



ENTRUST Consultation Document

Administration Costs Consultation



August 2008

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1. Executive summary

- 1.1 ENTRUST is fully committed to engaging stakeholders wherever possible to ensure that the regulation of the Landfill Communities Fund (LCF) complies with best regulatory practice. As part of this process, ENTRUST will be running a number of stakeholder consultation exercises during 2008/2009 relating to the regulation of the Fund.
- 1.2 The first consultation exercise is to review the level and type of administration costs incurred by Environmental Bodies (EBs) using LCF monies. The aim will be establish clear parameters for determining what is an acceptable level of administration costs that can be funded using LCF monies. The review will also consider the records kept by EBs regarding the origin of the LCF monies held and the contributing Landfill Operator (LO) in relation to any expenditure.



2. Introduction

2.1 This paper aims to gather information to allow an assessment to be made on the current level of administration costs charged by EBs using LCF monies and to consider opportunities for establishing clear parameters for what is or is not an acceptable level of administration costs.

The consultation will also ask for stakeholder input regarding the records that are currently kept by EBs regarding the origin of LCF monies held and the ability to record this information.

2.2 For the purposes of this document, it is necessary to provide a headline definition of what is considered to be an administration cost (also known as ‘running costs’). This includes costs incurred at an EB level or on each project undertaken. These are the costs in connection with the management and administration of an EB or its assets and are not directly spent on registered projects. Administration costs are the internal and external management costs incurred in running the organisation’s activities.

2.3 The consultation paper considers several areas but focuses on the following:

- The definition of administration costs;
- How EBs calculate the level of administration costs they charge;
- Proposals for clarifying the position on allowable administration costs; and
- Records currently kept regarding from which LO LCF monies are derived.

2.4 This paper provides background to this subject and then asks a number of questions regarding the issues to be reviewed.

3 Gathering stakeholder feedback

3.1 ENTRUST will be seeking stakeholder feedback through the following methods:

- This consultation document, which outlines the issue themselves.
- A focus group allowing the further discussion of points raised. (Further details are outlined later in the document.)
- The LCF Online Forum on the ENTRUST website will allow discussion to continue, and will include points raised at the focus group.

4. The Regulations



4.1 The Regulations state the following regarding administration/running costs:

Regulation 30(1)

"running costs" includes any cost incurred in connection with the management and administration of a body or its assets".

They also specify:

Regulation 33 (7)

"...the following shall also be regarded as objects... -

(a) the use of qualifying contributions in paying the running costs of the body, but this is subject to paragraph (8) below"

Regulation 33 (8):

"The use of qualifying contributions in paying the running costs of the body shall only be regarded as an approved object if the body determines so to use no more than such proportion of the total of qualifying contributions, together with any income derived from them, (or, in the case of a contribution within regulation 30(2)(a), only that income) as the proportion of that total forms of the total funds at its disposal and does not in fact use a greater amount."

4.2 With regard to the reporting requirements, the Regulations specify the following point:

Regulation 33A (1) states:

"An approved body shall...

(d) make and retain records of the following-...

(v) in respect of each qualifying contribution and any income derived therefrom, including any such amount transferred to the body by another approved body, the date of and all other such details relating to its expenditure."



5. Policy

5.1 Administration Costs

- 5.1.1 The Regulations provide that LCF monies received by EBs can be spent on the approved objects of the LCF and the running costs of the EB providing they do not pay a higher proportion of the administration costs than the proportion of the organisation's total funding that is made up by LCF monies.
- 5.1.2 As a matter of good practice, ENTRUST expects no more than 10% of an EB's LCF monies to be spent on administration costs. This is outlined in ENTRUST Guidance note 2) *Spending LCF monies and Registering Projects*, section 8.3.
- 5.1.3 Whilst it may be widely accepted that the running costs of an EB must be reasonable, the Regulations are open to interpretation. To address this issue, ENTRUST is committed to reviewing this area and if necessary making recommendations to HMRC to change the Regulations.

5.2 Record Keeping

- 5.2.1 ENTRUST does not prescribe details of records that must be kept by EBs in relation to expenditure under Regulation 33A(1)(d)(v). However, it is vital that such records show a link between expenditure and the contributing LO. HMRC can recover tax credits from the LO, for example where they are not satisfied that a contribution was spent on approved objects. It is therefore in the interests of all stakeholders to ensure that there is a clear audit trail of contributions.
- 5.2.2 It is therefore proposed to ensure that EBs make and retain records that show a clear audit trail of contributions linking the contributing LO to expenditure. For each item of expenditure, the records must show which LO's contribution is being spent. This would apply to all expenditure including project expenditure, EB running costs etc. Under the proposal, the requirement to keep such records will be compulsory and failure to comply with it may result in enforcement action being taken against the EB concerned.

6. Consultation questions

*Please attach additional sheets if necessary

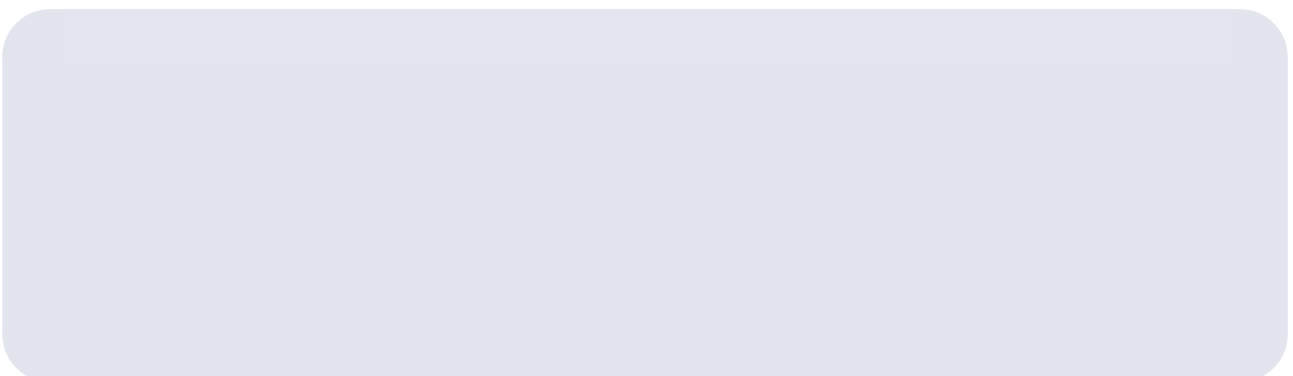
- 1) What problems do you encounter when complying with the current 10% good practice guidance on running costs?



- 2) What methodology do you use to calculate your administration costs? (e.g. proportion of income)



- 3) Do you include interest received in calculating your administration costs?

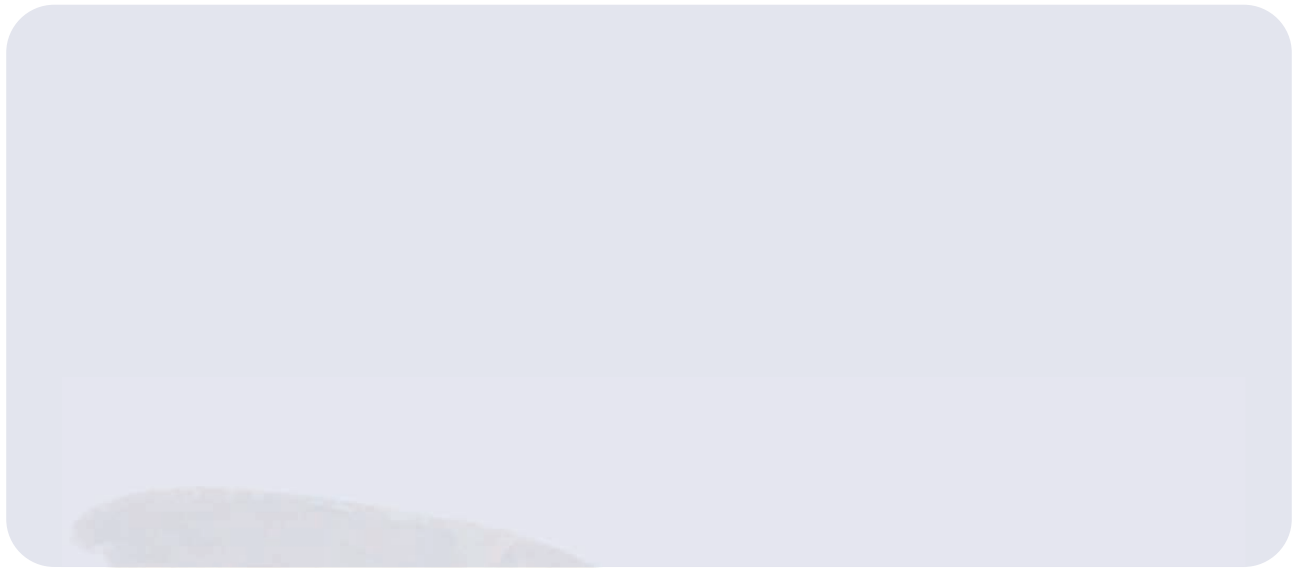


4) What type of costs do you incur that you consider as running costs.

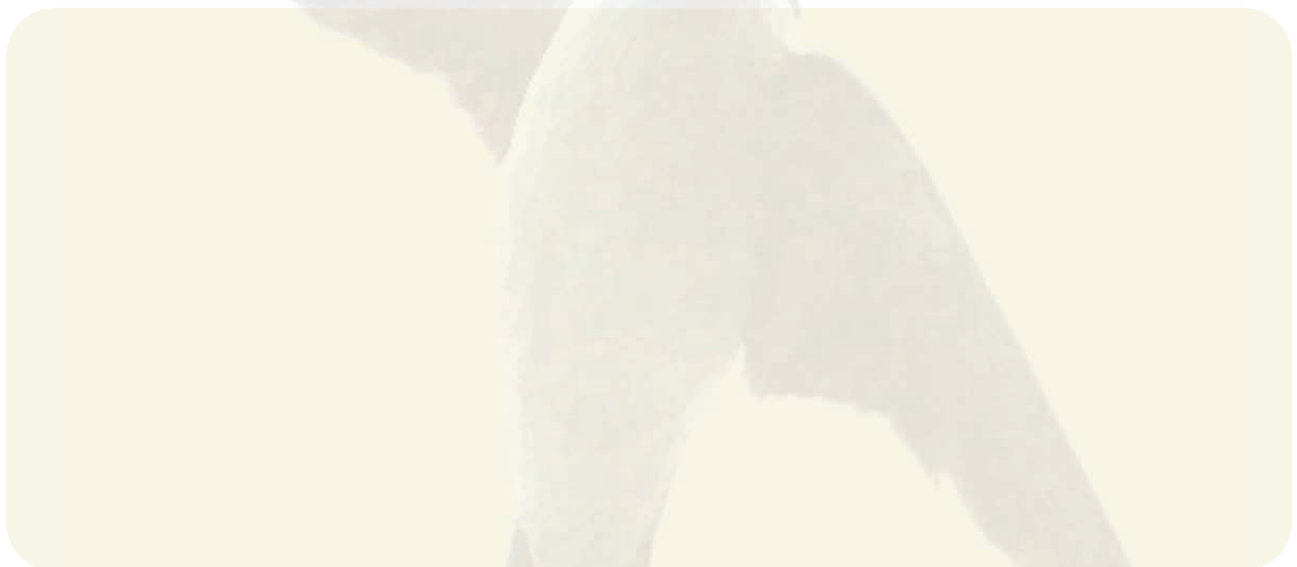
5) Do you attribute administration costs to project related expenditure?
Please provide details of how you do this.

6) Do you have your own guidance or management controls in place in relation to administration costs? If so, how were these drawn up?

7) How would you like to see administration costs calculated and why? (for example as a proportion of income or expenditure)



8) How do you demonstrate that your administration costs are reasonable and provide value for money?



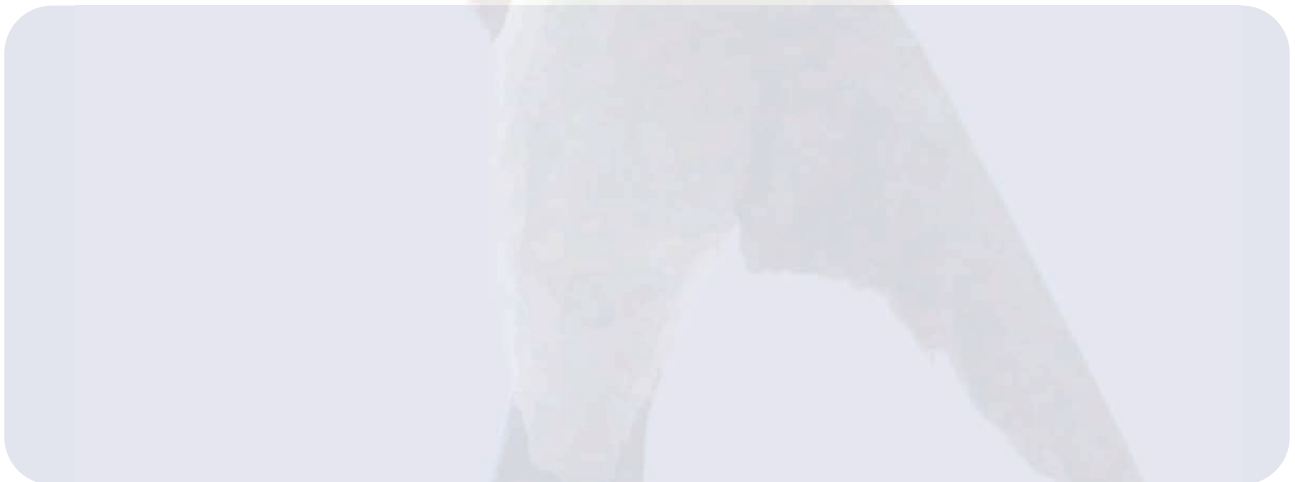
9) If you transfer LCF monies to other organisations, can they take administration costs from the amount you transfer? If so, what restrictions do you impose?



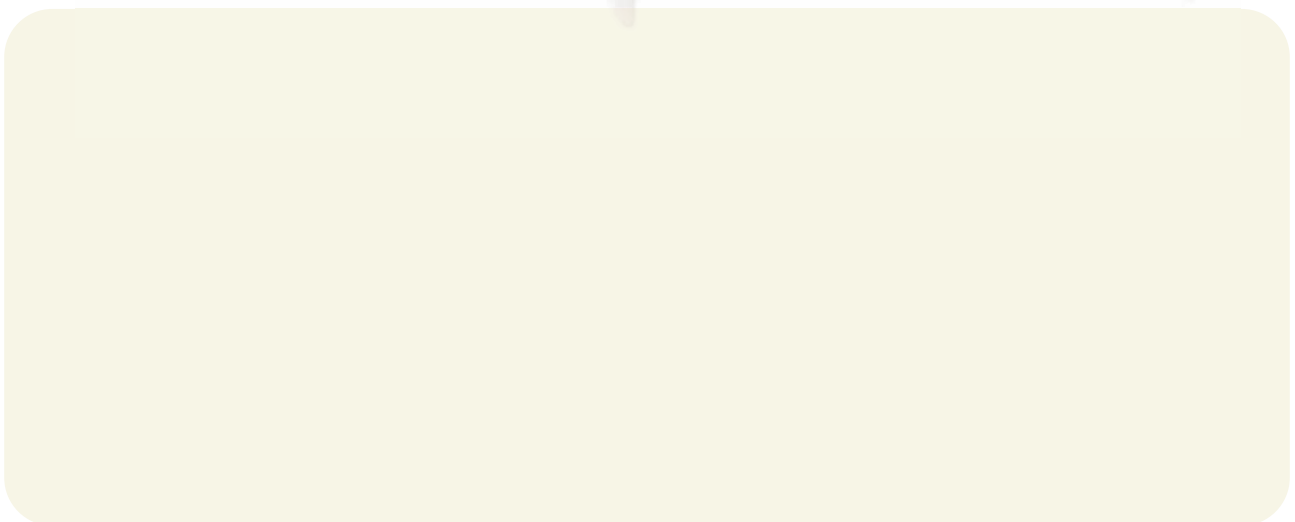
- 10) Do your contributing LOs specify any limits to the administration costs that you can take from contributions received?



- 11) Please detail any restrictions on running and administration cost expenditure you experience from other stakeholders outside the LCF, for example from other funders, regulators etc.



- 12) How may LOs do you receive contributions from? Please include contributions that have been transferred from another EB.



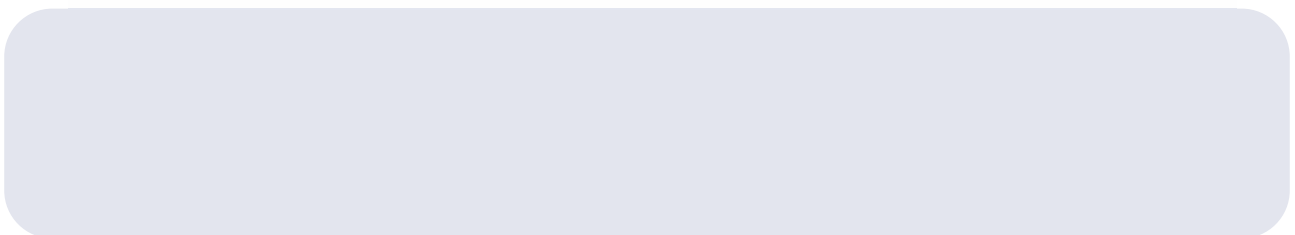
- 13) Do you notify the LO when and how the contribution has been spent? Please provide any details/comments on this.



- 14) Do you return any unspent contributions to the LO, for example if a project costs less than forecast? Please provide any details/comments on this.



- 15) Do you keep and maintain records from which you can identify the contributing LO and how their contribution has been spent?



*If yes, please answer questions 16, 17, 18, 19 and 20
If no, please answer questions 21, 22, 23 and 24*

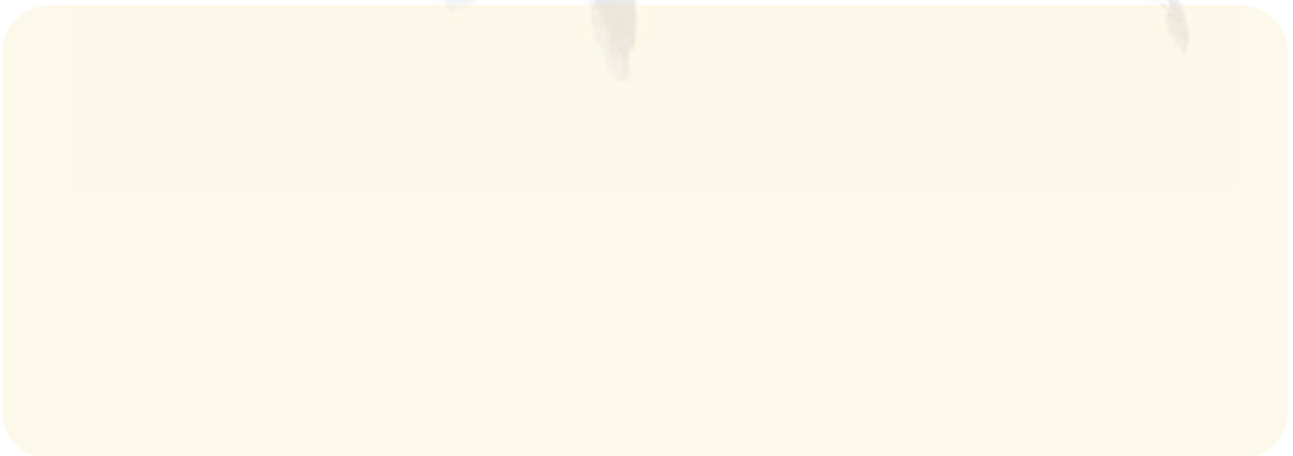
- 16) Please provide details of the records you maintain (including the length of time that these records are kept).




- 17) Please specify any difficulties you experience in meeting this requirement.



- 18) Please estimate the staff time required in meeting this requirement and the status of the employees involved e.g. accounts clerk, accountant, and functional manager.



19) Please provide details of any external costs (for example accountant's fees) that are incurred in meeting this requirement?



20) Please provide details of any storage, postal, accounting software or labelling costs or that are incurred in meeting this requirement?



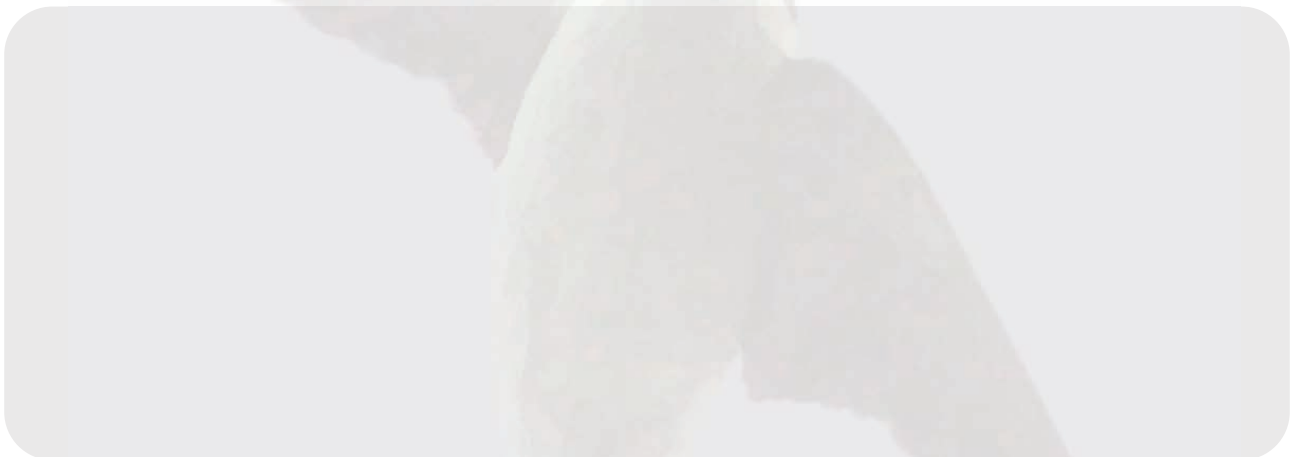
21) If you currently do not maintain such records, would you foresee any significant problems with doing so?



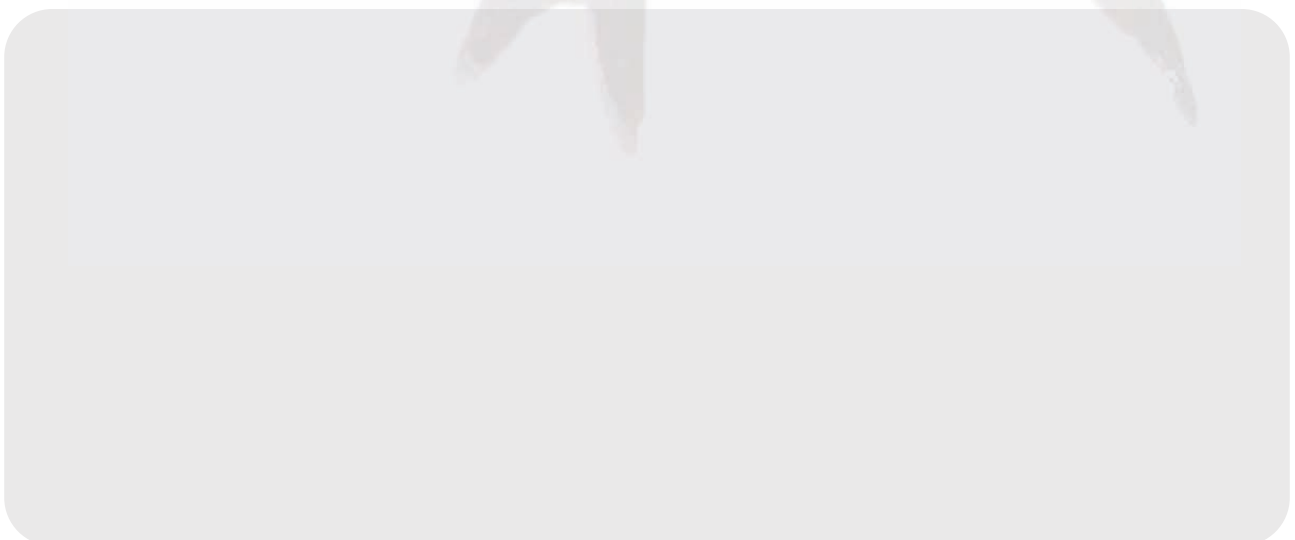
- 22) Please estimate any additional staff time required in meeting this requirement and the likely status of the employees involved e.g. accounts clerk, accountant, and functional manager?



- 23) Please provide details of any external costs (for example accountant's fees) that are likely to be incurred in meeting this requirement?



- 24) Please provide details of any storage, postal, accounting software or labelling costs that that are likely to be incurred in meeting this requirement?



25)

Please outline any further points you would wish to add regarding the topic of administration costs taken by EBs or the records kept.





7 Contact details / How to respond

- 7.1 The consultation is open to all stakeholders of the LCF and any feedback submitted will be treated in strictest confidence and will be considered anonymous unless you state otherwise. Responses to the questions raised can be returned through the following methods:

Email: McNabb Laurie (m.laurie@entrust.org.uk)

Post to: ENTRUST's Sale Office at:
McNabb Laurie
ENTRUST,
2nd Floor,
Acre House
2 Town Square
Sale
Cheshire
M33 7WZ

Through the LCF Online Forum: <http://www.entrust.org.uk/home/lcf/lcf-forum>

Please note that a fully editable MS Word version of this questionnaire is also available on the ENTRUST website.

- 7.2 The closing date for responses to this document is the 7th November 2008.
- 7.3 To further discuss the issues raised in this consultation document, ENTRUST will be holding a focus group during the consultation period. The location of this event will depend on the delegates expressing an interest in attending. If you wish to attend the focus group, please contact McNabb Laurie at ENTRUST (email m.laurie@entrust.org.uk) by 12th September 2008.

8 Publication of response

- 8.1 A paper summarising the responses to this consultation will be published within two months of the closing of the consultation.
- 8.2 The outcomes of the consultation will be reviewed and any proposals will be subject to an impact assessment and publicised to stakeholders appropriately.

Thank you for taking the time to contribute to this consultation.