

Ensuring Diversity: Delivering Value

The regulator's response to the HM Treasury and DEFRA consultation
paper: 'Possible Changes to the Landfill Tax Credit Scheme.'

ENTRUST

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1) Executive Summary

As regulator, ENTRUST have a unique perspective on the Landfill Tax Credit Scheme (LTCS) and are best positioned to provide a global picture on its current operation. That picture shows an innovative, but often unacknowledged, scheme successfully delivering across all its objects by stimulating a wide network of public, private and voluntary sector partnerships.

We have maintained a constructive dialogue with all LTCS participants and beneficiaries throughout our six years of operation. As a result of this, and our own experience, we have concluded that the LTCS should be retained, but with the following key modifications to enhance diversity and deliver better value:

- Key value-for-money indicators to be checked and additional provision made to retain value within the LTCS.
- An object for the subsidy of recycling.
- Local authorities' participation enhanced by exempting them from contributor benefit rules.
- The introduction of a 'cap' on waste industry contributions to the LTCS.
- Environmental Bodies be required to acknowledge LTCS funding.

Further recommendations, many of which touch on operational issues, can be found in Appendix I.

2) Scope of the Regulator's Response

ENTRUST's comments are addressed equally to England, Scotland, Wales and Northern Ireland.

The consultation paper raises a wide range of issues, but we have confined our commentary to areas that fall within ENTRUST's regulatory experience. ENTRUST would be happy to advise on the detailed implementation of any policy changes resulting from the consultation process.

3) Tax Credit Schemes

a) Retention of the Landfill Tax Credit Scheme (LTCS)

[Consultation paper 30-35; ‘Do you think the LTCS ought to continue in its current form? If so, should the distribution of funding continue to be underpinned by indicative guidelines?’]

LTCS is demonstrably flexible and responsive to Government guidance and could deliver against any future targets without alteration.

The landfill tax was introduced in October 1996 so that the financial cost of landfill might better reflect the true cost to society¹. The landfill tax credit scheme (LTCS) was introduced alongside it to compensate for the disamenity of landfill², to encourage more sustainable waste management practices³, to prevent and reduce land pollution and to reclaim land⁴. All of these environmental objects continue to carry equal status within the landfill tax regulations.

Contributions to the LTCS have grown rapidly, from £60 million in 1997 to £120 million in 2001, taking the total contributed to date over £530 million. This has been shared by more than 1,500 Environmental Bodies (EBs) who have delivered over 6,000 projects and continue to work on another 4,500 today. Landfill operators donate 95% of the industry’s potential contribution each year. 250 projects are registered with ENTRUST every month.

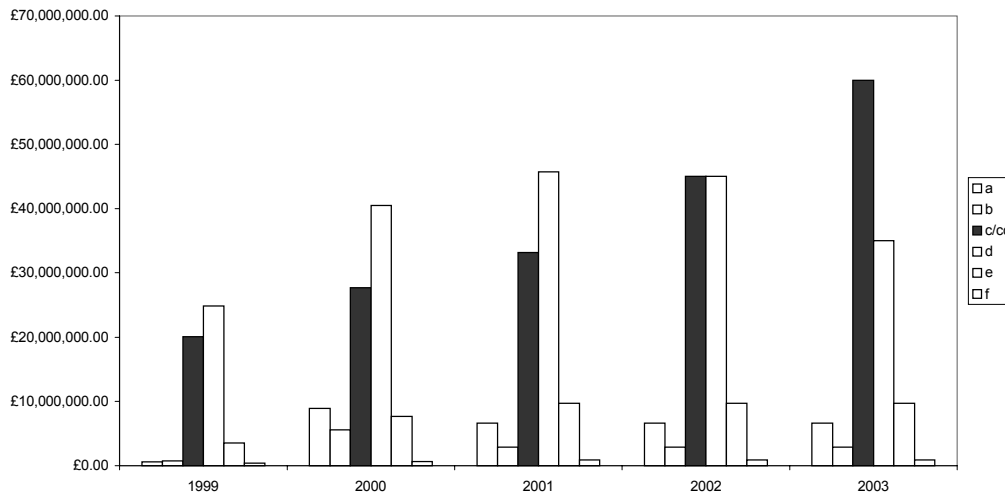
¹ HM Customs & Excise Information Note 8/96

² 5,000 local amenity projects (broadly objects d and e) have been completed, with a further 3,000 ongoing. £182 million has been spent in this area to date.

³ 1,000 sustainable waste management projects (broadly objects c and cc) have been completed, with a further 1,100 ongoing. £102 million has been spent in this area to date.

⁴ 85 projects to prevent or reduce land pollution or to reclaim land (broadly objects a and b) have been completed, with a further 120 ongoing. £20 million has been spent in this area to date.

Project spend by object per year
(1999-2001 actual EB spend, 2002-2003 ENTRUST forecast)



The benefits of the LTCS include:

- 1) The creation of innovative partnerships across private, public and voluntary sectors⁵.
- 2) The empowerment of communities through local decision making⁶.
- 3) Strong support of the landfill industry⁷
- 4) Integration of waste management companies into the communities they serve⁸.
- 5) A source of private sector funding, that has successfully levered monies from many other sources⁹.

⁵ Cornwall's County Environment Trust has worked with the National Trust, the European Regional Development Fund, the South West Regional Development Agency, Penwith District Council, St. Just Town Council, the Trevithic Trust, Cornwall Archaeological Unit, the Wildlife Trust, English Nature, English Heritage and local businesses to regenerate a former mining area of outstanding beauty and historical importance.

⁶ The Belhelvie and Foveran Community Trust set up to use LTCS money to benefit the local community has a number of projects such as improving a country park, restoring church buildings, and improving community halls all of which have benefited the residents and visitors to the communities served by the trust.

⁷ In 2001, the waste industry made approximately 95% of the maximum contribution.

⁸ To date, the Thompsons of Prudhoe Environmental Trust has promoted over 80 projects of benefit to communities in areas served by Thompsons landfill sites. For example, the creation of new facilities at Bishop Middleham Sports Field, a project managed and implemented on behalf of the community by Groundwork East Durham and opened by the Prime Minister in June 2000.

⁹ The Penwith Heritage Mining Museum Coast Project demonstrates the ability of LTCS money to match and attract other sources of funding, with money coming from County Environment Trust and four other sources. See also Glasgow Caledonian University study on the LTCS's leverage ability.

- 6) Jobs and training places¹⁰.
- 7) Meeting other Government objectives for the environment including land reclamation, biodiversity, and energy efficiency¹¹.

Under the landfill tax regulations, the allocation of LTCS money to Environmental Bodies remains in the hands of landfill operators. In reality, funding decisions are taken in partnership with a diverse range of stakeholders including Environmental Bodies, local authorities and local community groups as well as landfill operators.

In 2001 the Government announced indicative targets¹² of 65% for sustainable waste management (broadly objects c and cc) of which one third should be spent on recycling. This marked a significant change to the operation of the scheme, with committed future expenditure showing a clear response to these guidelines. Following announcement of the indicative targets, the proportion of funding committed to objects c and cc currently stands at around 70% (up from one third), 46% of which is committed to recycling.

¹⁰ Groundwork South Tyneside Urban Fringe ILM maintenance team is using LTCS money to fund elements of work undertaken by 10 trainees gaining employment on a programme of works devised by Groundwork South Tyneside, Tyneside MBC and the Countryside Agency. See also Glasgow Caledonian University study on the LTCS's employment trends.

¹¹ In partnership with Scottish Enterprise Lanarkshire, Forward Scotland developed a programme of remedial works to contaminated land, funded by the LTCS, European Structural Funds and private sources.

¹² House of Commons Hansard, written answers for Thursday 10 May 2001.

b) Retention of the LTCS but with modifications to its operation

[Consultation paper 36-38; ‘If part or all of the LTCS were retained, are there changes that should be made to its operation and, if so, why and what should they be?’]

It is possible to strengthen and promote good practice through a series of minor changes to the landfill tax regulations. These will maximise the benefits and impacts of the LTCS.

ENTRUST has maintained a constructive dialogue with all LTCS stakeholders throughout its six years of operation. As a result of this, and our own experience, we have concluded that the main topics of interest to LTCS participants and beneficiaries are:

- i) Value-for-money and quality assurance
- ii) Easing access for recyclers
- iii) Better access for local authorities
- iv) Government influence
- v) Ownership of the LTCS
- vi) Distribution mechanisms for LTCS money
- vii) The 10% contribution
- viii) Community projects and landfill disamenity
- ix) Continuing effective regulation

i) Value-for-money and quality assurance

The cross-sector partnerships, upon which the LTCS is built, ensure the scheme reflects the needs of the wider community, act as a natural check on wasteful practices and limit the influence of individual stakeholders. These checks and balances work towards ensuring best value and that high quality projects are more likely to secure funding.

The waste industry has chosen to support a diverse range of Environmental Bodies. This diversity has enhanced the range of skills and expertise within the LTCS¹³ that are employed to ensure value-for-money and quality project selection.

While the LTCS take up stands at 95% of the potential waste industry contribution, there is substantial unfulfilled demand that illustrates the healthy competition that exists between Environmental Bodies¹⁴.

The landfill tax regulations ensure that LTCS money is spent on approved objects, but make no provision for measuring the value or quality of LTCS projects. ENTRUST's present role is to test that such projects comply with the objectives of the scheme. There is no remit to test for value-for-money or to make quality assessments.

Environmental Bodies are conscious of value-for-money and take pride in the quality of their work. Many projects require the participation of Contributing Third Parties, as well as landfill operators and others; all with an interest in seeing their investment put to best use.

¹³ For example, Groundwork and British Trust for Conservation Volunteers (BTCV) in the field of community involvement, Royal Society for Nature Conservation (RSNC) in the field of Biodiversity, Environmental Services Association Research Trust (ESART) in the field of research.

¹⁴ Of the 17,908 projects registered with ENTRUST 10,857 have been completed or are active.

Value-for-money would be strengthened if Environmental Bodies were required to demonstrate best practice in value-for-money management at project level as a regulatory requirement. Wider statistics could be collected annually to inform policy makers. Government may wish to consider the following measures to inform the LTCS's delivery of value-for-money:

1. *Introduction of project level value-for-money indicators as part of the audit process. Such indicators could include; open tendering for major purchases; administrative costs; investment of money not immediately required.*
2. *Wider LTCS value-for-money indicators to be checked as part of the audit process annually. Such indicators to include; job creation; use of LTCS to lever other funding; area of land or building floor space; use of recovered and recycled materials; increased use of facilities.*

Much of the LTCS's support for sustainable waste management is in the field of research and there is a fear that some of this work is needlessly duplicated. Replication of research is an important component of any robust scientific process; such replication within the LTCS is not proof of waste. Government may wish to consider the following measure to identify duplication in research:

3. *Environmental Bodies conducting research through the LTCS be required to lodge project findings, to be held in a single public database as an aid to identifying duplication.*

The landfill tax regulations require that income derived from the LTCS be spent on approved objects¹⁵. Government may wish to consider the following measures to retain value in the LTCS:

- 4. Assets purchased, or partly purchased, with LTCS money and subsequently disposed of should be disposed of at full market value (including goodwill where relevant). Proceeds from such disposals to be spent on LTCS objects, in proportion to the LTCS investment.*
- 5. Projects funded or partly funded with LTCS money be required to continue to satisfy the requirements of the landfill tax regulations. Failing this money spent should be returned to the scheme.*
- 6. Income generated by any product or process developed with LTCS money, to at least the level of LTCS input, be retained for funding further LTCS objects.*

¹⁵ Landfill tax regulation 30(2)(a)(b)(c)

ii) Easing access for recyclers

Support for ongoing recycling schemes is not available through the LTCS. However, until markets for waste products develop and stabilise many initiatives will require continued investment.

While we realise that close attention needs to be paid to issues of competition between commercial recyclers, Government may wish to consider the following measure to enhance LTCS support for recycling:

7. Introduction of an object for the subsidy of recycling.

iii) Better access for local authorities

Local authorities play a significant role and participate in the management of Environmental Bodies. Enhancing their participation by allowing them to benefit from their contributions (as landfill operating contributors or Contributing Third Parties) may in turn enhance key added values, such as community participation and public, private, voluntary partnership.

Local authorities already access and participate in the LTCS in a number of ways¹⁶ and they are well placed to deliver substantial progress with regard to recycling and other Government priorities. The landfill tax regulations limit local authority participation by preventing them from benefiting from LTCS spending where they participate as contributors or CTPs¹⁷, and by preventing them from controlling Environmental Bodies¹⁸, although many Environmental Bodies include local authority representation¹⁹.

The cross-sector partnerships, upon which the LTCS is built, ensure the scheme reflects the needs of the wider community and act as an effective check on individual stakeholder influence. Government may wish to consider the following measure to enhance local authority participation in LTCS:

8. Local authorities be exempted from contributor benefit rules.

¹⁶ See appendix II, 'Local authority linked recycling projects'.

¹⁷ Landfill tax regulation 33(1)(e)

¹⁸ Landfill tax regulation 33(1)(f)(1a)(a)

¹⁹ See Fife Environmental Trust, Stirling Landfill Tax Trust, Falkirk Environmental Trust

iv) Government influence

Indicative targets have proved an effective tool for directing LTCS resources. Government influence would be enhanced if the LTCS's growth were capped at a level to be decided by Government.

An important characteristic of LTCS money is its private sector nature. This not only ensures the funding it awards is eligible for match funding and an important lever for other sources, it also encourages the community led private, public and voluntary sector partnerships that are one of the scheme's key strengths.

Nevertheless, Government's ability to influence the spending of this forgone tax is an important issue.

ENTRUST has forecast continued growth for the LTCS within the current landfill tax escalator, growth that will be accelerated by any further increases in the landfill tax²⁰. Under these circumstances, Government may wish to consider:

9. *The introduction of a 'cap' on waste industry contributions to the LTCS, to be set by Government.*

²⁰ See appendix II.

Indicative guidelines have already had a substantial impact on the LTCS, which has seen resources directed away from community projects and towards sustainable waste management²¹. Government may wish to consider:

10. The setting of indicative LTCS targets by Government by object be continued.

²¹ Prior to the indicative targets, around a third of LTCS spending was on objects c and cc. Of LTCS funding commitments announced to date, 70% is for objects c and cc, 46% of which is committed to recycling.

v) Ownership of the LTCS

A product of the diverse partnerships upon which the LTCS is built, and from which it gains so much strength, is that there is no clear owner of the scheme. ENTRUST introduced an umbrella LTCS identity in January 2001 which is used by a great many Environmental Bodies, but many choose not to credit the scheme.

It is desirable that the role of the LTCS is recognised. This is common practice for many high profile funding mechanisms²². Government may wish to consider the following measure to ensure that the tax credit is recognised:

11. Environmental Body acknowledgement of the LTCS and its logo to become a regulatory requirement, with ENTRUST issuing guidance on logo use based on best practice of other funding agencies.

²² e.g. European Union , Millennium Commission.

vi) Distribution mechanisms for LTCS money

The LTCS delivers tailored flexible solutions as circumstances dictate, be that through local, regional or national, or object specific Distributive Environmental Bodies and Environmental Bodies. This flexibility requires close and flexible regulation to ensure compliance.

The success of the LTCS is a product of its flexibility and diversity and a major development in the evolution of the LTCS is the emergence of Distributive Environmental Bodies (D-EBs). These bodies enable others to access LTCS money through a variety of mechanisms and have become significant grant making bodies within the scheme.

It was originally envisaged that landfill operators would make grants directly to environmental bodies who would work directly on projects within the objects of the LTCS. The LTCS has always been oversubscribed (an indicator of success) and it soon became apparent that many landfill operators preferred to contribute their landfill tax money to single Environmental Bodies who act as re-distributive trusts and take on the administrative burden and specialist task of grant allocation.

Some Distributive Environmental Bodies work across the UK, others restrict themselves to county or waste authority boundaries. Alongside these geographic Distributive Environmental Bodies, are those that specialise in projects within a restricted number of LTCS objectives. There are also Distributive Environmental Bodies that restrict themselves by geography and LTCS object.

ENTRUST has ensured that the regulatory environment has adapted to this development. We have recognised that the LTCS's necessary diversity has created a wide variety of routes to

funding and recognise that there may be value in harmonising Distributive Environmental Bodies' application procedures in future.

vii) The 10% contribution

The 10% contribution has helped enhance the landfill operators' partnership role, by giving them a real stake in the LTCS²³. Without it CTPs, who are valuable partners, would be removed from the scheme.

Landfill operators receive a tax credit of 90% on their contribution, the remainder must be found from their own resources or refunded by a Contributing Third Party (CTP) with no interest in the scheme. A 100% tax credit may lead to re-classification of monies available through the LTCS as public sector and this would remove much of LTCS's ability to lever funding from additional sources²⁴.

The 10% contribution also encourages community led private, public and voluntary sector partnerships by introducing Contributing Third Parties. Contributing Third Parties also act an additional check and balance within the LTCS, enhancing value-for-money and project quality²⁵.

²³ Based on available information, approximately half of contributions by value involve the reimbursement of the 10% to landfill operators by a third party.

²⁴ See Glasgow Caledonian University study (LTCS average leverage 74%).

²⁵ National gas pipeline company, Transco, worked with ENTRUST to identify recipients of £100,000 distributed through the Lattice Awards for Social and Environmental Regeneration (LASER) in support object c projects. Transco were particular attracted to the LTCS as their contribution levered a further £900,000 in LTCS money.

viii) Community projects and landfill disamenity

LTCS money has proved extremely valuable to community groups, empowering and enabling them to develop partnerships that deliver projects that benefit their communities by improving the physical, social and economic environments.

At the LTCS's inception there was considerable emphasis on projects aimed at improving public amenities and the restoration of historic or religious buildings, within local communities disadvantaged by their proximity to landfill. Some 5,000 projects of this type (broadly objects d and e) have been completed, with a further 3,000 ongoing and £182 million has been spent in this area to date.

ix) Continuing effective regulation

The current regulatory regime has effectively ensured LTCS money is spent in compliance with the landfill tax regulations.

For Environmental Bodies the penalty for non-compliance with the landfill tax regulation is revocation of enrolment. In addition, HM Customs & Excise are able to require repayment of LTCS money spent on non-compliant activities (claw back) from contributing landfill operators. So far ten Environmental Bodies have been revoked and of those only two linked Environmental Bodies have been associated with serious fraud. The remainder were revoked for reporting failures. No landfill operator has faced claw back.

While revocation is effective in preventing further non-compliant activity, it is not a sanction ENTRUST uses lightly. Revocation not only excludes the Environmental Body from further funding, it precludes those who have been concerned in the control or management of that Environmental Body from controlling or managing another²⁶. Much of ENTRUST's effort is put into proactive regulation, working closely with Environmental Bodies to ensure that their activity complies with the landfill tax regulations. The low number of revocations demonstrates the value of this work.

ENTRUST's key task is ensuring that LTCS money is spent in compliance with the landfill tax regulations and we request that Environmental Bodies register projects with us prior to funding, as a demonstration of compliant intent. Government may wish to consider the following measure to enhance the regulatory regime:

12. Mandatory pre-registration of projects with ENTRUST, as a demonstration of compliant intent and to allow potential non-compliance to be identified before money is spent.

4) Public Spending

a) Allocating funding through existing spending programmes

[Consultation paper 59-61; ‘If there is to be one or more public expenditure schemes to replace some or all of the LTCS: Which parts of the LTCS should be replaced? Is it preferable to use existing public expenditure programmes to meet your priorities for spending, or new dedicated programme(s), or a mixture? Which mechanism is most appropriate to which of your funding objectives or priorities?’]

The LTCS is community driven and works effectively with a wide range of other initiatives. Any proposal for change should be judged by the value it would add through innovation and community involvement. Care should be taken to consider whether such funding should be additional or displace other sources and programmes.

It is important to recognise that the LTCS does not exist in isolation and that it can and does function in association and partnership with other initiatives and programmes. The LTCS already interacts well with existing public spending programmes:

- 1) The Waste and Resources Action Programme (WRAP) has established an environmental body to which substantial LTCS money has been committed.
- 2) There are no barriers within the operation of the LTCS to prevent it funding projects jointly with the £140m Waste Minimisation and Recycling Fund for England.

²⁶ Regulation 33(1)(g)(1B)(a)

- 3) LTCS has the potential to jointly fund initiatives with the Environmental Action Fund (EAF).
- 4) Under present guidelines, it is unlikely that the LTCS will be involved in jointly funding Private Finance Initiatives (PFI) as the scheme is generally unable to support for-profit organisations.
- 5) There are no barriers within the operation of the LTCS to prevent it funding projects jointly with the New Opportunities Fund (NOF).

5) Transitional Arrangements

[Consultation paper 68-75; ‘How long should any period of transition be? Is there a justification for different lengths of transition for different types of project or contractual relationship? What form of transition would best suit the scheme?’]

Given the normal project life span, should LTCS be replaced, two thirds of projects would be completed within two years of termination a period for which ENTRUST have made provision.

Regardless of changes to be made, it is vital that an effective regulatory regime is continued for the active projects. ENTRUST holds the following project life span data for active projects:

| Life span (years) | Projects (% volume) | Projects (Nos) | Projects (value) |
|-------------------|---------------------|----------------|------------------|
| 0-1 | 33% | 1,420 | £50m |
| 1-2 | 33% | 1,430 | £75m |
| 2-3 | 26% | 1,100 | £75m |
| 3+ | 8% | 350 | £25m |

Based on this data, ENTRUST have made provision for ongoing regulation of the LTCS by setting aside a proportion of income to cover costs incurred for a two year period during any termination phase.

13. Should LTCS be discontinued, a regulatory regime must remain in place until all projects have been completed.

If the LTCS were reduced significantly, ENTRUST's administration fee would need to be increased from its current level of 2% of contributions to maintain current regulatory vigilance.

The ENTRUST provision for ongoing regulation would assist in the event that the LTCS was partially replaced. A smaller scale LTCS would enjoy fewer economies of scale and the regulatory cost burden would increase should the scheme contract significantly.

Appendix I: Conclusions & Recommendations in Full

ENTRUST have maintained a constructive dialogue with all LTCS participants and beneficiaries throughout our six years of operation. As a result of this, and our own experience, we have concluded that the LTCS should be retained, but with the following key modifications to enhance diversity and deliver better value:

- Key value-for-money indicators to be checked and additional provision made to retain value within the LTCS.
- An object for the subsidy of recycling.
- Local authorities' participation enhanced by exempting them from contributor benefit rules.
- The introduction of a 'cap' on waste industry contributions to the LTCS.
- Environmental Bodies be required to acknowledge LTCS funding.

ENTRUST has found that:

1. LTCS is demonstrably flexible and responsive to Government guidance and could deliver against any future targets without alteration.
2. It is possible to strengthen and promote good practice through a series of minor changes to the landfill tax regulations. These will maximise the benefits and impacts of the LTCS.
3. The cross-sector partnerships, upon which the LTCS is built, ensure the scheme reflects the needs of the wider community, act as a natural check on wasteful practices and limit the influence of individual stakeholders. These checks and balances work towards ensuring best value and that high quality projects are more likely to secure funding.
4. The waste industry has chosen to support a diverse range of Environmental Bodies. This diversity has enhanced the range of skills and expertise within the LTCS that are employed to ensure value-for-money and quality project selection.

5. While the LTCS take up stands at 95% of the potential waste industry contribution, there is substantial unfulfilled demand that illustrates the healthy competition that exists between Environmental Bodies.
6. Support for ongoing recycling schemes is not available through the LTCS. However, until markets for waste products develop and stabilise many initiatives will require continued investment.
7. Local authorities play a significant role and participate in the management of Environmental Bodies. Enhancing their participation by allowing them to benefit from their contributions (as landfill operating contributors or Contributing Third Parties) may in turn enhance key added values, such as community participation and public, private, voluntary partnership.
8. Indicative targets have proved an effective tool for directing LTCS resources. Government influence would be enhanced if the LTCS's growth were capped at a level to be decided by Government.
9. A product of the diverse partnerships upon which the LTCS is built, and from which it gains so much strength, is that there is no clear owner of the scheme. ENTRUST introduced an umbrella LTCS identity in January 2001 which is used by a great many Environmental Bodies, but many choose not to credit the scheme.
10. The LTCS delivers tailored flexible solutions as circumstances dictate, be that through local, regional or national, or object specific Distributive Environmental Bodies and Environmental Bodies. This flexibility requires close and flexible regulation to ensure compliance.
11. The 10% contribution has helped enhance the landfill operators' partnership role, by giving them a real stake in the LTCS. Without it CTPs, who are valuable partners, would be removed from the scheme.
12. LTCS money has proved extremely valuable to community groups, empowering and enabling them to develop partnerships that deliver projects that benefit their communities by improving the physical, social and economic environments.
13. The current regulatory regime has effectively ensured LTCS money is spent in compliance with the landfill tax regulations.
14. The LTCS is community driven and works effectively with a wide range of other initiatives. Any proposal for change should be judged by the value it would add through innovation and community involvement. Care should be taken to consider whether such funding should be additional or displace other sources and programmes.
15. Given the normal project life span, should LTCS be replaced, two thirds of projects would be completed within two years of termination a period for which ENTRUST have made provision.

16. If the LTCS were reduced significantly, ENTRUST's administration fee would need to be increased from its current level of 2% of contributions to maintain current regulatory vigilance.

Continued confidence in the LTCS, its flexibility, diversity of operation and ability to deliver value-for-money projects that help deliver environmental priorities would be enhanced if the following recommendations were adopted:

1. Introduction of project level value-for-money indicators as part of the audit process. Such indicators could include; open tendering for major purchases; administrative costs; investment of money not immediately required.
2. Wider LTCS value-for-money indicators to be checked as part of the audit process annually. Such indicators to include; job creation; use of LTCS to lever other funding; area of land or building floor space; use of recovered and recycled materials; increased use of facilities.
3. Environmental Bodies conducting research through the LTCS be required to lodge project findings, to be held in a single public database as an aid to identifying duplication.
4. Assets purchased, or partly purchased, with LTCS money and subsequently disposed of should be disposed of at full market value (including goodwill where relevant). Proceeds from such disposals to be spent on LTCS objects, in proportion to the LTCS investment.
5. Projects funded or partly funded with LTCS money be required to continue to satisfy the requirements of the landfill tax regulations. Failing this money spent should be returned to the scheme.
6. Income generated by any product or process developed with LTCS money, to at least the level of LTCS input, be retained for funding further LTCS objects.
7. Introduction of an object for the subsidy of recycling.
8. Local authorities be exempted from contributor benefit rules.
9. The introduction of a 'cap' on waste industry contributions to the LTCS, to be set by Government.
10. The setting of indicative LTCS targets by Government by object be continued.
11. Environmental Body acknowledgement of the LTCS and its logo to become a regulatory requirement, with ENTRUST issuing guidance on logo use based on best practice of other funding agencies.

12. Mandatory pre-registration of projects with ENTRUST, as a demonstration of compliant intent and to allow potential non-compliance to be identified before money is spent.

13. Should LTCS be discontinued, a regulatory regime must remain in place until all projects have been completed.

Appendix II: LTCS Revenue Forecast

| | Year | Landfill tax rate (£ per tonne) | Landfill tax revenue (£ million) | LTCS revenue (£ million) |
|---|------|------------------------------------|-------------------------------------|-----------------------------|
| T a x e s c a l a t o r | 2001 | 12 | 580.0 | 121.0 |
| | 2002 | 13 | 628.3 | 125.6 |
| | 2003 | 14 | 676.6 | 135.2 |
| | 2004 | 15 | 724.9 | 144.8 |
| F u t u r e o p t i o n s | | 20 | 966.5 | 193.3 |
| | | 25 | 1208.1 | 241.6 |
| | | 30 | 1449.7 | 290.0 |
| | | 35 | 1691.3 | 338.0 |
| | | 40 | 1932.9 | 386.5 |

NB. These figures assume that waste generation remains constant (although at present it is rising), that LTCS penetration remains at its current level and that Government does not choose to cap the scheme.

Appendix III: Local Authority Linked Recycling Projects

The following is a sample of pilot physical recycling projects subsidised through the LTCS:

- 1) Flintshire Community Trust - Flintshire Kerbside Recycling Scheme - pilot research programme to effect recycling over geographic area of Flintshire.
- 2) Environ Trust - Oadby and Wigston kerbside trial - pilot kerbside recycling scheme
- 3) Harborough Environment Action Team - Heat Green Waste Composting Scheme - pilot recycling project, recycling within Market Harborough-collection of organic household waste to be recycled into compost
- 4) Derbyshire Environment Trust - Kerbside recycling scheme, Glossop - pilot study of collection of paper and cans.
- 5) Yorventure - pilot York recycling facility to enable recycling of kerbside collection of municipal solid waste
- 6) South Gloucestershire Environmental Body - South Gloucestershire feasibility study to establish practicality of recycling computer and making available to people on low incomes.
- 7) More Recycling - Chesterfield Council Project - Assist Council multi material kerbside collection scheme.
- 8) EB Cambridgeshire - pilot recycling scheme to feed Peterborough MRF for each LA in Cambridgeshire

This is a sample of householder education projects supporting the reduction, reuse and recycling of waste:

- 1) Earth Centre -mobile glass recycling education centre to promote participation in kerbside collections and the use of public recycling bins

- 2) EB Nationwide - Funding for recycling officers for the LB of Harrow to collect and disseminate information about reuse, recycling and reduction to increase recycling in the Borough.
- 3) EB Cambridgeshire - Fenland Recycling Guide.

These research projects provide information to aid local authority recycling initiatives:

- 1) Waste Watch - Recycling Performance Programme - research recycling performance indicators for Local Authority Guidance.
- 2) Collect, analyse and publish data on performance of recycling services at Local Authority civic amenity sites.
- 3) Aston Environmental Partnership - recycling performance at bring and kerbside collection. Collect, analyse and publish data of performance of Local Authority recycling services.
- 4) Cleanaway Havering Riverside Trust -Kerbside recycling scheme “Toothpaste” - pilot kerbside recycling collection in conjunction with weekly refuse collection in Havering.

These research projects support the delivery of the National Waste Strategy at local authority level:

- 1) Wyvern Environment Trust - East Somerset Recycling Research Programme, comparative research to establish most appropriate method of financial, environmental and technical terms of kerbside recycling in Somerset
- 2) Score Environmental - Recycling today and tomorrow - study to existing recycling projects to devise a strategy for meeting the National Waste Strategy.

Appendix IV: Glasgow Caledonian University Study

ENTRUST's regulatory functions are supported by a comprehensive database system, known as ELIAS (Entrust Landfill tax credit scheme Information & Administration System)

The ELIAS system records the data submitted by Environmental Bodies about their location, constitution, controlling members, and Landfill Tax contributions received. It also records the data returned by EBs periodically about each project they have on hand, its objects, its progress, and its Landfill Tax Contribution expenditure.

The system is used extensively within ENTRUST to support all its regulatory and associated audit functions, and to provide information. It was used extensively by Glasgow Caledonian University researchers in the course of this study.

Review of Landfill Tax Credit Fund Projects

Survey Results
And Final Report

Prepared for:
Entrust

May 2002



1. Introduction

This report describes the procedures and results of a study undertaken by Glasgow Caledonian University on behalf of Entrust, the regulator of environmental bodies for the Landfill Tax Credit Scheme (LTCS). Entrust is responsible for enrolling, monitoring and auditing environmental bodies who receive money for environmental projects from landfill operators, and examining the projects to ensure that they meet the scheme's objectives.

The aim of this study was to gather information from environmental bodies regarding the exact nature, funding and location of the projects as well as details of employment opportunities created through the scheme.

A major element of this study was to assess the impact of the scheme on each parliamentary constituency, local authority and regional development area (RDA) with respect to LTCS funding, levered funding from other sources and job creation. Numerous and specific reports analysing the data in some detail have already been provided to Entrust.

2. Approach

2.1. Personnel

The project was managed and undertaken by Glasgow Caledonian University. Four staff distributed the questionnaires to environmental bodies in each of the four areas (north, central, west and south), to collect the completed questionnaires and to act as a point of contact for any queries that may arise. Prior to distributing the questionnaires, the contact details for each environmental body were verified. Two administrative staff provided support. A database specialist developed the electronic questionnaire, design a database to store the information in the returned questionnaires, import the data and run queries on the data for reports and enquiries.

2.2. Questionnaires

The questionnaire sent to each environmental body contained details of each of their registered projects such as project name, description, start and completion date, object (see Appendix A) and funding received. These data were stored on the Elias¹ database provided by Entrust and the environmental bodies were asked to confirm and/or amend as appropriate.

The questionnaires provided asked for information relating to the following:

- **Location** - In addition to this basic information, the environmental bodies were asked to specify a location for each of their projects; this could be in the form of a postcode, a grid reference or a local authority area. The purpose of collecting these data was to gain more information about the impact of the Landfill Tax Credit Scheme in each parliamentary constituency, local authority and regional development area.
- **Funding** - In many cases, the funding received from the Landfill Tax Credit Scheme enabled the environmental body to lever funding from other sources. This questionnaire provided an opportunity to assess the extent of this leverage. Environmental bodies were asked how much funding they had

¹ ELIAS is the information database which ENTRUST uses to manage all registered projects.

received to date for each project from the LTCS, how much they had received from other sources and how much they expected to receive for each project in the future.

- **Keywords** - Environmental bodies were asked to select keywords and phrases to describe each project. This list is shown in Appendix B. The questionnaire was designed so that the portion of the keyword list available depended on the object category of the project. The purpose of this exercise was to obtain more information about the nature of the projects being funded through the LTCS.
- **Job creation and other info** – This included details of long-term and temporary job opportunities created by the project, the availability of project documentation and for object C projects, whether the projects were involved in community, local authority or industrial waste management.

There were three formats for the questionnaire available.

1. An electronic form
2. A spreadsheet
3. A paper questionnaire.

The electronic form was developed in MS Excel/VBA. Each form contained details of a single environmental body and its registered projects. These data were extracted from the Elias database and the contact details confirmed by one of the project officers. The form interface allowed the environmental body to select a project from a drop-down list and then proceed through a series of screens filling in the data appropriate to that project. The data was then saved in the underlying Excel spreadsheet. Screen shots for the form are shown in Appendix C.

The spreadsheet format was developed in MS Excel and again contained information extracted from Elias about environmental bodies and their projects. There was no interface developed for this format and data was typed directly into the spreadsheet. Environmental bodies that managed very large numbers of projects preferred this format.

A paper questionnaire was also available for environmental bodies without access to MS Excel, or where the EB had no email.

2.3. Database Development

A database was required to manage and query the data in the returned questionnaires. This was developed using MS Access and the relational model for the database is shown in Appendix D.

Queries and an interface were developed for displaying data relating to individual parliamentary constituencies, local authorities and RDAs. Data from returned questionnaires were imported directly into the appropriate database table and not entered via an interface.

The database is linked to an external database file that contains a single table of data purchased from the National Statistics Office. This table contains every UK postcode and the corresponding parliamentary constituency. The file is in excess of 100MB and due to its size could not be accommodated in the main database file as it rendered the database 'read-only'. The main database is linked to this file via the MS Access linked table manager.

3. Results and Analysis

3.1. Participation rates

The contact details for all active environmental bodies (EBs) on the ELIAS database were checked before the questionnaire was distributed. This exercise produced a list of 1053 EBs with 8536 active or completed projects. All 1053 environmental bodies (EBs) were sent questionnaires relating to their projects and 414 replies were received. Table 1 shows the number of EBs in each area along with the number completing and returning the questionnaire.

Table 1: Number of Environmental Bodies in each area.

| Area Office | No of EBs | No of EBs responding | No of projects returned |
|-------------|-----------|----------------------|-------------------------|
| Central | 284 | 117 | 1285 |
| North | 285 | 85 | 722 |
| South | 242 | 124 | 2145 |
| West | 242 | 87 | 1310 |

Although all EBs received a questionnaire, considerable effort was invested in ensuring replies from those EBs with a large number of projects and/or who had received the highest levels of funding. Therefore, although 39% of EBs responded, these EBs have 5481 registered projects i.e. 64% of active and completed projects. Furthermore, the total funding for all projects according to the Elias database (* September 2001) is £208.8m whereas the targeted EBs received a total of £131.8m to date i.e. 64% of funding².

3.2. Financial input and leverage

The EBs taking part in this survey received a total of just under £132m in Landfill Tax Credits and over £97.6m from other funding sources, i.e. a % leverage of 74%. The amount of funding obtained from other sources varied across the four areas as shown in Figure 1. This figure shows funding from non-LTCS sources as a percent of funds received from LTCS sources in each of the four areas. For example, the EBs in the West area obtained 1.4 times as much funding from other sources as from the Landfill Tax Credits Scheme.

² N.B. an EB may manage projects located outside its area

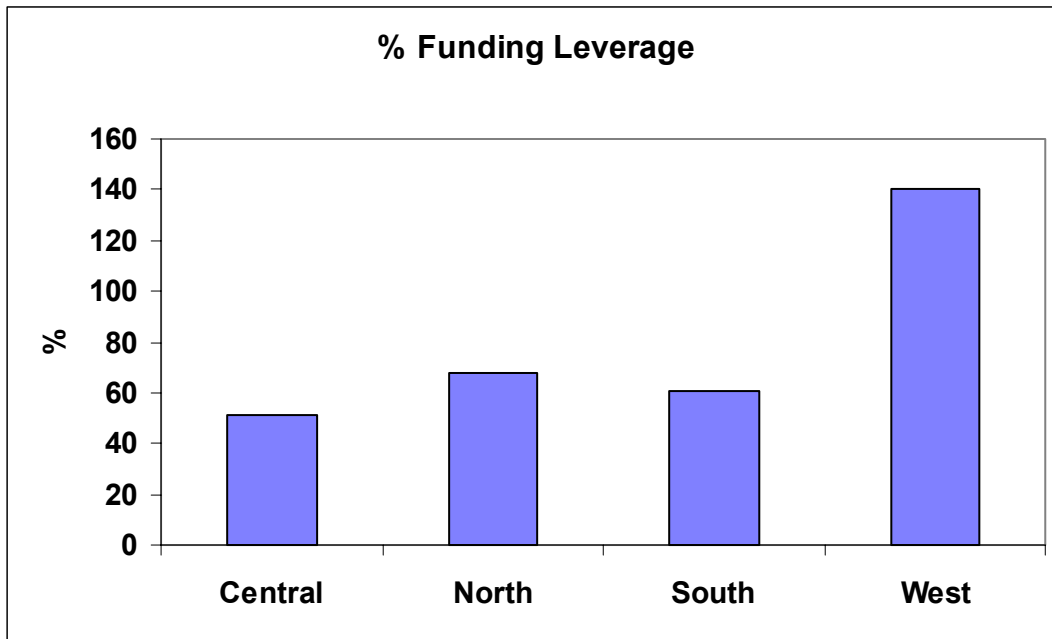


Figure 1: Funding received from other sources in each of the four areas as a % of funds received from the Landfill tax credit scheme.

3.3. Object Trends

Environmental bodies were asked to nominate an object category for each of their projects (See Appendix A for list of object categories). Of the 5481 projects returned, the majority, i.e. 3232, were categorised as object D (see figure 2).

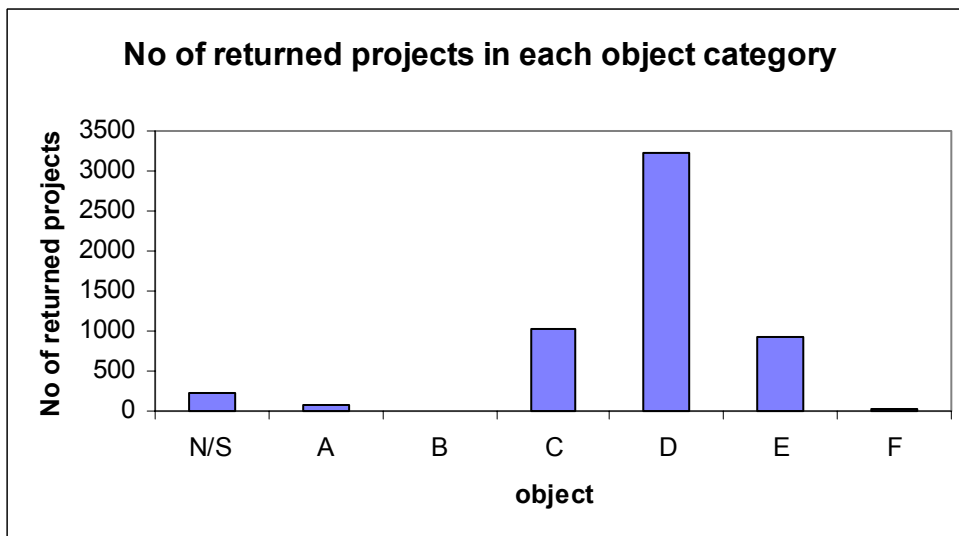


Figure 2: Object categories for returned projects

Each of the four areas followed a very similar pattern with approximately 60% of all returned projects for the area being categorised as object D (see Figure 3).

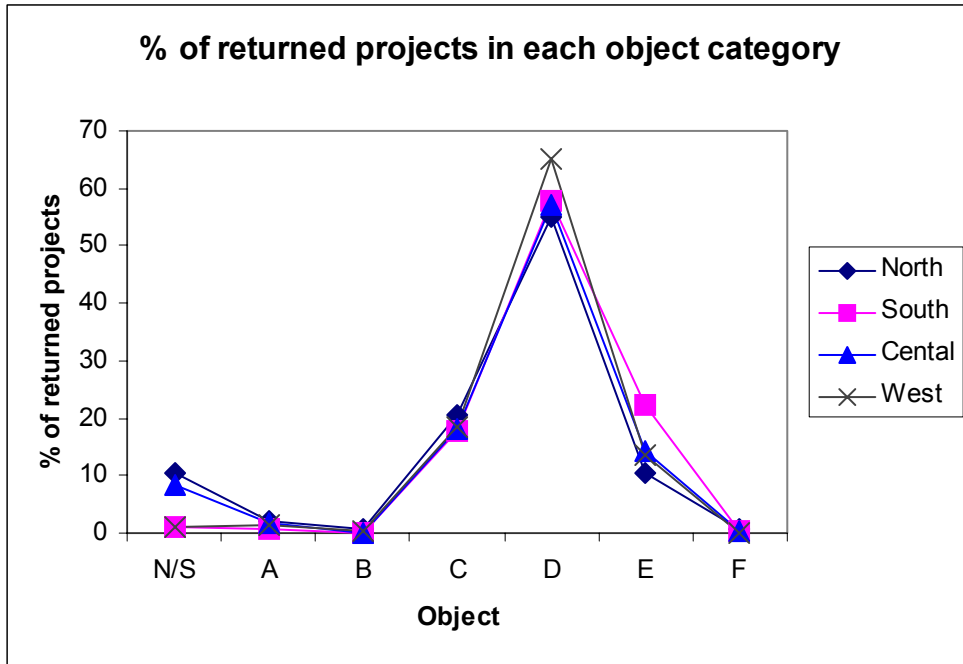


Figure 3: % of returned projects in each object category for each area.

The EBs were asked to indicate the start date for each project. These dates have allowed some degree of analysis of annual trends. For example, Figure 4 shows the percentage of projects in each object category versus the start date of the project for each area. The decline in the percentage of projects in the object C category is most noticeable. For projects with a start date in 1997, between 30 and 40% of projects were in category object C. This proportion has declined steadily in all four areas and for 2001 the proportion of object C projects is between 18 and 22 %.

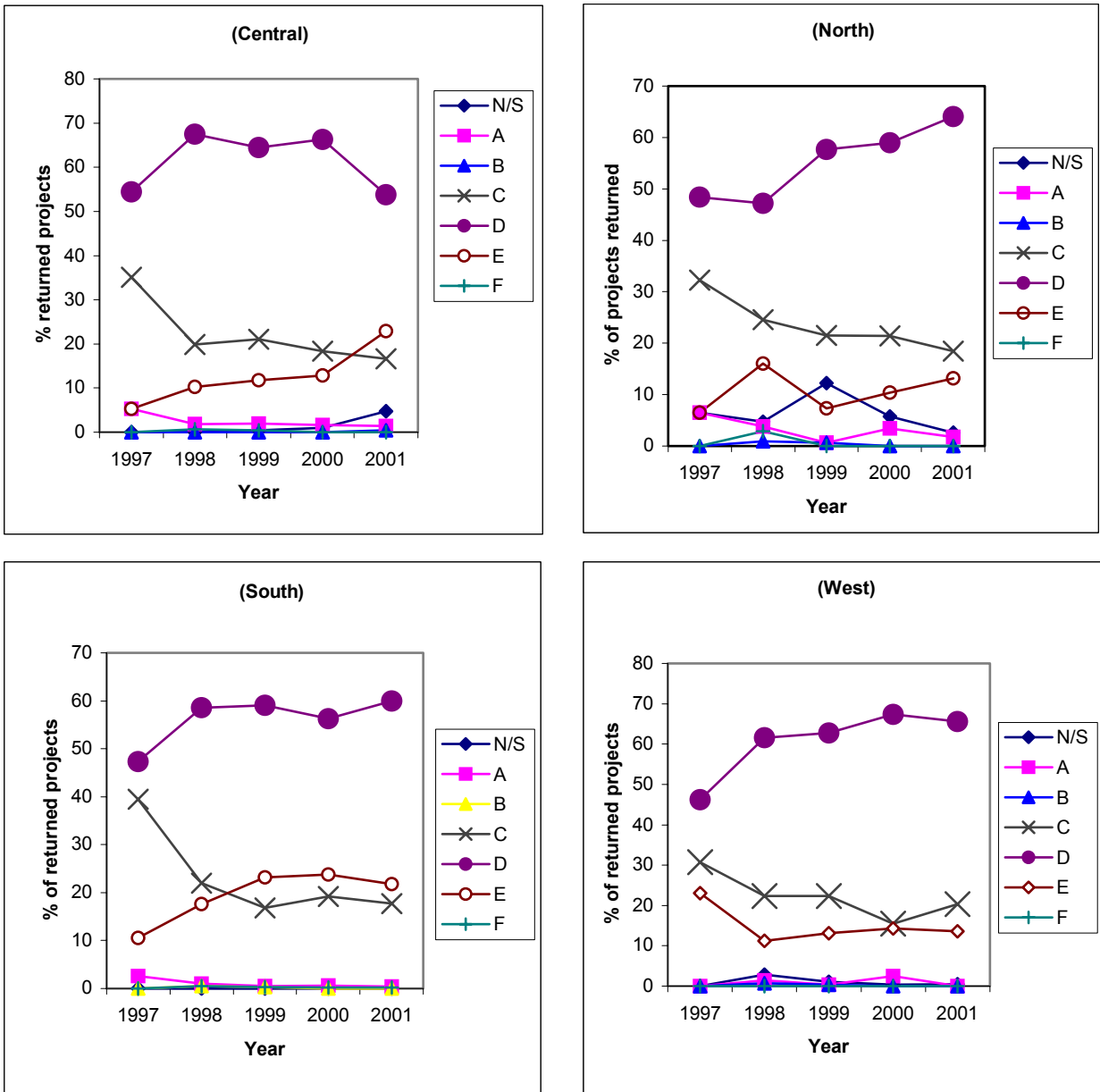


Figure 4: The percentage of projects in each object category versus the start date of the project for each area.

These data only represent the sample of projects in questionnaires that were returned to Glasgow Caledonian University. However the figures in Table 2 demonstrate that the object categories for the 3519 active or completed projects that were not returned fall into the same distribution pattern with approximately 60% in object D and 23% in object C.

Table 2: Object categories for projects listed in questionnaires that were not returned (ELIAS data)

| Primary Object | No of Projects | % of non-returned projects |
|----------------|----------------|----------------------------|
| N/S | 15 | 0 |
| A | 76 | 2 |
| B | 16 | 0 |
| C | 806 | 23 |
| D | 2100 | 60 |
| E | 499 | 14 |
| F | 7 | 0 |

The Government have expressed a desire to see 65% of funded projects in object C but although the figures presented here suggest that the majority of projects i.e. 60% are in object D and only 20-25% in object C, this does not necessarily mean that 60% of the funding goes to object D projects. Indeed Figure 5 illustrates how funding from the Landfill Tax Credit Scheme is distributed across the object categories and shows that although 60% of projects are object D, these project receive only 49% of the funding from the scheme whereas object C projects received 34% of the total funding.

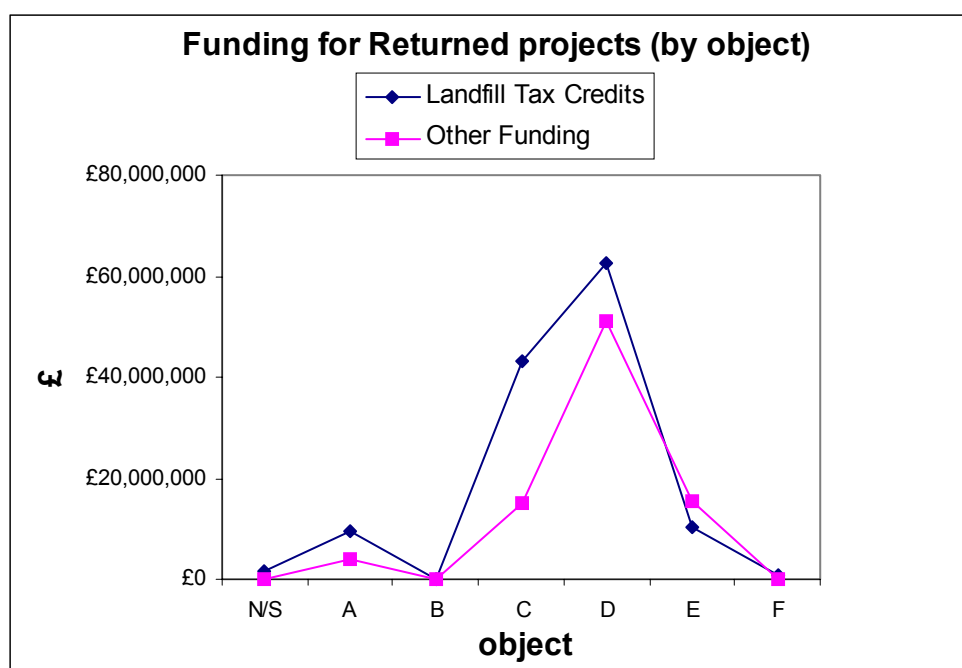


Figure 5: Overall funding for projects in each object category.

In addition to funds received from the Landfill Tax Credit Scheme, object D projects were able to attract substantial levels of funding from other sources (see figure 5 and table 3 below)

Table 3: Percentage leverage for object C and D projects.

| Object | LTCS | Other Sources | % Leverage |
|--------|-------------|---------------|------------|
| C | £40,299,778 | £13,716,194 | 34 |
| D | £56,072,138 | £43,685,097 | 78 |

Closer inspection of how the funding is distributed amongst the 6 object categories in each of the four areas reveals a wide degree of variation. Figure 6 (a-d) illustrates the percentage of Landfill Tax funding being allocated to each of the object areas and how this has varied over time.

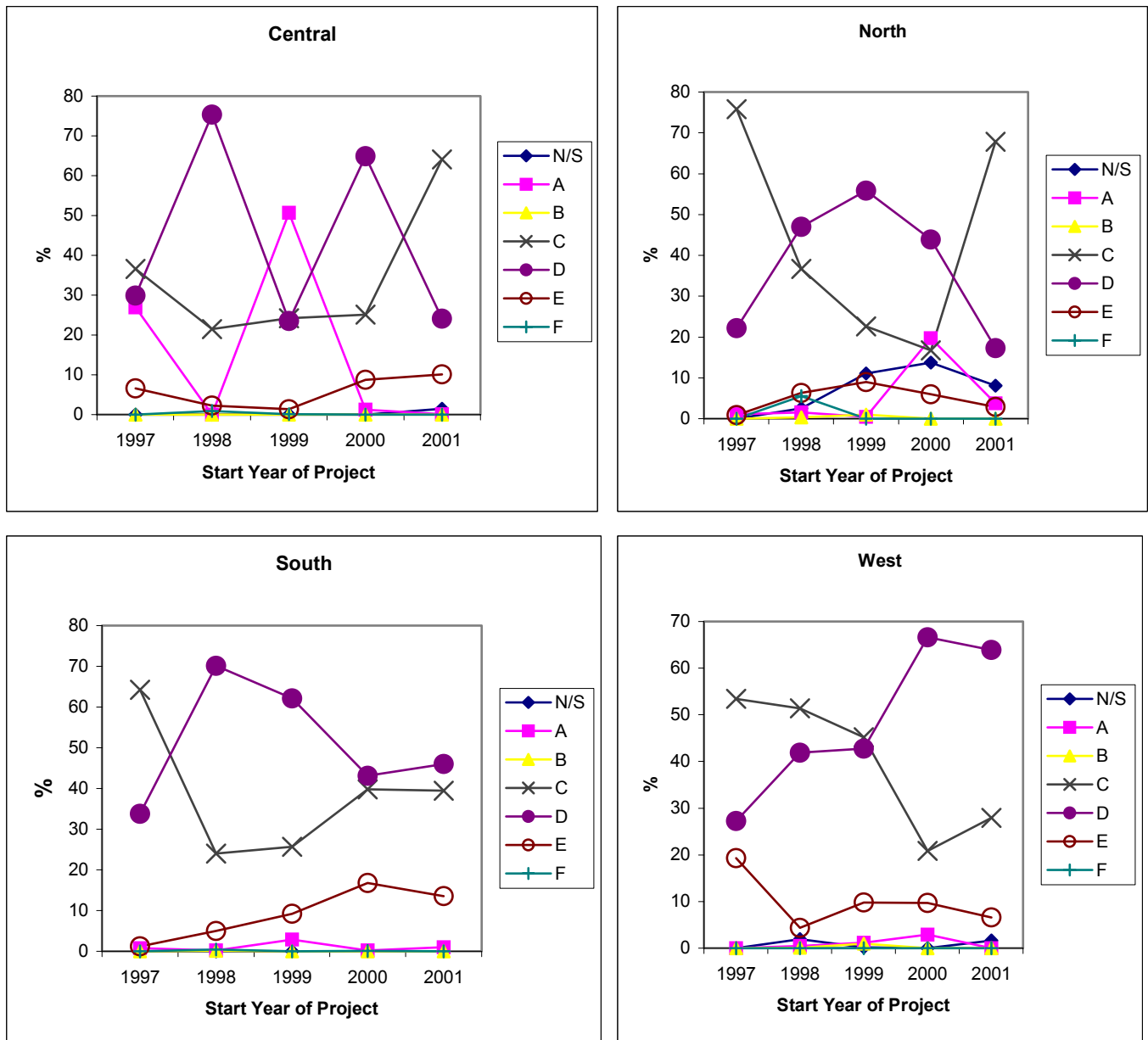


Figure 6: Allocation of Landfill Tax funds to each object category in each of the four areas. These data are taken from the 5481 projects returned in the questionnaire.

For projects starting in 1997, between 40 and 75% of Landfill Tax Funds were allocated by each of the four areas to object C. Between 1998 and 2000, however the allocation for object C projects decreased markedly whereas the funding for object D projects increased. Over the past two years the percentage of Landfill Tax Funds being allocated to object C has increased in all areas with 68% and 64% of funds being allocated to object C projects by EBs in the North and Central areas respectively.

3.4. Location of projects

Environmental bodies were asked to specify a location for each of their projects. This location could take the form of:

- A full postcode
- A local authority area
- A grid reference.

Specifying a location enabled an assessment of the impact of the Landfill Tax Credit Scheme in each parliamentary constituency, local authority area and Regional Development Area (RDA). Of the 5481 projects returned, 4525 specified a location.

Postcodes

A database of postcodes with corresponding constituencies was purchased from the National Statistics office so that when a full postcode was specified for a project, the parliamentary constituency where the project was carried out could be determined. Of the 5481 projects returned, only 883 specified a full postcode and could therefore be assigned to a constituency. Many environmental bodies entered only partial postcodes for their projects and it was therefore impossible to determine the constituency. However, another database was obtained that linked the first half of postcodes with local authority areas so it was possible to trace the local authority from these incomplete postcodes and include the project data in the assessment of the scheme at the local authority level.

Local Authorities

The majority of environmental bodies chose a local authority area for the location of their projects. Of the 5481 projects returned, 3531 specified a local authority area. It was also possible to link the constituency data to the corresponding local authority using information obtained from the House of Commons website.

Grid Reference

Few Environmental Bodies chose this format for their projects' locations. Only 104 of the 5481 projects returned specified a location using a grid reference.

Extensive reports detailing the impact of the scheme in each parliamentary constituency, local authority area and RDA have been completed and distributed to all Members of Parliament. These reports included the number of projects, environmental bodies, levels of funding and leverage as well as job creation data for each parliamentary constituency, local authority area and RDA.

3.5. Employment Trends

For the 5481 projects returned in the questionnaires, 2140 temporary jobs and 756 long-term jobs have been created. Table 4: shows the levels of job creation in each of the four areas. If these data are compared with the data in table 1, which shows the number of environmental bodies in each area who responded to the questionnaire, it is clear that the levels of job creation varied across the four areas. For example, only 85 EBs from the North area responded to the questionnaire but despite this small sample size, the projects registered with these EBs created more jobs than the projects registered with the EBs in the other three areas.

Table 4: Job creation in each of the four areas

| EB Area Office | No Temporary Jobs | No Long Term jobs |
|----------------|-------------------|-------------------|
| Central | 374.5 | 227.5 |
| North | 750 | 230.5 |
| South | 711 | 185 |
| West | 304.5 | 112.5 |

Certain types of projects were more likely to generate employment opportunities than others. Figure 7 illustrates the number of long-term and temporary jobs created by the projects in each object category. Approximately 60% of all returned projects were in object D category and similarly 63% of all temporary jobs were generated by object D projects. However the figures for long-term jobs show a different trend. In this case, 47% of long-term jobs were generated by object C projects although object C projects represented only 18% of all returned projects. Therefore, from the sample studied, object C projects generated a disproportionately high number of long-term employment opportunities. Figure 8 shows that this higher level of long-term job creation has been apparent in object C projects since 1997.

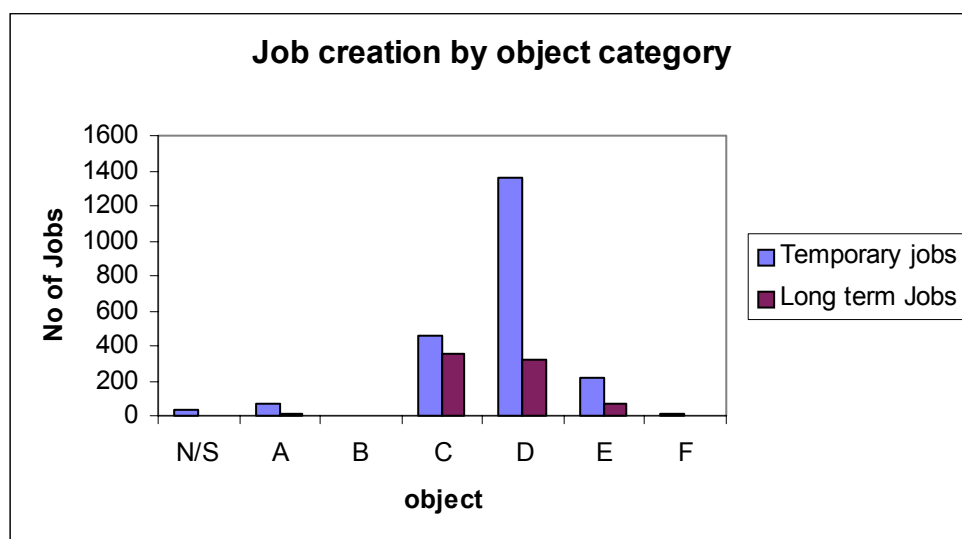


Figure 7: The total number of long-term and temporary jobs created by the projects in each object category

Table 5: Job creation for object C and D projects

| Object | % of all temporary jobs | % of all long term jobs | % of returned projects |
|--------|-------------------------|-------------------------|------------------------|
| C | 21 | 47 | 18.5 |
| D | 63 | 43 | 60 |

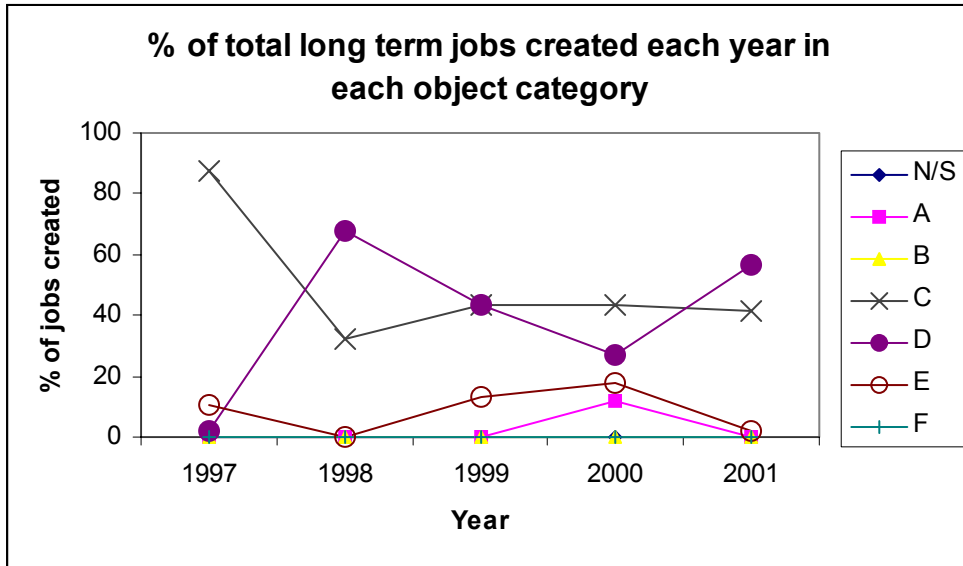


Figure 8: Annual trends in long-term job creation in each object categories. N.B. Not all projects that created jobs specified a start date

3.6. Type of Projects

In order to find out more about the types of projects being funded by the Landfill Tax Credits Scheme, the environmental bodies were asked to select keywords and phrases to describe each of these phrases. The list of 120 keywords and phrases is in Appendix B. To simplify the analysis, these keywords can be grouped into 19 categories as shown in figure 9 and Appendix B. The majority of the projects were described using keywords from the Sustainability category with the Building Development and Amenity improvement categories also popular (see Figure 9).

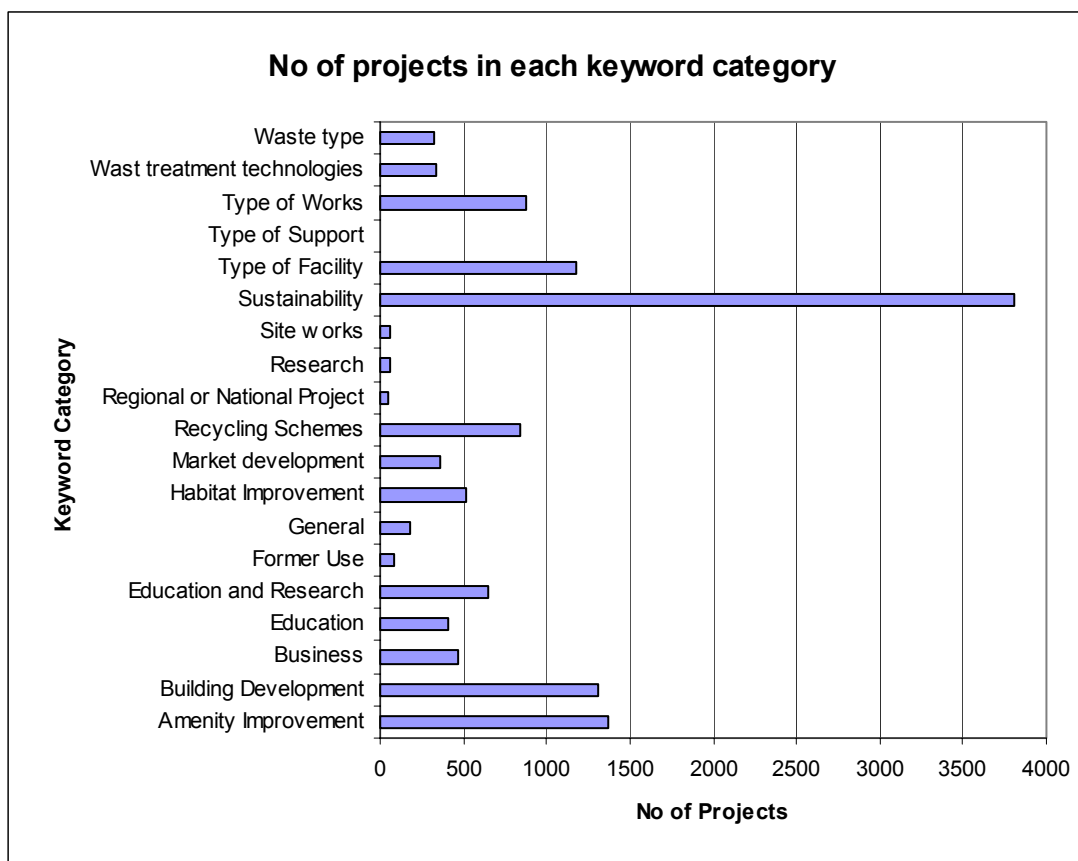


Figure 9: No of projects in each keyword category. N.B. each project may be associated with more than one keyword. The keywords in each keyword category are listed in Appendix A.

3.7. Waste Management Projects

In addition to selecting appropriate keywords, the environmental bodies managing object C projects were asked to indicate whether these projects were involved in the three waste management areas described below in Table 6.

Table 6: Involvement of object C projects in waste management. N.B. A project may be involved in more than one waste management area.

| Waste Management Type | % of Object C projects |
|--------------------------------|------------------------|
| Community Enterprise Recycling | 31.7 |
| Local Authority Recycling | 20.1 |
| Industry Waste Management | 31.0 |

Approximately 50% of object C projects were not involved in any of the three waste management areas and 5% of object C projects were involved in all three waste management areas.

4. Conclusions

This survey exercise has involved contacting over one thousand Environmental Bodies who have received and subsequently directed landfill tax credit funding into approved projects. While all EBs were approached for information, particular attention was given to those EBs with a large number of projects and funding. The survey has therefore been able to capture 64% of projects in terms of number and

funding, since the LTFC scheme was introduced. The survey has produced useful information on the breadth of community and sustainable waste projects which are, or have been funded, the amount of leverage that the LFTC funds are able to bring, and the impact on local communities in terms of sustainability benefits, job creation and general environmental improvements.

While much of the information collected as part of this survey is not a statutory requirement of the scheme, its value is significant in that it helps provide supporting information for policy makers with information on the overall impact of the scheme at a local and regional level.