Landfill Disposals Tax
Communities Scheme
December 2016
Chapter 1: Introduction

Overview

1.1 This chapter provides an overview of the progress in developing the Landfill Disposals Tax Communities Scheme (LDT CS) and provides some background about the devolution of landfill tax and the development of its replacement – landfill disposals tax (LDT).

Background

Landfill Tax

1.2 Landfill tax was introduced in the UK in 1996 as a key environmental behaviour driver:

“...to ensure that landfill costs reflect environmental impact, thereby encouraging business and consumers, in a cost effective and non-regulatory manner, to produce less waste; to recover value from more of the waste that is produced; and to dispose of less waste in landfill sites”\(^1\).

1.3 Since the tax was introduced, it has contributed to a significant reduction in the proportion of waste sent to landfill and to an increase in recycling. In Wales, the total tonnage of waste landfilled fell by 52% between 2001 and 2013\(^2\).

1.4 The Wales Act 2014 provides the legal mechanism for the devolution of landfill tax to Wales and it is expected that this will happen from April 2018, with a block grant adjustment to reflect the receipts that will be within the control of the Welsh Government\(^3\).

1.5 The Landfill Disposals Tax (Wales) Bill establishes landfill disposals tax (LDT) in Wales and sets out the operational arrangements for that tax, alongside the Tax Collection and Management (Wales) Act 2016 (TCMA). This will ensure a tax on disposals to landfill will continue to be managed and collected in Wales once landfill tax is devolved to Wales in 2018. The introduction of LDT will protect tax revenues for continued investment in public services in Wales.

1.6 Landfill tax revenues are forecast to fall by 32% between 2015-16 and 2021-22. In 2018-19 they are forecast to be £27m.

1.7 There are currently 25 landfill sites and 20 landfill site operators in Wales. Given the nature of this tax, this could reduce to less than 10 landfill sites by 2020.

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\(^1\) UK Waste Strategy (DoE and WO 1995:cited in ECOTEC, 2001)


Landfill Communities Fund (LCF)

1.8 The Landfill Communities Fund is a voluntary tax credit scheme which aims to offset some of the impact of living near a landfill site. The purpose of this fund is to incentivise landfill site operators to support local projects benefiting the general public, biodiversity or the environment. In doing so the fund provides an opportunity for landfill site operators to demonstrate their corporate social responsibility and make a positive impact on the environment and local communities.

LCF operation

1.9 Landfill site operators make voluntary contributions of a proportion of their tax liability. For 2016-17 operators contribute up to 4.2% to approved environmental bodies and, in return, can claim a 90% credit for their contribution. The maximum percentage credit is set by HM Treasury and may change each year.

1.10 It is important to note the contributions made to the LCF by landfill site operators results in a corresponding reduction in landfill tax receipts and, as such, is tax foregone, which would otherwise have been used to support public services.

1.11 The framework for how the LCF scheme operates as a tax credit is set out in secondary legislation\(^4\). In short, HMRC appoint a regulatory body (Entrust\(^5\)) who in turn sanction the appointment of approved bodies to distribute contributions made to the LCF. As a private fund, approved projects are eligible to apply for match funding from a variety of public and European sources. The administrative model provides for landfill site operators to fund projects directly from a landfill site operator, this requires the project to register itself as an environmental body and indirectly through a distributive environmental body (DEB). A DEB is an organisation that distributes funds to projects on behalf of a landfill site operator for example, Biffa Award, Veolia Environmental, Cory Environmental Trust and WREN.

1.12 Projects supported through the LCF must be within the vicinity of a landfill site (10 miles) and must relate to one or more of the objects specified in the legislation, which are set out on Entrust’s website\(^6\) and include the provision, maintenance or improvement of a public park or other public amenity and the conservation or promotion of biodiversity.

1.13 As a result of the high demand for funding, some DEBs only support a selection (or just one) of the objects and may apply additional conditions, for example, projects must be within five miles of specific landfill sites.

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\(^4\) Part VII of the Landfill Tax Regulations 1996 (SI 1996/1527) made under ss. 51 and 53 Finance Act 1996,

\(^5\) [http://www.entrust.org.uk](http://www.entrust.org.uk)

\(^6\) [http://www.entrust.org.uk](http://www.entrust.org.uk)
LCF reform

1.14 Following an announcement in the Autumn Statement 2014, HMRC set up a working group to develop proposals to reform the LCF. Proposals developed by the group were published for consultation in spring 2015 – this focused on ways to improve the flow of funding to projects. Following the consultation, the Chancellor confirmed a cap on DEB’s administrative costs of 7.5%. On top of this, Entrust is funded by a levy of the LCF contribution of 2.96% for 2016-17, bringing administrative costs to around 10%.

The LCF in Wales

1.15 At the UK level, more than 57,800 projects have been approved since the LCF was established in 1996. Of those more than 54,000 are complete and more than £1.3bn has been spent.

1.16 In Wales, 2,700 projects have been approved since the LCF was established – 4.7% of the UK total. Of those 2,500 are complete and a total of £66.6m has been spent on projects in Wales. £4.6m was spent on projects in Wales in 2015-16.

1.17 In England and in Wales, the number of projects approved under objects D – the provision of maintenance of a public park or another public amenity – DA – the conservation or promotion of biodiversity – and E – restoration of a place of religious worship or of historic or architectural interest – outweigh the number of projects under the other objects.

LDT Communities Scheme: Key decisions to date

1.18 The Welsh Government consultation about landfill disposals tax in spring 2015 included a chapter about whether and how LDT revenues could be used to enhance community wellbeing, similarly to the landfill communities fund.

1.19 This chapter received the highest number of responses – more than half the 279 respondents provided views about this issue, including 138 letters from Wildlife Trusts Wales members calling for the continuation of the LCF to support biodiversity projects.

1.20 In July 2016, the Cabinet Secretary for Finance and Local Government confirmed his intention to establish the LDT Communities Scheme to support biodiversity, waste minimisation and other environmental enhancements.

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7 Wales figures show the number of projects that have taken place in Wales yet the funding may have derived from an LSO outside Wales. These figures are correct as at 31 March 2016.
Chapter 2: Proposal for the administration of the LDT Communities Scheme

2.1 This chapter sets out how the LDT Communities Scheme will be shaped, based on the views of stakeholders provided during consultation and at workshops and meetings.

Administrative model

Allocating funding from LDT revenues

2.2 Landfill disposals tax seeks to reduce the amount of waste sent to landfill in line with the Welsh Government’s ambition of a zero waste Wales. The level of revenue generated from the tax will correspondingly decrease and the amount available for the LDT Communities Scheme will also reduce. Initial forecasts, if we were to continue to operate the Scheme as a tax credit in the same way as the LCF, have indicated this would be about £1m in its initial years but it could fall to a much smaller amount over time.

2.3 To ensure the maximum amount of funding reaches projects and initiatives, the LDT Communities Scheme will not operate as a voluntary tax credit scheme. Instead it will be delivered as a grant scheme with funds generated by allocating some of the LDT revenues collected to a distributive body. It is expected this will create a more predictable funding stream.

2.4 The Welsh Government has powers to establish a grant scheme under the Government of Wales Act 2006. This approach provides an opportunity to work with a distributive body to maximise the funding from the scheme that goes to communities in Wales.

Distributive body

2.5 A clear message from the consultation responses and engagement with stakeholders has been the need to establish a streamlined and cost effective administrative model. To achieve this, the majority of consultation respondents called for a reduction in the number of distributive environmental bodies/environmental bodies (see para 1.11) involved in administering the LDT Communities Scheme with most suggesting there should be a single distributive body.

2.6 Figure one sets out the current LCF distribution process and figure two the proposed distribution process for the LDT Communities Scheme.
Figure 1: Current LCF Distribution Process

Figure 2: Proposed LDT CS Distribution Process

Welsh Government allocates some of LDT revenues

Projects
2.7 The Cabinet Secretary for Finance and Local Government has announced his intention to launch a procurement exercise in early 2017 to appoint a single distributive body for the LDT Communities Scheme.

2.8 Appointing a single distributive body will help to provide a clear assurance and governance framework, as well as minimising administrative costs. It will also ensure there is an easier application process, providing applicants with a single point of contact.

2.9 At stakeholder engagement events, discussions have considered the qualities, knowledge and experience a distributive body should have in order to effectively manage the LDT Communities Scheme. The following points were raised:

- Experience and skills in distributing funds
- Experience of providing advice and guidance to customers
- Local sector knowledge (communities, environment, volunteering).

General principles

2.10 The new scheme will be underpinned by a set of general principles, which will provide a framework to shape the operational delivery of the scheme. The general principles have been developed with stakeholders during events held in winter 2015-16. The LDT Communities Scheme will seek to:

**Improve quality of place**
- Promote positive environmental behaviours
- Offset the negative impacts on communities affected by the disposal of material as waste to landfill
- Enhance existing spaces, both open space and physical space

**Deliver wider community benefits**
- Support community participation - volunteering, skills development etc.
- Promote and maintain good relationships between landfill site operators, communities and the distributive body
- Support sustainable projects that do not rely on continuous funding

**Maximise the amount of money that reaches initiatives**
- Maintain a cost effective administrative model
- Make funding accessible by providing clear and understandable objectives and a straightforward application process

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Projects

2.11 In line with the views of consultation respondents, the LDT Communities Scheme will fund projects that support biodiversity, waste minimisation and other environmental enhancements.

2.12 This was explored further with stakeholders at workshops in winter 2015-16 to begin to identify the projects which could be eligible for funding in each of the following three areas. Stakeholders indicated that funding should be given to projects which support:

1. **Biodiversity** – conservation and promotion of a specific species or a specific habitat where it naturally occurs.
   - Help native species, pollination and planting
   - Restore, maintain and enhance natural habitats
   - Engage and support participation and understanding to embed biodiversity

2. **Waste Minimisation** – promote awareness and best practice to reduce the amount of waste produced
   - Encourage prevention, re-use, recovery and recycling of waste
   - Reduce food waste and support initiatives such as composting
   - Engage and support understanding to enable waste to be seen as a resource

3. **Environmental Enhancements** – bring wider community benefit through improving quality of place.
   - Create community green spaces and supporting green infrastructure
   - Bring neglected and run-down areas back into community use
   - Maintain or improve community facilities, for example community halls.

2.13 Projects will be required to demonstrate how they align with the Welsh Government’s programme for government *Taking Wales Forward*; the Well-being of Future Generations (Wales) Act 2015 and other Welsh Government initiatives, including tackling poverty and supporting growth and jobs. These are at the heart of the Welsh Government's tax policy principles.

2.14 Consideration has also been given to the type and size of projects that will be funded. Consistent with the views of stakeholders, the LDT Communities Scheme will offer grants in the range of £5,000 to £50,000 to maximise the
amount of projects supported with consideration being given to funding one significant project (greater than £50,000) on an annual basis.

2.15 Consideration has also been given to whether funding should be focused on revenue or capital projects. Although the LDT Communities Scheme will be predominately a revenue grant we recognise there may be cases where it will be beneficial to provide capital spend.

Geographical Coverage

2.16 The LDT Communities Scheme recognises there can be negative impacts for communities through the disposal of waste to landfill and will fund projects which aim to offset these impacts. There is therefore a clear link with the waste disposal process.

2.17 Consideration has been given to whether the LCF rule that projects must be within 10 miles from a landfill site should be applied to the LDT Communities Scheme – the number of landfill sites in Wales is reducing and could be fewer than 10 by 2020.

2.18 Map one shows the areas eligible for LCF funding (within 10 miles of a landfill site) as at May 2016 (note: there are currently 25 landfill sites in Wales).
Current Landfill Sites

10 mile radius

Current Landfill Site

Local Authority Boundary

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OGL
2.19 In Scotland, the 10 mile-eligibility rule is still applied but this has been broadened to include those waste transfer stations which send a minimum of 2,500 tonnes of waste to landfill each year. Waste transfer stations are centres where general waste is taken to be sorted for onward re-use, recycling, recovery or disposal (including to landfill).

2.20 There have been mixed views about the geographical focus for the LDT Communities Scheme from stakeholders. Some would like to see the 10-mile limit extended so projects further afield could access funding while others believe this should be reduced to less than 10 miles to focus on those communities most affected by landfill sites. Other suggestions included extending the scheme to communities around waste transfer stations and historical landfill sites.

2.21 Stakeholders agree that a balance should be sought between maximising the number of projects eligible to apply for funding without spreading the funding too thinly.

2.22 The geographical focus of the LDT Communities Scheme will be five miles around a landfill site (until taxable disposals have completed) and five miles around a waste transfer station which sends a minimum of 2,000 tonnes of waste to landfill each year. This approach seeks to recognise those communities which are most affected by the disposal of waste to landfill and seeks to achieve the balance between maximising eligibility without spreading funding too thinly.

2.23 Map two shows the proposed areas eligible for funding under the LDT Communities Scheme from April 2018.
Chapter 3: Next Steps

3.1 Further engagement with stakeholders, including landfill site operators and the third sector, will take place to refine and develop the detail of these proposals set out in this paper.

Appointment of the distributive body

3.2 A procurement exercise will be carried out in spring 2017 and all interested parties will be informed when the Prior Information Notice (PIN) is issued. The PIN provides more detail about the tender exercise, including when it will be launched.

3.3 It is expected the procurement process will take approximately six months, with the distributive body being appointed in autumn 2017. This will allow the distributive body time to work with Welsh Government to establish guidance and the necessary processes and systems before receiving applications from projects for funding.

Governance arrangements

3.4 A single distributive body will run the scheme, however the Welsh Government will provide overall governance of the scheme, ensuring funds are distributed in line with the aims and principles of the scheme.

3.5 An annual report will be published providing an update about the scheme’s delivery and the benefits it has delivered to those communities affected by the disposal of waste to landfill.

3.6 An evaluation framework is being developed which will seek to embed evaluation into the process. A review of the scheme will be undertaken after three to five years.

Launch of LDT Communities Scheme

3.7 A decision about the amount of revenue allocated to the scheme will be made next year.

3.8 To ensure sufficient LDT revenues are collected and allocated to the LDT Communities Scheme, the first funding round is expected to be in autumn 2018.

3.9 Transitional arrangements will be put in place to ensure projects continue to benefit from LCF monies secured prior to 31 March 2018.

If you have any comments about the issues covered in this update paper please send them by 7 February to the Welsh Treasury: WelshTreasury@wales.gsi.gov.uk