HM Treasury

Review of the Aggregates Levy

11th April 2019

14:30 – 16:30

HM Treasury

Review of the Aggregates Levy

Introductions and opening remarks

Ann-Therese Farmer

HM Treasury

Review of the Aggregates Levy

Reviewing the Process

Saskia Neibig

Review process

Expert working group

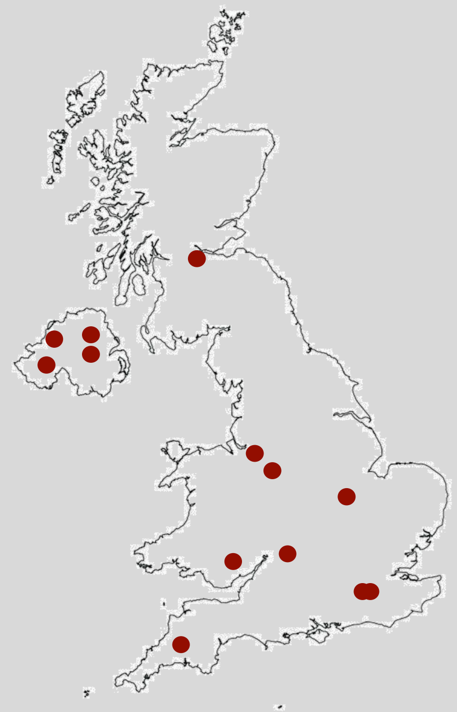
- The role of the working group is to provide expert input, advice and challenge to HM Treasury and HMRC
- Meetings on 3 themes:
  - Objectives
  - Scope
  - Operational issues, including devolution and compliance
- Meeting with the Exchequer Secretary to the Treasury

Written representations

- From representative organisations, individual businesses and other stakeholders
- By email to ETTanswers@HMTreasury.gov.uk or by post by the 5th July 2019

Regional visits

- A mix of meetings and site visits



The Chancellor of the Exchequer will announce next steps by the end of 2019

DAVID PAYNE

CBI MINERALS GROUP

Sponsored by

Sponsor logo

OVERVIEW

- What minerals and mineral products sector does
- Economic significance of minerals and mineral products
- Mineral extraction & supply chains for other sectors
- Shape of the industry: distribution between materials, market concentration, regional distribution
- Performance of the Sector
- Performance compared to overseas
- Industry priorities and challenges

REFERENCES


THE UK MINERAL
EXTRACTION INDUST
FEBRUARY 2016
UK Minerals St
Meeting the demand for minerals ar
sustainably for the next 25 years
A Strategy prepared by the UK minerals and
industry, facilitated by members of the CBI
the Mineral Products Association
July 2018
mpa
Mineral Products
Association
The Trade Association for the
Aggregates, Asphalt, Cement,
Concrete, Dimension Stone,
Lime, Mortar and
Silica Sand industries
Profile of the UK
Mineral Products Industry
2018 Edition
make the link

CBI MINERALS GROUP

- **All the non-energy trade associations** for mineral products, clay and ceramics, industrial minerals and coal
- plus Crown Estate, BGS, consultants, legal firms
- **Represents virtually 100% of mineral extraction** excluding oil & gas
- **Chaired by MPA** - represents 90% of all non energy mineral extraction and mineral products

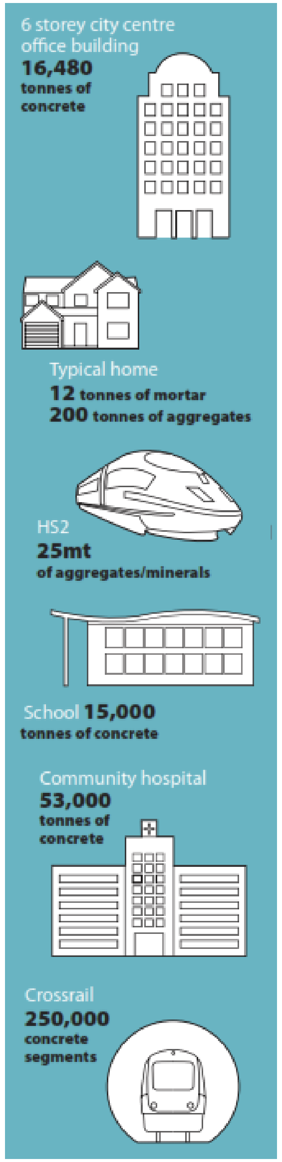

The following organisations support the UK Minerals Strategy. They include the major UK trade associations and other companies who collectively represent around 99% of the UK minerals and mineral products industry.

The Crown Estate and the British Geological Survey have also contributed to the development of the Strategy.

Acknowledgments
Particular thanks go to Lester Hicks CBE, David Highley MBE, Ken Hobden, Bob LeClerc, Hugh Lucas, Dr Brian Marker OBE, Aurelie Delannoy and David Payne for their contributions.

WHAT DOES THE SECTOR DO?

- Supplies raw materials
- Construction
- Manufacturing
- Agriculture
- Pharmaceuticals
- Manufactured products – concrete, pre-cast
- Largest material flow in the economy – 1mt/day



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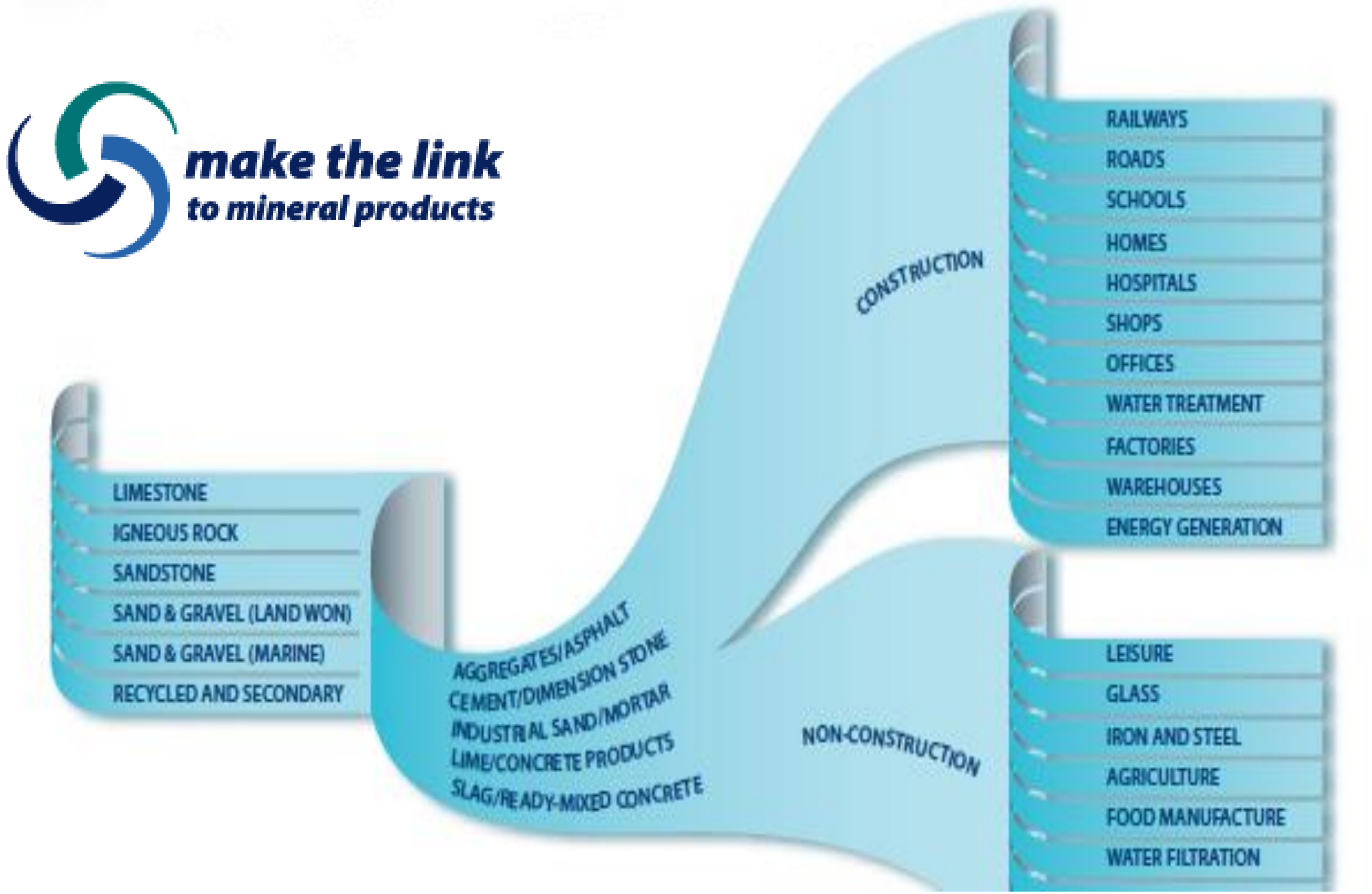
LINKS TO SUPPLY CHAINS



ECONOMIC SIGNIFICANCE & SHAPE OF SECTOR

210mt
UK mineral extraction

£15bn
Turnover of mineral extraction

£68bn
Turnover of mineral products manufacture

£5bn
Gross value added of mineral extraction

£22bn
Gross value added of mineral products manufacture

£209bn
Gross value added of "first use" markets

£235bn
Total gross value added generated by minerals, including mineral extraction, products manufacture and "first use" markets

16%
Share of the UK total economy directly attributable to minerals

34,000
People employed directly in mineral extraction

4.3m
Jobs supported through the supply chain

Chart 1: **Estimated turnover of UK non-energy minerals and coal (2013)** (Source: ONS, ABS, MPA)

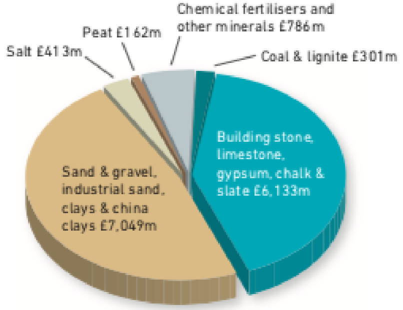
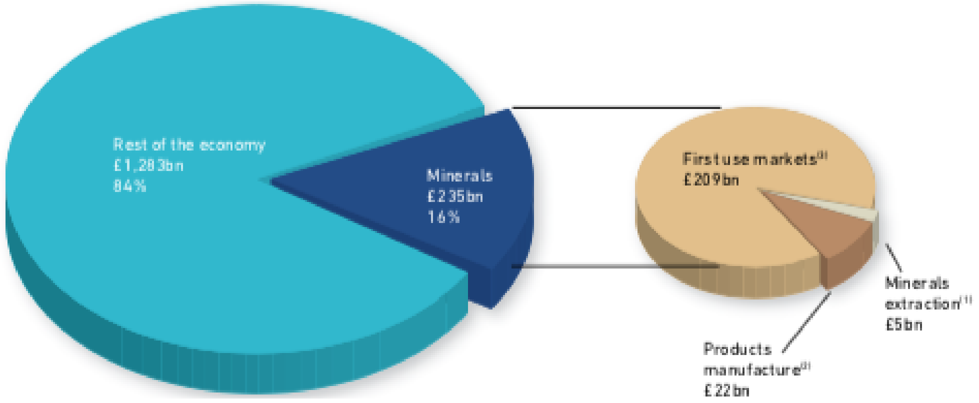


Table 1: **Minerals production in the UK (2013)**
(Source: BGS)

			Million tonnes
Non-energy			**196.9**
	Construction minerals		**172.2**
	Including	Igneous rock (inc granite)	40.5
		Limestone, dolomite & chalk (construction uses)	53.6
		Sandstone	11.5
		Sand & gravel - Land-won	43.4
		Sand & gravel - Marine	14.6
		Slate	0.9
		Gypsum	1.2
		Fireclay	0.1
		Clay & shale	6.5
	Industrial minerals		**24.6**
	Including	Limestone, dolomite & chalk (industrial & agricultural uses)	10.3
		Silica (industrial) sand	4.0
		China clay (kaolin)	1.1
		Salt	6.6
		Potassium compounds (potash)	0.9
		Ball clay	0.7
		Peat	1.0
		Other industrial minerals[1]	0.1
Metals			**<0.001**
	Including	Iron ore	0.0
		Tungsten	0.0
		Tin	0.0
		Gold	<0.001
		Silver	<0.001
		Zinc	0.0
		Copper	0.0
		Lead	<0.001
Energy			**90.0**
	Including	Oil[2]	40.6
		Gas	36.5
		Coal	12.8
	Total		**286.9**

[1] Includes Fuller's earth (bentonite), barytes, fluorspar, talc, calcspar, chert & flint, china stone (feldspar), phosphorus.
[2] Includes crude oil onshore and offshore, and condensates.

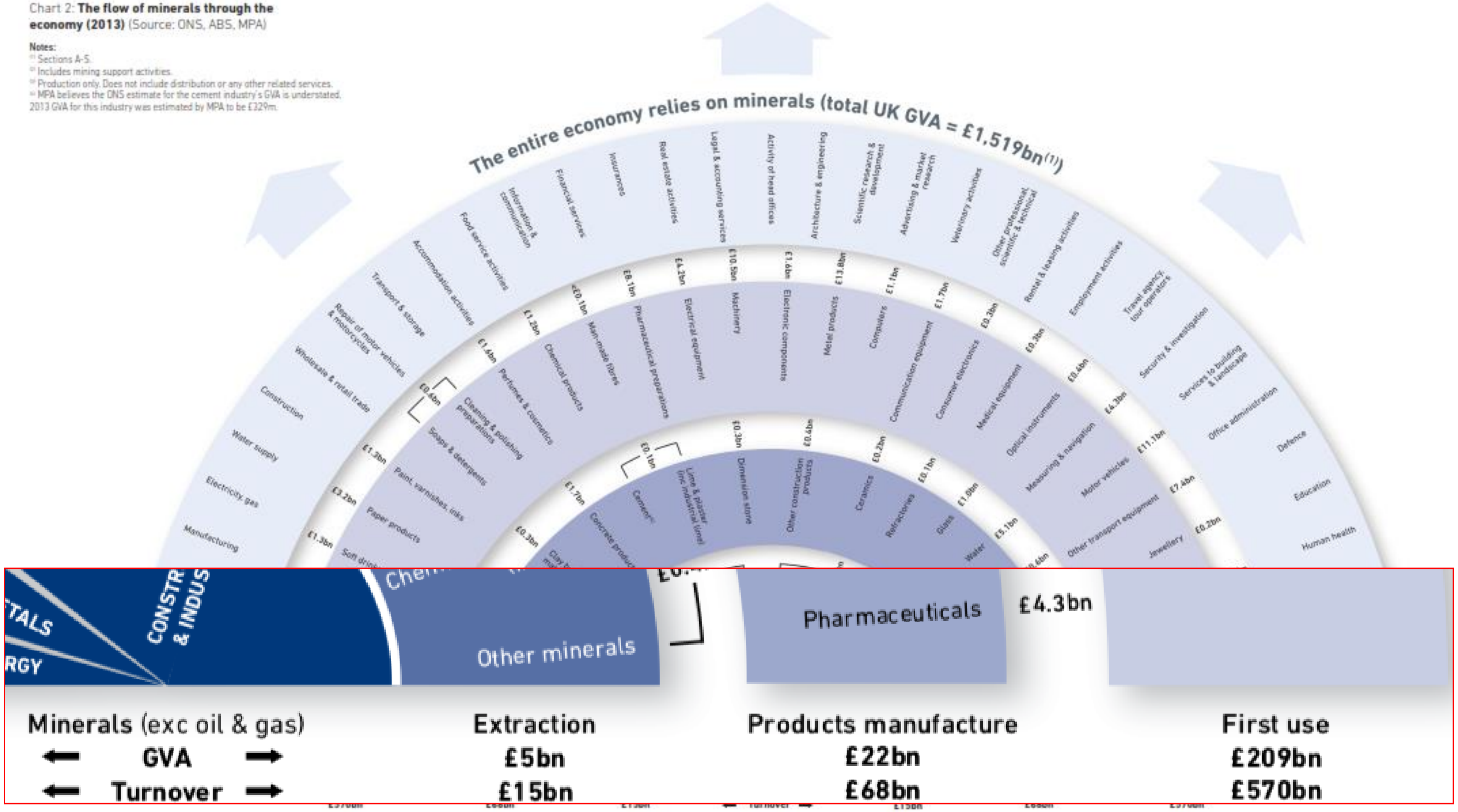
Chart 2.2: **GVA generated by minerals at various stages of the supply chain (2013)**
(Source: ABS, ONS, LFS, MPA)



SUPPLY CHAINS & VALUE

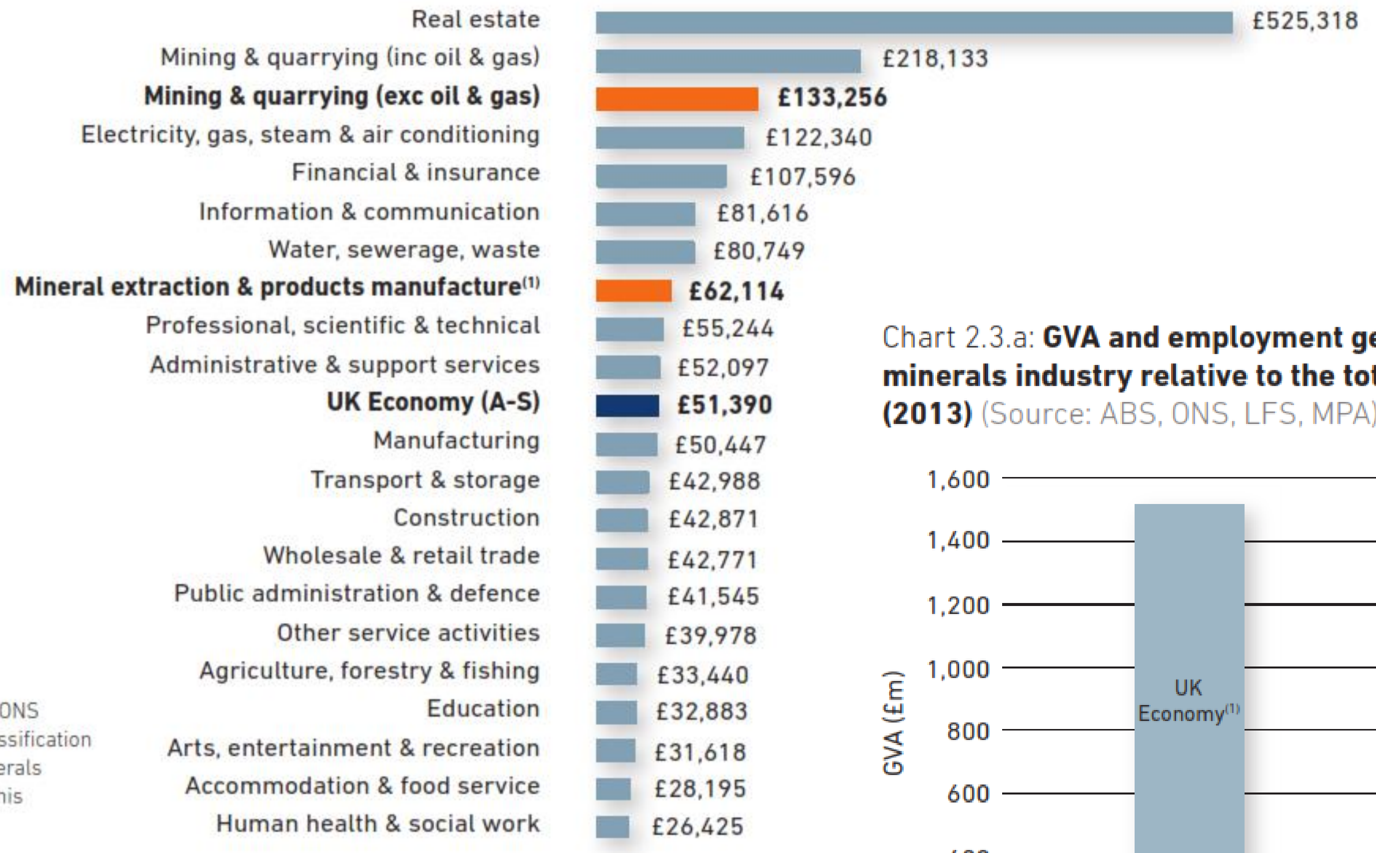
Chart 2: **The flow of minerals through the economy (2013)** (Source: ONS, ABS, MPA)

Notes:
[1] Sections A-S.
[2] Includes mining support activities.
[3] Production only. Does not include distribution or any other related services.
[4] MPA believes the ONS estimate for the cement industry's GVA is understated. 2013 GVA for this industry was estimated by MPA to be £329m.



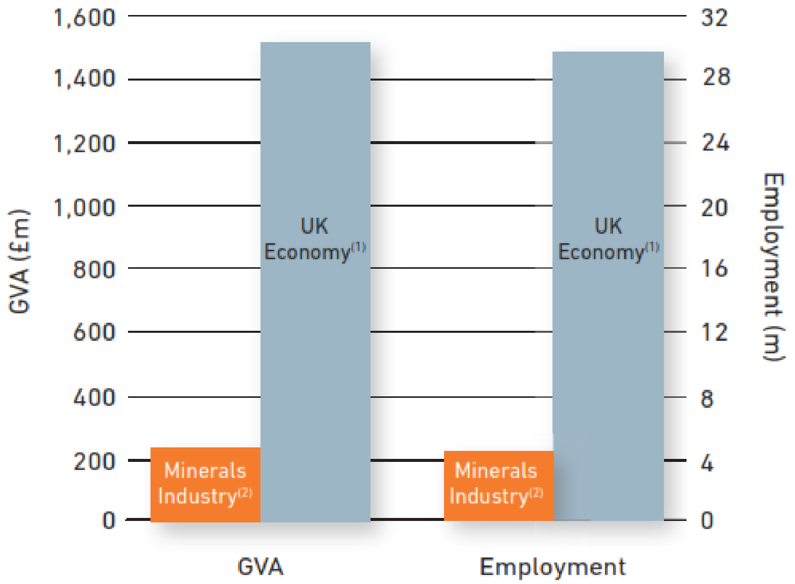
ECONOMIC SIGNIFICANCE & SHAPE OF SECTOR

Chart 2.3.b: **Productivity by industry, £ per employee (2013)** (Source: ABS, ONS, LFS, MPA)



[1] This is not an official ONS Standard Industrial Classification but represents the minerals industry as defined in this publication.

Chart 2.3.a: **GVA and employment generated by the minerals industry relative to the total UK economy (2013)** (Source: ABS, ONS, LFS, MPA)



[1] Sections A-S of the Standard Industrial Classification (SIC 2007).
[2] Includes mineral extraction, products manufacture and "first use" markets.

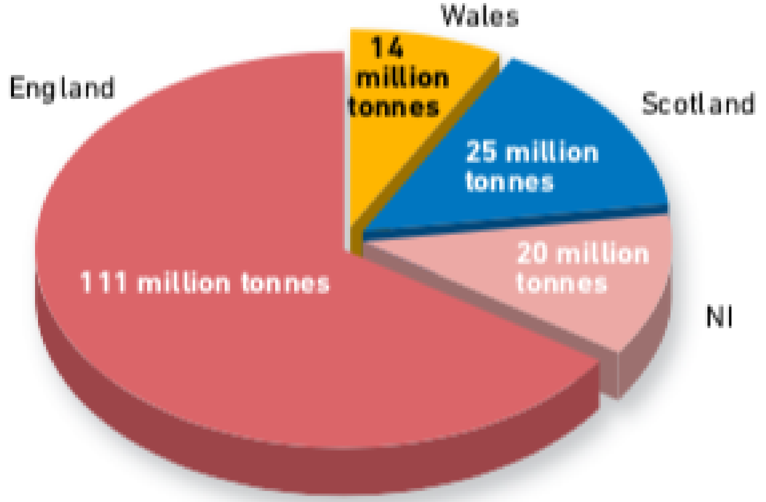
SHAPE OF THE SECTOR

Minerals production in the UK (2013) (Source: BGS)

	million tonnes
Oil [1]	41
Natural gas	37
Coal	13
Construction and industrial minerals	197
Limestone & dolomite	60
Sand & gravel - Land won	43
Sand & gravel - Marine	15
Igneous rock	41
Sandstone	12
Salt	7
Clay and shales	6
Silica sand	4
Chalk	4
Other minerals [2]	3
Gypsum	1
China clay	1
Peat ('000 m^3)	1

[1] Includes crude oil onshore and offshore, and condensates.
[2] Includes non-ferrous ores, ball clay, slate, barytes, talc and potash.

Chart 3.1.b: **UK primary aggregates production (2014[1])**
(Source: AMRI, MPA, QPA Northern Ireland)



[1] 2013/14 MPA sales volumes growth rates for England, Scotland and Wales are applied to official 2013 AMRI production estimates.

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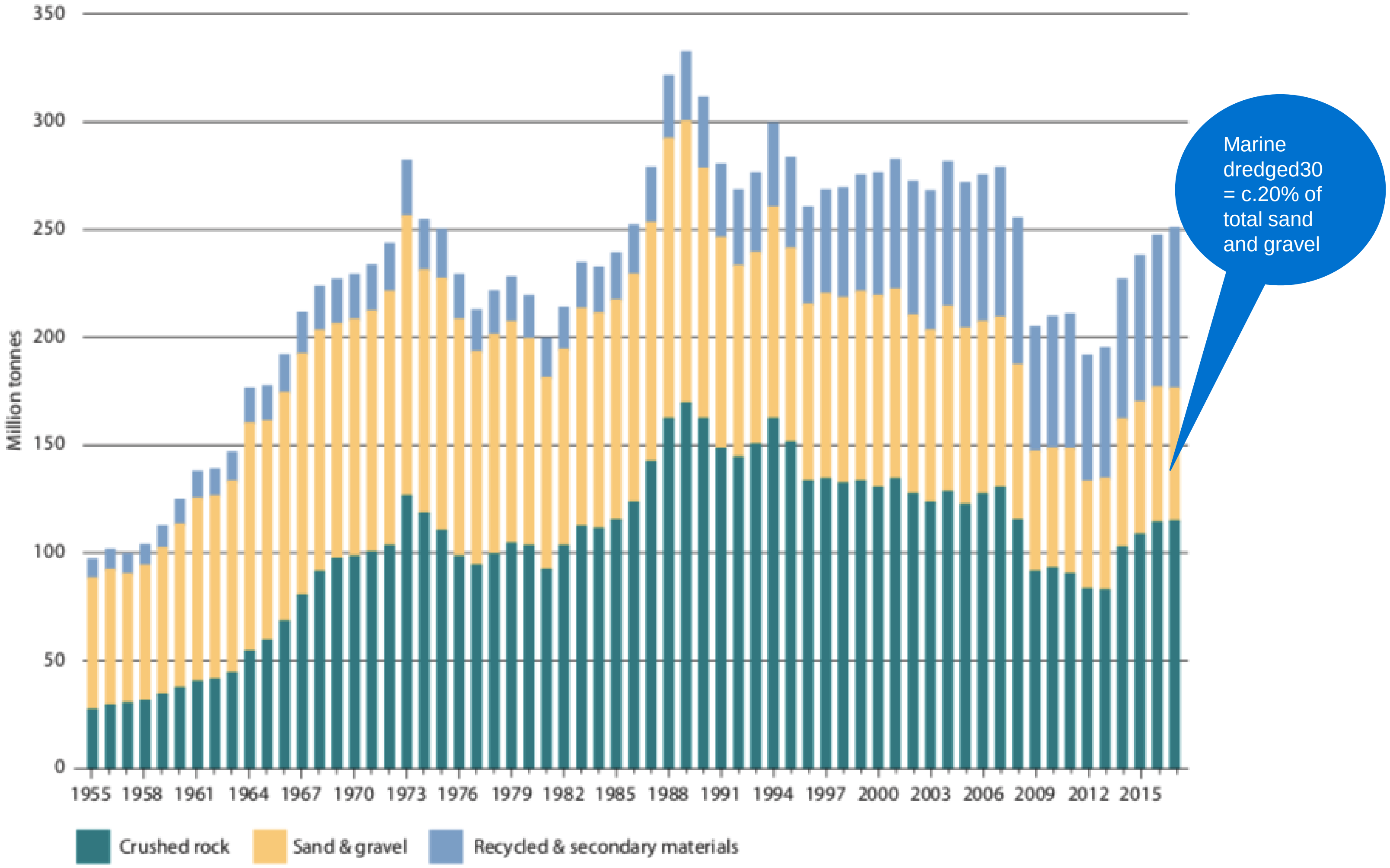
PERFORMANCE

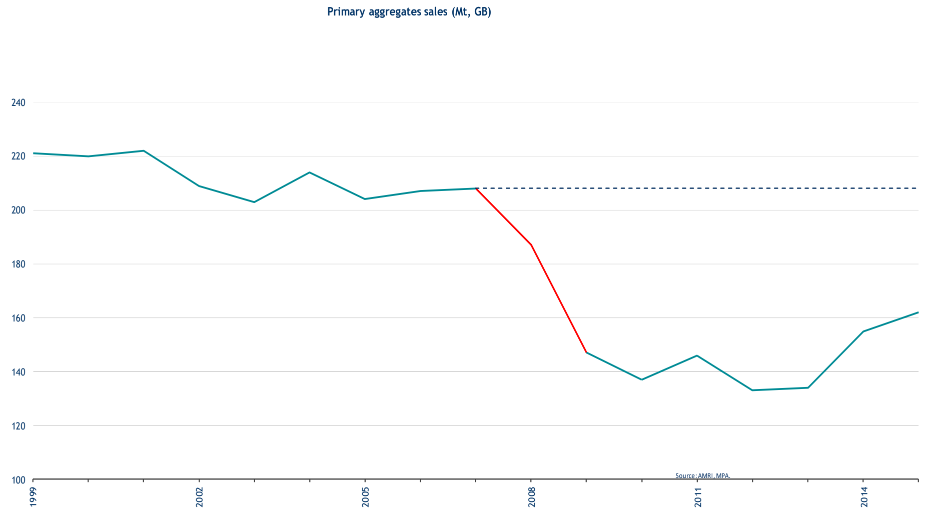
3.1a: **GB aggregates market by sources of supply.** Source: ONS (AMRI), BGS (AM surveys), MPA.



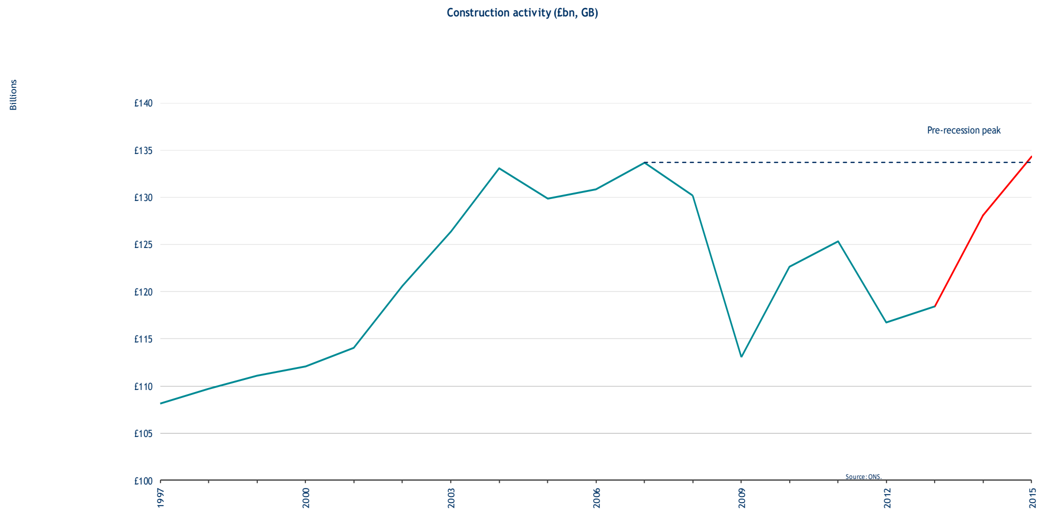
PERFORMANCE

2007-09

- UK GDP down 5%
- Construction output fell 15%
- Primary aggregates fell by a staggering 30%

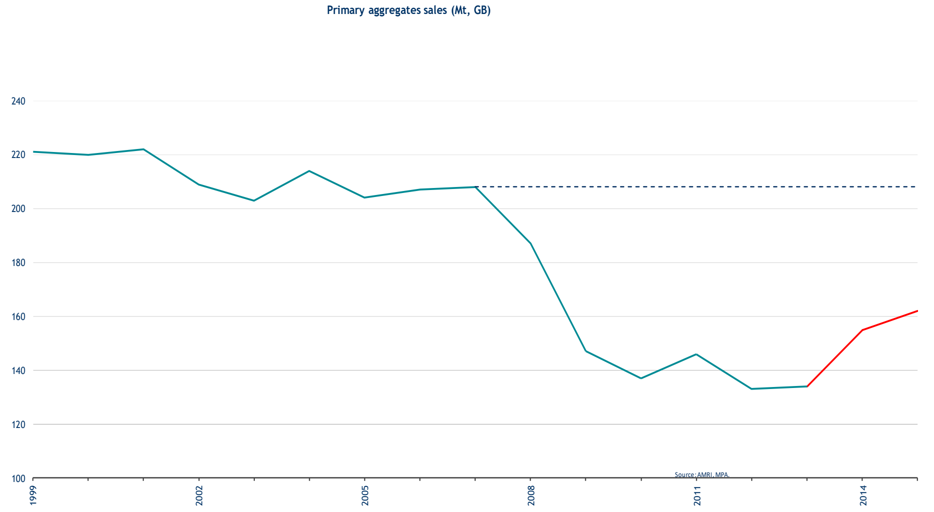


PERFORMANCE



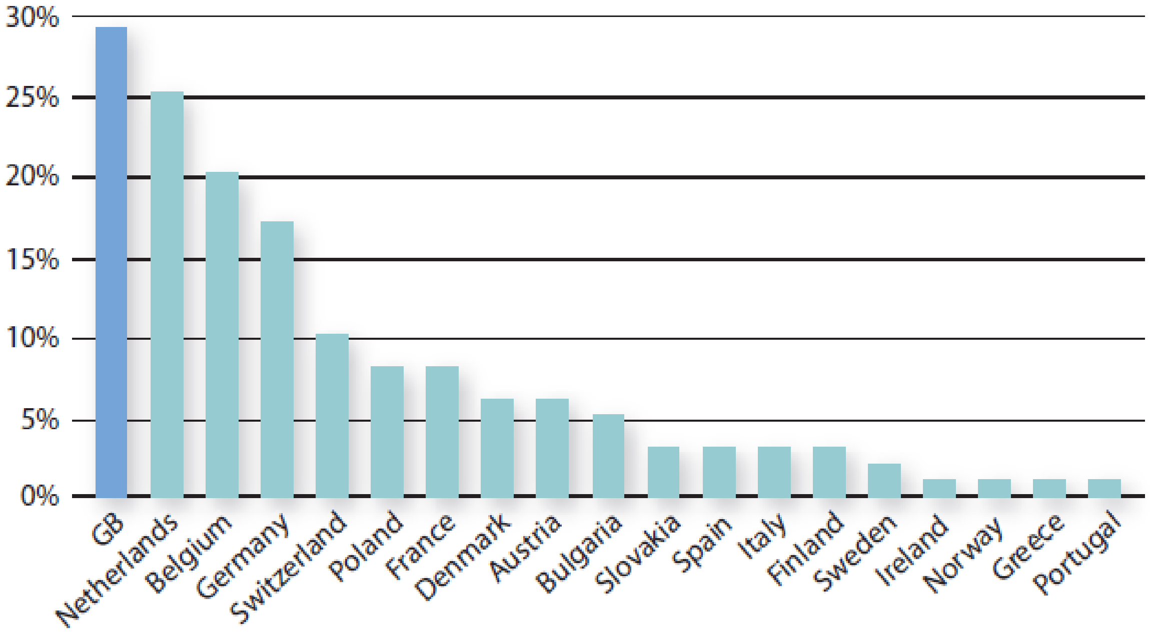
2013-15

- 5.5% growth in GDP
- Construction output up 13.5%
- 20.6% growth in primary aggregates sales



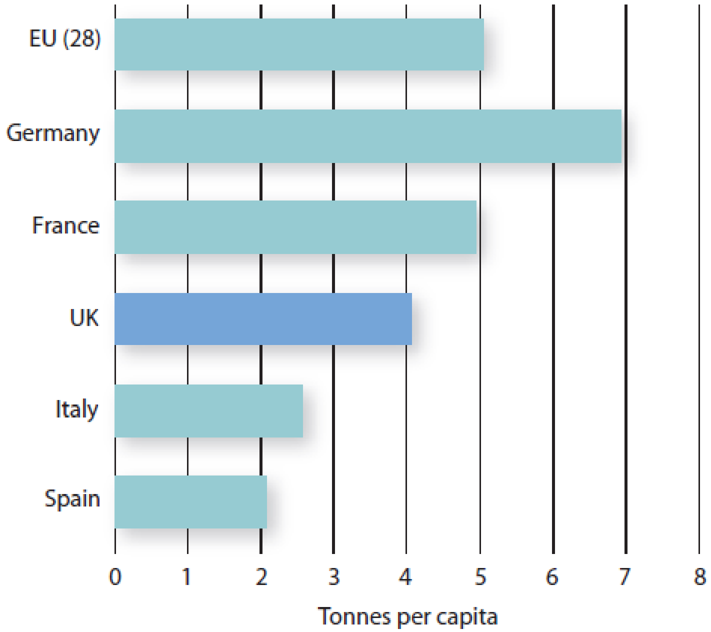
PERFORMANCE

7.1b: **Share of recycled[a] and secondary materials in total aggregates sales, 2016.** Source: UEPG (2017), MPA.



[a] Includes manufactured, recycled (fixed and mobile) and aggregates re-used on site.

7.2b: **Aggregates[a] production per capita, 2016.** Source: UEPG (2017).



[a] Includes primary, manufactured, recycled (fixed and mobile) and aggregates re-used on site.

Jerry McLaughlin
MPA Executive Director

Key Facts

390Mt
GB production of aggregates and manufactured mineral products

4 times
The volume of energy minerals produced in the UK including oil, gas and coal

£18bn
Annual turnover for the Minerals and Mineral Products Industry

£6.8bn
Gross value added generated by the industry

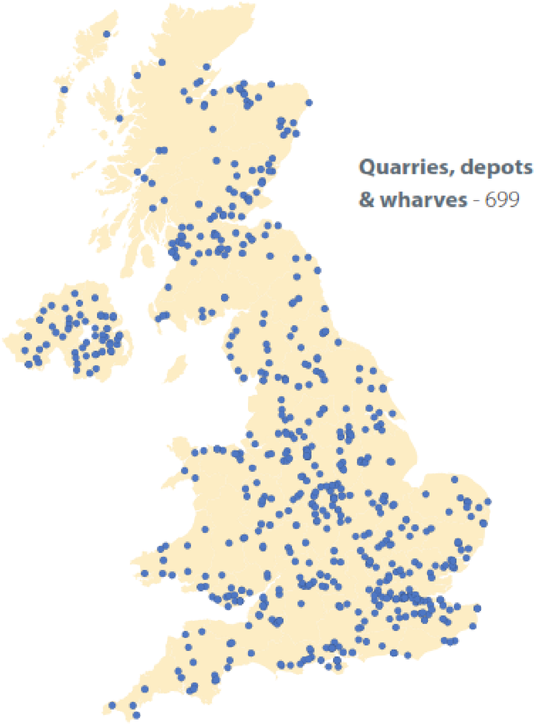
£513bn
Annual turnover of the industries we supply

£152bn
Value of construction output, our main customer

74,000
People employed in the industry

3.5m
Jobs supported in our supply chain

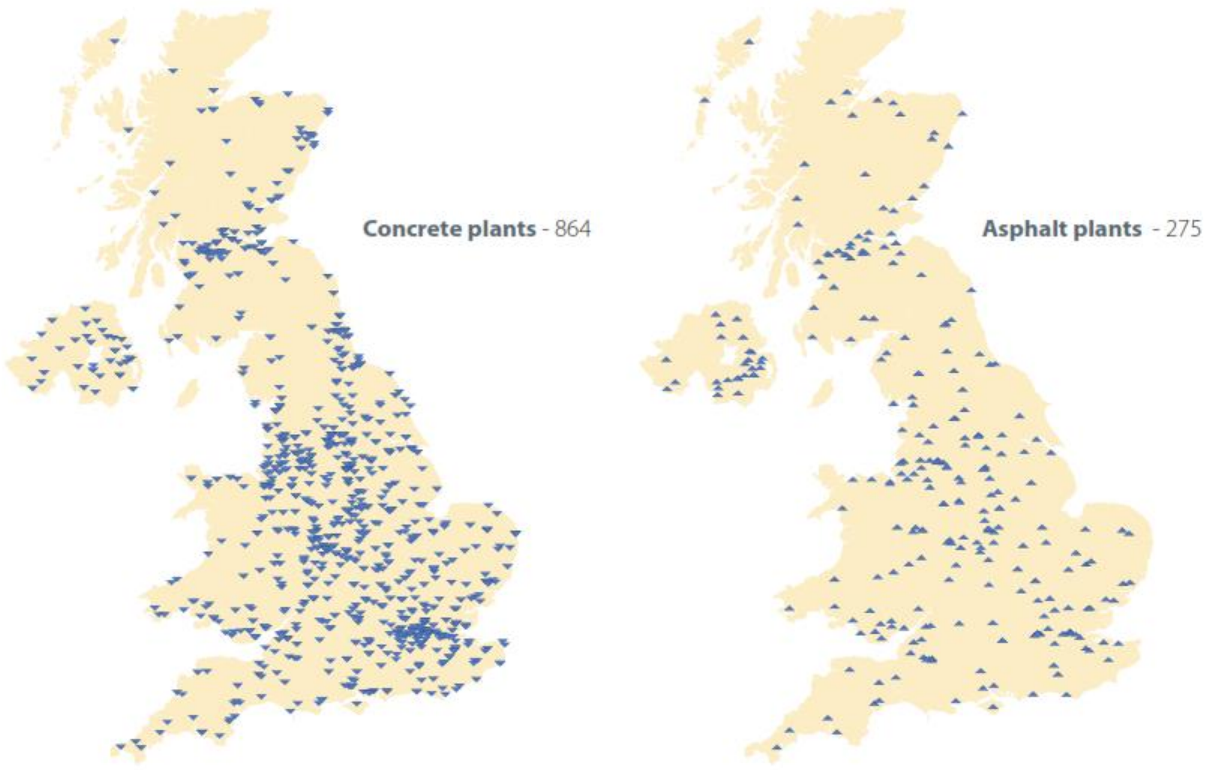
Locations of MPA member active sites/plants, 2016



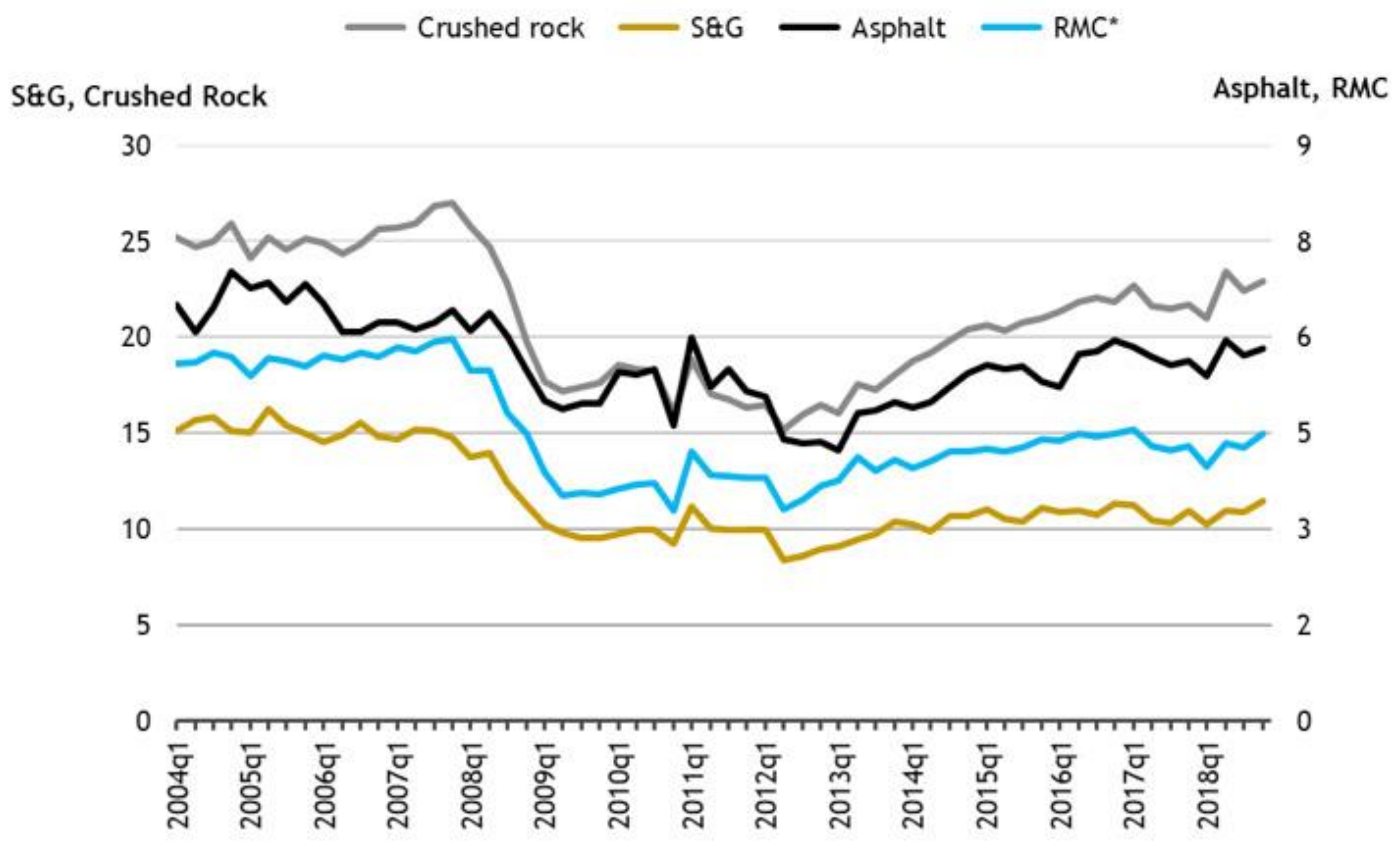
1.2: **Number of MPA member active sites/plants in 2016.**
Source: MPA.

Crushed rock quarries	253
Sand & gravel quarries	260
Depots or wharves	113
Railheads	15
Recycling plants	94
Cement quarries and plants	24
Ready-mixed concrete plants	864
Precast concrete plants	61
Lime quarries and plants	12
Asphalt plants	275
Mortar plants	38
Dimension stone quarries	43
Silica sand quarries	18
Slag plants	4

Locations of MPA member active sites/plants, 2016

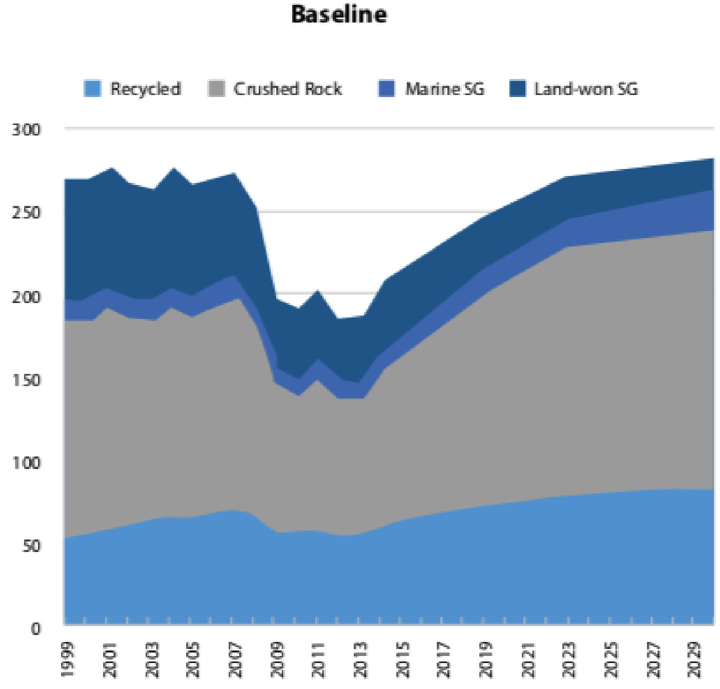


Actual sales 2004 - 2018

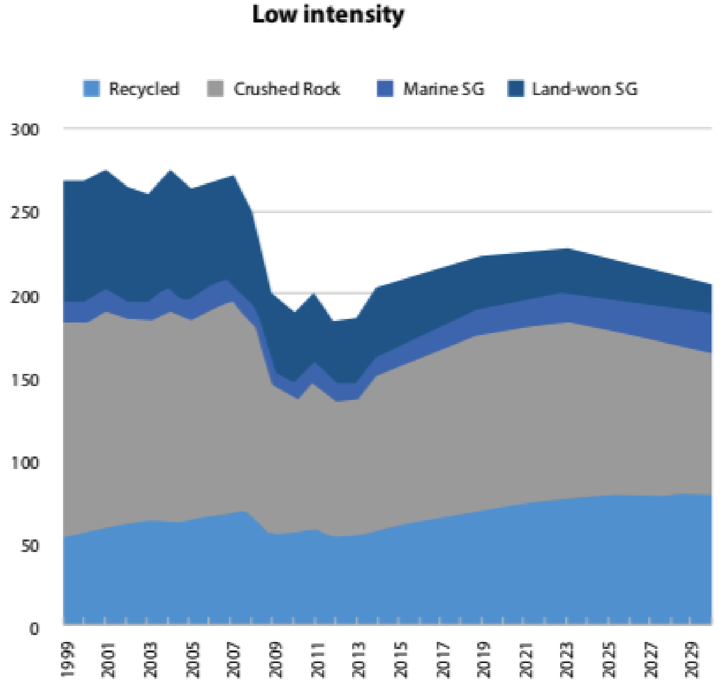


Source: MPA.
*Sum of fixed & site plants.

Aggregates Supply Scenarios - GB

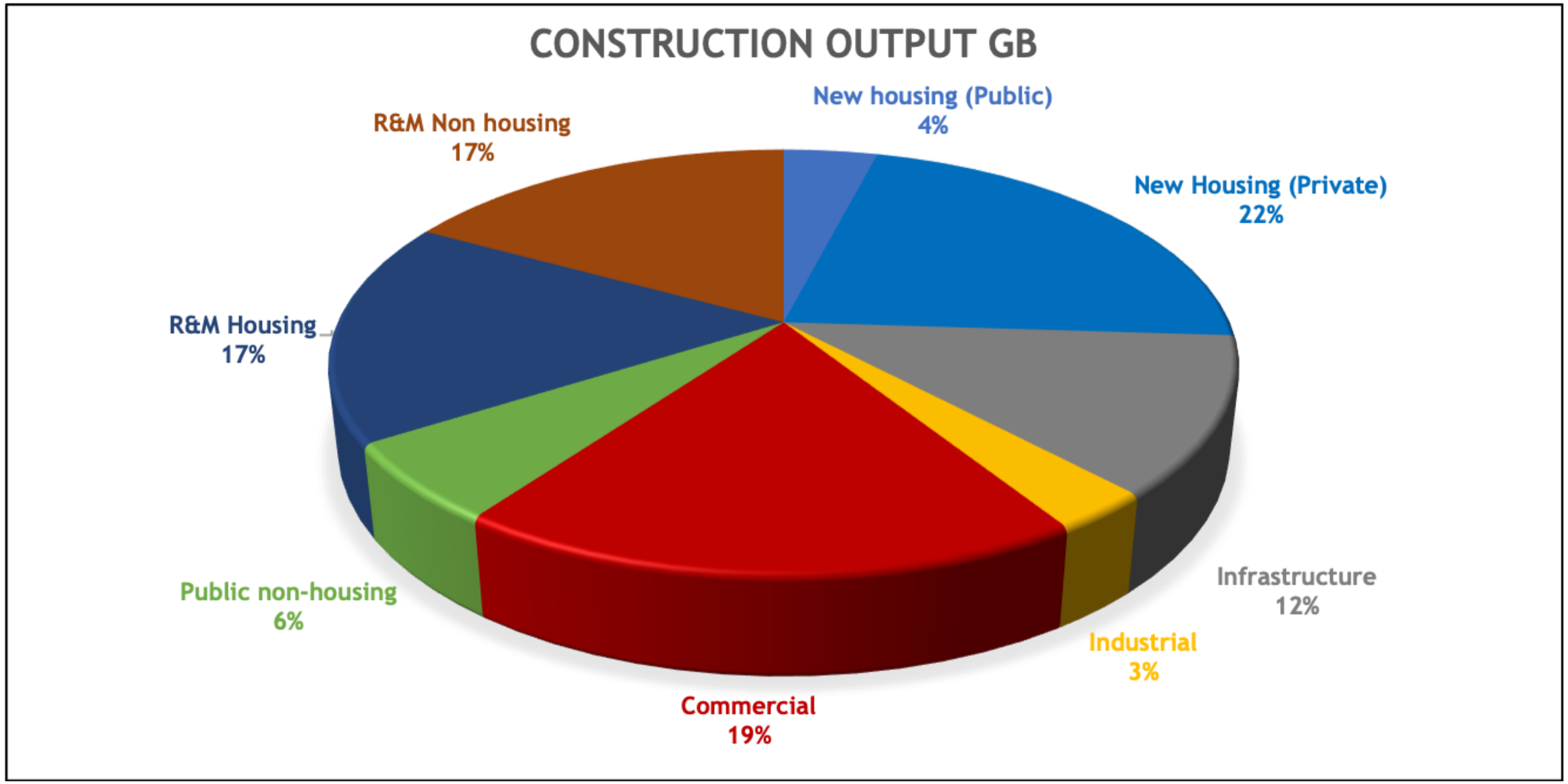


(GB, Mt)	2015	2030
Land-won sand & gravel	46	21
Marine sand & gravel	12	24
Crushed Rock	104	146
Recycled & Secondary	64	75
Total	**226**	**267**



(GB, Mt)	2015	2030
Land-won sand & gravel	46	21
Marine sand & gravel	12	24
Crushed Rock	104	80
Recycled & Secondary	64	75
Total	**226**	**201**

Construction – not just housing!



mpa
essential materials
sustainable solutions

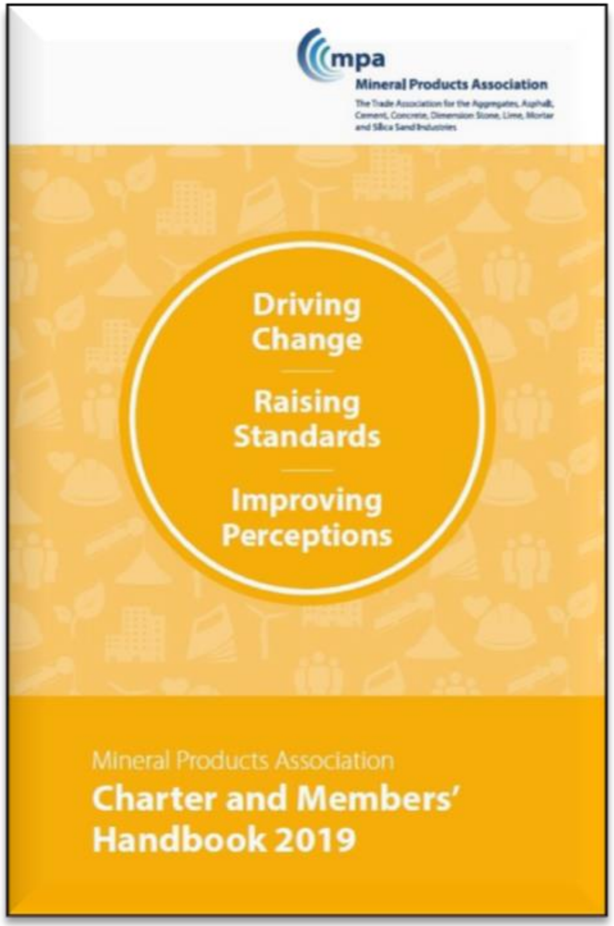
CBI

5 year horizon – issues & challenges

- Political uncertainty – policy consistency ?
- Devolution and Brexit outcomes remain uncertain & unsettling. Business implications for investment, trade, skills?
- Economy is subdued, 1.5% GDP growth trend to 2023.
- 2019 market outlook flat. 2020,21 growth dependent on Infrastructure delivery
- Planning & permitting concerns: localism vs strategic ? Resourcing of the mineral planning system?
- Cumulative costs of regulation/operations increasing. Including energy, transport, regulatory costs.
- Increasing focus on carbon emissions, air quality, biodiversity/net gain, water abstraction, resource use, circular economy.
- Relationships/engagement with local communities

MPA Charter

- Launched 2017
- Clarifies, simplifies and consolidates expectations for Members
- Enables the Vision for 2025 and the Strategic Priorities to be achieved by ‘Driving Change, Raising Standards and Improving Perceptions’



What we stand for: our values

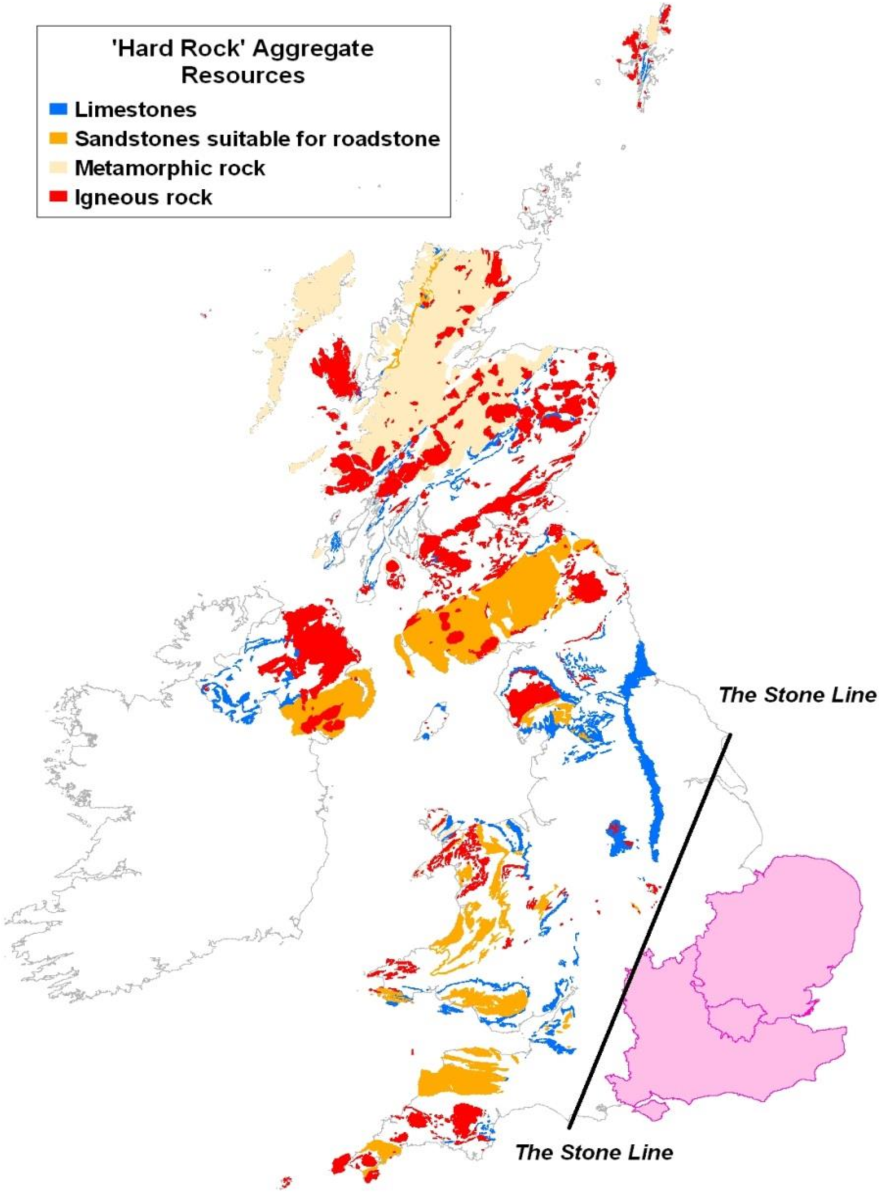
MPA Members are:

- Committed to the principles of **sustainable development**
- Committed to achieving **Zero Harm**
- Committed to **raising competence and skill levels** in the industry
- Committed to protecting and enhancing **UK Biodiversity**
- Committed to the **high quality restoration of land** to valuable after uses
- Committed to **reducing carbon** and other industrial emissions
- **Socially and environmentally responsible** suppliers of essential materials
- Committed to the **sustainable use** of their products by end users
- Committed to **maximising recycling** of materials, **improving resource efficiency** and **contributing to the 'circular economy'**
- **Valuable and active members of their communities,** particularly in rural areas
- Able to **provide a range of career opportunities and career development** and respond to skills shortages
- **Innovative** and share good and best practice particularly in health and safety and sustainable development

The policy context of aggregates extraction

Andrew Bloodworth and Joseph Mankelow

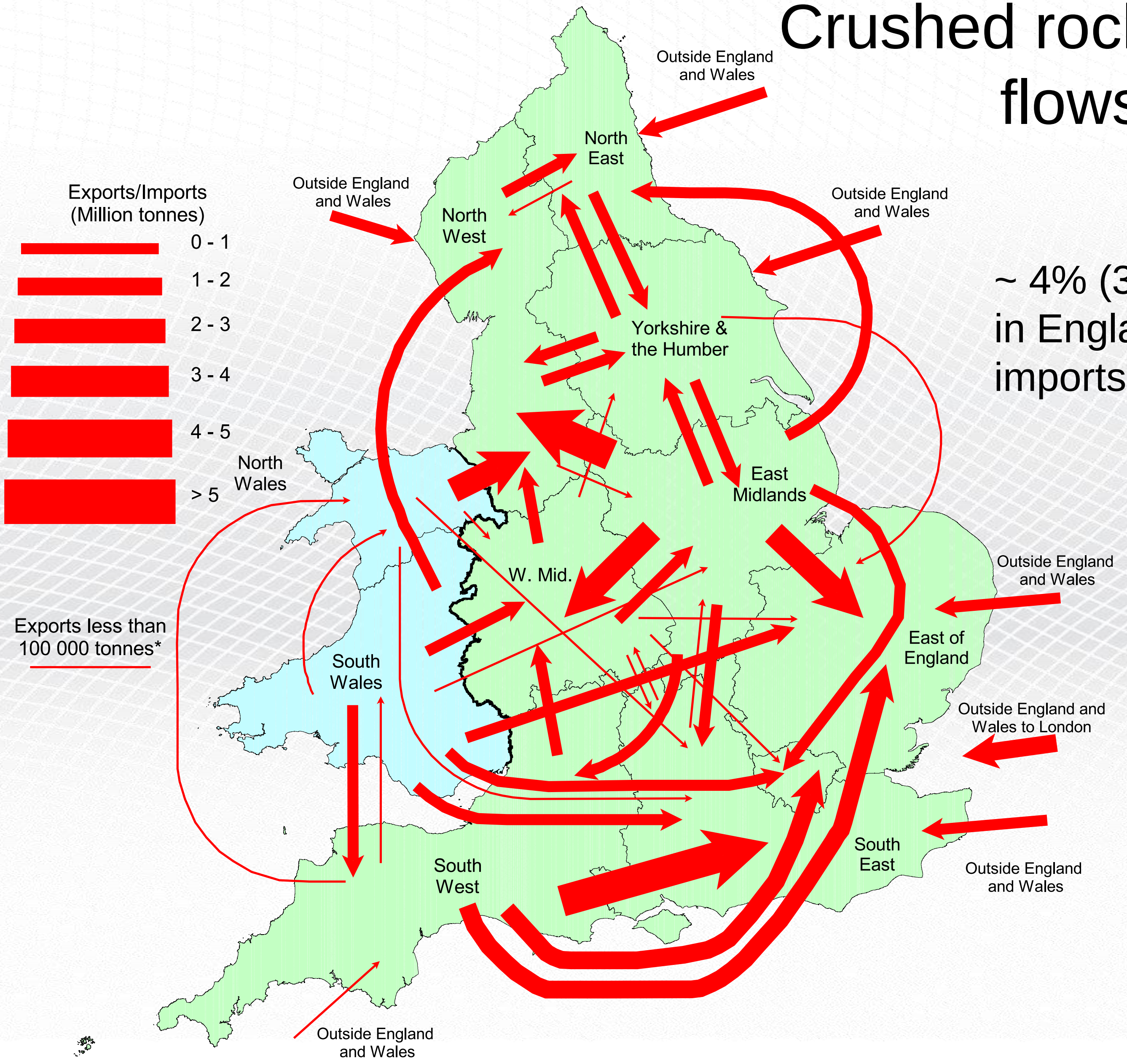
Primary aggregate supply



"Minerals can only be worked where they occur"

- UK relatively rich in resources
- Unevenly distributed/occur in inconvenient places
- Demographics drive demand and constrain supply
  - Demand concentrated in major urban centres (particularly mineral-deficient SE England)
  - Supply constrained by competition for land use (development and designation) + public perception

Crushed rock inter-regional flows, 2014



~ 4% (3 Mt) of demand (84 Mt) in England and Wales met by imports

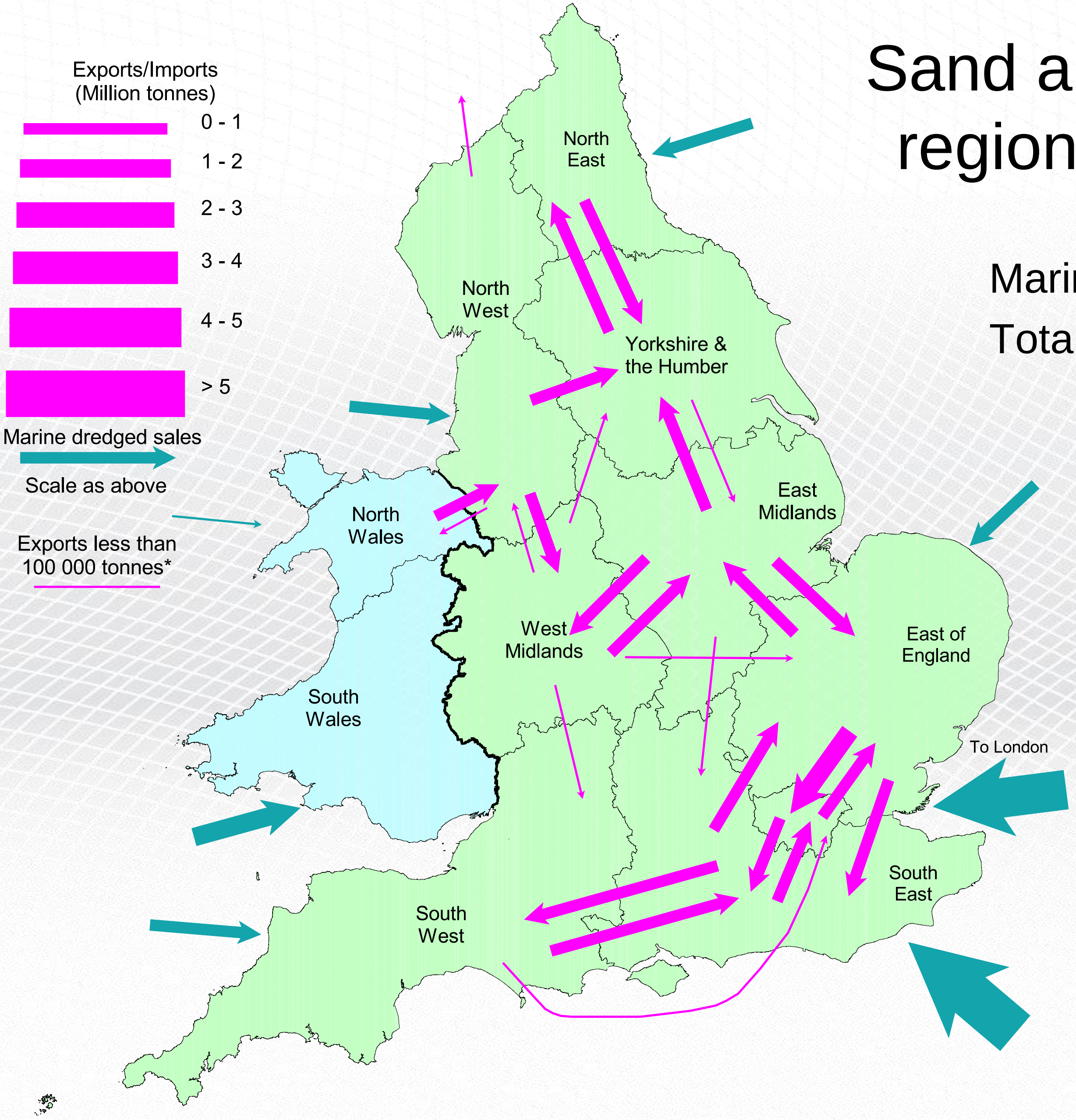
*For clarity, exports less than 25 000 tonnes are not shown.

Source: Aggregate Minerals Survey, Department for Communities and Local Government / British Geological Survey

Sand and gravel inter-regional flows, 2014

Marine-dredged = 14 Mt

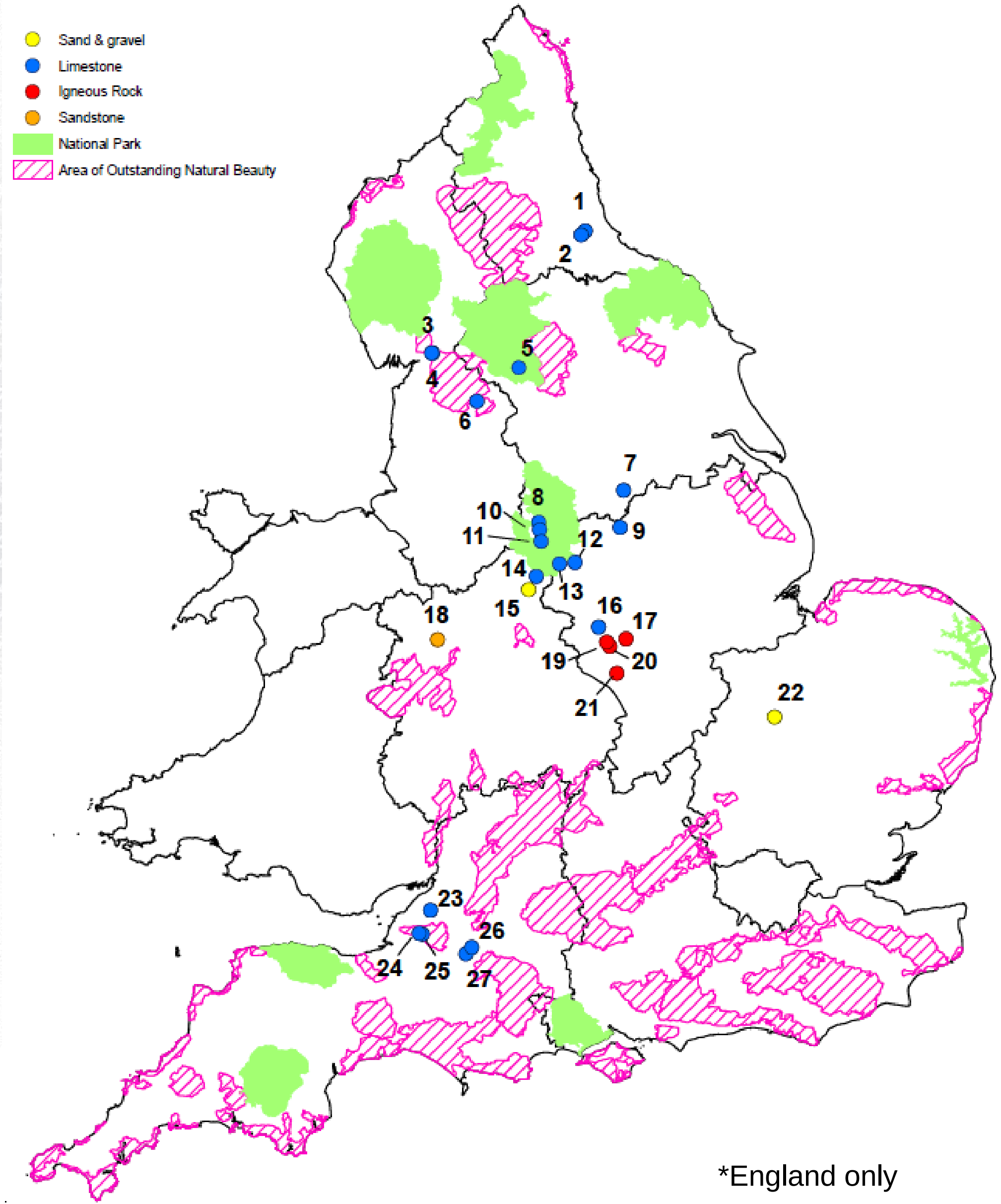
Total = 54.6 Mt



*For clarity, exports less than 25 000 tonnes are not shown.

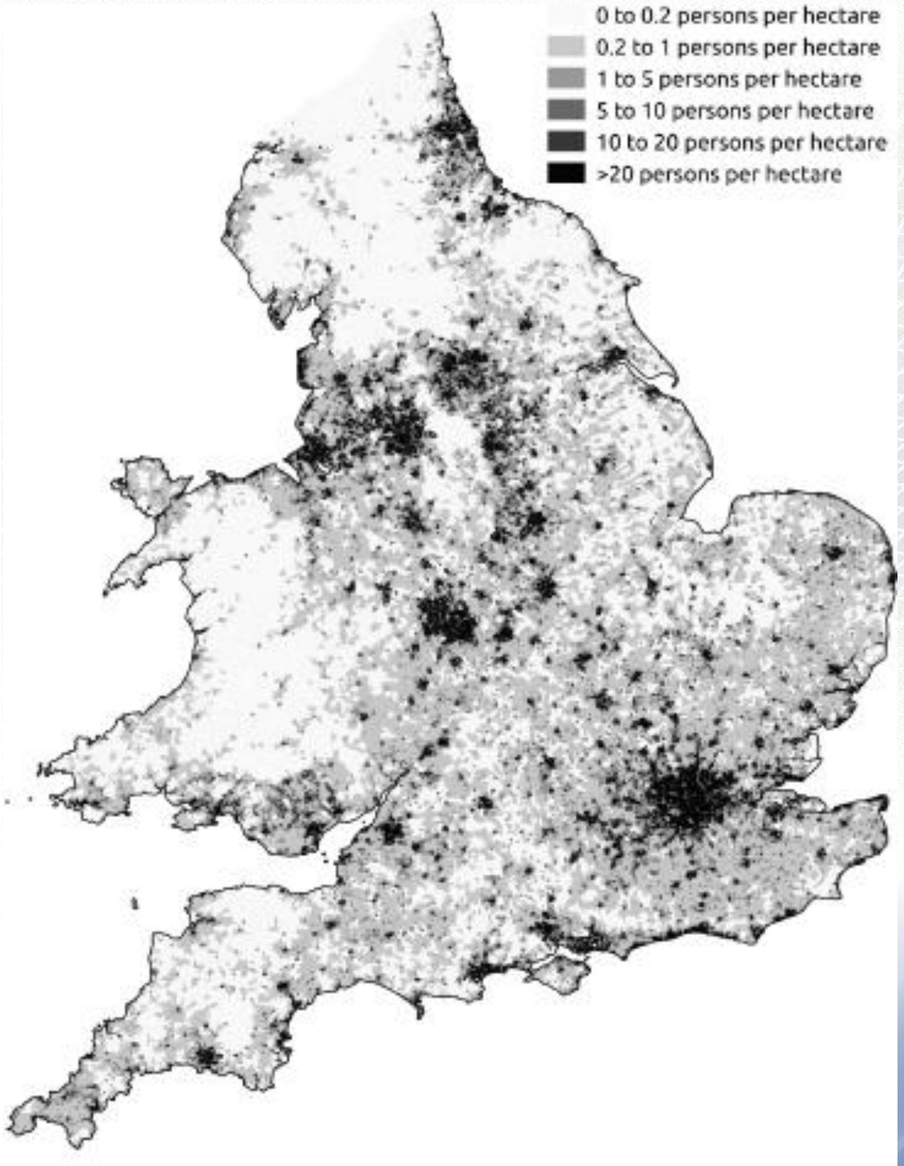
Source: Aggregate Minerals Survey, Department for Communities and Local Government / British Geological Survey

27 quarries capable of producing > 1 Mt/year (out of ~550)*

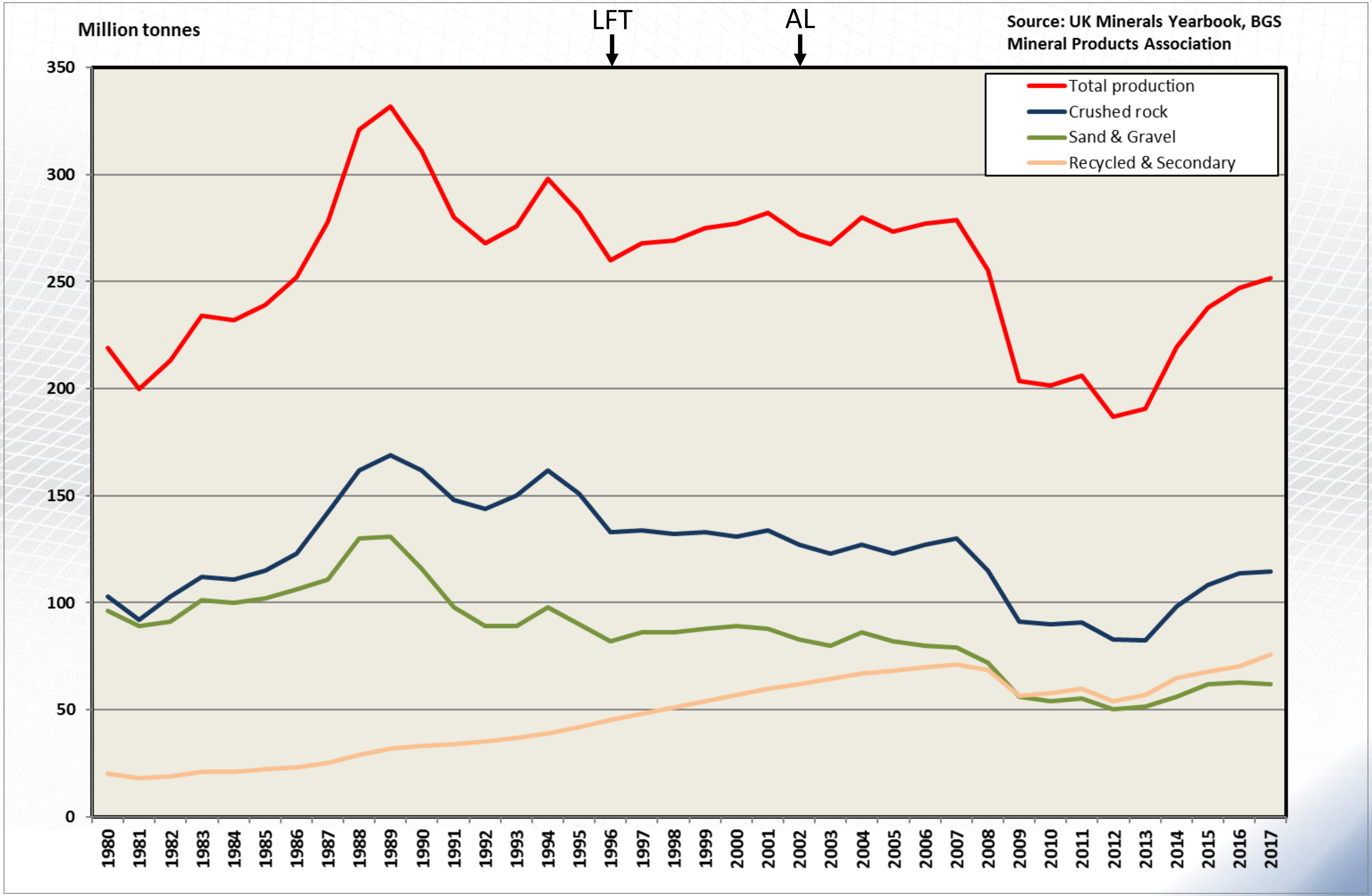


*England only

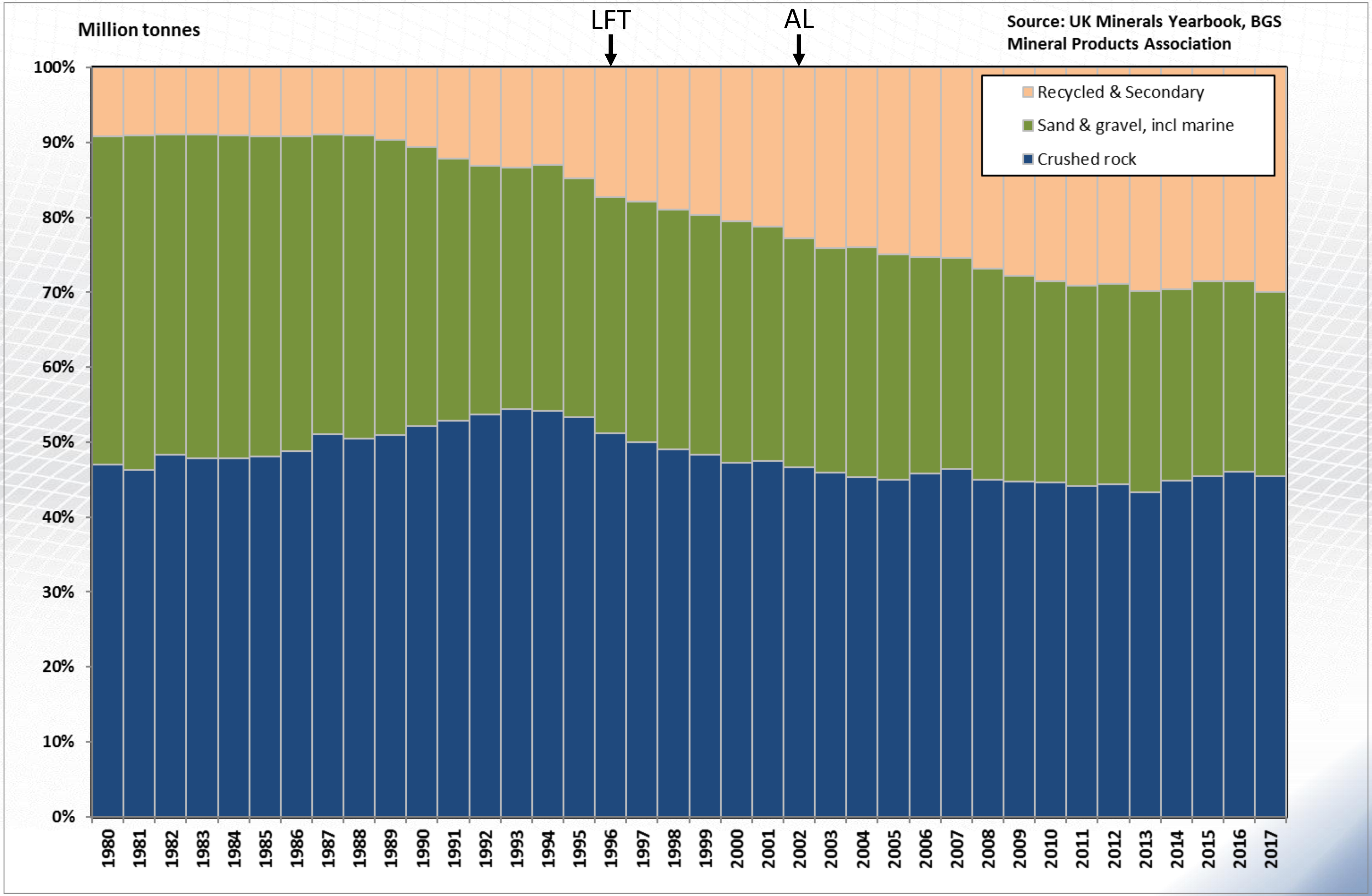
Population density



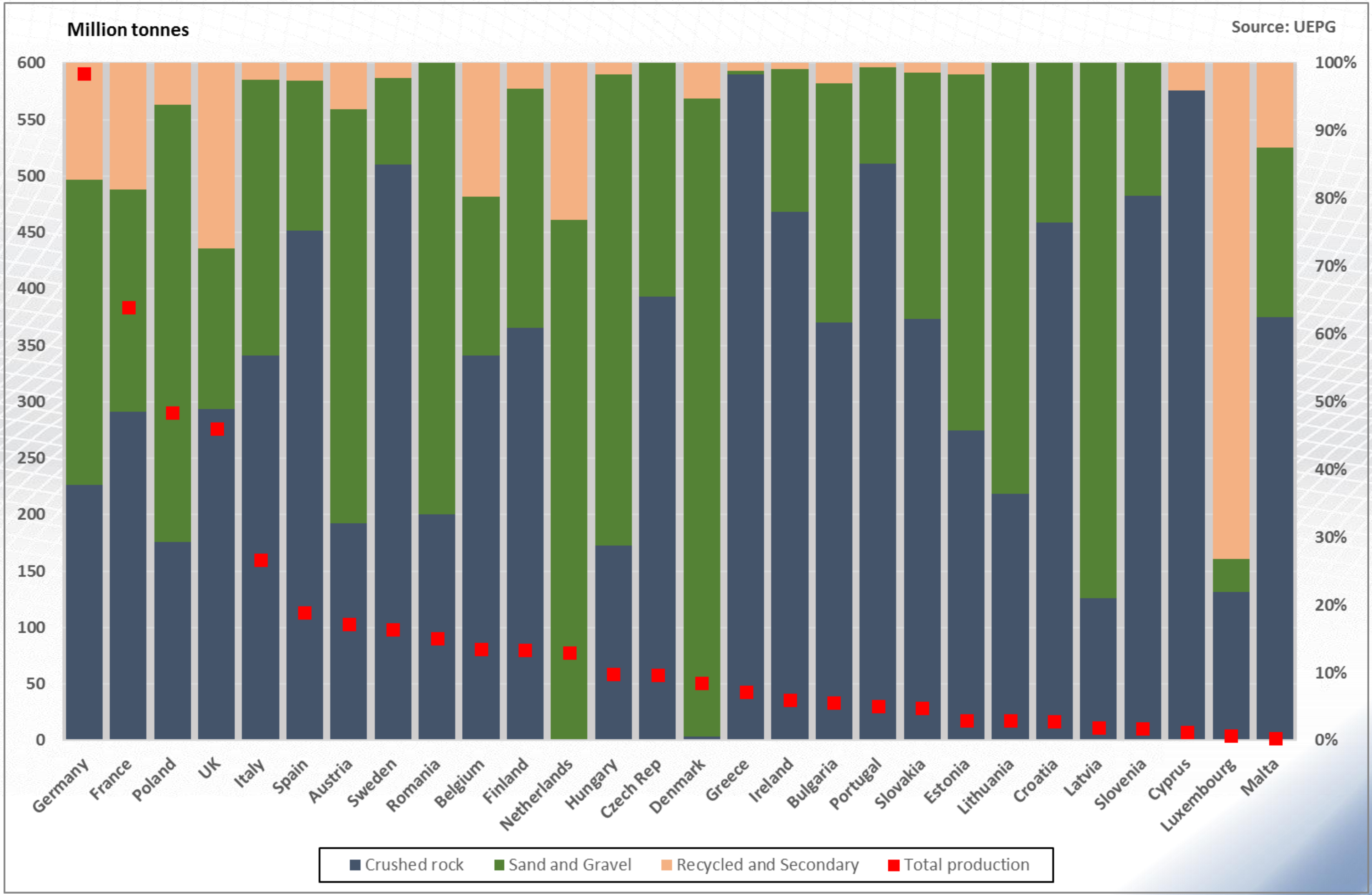
GB aggregates production, 1980 - 2017



GB aggregates production, 1980 - 2017

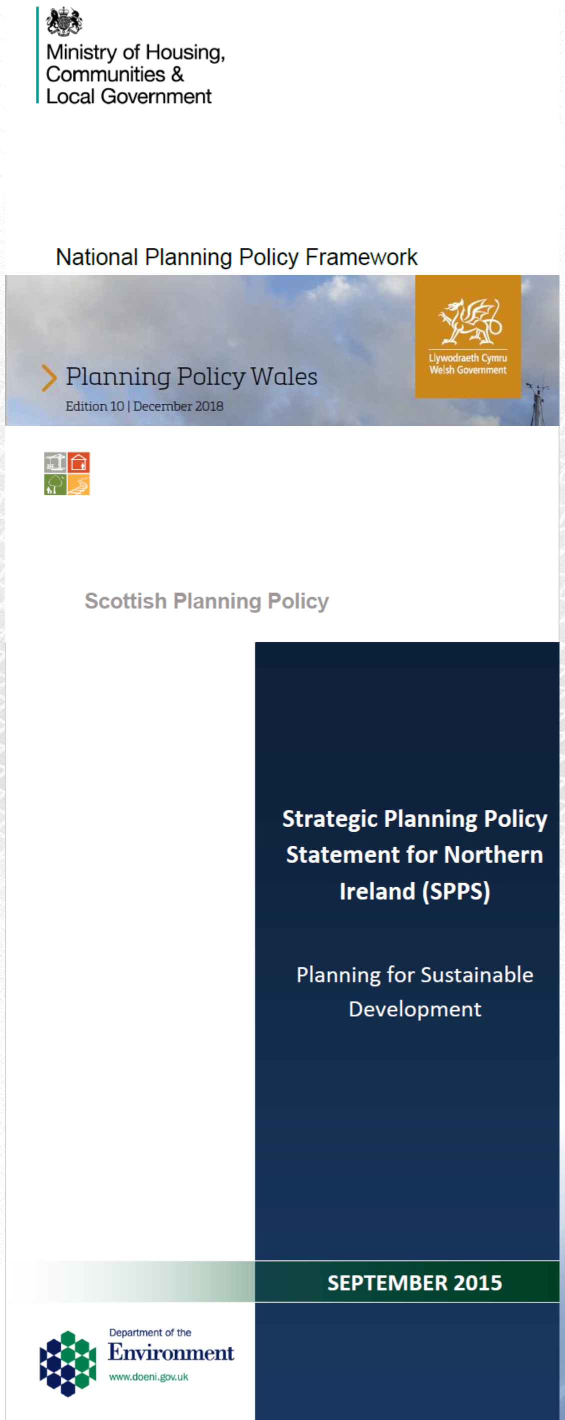


EU aggregates production, 2017



Policy environment

- NPPF + PPW + SPP + SPPS-NI
- MASS (Eng & Wales) – supply / landbank
- Environmental Permitting / mitigation of local impacts – water
- Economic Instruments – Agg Levy + Landfill Tax – env externalities of production



HM Treasury

Review of the Aggregates Levy

Reviewing the Objectives

Christina Hart

Content

- Introduction of the Aggregates Levy
- Review of the levy
- Government’s approach
- Principles of environmental taxes
- Government objectives

Introduction of the Aggregates Levy

- A new levy on aggregates came into effect in April 2002 to tackle the environmental costs associated with the extraction and transport of aggregates and to encourage the use of recycled materials.

An aggregates levy will ensure that the environmental impacts of aggregates production not already addressed by regulation are more fully reflected in prices, encouraging a shift in demand away from virgin aggregate towards alternative materials such as recycled aggregate. (Budget 2000)

- The timing of the introduction coincided with businesses benefitting from a cut in employers' national insurance contributions (as part of a shift towards a greater proportion of the tax burden falling on activities with negative externalities); and
- a new Sustainability Fund was created to deliver environmental benefits to the local communities affected by quarrying.

Review of the Aggregates Levy

The government has committed to:

- reviewing the Aggregates Levy’s objectives,
- assessing how effective the current design of the levy is in meeting those objectives;
- looking at the impact that the levy has had on the industry and the environment,
- considering the impacts of the production and supply of all mineral products (including all types of aggregate) as well as the extraction of other construction materials.

Our Approach to the Review

To do this, we will:

- consider the current policy, business and environmental context;
- reflect on the levy's objectives in the context of current government objectives;
- follow the principles of good tax policy making, (predictability, stability and simplicity), ensuring reforms align with the ambition for the tax system to be competitive, simple, fair and green;
- follow the principles underpinning environmental taxation.

We welcome all views and representations, specific examples and data are particularly helpful.

Environmental Taxes

- Our approach to addressing environmental issues is based on tackling market failures.
- Environmental taxes are particularly effective in correcting market failures where there are negative externalities that are not currently reflected in prices.
- Taxes and other economic instruments therefore have a central role to play. They can:
  - improve economic efficiency and promote resource productivity;
  - provide incentives for behaviour that protects or improves the environment, and deter actions that are damaging to the environment (in line with the Natural Capital accounting principles embedded within the 25 Year Environment Plan);
  - enable environmental goals to be achieved in the most efficient way; and
  - send out a clear signal to markets to encourage innovation and development of new technology.

Relevant Government Objectives (1)

- Ensure a steady, adequate and sustainable supply of mineral products;
    - ensuring this does not have unacceptable adverse impacts on the natural and historic environment or human health;
    - taking account of the contribution that substitute or secondary and recycled materials and minerals waste can make;
    - considering the adverse impacts on the natural and historic environment;
    - considering the noise, dust and particle emissions, and blasting vibrations;
    - ensuring high quality restoration and aftercare.

Minerals Planning Policy, National Planning Policy Framework

- An adequate supply of minerals and construction products is essential for economic growth.

Industrial Strategy Construction Sector Deal

Relevant Government Objectives (2)

- Minimise waste, promote resource efficiency and move towards a circular economy – including recycling and recovery of materials, waste management - while minimising damage to our natural environment. *Resources and Waste Strategy, DEFRA*

- Minimise impacts on, and provide net gains for, biodiversity, including by establishing coherent ecological networks that are more resilient to current and future pressures.

  National Planning Policy Framework; forthcoming Environment Bill

- A tax system that is straightforward for our customers to pay the right tax at the right time.

  HMRC

- Ensure stable and sustainable tax receipts to fund government spending in the least distortive way.

  HM Treasury

HM Treasury

Review of the Aggregates Levy

Discussion point 1: What impact has the Aggregates Levy had on the industry and environment?

HM Treasury

Review of the Aggregates Levy

Discussion point 2: 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 governments current objectives?

HM Treasury

Review of the Aggregates Levy

Closing Remarks

Ann-Therese Farmer