

Proposal to the Department for Business Innovation and Skills (BIS)

Operation of a WEEE Compliance Fee for the 2015 Compliance Period

Valpak Limited
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Table of Contents

1. Executive Summary.....	3
2. Introduction	5
3. Objectives of the Compliance Fee.....	6
4. Methodology for the calculation of the fee	7
4.1. Introduction	7
4.2. Fee rationale	7
4.3. Fee Calculation	9
4.4. Data accuracy	11
4.5. Consultation on our proposals.....	11
5. Administration of the fee.....	13
6. Methodology for the dispersal of funds	14
6.1. Introduction	14
6.2. Project fund.....	14
6.3. Research and feasibility studies	14
6.4. Administration and timetable of fund dispersal.....	15
6.5. Procedure for low or minimal uptake of the compliance fee.....	15
6.6. Validation of project funding	16
7. Timetable for implementation and operation.....	18
8. Experience of proposer and proposed operator.....	19
8.1. Proposer.....	19
8.2. Proposed operator.....	19
9. IT systems.....	20
Appendix I – Proposal from Grant Thornton UK LLP	21
Appendix II – Valpak Consultation Summary	29

1. Executive Summary

This document sets out Valpak's proposals for the operation of a WEEE compliance fee for the 2015 compliance year. We have used our extensive knowledge and experience of the industry as a WEEE compliance scheme operator since 2007, together with our knowledge of the operation of the compliance fee in 2014, to produce this proposal which:

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

Our proposal is supported by an Economic Assessment produced by Valpak Consulting who have extensive experience of producing analysis of this type for both public and private clients. This is provided as a separate document.

The key points of this proposal are summarised below.

Methodology for calculation

The key points of our proposed methodology are:

- Schemes would be required to provide actual direct collection & treatment cost data by stream
- A condition of using the compliance fee would be the provision of accurate and detailed cost data to support any submission
- There would be a participation fee of £2000 per scheme wishing to use the compliance fee as a contribution towards audit and administration costs
- The independent operator will use detailed data provided by schemes to calculate the weighted average cost per stream = base cost
- A standardised additional charge of £3.50/tonne will be made to allow for the necessary fixed costs of managing collections, representing the avoided opportunity costs of administering collection and treatment arrangements by schemes, contract and account management, reporting, site auditing, etc. (see separate Economic Assessment).
- Fees will be escalated by a factor related to the percentage scheme shortfall against the national target set by BIS in each stream so that a greater fee is payable for a shortfall which is more significant compared to the Government's requirement

- The escalator is limited to a maximum of 50% to avoid the potential for excessively increased costs to producers whilst still providing significant encouragement to collect

Administration

The fee will be administered by Grant Thornton UK LLP, a highly respected and independent UK accountancy firm. Their proposal presenting their credentials and proposed approach is included as Appendix I.

Should this proposal be accepted the key elements of their role will be to:

- Comprehensively 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 compliance fee, and issue invoices as appropriate.
- Once the invoice has 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 chosen recipients to support Local Authority and other WEEE projects.

Dispersal of funds

Our principle proposed method for fund dispersal is to improve on the process that worked well in 2014, namely for compliance fee funds to be added to any remaining Distributor Takeback Scheme (DTS) project funds and to launch a single application process to Local Authorities. The DTS project fund has proved to be a highly successful process in two previous funding rounds (currently undergoing a third round) and has led to some very positive results.

However we are aware that there are also a number of future challenges still facing the UK WEEE system, for example:

- Researching and quantifying the potential for use of “substantiated estimates” of total WEEE collection and treatment to fully represent UK national performance
- Dealing with the change to open scope
- Dealing with the changes to reporting categories
- Meeting the national targets set for 2016 and 2019

We therefore propose that some of the compliance fee fund would be allocated to finance appropriate research and feasibility studies which the Government may wish to conduct to assist it with the evaluation of these future challenges in the national interest. The levels of funding and details of any work needed would be agreed in discussion with BIS during 2016.

2. Introduction

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

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

This document sets out Valpak's proposals for a methodology which we believe optimises the requirements of the regulations and BIS guidance.

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

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

We have used this expertise and experience to develop a methodology which we believe is practicable and best meets the requirements of the UK WEEE system in the current situation.

If this methodology is accepted by BIS we will appoint Grant Thornton UK LLP as compliance fee operator. Grant Thornton are a well-known independent national accountancy firm who have considerable experience of regulatory processes and possess the proven expertise and capability to perform the required role whilst ensuring the high degrees of confidentiality necessary.

3. Objectives of the Compliance Fee

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

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

In addition to meeting the above requirements this proposed methodology:

1. Operates with minimum involvement from Government or the agencies.
2. Provides assurances that any exchange of scheme specific cost information is treated as confidential and not disclosed to other schemes.
3. Is fair to all operators regardless of their market size or circumstances of excess or deficit in material stream collections
4. Assists 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. Includes details of how fees will be administered and arrangements for the governance and disbursement of funds to suitable projects.

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

BIS Guidance on submitting proposals for a WEEE Compliance Fee Methodology – July 2015.

4. Methodology for the calculation of the fee

4.1. Introduction

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

4.2. Fee rationale

The detailed rationale behind the methodology proposed to calculate the fee is explained in Valpak Consulting's Economic Assessment (separate document).

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

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

1. Not imposing excessive costs on schemes (and therefore producers) either directly, because of an excessively high fee, or because of a market perception of a high fee leading to schemes demanding excessively high payment for their surplus collections

whilst at the same time
2. Being set at an appropriate level to provide suitable encouragement to schemes to take all reasonable steps to meet their targets without the fee, as required by the regulations

We have observed from experience of the process used for the 2014 compliance fee that the accepted methodology may have led to a perception that, in some circumstances, the 2014 fee could be lower than actual collection and treatment costs. In addition we believe that there were a number of areas where the 2014 methodology could be further enhanced to improve its fairness and operation. For example:

- The previous escalator calculation (related to the proportion of scheme shortfall compared with their target) meant that larger schemes with a given tonnage shortfall would pay a significantly lower fee than smaller schemes with the same tonnage shortfall.
- It made no allowance for the real direct staff costs necessarily incurred by schemes in managing their own material collections. If continued in future, this could lead to the danger that some schemes might be tempted to rely excessively on the compliance fee, and actual national collection targets could be missed.

Similarly we note that the perception that a fee could be significantly escalated (by up to 100%) for larger shortfalls has meant that schemes seem reluctant to try to take on significant new member obligations because of the risk of excessive costs. These could be either because they have to pay an escalated compliance fee, or that schemes with surplus collections see the potential of a high fee as justifying inflated prices for their excess evidence. This has led to difficulties for producers wishing to change schemes to seek a preferable compliance service, and a resultant limiting of competition.

We therefore propose to adopt some of the core elements used in the 2014 methodology, but then to modify and enhance some elements to better reflect the requirements set out by BIS and detailed above.

The core elements we propose to adopt from the 2014 methodology are:

Core Principles	Rationale
1. Weighted average costs per stream will be the base cost for each stream.	Actual collection and treatment cost and tonnage information will be provided by schemes from which the operator will calculate the weighted average base cost per stream. This ensures the base cost is representative of the situation across the UK.
2. To increase the base cost by an escalator factor so that compliance fees increase for greater tonnage shortfalls.	The escalator provides a greater encouragement to take reasonable steps to meet scheme targets for higher tonnage shortfalls.
3. Cost data provision is a condition of using the fee.	This is to ensure there is a viable data set available on which to set the fee.
4. A third party independent body appointed to administer the fee and audit the data.	The requirement for independent audit will ensure data accuracy. Third party administration will prevent any conflict of interest and ensure confidentiality. The role will include fund collection and dispersal of funds.

The enhancements and modifications we are now proposing for 2015 are:

Enhancement	Rationale
1. To set the escalator based on the proportion of tonnage a scheme applies for against the national target for that stream.	This means all schemes with the same tonnage shortfall will pay the same fee regardless of scheme size, which better reflects the national requirements.
2. Escalator to increase at a linear rate reaching a value of 50% increase in fee for a shortfall of 30% of the national target in any stream.	This increase is to account for the fact that the escalator is based on the total national stream target. As national target is a much higher tonnage than any individual scheme target the escalator should increase at a greater rate than that used in 2014 in order to provide a meaningful encouragement to collect.

<p>3. To cap the escalator at a maximum value of 50%, so that shortfalls in excess of this incur no further escalation.</p>	<p>This reflects the reality that costs do not in practice continue to rise unlimited. It also means that schemes wishing to recruit new members can do so without the threat of an excessive compliance fee or excessive evidence costs from other schemes. This is essential to maintain a competitive market and ensure lowest costs for Producers.</p>
<p>4. To include the potential (depending on actual cost data provided) for a fee for large household appliances (LHAs) rather than assuming the zero fee adopted for 2014.</p>	<p>There have been considerable movements in scrap metal prices over the past 12 to 18 months which mean that it is no longer a valid assumption that revenues always more than cover collection and treatment costs.</p>
<p>5. To add a small additional cost to the base fee to fairly represent the direct operational costs avoided of managing and administering WEEE collection and treatment arrangements by schemes.</p>	<p>These would include, for example, the direct costs of preparing and managing contracts, visiting and auditing sites, managing relationships with AATFs and the necessary mandatory reporting. <u>Other more general scheme management overheads are excluded.</u></p> <p>Valpak proposes that an operational cost of £3.50 per tonne is appropriate.</p>

More information on the justification for these enhancements is given in the separate Economic Assessment document.

4.3. Fee Calculation

The fee would be calculated based on actual collection and treatment costs obtained from compliance schemes.

Ideally the data collected should be as accurate and representative as possible, and so it would be preferable for data to be provided for all collections from all schemes. However we recognise this is unlikely to be practicable because:

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

Section 3.5 of the Economic Assessment provides further information on why we propose that only schemes wishing to use the fee provide data. It will therefore be a condition of participating in the fee that any scheme that wishes to use the fee must provide their data, otherwise they will not be eligible. If a scheme does not provide the information then it will not have the option of using the compliance fee in its Declaration of Compliance (DoC).

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

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

- Tonnage actually collected (own scheme collections only, excluding collections or evidence provided by other schemes or AATFs)
- 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),
- Net total regulation 43 collection, transport and treatment costs
- Net total regulation 52 collection, transport and treatment costs
- Costs of providing the necessary containers (delivery, rental and depreciation) if not covered above
- Note: Net total costs above include any income generated from sale of material or parts whether or not this is retained by the scheme

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).

The basic formula used to calculate the fee for each stream of WEEE will be:

$$f = (a + s) \times (t - c) \times \left(1 + \frac{5}{3} \times \frac{(t-c)}{T}\right)$$

Where:

f: the Compliance Fee for the relevant stream

a: the weighted average net cost of collection for the stream

s: the standard transactional cost of undertaking physical collections in the market

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

c: the PCS's collected tonnage in that stream

T: the UK national target tonnage in that stream

The operator will use the information provided by participants to calculate the average net collection and treatment cost (£/tonne) by stream over the whole tonnage collected for which they have information. This will form the Base Fee (shown by *a* above).

The operator will then calculate the total compliance fee to be paid by each scheme wishing to do so using the formula above. All schemes that have applied for the fee will then be notified of their individual compliance fees thus calculated by stream, and an invoice issued accordingly.

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

4.4. Data accuracy

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

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

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

- Checks of collection records and quarterly reports to reconcile with tonnages reported
- Checks of actual invoices and contracts for collection and treatment to reconcile with collection costs reported
- Checks of evidence data with that reported by Approved Authorised Treatment Facilities (AATFs)
- Collation and submission of data to enforcement agencies
- Review of scheme processes to ensure reporting is accurate

Completion of a satisfactory audit process will be a condition of participating in the compliance fee.

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

4.5. Consultation on our proposals

Since the 2013 regulations were introduced Valpak has promoted direct contact, 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 via our scheme members and through membership of groups such as the Industry Council for Electronics Recycling (ICER) and the WEEE Schemes Forum (WSF) as well as through our collection and treatment partners. It has enabled us to obtain a comprehensive understanding of the views and priorities of different WEEE stakeholders. We have taken these views into account in developing this proposal.

We have also supported the above with a wider direct consultation to check whether our proposal meets the BIS requirements as seen by three sets of interested parties, Valpak's B2C members representing producers, local authorities and AATFs.

Therefore in advance of submitting our proposals to BIS, Valpak sent a specific mailing to the following organisations:

- Our B2C WEEE scheme members
- All Local Authorities from whom we currently collect WEEE
- Our Approved Authorised Treatment Facilities (AATFs)

The mailing was sent to a total of 427 companies of which 345 were scheme members and 82 either Local Authorities or AATFs.

The mailing was an invitation to comment on a summary of Valpak's proposal for a 2015 WEEE Compliance Fee and included a short document of the key points we were planning to submit. The document explained the Compliance fee and its objectives and then detailed our rationale for the proposed methodology. It explained what our proposal was designed to achieve, explained how we propose to re-use some core elements used in the 2014 methodology, but then modify and enhance some elements to better reflect the market and requirements set out by BIS.

The summary document circulated is attached as Appendix II. Since circulating the summary a number of further details have been finalised to produce this complete proposal.

To date we have received only supportive feedback. One typical positive comment received from an AATF was "A very even handed approach and application being proposed".

We would be happy to make responses available to BIS if requested.

We made consultees aware that BIS intends to conduct a comprehensive consultation on all proposals received before the end of 2015 and so they would have further opportunity to comment at that stage.

5. Administration of the fee

It is proposed to use Grant Thornton UK LLP as an independent third party to operate and administer the compliance fee. If this methodology is chosen then Grant Thornton will be expected to:

- Make contact with all approved WEEE compliance schemes from the public register to inform them of the compliance fee process
- Receive applications from schemes that wish to use the fee
- Collect actual cost information from schemes wishing to use the fee
- Undertake independent audit checks as described above to verify that the data 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 invoices as appropriate
- Once the invoice 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 BIS (see Section 6) make payments (less their agreed administration fee) to the chosen recipients to support Local Authority and other WEEE projects

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

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

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

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

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

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

6. Methodology for the dispersal of funds

6.1. Introduction

It is proposed to distribute funds raised through the compliance fee in two ways:

1. In association with the existing remaining DTS project fund to suitable Local Authority project applications. The DTS project fund is well established and has been proven as a constructive vehicle for project funding, and
2. Through making available some of the fund to conduct appropriate research and feasibility studies as may be required by BIS in the national interests to ensure future UK compliance with the WEEE Directive

It is not possible at this stage to determine the relative size of these elements as the total fund will not be known until March 2016. We propose that once the total fund is known the fee operator has further discussions with BIS to determine the relative merits of the two alternatives described above. The amount assigned to each purpose can then be determined.

6.2. Project fund

The DTS has launched a number of project funds over the past 3 to 4 years and the process is well established and accepted by Local Authorities. More recently at the request of BIS, the compliance fee operators for 2014 agreed to combine the compliance fee with the existing DTS fund and launch a single request for project funding to Local Authorities. This process provides simpler access for Local Authorities to both funds through a common application.

In addition the processes for launching the fund, assessing bids and distributing the awards are already established meaning that the costs and time to distribute any funds from the compliance fee can be minimised.

We therefore propose to adopt the same mechanism, namely that the 2015 compliance fee fund be added together with any remaining DTS project fund and a single call for applications issued during 2016. We would expect the precise timing and details of this to be agreed with BIS nearer the time.

Note: There would be no conflict with Valpak also being the DTS operator because Valpak would have no role whatsoever in assessing or determining the selected projects, this being undertaken nationally by BIS in conjunction with their appointed selection panel (see section 6.4).

Criteria for project bids will be determined by BIS and communicated directly to Local Authorities.

6.3. Research and feasibility studies

We are aware that the UK faces a number of outstanding challenges and uncertainties in implementing the remaining requirements of the WEEE Directive. These include:

1. The move to open scope in 2018
2. Increased recycling and recovery targets from 2018
3. Revised EEE and WEEE reporting categories

4. Achieving increased national collection targets from 2018
5. Researching and quantifying the potential for use of “substantiated estimates” of total WEEE collection and treatment to fully represent UK national performance, and the associated impact on producer compliance scheme targets

In order to better understand the consequences of these issues and to inform decision making we understand that the Government may wish to undertake various research and feasibility studies. These would be used to help develop any revised regulatory or other changes which might be necessary.

We propose that a proportion of the compliance fee fund is allocated to this purpose by the operator and agreed in discussion with BIS.

6.4. Administration and timetable of fund dispersal

Grant Thornton would inform BIS of the total value of the remaining fund once their costs have been met. BIS, in consultation with Grant Thornton, would then determine the value of the fund to be made available to Local Authority projects and the appropriate value to keep in reserve to fund other projects as described above. The timetable for these other projects will be determined in discussion with BIS during 2016.

We propose that BIS, the DTS and the compliance fee fund operators then work together to establish a suitable timetable and process for the launch of the agreed fund to be made available to Local Authorities.

We propose that the process is as follows:

1. BIS and the DTS jointly prepare a common application pack for Local Authorities based on that used during 2015
2. On the agreed date, likely to be between June and September 2016, the fund is launched by all parties through press releases and web site announcements as appropriate.
3. Applications for project funding are sent by Local Authorities to BIS
4. BIS convene a project assessment panel consisting of representatives from BIS, the DTS (in the form of the British Retail Consortium), WRAP, and a suitable representative of producers and/or schemes (we suggest either the WEEE Schemes Forum (WSF) or JTa is invited).
5. BIS inform successful applicants of their awards
6. BIS inform the DTS and compliance fee operator of the projects and amounts to be funded

The project fund would also be made available to charities and other suitable third sector organisations working in association with Local Authorities.

In the unexpected event that the compliance fee fund is far greater than could reasonably be dealt with by this process then we propose that further discussion is undertaken with BIS to look at further options for appropriate use of the funds, but this will not be known until March 2016.

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

We propose that there should be a minimum level of the total compliance fee which is equivalent to the operational costs of the operator (less participation fees).

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

- Calculate the total tonnes of each stream applying to use the fee
- Divide the operator's costs (after deduction of participation fees) by the tonnes of each stream in proportion to the fee cost/tonne for each scheme defined in section 5.2
- Calculate the increase in cost/tonne for each stream and scheme required
- Issue invoices to the applying schemes using these rates

Example:

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

Scheme 1 applies for 10 tonnes of stream A.

Scheme 2 applies for 100 tonnes of stream B.

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

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

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

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

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

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

Therefore the compliance fees are:

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

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

Total compliance fee = £9,999 (rounding)

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

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

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

6.6. Validation of project funding

Our understanding is that in previous project funding rounds from the DTS and the 2014 Compliance Fee fund project evaluation has been carried out by BIS. If BIS wishes to

continue to undertake this work then we would not propose any additional work by the compliance fee operator.

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

7. Timetable for implementation and operation

Our proposed timetable is set out below:

September 2015	Submit methodology to BIS.
October to November 2015	BIS consult on methodologies
Mid February 2016	<p>BIS announce chosen methodology.</p> <p>Third party receives applications from schemes to use the fee. <u>Proposed deadline 28th February 2016.</u></p> <p>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.</p> <p>Third party sends information requests to applying schemes.</p>
Early March 2016	Schemes return information to third party.
Late March 2016	<p>Third party calculates base fees and escalators according to the methodology described.</p> <p>Third party informs applying schemes of compliance fees applying to the tonnages they have applied for, and invoices accordingly.</p> <p>Schemes pay fees due to third party by deadline required.</p> <p>Third party receives fees and provides confirmation of payment plus tonnage and streams represented back to schemes.</p> <p>Schemes submit DoC to enforcement agencies accompanied by confirmation of fee payment.</p>
April 2016 onwards	<p>Discussion with BIS on appropriate size of LA project fund. BIS announce project fund and assess applications. BIS inform DTS and compliance fee operators of successful projects for payment.</p> <p>Remainder of compliance fee fund available for research and similar projects as agreed with BIS.</p>

8. Experience of proposer and proposed operator

8.1. Proposer

Valpak is the UK's largest compliance scheme operator, with over 15 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 service 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 put forward proposals which have been accepted by Government include:

1. Supporting the introduction of the target and compliance fee approach incorporated into the current WEEE regulations, and suggesting how the fee process should operate.
2. 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.
3. 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.
4. Conducting and part funding numerous research and consultancy projects for packaging. For example the GlassFlow study in 2013 led to the Government consulting on new lower targets for glass recycling that have resulted in significantly lower costs for producers.

8.2. Proposed operator

Grant Thornton is one of the world's leading organisations of independent assurance, tax and advisory firms. Their experience and expertise relevant to this proposed methodology is set out in their proposal as Appendix I.

9. IT systems

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

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

Appendix I – Proposal from Grant Thornton UK LLP

Grant Thornton is one of the world's leading organisations of independent assurance, tax and advisory firms. **Grant Thornton UK** helps dynamic organisations unlock their potential for growth by providing meaningful, forward looking advice.



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

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

More than 40,000 Grant Thornton people, across over 130 countries, are focused on making a difference to clients, colleagues and the communities in which we live and work. In the UK we provided services to over 40,000 privately held businesses, public interest entities and individuals. It is led by more than 185 partners and employs more than 4,500 of the profession's brightest minds.

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



Accountancy Firm of the Year
(Larger Clients)
FD Excellence Awards
2014



Global Firm of the Year
British Accountancy Awards
2013



International Accounting
Bulletin Network of the Year 2013



Best managed international firm
MPF Awards for Management
Excellence
2014



Employer of the Year
International Accounting Bulletin
(IAB)
2014



Private Client Practitioner
Top 25 Accountancy Firms
2014



Best Tax Team in a National Firm
Corporate and International Tax and Transfer
Pricing team
LexisNexis Awards
2014



UK Transfer Pricing Firm of the Year
International Tax Review European Tax
Awards
2014



Ranked number one corporate
finance adviser in the UK
2014, 2013, 2012
(Source: Experian Corpfin)

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

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

We are focused on providing the highest quality of service to our clients. We develop a thorough understanding of our clients' businesses and needs, building strong relationships, being highly proactive in our approach, resolving issues rapidly, and providing high levels of contact. We strive to deliver a seamless solution, and utilise our market awareness and expertise to deliver a service that stands out from the norm.

We have listed below a mixture of examples of where we have delivered on relevant engagements. These include providing assurance reviews for regulators, a recent appointment with BIS and also a sample of our experience in the waste sector:

1. We have been engaged since 2012 to provide supplier audit assurance for a number of environmental programmes. The assignment comprises site visits to suppliers, culminating in the issue of around 70 reports each year, including our findings for each supplier, along with control recommendations.

The work is carried out under ISAE 3000 and we have developed a rating system in order to provide comparability of our findings between suppliers. This also enables a picture to be formed for each supplier across multiple environmental programmes, again providing comparability.

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

2. We were engaged to provide assurance over the integrity of data supplied by 10 energy companies, along with a review of their processes and procedures to provide this data.

The assignment comprised a number of stages. Initial reviews were undertaken of the processes and controls that suppliers had in place to prepare the necessary data returns, along with narrative on supplier progress in meeting the targets set. This enabled comfort to be gained over progress made to date and to assess the likelihood of suppliers achieving targets, enabling early discussions on remedial actions to take place. Furthermore, as a result of the control recommendations identified, suppliers were able to improve their processes, leading to more accurate returns.

3. Grant Thornton were appointed to provide commercial and financial advice to the Essex Waste PFI project which is to process around 380,000 t/year of municipal residual waste.

Our work included the preparation of

- The Outline Business Case (incl. a shadow bid and affordability model)

- Financial evaluations at various procurement stages
- Procurement and contractual documentation
- Negotiation support to the Partnership on key project risk positions; and
- The Final Business Case for approval from the Council Cabinet and WIDP.

We have successfully advised Essex County Council on this PFI project which reached financial close in 2012. Essex County Council has awarded an £800m, 25-year contract to a consortium of Balfour Beatty and Urbaser. This project is one of the largest waste PFI contracts.

4. Grant Thornton was appointed by Viridor to support their bids for two contracts to provide recycling and residual waste disposal services to the South London Waste Partnership.

Grant Thornton provided full financial and commercial advice to the successful bidder, Viridor, which included: financial modelling; tax and accounting advice; negotiating the payment mechanism; and providing commercial/strategic bid advice.

The contract was for the provision of recycling services and residual waste disposal, with the solution consisting of: merchant EfW capacity; MRF facilities; Anaerobic Digestion; and Landfill capacity.

Viridor achieved financial close on both projects.

5. Our client is an industry regulatory body for whom we have acted since 2012.

We provide outsourced accounting services including bookkeeping, weekly cash flow reporting, management of the accounts receivable process and management reporting. We also provide annual compliance services to the company including statutory financial statements and corporation tax.

Our management of the accounts receivable process involves issuing high volumes of sales invoices, monitoring amounts paid by customers and managing the credit control process including issuing reminder letters and telephone follow-up. We record sales invoices and receipts in the ledgers, perform a full reconciliation on all accounts and produce various reports as required by management.

Scheme Administration & Non-Audit Assurance reporting

Scheme Administration:

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

Outsourcing team and Non-Audit Assurance teams and sector experience

Samantha George - Head of GCOS - will lead the overall service delivery. Samantha heads up our outsourcing team and has over 20 years of experience covering a range of audit, outsourcing and advisory services. She also has public sector experience as former Deputy Leader of a London Borough and was a founder member of the South London Waste Partnership Joint Committee and previously a member of its Shadow Board, prior to joining Grant Thornton.

Tim O'Connell - Head of Accounting Services – GCOS, will support Samantha in the administration of the scheme. Tim is a technical resource for clients on accounting issues and has extensive experience in a range of sectors. He leads our service to many high-profile clients including international accounting assignments and UK subsidiaries of listed companies. Services provided include managing the sales ledger, invoicing and debt collection process for a number of clients. Tim's work involves agreeing and embedding agreed processes and procedures, monitoring and controlling on-going accounting work and ensuring excellent service delivery to clients. Tim is also responsible for ensuring compliance with regulations and procedures around the operation of Grant Thornton Client Bank accounts.

David Newstead will lead the non-audit assurance element of the assignment. David is an assurance partner and the key liaison point with BIS/WEEE Schemes.

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

Project Implementation

We have proven experience implementing assignments such as this and have a tried and tested process to ensure a smooth transition. The following is a summary of our Implementation process:

- We will hold an implementation meeting with representatives of BIS to liaise over the process and detailed timetable.
- We will set up the Chart of accounts in our accounting software.
- We will set up sales invoice templates and other required documents and fee management systems within our software.
- We will set up the Grant Thornton Designated Client Bank Account.
- We will agree protocols for approval of payments out of the Client bank account in respect of dispersal of funds.

- We will complete the ledger set up for each individual scheme which applies to use the fee.

On-going Process

We tailor our processes to cater for the specific needs of our clients and are therefore very experienced in working to client's stated process flows. In terms of this assignment:

- We will publicise the process to all approved WEEE compliance schemes, by obtaining a list of approved schemes and issuing the appropriate notification and asking for a response directly to ourselves.
- We will receive applications from schemes that wish to use the fee.
- We will issue a request for information to each applicant scheme in terms of actual collections and treatment costs. We will obtain this information for each WEEE stream.
- Following the approved methodology, we will undertake the data analysis and calculate fee levels for each stream and appropriate escalator factors.
- In advance of the deadline for submitting their Declaration of Compliance (DoC), we will notify all schemes who have applied to use the fee of their compliance fee and issue an invoice to the scheme setting out the fee per stream.
- Payments received will be held in a designated Grant Thornton client bank account. The invoice issued to the scheme will specify details of the bank account to which the funds should be remitted.
- We will monitor the amounts being received into the bank account and on receipt of payment we will immediately issue schemes with a confirmation of the streams and tonnage for which the fee has been paid to enable them complete their DoC.
- To reflect a clear and secure audit trail, invoices and payments will be processed in our Exchequer accounting software (details of which are below) using an accounts receivable ledger with a separate ledger account for each scheme. Each account will be reconciled individually.
- We will send a summary to each Environment Agency setting out which schemes have used the compliance fee and the tonnes and streams concerned
- Following the agreed process and timetable for distribution, we will make payments (less our agreed administration fee) to the chosen recipients to support Local Authority WEEE projects.

Client Monies

Grant Thornton will operate a designated client bank account to receive funds from schemes in respect of payment of invoices and for dispersal of the funds. The account will be operated, and all funds dealt with, in accordance with the Clients' Money Regulations of the Institute of Chartered Accountants in England and Wales.

Grant Thornton operates stringent procedures in relation to client monies. The operation of Client bank accounts is subject to regular internal review to ensure compliance with

procedures and regulations. Specific to this assignment we will agree protocols around the operation of the account.

Non-Audit Assurance reporting:

Executive summary

We understand what is needed

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

Flexibility and pragmatism

We understand the importance of the timetable for delivering the compliance fee; flexing our timings to accommodate last minute changes is expected. We will ensure all deadlines are delivered; oversight through a single contact point.

Innovation as standard

Our experience across the environmental compliance sector is founded on deep client relationships for both public sector clients (such as Ofgem, DECC, the Crown Estate and the Carbon Trust) and the private sector, including utilities, developers and funders. We have advised on large, complex procurements for both public and private sector clients. We believe that we are uniquely placed to deliver this engagement because of the specific experience that we have in our proposed team, combined with the depth of experience within Grant Thornton.

Our understanding of the WEEE Compliance scheme and non-audit assurance process

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

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

On completion of our work we will issue our report to each Scheme.

Scheme non-audit assurance cycle

The following is a brief summary of our approach:

Team briefing

- ensure understanding of the schemes and related regulation
- confirm non-audit assurance objectives and scope
- brief new non-audit assurance team members on technical aspects of the scheme
- discuss any specific risks associated with particular schemes
- identify any sector trends and updates that impact on work performed
- determine the type of evidence required

- ensure understanding of escalation process if issues identified during data testing.

Fieldwork - sample testing

- use data interrogation software IDEA to analyse data and select samples for testing where appropriate
- process walkthroughs
- re-computation of calculations and comparison with independently formed expectations
- observation or re-performance
- inspection of source documentation
- capture evidence of any exceptions identified

Report production

- any outstanding queries resolved with the schemes
- draft report prepared by assurance team
- Manager review to ensure consistency and accuracy across schemes
- Partner review of draft reports prior to issue to schemes

IT systems

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

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

Exchequer - our accounting software solution

We will use our Exchequer accounting software for the invoicing, receipts and reconciliation process.

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

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

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

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

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

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

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

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

Integrated Invoicing

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

Electronic Import

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

Reporting

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

Selective access

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

Back up and support processes

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

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

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

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

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

Appendix II – Valpak Consultation Summary

The Valpak Compliance Fee Proposal

Background:

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

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

Aim:

The objective of the compliance fee is:

1. To discourage compliance schemes from over collecting WEEE and then seeking to sell their surpluses at excessive prices;
2. To be set at a level which encourages schemes to take all reasonable steps to meet their collection target without recourse to the compliance fee;
3. To take into account the different costs associated with the collection, treatment, recovery and environmentally sound disposal of each of the WEEE collection stream;
4. The fee is payable on the tonnage for which a scheme is responsible but which has not been achieved through its own collections, or through arrangements with third parties.

In addition our proposed methodology:

6. Operates with minimum involvement from Government or the agencies;
7. Provides assurances that any exchange of scheme specific cost information is treated as confidential and not disclosed to other schemes;
8. Assists with producer mobility between competing 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.

Rationale for the proposal methodology:

In summary, Valpak's proposal is designed to produce a fee outcome which is:

1. Sufficiently high to provide suitable encouragement to schemes to take all reasonable steps to meet their targets without the fee,

whilst at the same time
2. Not imposing excessive costs on schemes (and therefore producers) either directly because of an excessively high fee or because of a market perception of a high fee leading to schemes demanding excessively high payment for their surplus collections.

We have observed from experience of the process used for the 2014 compliance fee that the accepted methodology may have led to a perception that, in some circumstances, the fee could be lower than actual collection and treatment costs. If continued in future, this has the danger that schemes might be tempted to rely excessively on the compliance fee, and actual national collection targets could be missed.

Similarly we note that the perception that a fee could be significantly escalated for larger shortfalls has meant that schemes are reluctant to try to take on significant new members and obligations because of the risk of excessive costs. These could be either because they have to pay an escalated compliance fee, or that schemes with surplus collections see the potential of a high fee as justifying inflated prices for their excess evidence.

We therefore propose to adopt the core elements used in the 2014 methodology, but then to modify and enhance some elements to better reflect the requirements set out by BIS.

Similarities kept from the 2014 methodology:

Core Principles	Rationale
1. Weighted average costs per stream will be the base cost.	It is essential that these costs are representative of the situation across the UK therefore upper and lower quartile values will be excluded. This will also reduce the ability to distort data by any individual party.
2. Cost data provision is a condition of using the fee.	This is to ensure there is a data set available to set the fee on.
3. A third party independent body appointed to administer the fee.	This will prevent any conflict of interest and confidentiality on cost data disclosed. The role will include fund collection and dispersal as funds.

The enhancements and modifications we are now proposing for 2015 are:

Enhancement	Rationale
1. To set the escalator at a minimum of 5%, even for small tonnage shortfalls, and for it to increase progressively from that point.	This means there is always at least a small encouragement to under collecting schemes to take reasonable steps to meet their targets, but not excessively so. As over and under collection are inherent in the WEEE system, it will start with a modest escalation for any shortfall.
2. To cap the escalator at a suitable level so that shortfalls in excess of this incur no further escalation.	This means that particularly smaller and medium sized schemes wishing to recruit new members can do so without the threat of an excessive compliance fee or excessive evidence costs from other schemes.
3. To include the potential (depending on actual cost data provided) for a	Our justification for this is that there have been considerable movements in scrap metal prices

fee for large household appliances (LHAs) rather than the zero fee used for 2014.	over the past 12 to 18 months which mean that it is no longer a safe assumption that revenues more than cover collection and treatment costs.
4. To add a small additional cost to fairly represent the direct operational costs properly incurred by a scheme in obtaining and managing WEEE collections.	These would include, for example, the direct costs of responding to tenders, managing contracts, visiting and auditing sites, managing relationships with AATFs and the necessary tonnage reporting. Other more general scheme management overheads are not included.

Use of the fund

It is proposed to distribute funds raised through the compliance fee in two ways:

1. In association with the existing DTS project fund to suitable Local Authority project applications. The DTS project fund is well established and has been proven as a constructive vehicle for fund distribution, and
2. Through making available some of the fund to conduct appropriate research and feasibility studies as may be required by BIS in the national interests to ensure future UK compliance with the WEEE Directive.

It is not possible at this stage to determine the relative size of these elements as the total fund will not be known until March 2016. We propose that once the total fund is known the fee operator has further discussions with BIS to determine the relative merits of the two alternatives described above. The amount assigned to each purpose can then be determined.

The funds would be distributed during 2016.