

Income Derived Guidance Note for Distributive EBs– July 2024

Introduction

This guidance note is primarily for Distributive Environmental Bodies (EBs), to accompany the changes to the Guidance Manual on Income Derived (ID) in July 2024. A Distributive EB is an EB who distributes LCF funding to multiple project applicants. However, this note may also be useful information for EBs who carry out their own projects regarding what we consider to be Income Derived.

To avoid the manual being excessively detailed, it was requested that we provide some further guidance on two key issues, what constitutes ID, and what will the Compliance team expect to see as evidence that an Environmental Body (EB) is sufficiently following the guidance on ID.

The following aims to add some clarity and address specific issues that have been raised with us in consultation.

1. What is Income Derived?

- 1.1. Income derived is where the saving of Landfill Communities Fund (LCF) monies, or the spending of LCF monies on a project generates income. For savings in a bank account, this is relatively simple, funds in an account generate further funds through bank interest, which is then reported on the Annual Return.
- 1.2. **Importantly, for project spending, ID is the additional income generated as a direct result of spending LCF monies. Where additional income is generated from works funded by LCF and non-LCF funds, only the proportion of the additional income equal to the LCF contribution is ID.**

Example A:

Project total cost £10,000

Project LCF cost £5,000

LCF proportion = 50%

Estimated additional income per year due to the project works = £1,000

Estimated Income Derived for EOL forms = £500

Example B:

Project total cost £50,000

Project LCF cost £50,000

LCF proportion = 100%

Estimated additional income per year due to the project works = £1,000

Estimated Income Derived for EOL forms = £1,000

- 1.3. There are three places to enter income derived on EOL:
- I. On the project registration form – an estimate in all cases where income may be generated.
 - II. On the project completion form – an updated estimate in all cases where income may be generated. The original estimate does not need updating.
 - III. On the annual return – Only in the case of bank interest, or when a project needs to return surplus funds that are not being used on an approved project.

1.4. ID that is reinvested in the registered project needs no further reporting on EOL than the two estimates on project registration and completion forms. Two text boxes have been added on both registration and completion forms to enable an EB to include a wider scope for spending ID, neither of which will need any further reporting on EOL once the project has been approved.

- 1.5. The questions to ask as to whether income is ID or not are as follows:

Is the income a direct result of the LCF works? If yes, it is ID

Is the income actual additional cash in bank, and not due to a cost saving, for example cheaper energy costs? If yes, it is ID.

Is the income raised because of the content of the project? For example, if a land purchase leads to selling Biodiversity Net Gain Units. If yes, then it is ID.

However, if activity on the project site is not due to the specific items purchased as the project works, then it is not considered ID from the LCF spending.

- *For example, if you purchase cricket maintenance equipment for a multi-use sports club, and there are hire charges for a local football club, then the hire fees are not ID for your LCF spending.*
- *Or if a biodiversity project was on the same site as land associated with Biodiversity Net Gain Units, then it will not be ID, as it is not related to the items of project spending.*

- 1.6. ID is a positive thing to report, as it shows a plan for ongoing maintenance. The registrations team may on occasion ask whether the ID is appropriate if the amount looks out of proportion to the works, or if the description you have registered for surplus income is not clearly within the Objects of the Regulations.

2. What will Compliance Inspectors expect to see?

- 2.1. For EBs who deliver projects themselves, please keep all your records of spending and income, including any spending of Income Derived monies, so inspectors can view these documents on request if required.
- 2.2. For Distributive EBs, Compliance inspectors will be looking at your process for identifying which projects are likely to generate ID, and assessing and reporting ID. This is to verify that what is registered on a project registration is the reality on the ground.
- 2.3. Evidence will include a process document, email chains or forms that demonstrate how your EB is requesting and checking ID from a project applicant.

Example A:

The project sends you their application – they have requested £50,000 for a playground in a park with no entry charges. They have also reported an estimate of £2,000 Income Derived. We would expect your EB to question how funds were to be raised due to the project works, as there are no charges to enter the park. They respond to say that there will be weekly hire of the playground for a local playschool one morning a week. After the project is complete, the project updates the estimate, and reports no change.

Sufficient evidence of ID could be the booking form or agreement with the playschool to demonstrate this happening. However, the Compliance Inspector will not usually need to request or assess the evidence of the verification, only the process in which it was sought.

Example B:

The project sends you an application – they have requested £100,000 for a new community hall costing £1m in total and have entered £80,000 of Income Derived. As this is a very high number, we would expect your EB to request clarification, to check that the level is not the whole income for the project, but only the 10% of the income from the hall, which is the proportion of LCF funds. If it is the correct number, we would expect in these rarer, high ID value scenarios, a plan as to how that money will be spent, and this to be detailed on the registration form.

The project responds to say that it is in fact £8,000, and they wish to spend it on the booking manager's salary, which is regarded as general maintenance of the venue. Therefore, nothing further is required on the registration form than the £8,000 basic estimate.

Also, confirmation in writing, by email if appropriate, that ID has been spent on the booking manager during project monitoring would be sufficient evidence, as there is little to no risk of misuse of funds in these scenarios.

2.4. Please note, in scenarios where further information has been provided on the registration form, where ID may be spent on both maintenance of the project and on something different, further evidence such as pictures or receipts of this spending would be considered appropriate for your EB to request from the project. This is because unlike the case above, there is higher risk that the ID is spent on something other than what has been approved.

In cases where there is a high amount of ID not being applied to maintenance, and therefore greater risk, the inspector may request to see this evidence.

2.5. Generally, as a principle, inspectors will not need to ask for direct evidence of ID spend as part of their inspection, however, in higher risk cases as outlined above, this may be requested. What will be looked at, is the process by which you are verifying the details on your application forms and confirming the details on the registration forms during, or at the end of the monitoring period. Inspectors will not request any evidence of ID spending outside of normal project monitoring.

If you have any further questions, please contact helpline@entrust.org.uk or call 01926 488 300.