

REDUCING THE LEVEL OF UNSPENT LANDFILL COMMUNITIES FUNDS

1. Introduction

1.1 Budget 2011 announcement

- 1.1.1 The Government announced in Budget 2011 that future decisions on the value of the Landfill Communities Fund (LCF) will take into account the success of Environmental Bodies (EBs) in reducing the level of unspent funds that they hold.
- 1.1.2 The Government has therefore issued a challenge to EBs to reduce the level of unspent funds by 15 per cent from the 2009/2010 baseline, by 31 March 2012, with a corresponding increase in project expenditure (Challenge 2011).
- 1.1.3 The amount of funds which EBs reported that they were holding when they submitted their 2009/2010, statutory annual returns was broken down as follows:

Table one: Breakdown of unspent funds

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

- 1.1.4 The Government is committed to the LCF, as demonstrated by the increase in line with inflation of its value for 2011/2012, despite a backdrop of challenging public finances. However, the Government is keen to maximise the benefit the LCF provides and ensure that money is spent on the good causes as quickly as possible.

1.2 Principles

- 1.2.1 The Landfill Tax Regulations 1996 (Regulations) require EBs to spend the qualifying contributions that they receive on approved objects. In order to ensure that communities benefit from the



contributions as quickly as possible, we expect that they are spent within a reasonable time. Our guidance currently sets out in section C) Spending Landfill Communities Fund Monies (LCF Monies) and Registering Projects that generally LCF monies should be committed to a project within two years of receipt. However, following the Budget 2011 announcement, we will revise this guidance to add that contributions should be committed to projects as quickly as possible.

1.2.2 The Regulations allow for LCF money to be invested, but the money and/or any derived income must be spent on approved objects. We consider that EBs must be able to demonstrate that there is an intention to spend any investments (and income derived from the investments) on the approved objects and that this is done within a reasonable timeframe. However, EBs must also consider any conditions that the contributing Landfill Operator (LO) or Distributive Environmental Body (DEB) has placed on the funding which are specific to how the money is to be invested.

1.2.3 Challenge 2011 specifically sets out that there should be an increase in project expenditure which corresponds to the reduction in the level of unspent funds. Therefore we expect that there should be no undue increase in running costs of EBs, which should continue to be reasonable and relevant as set out in our current guidance at section C) *Spending Landfill Communities Fund Monies (LCF Monies) and Registering Projects* paragraph nine:

9.1 The Regulations allow some or all of an EBs running costs to be regarded as an approved object. ENTRUST interpret this to be costs which are reasonable and relevant to the LCF. This means an EB may spend LCF monies on its own administration costs if they are reasonable and relevant.

9.2 All costs should be reasonable and comparable to similar organisations, by both sector and size of organisation. EBs who are managing no or very few live projects should have minimal EB running costs, which should relate to their level of activity.

9.3 Regulation 33(8) restricts an organisation with a number of different types of funding from using LCF monies to pay all the running costs – LCF monies can only pay the proportion of running costs that corresponds to the proportion of the organisation's funding that comes from the LCF.

9.4 As a matter of good practice, running costs which are in excess of 10% of LCF expenditure per annum will be monitored by the Compliance Team and, where appropriate, a review will be organised. Therefore all running costs should be financially justified and open to scrutiny by ENTRUST.

1.2.4 It is important that Value For Money (VFM) continues to be retained within the LCF and the Challenge 2011 should not have a detrimental effect on this. In order for us to continue to inform HM Treasury of the many benefits of the LCF, it is necessary for EBs to ensure that any completed projects are reported on their Form 4 – Statutory Annual Return and that VFM data is completed as accurately as possible on the Form 2 – Applying to Register a Project and relevant appendices.

1.2.5 We will be undertaking a number of Compliance visits during the year which will focus on the level of unspent funds which are held by an EB. These visits will be largely focussed at EBs who have a disproportionate amount of their funding not legally committed to projects registered with ENTRUST.



2. Suggestions To Reduce The Level Of Unspent Funds

In the paragraphs below, this document sets out some of the issues that EBs may consider in assisting them in reducing the level of unspent funds that they hold. However, each EB is different and each EB will need to take a course of action that is appropriate for its own circumstances, while at the same time ensuring that they comply with the Regulations and best governance practices. This document is not definitive and EBs may develop additional methods to reduce their unspent funds to address the Challenge. It is important for EBs to continue to minimise risk and maintain the integrity of the LCF.

2.1 Uncommitted funds

- 2.1.1 Many EBs do not currently commit funds until they have received them. EBs who have regular funders could discuss ways with their funders in which they may be able to get an 'in principle' commitment to a minimal level of funds that will be paid, and to commit and hence spend this minimal level earlier. This may be affected by the levels of waste that are expected to be sent to landfill throughout the year.
- 2.1.2 EBs who have contributing LOs who make large single contributions on the 31 March each year, could discuss with their LOs the possibility of phasing in smaller payments during the year. This may not be appropriate for the funding LO in all cases due to the accounting policies and principles that they operate under.
- 2.1.3 EBs funding policies may be having an impact on the speed at which LCF funds are committed because of the type of projects that are being supported. We recognise that funding policies are the legitimate remit of EBs, but they can have an impact on the level of unspent funds which we expect EBs to be aware of.
- 2.1.4 EBs may wish to consider reducing the expected length of time projects will take to complete. Whilst a strength of the Fund is that it can be a seed corn funder, this may not be appropriate if the timeframe for other funders to be confirmed is excessive.
- 2.1.5 If EBs do not have sufficient demand for their funds they could consider broadening the scope of the types of projects which they fund. This could be done by:
- Increasing the maximum level of funding which they can offer to projects;
 - Decreasing the minimum level of funding which they can offer to projects, Accredited EBs could take advantage of the ENTRUST Small Grants Scheme if this approach was adopted;
 - Supporting other objects or types of projects (if their governing documents would allow for this); and
 - Increasing the funding area if the EB funds projects that are more restricted by geography than the ten mile rule set out in ENTRUST guidance.
- 2.1.6 If any of the methods outlined in paragraph 2.1.5 above are implemented, EBs must ensure that both their governing documents and funding agreements with LOs or funding EBs allow for the action to be



taken.

2.1.7 EBs could also consider what practices they could adopt to streamline the time it takes to commit funds and this could include:

- More detailed project application forms to ensure all relevant details are provided up front;
- Monthly project approval Board meetings;
- Delegation of responsibility for project approval of projects under a diminished level to a nominated representative of the Board; and
- Strategic planning of project approvals to fast track appropriate projects.

2.1.8 If EBs have endowment funds, they should periodically review the need for these and the reasonableness of the timescales for planned expenditure.

2.2 Funds committed to projects not registered with ENTRUST

2.2.1 Our guidance sets out in section C) *Registering Projects and Spending Landfill Communities Fund Projects* at paragraph 6.3 that EBs must register projects with us in advance of spending or entering into any contract/obligation to spend. We therefore expect projects to be registered in a timely manner following any initial funding offer.

2.2.2 In order to reduce the level of funds which are committed to projects that are not yet registered with ENTRUST, EBs could consider what processes can be put into place to speed up the time which it takes for the registration of projects where funds have been committed. If the practices outlined in paragraph 2.1.7 above were adopted, these could also allow for quicker project registration with ENTRUST.

2.2.3 EBs may also consider if it would be advantageous for them to become Accredited as this status is awarded to EBs that can demonstrate the highest levels of Governance. A benefit of Accreditation is that EBs are able to register their own projects. This process is significantly faster than submitting projects to ENTRUST for approval. If you would like further information on Accreditation, please contact one of our Compliance Managers, **Mike Holland** on **01926 488 309** or **Andrew Wood** on **01926 488 310**.

2.3 Funds committed to projects registered with ENTRUST

2.3.1 EBs can reduce their level of unspent funds if they regularly chase projects to submit invoices, so that they are able to make the staged payments at a faster rate.

2.3.2 Some EBs make staged payments to projects once they have received a copy of the invoices to be paid. This process ensures that projects are completed and value for money is obtained. However, there may be some instances where EBs are working with a project applicant regularly and it may be possible to make a payment of the full amount of LCF funding if the EB deems the project applicant reliable and the project can hold the funds securely.



2.3.3 EBs can review the amount of time between funding being agreed for a project and the first payment being made. For example, if the project has not commenced after three months, the EB may consider re-allocating the funding.

2.3.4 EBs who regularly extend a funding offer because a project has not commenced may wish to review and restrict this practice.

2.4 Funds retained for the winding up of the EB

2.4.1 Many EBs are retaining funds in the event of the cessation of the fund to ensure that they are able to continue to monitor registered projects until they are completed. These costs are referred to as 'wind up costs'. If EBs are holding reserves for wind up costs, these should be reviewed to ensure that an excessive amount of money is not being held for this reason.

