

## HM TREASURY/ DEFRA CONSULTATION ON POSSIBLE CHANGES TO THE LANDFILL TAX CREDIT SCHEME (LTCS)

A joint consultation has recently been issued by HM Treasury and DEFRA on their thoughts about changes to the Landfill Tax Credits Scheme (LTCS). There is no hard and fast commitment to any changes as unusually in a Government consultation the 'do nothing' option is a contender for consideration? Although I don't suppose in reality that things will stay the same. So if the LTCS were to be changed what would you want to see changed? I've included a summary of what the Landfill Tax is about, the new proposals plus the pros and cons as I see them. As usual I would welcome your comments however brief and I've made up a fax back form for you to send comments back to me. Alternatively you could drop me some thoughts to [andy.doran@surreycc.gov.uk](mailto:andy.doran@surreycc.gov.uk) As responses to the consultation are due by 17 June 2002; I need your comments by **Monday 10<sup>th</sup> June 2002**.

### **Purpose of the tax**

As you may recall 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. This was part of the Government's intent to reform the tax system to move the burden of tax from 'goods' to 'bads' (people to resources) as it was offset by a 0.2% reduction in employer National Insurance Contributions. (Didn't they just increase that by 1% at a stroke for both employers and employees!?). Anyway 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.

### **How the landfill tax credit scheme works**

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. 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.

So that's clear then! Looking at the above set up it is probably come as now surprise that the lions share (50%+) was being allocated to category D projects for the

apocryphal church roofs and wildlife gardens. Therefore, in the Budget 2001 Government set an *indicative* target that 65% of all LTCS funds should be spent on category C or CC projects. Also at that time Government indicated that it was "attracted to replacing all or part of the LTCS with a public spending programme to be more directed at its priorities for sustainable waste management, coincidentally these are local government's priorities too! So to this review.

### **Priorities for funding**

The consultation document states that there are three potential areas that the funding currently going through the LTCS:

- 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).

I won't dwell on this too much as I think all LARAC members would have a bias towards a) as set out above. For me it's the question of percentage, how much should go to waste management? And how much to the other areas, if any? If any LARAC members have had experience of the LTCS is there an issue about the distance from a landfill site within which monies can be used for projects covered under b) above?

### **Potential funding mechanisms and design options**

Having decided what resources currently distributed through the landfill tax credit scheme should be used for, the more interesting (?) question to determine is how resources should be made available to meet those aims. The possible funding mechanisms fall into three broad groups, which are:

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

These in turn provide about 6 variations on a theme which are briefly considered below:

- a) **Retention of the landfill tax credit scheme:** Working on the basis of 'if it ain't broke don't fix it', this is the option to leave the current scheme as it is. There is an argument that operators and applicants are now becoming more familiar with the arcane rules governing the current LTCS. It also allows waste management companies a continued strong voice in the allocation of funds. But given the past poor track record for sustainable waste management projects funded or not) through the LTCS, is this the best option?
- b) **Retention of the landfill tax credit scheme but with modifications to its operation:** 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. Possible changes could include removing the requirement for a 10% contribution, setting clear guidelines for how local authorities can negotiate over LTCS projects (e.g. similar to planning gain?), allowing non-new projects (i.e. ongoing schemes to funded). There could be other changes, any suggestions?

- c) **Other tax allowance schemes:** A third 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 include giving taxpayers control over whether they wish to undertake activities which benefit from a tax incentive and the transparency of the arrangements. 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.
  
- d) **Single Environmental Body to distribute funds:** A fourth 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. 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. One variant could 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, perhaps similar to the allocation mechanism for part of the £140m funding? This would enable Government 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 was undertaken. 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. There could be some merit in one or other of these variations?
  
- e) **Public spending:** It is possible for each of the four administrations (England, Northern Ireland, Scotland and Wales) to pursue different approaches should public spending provision be made available. Nonetheless, it is worth reviewing the options.
  - Through **Regional Bodies**, timely given the recent White Paper on Regional Government;
  - Through **existing spending programmes**, the £140m fund, WRAP, EAF, etc.

I guess your view of these will be dependent upon whether you are in a currently devolved area (Scotland, Wales or Northern Ireland), have a well-established

voluntary regional chamber (NW, SW etc.) or have accessed funds from the £140m fund (none!)

- f) **Increasing support to Local Authorities:** 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. However, Government has recently stated as a general principle that it no longer wishes to ring-fence funds and be too prescriptive about expenditure. That said I think there is a benefit to all parties in having funds derived from the LTCS clearly transparent within expenditure.

**FAX BACK YOUR COMMENTS PLEASE FAO ANDY DORAN 020 8541 9529**

|                   |  |            |    |            |
|-------------------|--|------------|----|------------|
| Name:             |  | Authority: |    |            |
| 1.                | Do you agree that the <b>main</b> focus of the LTCS should be supporting sustainable waste management? | YES        | NO | DON'T KNOW |
| 2.                | What proportion of funds should go to each category?   |            |    |            |
|                   | a) Encouraging more sustainable waste management   |            |    | %          |
|                   | b) Improving the environment in the vicinity of landfill sites   |            |    | %          |
|                   | c) Other priorities  |            |    | %          |
| Comments:         |  |            |    |            |
| 3.                | Which of the proposed options would you most prefer? (please indicate your top three by marking 1,2,3) |            |    |            |
| a)                | Retention of the landfill tax credit scheme  |            |    |            |
| b)                | Retention of the landfill tax credit scheme but with modifications to its operation                    |            |    |            |
| c)                | Other tax allowance schemes  |            |    |            |
| d)                | Single Environmental Body to distribute funds  |            |    |            |
| e)                | Public spending  |            |    |            |
|                   | <input type="checkbox"/> Through Regional Bodies   |            |    |            |
|                   | <input type="checkbox"/> Through existing spending programmes  |            |    |            |
| f)                | Increasing support to Local Authorities  |            |    |            |
| General comments: |  |            |    |            |

**PLEASE RETURN BY MONDAY 10<sup>TH</sup> JUNE 2002, THANKS.**