

1. INTRODUCTION

- 1.1 In the 2011 Budget, the Government announced that future decisions on the value of the LCF will take into account the success of Environmental Bodies (EBs) in reducing the level of unspent funds that they hold. The Government has therefore issued a challenge to all EBs to reduce the level of unspent funds by 15% by 31 March 2012.
- 1.2 The level of unspent funds held by EBs reported on the 2009/2010, annual returns was equal to approximately £152 million and is broken down as follows:

Category	Amount
Funds committed to projects registered with ENTRUST:	£96,752,583
Funds committed to projects not yet registered with ENTRUST:	£17,139,441
Funds retained for the winding up of the EB:	£6,866,394
Uncommitted funds:	£31,923,117
TOTAL UNSPENT FUNDS:	£152,681,535

- 1.3 ENTRUST facilitated a meeting with HMRC and EBs on 17 May 2011, all EBs were invited to attend the meeting and seven EBs did so. Most of the attendees were EBs commonly known as Distributive Environmental Bodies (DEBs) who distribute funds on behalf of one or more Landfill Operator (LO). The following paragraphs set out the opinions of the attendees at the meeting.

2. SUMMARY OF MEETING HELD ON 17 MAY 2011

Attendees: Leonne Jackson (HMRC) via teleconference
Claire Williams (HMRC) via teleconference
Ivor Berry (HMRC)
Christopher Welford (ENTRUST)
Mary Hawkins (ENTRUST)
Andrew Wood (ENTRUST)
Mike Holland (ENTRUST)
Hannah Williams (ENTRUST)
Marek Gordon (SITA Trust)
Lisa Nelson (Viridor Credits Environmental Company)
Gillian French (Royal Society for Wildlife Trusts)
Andy Rowett (LWS Lancashire Environmental Fund LTD)
Robert Parkinson (Lancashire Environmental Fund)
John Taylor (County Durham Environmental Trust Ltd)
John Dutton (Staffordshire Environmental Fund)
Rebecca Lamont Jiggins (Community First)

- 2.1 HMRC introduced the Challenge to EBs outlining that the Government is committed to the Landfill Communities Fund (LCF); and that this commitment was demonstrated through the announcement in the 2011 Budget that there would be an increase in line with inflation in the value of the LCF for 2011/2012 despite a backdrop of challenging public finances. HMRC explained that the Challenge came under the Budget theme of fairness - LOs are getting a tax credit so it is only fair that the community are receiving the benefit of this funding as quickly and efficiently as possible.

- 2.2 HMRC went on to add that they understand that the majority of unspent funds are committed, but the overall challenge is framed around total unspent funds – not just uncommitted funds. The Government recognises that there will always be a level of unspent funds but is keen to maximise the benefits of the LCF. The Government is not being overly prescriptive and expecting EBs to adopt a ‘one size fits all’ approach. The Challenge is not an attack on EBs and by responding positively, EBs can hope to send a positive message about the LCF. The Government wants to ensure value for money (VFM) is maintained and do not want the money to go on low VFM projects. The Government will take into account how EBs have responded to the Challenge when making future decisions about the LCF. HMRC has put in place reporting procedures with ENTRUST to evaluate the response.
- 2.3 The EBs in attendance thought that the £152 million was not the correct figure that should be set as the baseline figure for the Challenge. They explained that their committed funds are ‘spent’ as they were contractually obliged to fund projects through the ‘offer letters’ they had made to project applicants, and 64% of the £152 million was already committed to projects that had been registered. A further 7% of the unspent funds are accounted for by projects where there was a contractual commitment but the project was awaiting other fundraisers before it was confirmed as a viable project and registered with ENTRUST.
- 2.4 The attendees discussed ways in which they could make payments to projects quicker, but outlined that making up front payments to projects would pose a risk to the scheme. It was also noted that the LCF is usually the first funding for projects, which then draws in funding from other sources. This is an important advantage of the LCF, but the Challenge may mean that the LCF must be the last funder rather than the first. This would mean valuable projects would not go ahead so this approach would have a detrimental effect on local communities. The attendees also outlined that another benefit of the LCF was the speed in which funds could be allocated and the measures that are taken to secure funds.
- 2.5 The larger EBs also explained that they take great steps to ensure that projects are viable and VFM is achieved, they were concerned the Challenge would compromise this. Time had to be taken to sort out planning issues and to ensure that assets purchased were adequately secured. They said that they did not commit LCF money before it was received as there was never any long term certainty with the scheme as it was only agreed on a year to year basis. However, they pointed out that the level of uncommitted funds would only keep them in business for a few months, so it was not a large balance. The smaller EBs confirmed that they would not start a project until they had a cheque in their hand. Another problem these EBs faced was the timescales of other funders such as the National Lottery, and where large projects had multiple funders the projects moved at the pace of the slowest.
- 2.6 Following the introduction the HMRC representatives via teleconference dialled out of the meeting.
- 2.7 Some attendees felt that HMRC and HM Treasury did not seem to understand the operational realities of being an EB. There was no recognition in the Challenge that endowment funds are allowed. HMRC suggested that ENTRUST should review its current guidance to ensure that it is consistent with the Challenge. EBs also highlighted that following the current ENTRUST guidance can be time consuming. However ENTRUST outlined that guidance is in place to assist EBs in complying with the Regulations. There was a discussion on actions EBs could take to address the Challenge and it was suggested that EBs could shorten the time they give projects to start before a funding offer was nullified. Many of these timeframes are about six

months and it could be brought down to four, although it would mean more projects would not go ahead and be abortive. Another EB outlined that some of its funding decisions are delegated to a panel rather than the Board and that this may be another way forward.

- 2.8 There was also a discussion between all present on the information that HMRC would have and when. It was acknowledged that subject to confirmation of when the Budget 2012, will be held, it is unlikely that the challenge outcome for 2011/2012, will be known at that time. However EBs pointed out that they only have nine months in which to make changes this year which could be expected to impact on the following year, and in any event they expect there will have been more LCF money received in 2010/2011, than previous years so the starting point should be the 31 March 2011, figures.
- 2.9 The attendees asked HMRC to what extent they would be prepared to advise the Ministers that the figures and hence the premise of the Challenge was wrong, given their strong feelings and the evidence they had provided about the practical working of the LCF.
- 2.10 Most of the attendees all thought that rather than dismissing the Challenge, they would focus on their level of uncommitted funds (approximately £32 million, which represent only a few months of funding), and on this basis they were prepared to accept the Challenge and address it's aims accordingly. They suggested that any further meetings should be attended by a representative from HM Treasury.

3. ACTION

- 3.1 Three actions were identified to take the Challenge forward:
- HMRC to provide an update to the Treasury outlining the attendees concerns, particularly surrounding the figure which the Challenge is based on;
 - EBs to review their practices to see what they can do to address the Challenge, and identify any risks that this action would pose; and
 - ENTRUST to visit the EBs which are holding the largest amount of funds, or have been holding money for a long time.
- 3.2 A further meeting will be held during late June/early July 2011, to discuss the progress of the delivering the Challenge.