

Consultation on Further Guidance to Environmental Bodies (EBs) on Accounting and reporting for income derived

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| Subject of this Consultation: | Further guidance to EBs on accounting and reporting for income derived. To ensure compliance with the existing Regulations. |
| Scope of this Consultation: | <p>Through this consultation exercise, we aim to ensure that our guidance on the definition of income derived and the principles for accounting for income derived are clear and concise. EBs are also invited to submit project examples where it is not clear if income derived has been generated, which may feed into our guidance, and ways to account for and evidence income derived.</p> <p>Additionally, we are also consulting on a number of new questions that could be added to the project application form (Form 2) to help EBs to recognise and account for income derived.</p> |
| Who should read this: | Environmental Bodies |
| Duration: | The consultation will be open for 12 weeks. The closing date for responses is 24 January 2014. |
| Enquiries: | If you have any questions about this consultation, you should contact Madeleine Hodgson , Regulations Officer on 01926 488 323. |
| How to respond: | <p>You can respond to the consultation in any of the following ways:</p> <p>Email: Regulations team</p> <p>On-line: Income derived survey</p> <p>Post: Madeleine Hodgson, Regulations Team, ENTRUST, 60 Holly Walk, Royal Leamington Spa, Warwickshire, CV32 4JE.</p> |
| Additional ways to become involved: | We will also be holding a focus group to discuss this subject. The date and location of the focus group will depend on the number of expressions of interest we receive. If you would like to attend, please email Madeleine Hodgson by 20 December 2013. |
| After the consultation: | <p>After reviewing the responses to this consultation document, we will publish a summary of responses alongside our 'Next Steps' report, which will outline our position on the way forward.</p> <p>This report will be located on the feedback section of the consultation pages on our website.</p> |
| Previous engagement: | Guidance on the record keeping and reporting obligations of EBs in relation to income derived was published in July 2012. |

1. Introduction

1.1 ENTRUST is the regulatory body appointed by HMRC to regulate the Landfill Communities Fund (LCF). Consultation and discussion with stakeholders are key in ensuring that any recommendations for change to the Landfill Tax Regulations 1996 (Regulations), guidance, or procedures are fit for purpose.

1.2 All EBs must record and report any income derived in accordance with [Regulations 33A\(1\)\(d\)\(iii\) and \(v\)](#) and [Regulation 33A\(1\)\(h\)](#). The Regulations also require that all income derived must be spent on approved objects, even if it is not directly received by an EB.

1.3 To help EBs correctly account for income derived, our EB Guidance Manual states:

any income an EB receives from its LCF monies must also be spent on the approved objects. This includes:

- All interest as a result of investing LCF monies;
- Any other derived income resulting from LCF project expenditure (for example, the royalty as a result of projects activity, or from the sale of assets bought with LCF monies, all from rental income from hiring out the facilities provided by the public amenity; and
- Any funds returned to, or reclaimed by, an EB.

Any income derived from the LCF funded part of the project must be spent on an approved object, which includes the EBs running costs (or a relevant percentage).

1.4 We issued a separate subsequent guidance note “Recording and Reporting Income Derived” in July 2012. The position in this guidance was that when an EB registers a project that generates income and that income is directly received by the EB, these monies are to be classified as the EB’s income derived. Consequently, the EB has an obligation to record and report to us all of the income derived that it receives. EBs were advised that where income derived is not directly received by them, there is no requirement for them to record and report it. However, those EBs who find themselves in this position must be satisfied that any income generated from LCF monies is only spent on the approved objects set out in the Regulations. This should be evidenced from the EB’s project monitoring processes to check ongoing compliance and we would expect procedures for project monitoring to correspond to our guidance on asset lifetimes.

2. Reasons for consultation

2.1 The Regulations are specific regarding EBs’ spending and reporting obligations for income derived. However, we have found that the expected income derived from projects can often be recorded incorrectly when a project is submitted to us for approval on the Form 2. Similarly, after project completion, income derived is frequently reported incorrectly on EBs’ Annual Returns (Form 4s). In addition, not all EBs are aware of the need to record and report income derived via their Statutory Annual Return (Form 4).

2.2 Consequently, we believe that many EBs are not complying either with the requirement to spend income derived on approved objects or with the requirement to keep records and report their income derived to us.

- 2.3 Income can be generated as a result of LCF expenditure on a project. Additional gross income generated by a project is also considered to be income derived. EBs have informed us that the basis for calculating income derived from the operation of a LCF facility can be overly complex as it is difficult to determine absolutely whether any income generated is due to the spending of LCF monies. Therefore including this in the reporting requirements places a disproportionate administrative burden upon EBs.
- 2.4 This consultation contains two proposals which we have developed as a result of discussion with EBs. The first proposal is to maintain the current requirements for income derived as set out in the EB Guidance Manual and the Guidance Note issued July 2012. The second proposal is to seek assurance at project registration that EBs will spend any income derived generated from the operation of the LCF facility on the maintenance of that facility. In the second proposal, EBs will not be required to report this spend to us on their Statutory Annual Return (Form 4); however EBs will be required to report the amount from: interest on qualifying contributions, sale of assets, royalties and returned funds as income derived on their Form 4.
- 2.5 As a result of this consultation, we hope to establish:
- The best way forward to comply with the Regulations regarding the types of income which should be included in EBs reporting requirements for income derived; and
 - If, Proposal 1 – the Reporting Proposal – is followed:
 - Whether the administrative burden on EBs would be reduced by the introduction of a minimum limit, above which EBs are required to account for income derived;
 - If amendments to our project registration Form 2 will help EBs to recognise and calculate income derived, thereby assisting them in complying with their statutory requirements in relation to recording, reporting and ensuring that the income is spent compliantly;
 - A universal methodology for calculating income derived; and
 - The content for further guidance to EBs on income derived, for example, the types of projects which we consider have potential to generate income derived.
 - If Proposal 2 – the Assurance Proposal – is followed:
 - Whether EBs should only be required to report the amount from: interest on qualifying contributions, sale of assets, royalties and returned funds as income derived on their annual return Form 4;
 - How to obtain assurance through the project registration Form 2 that other income generated in the running of projects will be spent only on the maintenance and operation of the facility; and
 - The content for further guidance to EBs on income derived, for example, the types of projects which we consider have potential to generate income derived.

3. Regulations

- 3.1 The Regulations define 'income' as including interest and any income generated from the sale of a LCF funded asset:

Regulation 30 – Interpretation and general provisions

(1) In this Part—

"income" includes interest; or

(a) the proportion of any proceeds attributable to the initial acquisition and disposal of an asset (or part of an asset) purchased with a qualifying contribution (or part of a qualifying contribution), or

(b) the proportion of any proceeds attributable to any subsequent acquisition and disposal of an asset (or part of an asset) purchased with the proceeds (or part of the proceeds) of—

(i) the initial acquisition and disposal representing the original qualifying contributions, or

(ii) any subsequent acquisition and disposal representing the original qualifying contributions, through any number of transactions.

As the definition in Regulation 30 is inclusive, receipt of any other source of income generated by LCF is also required to be recorded (see paragraph 3.3 below) and that income spent only on approved objects (see paragraph 3.2. below).

- 3.2 There is a regulatory requirement for EBs to ensure that any LCF income derived that they receive is spent on approved objects:

Regulation 33A – Obligations of approved bodies

(1) An approved body shall—

(b) apply qualifying contributions and any income derived therefrom only to approved objects;

- 3.3 Every EB must record and report on the Statutory Annual Return (Form 4) any income derived that it receives:

Regulation 33A – Obligations of approved bodies

(1) An approved body shall—

(d) make and retain records of the following—

(iii) the amount and date of receipt of each qualifying contribution and the amount and date of receipt of any income derived therefrom;

(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 details relating to its expenditure;

(h) submit to the regulatory body or, if they are performing the functions specified in regulation 34(1) below, to the Commissioners within 28 days of the end of the relevant period determined in accordance with paragraph (2) below details of—

(i) qualifying contributions and any other income or profit whatsoever received by it,

- 3.4 Our overarching aim in regulating income derived is to ensure that organisations are not generating money through the use of LCF and using it for non-LCF purposes. The generation of income derived indicates a sustainable project and should be promoted as a benefit of the LCF. We consider that there are several ways in which

we can regulate this. We have put forward two proposals for managing income derived and the consultation questions relate to these two proposals.

4. Proposal one: the reporting proposal

The following passages set out our proposal in continuing to enforce the current interpretation of income derived. The consultation questions in this section (1-18) relate to our proposed actions to best achieve the required outcomes in adopting this interpretation.

In July 2012, the definition of income derived was interpreted as “any income generated as a result of LCF expenditure” and that this was required to be calculated, recorded and reported to us by each EB of their Form 4. In line with this interpretation, we produced a report to HMRC in May 2013 setting out how this could be achieved in the least burdensome way.

4.1 In that report, we recommended the following:

- Introducing a minimum limit against which EBs are required to account for income derived; and
- Greater emphasis at ENTRUST Training Events on income derived, including a clear definition of income derived, the calculation of income derived and advice on how to report and account for income derived.

Question 1: We propose that only EBs whose income derived is above a certain level, should account for this additional LCF funding. Would you agree with this proposal?

Question 2: If you answered ‘yes’ to question one, what would you consider, as an amount, to be a reasonable de minimis level to adopt and why? If you answered ‘no’ to question one, why do you not agree?

Question 3: Do you agree that greater significance should be given to income derived at ENTRUST training events?

5. Current Form 2 (Project registration)

5.1 We currently ask EBs to estimate how much income projects are expected to generate when an EB submits a project to ENTRUST for approval. This information is captured on the paper Form 2 through the following questions:

Do you anticipate that any income will be generated by the project?

If yes, how much income per annum is expected? (to the nearest £1,000)

5.2 However, there is no guidance on Form 2 to advise EBs as to what constitutes income derived or how it should be calculated.

5.3 The electronic Form 2 on ENTRUST on line (EOL) also requests EBs who are submitting project applications to give a numerical figure for income derived and the information icon sets out that income derived is defined as:

Any income generated by LCF monies e.g. bank interest, proceeds from the sale of an LCF funded asset, rent or admission charges.

- 5.4 We are aware that the questions we ask in respect of income derived could be improved to help EBs understand their obligations under the Regulations from project registration to post project completion monitoring.

6. Revised Form 2: for consultation

- 6.1 In order to assist EBs to recognise LCF income derived, we believe that the Form 2 questions should be amended. The proposed new questions also aim to help EBs to calculate the amount of income derived that will be generated and asks how this will be spent.

Proposed new questions for Form 2

Income derived is any additional money which has been generated as a result of Landfill Communities Fund expenditure. This may result from increased admission charges, fees for using the facility, solar panel tariffs etc. Any income derived must be spent only on approved objects.

The following questions have been developed to help you to estimate the income that will be generated from your project and how you will spend it.

1. Please outline the gross income currently generated by the project site.
2. Please outline the expected gross income to be generated by the project site after project completion.
3. Additional income generated.

Pre-populated field which calculates: (answer 2 – answer 1)

4. What proportion of the figure given in 3 is expected to be a result of LCF expenditure? – This will be based on the proportion of LCF expenditure to the total project costs.
5. Expected LCF income derived from the project.

Pre-populated field which calculates: answer 3 x answer 4.

6. Please outline how the LCF income derived will be spent.

- Question 4:** Do the proposed amendments to the Form 2 clearly set out the principles of identifying and accounting for LCF income derived?
- Question 5:** Do you think that the proposed amendments to the Form 2 clearly explain the basis for calculating income derived, which is generated from an LCF project?
- Question 6:** Do you think that the proposed amendments to the Form 2 will help EBs to ensure that they spend LCF income derived compliantly?
- Question 7:** Are there any further improvements that could be made to the questions asked at the project application stage to help EBs recognise LCF income derived and how to calculate it?

7. Calculating income derived

7.1 When calculating income derived, EBs should consider the following principles to ensure that they comply with the Regulations:

- LCF income derived is new income, or increased income, received as a result of LCF expenditure. This income is considered to be additional LCF funding; and
- Where a project generating new income has been part funded by the LCF, the EB submitting the project will be required to determine the proportion of the income generated that is attributable to the LCF. This will be dependent on the proportion of the project that was funded by the LCF.

7.2 To assist EBs with complying with the Regulations we have outlined examples of calculating income derived in Appendix A.

- Question 8:** Do you agree with the principles that are used for calculating income derived outlined in paragraph 7.1?
- Question 9:** Do you agree with the methodology for determining the proportion of income derived, which is attributable to the LCF? If yes, why do you agree? If not, why do you not agree?
- Question 10:** Is the methodology for calculating, or determining income derived clearly explained? If not, what suggestions would you make to improve the clarity?

8. Recording and reporting income derived and ensuring income derived is spent on approved objects

8.1 Each EB must record and report on the statutory annual return (Form 4) any income derived it receives that is generated from LCF funding.

8.2 The Regulations require each EB to ensure that any income derived that is generated from LCF funding is only spent on approved objects.

8.3 EBs have identified some issues around recording and reporting income derived. EBs have found it difficult to interpret the definition of income derived and have had

problems calculating income derived. There is also a general lack of understanding around how to report income derived. We have found that EBs are aware that income derived must be spent on approved objects, though they have informed us that this is difficult to administer in practice.

Question 11: Are there any issues, for example interpreting the definition of income derived, which you encounter when reporting and recording income derived?

Question 12: Are there any problems that you currently face when ensuring that income derived is spent only on approved objects?

Question 13: If your organisation is an EB which funds projects, what methods have you found effective to ensure that income derived is spent compliantly by project applicants?

9. Guidance

9.1 Our guidance manual can be accessed on the library pages of [our website](#) and sets out in [Section C – Spending Landfill Communities Fund Monies \(LCF Monies\) and Registering Projects](#) at paragraph five that:

5.1 Any income an EB receives from its LCF monies must also be spent on the approved objects. This includes:

- all interest as a result of investing LCF monies;
- any other derived income resulting from LCF project expenditure (for example, a royalty as a result of project activity, or from the sale of assets bought with LCF monies, or from rental income from hiring out the facilities provided by the public amenity; and
- any funds returned to, or reclaimed by, an EB.

9.2 However, this does not set out the types of projects which have the potential to derive income, or provide any advice to EBs as to how they should report, record and ensure it is compliantly spent. The aim of this consultation exercise is to address these issues.

9.3 Given that the LCF is a diverse scheme and the types of works undertaken on projects can vary significantly, we are:

- Seeking EBs views to determine if our revised guidance would provide EBs with greater clarity; and
- Gathering empirical evidence to determine whether there are any other types of projects where EBs consider have the potential to derive income.

9.4 The proposed guidance aims to:

- Assist EBs to determine if their project generates income derived, which is attributable to the LCF;

- Advise EBs on how to calculate the amount of income derived, which is attributable to the LCF; and
- Help EBs to ensure that income derived is spent compliantly.

9.5 The responses that we receive to this consultation will be used to develop our final guidance.

10. Types of projects that generate income derived

10.1 EBs have previously informed us that it would be beneficial to them if we could provide further guidance, which sets out the types of projects, which we consider have potential to generate income derived.

10.2 We believe that the following types of projects have potential to generate income derived:

- New public amenity provision (such as a new village hall);
- Extension to an existing public amenity;
- Installation of solar panels;
- New sports equipment that is not a replacement;
- New sports facility;
- New kitchen equipment or computer equipment that increases community usage; and
- Refurbishment projects which allow new areas to be opened up to the public.

Question 14: Do you agree that the list in paragraph 10.2 provides examples of the types of projects which could potentially generate income derived?

Question 15: If you answered 'no' to question thirteen, please explain why and provide more information to support your response including examples of projects.

Question 16: Are there any other types of projects that you have delivered, where you consider they generated income derived?

Question 17: Have you sought approval for a project where you found it difficult to determine if LCF income would be classified as income derived? If yes please give details.

Question 18: Are there any other issues which you would like to raise in relation to projects that generate income derived?

11. Proposal two: the assurance proposal

11.1 It has been raised with us that the expansion of the reporting requirement for income derived to include money generated from the running of projects e.g. admission charges, has created problems for EBs. EBs have stated they are unable to account for how much of the increased footfall is attributable to the LCF money spent on the project and that if the increase in income cannot be absolutely attributed to the LCF

then they do not believe this should be reported as income derived on the EB's Form 4.

11.2 The first part of this proposal is to require the recording and reporting of income derived only from sources such as:

- interest on qualifying contributions,
- sale of assets,
- royalties, and
- return funds on the Form 4.

Income generated from the running of a project should only be recorded and reported when the level of income generated exceeds that needed to maintain the project.

11.3 The second part of this proposal is to gain assurance from an EB at project registration that all income generated from a project will be spent on the continued operation of that project or on other approved objects.

11.4 The consultation questions in this section (19-25) relate to our proposed actions to best achieve the required outcomes in adopting this interpretation.

Question 19: Do you agree with the proposal that EBs should not be required to report income generated from the running of projects on their Form 4?

Question 20: If you answered 'yes' to question nineteen, why do you think this income should be excluded? If you answered 'no' to question nineteen, why do you not agree?

Question 21: If you answered 'yes' to question nineteen, do you think there any other sources of income that EBs should report as income derived on their Form 4 other than: interest, sale of assets, royalties and return funds?

11.5 An important consideration is the requirement for money generated as a result of LCF projects to be spent only on approved objects. We consider approved objects to include the costs for maintaining the facility after the project has completed.

11.6 It has been suggested that a reasonable safeguard to ensure income generated from the running of LCF projects is spent on the continuation of the operation of the facility is to assess this at project registration stage. It is also proposed that the requirement for EBs to calculate the amount of income generated from the operation of the facility and report this on the Form 4 is removed.

- 11.7 Since organisations are only eligible to receive LCF funding if they are not-for-profit and the project fulfils public access requirements, it could be considered that the necessary checks for how the income generated from the project will be spent are done at this stage and are satisfied if the organisation is approved to receive funding. This can then be verified through compliance visits.

Proposed amendments for Form 2

Any income generated as a result of your project must be spent only on the continued operation of the facility or other approved objects. Examples of this include admission charges and room hire.

1. Do you anticipate that any income will be generated by the project?
2. If applicable, please outline how any income generated from the running of this project will be spent.

[tick] I understand that this income should only be spent on the continued operation of the project or on other approved objects set out in the Regulations.

Question 22: Do you consider the proposed amendments to the project registration Form 2 to ask how income generated from the project will be spent and the insertion of a declaration of understanding of how the income must be spent is a sufficient safeguard to ensure income generated from the operation of LCF facilities will be spent only on the continued running of the facility or other approved objects?

Question 23: If you answered 'yes' to question twenty two, how do you think this will ensure the income is spent compliantly? If you answered 'no' to question twenty two, why do you not consider it sufficient?

Question 24: Ultimately, which proposal (1 or 2) for reporting and accounting for income derived do you think ENTRUST should pursue?

Question 25: Why do you consider your answer to question twenty four to be the better proposal?

12. Consultation questions

12.1 This section sets out the consultation questions. If you have any further comments to make about the subject matter of this document, please feel free to add these to your consultation response.

| No. | Question | Paragraph |
|-----|---|---------------------|
| 1. | We propose that only EBs whose income derived is above a certain level, should account for this additional LCF funding. Would you agree with this proposal? | 4.1 |
| 2. | If you answered 'yes' to question one, what would you consider, as an amount, to be a reasonable de minimus level to adopt and why? If you answered 'no' to question one, why do you not agree? | 4.1 |
| 3. | Do you agree that greater significance should be given to income derived at ENTRUST training events? | 4.1 |
| 4. | Do the proposed amendments to the Form 2 clearly set out the principles of identifying and accounting for LCF income derived? | Inset table and 6.1 |
| 5. | Do you think that the proposed amendments to the Form 2 clearly explain the basis for calculating income derived, which is generated from an LCF project? | Inset table and 6.1 |
| 6. | Do you think that the proposed amendments to the Form 2 will help EBs to ensure that they spend LCF income derived compliantly? | Inset table and 6.1 |
| 7. | Are there any further improvements that could be made to the questions asked at the project application stage to help EBs recognise LCF income derived and how to calculate it? | 6.1 |
| 8. | Do you agree with the principles that are used for calculating income derived outlined in paragraph 7.1? | 7.2 |
| 9. | Do you agree with the methodology for determining the proportion of income derived, which is attributable to the LCF? If yes, why do you agree? If not, why do you not agree? | 7.2 |
| 10. | Is the methodology for calculating, or determining income derived clearly explained? If not, what suggestions would you make to improve the clarity? | 7.2 |
| 11. | Are there any issues, for example interpreting the definition of income derived, which you encounter when reporting and recording income derived? | 8.3 |
| 12. | Are there any problems that you currently face when ensuring that income derived is spent only on approved objects? | 8.3 |
| 13. | If your organisation is an EB which funds projects, what methods have you found effective to ensure that income derived is spent compliantly by project applicants? | 8.3 |
| 14. | Do you agree that the list in paragraph 10.2 provides examples of the types of projects which could potentially generate income derived? | 10.2 |
| 15. | If you answered 'no' to question thirteen, please explain why and provide more information to support your response including examples of projects. | 10.2 |
| 16. | Are there any other types of projects that you have delivered, where you consider they generated income derived? | 10.2 |
| 17. | Have you sought approval for a project where you found it difficult to determine if LCF income would be classified as income derived? If yes, please give details. | 10.2 |
| 18. | Are there any other issues that you would like to raise in relation to projects that generate income derived? | 10.2 |
| 19. | Do you agree with the proposal that EBs should not be required to | 11.4 |

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| | report income generated from the running of projects on their Form 4? | |
| 20. | If you answered 'yes' to question nineteen, why do you think this income should be excluded? If you answered 'no' to question nineteen, why do you not agree? | 11.4 |
| 21. | If you answered 'yes' to question nineteen, do you think there any other sources of income that EBs should report as income derived on their Form 4 other than: interest, sale of assets, royalties and return funds? | 11.4 |
| 22. | Do you consider the proposed amendments to the project registration Form 2 to ask how income generated from the project will be spent and the insertion of a declaration of understanding of how the income must be spent is a sufficient safeguard to ensure income generated from the operation of LCF facilities will be spent only on the continued running of the facility or other approved objects? | Inset table and 11.7 |
| 23. | If you answered 'yes' to question twenty two, how do you think this will ensure the income is spent compliantly? If you answered 'no' to question twenty two, why do you not consider it sufficient? | 11.7 |
| 24. | Ultimately, which proposal (1 or 2) for reporting and accounting for income derived do you think ENTRUST should pursue? | 11.7 |
| 25. | Why do you consider your answer to question twenty four to be the better proposal? | 11.7 |

13. Contact details: how to respond

13.1 All EBs are invited to participate in this consultation exercise. All responses that we receive will be treated in the strictest confidence and will be considered anonymous unless you state otherwise. You can respond to the consultation in any of the following ways:

Email: [Regulations team](#)

On-line: [Income derived survey](#)

Post: Madeleine Hodgson
Regulations Team
ENTRUST
60 Holly Walk
Royal Leamington Spa
Warwickshire
CV32 4JE

13.2 The closing date for all responses to this consultation is 24 January 2014.

1.3 We will also hold a focus group to discuss the topic further. The date and location of the focus group will depend upon those that express an interest in attending. If you are would like to attend, please email [Madeleine Hodgson](#) by 20 December 2013.

14. Next steps

14.1 After reviewing the responses to this consultation, we will publish a summary of responses alongside our 'Next Steps' report which will outline what we consider to be the way forward. We will present the findings of this consultation to our Board of Directors in March 2014 and to HMRC in April 2014.

14.2 This report will be located on our [website](#).

Appendix A

Calculating income derived

A.1 When calculating income derived, EBs should consider the following principles:

- LCF income derived is new income, or increased income, received as a result of LCF expenditure. This income is considered to be additional LCF funding; and
- Where a project generating new income has been part funded by the LCF, the EB submitting the project will be required to determine the proportion of the income generated that is attributable to the LCF. This will be dependent on the proportion of the project that was funded by the LCF.

A.2 The easiest way to explain how to calculate income derived is to outline some simple scenarios.

Scenario 1

New Village Hall - The project is a new village hall funded entirely by £50,000 LCF monies. Due to the activity at the new village hall, its gross income is calculated to be £5,000 per year.

As this is a new village hall, all of the £5,000 gross income generated should be accounted for as income derived. 100% of the project was funded by the LCF; therefore the EB should declare LCF income derived of £5,000.

Scenario 2

New Village Hall - The project is a new village hall funded by £50,000 LCF monies and £50,000 other funding. The project's total funding is £100,000. Due to the activity at the new village hall, its gross income is calculated to be £5,000 per year.

The first step is to calculate the proportion of the project that was LCF funded. The calculation for this is given below:

| LCF monies | £50,000 |
|-------------------------------|--|
| LCF monies + other funding | $£50,000 + £50,000 = £100,000$ |
| LCF proportion of the project | $£50,000 \div £100,000 = 0.5$ or as expressed as a percentage, 50% |

As this is a new village hall, all of the £5,000 gross income is income derived. However, only a proportion of this project was funded by LCF monies. The calculation for working out LCF income derived is given below:

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| Gross income x LCF proportion | $£5,000 \times 0.5 = £2,500$ |
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Therefore the EB should account for income derived of £2,500.

Scenario 3

Extension to Village Hall – The project is an extension to an existing village hall funded by £25,000 LCF monies and £75,000 other funding. The hall previously derived income of £50,000 per annum, due to the increased size this has now risen to £55,000 per annum.

The first step is to calculate the proportion of any income derived in terms of LCF monies and other funding. This is outlined below:

| | |
|-------------------------------|--|
| LCF monies | £25,000 |
| LCF monies + other funding | $£25,000 + £75,000 = £100,000$ |
| LCF proportion of the project | $£25,000 \div £100,000$ $= 0.25$ or as expressed as a percentage, 25% |

As this is an extension to the Village Hall, there has been an increase in income derived as the Hall Committee can hire it to more user groups. Looking at income derived during the year after the extension was completed; there has been an increase in the monies received. The increase is calculated as follows:

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|---|------------------------------|
| Gross income received since extension – Gross income prior to extension | $£55,000 - £50,000 = £5,000$ |
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| Gross income x LCF proportion | $£5,000 \times 0.25 = £1,250$ |
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Therefore the EB should account for income derived of £1,250.

Scenario 4

Refurbishment of a Village Hall – The project is the refurbishment of a village hall funded by £10,000 LCF monies and £10,000 other funding. After the project is complete, the village hall will not generate any extra income relative to previous years. Therefore there is no income derived to report to ENTRUST.

A.3 EBs should always document the calculation they use, and the reasoning for it. EBs should also consider the following:

- Income derived from the project may change from year to year; and
- Other projects may be undertaken without LCF funds which also increase income derived.
- Income derived should be clearly identified in the EBs financial records as LCF income and expenditure