



Minutes: AGGREGATES LEVY 1st WORKING GROUP

Meeting date: 11th April 2019 (14h30-16h30)

Location: HM Treasury, 100 Parliament Street, London, SW1A 2BQ

Attending: HM Treasury: Ann-Therese Farmer [Chair], Christina Hart, Saskia Neibig, Florence Eastoe [minutes]
HMRC: Darren Greedy, Tim Smith
British Aggregates Association: Paul McManus
British Ceramic Confederation: Lee Brownsword
British Geological Survey: Andrew Bloodworth, Joseph Mankelow
CBI Minerals Group: David Payne
Civil Engineering Contractors Association: Susan Schnadhorst
Construction Employers Federation (NI): David Fry
Environmental Services Association: Libby Forrest
Mineral Products Association: Jerry McLaughlin
Mineral Products Association Northern Ireland: Gordon Best [dialled in], Stephen Robinson
Mineral Products Association Scotland: Alan Mackenzie
Northern Ireland Environment Link: Dr Jonathan Bell [dialled in]
RSPB: Nigel Symes
Wales Environment Link: James Byrne [dialled in]
Woodland Trust: Ann Rooney

Apologies: Planning Officers Society: Vicky Perkin
Royal Town Planning Institute: James Harris

Summary: HM Treasury hosted the first meeting of the Aggregates Levy Working Group, made up of expert stakeholders.
The discussion focused on the objectives of the levy and the impact of the levy on the industry and environment.

1. Introductions and welcome

1.1 All participants introduced themselves. Ann-Therese Farmer (HM Treasury, chairing) welcomed the group and thanked everyone for attending.

2. Process

2.1 Saskia Neibig (HM Treasury) outlined the background to the review of the Aggregates Levy, as set out in the government's discussion paper:

The review will look at the objectives and the impact of the levy, how effective the current design of the levy is, and the environmental and business context of the production and supply of all kinds of aggregate and the extraction of other

construction materials. The review will consider potential reforms that could be made to the Aggregates Levy.

2.2 The role of the Working Group is to provide challenge and expertise. The presentation highlighted a series of regional visits to be made and invited input from those who would like to be involved. Written representations from attendees, their members and other organisations were welcomed – the email address for this is ETTanswers@hmtreasury.gov.uk.

3. Profile of the Industry

3.1 David Payne (CBI Minerals Group) and Jerry McLaughlin (MPA) provided the group with an introduction to aggregates and the sector. They highlighted the variety of sectors that minerals supply, and their value to the economy. The sector moves large amounts of material and is strategically significant in supplying the pharmaceutical sector, agriculture and industry. However, it works mostly with the construction industry to deliver housing, roads and infrastructure. The presentation showed the impact that the 2008 recession had on construction and therefore on the use of aggregate.

3.2 The presentation noted some industry trends, for example that it seems that hard rock is replacing sand and gravel. The presentation commented on a number of issues, including political and economic uncertainty, the costs of operating, and the cumulative impact of planning, permitting and energy costs. The importance of sustainability and the aggregates industry's relationship with local communities was emphasised.

4. The policy context of aggregate extraction

4.1 Andrew Bloodworth and Joseph Mankelov (both of the British Geological Survey) presented on the supply and demand of material, and the impact of landfill tax and the aggregates levy on aggregate recycling. Their maps illustrated the location, usage and movement of aggregates across England, and highlighted the extent to which the industry is influenced by the interplay of geological constraints and demand from densely populated areas. For example, they noted that sand and gravel is more evenly distributed than rock. They noted that, in general, aggregate does not move very far (20-30 miles due to the cost of transporting such heavy goods), and that the UK is largely self-sufficient with very little being imported. They referred to the influence of policy tools, such as the role of the planning frameworks and environmental permitting in governing the industry's operations, as well as the Mineral Planning System in ensuring the adequate supply and safeguarding of material.

5. Reviewing the Aggregates Levy's objectives

5.1 Christina Hart (HM Treasury) presented on the government's approach to reviewing the objectives of the levy, as they were described in Budget 2000. The review will consider the objectives in the current policy context, alongside current government objectives, following the principles of good tax-making and environmental taxation. The presentation touched on the principles underlying, and the role of, environmental taxes, and set out some of the government objectives that are relevant to the Aggregates Levy policy - including minerals planning and national planning policy, the Industrial Strategy and the Resources and Waste Strategy, and HM Treasury's objective to ensure stable and sustainable tax receipts to fund government spending. It noted the positive contribution that the industry can make to these objectives.

6. Discussion points

- a. What impact has the Aggregates Levy had on the industry and environment?
- b. What aspects of the levy are more/less effective in meeting its objectives? What are your views on how the levy's objectives fit with the government's current objectives?

Using the discussion points above as a starting point, the group covered a range of issues in the ensuing discussion.

General Remarks

- Some stakeholders expressed strong views about the objectives and scope of the tax.
- BAA noted that in their opinion the Aggregates Levy did not meet the original objectives; they would like to see the tax abolished. They thought that there was a problem defining aggregates, and that some of the exemptions give rise to a number of distortions. They also set out concerns around devolution and potential border issues if there are different tax rates or designs in Scotland and the rest of the UK in the future. BAA asserted that there is no logic in how the environmental tax has been applied, suggesting that the levy creates waste (because some waste products are taxed). The proportion of the levy can be 50 per cent of the price of these products. BAA commented that notwithstanding the abolishment of the tax, they want a system where no sector is singled out.
- MPA NI set out their view, noting that they think the tax design is flawed. They were critical of the original analysis¹ underpinning the tax rate, and the levy's flat rate, which they felt should take more account of the price differentials between different aggregates products. They felt that local disamenities are already covered by regulation.
- MPA Scotland added that in their opinion the levy does not incentivise recycling.
- HM Treasury requested that data and specific case studies to support this be sent to officials.

Recycling

- The discussion noted the high levels of recycling that the UK has reached – currently around 95% of mineral waste from construction and demolition is recycled.
- Several members of the working group felt it would be difficult to increase the use of recycled material beyond 30 per cent (as a proportion of total aggregate sales), noting that it would require a greater supply of aggregate from construction and demolition waste.
- HM Treasury requested that data and specific case studies to support this be sent to officials.
- Industry stakeholders were keen to emphasise that they take the opportunity to recycle aggregates whenever they can; it is good business sense.
- CECA noted that developers often set requirements for sustainability specifications in construction projects, but in their view they do not consider the aggregates levy to be a significant factor in these decisions. The tax is such a small proportion of the overall cost

¹ The London Economics contingent valuation

compared to other influences. CECA argued that the rate of the levy would need to be several times higher to be considered significant.

- CECA noted that construction clients want recycled product, but there are availability constraints, resulting in some projects moving recycled aggregates over long distances, when they could be more sustainably sourced from nearby.
- CECA also suggested that the industry could do better than 30 per cent (use of recycled material) and that there is scope for more intelligent planning for sourcing recycled materials that would enable recycled content to be used within a locality.
- MPA NI suggested that recycling works best in an urban environment, where there is a greater supply of construction and demolition waste compared to rural areas (including Northern Ireland).
- It was noted that not all types and uses of aggregate can be replaced by recycled materials and some participants queried why materials that cannot be substituted by recycled material are taxed.
- BAA questioned the levy's recycling objective, and that material taken out of the ground is taxed, but the same products, when recycled, are not.

Alternatives to virgin and recycled aggregates

- The group acknowledged the role of industrial by-products as another source of aggregate, but that the supply of some of these is decreasing as the associated industrial processes decline.
- It was also noted that the quality of secondary aggregates such as incinerator bottom ash cannot always be guaranteed due to the often-unknown composition of source materials; (there may be contamination issues).

Impact on industry and the levy's effectiveness in meeting its objectives

- Issues were raised about defining aggregate, with reference to an EU decision in 2006, and concerns about what is in and out of scope of the levy. Representatives of MPA, BAA and MPA Scotland raised concerns about exemptions, and the potential to distort markets.
- The exemption for china clay was raised as an example, although the British Ceramic Confederation highlighted that china clay is subject to very different processes and operating costs.
- BAA suggested that the tax may create perverse incentives that encourage waste piles, and that stockpiles of unsaleable product may increase, while they are taxable.
- It was noted that there are differences in the market across the country and the impact of the levy varies.
- MPA NI commented that when the tax was originally designed, in their view there was insufficient consideration given to the Northern Irish context, which they consider operates under different market conditions, independently of the rest of the UK's market.
- Both representatives of the MPA NI explained that quarries in Northern Ireland may experience significant negative impacts due to proximity to border.
- Others pointed out the risks of different tax rates and scope could affect quarries in other parts of the UK as well, once devolution to Scotland has taken place.

Impact on local communities and the environment

- Industry made it clear that they do as much as possible to keep aggregates off the road, to reduce emissions and the impact on local communities, pointing to the use of shipping and railways (where possible) instead.
- Apart from transport, there has been progress in mitigating disamenities for local communities as the sector has become more sustainable and modernised its standards.
- Quarries often invest in habitat creation and restoration, as part of the conditions of planning permissions.
- MPA offered to pull sustainability information into a matrix and share with HM Treasury.
- Participants noted that the Aggregates Levy Sustainability Fund that accompanied the tax was abolished in England in 2011, which diminished the connection between industry and the local community.
- In Wales approx. £20 million of environmental benefit was distributed, before the fund was abolished there in 2017.
- Several stakeholders said they would like to see a (return of the) Sustainability Fund, and suggested that the tax should in some way benefit and enhance the local community with the work from quarries. Several environmental groups would like to see the revenue from the tax be directly connected to environmental objectives.

Natural capital accounting

- Stakeholders queried the calculations underlying the analysis, which tried to calculate the costs (for example to local communities) of aggregates extraction when the tax was introduced.
- The natural capital accounting approach did not exist when the tax was originally created, but Woodland Trust argued that it is now the preferred framework for thinking about these issues.

7. Closing remarks

The Chair summarised the conversation, noting that there were a range of views expressed in the discussion.

- There was scepticism from some about the potential to move beyond 30% recycled aggregate, although it will be useful to see data and specific case studies on this.
- Improvements have been made by the sector since the levy was introduced, but there is still interest in the role that policy can play in strengthening the relationship between the industry and local communities.
- As well as the changing context in how quarrying is done, there have also been developments in government policy – for example, the use of natural capital as a key means of considering environmental impact.
- It was noted that any reforms should be cognisant of the distinctive features of the Northern Irish market, and the operation of the tax in that market.

The Chair confirmed the date of the next meeting (this has since been updated), invited any input on what to cover at the next meeting, and thanked everyone for their time.

Next Meeting	Wednesday 29 th May 2019, 10.30-12.30 HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ
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