**From:** Jamie Henderson, Cabinet member for Environment, Coastal Regeneration and Public Health

Simon Jones, Corporate Director, Growth, Environment and Transport

**To:** Growth, Environment and Transport Cabinet Committee

**Subject:** National Waste Reforms and Financial Implications Update Briefing

**Non-Key Decision**

**Classification:** Unrestricted

**Past Pathway of report:** Briefing on Waste – Environment and Transport Cabinet Committee, 4th November 2025

**Future Pathway of report:** N/A

**Electoral Division:** County-wide

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**Summary:** This report provides Members with an update on the national waste reforms previously reported to the Environment and Transport Cabinet Committee in November 2025, focusing on the implications of Packaging Extended Producer Responsibility, the Deposit Return Scheme and the Emissions Trading Scheme for KCC's Waste Disposal function. The reforms collectively represent significant change to waste funding, material flows and disposal costs.

The Introduction of packaging extended producer responsibility has already begun to provide a substantial new source of external funding towards the costs of managing household packaging waste, although future allocations remain subject to ongoing methodology development and scheme refinement. The forthcoming introduction of the Deposit Return Stream is expected to alter the composition of Kent's household waste stream and reduce the quantity of valuable drinks containers managed through local authority services. At the same time the Emission Trading Schemes continues to represent a potentially significant future cross pressure for KCC through increased Energy from Waste disposal costs and associated carbon pricing exposure. However, on 26 August 2026 the UK ETS authority confirmed that the planned inclusion of waste incineration from 1 January 2028 will no longer proceed on that timetable, with a revised implementation date and final policy yet to be announced.

**Recommendation(s):**

The Growth, Environment and Transport Cabinet Committee is asked to note and comment on the report.

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## 1. Introduction

1.1 This paper builds on the update presented to the Environment and Transport Cabinet Committee in the November 2025 ‘Briefing on Waste.

1.2 It provides Members with the latest understanding of financial exposure, opportunities and risks associated with Packaging Extended Producer Responsibility funding; the Deposit Return Scheme and the Emissions Trading Scheme.

## 2. Packaging Extended Producer Responsibility (pEPR)

### What is pEPR and why has it been introduced?

2.1 Packaging Extended Producer Responsibility (pEPR) requires producers to fund the efficient and effective management of household packaging waste, transferring a significant proportion of costs previously borne by local authorities and council taxpayers. The scheme supports wider government objectives to increase recycling, improve packaging design and reduce residual waste.

### Methodology for collecting funds from producers

2.2 Funding is collected from obligated packaging producers through fees paid under the Producer Responsibility Obligations (Packaging and Packaging Waste) Regulations 2024. Large producers are required to report the quantity and type of packaging they place onto the UK market and subsequently pay fees based on those materials.

2.3 Producer fees are calculated according to factors including:

- The quantity of packaging supplied.
- The material type - plastic, aluminium, glass, paper/card, steel, fibre-based composites, etc.
- In future years, the recyclability of packaging through modulated fees.
- Scheme administration costs.
- Local authority packaging waste management costs.

2.4 The intention is that producers collectively fund the costs of managing packaging waste arising from households across the UK and that local authorities receive the funding to recompense their costs in relation to the collection and disposal of this packaging.

### How the national scheme is administered

2.5 The national scheme is administered by PackUK, which has been established by Defra as the Scheme Administrator. PackUK is responsible for:

- Calculating fees payable by producers.
- Collecting payments from producers.
- Managing and validating data.
- Determining local authority payment calculations.

- Distributing funding to local authorities.
- Developing future payment methodologies.
- Managing complaints, appeals and recalculations.

2.6 Local authorities do not apply for pEPR funding. Instead, PackUK calculates an annual payment entitlement based on a nationally approved methodology and issues a Notice of Assessment confirming the anticipated funding allocation for the following financial year. Payments are then made to the local authority quarterly.

**National calculation methodology and KCC's allocation**

**a) National methodology**

2.7 Local authority payments are determined by PackUK using the Local Authority Packaging Cost and Performance Model (LAPCAP), which assesses the estimated efficient cost of managing household packaging waste using waste composition, tonnage, demographic, property and service data. Funding is based on modelled costs rather than actual expenditure incurred by authorities.

**b) KCC-specific calculation**

2.8 For KCC as the Waste Disposal Authority, the allocation is based upon:

- Packaging waste contained within kerbside collected materials.
- Packaging waste managed through household waste recycling centres.
- Packaging contained within residual waste requiring treatment or disposal.
- Waste flow and composition information submitted through national data returns.
- Packaging-related disposal and treatment costs attributable to Kent's waste system.

2.9 The KCC allocation is not simply a reimbursement of actual expenditure but a modelled assessment of the authority's packaging waste management costs under the nationally prescribed methodology. As a result the amount received by KCC does not represent the full cost of providing the waste disposal service for packaging.

**Funding: current and future**

2.10 KCC has already received pEPR funding as part of the first year of the pEPR implementation. The first year of national allocations in 2025/26 saw English local authorities collectively receive approximately £1.1 billion in payments funded by packaging producers.

2.11 Future funding allocations are communicated through annual Notices of Assessment issued by PackUK. The notice provides the authority with its anticipated annual allocation, the expected quarterly payment profiles, the basis for calculation and the process for appeals and recalculations.

2.12 KCC has also received notification of anticipated future payments through the Notice of Assessment process for 26/27. However, future payments remain subject to final producer fee collection rates, appeals and recalculations, refinements to methodology and updated waste data and modelling and therefore whilst indicative the future payments are not confirmed until receipt of the quarterly settlement.

Table 1: pEPR Funding Expected and Received by KCC

| Financial Year | Funding Expected | Funding Received |
|---|---|---|
| 2025 / 26 | £13,288,000.00 | £13,288,000.00 |
| 2026 / 27 | £11,615,212.48 | £ 2,912,803.12 (Qtr 1) |

**Future changes to the scheme**

2.13 Several important developments to the pEPR scheme are expected over the next few years.

i). PackUK has confirmed that payment methodologies will continue to evolve as additional data becomes available and modelling techniques improve. Local authorities are therefore expecting annual adjustments to allocations and potentially greater scrutiny of cost assumptions that will have an impact on the level of funding received.

ii). The fundamental principle of pEPR is reimbursement of efficient and effective costs rather than actual expenditure. Future methodology reviews may therefore place greater emphasis on performance benchmarking and service efficiency. This could create both opportunities and risks for future allocations and will be a key feature of discussions with new unitary authorities during the lead up to LGR.

iii). The scheme is intended to increasingly incentivise recyclable packaging through differential fee structures. As packaging design evolves it is likely that recyclable packaging should increase and the inclusion of difficult-to-recycle materials will reduce. This will have an impact on the composition of materials within Kent's waste streams and ultimately future disposal costs may reduce. There is also an expected interaction with the Deposit Return Scheme and the overall Simpler Recycling reforms that are discussed in more detail below.

2.14 Overall pEPR represents a significant financial opportunity for KCC and should provide substantial funding towards packaging waste management costs. However, the scheme remains in its early years and future allocations are likely to evolve as PackUK refines its methodology, introduces additional efficiency measures and responds to the wider waste policy reforms.

## 3. Deposit Return Scheme

**What is the Deposit Return Scheme and why is it being Introduced?**

3.1 The Deposit Return Scheme (DRS) is a UK-wide producer responsibility measure designed to increase the collection and recycling of drinks containers by introducing a refundable deposit on eligible containers. Consumers pay a

small deposit when purchasing a drink and receive that deposit back when the empty container is returned through an approved collection point.

3.2 The primary objectives of the DRS are to:

- Increase capture rates for drinks containers.
- Improve the quality of recycled materials.
- Reduce littering.
- Reduce carbon emissions associated with virgin material production.
- Support the transition to a circular economy.
- Shift costs from taxpayers to producers and consumers of packaging.

3.2 The current planned implementation date for the UK Deposit Return Scheme is 1 October 2027 for England, Northern Ireland and Scotland. Wales is pursuing a separate approach. The period between now and implementation is focused on scheme mobilisation, infrastructure delivery, retailer preparation and producer registration.

3.3 The scheme is expected to include PET plastic drinks bottles and both steel and aluminium drinks cans. Current proposals are focused on containers between 150ml and 3 litres in volume.

3.4 The target capture rate for the DRS is 90% of in-scope containers with the deposit / return value confirmed as 20p per container.

3.5 For KCC, DRS represents one of the most significant forthcoming changes to the municipal waste system. Many of the materials captured by the scheme are currently among the most commonly recycled household waste items. These materials retain a market value and generate income through KCC's disposal and treatment contracts that is used to subsidise the disposal service as a whole. Consequently, while DRS may reduce disposal costs by diverting material from the municipal waste stream, it may also reduce income currently received from the sale and recovery of valuable recyclable materials.

**Expected methodology and infrastructure**

3.6 Consumers will purchase drinks and at the point of purchase will be charged an additional deposit value. Upon returning the empty container, the deposit is refunded.

3.7 Returns will be made through collection points at supermarkets and convenience retailers, through reverse vending machines (RVMs), manual take-back locations and possibly additional points at transport hubs and public buildings.

3.8 Returned containers will be separately collected and processed through dedicated DRS logistics networks rather than entering local authority waste streams. The objective is to achieve very high capture rates and produce cleaner material streams than those currently collected through household recycling systems.

3.9 Nationally, the scheme will be delivered through a producer-funded network of return points, reverse vending machines and supporting logistics infrastructure. KCC is not expected to contribute directly to infrastructure costs but will need to understand the impact of material diversion on waste contracts, waste flows and income streams.

**How the national scheme is administered**

3.10 The DRS will operate nationally through a centrally managed Deposit Management Organisation (DMO), which will oversee the operation of the scheme on behalf of producers and regulators. This includes managing deposits and refunds, co-ordinating the collection of containers and ensuring the scheme operates consistently across the country.

3.11 The administration model is therefore similar to pEPR in that producers fund the system, but DRS creates a physical collection network separate from local authority recycling collections and disposal.

**Implications for KCC**

3.12 DRS specifically targets plastic drinks bottles and metal beverage cans, which currently form a significant proportion of household recycling collected across Kent and contribute to the material processed through KCC's disposal arrangements. As the scheme becomes established, a substantial proportion of these materials are expected to be diverted from household recycling and residual waste streams into dedicated DRS collection networks. Whilst this should reduce waste disposal and treatment costs, it will also reduce the quantity of valuable recyclable materials managed through existing contracts and may therefore reduce income currently received from their onward sale and recovery.

3.13 The overall financial impact on KCC remains uncertain and will depend on actual participation rates, material capture rates and the balance between reduced disposal costs and lost income.

**Interaction between DRS and pEPR**

3.14 The interaction between DRS and pEPR is a further consideration. A key implication for KCC is that if large quantities of plastic bottles and drinks cans are removed through the DRS then the packaging tonnes and associated disposal costs managed by KCC will reduce. However this will also reduce the income received by KCC through the disposal contracts for these materials as well as the pEPR funding that KCC receives for managing those containers. The critical question will be whether the reduction in costs exceeds the reduction in income and funding associated with the material.

## 4. Emissions Trading Scheme

**What is the Emissions Trading Scheme and why is it being introduced?**

4.1 The Emissions Trading Scheme (ETS) is a carbon pricing mechanism designed to reduce greenhouse gas emissions by requiring organisations to

pay for the carbon dioxide they emit. The principle is that activities with higher carbon emissions become more expensive over time, creating a financial incentive to reduce emissions and invest in lower-carbon alternatives.

4.2 While the UK ETS currently applies to sectors such as power generation, aviation and energy-intensive industries, both the UK and EU have been considering the inclusion of Energy from Waste (EfW) facilities because residual waste contains significant quantities of fossil-derived materials, particularly plastics. As a result, the combustion of residual waste generates substantial carbon emissions.

4.3 Whilst the UK Government has yet to confirm the final implementation arrangements, previous policy development had been based on implementation from 1 January 2028. However, on 26 August 2026 the UK ETS Authority confirmed waste incineration will not enter the scheme in 2028 and that a revised implementation timetable will be announced in due course.

4.4 The UK ETS Authority has stated that uncertainty regarding implementation has created challenges for both local authorities and industry in planning and budgeting. The Authority has therefore delayed implementation whilst continuing policy development and stakeholder engagement

4.5 It should be noted that the European Commission announced in July 2026 that it was delaying the introduction of municipal waste incineration into the EU ETS from 2028 to 2031, with liabilities phased in between 2031 and 2034. The change in implementation date was intended to give local authorities and operators additional time to prepare for the policy's introduction.

**Expected methodology for calculating costs**

4.6 Under an ETS regime, operators must purchase carbon allowances equivalent to the emissions generated from their facilities.

4.7 For EfW facilities, the calculation is typically based on:

- Total tonnes of residual waste processed.
- The fossil carbon content of the waste stream.
- Measured $CO_2$ emissions.
- The prevailing carbon allowance price.

4.8 The largest contributor to emissions is generally fossil-based plastic within residual waste. Consequently, authorities with higher residual waste volumes typically face greater ETS exposure.

4.9 KCC manages significant volumes of residual household waste through EfW facilities and will therefore be liable for these increased costs.

4.10 Whilst the eventual cost to KCC will depend on a number of factors that include the final UK ETS policy and future carbon prices. The table below provides an illustrative estimate of KCC's potential exposure under a future ETS regime based on current assumptions regarding residual waste volumes, fossil carbon content and carbon allowance prices. Following the UK ETS

Authority announcement of 26 August 2026, these figures should now be regarded as scenario modelling only rather than estimates of costs expected to arise in a specific financial year.

| Residual tonnage | Estimated fossilised proportion (%) | Estimated fossilised proportion (tonnes) | Estimated carbon cost per tonne | Potential annual ETS cost exposure |
|---|---|---|---|---|
| 400,062 | 45% | 180,028 | £75 | £13,502,903 |

**How the national scheme is administered**

4.10 The UK ETS scheme operates a carbon allowance market in which regulated operators are required to monitor emissions, report emissions and surrender carbon allowances accordingly.

4.11 Should EfW facilities become fully included within the scheme, the obligation to purchase allowances would fall primarily upon facility operators. However, local authority waste disposal contracts will allow operators to recover some or all of these costs from disposal authorities. Consequently, the financial burden will ultimately transfer to councils even though they are not direct participants in the carbon market.

4.12 The introduction of carbon costs could fundamentally alter the economics of residual waste treatment. Historically, EfW has been viewed as a relatively stable disposal route. Under ETS, treating residual waste is likely to become progressively more expensive, reinforcing the importance of waste prevention and recycling across the county. Consequently, reducing residual waste and increasing recycling should be increasingly regarded as a financial mitigation strategy.

**Current position**

4.13 On 26 August 2026 the UK ETS Authority confirmed that waste incineration will not be brought within the scheme in 2028 as previously proposed. No replacement implementation date has yet been announced.

4.14 Whilst this removes the immediate risk of ETS-related disposal cost increases from KCC's current medium-term financial planning assumptions, the policy has not been cancelled. The Government has stated that a revised timetable and final scheme design will be published in due course.

4.15 KCC will therefore continue to monitor policy development, participate in sector discussions and maintain financial modelling to understand future exposure under a range of implementation scenarios.

## 5. Interaction between pEPR, DRS and ETS

5.1 These three reforms are closely interconnected and should not be considered in isolation. In summary:

pEPR → provides funding for managing packaging waste and improving recycling.

DRS → removes drinks containers from the waste stream.

ETS → increases the cost of treating remaining residual waste.

5.2 Together, these reforms fundamentally change how waste services are funded and managed. pEPR creates a new income stream linked to packaging waste, DRS removes valuable recyclable material from the municipal waste stream and ETS increases the cost of disposing of residual waste. Collectively they reinforce the financial and environmental importance of reducing residual waste and increasing recycling performance across Kent.

5.3 Whilst pEPR and DRS implementation dates are now largely established, ETS now remains the least certain of the three reforms and therefore represents the largest area of future financial uncertainty.

## 6. What action is KCC taking already?

6.1 Aligned with the priorities set out in the Environment Plan the Resource Management and Circular Economy team are already working collaboratively with district and borough councils though the Kent Resource Partnership and with the waste system as a whole to increase recycling, increase food waste capture and reduce overall residual waste tonnages.

6.2 Full details of the actions taken during 25/26 can be found in the Environment Plan Annual Report 2025/26 but a summary of these key actions include:

- Managing over 675,000 tonnes of household waste annually through a network of waste transfer stations, treatment facilities and Household Waste Recycling Centres
- Driving improvements in recycling and landfill diversion, with Kent's recycling, reuse and composting rate increasing to 43% and 99.6% of municipal waste diverted from landfill during 2025/26.
- Expanding reuse and circular economy initiatives, including 2 new reuse shops at HWRCs, dedicated reuse collection points at 15 sites and support for repair and reuse projects.
- Leading countywide behaviour change campaigns to increase food waste recycling, improve recycling quality and reduce contamination, resulting in an additional 5,292 tonnes of food waste being recycled during 2025/26.
- Strengthening partnership working through the Kent Resource Partnership, including the publication of the Kent Joint Municipal Waste Management Strategy 2026-2031, countywide waste composition analysis and coordinated waste enforcement activity.
- Monitoring UK ETS policy development and maintaining financial modelling of potential future carbon pricing scenarios for Energy from Waste facilities**.**
- Financial modelling, contract reviews, service planning and collaborative work with collection authorities in response to and in preparation for the waste reforms outlined.

6.3 Over the next year, KCC will continue to focus on increasing recycling performance, improving resource efficiency, expanding reuse opportunities, reducing waste crime and ensuring that Kent's waste services remain effective, compliant and financially sustainable as national waste reforms are implemented.

## 7. Conclusions

7.1 Additional waste reform continues to present both opportunities and risks for KCC. While pEPR provides a welcome mechanism for transferring a proportion of waste management costs from council taxpayers to packaging producers DRS creates uncertainty around future waste flows and income streams, whilst the future inclusion of Energy from Waste within the UK ETS remains a significant longer term financial risk.

7.2 The interaction between these reforms reinforces the importance of reducing residual waste, increasing recycling performance and strengthening partnership working across Kent through the Kent Resource Partnership and future LGR arrangements. Successful delivery of these objectives will help maximise the financial benefits arising from reform while mitigating future cost pressures associated with carbon pricing and changes to material markets.

7.3 KCC will continue to monitor policy developments refine its financial modelling and work with collection authorities, government and industry partners to ensure that Kent is well positioned to respond to the evolving national waste policy landscape. Members will continue to receive updates as further guidance, funding allocations and implementation arrangements are confirmed with particular reference to the now delayed ETS implementation timeline.

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## 8. Recommendation(s):

The Growth, Environment and Transport Cabinet Committee is asked to note and comment on the report.

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## 9. Contact details


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| Report Author: Helen Shulver<br><br>Job title: Assistant Director Resource Management and Circular Economy<br><br>Telephone number: 03000 417711<br><br>Email: helen.shulver@kent.gov.uk | Director: Matt Smyth<br><br>Job title: Director Environment and Circular Economy<br><br>Telephone number: 03000 416676<br><br>Email: matthew.smyth@kent.gov.uk |