



REPORT ON THE REVIEW OF ADMINISTRATION COSTS TAKEN BY ENVIRONMENTAL BODIES



**REGULATING THE LANDFILL COMMUNITIES FUND
BENEFITING PEOPLE AND THE ENVIRONMENT**

Consultation Paper

June 2009

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Executive Summary

1.1 Background

- 1.1.1** The Landfill Tax Regulations 1996 (Regulations), do not specify the maximum allowable proportion of Landfill Communities Fund (LCF) monies that can be charged by enrolled organisations as administration costs or how this figure should be calculated.
- 1.1.2** As a result of this, enrolled Environmental Bodies (EB) are able to charge what could be considered to be excessive administration costs on the LCF monies held, without ENTRUST being able to enforce any statutory limitations. In ENTRUST's view, a small minority do charge what would be deemed to be excessive administration costs; for example there has been a case of what would seem to be over-generous remuneration.

1.2 The Regulations and Guidance

- 1.2.1** The Regulations allow for running costs of an EB to be compliant expenditure. "Running Costs" are defined to include "any costs incurred in connection with the management and administration of a body or its assets." However this is no prescription on their reasonableness or limitation. Indeed the Regulations would not prevent an EB using 100% of its income from qualifying contributions on running costs. This is clearly a "loophole".
- 1.2.2** ENTRUST guidance places limits of 10% on administration for projects, and EB administration as a proportion of income. However, this is only guidance and provides no statutory basis for revocation.

Project: Arne's Heathlands.

Description: Improving and extending the Arne Nature Reserve in Dorset.

Supported through: RSPB



1.3 Government Policy

1.3.1 The Government have made very clear statements expecting the public sector to allow organisations they support to adopt full cost recovery in calculating their costs for funding purposes.

1.4 Legal Advice

1.4.1 Counsel's advice is that the Regulations provide no effective limit on payment of running costs. They do not specify what is deemed to be reasonable or unreasonable levels of administration costs and hence enforcement action cannot be taken where it is felt any reasonable person might think the expenditure is unacceptable.

1.5 Benchmarking with other Funding Organisations

1.5.1 There is no common position on the funding of administrative costs. ENTRUST contacted other bodies whom EB advised were other funders. Four of the funders are reported that they are reviewing 'reasonableness' of their administration costs allowance. Our research has identified that some organisations provide no funding at all to cover administrative costs whereas others review the allowable level on a case by case basis.

1.6 Consultation with EB

1.6.1 The consultation responses received and the focus group held resulted in 24 respondents to this consultation. This represents less than 1% of the total stakeholder population, but approximately 60% of the LCF.

1.6.2 There currently exists confusion amongst stakeholders in the following areas:

- The method by which EB calculate what is, or is not, an administrative cost;
- Whether the ENTRUST levy is classed as an administrative cost;
- Over what period the level of administration costs is calculated;
- Whether interest earned is considered 'income' and should be used to reduce administration costs; and
- To what extent administration costs can be attributed to projects and therefore considered to be project expenditure.

1.6.3 Reviewing the results of the Consultation, stakeholders within the LCF advise that a number of different issues need to be taken account of in calculating administration costs. The following themes can be identified:

- Administrative effort is more closely related to expenditure than income;
- Any universal definition adopted must be compatible with the range of organisations that are enrolled; and
- Measuring administration costs on an annual basis does not take account of the variable nature of LCF funding which means the rate of receipt of contributions from a Landfill Operator is often not at regular intervals.

1.7 Recommendations on the Calculation of Administration Costs

1.7.1 The LCF should adopt the principle of full cost recovery as a method of calculating administration costs in order to be compliant with Treasury guidance (Para 9.2.1)

1.7.2 The LCF should use the words ‘reasonable and relevant’ and provide additional guidance that is binding (by way of enforceable condition) to limit certain types or classes of expenditure. Further work should be done with the aim of finalising this in 2009/2010. (Para 9.2.3)

1.7.3 The Treasury list of overhead costs in their guidance is adopted as the LCF is a Government sponsored scheme. (Para 9.3.1)

1.7.4 An enforceable condition should be agreed that running costs are only compliant expenditure insofar as they are ‘reasonable and relevant’ and comply with guidance on ‘reasonable and relevant’ as agreed with HMRC and contained within the condition. (Para 9.4.3)

1.7.5 There does not need to be further clarification of costs allocable between projects and EB if a reasonable and relevant approach is taken to overhead and running costs. (Para 9.5.3)

Project: Ardley Village Hall

Description: New Village hall for Ardley village, where there is a large landfill site.

Supported through: Trust for Oxfordshire's Environment.



- 1.7.6** A further consultation is held on publishing administration costs, and listing EB with the highest and lowest administration costs. (Para 9.6.1)
- 1.7.7** The ENTRUST guidance should be changed to refer to full cost recovery. (Para 11.2)
- 1.7.8** ENTRUST and HMRC should work together quickly to agree guidance to be contained within a binding condition on 'relevant and reasonable'. (Para 11.3)

1.8 Impact Assessment

- 1.8.1** A qualified interpretation of relevant and reasonable administration or running costs, would allow enforcement for clearly unreasonable circumstances. This is also the method favoured by EB. Enforcement would be achieved as expenditure not in accordance with the enforceable condition would be reported by ENTRUST as non-compliant spend to HMRC who would be able to implement clawback.
- 1.8.2** A significant minority of EB representing a significant proportion of LCF funds are currently making a charge for their running costs against the LCF equivalent of more than 10% of their income. It is difficult to judge if others would take advantage of full cost recovery and charge a higher percentage of administration against the LCF thus reducing the funds available for front-line projects.
- 1.8.3** ENTRUST and HMRC would be able to tackle the minority of EB who charge what are thought to be highly excessive amounts of administration which is not possible at present. These cases have normally involved specific types of payment which it would be possible to make guidance as to their reasonableness, such as bonus and severance payments.
- 1.8.4** Guidance would need to be provided on full cost recovery methodology, and ENTRUST staff would need to be familiar with its principles. However, it is commonly understood at both the Treasury and within the Voluntary Community with guidance and toolkits in the public domain.

1.9 Conclusions

- 1.9.1** Due to the lack of a clear statutory requirement, there currently exists confusion with regards to the administration costs that can be charged and how these costs should be calculated. They are also not in accordance with Treasury guidance on full cost recovery.



1.9.3 The adoption of full cost recovery, with further guidance enforceable by way of being a condition should protect the fund; be acceptable to EB and allow enforcement if necessary when administrative costs are deemed to be unreasonable.

1.9.4 Changing the guidance immediately to refer to full cost recovery aligns the guidance with legal advice and treasury guidance. However to address the issue of unreasonable or irrelevant administration costs ENTRUST and HMRC need to work together to agree binding guidance through a condition in this area.

2. Reasons for Reviewing Administration Costs Charges

2.1 Background

2.1.1 Administration costs are an issue. This is due to the fact that there are three areas where they occur, but the Regulations place no effective limit on them. The three areas where administration costs occur are:

- Projects;
- EB running costs; and
- EB carrying out administrative work for other EB under Object F.

2.1.2 The consequence of unlimited administration costs is that the general public might consider that too much of the LCF money is being spent on administration, and that there are opportunities for EB to spend a disproportionate amount on administration, including the potential to make what might be considered over-generous remuneration or redundancy packages.

2.1.3 There is no clear guidance on what costs are to be included in administration costs, or on the difference between administration costs chargeable to an EB, or a Project.

Project: Fife Coastal Learning & Community Resource Centre - Master's House.

Description: The conversion of a disused B listed building at Dysart Harbour.

Supported through: Fife Environmental Trust.



- 2.1.4** There is no guidance on how the limit set in the ENTRUST guidance is to be calculated.
- 2.1.5** There is no guidance on limits to administrative costs in the circumstances when one EB provides administrative services for another.
- 2.1.6** EB are able to claim running costs even if they are not actively entering into projects to spend money on the prime aims of the LCF.
- 2.1.7** The Government set a policy target of allowing full cost recovery for third sector organisations by April 2006, but this has not been adopted for the LCF.
- 2.1.8** A review of the ENTRUST database shows that 3% of EB have administration costs in excess of 10%, representing 35% of funds held. A summary of the EB at various levels of administration costs is given in the table below:

Percentage	% Age of EB Affected	Funds held by Affected EB (and percentage of total funds held)
>15%	1.9%	£29m (18%)
>12.5%	2.3%	£34m (21%)
>10%	3%	£58m (35%)
> 5%	3.8%	£117m (71%)

2.2 Definition of Terms

- 2.2.1** Administration costs are incurred in connection with the management and administration of an EB, its assets or projects as opposed to the direct project costs such as materials and contractors which result in physical works or improvements. Administration costs can also be referred to as 'indirect costs', 'overhead costs', 'running costs' or 'unallocable costs', depending on the context.

- 2.2.2** The Regulations define the words ‘running costs’ as any cost incurred in connection with the management and administration of a body or its assets. The rest of this document uses the words ‘running costs’ and administration costs interchangeably.
- 2.2.3** Full cost recovery is where all overhead costs are allocated to each project or activity, giving the total costs of each activity or project an organisation is carrying out.

3. The Regulations

- 3.1** The Regulations state the following regarding EB 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”.

This is the definition of running costs and is a wide general definition.

- 3.2** 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.

(b) the use of qualifying contributions in paying a contribution to the running costs of the regulatory body”

This identifies the running costs of an EB in a separate clause from the levy paid to ENTRUST, with both being a legitimate charge against the LCF.

Project: Woodland Walks

Description: To promote access to woods and to inspire people to enjoy the natural world.

Supported through: Biffaward.



3.3 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.”

This applies to EB not entirely funded by the LCF, and requires that the LCF only shares its proportionate share of running costs.

3.4 Regulation 33 (2) (f):

The objects of a body are approved objects insofar as they are any of the following objects.

“The provision of financial, administration and other similar services to bodies which are within this regulation and only such bodies.”

This section allows one EB to provide administrative services to another.

4. ENTRUST Guidance

4.1 Project Costs

- 4.1.1** The three main objects that are receiving almost all new funding are D - Public Amenity; DA -Conservation or Promotion of Biodiversity; and F - Restoring Places of Worship or Buildings or Structures of Architectural Interest. They all have the following in guidance:

“The focus of the project must be to undertake ‘direct project works’ on the amenity/project in question. ENTRUST will review applications to ensure that every proposal concentrates on direct project works and has acceptable project management costs.”

“‘Project management costs’ include elements such as any head office costs not solely related to the project, publicity for the amenity, opening ceremony and all other activities that do not directly result in physical work being undertaken. ENTRUST is not able to register projects that have excessive project management costs (i.e. more than 10% of total project expenditure).”

4.1.2 Each of the three main objects used for projects have the following definitions of direct project works:

- **Public Amenity**

“‘Direct project works’ are defined as those that are solely attributable to the delivery of the project. This would include all costs that can be directly linked to improvements on site, such as contractor, volunteer management, signage and other interpretative materials that will be kept on site and improve the amenity itself”.

- **Conservation or Promotion of Biodiversity**

“‘Direct project works’ are defined as those that are solely attributable to the delivery of the project. This would include all costs that can be directly linked to improvements on site, such as contractor, volunteer management, and other physical works on site and conserve the species or habitat in question.”

- **Restoring Places of Worship or Buildings or Structures of Architectural Interest**

“‘Direct project works’ are defined as those that are solely attributable to the delivery of the project. This would include all costs that can be directly linked to improvements on site, such as contractor, volunteer management, signage and other materials that will be kept on site and restore the building or structure itself.”

4.2 EB running costs

4.1.3 ENTRUST guidance is that no more than 10% of an EB LCF monies should be spent on administration costs.

Project: Heather, Pillwort and Pools Project.

Description: Bracken brushing on the Beacon - Reduce bracken dominance to enhance dwarf shrub heath and provide a potential income for commoners.

Supported through: Radnorshire Wildlife Trust.



“8.3 As a matter of good practice, ENTRUST expects no more than 10% of an EB LCF monies to be spent on administration costs. This should be financially justified and open to scrutiny by ENTRUST”

ENTRUST Guidance note (2) Spending LCF monies and Registering Projects. This guidance has been established since 2003.

4.3 Services to another EB

- 4.3.1** The guidance is silent on limitations of services provided between EB, apart from advising that objective F allows an enrolled EB to provide certain services to other EB. These services may include core administrative or similar services to assist in the running of the other EB; however it must not be a transfer of funds to pay for services.

4.4 Comment

- 4.4.1** Whilst it may be widely accepted that the running costs of an EB must be reasonable, the Regulations provide no legal foundation for enforcement or revocation on this basis. Currently when an EB exceeds the 10% interpretation, ENTRUST has no ability to enforce any value for money element on the administration costs charged. This was confirmed through the counsel’s advice received as outlined in Section 6 below
- 4.4.2** The guidance follows the Regulations giving more information where an EB receives funds from non-LCF sources. In these instances the LCF funds should only pay their proportionate share of running costs. However this only covers proportionality, not reasonableness.

5 Relevant Government Policy

The Government have had a commitment to full cost recovery since 2002. A couple of more recent statements are set out below;

- 5.1** “The Government remains committed to the principle of full cost recovery” HM Treasury, 2007, ‘The future role of the third sector in economic and social regeneration’.

“*There is no reason why service procurers should disallow the inclusion of relevant overhead costs in bids. Furthermore, funders or purchasers should not flatly reject or refuse to fund fully costed bids. Funding bodies must recognise that it is legitimate for third sector organisations to recover the appropriate level of overhead costs associated with the provision of a particular service.

* When grant-making, funders should assess in a simple, proportionate and equitable manner whether third sector organisations have allocated relevant overhead costs and ensure that costs are recovered only once.

* Fixed percentages without any evidence base do not provide a sound basis for the calculation and award of relevant overhead costs. Clear and consistent allocation of relevant overhead costs can provide a more accurate guide to funders of the true cost of delivering a service or output” HM Treasury 2006, Improving Financial Relationships with the Third Sector: Guidance to Funders and Purchasers.

- 5.2** Whilst the principles of full cost recovery and costs that might be included are set out in the Treasury documentation, and by the Association of Chief Executives of Voluntary Organisations (ACEVO), there is no information on how reasonableness might be assessed. An enquiry to ACEVO the recognised experts in this field has revealed that they have no specific guidance on reasonableness.

6 Legal Position

- 6.1** ENTRUST has sought legal advice regarding the ability to apply sanctions to those organisations that charge in excess of 10% of their LCF income as administration costs. The advice that was received can be summarised as follows:

Project: Minsmere, Saxmundham, Suffolk.

Description: Management of reedbed to assist the survival of birds and flora.

Supported through: Biffaward.



- The Regulations do not seek to provide any effective limit on the level of administration costs charged. Currently the limit is correlated to the proportion of the total of qualifying contributions to total funds at its disposal. The level of fees which can be incurred is not even limited to being 'reasonable' fees;
- As the current 10% of income interpretation is guidance, it does not in itself provide a basis for any sanction to be applied;
- If an organisation can justify expenditure as being incurred in the running or administration of the enrolled organisation, then it is classed as administration costs; and
- The period over which administration costs should be measured is not specified in the Regulations.

6.2 These points restrict the ability of ENTRUST to define and restrict 'excessive' administration costs. While ENTRUST provides guidance as to the level and type of expenditure that can be incurred as administration costs, EB can simply ignore this guidance without risk of any sanctions being enforced against them. Provided they can justify their expenditure as being properly incurred in connection with management and provided the sums spent do not exceed the proportion of the total qualifying contributions an EB can charge such expenditure against running costs.

6.3 More recently ENTRUST sought legal advice on preliminary costs in relation to DA (biodiversity) projects. The advice was that the "preliminary costs which are essential for the project to progress should be taken as project costs. The test is really 'but for these costs the project would not be able to proceed'". The difficulty comes with projects that might have very high preliminary costs and low project costs.

7. Benchmarking - Comparison Of LCF And Other Funding Schemes

7.1 The intention of the comparison exercise was to confirm whether any other grant funders were in a similar predicament to ENTRUST and to also use this information to benchmark the current ENTRUST guidance against other areas of the third sector.

7.2 For the purposes of this comparison activity, enquiries took place with ten other organisations across the UK, cited by project applicants as being connected with LCF projects. The list of organisations consulted with and the results are outlined in Appendix A.

7.3 It is important to clarify that by 'administrative' costs, we refer to costs that cannot be directly attributed to a project and include head office costs, overheads and corporate costs of the organisation receiving the grant.

7.4 In each case the questioning centred on, if appropriate, what value of grants are distributed and how the organisation views the issue of administration costs and any limits they have on this point.

7.5 Analysis

7.5.1 The funding organisations that were contacted for this consultation are set up in a different way to ENTRUST and its position in the LCF, in that the organisation that decides the compliance of a funding application is the same as that which is responsible for providing the funding.

7.5.2 This means they are able to use discretion when reviewing the administration costs element of an application and decide what is 'appropriate' or 'justifiable'. In the LCF, the situation is different due to the fact that the regulator of the fund is not responsible for directly funding a project.

7.5.3 This is very significant as the ability to decide whether to fund a project gives the ability to use discretion when reviewing the administration costs. Therefore organisations contacted that currently apply rules of 'reasonableness' as interpreted on a case-by-case basis cannot be considered to be operating in the same way as the LCF.

Project: New Kitchen Units - South Furzton Meeting Place.

Description: Refurbishing the meeting place's existing kitchen, taking into account disabled users.

Supported through: Grantscape.



- 7.5.4** With regards to the position taken by these funders on administration costs, stances range from organisations such as the National Heritage Memorial Fund and the Sutton Trust that do not as a matter of course fund any administration costs of project promoters, to organisations such as the Joseph Rowntree Trusts and the Arts Council that do not prescribe a maximum level of administration costs allowed in each funding application, simply reviewing each case individually.
- 7.5.5** The charity facts website (www.charityfacts.org) outlines the advice given with regards to charities in the UK and their Administration Costs. It advises that a charity that uses more than 15% of its expenditure on administration/running costs raises concerns regarding its efficiency. While charities are not regulated to this figure, it is important to note that the website has been endorsed by the Institute of Fundraising and is used to communicate best practice guidance to charities and those contributing to them.
- 7.5.6** The research undertaken shows that there is no common industry position on the funding of administrative costs, with four of the funders reviewing 'reasonableness' of the proposed administration costs.

8 Views of Consultees

- 8.1** ENTRUST is committed to engaging stakeholders wherever possible, to ensure that the regulation of the LCF complies with best regulatory practice. The first consultation exercise in 2008/2009, considered administration costs. The aim was to establish clear parameters for determining an acceptable level of administration costs that could be funded using LCF monies.
- 8.2** The consultation with stakeholders was through a dedicated focus group, a published consultation document, and a series of training events that allowed ENTRUST to obtain input from stakeholders. The consultation paper was made available to the whole stakeholder community through the ENTRUST Website and being sent out to the 90 largest EB in terms of funding. Responses were welcomed by post, by email and through the LCF online forum. There were 24 respondents to this consultation. This represents less than 1% of the total stakeholder population. However, stakeholders that did respond were largely those organisations that are well funded under the LCF and therefore it is possible to approximate that in excess of 60% of LCF funding was represented through the stakeholder respondents.
- 8.3** Appendix B outlines the summary responses; initial analysis of the consultation questions published, and incorporates the results of further discussion around the issues in the Focus Group.

8.4 The next sections set out the key points raised in the consultation.

8.5 Lack of Standardisation

8.6 The results of the consultation exercise has highlighted that there are a number of areas where there is a lack of standardisation amongst EB regarding the interpretation and calculation of administration costs. These are outlined as follows:

- The method by which EB determine what is, or is not an administrative costs;
- Whether the ENTRUST levy is classed as an administrative cost;
- Over what period the level of administration costs is calculated
- Whether interest earned is considered 'income' and should be used to reduce administration costs; and
- To what extent administration costs can be attributed to project expenditure and therefore considered to be project expenditure.

8.7 Issues in calculating 'acceptable' Administration Costs.

8.8 Respondents suggested the following in respect of the way administration costs should be calculated:

- Measuring administration costs on an annual basis does not take account of the variable nature of LCF funding which means the rate of receipt of contributions from a Landfill Operator is often not at regular intervals;
- Administrative activity is argued to be more closely related to LCF expenditure than LCF income, in line with the principle that the sole reason for operating under the LCF is to undertake projects;

Project: Steeple Aston MUGA

Description: Young people's recreation facilities at Steeple Aston.

Supported through: Trust for Oxfordshire's Environment.



- Stakeholders stated that a qualitative definition, such as ‘reasonable’ or ‘justified’ would provide a more appropriate definition of acceptable administration costs; and
- Administration cost levels are usually reviewed internally by stakeholders at Board/Management Committee levels.

8.9 Principles for Administration Costs

8.10 When considering the method by which administration costs should be calculated, stakeholders raised the following points:

- The definition of acceptable administration costs must be able to take account of the range of EB currently enrolled – from those that are affiliated with a large contributing Landfill Operator (LO) and undertaking hundreds of registered projects annually to those that enrol to undertake a specific project and may be run on a voluntary basis; and
- The definition must be unambiguous and uniformly interpreted by EB.

9 Recommendations for Administration Costs Chargeable Against LCF Funds

9.1 Introduction

9.1.1 As outlined in the consultation responses, currently the lack of statutory guidance on the definition of reasonable administration costs leads to confusion amongst the regulated community in terms of:

- The maximum allowable level of administration costs;
- What costs constitute administration costs;
- How administration costs should be calculated; and
- Over what period administration costs should be calculated.

9.1.2 In addition the issue of when costs fall to a project or an EB needs to be considered.

9.1.3 This section of the report considers these points in greater detail and makes recommendations on a way forward.

9.2 The Maximum Allowable Level of Administration Costs

The first issue to be considered is if full cost recovery should limit administration costs, or alternately if a formulaic approach, (such as x% of total income or expenditure) should be the limiting factor for administration costs. The Treasury has a clear policy that indicates that full cost recovery should be used. This was mirrored by stakeholders who felt a more qualitative approach would be appropriate. It is difficult to argue that the LCF should do anything other than follow the Treasury guidance.

9.2.1 Recommendation 1: The LCF should adopt the principle of full cost recovery as a method of calculating administration costs in order to be compliant with Treasury guidance.

9.3 This approach does not require a change to the Regulations, although it would require a change to the Guidance in removing the current 10% absolute limit. However, whilst a principle of full cost recovery can be adopted there is still the question of what constitutes a reasonable level of costs and if it can be further specified.

There are three potential approaches:

- To use the words 'reasonable and relevant' to define the limit and consider each case on its merits. This may cause problems in enforcement as ultimately reasonableness and relevance might only be determined through the legal process and is clearly open to some "subjectivity";
- To use the words 'reasonable and relevant' and to give some further guidance that is binding (by way of enforceable condition) to limit certain types or classes of expenditure. This would enable the scheme to be protected from potential abuse, but would require further work by ENTRUST and HMRC; or.

Project: Bedford Country Park Labyrinth.

Description: Creation of a play area.

Supported through: WREN



- To adopt a formulaic approach based on being an outlier compared to other EB. For example if a maximum percentage were set to define unreasonable as being in the top 2 or 5%. This is not recommended as there may be special circumstances which lead to higher costs which would not be recognised, and it could go against the principle of full cost recovery.

9.3.1 Recommendation 2: The LCF should use the words ‘reasonable and relevant’ and give some further guidance that is binding (by way of enforceable condition) to limit certain types or classes of expenditure, and that further work should be done finalise this in 2009/2010.

9.4 What costs constitute Administration Costs?

If full cost recovery is adopted then it would be appropriate to refer to the Treasury 2006, guidance to Funders and Purchasers which it sets out a checklist of costs that would be considered overhead costs. This is shown in the table below.

TABLE 1: CHECKLIST OF COSTS FROM TREASURY GUIDANCE

The following checklist of costs gives examples of expenditure items that are likely to be incurred in providing services. Any overhead costs included in bids should be both relevant and reasonable:

- Accommodation costs;
- Depreciation, start-up, financing costs and the cost of capital;
- Financial management, accounting and audit;
- Furniture, fittings and equipment;
- Governance, and registration and accreditation fees or membership fees of professional bodies;
- Human resources, recruitment, training and development;
- Insurance and bank charges;
- Monitoring, evaluation and reporting requirements;
- Premises maintenance and management including fire and security;
- Project management, corporate planning and senior management;
- Research and development;
- Staff costs – pay, pensions, NI contributions and redundancy payments where appropriate;
- Stocks and raw materials;
- Sub-contracted services such as consultancy and legal services;
- Telecommunications, postage, reprographics and IT;
- Travel, subsistence and transport; and
- Utilities such as heat, light and council tax;

Fundraising would not be considered as a relevant overhead cost. Likewise, campaigning is unlikely to be a relevant cost as it is neither directly nor indirectly related to the delivery of a particular service. However, in exceptional circumstances where campaigning may be allowable, this should be made explicit within the funding agreement. Value Added Tax (VAT) is not simply an overhead cost as it can be incurred on both indirect and direct costs. But irrecoverable VAT costs incurred on expenditure, associated with the delivery of an objective, should form part of the full cost of delivering that objective.

Generally these cannot be considered a 'dedicated project cost' and cannot be attributed to projects even on a proportionate basis through the use of, for instance, timesheets.

9.4.1 Recommendation 3: The Treasury list of overhead costs in their guidance is adopted.

9.5. Enforceability

It is necessary to consider what action might be taken if an EB costs are found to be unreasonable or not relevant, but are charged to the LCF. The disadvantage associated with adopting the full cost recovery method is that there is no absolute cap such as a percentage limit on administration costs that is easily measurable. This means that if administration costs have to be confirmed as 'reasonable', then the decision of whether the organisation has broken the statutory requirements depends on the interpretation of 'reasonable'. This has to be addressed with further binding guidance on reasonable and relevant costs.

9.5.1 At present any non-compliant expenditure can ultimately be recovered from the LO through claw back. Binding guidance within a condition is favourable to a condition that elements of the ENTRUST guidance are binding, as this would highlight that certain elements of the guidance are not binding.

Project: Fazakerly Woods and Fields Volunteering Project
Liverpool.

Description: The project has seen volunteers, local school children and a friends group restore and improve an important area of woodland in the Fazakerley area of Liverpool.

Supported through: Veolia Environmental Trust.



- 9.5.2** There have been isolated cases of what would probably be deemed to be excessive remuneration and pensions entitlements, as well as examples of EB who are claiming administrative costs but there are no projects being supported, and these are examples of areas where further work needs to be done to set out what is 'reasonable and relevant'.
- 9.5.3** Recommendation 4: An enforceable condition should be agreed that running costs are only compliant expenditure insofar as they are 'reasonable and relevant' and comply with guidance on 'reasonable and relevant' as agreed with HMRC and contained within the condition.

9.6 Project and EB Costs Differentiation

One of the issues in setting out any guidance on costs allocable to projects as opposed to EB is that the concept of a project does not exist in the Regulations and any definition would also required a substantial change to the Regulations.

- 9.6.1** The concept of reasonable and relevant overhead or running costs can apply to both projects and EB running expenses. In practice EBs can be expected to have slightly different approaches to how they allocate costs at the margin between projects and their own running expenses.
- 9.6.2** Full cost recovery means that EB would need to separate out their LCF and non LCF activities as they do now, but they could allocate the appropriate share of overhead costs to LCF projects in line with full cost recovery principles. In theory there might then be no running costs chargeable against the EB as a separate entity. In practice EB may allocate their costs to projects differently and there is no difference on the LCF funds if they allocate costs differently between projects and the EB itself. The difference will be on the reported costs of projects, and of EB. For this reason it isn't necessary to be prescriptive about charges against an EB or a project, allowing an EB to keep current cost allocation methods if they wish.
- 9.6.3** Recommendation 5: There does not need to be further clarification of costs allocable between projects and EB if a reasonable and relevant approach is taken to overhead and running costs.

9.7 Encouraging Good Practice

- 9.7.1** In order to keep a downward pressure on administration costs it might be appropriate for ENTRUST to publish information on average administration costs and EB with very high or low administration costs. Those EB with excessive costs might then be held to account by their funders, and if necessary justify their particular circumstances.
- 9.7.2** Recommendation 6: A further consultation is held on publishing administration costs, and listing EB with the highest and lowest administration costs.

10 Impact Assessment On EB And Entrust

- 10.1** This section aims to outline the impact of adopting full cost recovery on ENTRUST and EB with a binding qualification that costs must be reasonable and relevant.
- 10.2** A number of consultation respondents suggested that administration costs should be required to be 'reasonable' or 'justified'. The benefit of adopting this method of administration cost calculation is that it allows a qualitative assessment to be made of each EB activities and requires the administration costs to be justified as, for instance, 'reasonable'. This therefore takes account of exceptional administration costs and the range of activities undertaken by EB. For this reason, the qualitative approach is favoured by stakeholders, as outlined in the consultation responses.
- 10.3** EB will need to keep records of their administration cost allocations, but this is no more than good practice. There is plenty of good guidance available from both the Treasury and ACEVO on how to carry out full cost allocation.
- 10.4** The approach differs from a quantitative formulaic approach in not disadvantaging EB with specialist costs without understanding their individual circumstances.
- 10.5** By adopting a binding condition with guidance on reasonable and relevant ENTRUST as a Regulator can concentrate on clear breaches where LCF funds are not being appropriately used to benefit local communities.



- 10.6** A significant minority of EB representing a significant proportion of LCF funds are currently making a charge for their running costs against the LCF equivalent to more than 10% of their income. It is difficult to judge if others would take advantage of full cost recovery and charge a higher percentage of administration against the LCF thus reducing the funds available for front-line projects.
- 10.7** Guidance would need to be provided on full cost recovery methodology, and ENTRUST staff would need to be familiar with its principles. However, it is commonly understood at both the Treasury and within the Voluntary Community with guidance and toolkits in the public domain.
- 10.8** In Summary, a binding interpretation of relevant and reasonable administration or running costs, would allow enforcement for clearly unreasonable circumstances whilst also being the method favoured by EB.

11 Implementation Issues

- 11.1** In order to implement the recommendations in the report the terms of a condition need to be agreed with HMRC and the guidance will need to be changed.
- 11.2** There is no reason why the ENTRUST guidance cannot be changed to refer to 'relevant and reasonable' running or overhead costs prior to the wording of a condition being agreed. This would immediately put the guidance on the footing promoted by the Treasury, and would be in effect in line with the legal guidance already received.
- 11.3** Recommendation 7: The ENTRUST guidance should be changed to refer to full cost recovery.
- 12** In order to protect the LCF from potential abuse and to have robust criteria on which to enforce. ENTRUST and HMRC should work together quickly to agree guidance to be contained in a binding condition of 'relevant and reasonable' taking into account known examples where it is felt there is unreasonableness, and considering potential areas.
- 12.1** Recommendation 8: ENTRUST and HMRC should work together quickly to agree guidance to be contained in a binding condition on 'relevant and reasonable'.

13 Conclusions

- 13.1** The LCF should follow the Treasury Guidance as a Government sponsored scheme and allow full cost recovery. This will not require a change to the Regulation. However, in order to ensure that cases of unreasonable or irrelevant costs can be addressed through enforcement action further binding guidance in the form of a condition will protect the LCF funds. This should be developed as a priority.
- 13.2** There is no reason why the guidance cannot be changed to reflect the acceptability of full cost recovery.

The Organisations contacted as part of the Comparison Exercise

Awards for All

A National Lottery scheme, run with the intention of giving small grants, directly to local communities. The emphasis is on art, sport and community facilities.

Grant Size:	£300 – £9,000.
Admin Costs position:	Will cover revenue costs in certain cases. Running costs can be met providing link to facility provision demonstrated (i.e. rental costs of village hall for the dance class, or rental of equipment).

Heritage Lottery Fund

A National Lottery Scheme aimed at acknowledging our heritage, whether it is physically through fixed, capital works (i.e. museums) or through non fixed works such as sponsoring performances and exhibitions.

Grant Size:	£5,000 +.
Admin Costs Position:	No admin costs are funded through HLF at all. All money received must be strictly project related.

Arts Council

Aims to get more art to more people in Britain, developing and promoting all elements of the arts.

Grant Size:	Up to £200,000 for national activities.
Admin Costs Position:	There is no specific limit on the admin costs funded, however a case must be demonstrated to justify expenditure.

National Heritage Memorial Fund

Its purpose is to act as a fund of last resort to provide financial assistance towards the acquisition, preservation and maintenance of land, buildings, and works of art and other objects.

Grant Size:	No boundaries.
Admin Costs Position:	Will not fund any element of admin or revenue costs, or any day to day running of project. Capital costs only.

Sutton Trust

This scheme is to fund innovative projects providing educational opportunities for young people.

Grant Size:	No boundaries
Admin Costs Position:	Explicitly no admin/core costs funded at all, only project related works.

Sport England

This organisation has primary responsibility for investing in and promoting community sport.

Grant Size:	£9,000 minimum, no maximum.
Admin Costs Position:	Will not fund 'general running costs' or expenditure that is for 'general office and administration services costs'.

Capacity Builders (Pilot Grants Programme)

A scheme that aims to “improve the reach of infrastructure for a range of marginalised groups by building on the recommendations of the Equality and Diversity Strategy”.

Grant Size:	£50,000 to £90,000.
Admin Costs Position:	No fixed percentage, each project reviewed for reasonableness.

Joseph Rowntree Organisations

Promoting work rectifying imbalances of political power, promoting peace, overcoming social disadvantage and housing assistance.

Grant Size:	No Boundaries
Admin Costs Position:	Admin Costs allowance is dependent on the project proposal.

Charityfacts.org

Providing information on the range of organisations registered as charities and what to look for when deciding which charities to support.

Grant Size:	N/A
Admin Costs Position:	Wouldn't consider an organisation with less than 5% of expenditure on admin costs to be well controlled due to insufficient administrative procedures. However an organisation with more than 15% expenditure on administration costs may raise concerns regarding the efficiency with which the organisation's aims are being met.

Community Foundation Network

A National network representing the local community organisations – charities that are located across the UK dedicated to strengthening local communities, creating opportunities and tackling issues of disadvantage and exclusion.

Grant Size:	N/A
Admin Costs Position:	General advice given to member organisations is that admin costs are 10% or less of revenues.

A Summary of the Consultation Paper and Focus Group Responses.

1 What Problems Do You Encounter When Complying With The Current 10% Good Practice Guidance On Administration Costs?

- 1.1** Responses varied, with some organisations stating that they do not encounter any problems complying with the current 10% guidance and other stating that they currently operate in excess of this and that 10% was an unrealistic figure. Clarification was sought by a number of organisations regarding the measurement of the 10% figure – i.e. how it was calculated.
- 1.2** The fluctuation in the rate of receipt of income by EB raised the issue of over what period the administration costs should be calculated. If the 10% compliance level was simply calculated annually based on income, a large number of EB – often including the larger organisations – would not be considered compliant. This is due to the nature of the LCF funding process that makes the rate of income unpredictable.
- 1.3** Summary
- The current guidance does not provide the necessary definitions to ensure that all EB interpret and calculate their administration costs in a uniform way; and
 - A calculation of administration costs over only one year does not take account of the unpredictable nature of LCF funding.

2 What Methodology Do You Use To Calculate Your Administration Costs? (E.G. Proportion Of Income)

- 2.1** This question revealed a number of different approaches currently in place by EB to calculate their internal administration costs.
- 2.2** The majority of organisations do base their calculation on the income received annually, citing ENTRUST guidance as reasoning. A number of respondents did state that their own administration costs when calculated through this method did exceed 10%. It was stated by a couple of respondents that administration costs are more closely linked to activity rather than income. For this reason they calculate administration costs for internal management purposes on an expenditure basis.

2.3 Full Cost Recovery (FCR) (a method by which all costs of delivery of a project is included in the grant application) is used by a number of enrolled organisations to calculate the full costs of undertaking a project. It was argued that at present the LCF does not align with the principles of FCR.

2.4 Summary

- Due to the published ENTRUST guidance, most EB calculate administration costs as a percentage of income; and
- The point was raised that administrative activity is more closely linked to the expenditure rather than the receipt of LCF money.

3 Do You Include Interest Received In Calculating Your Administration Costs?

3.1 66% of respondents confirmed that they do include interest generated when calculating administration costs, i.e. Interest earned on LCF monies held is added to the Contributions and Transfers of money into the organisation during the period when considering the LCF income in the administration costs calculation.

3.2 It was stressed by three organisations that the amount of money held on a year to year basis was very low due to the fact that all money received was earmarked to be spent as soon as possible. This meant that the impact of including the interest in calculations was minimal.

3.3 Other organisations advised that they had to maintain an amount of uncommitted LCF funds to allow for the possibility of winding down the organisation or if funding were to cease. This amount is usually worked out as a rolling average and is dependent on the number/value of ongoing projects etc.

3.4 Summary

- The majority of organisations do calculate administration costs as a percentage of Contributions + Transfers + Other income derived; and
- Most organisations stated that they do not hold large amounts of LCF monies from one year to the next and therefore the impact of incorporating the interest received is minimal.



4 What Type Of Costs Do You Incur That You Consider As Administration Costs?

4.1 Compiling the responses received from stakeholders, the following contribute to Administration Costs:

- Accountants Fees;
- Audit Fees;
- Insurances;
- Legal Costs;
- Subsistence and Travel Costs of Staff;
- Professional Association Costs;
- Staff Costs;
- Telephone, Web and Software Costs;
- Postage;
- Capital Equipment; and
- Publicity and PR Costs.;

4.2 The majority of enrolled organisations did consider the ENTRUST Levy (currently 2.28%) to be an administrative cost due to it being not project related and paid centrally. If the levy is included in the administration costs figure, it can be simply extracted based on the ENTRUST levy percentage of the contributions received figure.

4.3 A number of respondents indicated that rather than obtaining a conclusive list of headings, they simply considered to be all costs incurred by an organisation apart from those that can be directly related to a project or the payment of the ENTRUST Levy to be their organisation's administration costs.

4.4 Summary

- It is simplest to define administration costs with a holistic statement such as 'all LCF costs connected with the operation of the organisation' rather than attempt a conclusive list of expenditures that make up the administration costs of an organisation; and
- The majority of organisations do not include the ENTRUST levy in their calculations of administration costs.

5 Do You Attribute Administration Costs To Project Related Expenditure? Please Provide Details Of How You Do This.

- 5.1** 50% of respondents aim to attribute 'administrative' costs to each of the projects registered. This may be through the use of timesheets or other methods that allow all possibly project related costs to be calculated. This lowers the headline 'non-project related costs' figure on the Form 4: Statutory Annual Return.
- 5.2** One organisation stated that they calculate the administrative costs that will accrue through each project proposal and include those in the project costs at the proposal stage. This requires the organisation to have good knowledge of the work involved in the different types of project.
- 5.3** The remaining 50% of respondents do not attribute administration costs to project expenditure as a matter of course. These organisations aim to absorb admin costs related to projects into general administration costs. It was stated by one respondent that in cases where a project requires specialised, expert management, it may be necessary to employ a consultant as a project related cost.
- 5.4** Summary
- The practice of attributing admin costs to project-related expenditure varies massively amongst stakeholders. This range has developed due to the lack of guidance available in the LCF; and
 - Attributing administration costs to projects (whether on a timesheet basis or otherwise) reduces the figure quoted on the annual return and must therefore be considered when calculating the headline administration costs of an organisation. A definition of administrative costs must therefore be unambiguous and uniformly interpreted.

6 Do You Have Your Own Guidance Or Management Controls In Place In Relation To Administration Costs? If So, How Were These Drawn Up?

- 6.1** The vast majority of respondents confirmed that all administration cost levels are agreed annually at Board level. This is based on an estimation of the LCF monies that is expected to be received in the year and the anticipated costs of running the organisation. Inflation is also considered by a number of organisations, resulting in an allowed amount of administration costs to be charged to LCF monies in the following year.

- 6.2** It was recorded that administration cost expenditure is regularly market-tested to ensure value for money is obtained. This would be through a tendering process where possible or quotes obtained from a number of different suppliers.
- 6.3** Respondents also stated that the costs are monitored through the year against the budget and all expenditure can only be made by approved budget holders.
- 6.4** A number of respondents advised that their management committee involved in the establishment of administration costs often sought advice from ENTRUST and other stakeholders on how acceptable levels should be calculated. Clear guidance from ENTRUST would benefit stakeholders in this position.
- 6.5** Summary
- Currently administration costs are usually agreed and enforced by the management committee of the organisation. Often the management committee is required to compare similar stakeholders etc. to be assured of good value for money; and
 - The lack of clear statutory requirements with regards to administration costs has resulted in a more subjective interpretation by individual stakeholders.

7 How Would You Like To See Administration Costs Calculated And Why? (For Example As A Proportion Of Income Or Expenditure)

- 7.1** It was argued that there is currently a wide variation in approaches to measure administration costs with significant variables not currently accounted for. These included whether payments were made to the management committee of an organisation and whether the organisation had to pay rent for the premises occupied.
- 7.2** With the varying factors as outlined above, a number of organisations expressed a wish that any process used to calculate administration costs should allow for variables to be considered.
- 7.3** A number of respondents stated that an inflation escalator should be included in the administration costs calculations to take account of inflationary pressures.

- 7.4** Opinion was divided as to whether the figure should be calculated based on income or expenditure. Basing a calculation on a percentage of expenditure may act as an encouragement to organisations not to seek best value for money when calculating LCF expenditure. It was also argued that this could encourage organisations to support unnecessary projects or projects that do not fulfil a requirement or need.
- 7.5** Organisations also highlighted the fact that a considerable element of administration was accrued working with project applicants that did not subsequently become registered and record LCF project expenditure. Basing the calculation on expenditure would not take account of this element of work.
- 7.6** Calculating the administration costs based on the LCF income of an EB is undertaken by a number of enrolled EB at present – in a large part due to ENTRUST guidance on this point. A number of respondents stated that they did not consider this an effective measurement of workload as the administrative costs often accrued when the LCF monies were spent as opposed to when the money is received. Often the length of time between receiving and spending the LCF money is more than a year and so the administration costs will vary massively depending on how it is calculated.
- 7.7** The third method suggested by respondents was to measure income based on the funds managed by the organisation. The funds managed could be based on the total of LCF money received and spent. This would provide an overview of the income and expenditure activities and a better guide of what level of administration costs to expect from the organisation.
- 7.8** One respondent stated that they currently calculate administration costs based on annual turnover over the previous three years.
- 7.9** A number of respondents stated that a single calculation to measure administration costs would not be able to incorporate the range of EB enrolled in the LCF. It was argued that if a calculation was to exist, it must be based predominantly upon the number of projects registered, outstanding and overseen by the EB. While stakeholders acknowledged the complexity and ambiguity connected with using principles such as ‘reasonable’ as opposed to definite quantifiable figures, the scope should exist to take account for exceptional administrative costs.
- 7.10** The majority of respondents stated that they considered a qualitative measurement of acceptable administration costs to be more appropriate than a quantitative figure (i.e. a percentage) due to the variability in set up and practices of enrolled EB.

7.11 The significant differences highlighted were between those organisations that fund a number of projects and those that are set up to undertake one specific project and those funders that register an applicant's project under their own name and those that will only transfer money to another organisation to undertake.

7.12 One suggestion received was to classify "LCF Fund Management Costs", defined as "all LCF Funds not committed to projects excluding the Entrust levy".

7.13 Summary

- Proposals were based on a proportion of either: i) income, ii) expenditure or, iii) turnover. The majority calculate based on income, due in large part to the guidance in place.
- A one size fits all approach will need to take account of the range of EB and activities undertaken in the LCF; and
- A qualitative interpretation is preferred to a quantitative interpretation due to the range of EB and to provide allowance for exceptional yet explainable administration costs during a period.

8 How Do You Demonstrate That Your Administration Costs Are Reasonable And Provide Value For Money?

8.1 Value for money is measured very differently by respondents to the consultation. In the majority of organisations, the administration costs taken from LCF monies are constantly under review, often at Board level. Quotes are sought for administrative work undertaken where possible.

8.2 There is a considerable amount of information transferred between EB looking to benchmark and compare the admin costs taken by each organisation.

8.3 The use of volunteers provides assurance to a number of respondents that value for money is obtained.

8.4 Other respondents have a much more specific method of measuring value for money. One organisation uses a matrix of KPI's – including:

- All LCF costs excluding Entrust levy as % of LCF Receivable (cost to income);
- All LCF costs as % of annual funding programme (cost to anticipated activity);
- All LCF costs as % of committed funds (cost to actual activity); and
- Average project management cost (LCF costs divided by no. of projects).

8.5 Summary

- Benchmarking takes place between EB and with organisations external to the LCF; and
- Quotes and tendering processes are used where possible.

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?

9.1 A number of respondents do transfer funding to other EB and were therefore able to answer this question. Practices varied from those organisations that generally do not provide any support for the administration costs of other EB or projects, to those that require any administration costs to fall within certain guidelines.

9.2 The majority of respondents did allow admin costs to be taken from any amount transferred to another EB, as long as this was less than 10% of the transfer amount.

9.3 Summary

- The majority of respondents did allow organisations that they fund to charge administration costs on the funds received, providing it met the 10% guidance in place.

10 Do Your Contributing LOs Specify Any Limits To The Administration Costs That You Can Take From Contributions Received?

10.1 The majority of EB are not subject to specific restrictions from the contributing LOs with regards to the level of administration costs that they can take. Indeed, one respondent stated that their contributing LO was unhappy that the EB was limited to only 10% of income being allowed as administration costs.

10.2 Conversely, a number of respondents were asked to conform to the 10% guidance by the LOs. This is in part due to the wish to remain compliant with ENTRUST guidance.



10.3 At the focus group it was discussed that a number of contributing LOs are not at all involved in monitoring administration costs and ensuring value for money is obtained from their LCF contributions. If this lack of knowledge was addressed then those EB that are not currently subject to any oversight regarding administration costs and are therefore most likely not to be obtaining value for money would be required to demonstrate value for money to their contributors.

10.4 Summary

- The majority of respondents advised that they are not subject to specific restrictions on the level of administration costs that they are able to charge to LCF monies. Usually the landfill operator does have an oversight of the LCF activities however this does not normally include prescribing the administration costs allowed.

11 Please Detail Any Restrictions On Administration Cost Expenditure You Experience From Other Stakeholders Outside The LCF, For Example From Other Funders, Regulators Etc.

11.1 One respondent indicated that recent work undertaken funded by English Heritage had no restrictions in place but resulted in roughly 23% being considered administration costs.

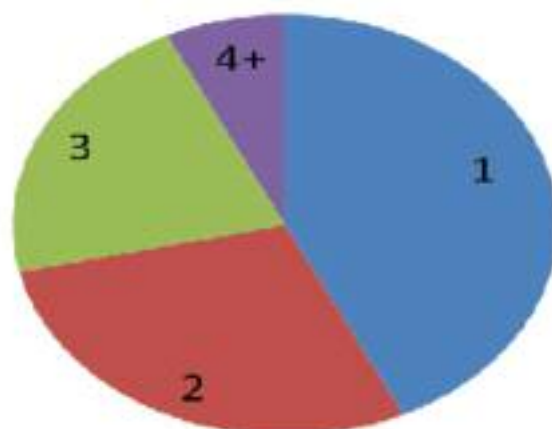
11.2 Summary

- No examples of equivalent restrictions were received

12 How May LOs Do You Receive Contributions From? Please Include Contributions That Have Been Transferred From Another EB.

12.1 The number of LOs contributing LCF funds to the consultation respondents is outlined in Figure 1 below. 45% of respondents are funded by only one LO, with two thirds of EB being funded by a maximum of two LOs.

Figure 1: A pie chart representation of the proportion of consultation respondents that are funded by how many Landfill Operators.



12.2 Summary

- 45% of respondents receive all LCF funding from one LO;
- Two thirds of respondents are funded by one or two LOs; and
- The remainder receive funding from more than two LOs.

13 Do You Notify The LO When And How The Contribution Has Been Spent? Please Provide Any Details/Comments On This.

13.1 In every case, the respondent EB stated that they notify the LOs of the expenditure of the contributions received. This may be on a quarterly basis if the LO has representation at the EB Board Meetings, or by way of an annual report.

13.2 In a number of cases, performance is reviewed generally with each LO to allow each contributor to be aware of the receipt and expenditure of all LCF monies, whether it is on administration or project expenditure.

13.3 When an EB is required to apply to a LO for funding for each project, this reporting system is often more pronounced and transparent.

13.4 Summary

- LO involvement varied from receiving an annual update about expenditure to having representation in the management committee of the EB.

14 Please Outline Any Further Points You Would Wish To Add Regarding The Topic Of Administration Costs Taken By EB Or The Records Kept.

- 14.1** If the ENTRUST levy is to be included in administration calculations then it was argued that an inflation element that received an annual review should be included in the administration cost calculations. Following the change in the ENTRUST levy from 2% to 2.28%, the amount that could be charged as administration costs had now reduced.
- 14.2** It was suggested that the level of administrative costs taken by an EB will vary based on a number of connected factors. The table in Figure 2 outlines points to consider when drawing up administration cost guidance.

Figure 2: Factors influencing and organisation's administration costs.

Higher admin costs	Lower admin costs
Serving a deprived community needing more help to develop projects	Covering middle class communities
Required to source Third Party Funding	Contributing Third Party not required
Receives funds from many LOs	Receives funds from only one LO
Publicises its work so that as many people as possible are aware of the LCF and can access it	No publicity surrounding work
Registers projects	Funds via transfer to another EB that has registered the work
Works with community to initiate and develop projects	Simply reacts to finished bids submitted
Income fluctuates from year to year	Steady income
Covers wider geographical area	Covers smaller geographical area
Appetite to challenge Regulator or other stakeholders on interpretative queries and disputes	Unwillingness to challenge interpretative issues
Prepared to work on potential projects that might never materialise	Only reacts to finished bids
Develops specialist knowledge in topics such as biodiversity, historic buildings etc	No development of specialist knowledge
Organisation that has experienced a recent reduction in LCF income.	Continuing commitment from LOs

- 14.3** A common theme to the responses received was the unwillingness to adopt a quantitative one-size-fits-all policy with regards to administration costs. It was argued that a larger organisation with a reliable income would be able to make use of economies of scale that would not be available to the smaller, voluntary based organisations. The concern was therefore raised that if a percentage was introduced, then it should not restrict the smaller organisations from operating.
- 14.4** It was stated that while 10% in itself may be deemed to be reasonable, scope for a contingency should be included (e.g. 5%) beyond the limit to take allowance of exceptional circumstances.
- 14.5** One respondent argued that ENTRUST should aim to pick up efficiencies such as the level of administration costs at the time of audit as opposed to through a calculated percentage. This ties into the point raised by the vast majority (in excess of 90%) of respondents that administration costs should be judged for compliance in terms of 'reasonableness' or 'justifiable' as opposed to a quantitative percentage.
- 14.6** It was suggested that above a certain level an EB should be expected to provide an explanation why its costs are above the guidance in its Form 4: Statutory Annual Return.
- 14.7** One respondent stressed that this opportunity should be taken to align the LCF administration cost issue with the principle of Full Cost Recovery as HM Treasury recommends and to be ensuring that the regulations or guidance for the Fund do not prevent funders fully embracing the principle.
- 14.8** It was reiterated that whether the LCF income is reported on a cash basis or an accrual basis, an organisation's activity was a better indicator of the administration costs.
- 14.9** With regards to the length of time over which the calculation of administration costs should be made, it was stressed that using rolling averages and historical data may provide a more appropriate measurement due to the changeable rate of receipt of LCF funding.
- 14.10** It was also suggested that any measurement of administration costs should take account of the risk of 'coin clipping' – where LCF monies are transferred from one EB to another and the resultant risk of the admin costs being taken by both EB.

14.11 Summary

- The administration costs reasonably incurred by an EB varied depending on a number of factors, including funding policies, the level of funding and the projects undertaken;
- EB stated preference to a qualitative definition of administration costs as opposed to quantitative;
- Respondents stated that the maximum allowable level should include a contingency for occasions when an EB incurs exceptional administrative costs;
- The recent Full Costs Recovery initiative has been encouraged by HM Treasury and should be considered in the administration cost context; and
- The activity of an organisation is better expressed as a proportion of LCF expenditure as opposed to LCF income.



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