys Leisure and Sports	5,073	5,308	5,092	4,929	4,950	<b>4,881</b>
8 - Medical Devices	34	31	22	6	4	<b>2</b>
9 - Monitoring and Control Insts.	1,032	1,160	1,087	1,072	1,074	<b>1,068</b>
10 - Automatic Dispensers	5	9	0	0	0	<b>0</b>

11 - Display Equipment	74,759	74,705	54,155	47,023	44,457	<b>40,317</b>
12 - Cooling Appliances Containing Refrigerants	122,512	134,700	135,926	132,118	134,200	<b>133,378</b>
13 - Gas Discharge Lamps and LED Light Sources	5,245	6,040	5,369	4,819	4,553	<b>4,194</b>
14 - Photovoltaic Panels	309	325	323	299	274	<b>252</b>
<b>Total</b>	<b>535,296</b>	<b>596,653</b>	<b>538,037</b>	<b>502,224</b>	<b>502,537</b>	<b>486,622</b>

Table 2: 2020 Protocol Adjusted Forecast Collections by Category

Business to consumer waste collected (tonnes)						
Stream	2015	2016	2017	2018	2019	Forecast 2020
A - LDAs	193,352	230,745	199,301	181,666	185,354	<b>179,035</b>
B - Cooling	122,512	134,700	135,926	132,118	134,200	<b>133,378</b>
C - Displays	74,759	74,705	54,155	47,023	44,457	<b>40,317</b>
D - GDL	5,245	6,040	5,369	4,819	4,553	<b>4,194</b>
E - SDAs	139,119	150,138	142,963	136,299	133,699	<b>129,447</b>
F - PVPs	309	325	323	299	274	<b>252</b>
<b>Total</b>	<b>535,296</b>	<b>596,653</b>	<b>538,037</b>	<b>502,224</b>	<b>502,537</b>	<b>486,622</b>

Table 3: 2020 Protocol Adjusted Forecast Collections by Stream

We have not included 2016 and 2015, as the change from 2015-2016 and 2016-2017 seems to be anomalous across several streams, with the 2017-2019 rate of change remaining consistent. This is demonstrated in Figures 1 and 2 that summarise the stream changes.

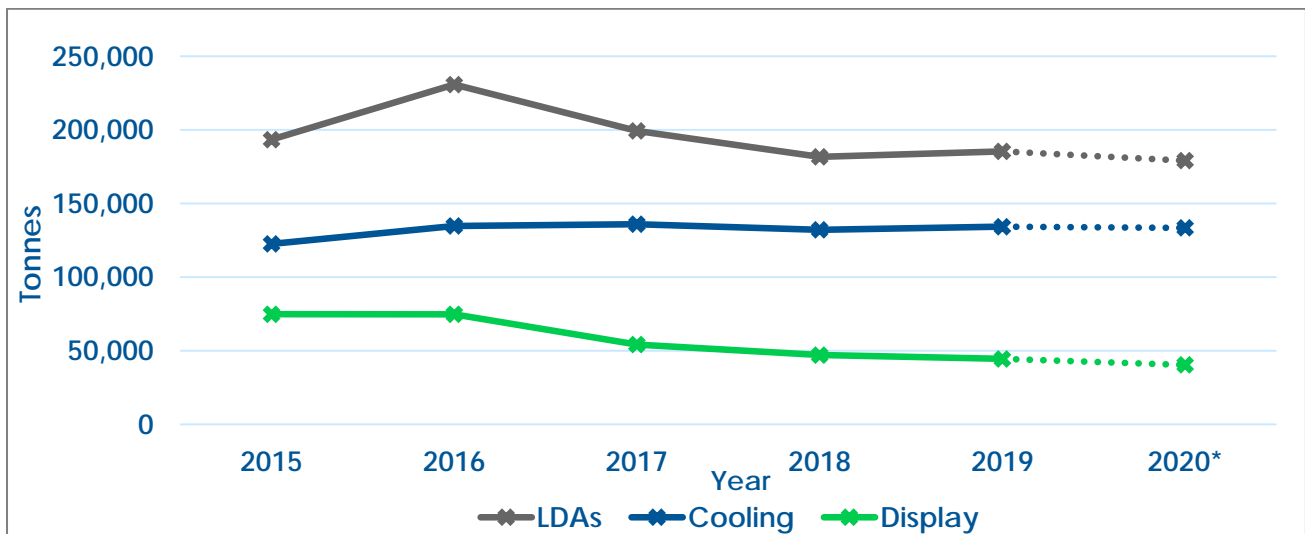


Figure 1: 2020 Protocol Adjusted Forecast Collections by Streams A, B and C

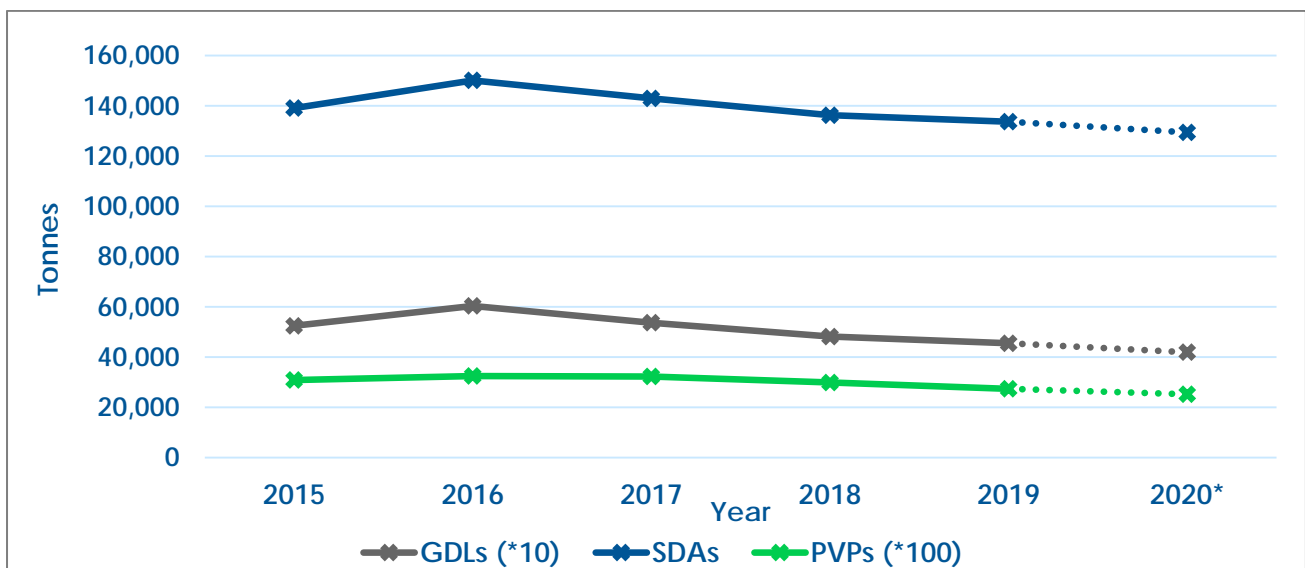


Figure 2: 2020 Protocol Adjusted Annual WEEE Collection Rates, Streams D, E, F

Note: GDL and PVP collection rates have been scaled up by 10 and 100 respectively to assist visual interpretation.

As Figures 1 and 2 demonstrate, **our hypothetical forecasts of 2020 WEEE collection rates had there not been a national lockdown are a logical continuation of recent UK WEEE collection trends.** Our forecast values per stream for 2020 will be used in the methodology to calculate what proportion of the compliance fee will be set at £0/t cost, in order to account for the pandemic and not unduly penalise producers for something over which they had no control. On balance, **we believe it is fairer to compare actual collections in 2020 to forecast collections, rather than the 2020 targets.** How this will be used within our proposed calculation will

be explained in more detail in section 4.4, accompanied by worked examples contained within section 4.5.

**Note: We would be happy to consider and adopt alternative methodologies for forecasting UK collections in the absence of the COVID-19 lockdown in discussion with Defra.**

The compliance 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 collections 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**, and compliance 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 if set too high**, compliance 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.

## Conclusions from Market Assessment

The impact of these market developments on Valpak's proposed compliance fee methodology for 2020 is that **many of the elements of our previous methodologies remain highly relevant, with the addition of a new mechanism that takes account of the extraordinary impacts of the COVID-19 pandemic on the WEEE sector**, per Government's request for methodologies for a 2020 Compliance Fee to do so.

We believe that the proposed compliance fee methodology outlined in this document would minimise the prevalence of the perception of the compliance fee is lower than the cost of physically collecting WEEE.

The main elements of the calculation are:

1. **An allowance for direct operational management costs.** This ensures 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. These costs will be set at £3.50 per tonne. We believe that this figure is



broadly representative of the costs likely to be incurred by schemes and is a fair and simple methodology as opposed to the complexity of requesting additional (and potentially highly unreliable) data from schemes on actual costs. It is consistent with our belief that direct operational costs should be included when calculating compliance fees for all streams.

2. **A fee escalator designed to ensure the impact on schemes requiring the use of the compliance for a certain tonnage is the same regardless of scheme size (other factors being equal).** In compliance fee methodologies proposed in previous years, it has been noted that the escalator factor has been based on scheme size. We believe this has made the compliance fee relatively less significant for larger schemes for a given tonnage shortfall, in comparison to being far more significant so for smaller schemes, the resulting dilemma being the incentive for larger schemes to engage in further actual collections rather than rely on the compliance fee was comparatively lower.
3. **Modify the way in which the fee escalator is applied** so that schemes (and their producer members) are not unduly penalised for missing targets. This is especially pertinent in 2020 where scheme shortfalls are at least partly out of their control due to national collection levels falling short of national targets due to the COVID-19 pandemic and subsequent national lockdown. For the compliance fee, we propose to **introduce a delay to the escalator with a zero cost allowance for a scheme for the proportion of their shortfall in each stream which is due to the pandemic. This is calculated relative to their market share of the actual national shortfall in that stream, compared with our projections of the expected level of national collections if the lockdown had not occurred.** We believe this approach fairly accounts for the impact of the COVID-19 pandemic and resulting national lockdown on WEEE collections in the UK in an appropriate and proportionate manner.
4. An **additional 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.
5. A **zero-fee for the LDA stream** was incorporated in to the 2017, 2018 and 2019 compliance fee. We believe that during the 2020 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.



## 4.2 Principles of Proposed Methodology

The objective of our proposed methodology is to address the market issues identified whilst 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-collecting schemes 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 did 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 seeking to establish collection arrangements, instead being 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 WEEE collections. We have previously proposed a flat-rate of £3.50 per tonne. 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 in 2020, therefore we propose to maintain this element of our proposal. 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. 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, 2018 and 2019 compliance fee methodologies. We believe that during the current compliance year, it is likely that there has been similarly high level of collection activity occurring outside the official system, therefore the rationale for this element remains substantially valid in 2020. 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.

**3. 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 4.4.

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

In 2014, 2015, 2017, 2018 and 2019 the compliance fee methodology that was adopted 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 main escalator, this method meant that a large scheme with a given tonnage shortfall would pay a significantly lower fee than a smaller scheme with the same tonnage shortfall, all other factors being equal. 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 a higher compliance fee.

As neither of these outcomes is desirable in encouraging stability within the WEEE system, as well as potentially leading to distortions and unfair competition, **we propose an alternative approach where the escalator is calculated in relation to a scheme's shortfall against the national target in each stream, as opposed to the scheme target in that stream.** This ensures the escalator would be identical for a given tonnage shortfall, regardless of scheme size, other factors being equal. We firmly believe **each tonne of WEEE collected is important to reach the national target, therefore all tonnes collected should be treated as equally as possible and schemes should not be penalised for being either larger or smaller in size.**

## **5. National Shortfall against the National Target**

Despite the commercial incentive of a compliance fee, it appears likely that in 2020 many WEEE streams will fall short of national collection targets again. The complete reasons for this are not yet fully clear, however it is highly likely that the COVID-19 pandemic has had a profound impact on WEEE collections, particularly across Quarter 2. An unintended consequence of this is schemes that have fallen short of their collection targets would incur an escalated compliance fee on tonnage that was simply not available for collection in 2020, even with the best of intentions to do so. We believe this would be unduly punitive on schemes and their producer members.

**For 2020, we propose a zero-cost allowance (£0/tonne) for an amount of WEEE (in tonnes) for each scheme that is relative to their market share of the national shortfall which, for this year only, is determined to be as a direct result of the COVID-19 pandemic** and the impact of the national lockdown on WEEE collections. Other elements of the fee calculation (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.

In practice, the example below outlines how this could operate:

- A WEEE stream has a national collection target of 100,000 tonnes.
- Only 80,000 tonnes is collected nationally by all schemes combined across the year, resulting in a national shortfall of 20,000 tonnes. It was forecast 90,000 tonnes would have been collected in a non-COVID-19 impacted year.
- An individual compliance scheme has a collection target of 10,000 tonnes (10% of the national target) in that stream. Across the year, it only collects 7,000 tonnes.
- The scheme applies to use the compliance fee for their 3,000 tonne shortage.

- The amount of tonnage for the scheme in question that will be their 'zero cost allowance' would be their market share (10%) multiplied by the difference in actual collections versus the forecast 2020 collections in a non-COVID-19 impacted year (10,000 tonnes). As a result, the scheme's £0/t allowance would be 1,000t.
- The remaining 2,000t of the scheme's shortfall 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 2019 proposal (see section 4.5 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 to take steps to increase their own collections or make arrangements with other schemes where possible.

This approach 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.

### 4.3 Summary of Proposed Methodology: Defining Principles

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. Acknowledging the extraordinary circumstances experienced by all throughout 2020 as a result of the COVID-19 pandemic and resulting closure of collection sites by including an additional mechanism that affords schemes an allowance that is applied appropriately and proportionately.
2. Not imposing excessive costs on schemes (and therefore producer members) 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;

3. 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 of our 2020 methodology proposal are below:

Core Principles	Rationale
<ol style="list-style-type: none"> <li>1. Weighted average costs per stream will be the base cost for each stream.</li> </ol>	<p>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>
<ol style="list-style-type: none"> <li>2. Increase the base cost by an escalator factor so that compliance fees increase for greater tonnage shortfalls.</li> </ol> <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>
<ol style="list-style-type: none"> <li>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.</li> </ol>	<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><a href="#">Other more general scheme management overheads are specifically excluded.</a></u></p>

4. Providing cost data for all streams collected is a condition of using the fee.

This is to ensure there is a viable data set available on which to base the fee.
5. A third-party independent body will be appointed to administer the fee and a further party appointed to independently verify their activities.

Third party administration will prevent any conflict of interest and ensure confidentiality. The role will include fund collection and dispersal of funds.

The requirement for independent audit and verification will provide confidence in the process.
6. In the event that national collections in any stream at the year's end are below the national target set, a proportion of any compliance fee tonnage applied for by a scheme would be subject to a zero-cost allowance, relative to a scheme's market share of the national shortfall that is estimated to be due to the national lockdown. Any further tonnage shortfall will be subject to the base fee and main escalator in accordance with the formula described.

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.

The proposal to include a zero-cost allowance is included for 2020 to account for the extraordinary impacts of the COVID-19 pandemic on WEEE collections, with schemes highly unlikely to meet their targets even in the most optimistic of collection estimates for 2020.
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 2019 methodology.

This was a potential difficulty with the methodology for 2016 but adopting this approach is a practical way to deal with this scenario in the unlikely event it should occur in 2020.

<p>8. An additional 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>10. Zero collection and treatment fee for the LDA stream.</p>	<p>During the 2020 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,. This figure has been used since our 2017 methodology proposals and appears to continue 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 4.1.

## 4.4 Fee Calculation

The fees payable by compliance schemes 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 that this is unlikely to be practicable due in part to:



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

We therefore propose that there will be a condition of participating in the fee that **any scheme that wishes to use the fee must provide their data for all streams**, 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), (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 allowing for 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 have been outlined in section 4.4

## 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. There is a £0/tonne cost element to a schemes proportion of the difference between the forecast 2020 collections as shown in section 4.1, and the actual collections in 2020, due to the impact of COVID-19 on WEEE collections in 2020.

### 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:** 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 (to be 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:

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

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)

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

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

### Basic Formula (to be used when there is a national target shortfall)

If there is a national shortfall, as expected in most if not all streams, then a similar formula is used below. We have accounted for the impact of COVID-19 by forecasting what collections should have been expected in 2020 in section 4.1. Within the methodology, a schemes proportion of the difference between forecast expected 2020 volumes and actual collections will be charged at £0/tonne, as this is assumed to be the volume attributed to COVID-19 impact and therefore shouldn't punitively cost producers, as it is out of their control rather than a failure of schemes and producers to collect.

After this £0/t allowance, any additional volume shortfall required under the compliance fee will be charged at the normal escalator rate. This effectively provides fair and proportional compensation to avoid schemes being unjustifiably penalised when targets could not be met due the extraordinary circumstances of 2020. This should to be done by market share because the national targets are set by market share.

To provide an example, if there was a 10k tonne shortfall between the 2020 expected collected volumes in section 4.1 and actual collected volumes in a stream, it would be reasonable to attribute the zero fee shortfall tonnage by market share per stream to each PCS. However, once this adjustment has

been made, from that point onwards the escalator 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.

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

Where:

**s**: the PCS's market share in that stream of the difference between the forecast 2020 collection volumes detailed in section 4.1 and the actual 2020 collection volumes (tonnes)

In the latter case, the operator will be required to obtain both market share data and national collection data to establish each scheme's £0/tonne tonnage. This escalated fee will only be charged against tonnage applied for above this threshold.

Note that if a scheme's "share" of the COVID-19 impacted tonnage allowance **s** is larger than that scheme's own shortfall, **t-c**, then **f** is not applicable and would be disregarded as it would be negative. In this case, where **t-c-s** is negative, then only the schemes shortfall tonnage and data listed above is required to verify volume which is suitable for £0/t cost.

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,  $(1 + \frac{t-c}{T})^2$  - this quadratic expression relates the size of a scheme's shortfall to the national target, **T**
- 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, reflecting the approach taken within our proposed methodology from 2019 y, as this was judged to be unnecessarily punitive. It will also only apply to volume above a schemes £0/t cost allowance volume.

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 or rebate issued accordingly.

See section 6.3 for details of the process should there be low or minimal take up of the fee.

## 4.5 Worked Examples

### Aim of Example Scenarios:

The aim of the scenarios in this section is to illustrate how the various factors would work in practice, as well as to help consultees and other relevant stakeholders objectively compare proposed methodologies submitted to Defra. 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.

### Scenario Set 1: Impact of shortfall on schemes of different 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 for each scheme **in the event of no UK overall shortage** is shown in figure 3 overleaf.

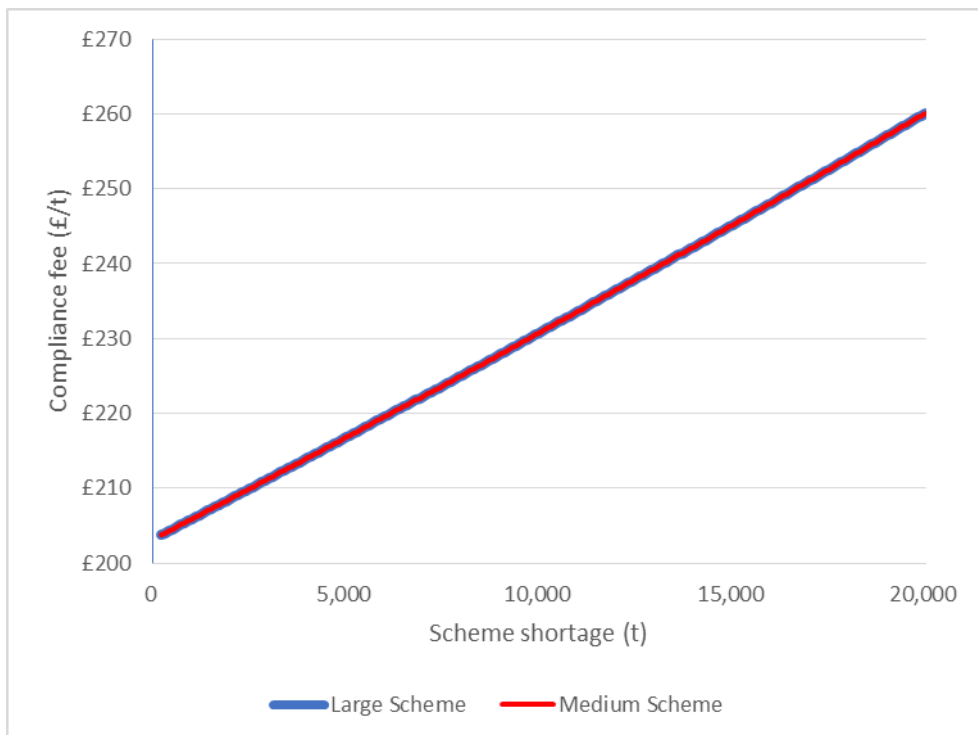


Figure 3

Figure 3 illustrates how in the case of UK total 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.

It is extremely unlikely that the UK will meet or exceed the collection targets in any stream other than PVP, however it is useful to show how the base fee methodology works for schemes of all sizes.

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 differentiating factor is the UK position has a 20,000 tonne shortfall in actual collections, compared with the position we project if the lockdown had not occurred.

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), UK shortfall position compared to 2020 forecast (18,000 tonnes), the weighted average net cost of collection £200/tonne), direct overhead (£3.50/tonne)

In summary, the scenario above is for where the 2020 target was 150,000 tonnes, expected 2020 collections were 148,000 tonnes before COVID-19, but actual collections for 2020 totaled 130,000 tonnes. 18,000 tonnes can then be attributed by market share at £0/t across all schemes due to this

shortfall being determined as caused by impact of COVID-19, with the additional 2,000 tonnes being charged at the usual escalated rate.

**Scenario 1c:** Impact of fee on a large scheme with a shortfall of 15,000 tonnes, £102/tonne. This includes 8,100 tonnes at £0/t cost (45% of the 18,000 tonne COVID-19 £/0t allowance).

**Scenario 1d:** Impact of fee on a medium scheme with a shortfall of 15,000 tonnes, £179/tonne. This includes 3,600 tonnes at £0/t cost (20% of the 18,000 tonne COVID-19 £/0t allowance).

The changing fee is shown in figure 4 below:

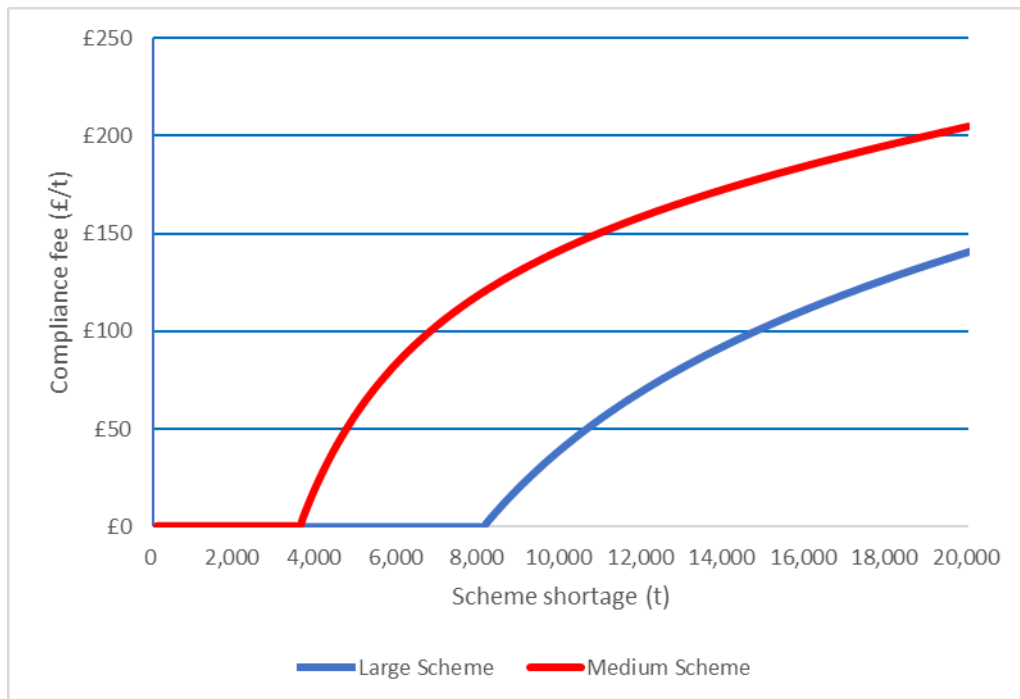


Figure 4

Figure 4 illustrates the impact of the £0/t cost element calculated by using the forecast 2020 collection volumes and actual 2020 collection volumes caused by COVID-19 and how this effects schemes of different size market shares.

In this scenario, the compliance fee doesn't kick in for the medium size scheme with a 20% market share until 3,600 tonnes (20% of 18,000 tonne shortfall deemed to be caused by COVID-19), and for the large scheme with a 45% market share until 8,100 tonnes (45% of 18,000 tonne COVID-19 caused shortfall).

It is important to note that the average £/t cost (Y axis) is shown across all tonnes of a scheme's shortfall, so includes all volume attributed at £0/t cost. This explains why the above shows curves rather than the straight lines in figure 3. All additional volume required after the £0/t cost element for all schemes is the same shown in Figure 3 that details scenarios

1a and 1b. The escalator is applied the same way across all schemes. For the medium scheme, the escalator begins at anything above 3,600 tonnes, and for the large scheme anything above 8,100 tonnes. The same escalator applies at the same rate to both PCSs as shown in the first graph.

## Scenario Set 2: Impact of UK collections position and COVID-19 lockdown

**Aim:** To show if the fee methodology would vary the £/tonne depending on the UK position compared to the Valpak collection forecasts in section 4.1, i.e. a small shortfall of actual WEEE collected in 2020 compared to Valpak 2020 forecasts versus a large shortfall of actual WEEE collected in 2020 compared to Valpak 2020 forecasts.

**Variables:** UK collections are in shortage compared to 2020 forecast volume by 5% vs., UK collections are in shortage compared to 2020 forecast volume by 25%

**Fixed:** Scheme size (medium, 20%), UK target (150,000), UK forecast 2020 collection volume (145,000), 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 collections compared to 2020 forecast (5%) on a scheme with a shortfall of 5,000 tonnes, £151/tonne. In this scenario, UK collections would be 137,750 tonnes (95% of 2020 forecast).

**Scenario 2b:** Impact of a shortage of collections compared to 2020 forecast (25%) on a scheme with a shortfall of 5,000 tonnes, £0/tonne. In this scenario, UK collections would be 108,750 tonnes (75% of 2020 forecast).

The changing fee is shown in figure 5 below:

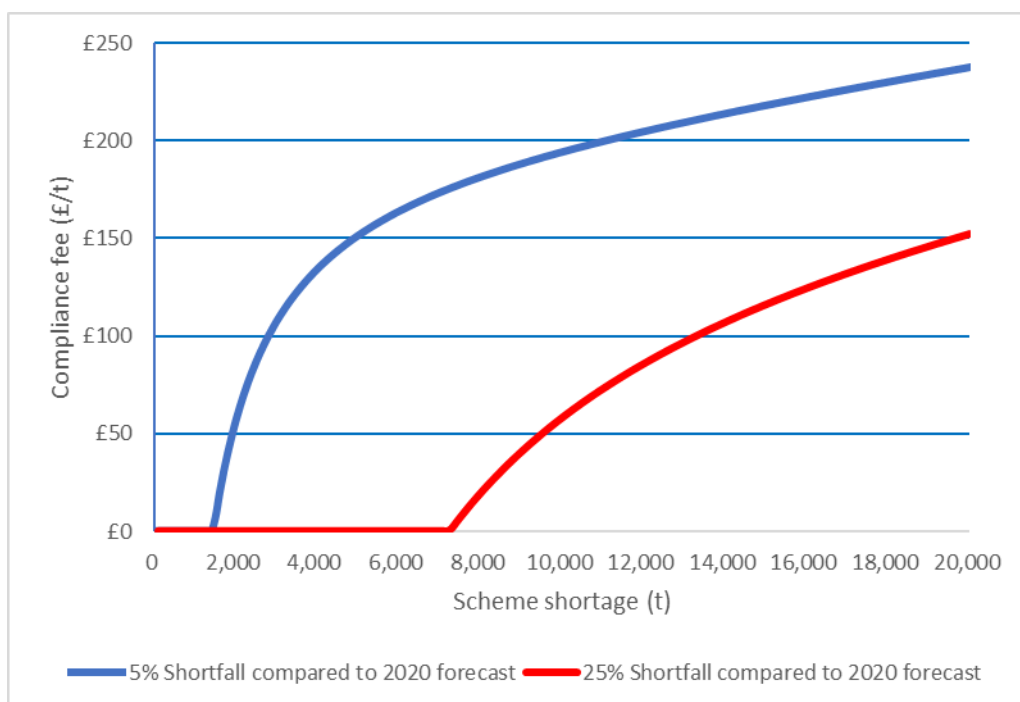




Figure 5

Figure 5 illustrates how there would be a higher fee for the scheme shortfall in a scenario of a lower UK shortfall of collections compared to the UK 2020 forecast to reflect the fact that UK collections had been less affected by the impact from COVID-19, and a lower fee for a higher market shortfall of collections compared to the forecast for 2020. In the scenario described, for a 25% UK shortfall compared to the forecast collections, a scheme only requiring 5,000 tonnes of evidence through the compliance fee would have £0/t cost for all volume up to 7,250 tonnes. This would therefore financially encourage the scheme to transfer the 2,250 tonnes of surplus evidence to other schemes to help balance the UK as a whole.

### Scenario Set 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 figure 6 overleaf:



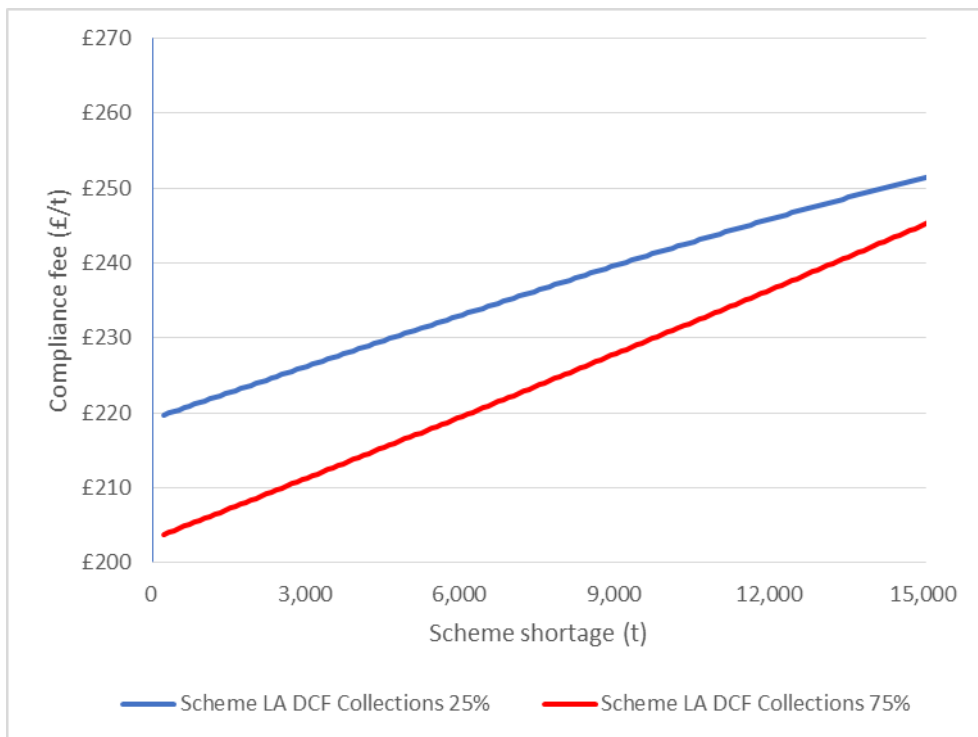


Figure 6

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.

## 4.6 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 proposed 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 £2,000 participation fee** (see section 5).

We also propose that an independent verification role be put in place to provide further assurance that the process is being properly carried out. This would primarily involve providing impartial governance oversight of the administrators Anthesis of the following activities:

- Sign off on the approach to data collection, processing/calculation and auditing;
- Validating that activities are carried out on time and in full;
- Confirmation that appropriate resources are dedicated to the project and that suitable fiscal and data security processes are in place;
- Sample auditing of the fee calculation processes to verify the integrity;
- Approval of final summary statement of the finances: aggregate (non-attributable) fees raised, dispersed to Material Focus and paid to the administrator.

**We propose that Anthesis appoint their auditors Grant Thornton UK LLP, to undertake this role.**

A letter outlining the terms of engagement between these two parties is included as Appendix II.

## 4.7 Consultation on Our Proposals

In previous years the Government has chosen to consult on all proposals it receives for the compliance fee methodology prior to making a decision on with to proceed with. We support this approach and assume it will be repeated for 2020 as it provides interested parties with the opportunity to directly compare alternative proposed methodologies and make comments on their respective strengths and weaknesses.

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 compliance 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.

We would also like to call on Defra and/or Material Focus to hold a consultation on how the funds collected through the operation of Compliance Fee be spent in the best interests of the entire industry.

## 5. Administration of the Fee

Valpak propose to appoint Anthesis (UK) Ltd. as an independent third party to operate and administer the compliance fee.

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

- Contact 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;
- 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 Material Focus in line with section 6 of this proposal.

Anthesis 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 £2,000. 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, instead only notifying participating schemes 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 to Material Focus for WEEE projects – see section 6.

We have selected Anthesis because of their extensive knowledge and understanding of the WEEE sector 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 as operator of the PCS Balancing System (PBS).

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

## 5.1 Proposed Structure and Governance

Should this proposal be accepted 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 Material Focus for dispersal, as described in section 6.

**In addition, Anthesis will appoint their auditors, Grant Thornton UK LLP, to provide an additional independent verification role** as described in section 4.6 and Appendix II. This will provide an additional level of assurance to producers, Government and the regulators that the process is being correctly carried out as described in this proposal. It would also provide an escalation point in the event of any disputes arising.

## 6. Methodology for the Dispersal of Funds

### 6.1 Introduction

In recent years the WEEE Compliance Fee Fund dispersal has been managed by a specifically created organisation called Material Focus. Due to the size of the fund it has been proposed that the fund be split into three categories:

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

Current projections show that there could be another significant shortfall in actual WEEE collections, suggesting if a WEEE compliance fee is set for 2020 there could again be a sizable compliance fee contribution for 2020.

The existing WEEE Fund dispersal methodology appears to be an established and widely accepted approach and we fully support the objectives of the suggested split of funds. We therefore propose that any funds raised from the compliance fee under our methodology in 2020 (less deductions for administrator fee) would be transferred in full to Material Focus and 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 Material Focus operates as a professional, standalone entity to disperse these funds, we understand that Material Focus has agreed to continue as the disbursement entity for the 2020 Fee.

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 Material Focus 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 IV.**

## 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. Anthesis, in consultation with their auditors, would then transfer the agreed fund to Material Focus.

## 6.3 Procedure for Low and Minimal Uptake of the Compliance Fee

We propose that if there was very low or minimal uptake of the compliance fee for 2020 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:

1. Calculate the total tonnes of each stream applying to use the fee;
2. 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 4.4;
3. Calculate the increase in cost/tonne for each stream and scheme required
4. 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:

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

$$5,050X = 10,000$$

$$X = 1.98$$

Therefore, the compliance fees are:

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

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

$$\text{Total compliance fee} = £9,999 \text{ (rounding)}$$

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

We recommend Defra look to expedite the announcement of the successful methodology for the compliance fee for 2020 to a point prior to the end of the relevant compliance year.

We recommend such an announcement is made no later than November, as opposed to previous years where an announcement is not made until after the end of the relevant compliance year. We believe such an approach is possible from a regulatory standpoint, as well as being particularly important in respect of 2020, due to the exceptional circumstances of the COVID-19 induced lockdown.

For 2020, we believe it would be unfair to delay such an announcement until early 2021, as this may lead to some compliance schemes continuing to try to meet their WEEE collection targets right until the end of compliance year - targets which even under the most optimistic of collections estimates appear to be out of reach for many in 2020. The impact of an announcement occurring in early 2021 would therefore be to be for schemes to charge their producer members more throughout the remainder of 2020.

Our proposed timetable is set out below:

<b>30 Sept 2020</b>	Deadline for the submission of methodologies to Defra
<b>Oct - Nov 2020</b>	Defra to hold a consultation on methodologies
<b>Mid-December 2020 latest</b>	Defra announces chosen methodology
<b>Early Jan 2021</b>	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.
<b>12 Feb 2021</b>	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.
<b>19 Feb 2021</b>	Deadline for Anthesis to receive required information from participating schemes.

<p><b>22 Feb - 5 Mar 2021</b></p>	<p>Anthesis audit team performs its work on the data submitted by the schemes.</p> <p>Anthesis calculates base fees and escalators according to the methodology described.</p>
<p><b>w/c 8 Mar 2021</b></p>	<p>Anthesis informs applying schemes of compliance fees applying to the tonnages they have applied for, and issues requests for payment to each scheme accordingly.</p>
<p><b>24 Mar 2021</b></p>	<p>Deadline for receipt of cleared funds from scheme into Anthesis designated client bank account in respect of Compliance fees due.</p>
<p><b>26 Mar 2021</b></p>	<p>Deadline for Anthesis to issue Compliance Fee Payment Certificate. Anthesis provides confirmation to schemes of payment plus tonnage and streams represented.</p>
<p><b>31 Mar 2021</b></p>	<p>Schemes submit DoC to enforcement agencies accompanied by confirmation of fee payment.</p>
<p><b>1 Apr 2021</b></p>	<p>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.</p>

## 8. Experience of Proposing Party & Proposed Operator

### 8.1 Proposing Party

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 EEEFlow 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 an extensive track record within the UK WEEE System, including 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.

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## 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 increased to 65% of the WEEE put on the market in 2019 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, which rebranded as Material Focus in 2020.

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 2020 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 and have a team in excess of 500 people. We have a track record of pioneering new approaches to sustainability and 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 and compliance services to obligated producers across Europe, including the UK, the Americas and in Asia Pacific,
- 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, including for Defra and Material Focus 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 (now Material Focus), 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. This will be in line with Government guidance on Covid 19, so is likely to be virtual. 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 2021 via letter, giving the appropriate notification and requesting a response by 12 February 2021 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 III.

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 12 February 2021. If we have received no response from a PCS by 12 February 2021 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 Material Focus 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.

#### 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.

#### 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.

#### 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.

#### 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 successful 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
<b>Material Focus (previously WEEE Fund)</b>	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.
<b>WEEE Scheme Forum</b>	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.
<b>Producer</b>	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.
<b>Trade body</b>	UK wide sampling of LDA WEEE in the light iron scrap stream, as potential substantiated estimates for Defra WEEE reporting to the European Commission.
<b>Trade body</b>	Impact and value for money analysis of collection, communication and reuse projects funded by the Material Focus (previously WEEE Fund) since its inception. Recommendations were made to guide future priorities for allocation.

### Example global WEEE management

Client type	Project description
<b>Global manufacturer</b>	Implementing a global takeback strategy for used EEE products, developing operating specs and KPIS, identifying and onboarding delivery partners.
<b>Global manufacturer</b>	Management consultancy for a global takeback business unit with a revenue target of \$1Bn dollars. Developing a business plan and goto market strategy.
<b>Multiple global manufacturer</b>	Managing EPR compliance reporting in Canada, India and the EU
<b>Global manufacturer</b>	Compliance health check for EPR registration and reporting, in more than 80 countries.
<b>Industry Group</b>	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:	
<b>PCRRG (Paper Cup Recovery and Recycling Group), members include Costa, Nestle, Mars, Starbucks, Mondelez.</b>	Defra: New Technology Demonstrator Programme
<b>MRF code of practice working group</b>	WRAP: Organic Capital Funding Programme
<b>GLA: Economic Development Infrastructure Building Programme</b>	LDA: Major of London's Green Procurement Code
<b>WRAP: Food waste working groups</b>	Zero Waste Scotland: Groups on materials acceptance and service standards
<b>WRAP: Product Sustainability Forum</b>	North West Sustainable Business Quarterly
<b>UK soft drinks industry sustainability roadmap</b>	Merseyside and Manchester Energy Clubs
<b>EU ecolabel for cleaning products and services</b>	Cool Farm Alliance
<b>World Resources Institute GHG protocol</b>	Carbon Disclosure Project: ICT working group
<b>Montreal Protocol</b>	Defra: Green Food Project
<b>WRAP: Courtauld Commitment working group</b>	WRAP: Hospitality and Food Service Agreement
<b>LDA: Enhance fund</b>	GLA: biodiesel supply chain development
<b>London Textiles Forum</b>	The textiles leaders' forum
<b>WRAP and BIS: Fund for circular economy in EEE</b>	Business in the Community
<b>British Standards Institution</b>	Nestle Supplier Network



## Appendix II

### Terms of Engagement between Operator and Auditor



XXXXX  
XXXXX  
XXXXX  
XXXXX

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Grant Thornton UK LLP  
110 Bishopsgate  
London  
EC2N 4AY  
T +44 (0)20 7383 5100

Xx September 2020

Dear Sirs,

#### **Terms of engagement between Anthesis Consulting Group Limited and Grant Thornton UK LLP**

The purpose of this letter is to set out the basis on which Grant Thornton UK LLP will supply services to Anthesis Consulting Group Limited (the 'Company' or 'you').

#### **Your responsibilities**

The directors (the 'directors') are responsible for making available to us all records, correspondence, information and explanations that we reasonably consider necessary to perform our work.

The directors agree that the ability for Grant Thornton UK LLP to perform our work effectively depends upon the directors providing full and free access to the appropriate financial and other records necessary for us to perform our work, and they should endeavor to procure that any such records held by a third party are made available to us.

The directors of the company are responsible for ensuring that the company complies with all of the terms and conditions of the lease agreement with the 'lessor' for the 'lease' including the turnover percentage as per the lease, the directors are responsible for preparing their report on turnover. Our responsibility is to prepare a report to you on the preparation of that report as identified below

#### **Scope of the accountant's work**

You have asked us to perform certain specific procedures in relation to your requirements. These procedures are set out in detail below. We will prepare a report to the directors that covers the areas set out below.



- Sign off on the approach to data collection, processing/calculation and auditing;
- Validating that activities are carried out on time and in full;
- Confirmation that appropriate resources are dedicated to the project and that suitable fiscal and data security processes are in place;
- Sample auditing of the fee calculation processes to verify the integrity;
- Approval of final summary statement of the finances: aggregate (non-attributable) fees raised, dispersed to Material Focus and paid to the administrator.

Our work will be based primarily on information provided to us by the directors and will be carried out on the assumption that the information is reliable, and, accurate and complete. We will not subject the information to checking or verification procedures except to the extent expressly stated. This is normal practice when carrying out such agreed upon procedures.

For the avoidance of doubt, we stress that the work that you have asked us to perform does not constitute a statutory audit. If we were to perform a full statutory audit of the company, it is possible that other matters may come to light concerning the specific areas that you have asked us to look at. Therefore, the results of our work may not be conclusive, and our conclusions may be limited.

During the course of the engagement we may show drafts of our reports to you. This is done on the basis that they are subject to revision and alteration and no reliance should be placed on any draft document without our prior written consent. A document remains "draft" for these purposes until it has been manually signed by a Grant Thornton UK LLP partner.

Draft copies of our reports will be provided to the directors of the company to confirm the factual accuracy of the information contained therein.

We commenced work in relation to the services covered by this letter ~~XX XX~~ and, notwithstanding the Terms of Business, we assume responsibility from that date.

## 2 Form of the accountant's report

Upon completion of the procedures we will provide you with a report of our findings.

Our reports will be addressed to you. We stress that our reports and letters are confidential and prepared for the addressees only. They should not be used, reproduced or circulated for any other purpose, whether in whole or in part without our prior written consent, which consent will only be given after full consideration of the circumstances at the time.

If the report is released to a third party without prior consent from Grant Thornton UK LLP, we do not acknowledge any duty of care to the third party and do not accept liability for any reliance placed on the report.

## 3 Liability Provisions

We will perform the engagement with reasonable skill and care and acknowledge that we will be liable to you, for losses, damages, costs or expenses ("losses") caused by our breach of contract, negligence or willful default, subject to the following provisions:

We will not be so liable if such losses are due to the provision of false, misleading or incomplete information or documentation or due to the acts or omissions of any person other than ourselves, except where, on the basis of the enquiries normally undertaken by us within the scope set out in these terms of engagement, it would have been reasonable for us to discover such defects;

We accept liability without limit for the consequences of our own fraud and for any other liability which we are not permitted by law to limit or exclude;

Subject to the previous paragraph, the total aggregate liability of the accountant whether in contract, tort (including negligence) or otherwise, to you arising from or in connection with the work which is the subject of these terms (including any addition or variation to the work), shall not exceed the amount of £2,000,000 per turnover rent certificate.

You agree that you will not bring any claims or proceedings against any individual partners, members, directors or employees of Grant Thornton UK LLP. This clause is intended to benefit such partners, members, directors and employees who may enforce this clause pursuant to the Contracts (Rights of Third Parties) Act 1999 ("the Act"). Notwithstanding any benefits or rights conferred by this agreement on any third party by virtue of the Act, the parties to this agreement may agree to vary or rescind this agreement without any third party's consent. Other than as expressly provided in these terms, the provisions of the Act is excluded;

Any claims, whether in contract, negligence or otherwise, must be formally commenced within two years after the party bringing the claim becomes aware (or ought reasonably to have become aware) of the facts which give rise to the action and in any event no later than four years after any alleged breach of contract, negligence or other cause of action. This expressly overrides any statutory provision which would otherwise apply

#### **4 Fees**

Our invoice will be addressed to you, and you will be solely responsible for payment in full. Bills will be rendered monthly for each class of work undertaken and are due by the end of the second month following the month of invoice; term 14.5 of the Terms of Business shall be amended accordingly. We will provide the services under this engagement letter on a fixed fee basis of xx plus VAT.

#### **5 Quality of Service**

Grant Thornton UK LLP will investigate all complaints. You have the right to take any complaint to the Institute of Chartered Accountants in England and Wales ("the ICAEW"). WH Smith Ltd may obtain an explanation of the mechanisms that operate in respect of a complaint to the ICAEW at [www.icaew.co.uk/complaints](http://www.icaew.co.uk/complaints) or by writing to the ICAEW. To contact the ICAEW write to the Professional Standards Office, [Silbury Court, 412- 416 Silbury Boulevard, Central Milton Keynes, MK9 2AF](#).

#### **6 Providing Services to Other Parties**

We will not be prevented or restricted by virtue of our relationship with you, including anything in these terms of engagement, from providing services to other clients. Our standard internal procedures are designed to ensure that confidential information communicated to us during the course of an assignment will be maintained confidentially.

#### **7 Applicable law and jurisdiction**

This agreement shall be governed by, and interpreted and construed in accordance with, English law.

You and we irrevocably agree that the courts of England shall have exclusive jurisdiction to settle any dispute (including claims for set-off and counterclaims) which may arise in connection with the validity, effect, interpretation or performance of, or the legal relationship established by this agreement or otherwise arising in connection with this agreement.

**8 Alteration to Terms**

All additions, amendments and variations to these terms of engagement shall be binding only if in writing and signed by the duly authorised representatives of the parties. These terms supersede any previous agreements and representations between the parties in respect of the scope of Grant Thornton UK LLP's work and the accountant's report or the obligations of any of the parties relating thereto (whether oral or written) and represents the entire understanding between the parties.

**9 Data Protection**

We may need to Process Personal Data about you and individuals associated with you (such as clients, staff, trustees and others), which could include the following: personal identification and contact details, employment related information or financial data. We will hold the Personal Data as Data Controller. Our privacy notice on our website ([www.grantthornton.co.uk/en/privacy](http://www.grantthornton.co.uk/en/privacy)) contains further details as to how we may use, process and store Personal Data.

**10 Additional Terms and Conditions**

The additional detailed Terms and Conditions, version: T&C 04-18, available from the "Terms and conditions" link at the bottom of our website ([www.grantthornton.co.uk](http://www.grantthornton.co.uk)) apply to the Services as if they were set out in this Engagement Letter and should be read and understood in conjunction with it as they form an important and integral part of the overall terms of our Agreement. A copy of our Terms and Conditions is available upon request.

We should be grateful if your directors would confirm your instructions by signing and returning the enclosed copy of this Engagement Letter.

Yours sincerely

Grant Thornton UK LLP

Director \_\_\_\_\_  
Signing on behalf of Anthesis Consulting Group Limited

**Date**

## Appendix III

### Document Templates

#### Letter to Schemes Inviting Participation

PCS Scheme

DATE

Dear Sirs

WEEE Compliance Fee 2020

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 2020.

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 **12 February 2021**. 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 **19 February 2021**.
- 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 **22 February or week commencing 5 March 2021**. 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 8 March 2021** 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 2021**.
- 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

Template for collection of tonnage and cost information from Producer Compliance Schemes (PCSs)					
PCS NAME					
NET COST OF DIRECTLY COLLECTED WEEE					
Target	Evidence	Compliance fee applied for	Collected	Costs	
Scheme WEEE target tonnage	Total Evidence received and recorded on Settlement Centre		Scheme WEEE tonnage directly collected from Local Authorities only	Total Direct collection, transport and treatment costs relating to Local Authority collections only	
tonnes	tonnes	tonnes	tonnes	£	
<b>1 January to 31 December 2020 - For submission on or before 19 February 2021</b>					
A - Large Household Appliances					
B - Cooling Appliances Containing Refrigerants					
C - Display Equipment					
D - Lamps					
E - Small Mixed WEEE					
F - Photovoltaic (PV) panels					
Total only (for all streams combined)					
<b>Completion instructions</b>					
1 The purpose of the document is to gather information in relation to tonnage, costs and income relating to the direct collection of each WEEE stream in the above period, for the purpose of calculating the WEEE Compliance Fee for the scheme.					
2 Compliance fee applied for is the tonnage you wish to use the Compliance fee for. Normally we would expect this to be Target minus Evidence but please confirm.					
3 Tonnage collected should include own scheme collections only from Local Authorities after any relevant national protocols have been applied, and should exclude collections or evidence provided by other schemes, waste management companies or Approved Authorised Treatment Facilities (AATFs) 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 or the PBS					
c Costs of providing the necessary containers (delivery, rental and depreciation).					
<b>Notes:</b>					
i. Net total costs above include any income generated from sale of material or parts which is retained by the scheme.					
ii. The information provided should reflect only WEEE actually collected by each scheme. For clarification, this should include the actual cost of WEEE you have collected even where you have an arrangement to transfer Evidence to another scheme.					



## Payment Request Letter Template

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 2020 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 2020 Compliance Fee payable by your Producer Compliance Scheme:

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

Participation Fee		£xx
<b>Total Compliance Fee</b>		

Please arrange for the above fee to be paid into the following bank account so that we are in receipt of cleared funds by **Wednesday 24 March 2021**.

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: **xxxxxxxx**

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 2020 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 Template

Our Ref

PCS Scheme  
Address  
Address  
ADDRESS  
POST CODE

XX March 2021

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 2020 in respect of the following:

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

Yours faithfully

Name

Title

Contact details

## Environmental Regulator Letter Template

Our Ref

Environmental Regulator  
Address  
ADDRESS  
POST CODE

date

Dear Sir

The Waste Electrical and Electronic Equipment Regulations 2013 (The Regulations)  
Summary of 2020 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 2020 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 IV

### Dispersal of the WEEE Fee Fund for the 2020 Compliance Period

Valpak proposes that the Compliance Fee dispersal process which has been developed by the JTA in recent years be continued for 2020 should our methodology be accepted. This process has been accepted by Defra, will provide continuity of funding to projects and enable wide stakeholder involvement.

#### Background

In 2017, 2018 and 2019, the JTA's methodology was adopted by Government. In 2017 the Fund generated from Fees was considerable and initially, to manage this JTAC: 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 funding opportunities. A dedicated website was established to support this process, [www.weeefund.uk](http://www.weeefund.uk)

Following an initial stakeholder meeting in June 2018, JTAC and the Expert Adviser agreed with Defra a broad approach to managing spend of the Fund. The Fund was divided into three elements: technical projects, with an annual call for research proposals; local projects covering reuse, repair, and local authority kerbside support; and a communications and behaviour change programme. Judging panels, agreed with Defra, and with representation from across the WEEE sector, were established to assess applications for research and local projects. The approach adopted for communications and behaviour change was agreed with Defra and other stakeholders representing the WEEE sector.

For its 2018 Fee methodology, in view of the extensive Fund arrangements already in place, and as many of the projects already being funded would span several years, the JTA proposed that the Expert Adviser be retained to continue to manage the disbursement of the Fund for consistency and to minimise stakeholder confusion. In addition to this, the JTA proposed that any Fees raised from the 2018 Fee process be added into the 2017 Fund to support the activities and workstreams already underway. This proposal was accepted by Defra.

The size of the Fund increased further in 2018 and recognising the need for a professional and standalone entity with dedicated staff to disperse this, JTAC employed its Expert Adviser as Executive Director to manage the spend of the Fund.

In its 2019 Fee methodology, Valpak recommended the continuation of the 2017 and 2018 Fund infrastructure and for this to be supplemented by the

establishment of a new Fund Disbursement Strategy Committee to determine how any Fees raised from the 2019 Fee process should be spent. Members of the committee would be drawn from representatives within the WEEE sector. This committee was formed following Defra's acceptance of the JTA's 2019 Fee proposal, under a different name, the Advisory Panel. The roles of the Advisory Panel and JTAC Board are outlined in the table below. In addition, Valpak proposed that with the agreement of Defra the 2019 Fee could also be used to undertake activities that are considered beneficial in maintaining the integrity of the WEEE system, such as legal action. Members of the Advisory Panel do not have any oversight of the day-to-day operation of the Fee itself, thus ensuring compliance with Competition Law. Further measures were also introduced to ensure adequate transparency in the spend of the Fund.

<b>JTAC Board</b>	<b>Advisory Panel</b>
<b>Remit</b>	
<p>Select and Appoint an Administrator to carry out the operation of the Fee and a WEEE Fund Executive Director to carry out disbursement of the Fund.</p> <p>Review and evaluate the performance of the Administrator and WEEE Fund Executive Director.</p> <p>Determine JTAC policies and provide additional fiscal oversight of the Fund through multi-stage invoice approval process</p> <p>Ensure that the composition, structure and capability of JTAC are appropriate for implementing agreed strategies.</p> <p>Provide additional sign off on payments out of the Fund in excess of £10k (two Directors must sign off before approval).</p>	<p>To advise on the strategic direction of the Compliance Fee Fund disbursement plan.</p> <p>To monitor progress against agreed goals and targets set out by the Material Focus Executive Director and endorsed by the Panel.</p>
<b>Composition</b>	
<p>Consists of senior representatives of some of the trade associations that make up the JTA. This</p>	<p>Consists of the Chair of JTAC and representatives of the stakeholder community, including but not</p>

currently includes (but is not limited to) The Lighting Industry Association, AMDEA, BEAMA and techUK.	limited to representatives of EEE producers, WSF, WEEE recyclers, local authorities, reuse organisations, waste management companies an
<b>Meetings</b>	
<p>The Board will meet as required to fulfil its remit and will meet at least every quarter.</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>	<p>The Panel 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>
<b>Voting</b>	
	<p>While every attempt will be made to unanimously agree spending priorities in the event of split opinion the Panel will vote on priorities.</p> <p>Weighting of voting will be adjusted so that actors - government, local authorities, waste &amp; treatment operators, PCSs, and producers - have an equal vote.</p>

During 2019, to support the framing of the public awareness campaign, the WEEE Fund was rebranded as Material Focus., Three further staff members were directly employed by JTAC, for a minimum of three years, to ensure effective project management of the communication and behaviour change strategy and on-the-ground projects. A dedicated office space in London was sourced for the small team.

Governance of JTAC and Material Focus is subject to a comprehensive suite of policies and procedures 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 from the 2017, 2018 and 2019 Funds

- **Technical Projects:** Two calls for research proposals have been issued. To date, 11 technical projects have been funded, two of which were Defra fast-tracked projects, totaling £1,369,966.
- **New collection 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 to help reuse organisations build capacity and expand their small mixed WEEE collections. To date 19 projects have been funded totaling £734,305.
- **Communications and Behaviour Change:** Based on extensive market research, Material Focus launched the £3m, three-year Recycle Your Electricals campaign in Spring 2020. A new information hub has been developed at [www.recycleyourelectricals.org.uk](http://www.recycleyourelectricals.org.uk) and various PR and marketing activities are now underway and will continue to at least the end of 2022.
- **Using 2019 Fee payments,** and in response to the Covid-19 pandemic impact on WEEE collections, Material Focus put in place a loan and grant support scheme to support commercial WEEE treatment facilities and reuse organisations. Nearly £2 million in interest free loans has been provided to 14 commercial electrical waste treatment facilities, while 34 organisations in the charity sector supporting the reuse of electricals have received more than £500,000 in grants.

## Valpak 2020 Fund Proposal

### 2017 and 2018 Fund

In line with the JTA's 2017 and 2018 Fee proposals, after consultation with stakeholders and Defra the funding principles for future projects and research using the 2017 and 2018 Fees would be as follows:

- All projects and applications for funding must demonstrate how they 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.recycleyourelectricals.org.uk](http://www.recycleyourelectricals.org.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 would be encouraged to engage with Material Focus when formulating research ideas so that potential synergies and collaborations can be identified and encouraged.

Applications for funding would be made by email using a standard template form, available via the Material Focus website. Applications would be assessed based on their compatibility with the evaluation criteria.

## 2019 Fund

In line with the principles set out in section 1.4 above, the spend of the remaining 2019 Fee will be determined in consultation with stakeholders and Defra and endorsed by the Advisory Panel.

## 2020 Fund

Should a further significant amount of Funds be accrued through the 2020 Fee, in line with the approach adopted for 2019 the spend of Funds will be determined independently of the JTAC Board and will be agreed through consultation with stakeholders and Defra and endorsed by the Advisory Panel. 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: research, local projects, and communications and behaviour change.

Where calls for funding applications are issued in relation to the 2019 and 2020 Funds, 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, social and environmental impact and the benefits of the proposal.

## Processing and Approval of Fund Applications

Irrespective of the Fund year, Material Focus and the JTA proposes to continue to use the appropriate judging panel(s) established previously to agree strategic interventions and assess and approve applications.

The Material Focus 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 will be available on the Material Focus website.

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

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

## Defra Projects

The JTA recognise that Defra may have some specific WEEE projects for which funding may be required. Valpak welcomed the use of the 2017, 2018 and 2019 Funds for such projects as they contributed to the enhancement of the UK's WEEE system and would do so again with the 2020 Fund.

## Continuity of the Fund

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 JTAC operates as a professional, standalone entity to disperse these funds, JTAC/Material Focus will offer to continue to act as the disbursement entity if any other organisation is appointed as operator of the 2020 Fee. Valpak have agreed in principle to this proposal should our methodology chosen to be implemented by Defra. This approach will help to improve the efficiency 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 Material Focus 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.