



Department  
for Business  
Innovation & Skills

Department for Business, Innovation  
and Skills,

1 Victoria Street,

London, SW1H 0ET

Date: 12 February 2016

**Re: Feedback on Valpak's proposal for a WEEE compliance fee.**

Please find attached feedback on your proposal for the WEEE compliance fee. I hope you find the feedback below useful and it helps you to strengthen future proposals.

Yours sincerely

BIS WEEE Team

## Feedback

BIS measured each proposal against the published evaluation criteria and award a score for each of the five broad areas in line with the following descriptors:

**0 - Unacceptable** - Nil or inadequate response. Fails to demonstrate an ability to meet the requirement

**1 - Poor** - Response is partially relevant and poor. The response addresses some elements of the requirement but contains insufficient/limited detail or explanation to demonstrate how the requirement will be fulfilled

**2 - Acceptable** - Response is relevant and acceptable. The response demonstrates a broad understanding of the requirement but may lack details on how the requirement will be fulfilled in certain areas

**3 - Good** - Response is relevant and good. The response demonstrates a good understanding of the requirement and provides sufficient details on how the requirement will be fulfilled

**4 - Excellent** - Response is relevant and excellent overall. The response is comprehensive, unambiguous and demonstrates a thorough understanding of the requirement and provides details of how the requirement will be met in full.

The mark for each question was multiplied by the relevant weighting and all weighted marks added together to give a final score. Out of a maximum score of 72 marks, your proposal scored 42.

### **1 - Proposed methodology for the calculation of the fee.**

Weighting 5 = 20 marks available

Your score (0-4) – 2

Your weighted score (x5) - 10

The 2013 WEEE regulations have been introduced partly to address a serious failing in the old system, where large economic rents could be gained from over collection by PCSs selling their excess evidence to PCSs who had not met their collection obligations.

The panel agreed that the bid does set out a methodology for calculation of a compliance fee which encourages schemes to take steps to meet their collection target. The fee is based on an estimate of the marginal cost of collection combined with an escalator which uplifts the per tonne compliance fee based on a PCS's shortfall. However, there are some aspects of the methodology which were a specific cause for concern to the panel and are listed below.

- There is an unclear rationale for the gradient of the escalator at 5/3. The bid would have benefited from a clear discussion of why this gradient was chosen, backed up with suitable evidence,
- The proposal did not adequately consider a situation where data submissions result in a net value for a stream. The proposal does not confirm what fee then applies,
- The £3.50 overhead appears arbitrary and its reasonableness lacks robust justification; and
- The escalator is also applied to the £3.50 'transaction cost' which seems unduly punitive and is not justified in the rationale.

Evidence and information suggests the market is in a period of transition, in which a rebalancing of WEEE collections to more closely match individual PCS collection targets is taking place. This process is ongoing as many PCSs hold long-term contracts with local authorities to collect their WEEE. As a result, previous over-collectors are still likely to be in a position to over-collect. Valpak's proposal would, by disadvantaging schemes with larger obligations relative to the 2014 methodology, offer some protection of the economic rents available to over-collectors. This could slow down the adjustment process of moving to a balanced position of PCS obligations against PCS collections. In the current circumstances, the panel believe it is beneficial for the compliance fee to not be overly punitive to producer compliance schemes with high collection targets. However, the panel did agree that in the longer term, calculating compliance fees as a percentage of the national target may be useful, as it treats each tonne of shortfall equally, independent of the collection target of the PCS who fell short.

The panel felt that the economic appraisal provided as part of the proposal is not robust. No clear rationale is provided for why the metrics chosen to assess their methodology are relevant to the objectives of the WEEE compliance fee, and the explanation of what each metric means is often incorrect. For example, although economic efficiency is often theoretical desirable, the explanation of what economy efficiency would mean in this context does not address the key issue of a divergence between the private and social/environmental benefit of WEEE collection, but in the case of treating WEEE there are external costs that are not reflected in considering normal economic efficiencies, and in this case those relate to the social and environmental costs of not ensuring equipment is recycled.

Secondly, the definition of what counts as a transaction cost is only partly correct. Although it is true that under the old WEEE regulations there were often market expectations that PCSs offer WDAs rebates or 'added value' services in exchange for being awarded a contract, this is not an example of a transaction cost (which is the cost of carrying out a transaction), and these activities and incentives arose because of the economic rents that could be gained from over-collection in the old WEEE system.

The methodology is stream specific apart from the admin fee and the £3.50 "transaction cost" and the panel felt that there has been reasonable level of consultation with stakeholders although the proposal lacks detail of how stakeholder views have been taken into account.

## **2 - Proposed administration of the fee.**

Weighting 3 = 12 marks available

Your score (0-4) – 2

Your weighted score (x3) - 6

The mechanism for recovering overhead costs is clearly stated in the proposal with a clear contingency for low and high uptake. The panel noted that with minimal take-up, administration costs would be distributed in a way, although proportionate to the tonnage shortfall of participants, may bring a significant uplift in overall costs incurred by a scheme or a small number of schemes.

An adequate overview of the mechanism by which PCSs submit information to the proposed operator is provided but this lacked a clear and detailed description of how it would work in practice. The panel felt that the way information to be provided by schemes was presented in the proposal was unclear and led to uncertainty that all relevant information had been included.

The proposal described a robust mechanism that PCSs would use to pay the fee. However, the proposal lacked a procedure for Grant Thornton to raise concerns that might crop up. This was raised also by some respondents to the consultation although respondents were largely supportive of the appointment of Grant Thornton as administrator.

The environment agencies were fully satisfied with the proposed mechanism for receiving evidence of compliance they were also fully satisfied that the proposal does not place additional burden on them.

The impact of other laws was not considered in the proposal.

Contingency plans were only described in some respects. For example, insufficient income from fees or IT concerns. However, with the size and scale of Grant Thornton's proposed team, the panel felt this would be sufficient to deal with general issues in the timescales required.

## **3 - Proposed methodology for the dispersal of funds**

Weighting 4 = 16 marks available

Your score (0-4) – 3

Your weighted score (x4) - 12

The proposal describes fully how the fund will be established, costs recovered and disbursements made. However, the panel felt that there was insufficient explanation of how project outcomes will be validated.

Governance arrangements for receipt and disbursement of the compliance fees paid are clearly stated, “piggy-backing” on DTS fund whilst also providing the possibility of separate funds for appropriate projects with a national rather than local focus.

The panel felt that good evidence is provided in support of Grant Thornton being a suitable operator of the fund. It agreed with the rationale behind linking the DTS fund because of its proven track record and this view was shared by consultation respondents.

#### **4 - Proposed timetable for implementation and operation**

Weighting 3 = 12 marks available

Your score (0-4) – 2

Your weighted score (x3) - 6

The panel agreed that although the timetable is broadly adequate although it is not specific enough in respect of dates considering the tight timescale for completion. Audit requirements are also missing from the proposed timetable. This view was shared by some consultation respondents. There is also a clear understanding of dependencies shown in the timetable.

Staffing of the proposal is clearly explained.

The panel was a little concerned that the proposed IT system set out is for financial management rather than for the project purposes. The proposal also lacks information on the IT used to calculate and store sensitive and confidential commercial information related to calculation of the fee.

The proposal does show that IT contingency is provided but information on other contingencies such as staffing is not specific, just stating Grant Thornton can be flexible.

#### **5 – Experience of proposer and proposed operator**

Weighting 2 = 8 marks available

Your score (0-4) – 3

Your weighted score (x2) – 6

The panel is satisfied that the proposal shows a proven track record of financial probity combined with practical experience of working in a regulatory environment for both Valpak and Grant Thornton.

The proposal describes a clear strategy for identifying and effectively mitigating risks, stating that a third party independent body will be appointed to administer the fee and this will prevent any conflict of interest and confidentiality on cost data disclosed.

Both Valpak and Grant Thornton demonstrate good experience of setting up data systems and developing proposals for government.

## **6 - IT systems**

Weighting 1 = 4 marks available

Your score (0-4) – 2

Your weighted score (x1) – 2

The panel felt that the proposal provides good information on IT support. However, the proposal lacks information on the IT system needed for inputting, processing and managing PCS data needed to determine the compliance fee which meant that the panel did not think that the proposal provided the necessary reassurance that commercially sensitive data would be secure.