

## Happy Christmas! The levy's rising

### **QPA says “brace yourself” as the Chancellor’s pre-budget report prepares quarries for future levy hikes in March.**

Just as the British Aggregates Association (BAA) vows to continue fighting the aggregates levy in the European Court, the Chancellor has given his strongest indication yet that quarriers can prepare themselves for hikes in the controversial tax.

His pre-budget report in early December announced he would “...consider the appropriate level for future rates at Budget 2007.” Even the language in this year’s Budget report was less certain, stating the Treasury accepted the levy was “still bedding in”.

Jerry McLaughlin, economics director at the QPA says that quarriers should “brace themselves for a hike”. The only question now, he says, is whether the rises are in single substantial rises or index-linked.

*“I don’t think there will be anything as drastic as a doubling of the rate but I suspect he will chose an index-linked option as he has with the climate change levy. And this poses a big problem for firms.*

*“In real terms it means about an extra 5p a tonne which may add £10million extra to the Chancellor’s coffers but is small enough to be difficult for operators to claw back from customers,” he said.*

However, Peter Huxtable of the BAA is more optimistic. He feels the attitude of the QPA is simply creating the environment for people to accept the levy as inevitable. He even feels Gordon Brown may be looking for a back door.

*“Out of the two major levies, aggregates and climate change, it is the climate change levy he has decided to index link from April next year. He could have linked them both from April but he hasn’t.*

*“I see some comfort in this. He may have seen the error of his ways and is looking for a way out. I don’t feel we should be accepting the levy as permanent. The attitude of the QPA is simply giving him the green light to go ahead,” he told MQR.*

It is undoubtedly a difficult choice for Gordon Brown to make. While the pre-budget report conveniently uses the 2003 figures on aggregates sales which suggest an 8% drop in primary aggregates sales, more up to date figures show a different story, explains McLaughlin.

*“Data for 2004 state that sales increased by 5-6% across the year while during 2005 they fell again by 4-5%. Figures that are three years out of date are hardly a keen measure of performance,” he told MQR.*

A new economic model from WRAP (see MQR Sept/Oct) suggests that even if the levy were removed it would have little impact on the growth of recycled aggregates which it estimates will peak by around 2011.

Even hiking the levy to £3.60 a tonne and raising market price by £2.00 would have little impact on recycled aggregate sales, it suggests, other than changing the volumes of grade of virgin material relative to recycled sales.

In late November the BAA lodged its appeal at the European Court of Justice (ECJ) against the Court of First Instance's (CFI's) decision that the levy met the necessary legal tests for discriminatory taxation (see MQR Sept/Oct).

The BAA contests that the decision is at odds with the ECJ on a range of other counts and is appealing that the CFI's approach conflicts with ECJ decisions in previous cases.

*"The CFI adopts an approach that leaves so much discretion to the Member States that it renders the state aid disciplines meaningless with regard to environmental levies,"* it states.

Also with the pre-budget report came the news that the aggregates levy sustainability fund (ALSF) is to be extended by a further year to 2007-2008. An announcement met by sighs of relief from funded projects within organisations as WRAP and MIRO.

Decisions about its longer future would be made as part of next year's comprehensive spending review, he said, an approach many feel is disappointing

*"I know there is no legal obligation for the Treasury to retain the ALSF but to me it enshrines the environmental purpose of the levy, giving 10% back to communities who have been affected by excavation. After all, it doesn't meet its environmental credentials any other way,"* Huxtable told MQR.

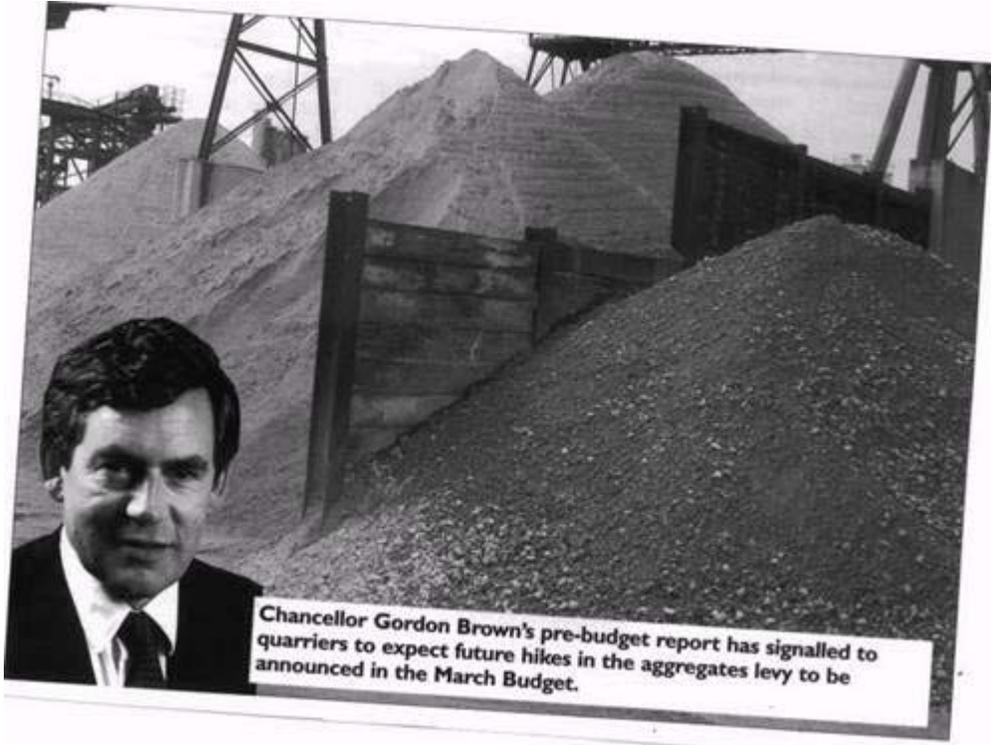
One element of the pre-budget report that appears to have been gratefully accepted from all sides is its remark that whether minerals firms come under the Government's planned Planning Gains Supplement (PGS) is still under review.

The PGS is a levy on the uplift – or increase in value – of land once planning permission has been gained.

Both the QPA and BAA have voiced strong objections as it would hamper minerals operations and create an unlevel playing field between new permissions lumbered with the up-front tax and those working old permissions.

However, not all see the lack of movement as comforting. Economics director for the Construction Products Association Allan Wilen said he was disappointed by the statement. *"The Chancellor has yet to recognise the inappropriateness of applying the PGS to the granting of permissions for mineral extractions,"* he said.

See Photo below



**Chancellor Gordon Brown's pre-budget report has signalled to quarriers to expect future hikes in the aggregates levy to be announced in the March Budget.**