

Compliance and Enforcement update

April 2019 to March 2020

April 2020

Introduction

ENTRUST is required under the Landfill Tax Regulations 1996 (Regulations), Regulation 34 (1) (i) to satisfy ourselves, by reference to records, or other documents, or information held by Environmental Bodies (EBs), that the qualifying contributions received by an EB have been spent by it only in the course, or furtherance of the Regulations and the EB's approved objects. Fundamental to our approach in delivering this statutory requirement is visiting EBs to review their governance arrangements, operating systems and project spend to ensure that they comply with best practice and the Regulations.

At the conclusion of each compliance review we issue a report which details our findings and where appropriate, makes recommendations for corrective actions. A summary of these findings for April 2019 to March 2020 is detailed below.

Furthermore breaches of the Regulations by EBs are managed in accordance with our [Enforcement Framework](#), which we have agreed with HMRC and which complies with best regulatory practice, for example, repeated breaches of the Regulations are escalated to a higher stage of the intervention and enforcement framework.

Compliance

Failure to comply with the Landfill Tax Regulations 1996 (Regulations)

During the period April 2019 to March 2020, 170 draft Compliance reports were issued. A total of 176 recommendations were raised of which 52 (30%) were made to correct issues of non-compliance and 124 (70%) were guidance recommendations.

The most common non-compliant issues identified included:

- Failure to maintain records of expenditure;
- Unapproved project expenditure;
- Statutory reporting omissions;
- Spending outside of the prescribed period.

Non-compliant recommendations are categorised and ranked in order of frequency as detailed in the following table:

Non-compliant issue	Number of recommendations					% of non-compliant recommendations
	Q1	Q2	Q3	Q4	Total	
Failure to maintain records of LCF expenditure	3	3	1	2	9	17%
Statutory reporting - Form 4	2	3	2	2	9	17%
Unapproved project expenditure	2	3	3	0	8	15%
Project expenditure outside of the prescribed period	1	4	2	0	7	13%
Other - Non compliant	0	1	3	1	5	10%
Non-compliant use of LCF funds	1	1	0	2	4	8%
Failure to maintain records of LCF income	1	1	0	1	3	6%
CTP compliance	0	1	1	0	2	4%
Project non compliance	0	1	1	0	2	4%
Failure to maintain CTP records	0	0	0	1	1	2%
Failure to meet criteria for enrolment	0	0	1	0	1	2%
Statutory reporting - Form 7	1	0	0	0	1	2%
Totals	11	18	14	9	52	100%

Guidance recommendations

Guidance recommendations are made when an EB has failed to follow our EB guidance. These issues do not breach the Regulations but, as we expect EBs to fully comply with our guidance requirements, these issues are raised with EBs in our Compliance reports.

The largest number (23, 19%) of guidance issues identified during the year to March 2020 were intended to improve EB internal procedures and controls in a number of areas such as:

- documenting LCF procedures;
- improvements to tender processes; and
- checks for excluded individuals.

17 (14%) guidance recommendations were raised with EBs which had failed to keep their records up to date with ENTRUST. It is important that EBs advise ENTRUST when changes are made to EB Main Contacts, Trustees or office addresses, to ensure continued communication with ENTRUST.

A similar number of recommendations have been made in relation to EBs' reliance on single individuals for the administration of EBs and business continuity. It is essential that EBs have a clear business continuity procedure which ensures that knowledge of LCF obligations does not rest with a single individual in case that individual leaves the organisation.

Guidance recommendations raised during April 2019 to March 2020 are categorised and ranked in order of frequency as detailed in the following table:

Guidance issue	Number of recommendations					% of guidance recommendations
	Q1	Q2	Q3	Q4	Total	
Guidance required - EB procedures	8	6	7	2	23	19%
Failure to maintain EB records with ENTRUST	2	9	4	2	17	14%
Business continuity	1	8	5	0	14	11%
Project file documentation	3	3	5	1	12	10%
Guidance required - Projects	3	3	4	0	10	8%
Administration costs	6	0	3	0	9	7%
Governance	1	2	4	2	9	7%
Unspent funds	3	1	3	0	7	6%
Asset monitoring	1	1	3	0	5	4%
Guidance required - Voluntary revocation	1	3	1	0	5	4%
Guidance required - Other	3	0	1	0	4	3%
Project completion reporting - Form 4	0	1	3	0	4	3%
Project completion reporting - Form 9	1	1	0	1	3	2%
Guidance required - Funding Agreement	0	1	0	1	2	2%
Totals	31	38	43	9	124	100%

Analysis of Issues

Non-compliant issues:

The most frequently identified issues of non-compliance identified through Compliance reviews were concerned with maintaining records of expenditure (17%) and the accurate reporting of activity (17%). EBs are required to maintain adequate audit trails of all LCF activity and ensure that activity is accurately reported to ENTRUST via statutory returns as this information is used to report on the performance of the Fund to HMRC and could influence decisions on the future strategic direction of the Fund. Guidance on reporting and record keeping can be found in [Section 3 of the EB Guidance Manual](#).

ENTRUST's analysis of the issues identified during 2019/2020 highlighted a number of cases where EBs have spent LCF monies on elements of projects which have not been covered by the project approval or have delivered projects without the prior approval of ENTRUST. EBs are reminded that LCF funds must only be spent on approved works which have the prior approval of ENTRUST and are itemised in the approved cost breakdown. Changes to the scope of works or to the value of LCF funds to be spent on a project should be notified to the ENTRUST Registrations team for approval and to ensure project details are updated. Guidance on running a project can be found in [Section 5 of the EB Guidance Manual](#).

A small number of cases of non-compliant use of LCF funds have been identified and EBs need to be aware that LCF funds must never be used by organisations as general or unrestricted funds and should only be spent on items covered by the Objects within the Regulations. Guidance on compliant use of LCF funds can be found in [Section 4 of the EB Guidance Manual](#).

Guidance issues:

A wide range of guidance issues were raised with EBs during 2019/2020 which are intended to improve internal procedures and controls. There are a number of on-going obligations on EBs once they are enrolled and these obligations are detailed within [Section 3 of the EB Guidance Manual](#).

EBs are expected to demonstrate adequate governance arrangements are in operation within their organisations and a number of recommendations have been made to improve EB procedures. The most frequently raised governance issues included the lack of annual checks on excluded individuals being involved in the management of EBs and lack of adequate business continuity procedures due to a reliance on individuals for knowledge of the LCF and access to EOL.

Administration costs and unspent funds remain high profile issues for HMRC and are the subject of separate sector-wide information and reporting exercises outside of the compliance process which are set out in the [administration costs and unspent funds framework](#). However, we will also continue to raise issues with individual EBs as and when they are identified through compliance reviews.

We would recommend that EBs ensure they are familiar with the [EB Guidance](#) published on the ENTRUST website and refer to the guidance as part of their day to day LCF operations. We have recently made some clarifications to our guidance which can be found [here](#)

ENTRUST's recommended corrective actions

ENTRUST's recommended corrective actions to the most frequently raised findings are detailed below for EBs to consider:

Recommendation type	ENTRUST recommended action
Non-compliant expenditure – spend outside of prescribed period (Non-compliant)	<ul style="list-style-type: none"> • EBs reminded to monitor the completion of projects and request extensions to projects approaching their completion date • EBs reminded to obtain project approval before spending LCF monies • EBs to ensure LCF monies are only spent on the areas detailed in the project cost breakdown approved at registration of a project
Form 4 – inaccurate, non-reconciled or late (Non-compliant)	<ul style="list-style-type: none"> • EBs must review their financial records and re-submit an updated and accurate Form 4 if required • EBs must provide start and end dates for projects • EBs reminded they can make adjustments and corrections to their own Form 4 on EOL • Deadline for submitting the annual return should be recorded on EB management team calendars/agendas
Failure to maintain records of expenditure (Non-compliant)	<ul style="list-style-type: none"> • EBs should retain documentary evidence or financial systems to evidence all financial transactions • EBs must be able to provide documentary evidence that LCF balances are held securely and are available on an 'instant access' basis, i.e. not committed to long-term investments or savings
Governance - lack of checks on excluded individuals (Guidance)	<ul style="list-style-type: none"> • EBs' governance procedures should include a declaration by new appointees that they are not an excluded individual • EBs' recruitment processes to include a check for excluded individuals
Director/Main Contact updates (Guidance)	<ul style="list-style-type: none"> • EBs' governance procedures should note requirement to notify ENTRUST of retiring Trustees and new appointments at the same time as Companies House and/or Charities Commission are notified (where applicable) • Main Contacts to carry out regular review of EB and personal data held on EOL

Enforcement

EBs which breach the Regulations are issued with an enforcement letter if the breach has not already been addressed through the Compliance process. The letters are issued as per our [Enforcement framework](#) with repeated breaches escalated to a higher stage of the enforcement process. For the first breach an EB will usually receive an Advice and Guidance letter; subsequent breaches of any type in a rolling 12-month period are addressed by higher stages of the Framework. The letter informs the EB of the breach and requires the EB to take steps to prevent the breach occurring again.

The table below provides the number of letters addressing regulatory breaches sent during April 2019 to March 2020. If an EB has had multiple breaches in a month then they receive one letter covering all breaches; to minimise administrative burden. In the table we have also included some actions that EBs should take to avoid these issues arising. For more detailed information as to the obligations of EBs please see our [guidance manual](#).

Regulatory breach	Enforcement stage	No. of letters					Action EBs should take
		Q1	Q2	Q3	Q4	Total	
Late Statutory reporting – Form 3 (notification of contribution from Landfill Operator)	Advice and Guidance letter	2	2		2	6	EBs should monitor bank accounts to ensure that they are aware of when money has been received
	Warning letter		1		1	2	
	Enforcement letter						
Late Statutory reporting – Form 7 (notification of transfer of monies between Environmental Bodies)	Advice and Guidance letter	3	1		3	7	EBs should ensure they have a process established to report all transfers in the appropriate timeframe. This must include identifying if an organisation they are funding is an EB or not
	Warning letter	1	1			2	
	Enforcement letter			1		1	
Late levy payment	Advice and Guidance letter	1		1		2	EBs should have a process established to pay the levy in the appropriate timeframe on receipt of invoice
	Warning letter						
	Enforcement letter						
Project expenditure outside of the prescribed period	Advice and Guidance letter	6		3	2	11	EBs should monitor the completion of projects and request extensions to projects approaching their completion date
	Warning letter	1				1	
	Enforcement letter	1			2	3	
Total	All letters	15	5	5	10	35	

Enforcement cases

If we believe that there has been a serious breach of the Regulations, we will open an enforcement case. Cases will either be closed where the issue has been resolved to our satisfaction or the case will be considered by the ENTRUST Board for referral to HMRC for consideration of forcible revocation of the EB and/or claw back of the tax credit claimed by the Landfill Operator. We address enforcement cases using letters, meetings and other tools available to us, in order to ensure a satisfactory outcome. At all times our focus is to ensure Landfill Communities Fund (LCF) monies are spent compliantly.

During April 2019 to March 2020 there were twelve open cases; the reasons for these cases being opened are explained in the table below.

In the table we have also included some actions that EBs should take to avoid these issues arising. For more detailed information as to the obligations of EBs please see our [guidance manual](#).

Period	Regulatory breaches	Action EBs should take
2019/2020	Non-compliant spend of LCF funds including spending on non LCF activity	EBs must ensure LCF monies are ring-fenced and only spent on LCF objects and approved projects
	EB not able to provide proof of LCF monies held	EBs must be able to provide proof of LCF monies held at all times: bank statements or online banking records
	EB failing to respond to requests to return unspent funds	EBs must ensure that any unspent funds are returned to their funder
	Project expenditure not being supported by invoices	EBs must retain documentary evidence or financial systems to evidence all financial transactions
	EBs not responding to ENTRUST regulatory requests for information	EBs are required to respond to our requests for information within the timescales provided
	EB charging administration costs to the LCF that are not reasonable or relevant to the level of LCF activity	EBs must ensure that any administration costs charged to the LCF are reasonable and relevant to their LCF activity and not over 7.5% of project expenditure
	EB transferring funds to another EB to fund their management of the transferring EB's projects	It is not a compliant use of LCF funds to transfer monies to another EB for them to administer the first EB's projects

Non return of Statutory Annual Return (Form 4)

At the end of March 2020 there remained [19 EBs frozen](#) for not returning their Statutory Annual Return (Form 4).

Please contact our Helpline on 01926 488 300 or by emailing helpline@entrust.org.uk for more information on our compliance or enforcement processes or see [our website](#).