Delivering a Successful Deposit Return Scheme in England Wales and Northern Ireland – DRS Government Response January 2023

To: All Chief Executives, Senior Policy Officers Main Contacts and APSE Contacts in England, Wales and Northern Ireland. For information for all Chief Executives, Senior Policy Officers Main Contacts and APSE Contacts in Scotland.

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1 Key issues

On 20 January 2023 the UK Government, Welsh Government and the Department of Agriculture, Environment and Rural Affairs in Northern Ireland have published their response to the second consultation on 'Introducing a Deposit Return Scheme (DRS) for drinks containers in England, Wales, and Northern Ireland'. The Government response outlines the key elements and requirements of delivering a successful Deposit Return scheme in England, Wales and Northern Ireland.

This briefing note summarises the consultation responses and the proposals, timescales, responsibilities, targets and potential role for local authorities in delivering a sustainable DRS

APSE has previously research Deposit Return Schemes as part of the proposals already in place within Scotland. You can download the research using this link.

2 Background

2.1 What is a Deposit Return Scheme?

A Deposit Return Scheme (DRS) is a system where consumers are charged a deposit up-front when they buy items such as drinks in a container that is "in scope" of the scheme. The deposit can be redeemed when the empty container is returned to a designated return point.

DRS can play an important role in increasing the supply of high-quality plastic (or as in the proposals for Scotland glass) suitable for recycling, so schemes can complement and supports other objectives such as the Plastic Packaging Tax. DRS schemes will generally boost recycling levels, reduce littering, and promote a circular economy.

Deposit return schemes are a well-established feature across Europe and the world. They often focus on single-use drinks containers, with the most effective schemes achieving collection rates of over 90%, though some have much lower rates of returns.

2.2 UK waste collection: The current landscape

It is a priority for Government to move towards a circular economy, where resources are protected and kept in use for as long as possible and waste is minimised. Introducing a DRS for single use drinks containers forms a key part of delivering this, as well as supporting government ambitions to reduce litter, and to combat the effects of plastic pollution.

Current recycling rates in the UK for drinks containers are around 70% lower than other countries that have a DRS in place. This leaves approximately 4 billion plastic bottles and 2.7 billion cans that are not recycled every year. Drinks containers often end up in landfill or sent to incineration plants, releasing highly polluting greenhouse gas emissions and increasing the demand for virgin materials, which also generate greenhouse gas emissions associated with creating new products. Although plastic bottles and aluminium cans are fully recyclable, recent packaging recycling rates demonstrate that there are significant improvements to be made in drinks container recycling.

A DRS potentially creates opportunities for a cleaner, segregated waste stream for in-scope drinks containers by separating containers by material at the point of return. This will help to reduce the level of contamination and the amount of recycling that is subsequently rejected. Securing higher quality material through the scheme, it is argued, will mean UK producers will have access to a steady supply of high-quality recycled material creating a closed loop and making them less reliant on imported and virgin material.

Concerns have been raised about the costs of implementing a DRS. Government has said that the costs of operating the DRS will largely be met by revenue from the sale of collected material and revenue from unredeemed deposits (though a higher volume of unredeemed deposits is not necessarily a marker of success!) and, as a result, it is anticipated that minimal costs will be passed on by the producers of drinks containers covered by the scheme to consumers. Furthermore, the introduction of a DRS should stimulate the growth in green jobs in the economy. Studies have shown that the introduction of a DRS could increase the number of jobs available by between 3,000 and 4300, particularly focussed in areas like collection/transport logistics, retail operations, and within the Deposit Management.

3 Consultations

Two consultations have been held on developing a DRS. The first, in 2019, explored the design and scope that a DRS model could take, the second consultation concentrated on the delivery of a DRS for single use drinks containers

The deposit return scheme has received strong support. Defra will now work with industry, Welsh Government, and the Department of Agriculture, Environment and Rural Affairs in Northern Ireland, to now set up the scheme. The expected start date for the scheme is 1 October 2025.

4 What happens next?

The DRS will be an industry-led scheme. International experience of DRS implementation has shown that schemes can work best where they are industry-led, and industry are able to use their expertise and vested interest in having a successful scheme to operate the DRS themselves.

Government has recognised the need to work closely with stakeholders and will manage the implementation of the DRS in phases. The next phase will be to work through development of the legislation, taking necessary steps to ensure it will work in practice, and appoint a deposit management organisation. Further phases are the Deposit Management Organisation (DMO) being set up as an operational entity and subsequent industry led roll-out of the scheme.

DRS will directly impact a number of stakeholders, in particular drinks producers and importers, retailers, wholesalers and distribution partners, and waste collection and logistics companies. **However, removing recyclable materials from domestic waste and recycling streams will heavily impact on local authorities**.

Government sees the following as key priorities as they work to finalise the DRS regulations and appoint the DMO:

- Testing how online retailers can provide a takeback service.
- Confirmation of the VAT arrangements for deposits on in-scope containers.
- Establishing the upper limit for the deposit level.
- Continuing to review the impact of DRS on small businesses, including producers, and considering any further mitigation or support they may require.
- Further exploration of the implications of differences between DRS schemes in the UK, including implications of separate England/NI regulations and Welsh regulations.
- Compliance monitoring and enforcement, including a charging scheme for the regulators.

Government therefore intends to start further industry engagement shortly and will explore these areas further as a means to ensuring the design of the DRS is **robust and deliverable.**

5 Key announcements

Single-use drinks containers from 50ml to 3 litre containers will be in scope of the Deposit Return Scheme.

- Polyethylene terephthalate (PET) bottles, steel cans and aluminium cans will be included for England, Northern Ireland, and Wales.
- Glass bottles will be included for Wales only (as is the case within Scotland's DRS).
- Since waste management is a devolved policy area, it is the responsibility of each nation of the UK to decide the scope of its own DRS in a way that fits its policy needs.

Government recognises the challenges that the differences in scope between DRS schemes in the UK presents for the supply chain, but they state that they are committed to continuing engagement with industry as they develop solutions to ensure effective, workable DRSs can be established across the nations

6 Labelling

The consultation explored the contribution that clear labelling of in-scope containers could make to the success of the scheme, both from a consumer understanding point of view, and also to ensure the scheme operates effectively with regards to scanning of containers and redemption of deposits. Labelling could include: a) a mark to identify the product as part of a DRS b) an identification marker that can be read by a return point within the scheme.

The consultation saw overwhelming support for introducing some form of mandatory labelling (95%).

Government states that it recognises the importance of ensuring that consumers know if a drinks

container has been subject to a deposit or not, which a DRS logo (or similar) on the container could help support. They also know that an identification marker such as a barcode on containers would be necessary for return points to read in order to return a deposit to the consumer.

Defra, Welsh Government and the Department of Agriculture, Environment and Rural Affairs in Northern Ireland intend to mandate the use, of both a mark to identify the product as part of a DRS, and the use of an identification marker, such as a barcode or QR code to enable the container to be recognised at the return point.

The specific details and design of these markings would be for the DMO(s) to decide.

A successful DRS is dependent on a range of participants fulfilling their individual obligations under the scheme. Producers, retailers and the Deposit Management Organisation (DMO - an organisation to be appointed to run the DRS) all have a role to play. For a more detailed understanding of the regulatory aspect of the DRS regarding the participants covered, the role of the DMO, collection rates and the targets being set, and how the DRS will be funded, please see the full Government document which can be found through this link.

7 Where will containers be returned to?

Retailers selling in scope containers in store will be required to host a return point, where consumers can return the empty container and be given their deposit refund, subject to some specific exemptions that retailers can apply for. It is recognised that in order to achieve the core aims of the DRS, particularly on reducing litter, it requires an extensive return point network across urban and rural areas to ensure consumers find it easy to engage with the scheme.

The regulations will leave it open for the retailer to decide how the return is accepted, whether this be through a reverse vending machine or through a manual takeback service. This allows retailers to choose a model that best suits their business and leaves the door open for future technological developments to be incorporated into the scheme.

As well as retailer return points, anyone wishing to host a return point will be able to apply to the DMO to become a voluntary return point operator through an application process set out by the DMO. Government would expect the DMO to work with the third sector, encouraging community groups and not-for-profit organisations to get involved in the scheme, such as by hosting return points.

The retailer will receive a retailer handling fee from the DMO to compensate them for costs incurred in hosting a return point. As with other scheme operating costs, the handling fee will be funded by a combination of revenue from the material the DMO collects and sales to re-processors, producer registration fees and unredeemed deposits and will take into account:

- Costs of purchase, lease, maintenance or upkeep of any collection/storage infrastructure, including any vehicle used for collections.
- Costs of materials for collection/storage of containers.

- Space requirements of return point.
- Staffing.
- Utility costs of operating the return point (for example electricity).

Where containers are sold online, Government intends to require large grocery retailers to offer consumers a takeback service for those containers.

8 Using technology in a DRS

The consultation mentioned earlier, explored the growing emergence of technology solutions that use unique coding of containers coupled with the ability to scan the code with a smart phone that could mean deposits could be returned closer to the point of consumption, for example in the home, as well as the return to retailer model.

Responses, especially from consumers, indicated support for some sort of digital kerbside return system. The main driver was ease of use and general convenience as many other aspects of personal finance and shopping are now done using digital – particularly smartphone – technology. Support of a digital solution showed that it could reduce the reliance on retailer-located reverse vending machines, with a lower number of drinks containers being returned through this route, instead increasing use of other forms of return, such as via existing household kerbside collection services.

It was also stated, that a digital DRS could be introduced with lower implementation and running costs, given the reduced reliance on reverse vending machines and use of existing collection infrastructure, thereby negating the need to set up a new DRS-specific logistics network and associated counting centres. The scope for maximising carbon saving benefits of a digital solution compared to sole return to retailer also arose given the potential to utilise the existing collection infrastructure.

Welsh Government is piloting the potential for a digital DRS, as it could allow householders to continue to use their local authority provided kerbside collection services to return DRS in scope containers when in the home, in addition to the obligation on retailers acting as return points. As such the separate economic impact assessment undertaken by Welsh Government for the implementation and operation of the scheme in Wales specifically modelled the cost of a digital system. Even with some uncertainty in the assumptions used it demonstrated a digital system could be implemented and operated at lower costs than a traditional return to retailer only model.

England, Wales and Northern Ireland will, through the DMO appointment process, look to understand more from applicants about how a digital system could be implemented or tested further as part of the eventual roll out of the scheme. Should the continued research and trials in this area show that the scaling up of the DRS to a form of digital scheme would be appropriate, the DMO and wider industry should begin to explore the practicalities and feasibility of introducing digital solutions to the scheme in the future.

9 Local authority participation in the DRS

- Local authorities and where relevant, waste operators, can participate in the DRS by separating out containers and redeeming the deposit on them.

Government anticipates that the scheme will be collecting upwards of 90% of DRS containers placed on the market from year 3 of the scheme's operation. However, it is likely that many of those containers not returned will continue to travel through local authority waste streams.

Government has therefore decided that local authorities and/or waste operators can separate out in-scope drinks containers found in their waste streams and then return these containers into the scheme, providing they meet the quality required for return, to receive the deposit amount, which acts a financial incentive. They also see this position as creating an incentive for the DMO to work with local authorities and waste operators to ensure as much DRS material is returned as possible, helping the DMO to meet its collection targets and keep the material as part of the closed-loop DRS model.

10 Compliance monitoring and enforcement

Once the DRS is up and running, there needs to be a system in place to monitor compliance with the scheme. The regulations will place specific obligations on scheme participants (producers, retailers and the DMO) with corresponding compliance mechanisms. In terms of working with producers and retailers, it is Government's intention that the DMO would be expected to undertake initial monitoring and compliance to check whether businesses are complying with the regulations before escalating breaches to the regulator. If breaches persist, then an enforcement process will commence, and the regulator will provide legal enforcement as necessary.

Government also sees a role for local authority Trading Standards being responsible for monitoring and enforcing certain retailer obligations which will be set out more clearly in the eventual DRS regulations.

Risk-based and proportionate compliance monitoring undertaken by the environmental regulators will need to be funded by the producers as part of their fees to the DMO. We envisage a payment from the DMO to the regulators to be made to cover the required regulatory activity.

11 Implementation timeline

In the next phase of DRS implementation, Government will be finalising the regulations and appointing the DMO. Government is aiming for the regulations to be in force by end of 2023 and the DMO appointed by summer 2024. Government proposes to include in the regulations a **commencement date for DRS of 1st October 2025.**

Government recognises that this is a stretching target date. Government wishes to continue to work with industry to assess the feasibility of this date as more detail is developed on the implementation phases of the scheme, including as part of the DMO application process.
There are three phases to delivering DRS:

Phase 1: Government activity up to DMO appointment. This will involve finalising the legislation, taking necessary steps to ensure it will work in practice. The legislation then needs to go through the necessary clearances, before it can be laid in Parliament. Government is aiming to have the regulations in place by end of 2023. They will then appoint the DMO with the intention of announcing the appointed DMO by summer 2024.

Phase 2: DMO set up. This will involve DMO set up activity. Tasks in this phase may include: getting a board in place; appointing DMO staff; making arrangements and securing set up financing; making initial design decisions for example on labelling and deposit level; and broader delivery planning such as finalising the DRS operational blueprint and developing the approach for collection logistics and counting centres.

Phase 3: DRS rollout. This is when the broader industry should move into DRS rollout. Key strands of work will include the DMO appointing and working with a delivery and logistics partner(s); setting up counting centres; launching communications campaigns; designing and launching an IT system; progressing with the reverse vending machine rollout; and giving guidance to producers to make the relevant labelling changes ahead of DRS go-live

12 APSE Comment

In setting a 90% collection target in regulations to be achieved within 3 years of the operation of the scheme, Government has set a very challenging target and placed significant responsibilities upon industry and the eventual DMO's. It is pleasing to see that this target will be stringently monitored. By Government specifying in the regulations that the DMO must ensure that material collected via the scheme is passed on to a reprocessor for recycling this should provide the evidence of success to the regulator.

APSE however remains concerned as to whether a workable DRS will be achievable in the timescales set, and is informed by its work with its member councils within Scotland, where issues with the scope and design of the DRS scheme should be used to inform the feasibility of other schemes across the UK. What is clear from industry is that there needs to be, an inter-operable scheme as manufacturers and retailers, operating across the UK, as differences in schemes will only add cost and complexity and make the understanding of what can and can't be recycled and where, more complicated for the public. A good example of this is the decision by England and Northern Ireland not to include glass containers in their DRS schemes. Whilst it is accepted that glass can be a major source of litter, APSE is equally aware of the problems created within the Scotland DRS by the inclusion of glass.

There has been, and still are concerns that local authorities will lose income from the loss of high value materials collected via a DRS system (particularly aluminium cans and plastic bottles), but it is noticeable that provisions have been made that local authorities can claim monies from materials that are not collected by the DRS system, although the level of separation needed may mean there is little profit from this activity. However, interestingly the digital DRS systems being trialled in Wales could mean that it is more economically sustainable to look to existing collection systems to collect

in scope DRS materials rather than relying upon retailer return points. By negating the need for return points this will reduce the need to travel to these sites, thereby preventing additional carbon emissions but also reducing the complexity of the scheme by allowing a continuation of current recycling requirements via local authority collections. In addition, unique-every-time QR codes can help reduce fraud and theft and multiple redemptions by individuals, a risk that could be a problem associated with reverse vending machines.

A further concern that has been raised by a number of organisations, is that the scheme may not be needed, if the national packaging Extended Producer Responsibility and promoting greater consistency in recycling collections deliver the outcomes otherwise sought from costly DRSs. Therefore, it is arguably the case that these schemes should be in place first, before entering into delivering a deposit return scheme on the scale proposed. However, it could be argued that the deposit available from in-scope containers may help reduce on-the-go street littering which cannot be avoided by relying upon kerbside collections.

It is therefore hoped that the timescales and targets set by Government, together with a consideration of the wider comments from relevant organisations, are supported by industry and the public alike.

APSE remains concerns that significant matters such as the following issues still need to be addressed or clarified if the scheme is to be successful from a local authority perspective: -

- The ongoing cost-effectiveness of local authority recycling, where sizeable volumes of current recycling materials are subject to a DRS system, and potentially lost from collection streams
- The impact of differing return points, and added car or vehicle journeys to facilitate the schemes operation
- The ongoing lack of clarity on the matter of VAT (which APSE has previously raised with Ministers within the Scottish Parliament)
- The impact on pricing systems on poorer members of the community e.g., paying the same deposit on a bottle of alcoholic spirit as a parent may have to pay several times on cans or bottles of soft drinks in multi-packs
- The cross-border issues for manufacturers and distributors with requirements in Scotland for retailers to take back deposit-scope containers (even if supplied form elsewhere in the UK)
- The broader and perhaps unintentional impact on some 'retailers' such as school caterers.

There are many unanswered questions and APSE awaits the draft regulations but in the meantime APSE proposes hosting a round table event for its member collection and waste disposal authorities to assist them with their concerns and in addition to this seek further meetings with the relevant Government departments across the UK administrations.

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