



HM TREASURY

DEFRA

Department for
**Environment,
Food & Rural Affairs**

***Possible Changes to the
Landfill Tax Credit Scheme:
Consultation Paper***

April 2002
Department for Environment, Food and Rural Affairs
HM Treasury

Department for Environment, Food and Rural Affairs
Nobel House
17 Smith Square
London SW1P 3JR
Telephone 020 7238 6000
Internet service www.defra.gov.uk

© Crown copyright 2002

Copyright in the typographical arrangement and design rests with the Crown.

This publication (excluding the Royal Arms and logos) may be reproduced free of charge in any format or medium provided that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright with the title and source of the publication specified.

Further copies of this report are available from:

LTCS Consultation Team
Waste Strategy
Department for Environment, Food and Rural Affairs
7/F9 Ashdown House
123 Victoria Street
London SW1E 6DE

This document is also available on the DEFRA and HM Treasury websites:
www.defra.gov.uk/environment/index.htm www.hm-treasury.gov.uk

Published by the Department for Environment, Food and Rural Affairs and HM Treasury. Printed on material containing 100% post-consumer waste.

Contents

Introduction.....	2
Purpose of the tax.....	2
How the tax take is used.....	2
How the landfill tax credit scheme works.....	2
The purpose of this consultation.....	4
Priorities for funding.....	5
Encouraging more sustainable waste management.....	5
Improving the environment in the vicinity of landfill sites.....	6
Other priorities.....	6
Potential funding mechanisms and design options.....	7
Tax credit schemes.....	7
a) Retention of the landfill tax credit scheme.....	7
b) Retention of the landfill tax credit scheme but with modifications to its operation.....	8
Other tax allowance schemes.....	9
Single Environmental Body to distribute funds.....	10
Public spending.....	11
a) Regional bodies.....	11
b) Allocating funding through existing spending programmes.....	12
c) Increasing support to Local Authorities.....	13
Transitional arrangements.....	14
Responding to this consultation.....	16
ANNEX A: DESCRIPTION OF THE LTCS.....	17
ANNEX B: GOVERNMENT EXPENDITURE PROGRAMMES ON WASTE..	19
The Waste and Resources Action Programme (WRAP).....	19
£140m fund Waste Minimisation and Recycling Fund in England.....	19
The Environmental Action Fund (EAF).....	19
The Private Finance Initiative.....	20
The New Opportunities Fund (NOF).....	20

Consultation Paper on possible changes to the Landfill Tax Credit Scheme

Introduction

Purpose of the tax

1. The landfill tax was introduced in October 1996, as a tax on disposal of waste to landfill. It was initially set at a level designed to reflect the externalities not previously included in the market price of landfill.
2. In July 1997 the Government published its Statement of Intent on Environmental Taxation which made clear its aim to reform the tax system, over time, to move the burden of tax from ‘goods’ to ‘bads’ and to increase incentives to reduce environmental damage and encourage innovation to meet higher environmental standards. Consequently, in 1998 the rate of landfill tax for active waste was increased to £10 per tonne and an escalator was announced which will raise it to £15 in 2004/5. The current rates of landfill tax are £13 per tonne of waste for ‘standard’ waste and £2 per tonne for inert waste.
3. In line with the Government’s Statement of Intent, the objective of the landfill tax is to increase the price of landfill to change behaviour, to encourage waste minimisation and diversion away from landfill to treatment methods further up the waste hierarchy such as reuse and recycling.

How the tax take is used

4. When the landfill tax was introduced it was offset by a 0.2 percentage point cut in employers’ national insurance contributions. The value of this NICs cut remains greater than the revenue from the levy so the package remains consistent with the Government’s objective of moving the burden of tax from ‘goods’ such as jobs to ‘bads’ such as pollution. In addition, 20% of the revenue was made available for funding of projects through the landfill tax credit scheme (LTCS).
5. As it increases, due to the escalator, the landfill tax will play an increasing role in encouraging local authorities to meet their statutory Best Value Performance Standards for the recycling and composting of household waste and therefore, overall, to meet national recycling targets. These targets were set out in “Guidance on Municipal Waste Management Strategies” published in March last year and available at www.defra.gov.uk/environment/waste/management/guidance/mwms/index.htm.

How the landfill tax credit scheme works

6. As part of the arrangements for the tax, landfill operators may allocate up to 20% of their landfill tax liability through a tax credit scheme to fund approved environmental projects. Not more than 90% of the cost of these projects may be met by this funding; the remainder of the cost must be funded from other sources.

7. The LTCS is regulated by a private sector regulator, Entrust. Entrust approves Environmental Bodies (EBs) and maintains a register of their projects. EBs seek funding for projects directly from landfill operators. Projects must be in one of the following categories:

A – Reclamation, remediation or restoration of contaminated land;

B - Reduction/prevention of pollution of land or to mitigate the effects of any pollution;

C – Encouraging the use of more sustainable waste management practices;

CC – Encouraging the development of products from waste or the development of markets for recycled waste;

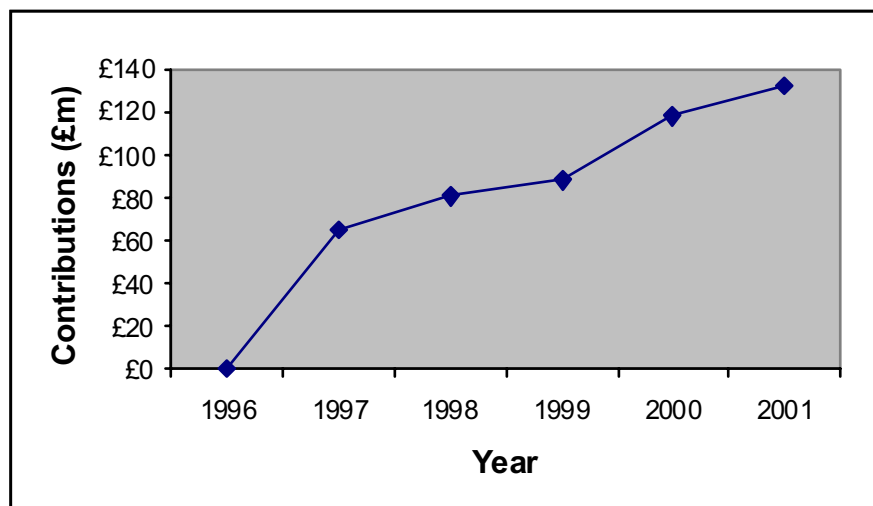
D – Provision, maintenance or improvement of a public park or other public amenity;

E – Restoration or repair of a building of architectural or historical interest or is a place of religious worship;

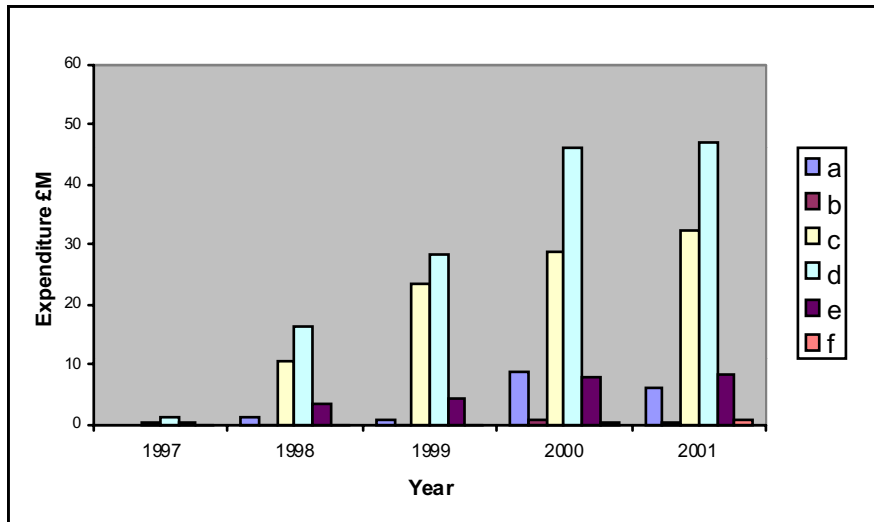
F - Provision of services for bodies registered within or recognised by the scheme.

8. HM Customs & Excise are responsible for oversight of the scheme as a whole, including the operations of ENTRUST. A fuller description of the scheme is given in Annex A.

9. As the graph below shows, the amount of funds available in the scheme has risen since its start in 1996 as a result of an increasing uptake of landfill credits and as a result of the increase in the rate of landfill tax. In 2002 it is expected that approximately £130 million of revenue will be allocated to approved projects under the LTCS.



The graph below shows how the spend within the scheme has been distributed between each category for each year.



10. In *Waste Strategy 2000* the Government stated that it “proposed to use the scheme to help deliver an increase in recycling, particularly of household waste”. The Government announced in Budget 2001 that it was attracted to replacing all or part of the LTCS with a public spending programme to direct resources towards Government priorities on sustainable waste management.
11. The Government subsequently set the landfill operators an indicative target that at least 65% of landfill tax credits should be allocated to sustainable waste management projects. The Government also proposed that at least a third of tax credits within this category should be allocated specifically to recycling projects.

The purpose of this consultation

12. This consultation seeks views on:

- **The priorities for funding from the element of revenue raised by the landfill tax currently supporting the LTCS;**
- **The merits of different funding mechanisms;**
- **Possible design options for a scheme; and**
- **Transitional arrangements from the current LTCS if the scheme is changed.**

13. This consultation deals with reserved matters that apply UK wide except for paragraphs 52-67 which look at potential public spending alternatives in England. Should any public spending schemes be introduced then it will be for the Devolved Administrations to decide how to distribute their allocation of funding. If you wish, you may in your response, indicate that you wish the Devolved Administrations to consider particular issues.

14. The Government will make a decision on the nature of any replacement for the LTCS in the context of Spending Review 2002. This will allow decisions to be made taking into account all of the priorities for Government funding.

Priorities for funding

15. Broadly, there are three potential areas that the funding currently going through the LTCS could be used for:
- a) encouraging further or quicker behavioural change in line with the environmental objective of the tax (i.e. more sustainable waste management);
 - b) dealing with environmental externalities associated with landfill (i.e. local community projects in the vicinity of landfill sites);
 - c) achieving other Government objectives (this could include biodiversity and land remediation objectives or other wider objectives).
16. The following sections consider each of these options in turn. In each case, no assumptions are made about the potential funding mechanism – possible funding mechanisms are considered later.

Encouraging more sustainable waste management

17. The landfill tax itself is intended to discourage disposal of waste to landfill. The Government also has a number of other schemes which are aimed at encouraging more sustainable waste management. The main programmes are described briefly at Annex B.
18. The waste objectives set by the Government and the Devolved Administrations for each part of the UK are challenging and there is a strong argument that more of the resources currently going through the LTCS should be directed towards achieving them. As a result, the Government has issued indicative guidelines to encourage landfill operators to divert more LTCS funds to this purpose.
19. Given that the landfill tax is intended to encourage alternatives to landfill, using resources from the tax in this way would help to achieve this objective. This would also help waste producers to respond to the tax and enable them to reduce the amount of tax which they have to pay by producing less waste for landfill. The indicative targets set by the Government for the landfill operators have been a step in this direction.
20. However, the tax is already encouraging some waste minimisation, re-use and recycling and the intention of the escalator for the standard rate of the tax is to reinforce and increase this effect. There is, therefore, an argument that other measures designed to deliver the Government's waste targets need not be funded in whole or in part through schemes linked to the landfill tax. There might be other more efficient and effective means of achieving the targets.

Improving the environment in the vicinity of landfill sites

21. Many of the environmental externalities associated with landfill such as noise, loss of amenity and visual intrusion affect those living in the vicinity of landfill sites. It could be argued that there is a case for funding activities to improve the environment around landfill sites. This would provide a benefit to people living near landfill sites which would offset the environmental disadvantages of landfill sites.
22. Environmental improvements could be made immediately in and around landfill sites, for example by improving screening or putting in place measures to reduce noise. But any such improvements must be beyond those which are required by regulations or planning, permit or licence conditions, or are expected to be the responsibility of landfill site operators. There could also be provision for environmental improvement of disused landfill sites.
23. Environmental improvements could also be made to the wider area around landfill sites, as provided for under the current LTCS. If the LTCS or any successor were to be used in this way, how locally to any landfill should the funding be focussed? Put another way, how widely should be the area around an active landfill site which benefits from this type of spending be drawn?
24. However, given that there is already a landfill tax in place, there is not an economic efficiency argument for providing compensatory payments to those in the vicinity of landfill sites. The landfill tax itself will encourage waste producers to produce less waste, and ensures that they are paying the economic cost of disposing of waste to landfill. But the Government recognises the value of environmental improvements and the benefits which these have to local communities.

Other priorities

25. As an alternative or in addition to either option (a) or option (b), it could be argued that revenue from the landfill tax should be used to meet other objectives that the Government has set itself. One option is that funding from the tax could be used for more wide-ranging environmental activities, or alternatively there may be other non environment-related priorities for funding. However, these projects need not necessarily fall into categories (a) or (b) above.

What do you believe the priorities for resources which currently go through the LTCS should be?

Please say how you propose the scope of funding programmes or the eligibility criteria for projects in your priority area(s) should be defined. If you wish, refer to the eligibility criteria for projects funded through the LTCS as a basis for your proposals.

If you believe there should be more than one priority for funding, please say which priority you believe to be most important. Please also say on what basis the Government should allocate funding between your proposed priority areas. If you

wish, please indicate the proportions of funding which you believe should be allocated to each of the areas described above:

Priority Area	% funding
<i>Encouraging more sustainable waste management</i>	_____%
<i>Improving the environment in the vicinity of landfill sites</i>	_____%
<i>Other priorities</i>	_____%

Potential funding mechanisms and design options

26. Having decided what resources currently distributed through the landfill tax credit scheme should be used for, it will be necessary to determine how resources should be made available to meet those aims. The funding mechanism can be considered as a separate question from the objectives for the scheme, although some objectives may be more suited to particular types of funding mechanism.

27. In deciding which funding mechanism should be pursued following this consultation, the Government will need to take full account of any relevant state aids rules.

28. The possible funding mechanisms fall into three broad groups, which are considered in turn below:

- Tax credit schemes
- Other tax allowance schemes
- Public spending programmes.

Possible design options for schemes within each of these three groups are also discussed.

29. If you feel that there should be more than one objective for funding, you may wish to comment on whether different funding mechanisms might be appropriate for achieving each objective.

Tax credit schemes

a) Retention of the landfill tax credit scheme

30. The advantages of a tax credit scheme over a spending programme might include:

- funding is classified as private expenditure, enabling projects to obtain match funding from other sources, subject to the position on state aids;
- lack of central government bureaucracy;
- community involvement, including allowing local communities to determine priorities;
- fast response to changing local needs;
- giving landfill operators a role in delivering the objectives of the scheme.

31. Benefits of keeping the current LTCS intact might include that bodies are becoming more competent in their actions under the scheme and that both funding bodies and those running funded projects are familiar with the workings of the scheme. Some may also argue that having decisions on how some of the tax take is deployed being taken outside Government ensures that other priorities can be funded.
32. However, drawbacks of a tax credit scheme are that it is very difficult for any public body or the regulator to direct the use of the credits towards certain purposes or projects and it is not readily apparent that projects are funded through credits made against the landfill tax.
33. In the case of the LTCS, local authorities are unable to directly benefit from funds in the scheme, yet this is an area where major changes in practice and investment are required. Also, some projects that would appear to be very worthwhile in terms of the objectives of the tax itself have found it difficult, if not impossible in some cases, to gain support from Environmental Bodies or the landfill site operators who decide which projects should receive landfill tax credits.
34. As shown above, the historic pattern of spending has not provided much direct support for the main objectives of the tax; i.e. waste minimisation and diversion from landfill. This is partly because operational recycling projects, for example, have largely been excluded from the scope of the scheme.
35. The scheme has been criticised as being overly complicated with unclear lines of responsibility. This has led to accusations that the scheme is too readily open to abuse. However, there has been only one case of fraud which has been identified by ENTRUST, and where appropriate action was taken.

Do you think the LTCS ought to continue in its current form? If so, should the distribution of funding continue to be underpinned by indicative guidelines?

b) Retention of the landfill tax credit scheme but with modifications to its operation

36. Under this option the fundamental method of delivery would remain the same but there would be some modifications to the scheme's operation to make it less susceptible to accusations of impropriety and to improve its operation. Landfill site operators, or the environmental bodies which distribute funds on their behalf, would continue to choose which projects should receive support and there would be an independent regulator.
37. Below are some examples of possible changes to the way the scheme works that may be considered advantageous. This is by no means a comprehensive list and you may wish to make other proposals. However, if doing so please remember that this is with respect to how the scheme as a whole works **not** what types of projects should be supported which you will have highlighted earlier.
38. Possible alterations to the scheme include:

- removing the requirement for a 10% contribution, or reducing the contribution. This would of course reduce the amount of funding flowing through the scheme. But landfill operators do not provide the 10% contribution for many projects. This can be a hurdle to getting projects off the ground and can also increase the potential for improper relationships between the beneficiaries of projects and landfill operators.
- increasing the powers of and duties on the regulator, for example to allow them to demand information on the source of any third party contribution and to require the regulator to publish those details for every project.
- banning or producing clear rules for the practice of local authorities negotiating with (or influencing) landfill operators on how they should deploy landfill tax credits locally, e.g. along the lines of the “planning obligations model”.
- tightening up rules on the control of Environmental Bodies (e.g. through shared directorships, local authority representation) and clarifying how different parties may benefit from LTCS projects.
- enabling non-pilot projects to be funded through a new definition of category CCC.

If part or all of the LTCS were retained, are there changes that should be made to its operation and, if so, why and what should they be?

Other tax allowance schemes

39. A second option could be to replace the LTCS with a different sort of scheme to provide allowances or reliefs against other taxes, such as corporation tax. For example, companies could be given enhanced capital allowances for investments in qualifying equipment. Advantages of this approach might include:

- giving taxpayers control over whether they wish to undertake activities which benefit from a tax incentive;
- lack of bureaucracy – once the qualifying criteria had been set, taxpayers would be able to claim for qualifying expenditure without needing to seek approval from any other body;
- the ability to focus relief on priority areas;
- transparency of the arrangements.

40. However, a tax allowance scheme would only benefit relevant taxpayers. Such an approach is therefore unlikely to provide funding to local authorities or voluntary organisations. For example, enhanced capital allowances are only directly applicable to companies subject to the corporation tax system. Further information on capital allowances of this sort is set out in *Green Technology Challenge: Consultation Document*, HM Treasury July 2001, www.hm-treasury.gov.uk/consultations_and_legislation.

Does a system of tax allowances form a realistic alternative to the LTCS and, if so, how should it be framed?

Single Environmental Body to distribute funds

41. A third option is to give responsibility for distributing all tax credits to a new body, by creating a single environmental body (SEB). The SEB would receive all donations and Ministers could appoint a panel of stakeholders to approve funding for individual projects. This could include, for example, representatives from each of landfill operators, local authorities, academics, Environment Agency (EA)/Scottish Environmental Protection Agency (SEPA), Government and the voluntary sector.
42. The SEB would rely completely on voluntary donations from the landfill site operators. However, the SEB would replace the framework of the existing scheme, becoming both the regulator and releaser of funds. There are various models for how this could work. But they would all reduce the administrative burden of the current system as there would only be one, or possibly a few distributive EBs.
43. One variant would be where the SEB would allocate funds to projects that met specific criteria, such as value for money and contribution to government objectives, on an open competitive basis. This would enable it to monitor expenditure more closely than is possible under the current LTCS and it would be able to target funds more effectively by ensuring that projects examining the same issue were not supported and therefore no duplication of research, for example, was undertaken.
44. Alternatively, the SEB could approve a range of projects which the landfill site operators would then be free to choose from to support with their credit allocation. And there are other variants of such arrangements.
45. An issue common to all is whether the expenditure would count as public expenditure. The greater the level of control exercised by central government over where funds should go under the scheme, the more likely the funds are to be defined as public expenditure. It would not be an optimal arrangement for the Government for the expenditure to score as public expenditure whilst still not having complete control over the uses to which the money is put.
46. There is also the possibility that the greater the element of central control, the less likely the landfill operators are to wish to play a part in the scheme. There is at least the theoretical possibility that attempts to direct spending more closely towards Government priorities could have the opposite effect.
47. If the spending of a SEB was scored as public expenditure, distribution of the funds would be allocated by the Barnett Formula, in line with the Government's Statement of Funding policy. The Devolved Administrations would be free to establish their own SEBs or spend the funds in any way they deemed fit.

48. If the spending of a SEB is to be private sector spending, then a single UK-wide tax credit scheme will need to be put in place. All projects, wherever they are in the UK, will have to apply for and meet the requirements of the central administrating body and attract funds from landfill site operators.
49. From the Government's perspective, this family of options is not therefore very promising as an alternative to current arrangements. If the scheme was designed in a way which meant it counted as public expenditure, but with relatively little Government control over how the money was spent, this may lead to concerns about some form of democratic deficit, given that the accountability of politicians for this public spending would be at best indirect.
50. Furthermore, the current benefit of projects being able to use LTCS funds as private expenditure to pursue match funding would be lost. Neither would the level of income be guaranteed as landfill site operators would still decide whether or not to donate the credits to the SEB and they may not do so.
51. However, if you favour a funding mechanism based on a SEB, you may wish to consider:

Should landfill operators be given the option of specifying which type of project they would wish to see supported, if not the actual project itself?

How should any panel be constituted?

Should the requirement for a 10% contribution remain?

What are the advantages of this scheme over public spending or the LTCS?

Public spending

Note: It is possible that each of the four administrations (England, Northern Ireland, Scotland and Wales) would pursue different approaches should public spending provision be made available. Unless respondents indicate otherwise, the responses to this consultation paper will be considered in the context of possible spending programmes in England only.

Please indicate if you wish the Devolved Administrations to consider your comments to this section (paragraphs 52-67) in any future consultation on successor public programmes that they may undertake.

a) Regional bodies

52. One option for a public spending scheme would be to establish Single Environmental Bodies (SEBs) for each of the English regions, which may be considered more effective and responsive, than an SEB for the whole of England.
53. If there were SEBs in the English regions, the issue of how to apportion funds from the scheme to each would arise. One obvious option would be that landfill

site operators could only give to any SEB credits commensurate with the landfill collected by that operator in the area of that SEB. An alternative might be to relate the possible maximum funding by landfill operators of any SEB to the size of population.

54. More radical options might be available. For example, the credits available in a region could be determined in inverse proportion to the increase in waste landfilled in that region each year. At the margin, that could incentivise efforts to divert waste from landfill.

Do you support a regional framework approach? If so how should any regional entities be constructed and how would the possible contributions of landfill site operators be determined?

55. The approaches based on a SEB are likely to result in the projects counting as public expenditure, whilst bearing an administrative overhead and not necessarily achieving the full degree of direction of spending that the Government would wish to see. However, there are several options for change based on more traditional public expenditure programmes.

56. Some advantages of public spending programme(s) might include:

- the barriers to Local Authorities gaining access to funds in the scheme would be removed;
- ability to ensure projects meet strategic needs;
- targeting of projects on policy priorities;
- avoiding duplication between projects;
- ability to determine value for money;
- accountability;
- transparency;
- consistency of funding criteria for projects;
- clarity that activities are funded through tax.

57. However, one of the main disadvantages might be that some other sources of funding which require match funding from non-governmental sources may be closed off.

58. If part or all of the LTCS were replaced by public expenditure, there could be one programme supporting all the elements of the new scheme, or separate programmes for each priority area. A new programme or programmes could be developed, or other existing programmes could be extended.

b) Allocating funding through existing spending programmes

59. Instead of setting up one or more dedicated new programmes to fund projects in priority areas, it might be possible to increase funding of other existing programmes which aim to achieve similar objectives. Within DEFRA's programmes, the options (this is not an exhaustive list) could include:

- the Envirowise programme (promoting waste minimisation across all waste streams),
 - the Waste and Resources Action Programme (which promotes markets for recycled materials),
 - the Environmental Action Fund (part of which funds key NGOs and their projects where they support Government objectives), and
 - the currently ring-fenced fund for local authority recycling.
60. Other Departments will have other programmes through which funding could be distributed.
61. The benefit of this approach is that no new funding mechanisms need to be set up. However, it may be necessary or desirable to be able to identify the projects which had been supported from the landfill tax, as opposed to other projects, within each of the relevant programmes. Furthermore, the scope of current programmes may not be sufficient to meet all the desired objectives from any successor to the LTCS.

c) Increasing support to Local Authorities

62. If it were decided to give significant sums to local authorities, then there are choices about how those funds are distributed, primarily between a challenge approach and a formula-based distribution. Currently, the bulk of provision for local authority waste functions is within the Environmental, Protective and Cultural Services block of the local government settlement. Local authorities can decide to spend this general grant in any way they see fit.
63. However, the Government has also recently consulted on the ‘Distribution of the £140 million Waste Minimisation and Recycling Fund’ (available at www.defra.gov.uk/environment/consult/wastefund/index.htm), a specific fund of £140m for the coming two financial years. Spending Review 2000 also delivered £220m in PFI credits for waste projects.
64. The recent local government white paper (which can be found at www.local-regions.dtlr.gov.uk/sll/index.htm) recognised that the proportion of local authority funding which is ring-fenced is increasing and should be reduced. The Government believes that councils should be locally accountable for their decisions. Alternatives to ring-fencing are:
- targeted grant, i.e. grant which is not restricted to spending on any particular service or group of services and which is allocated by a means other than the general grant formulae, or;
 - funding through the general EPCS block.
65. A challenge fund approach would be most appropriate to a ring-fenced grant arrangement. The main advantage of a challenge fund approach is that it makes transparent where the funds are intended to go and a ring-fenced arrangement can ensure that the funding is used for that purpose. However, there is an

administrative overhead in running a challenge fund and (if ring-fenced) it would reduce the degree of control councils exercise over their own funding.

66. A formula distribution could be adopted for any of these funding mechanisms, but would tend to be most appropriate to the general or targeted grant approaches. The advantage of distributing any successor programmes to the LTCS in this way would be ease of administration. But some may see the ability of local authorities to spend this funding on projects entirely unrelated to the Government's intentions and the purpose of the landfill tax as a disadvantage.
67. The local government white paper also announced that the Government was reviewing, with the Local Government Association and others, the formulae for distributing general grant to local authorities. Both this and the ring-fencing issue will be taken forward over the coming months in parallel with the current spending review.

If there is to be one or more public expenditure schemes to replace some or all of the LTCS:

Which parts of the LTCS should be replaced?

Is it preferable to use existing public expenditure programmes to meet

your priorities for spending, or new dedicated programme(s), or a mixture?

Which mechanism is most appropriate to which of your funding objectives or priorities?

How should any funds given to local authorities be distributed?

Please give reasons for your views on these questions.

Transitional arrangements

68. This section raises issues which are generic across the UK if there is any change to the scheme. Any transitional arrangements required under the options set out in this paper for adapting or improving the current scheme are essentially technical. If the powers of the regulator were to be enhanced, for example, there would clearly be implications for the regulator and for other players in the scheme. But the scheme would remain fundamentally in its current form.
69. For the more significant options for change which involve replacement of part or all of the LTCS with either public expenditure programmes or other forms of tax allowance for England, (or similar processes in the devolved administrations), significant issues around the winding up of the relevant parts of the LTCS arise.

70. The Government is committed, in those circumstances, to ensuring that worthwhile projects can continue during the transition to any new scheme. This paper addresses some of the issues that arise from that commitment.
71. Precise transitional arrangements may vary as several principles, which will not always pull in the same direction, may need to be balanced. These include:
- Where there are contractual commitments to projects, they should be honoured;
 - There should be clarity and certainty about the transitional arrangements for all projects, their funders and the regulator;
 - The "tail" of any part of the LTCS being wound-up should not last too long as regulation costs, for example, would be an increasing burden upon the reducing number of remaining projects;
 - Funds not committed to particular projects should become available quickly to any successor scheme.
72. One approach to transition might be to pass over at an early date, to the Government, or to any other body which is to run any successor programme, those parts of the scheme which are to end. This would bring these parts of the scheme and the phasing of transition to new more direct forms of public funding under public control quickly. It would ensure that the funds in the scheme reflected Government priorities from the start, rather than after some potentially long period of transition.
73. An alternative would be for the Government to set a deadline by which the bulk of the funding going through a part of the LTCS to be wound-up should have ceased. It can be argued that that approach should apply to continuing funding for most projects funded under a rolling contract, for example.
74. However, some exceptions may be necessary or desirable. One may be where there is a contractual commitment for a limited time or to deliver a defined outcome. Particularly where such a project falls within the scope of any successor programme, it may be desirable for it to proceed to conclusion.
75. More generally, it may be possible or desirable to let those current projects governed by rolling contracts to continue past any deadline set, if those projects fall within the scope of any successor scheme. This approach would enable an early deadline to be set which could apply to those areas of LTCS spending which are not to be covered by a successor programme, whilst enabling an orderly switch of funding for other programmes. That would deliver a closer match with Government objectives more quickly. However, it may disrupt more current projects not to be covered by a successor programme than would otherwise be the case.

Given your proposed objectives for the scheme and your proposed funding methods, how would you propose that funding should be provided for existing projects until they have been completed?

What form of transition would best suit the scheme?

Are there alternatives to the options set out above?

How long should any period of transition be?

Is there a justification for different lengths of transition for different types of project or contractual relationship?

Responding to this consultation

76. Views on the issues raised in this consultation paper are sought by 17 June 2002. Responses, and requests for further copies of this document, should be sent to the contacts below. Please note that we reserve the right to make responses publicly available unless you clearly and specifically ask us not to do so. You can download this document from the DEFRA website at:
www.defra.gov.uk/environment/conidex.htm

LTCS Consultation Team
Department for Environment, Food and Rural Affairs (DEFRA)
7/F9 Ashdown House
123 Victoria Street
London
SW1E 6DE

Telephone: Adrian Bourne - 0207 944 6088

e-mail: waste.strategy@defra.gsi.gov.uk - Please write *LTCS Consultation* in the subject field

ANNEX A: DESCRIPTION OF THE LTCS.

1. In October 1996, a tax on disposal of waste to landfill was introduced, which was designed to promote the 'polluter-pays' principle by increasing the price of landfill to better reflect its environmental costs, and to promote a more sustainable approach to waste management.
2. The current rates of landfill tax are £13 per tonne of waste for active waste and £2 per tonne for inert waste. The Government is committed to increasing the rate for standard waste by £1 per tonne each year to 2004.
3. The objective of the landfill tax is to increase the price of landfill to recognise its environmental costs, in order to encourage waste producers to reduce their waste through waste minimisation, reuse and recycling. When the landfill tax was introduced it was offset by a 0.2 percentage point cut in employers' National Insurance Contributions. The tax is therefore consistent with the Government's objective of moving the burden of taxation over time from 'goods' such as jobs to 'bads' such as pollution. Although the rates of landfill tax have increased since then, the value of the NIC cut is still greater than the revenue from the tax.
4. The landfill tax plays an important role in helping local authorities to meet their Standard Performance Standards for the recycling and composting of municipal waste and therefore to meet Government's national waste recycling targets.
5. Under the **Landfill Tax Credit Scheme (LTCS)** registered landfill site operators can claim credit of up to 20% of their landfill tax liability for the year to Environmental Bodies (EBs) approved by ENTRUST, the private sector regulator of the LTCS. They can claim a tax credit worth 90% of that contribution.
6. The scheme encourages partnerships between the landfill operators, their local communities and the voluntary and public sectors. The aim of the scheme is to encourage more sustainable waste management practices, including recycling and to deliver lasting environmental and community benefits.
7. To enrol with ENTRUST as an approved body, EBs must be non-profit making. They do not have to be a charity. They can be a corporate body, or a trust, a partnership or other unincorporated body. They must have a written constitution, and there are detailed rules about control and management of the organisation. Approved EBs must not use the contributions they receive from Landfill Operators for the benefit of any of their contributors.
8. Projects must conform to one of the objects set out in the Landfill Tax Regulations. For objects D & E, projects must be within a 10 mile radius of a licensed landfill site.

A summary of the objectives of the scheme are:

- A) Reclamation of land, whose use is prevented by a previous activity;
- B) Projects to reduce or prevent pollution of land, whose use is prevented by a previous activity;
- C) Research and development, education, and dissemination of information to encourage sustainable waste management
- CC) The research and development of products from waste and markets for recycled waste;
- D) Provision and maintenance of public amenity (cycle routes etc);
- E) Restoration and repair of buildings open to the public for religious worship or which are of historic or architectural interest;
- F) Administration of other EBs.

9. Once a project has been approved by Entrust, the relevant environmental body may seek funding for it from a landfill operator. HM Customs & Excise are responsible for oversight of the scheme as a whole, including the operations of Entrust.
10. In 2001-02 it is expected that approximately £130 million of revenue will be allocated to approved environmental projects under the LTCS. This will potentially increase in future years as the rate of landfill tax is increased.
11. In *Waste Strategy 2000* the Government stated that the scheme should be delivering an increase in recycling. The Government subsequently issued indicative guidelines to the waste management industry that administer the scheme that said spend on sustainable waste management projects should increase to 65% of the contributions available through the scheme, with at least a third of these being spent on recycling specific projects.

ANNEX B: GOVERNMENT EXPENDITURE PROGRAMMES ON WASTE

The Waste and Resources Action Programme (WRAP)

1. The Market Development Group, established during the development of Waste Strategy 2000, set out a number of recommendations for the development of markets for recycled materials. The key recommendation was to establish a new independent body to push forward work on developing markets and to deliver many of the other, smaller recommendations. This was taken up as a key commitment of the Waste Strategy.
2. In November 2000, the Government launched the Waste and Resources Action Programme (WRAP) to overcome market barriers to re-use and recycling, including developing markets and end-uses for materials that are collected through recycling schemes. WRAP's initial work includes organising funding that will support an increase in newsprint reprocessing capacity in the UK.
3. In Spending Review 2000, just over £40 million was committed to WRAP. £25 million of this is from DEFRA, £12.5 million from DTI, £1.8 million from Scotland and £1.65 million from Wales

£140m fund Waste Minimisation and Recycling Fund in England

4. The £140m Fund is part of a series of new financial measures that were agreed through Spending Review 2000 (SR2000). The money will be split £50m in 2002/03 and £90m in 2003/04. This ring-fenced fund of £140m will help local authorities deliver their recycling targets, and implement the waste strategy. The Government has recently published guidelines for applications for funding from this source. These are available from the DEFRA website via www.defra.gov.uk/waste/wastefund/index.htm. The deadline for submitting applications is 30 April 2002.

The Environmental Action Fund (EAF)

5. The Environmental Action Fund (EAF) helps voluntary groups in England to promote the Government's Sustainable Development Strategy by offering grant for core activities that (i) promote understanding and awareness of sustainable development (ii) take forward species and habitat biodiversity. About two-thirds of the available funds are expected to be allocated to the first area and a third to the second, subject to sufficient high quality applications coming forward. Grants will be from £25,000 to £250,000 for each of up to three years. Ministers intend to support work that takes into account the needs of both urban and rural areas and that shows evidence of involving the communities in the areas it serves.
6. **Understanding and awareness funding** includes education for sustainable development: the learning needed if individuals, communities and other groups are to develop the knowledge, values and skills they need to participate in decisions about the way they do things, individually and collectively, both locally and

globally, that will maintain and improve our quality of life and the quality of life of generations to come. Grant applicants need to show whose knowledge, values and skills they will develop, how they will develop them, and how they will know whether they have been successful.

The Private Finance Initiative

7. Spending Review 2000 provided £220m for PFI waste projects, split £50m/£70m/£100m for the three years 2001/02 to 2003/04. General and specific criteria are used by the Department to prioritise bids for putting forward to the interdepartmental project review group. So far, since PFI was introduced, a total of 8 waste PFI schemes have been supported by DEFRA. These have typically been large integrated waste management schemes, including a variety of waste treatment options.
8. The specific criteria for waste projects were revised in September 2000 in line with *Waste Strategy 2000*. The revised criteria reinforce the central place of recycling and composting in waste PFI applications. They state that proposals for incinerators must demonstrate that all opportunities for recycling have been considered first, and should include proposals for combined heat and power where possible.
9. The criteria also strengthen the references to different tiers of authority working together, and the need to accord with national policies, targets and legislation. The maximum allocation of PFI credits is limited to £25m, except in special cases.

The New Opportunities Fund (NOF)

10. The next round of the New Opportunities Fund (lottery funds) will provide £49.5 million for community sector waste reuse, recycling and composting within the UK. The timing of the distribution of this fund is a matter for the NOF but all funds must be committed by 31 March 2004.