

22nd October 2003
Rt. Hon Gordon Brown MP,
The Chancellor of the Exchequer,
HM Treasury,
1 Horse Guards Road,
London.
SW1A 2HQ

Dear Chancellor,

British Aggregates Association Pre-Budget Submission

Ahead of the Pre-Budget Review the British Aggregates Association (BAA) has prepared the enclosed memorandum on the economic and environmental damage caused by the aggregates levy. The memorandum also addresses important additional problems experienced by quarry operators in the first year of the levy's operation, together with proposed policy solutions.

The BAA remains very concerned about the serious problems affecting its members, particularly in light of evidence now emerging. The crisis in Northern Ireland has become even more severe since Budget 2003, with cheap imports (both legitimate and illegitimate) from across the border, together with an extensive "black market" in aggregates, seriously affecting legitimate quarries' business and leading to significant numbers of redundancies. Since the aggregates industry in Northern Ireland is proving unable to adapt to the levy, the levy should be abandoned there. Failing this, the Government should at the very least review both the amount and enforcement of the levy in Northern Ireland.

The BAA is also concerned at the consequences of the distortion of localised markets for by-product aggregates. The levy is causing huge new spoil heaps by encouraging customers in some areas to abandon aggregates by-products in favour of untaxed by-products from other local industries, such as slate or china clay spoil. The Treasury needs to do more on this issue, to prevent serious long-term problems. Since Budget 2003, evidence has also emerged of a massive increase in unauthorised quarrying, precipitated by the high level of the levy. This is causing immense damage to the legitimate quarry operators in competition with them, and damaging the environment. Again, this is a serious, long-term problem that must be tackled.

The aggregates levy has weakened the independent quarrying sector. It is notable that smaller quarry operators face far more severe problems than the major companies in adapting to the levy, in terms of higher compliance costs per tonne, worse cash-flow difficulties and less ability to pass the full costs of the levy up the supply chain. The BAA continues to be concerned that the levy will, in the longer term, simply force smaller aggregates producers out of business, and will not achieve overall environmental gains.

The Association would also like to take this opportunity to raise the Treasury's awareness of three key areas in which we believe business taxation should

be reformed to help our members. Exempting Employers' Liability Insurance from insurance tax, extending the VAT cash accounting threshold, and extending capital allowances, would provide much needed help to all small businesses, not just the quarrying industry.

Problems in securing Employers' Liability Insurance at an affordable price continue to affect BAA members, along with all small businesses. In the aggregates sector, this has the potential to force some companies out of business. The Government's ongoing review of the Employers' Liability Insurance system is welcome, but has sadly proved unable to provide the immediate relief needed by many firms. We believe the exemption of Employers' Liability Insurance premiums from tax should be given serious consideration, to help struggling small businesses.

In common with all small and medium sized businesses, BAA members often face significant cash-flow problems. In the aggregates industry, this has been compounded by the high value of the aggregates levy relative to turnover. A measure that would provide some relief would be the extension of the VAT cash accounting scheme to companies with a turnover of up to £5 million.

The BAA is also keen to promote positive incentives that can effectively improve environmental performance without damaging small businesses. We therefore believe capital allowances should be reviewed. It is illogical for rebuilt plant to receive a 100% capital allowance whilst replacement with new, more energy-efficient and environmentally friendly plant only results in a 40% allowance for the first year and then 25% on a reducing basis. A 100% capital allowance for energy efficient and environmentally friendly investment would be a good example of a way to create a positive incentive for small businesses to improve their environmental performance still further.

In conclusion I hope you will agree that, in view of the evidence we present that the aggregates levy is not delivering overall environmental improvements, and is causing needless commercial damage, there will ultimately be no sensible alternative to its abolition.

I hope you will give serious consideration to the points we raise.

Yours sincerely

Robert Durward,

Director,

British Aggregates Association