

Scottish Aggregates Tax Bill Advisory Group – Meeting 2
Friday 24 March 2023, 1000-1230 hrs
Victoria Quay, Edinburgh & Via MS Teams

Note of Meeting

Attendees

- Sean Cockburn - Chartered Institute of Taxation
- Lauren Darby - British Ceramic Confederation
- Alex Doig - Scottish Government (Chair)
- Jocelyne Fleming - Chartered Institute of Building
- Angus Hamilton - Scottish Environmental Services Association
- Alan MacKenzie - Mineral Products Association Scotland
- Joseph Mankelow - British Geological Survey
- Drew Murdoch - Resource Management Association Scotland
- Paul Percy - British Glass
- Mike Phillips - British Aggregates Association
- Kat Quane - Transport Scotland
- Martin Robertson - Scottish Environment Protection Agency
- Jonathan Sharma – Convention of Scottish Local Authorities
- Kathy Wormald - Scottish Environment Link

Apologies

- Grahame Barn - Civil Engineering Contractors Association Scotland
- Justine Riccomini - Institute of Chartered Accountants of Scotland

Secretariat and Official Support

- Ewan Cameron-Nielsen – Scottish Government
- John Fotheringham – Scottish Government
- Robert Souter – Scottish Government
- James Lindsay – Revenue Scotland
- John McVey – Revenue Scotland

Summary: The second meeting of the Scottish Aggregates Tax Bill Advisory Group (SATBAG) discussed the definitions of “aggregate” and “commercial exploitation” to be used in the Bill, and the proposed exemptions and reliefs from the future tax.

1 Welcome and Introduction

- 1.1 Alex Doig (Deputy Director, Tax and Revenues Directorate, Scottish Government – Chair) welcomed members to the meeting. This would focus on the scope of the tax, definitions of aggregate and commercial exploitation for the purposes of the Scottish Aggregates Tax (SAT), and potential exemptions and reliefs.

2 Agreement of Note of Meeting 1

- 2.1 The Chair invited members' feedback on the draft Note of Meeting 1: there were no comments, so the Note was taken to be agreed.

3 Update on UK Budget announcements regarding UK Aggregates Levy

- 3.1 John Fotheringham, Aggregates Tax Bill Team Leader, Scottish Government, outlined announcements made in the UK Budget on 15 March. Key were the consolidation of four construction waste-related exemptions into one, effective from 1 October 2023, and an increase in the levy rate to £2.03 per tonne, effective from 1 April 2024.

4 Proposed Scope of the Scottish Aggregates Tax

- 4.1 The Chair invited Robert Souter, Senior Policy Adviser, Scottish Government, to present his paper setting out the proposed scope of the SAT, which will be framed by the legal definitions of aggregate and commercial exploitation. The starting assumption was to adopt the same definitions as used for the UK levy, but it would be helpful to consider if there was a strong policy case for divergence and/or any unique aspects of the aggregates sector in Scotland that would justify an alternative approach.
- 4.2 Members discussed adopting the same definitions. This was seen as being a positive step, with broad support from members. The main reasons given in support were: (1) that the definitions had developed over a long period of time with extensive engagement between UKG and stakeholders, (2) that they are widely understood by the industry, and (3) that they had been considered and validated by European courts. This weighed against risks associated with different definitions, such as confusion and misunderstanding amongst taxpayers.
- 4.3 Members discussed the distinctions between primary and recycled aggregates, and potential limitations on their respective uses based on standards. It was noted that there is increasing capacity to produce recycled aggregates, and that whilst the bulk of this presently comprises washing and sorting processes, several novel technologies are coming online.

- 4.4 Members discussed the use of glass as a recycled aggregate. It was observed that encouraging this could be counter-productive to glass industry efforts to increase recycling and decarbonise the sector. It was noted that there would be value in exploring how glass might be better placed in the waste hierarchy, but the SAT may not be the primary means to achieve this. It was suggested that there might be value in scoping how the SAT and Scottish Landfill Tax (SLfT) could complement each other. (Afternote: link to an industry video on flat glass recycling that may be of interest: <https://youtu.be/9-CPjQmXsPY>).
- 4.5 Members discussed how the SAT will sit within the wider policy landscape, such as in relation to the Waste Route Map. It was observed that making and sustaining linkages could be challenging and will take time, and there will also be a need to consider and anticipate future developments.
- 4.6 The Chair asked members to advise if they were content with the proposal to adopt the same definitions for “aggregate” and “commercial exploitation” as used for the UK levy, and if they thought there was any scope to improve on these. Of those who spoke in return, all agreed with the suggested approach.
- 4.7 The provision in the Scotland Act 2016 that a SAT ‘must not be chargeable when aggregate is subjected to commercial exploitation for fuel’ was discussed. Members concluded that this should not cause any issues; it was highlighted that it may have been included given unconventional oil and gas extraction such as ‘fracking’ was topical when the Act went through the UK Parliament.

5 Proposed Exemptions and Reliefs for the Scottish Aggregates Tax

- 5.1 The Chair invited Robert Souter to speak to his paper on proposed exemptions and reliefs. As a starting assumption these essentially replicate those for the UK levy, of which there are several, with the only omission being the exemption for ball and china clay which is unlikely to be relevant for the Scottish tax base. The Chair invited members’ views on the proposals.
- 5.2 Members discussed the scope to have an exemption for local authorities who produce aggregates from their own quarries for road maintenance and concluded that this could confer a commercial advantage over private quarries. It was observed that councils who own landfill sites are not exempt from SLfT.
- 5.3 Members discussed the proposal to retain the exemptions relating to glass. It was observed that since the inception of the UK Aggregates Levy in 2002, several other measures and industry initiatives have helped to encourage glass recycling and the shift towards circular economy.
- 5.4 Members noted the need to discuss the SAT rate, given concerns in some quarters over the potential impacts if this were to differ from the UK levy rate: the Chair advised that the approach to setting rates would be discussed at the next meeting.
- 5.5 The Aggregates Minerals Survey recently conducted for the Scottish Government by the British Geological Survey was discussed. It was observed that response rates had been impacted by the fact that participation was

voluntary so the figures, particularly those on imports and exports volumes, are unlikely to be truly representative. It was noted that engaging those who did not respond would be material, and that it may also be helpful to review the wording of some survey questions. Alan Mackenzie offered to canvass industry colleagues with a view to providing some further data on import and export volumes for the next meeting, which will discuss cross-border movements. The Chair welcomed this and noted that any further evidence members may be able to provide would be appreciated.

- 5.6 Members discussed the proposed exemptions for recycled and secondary aggregates. It was noted that an increasing number of new recycling plants using novel processes and technologies are coming online. It was highlighted that whilst recycling rates continue to improve, there is usually a small amount of unusable waste by-product which is liable for the higher rate of landfill tax, which seems punitive given that there is currently no way to use that material. The Chair invited views on this: the potential to develop a joined-up approach between the SAT and Scottish Landfill Tax, and the Waste Route Map, was discussed. It was also noted that there may, in future, be a need to refine a formal legal definition of recycled aggregate to reflect new technologies, processes and materials.
- 5.7 Members discussed the level of evidence required to have an exemption or relief included within the Bill. The Chair advised that various factors would need to be considered, and that it will likely be easier to provide evidence for some proposed measures than others. It was observed that a lot of work had been done to provide evidence in support of exemptions from the UK levy, and it would be a demanding process to replicate this. A balance would have to be struck and whilst the Scottish Government holds evidence it should be noted that it does not have access to UK Government data.
- 5.8 Members discussed the proposal not to include an exemption for ball and china clay. This was felt to be reasonable given there is no production of such clays in Scotland due to geology. It was noted that there may be scope to revise and update exemptions and reliefs more easily in secondary legislation. The frequency of reviewing exemptions and reliefs was discussed: every few years was thought appropriate. The Chair invited members to signal that they were content with the proposals on exemptions and reliefs overall, which they did.

6 Any Other Business

- 6.1 It was highlighted that primary aggregate producers are liable to pay the levy on quantities they use in projects to develop novel materials, and that no relief was offered in relation to investment taxpayers were making in relation to technological advances that reduce reliance on primary aggregates. Members discussed the scope, if a sustainability fund was developed as part of the tax, to have it support research and development. The Chair welcomed proposals that aligned with the objectives of the tax and advised that having such a relief or creating a fund would be discussed at a later meeting.

- 6.2 The Chair advised members that they may be interested to hear that the answer to a recent Parliamentary Question stated that the Bill will not be introduced in the current Parliamentary year, which ends in June.
- 6.3 The Chair invited views on holding the next meeting in St Andrews House in early April, with attendance in person only. Members concurred but observed that this may not allow enough time for preparation, so it was agreed to hold the meeting in the week beginning 17 April.

7 Closing Remarks

- 7.1 The Chair thanked members for their contributions and expressed his hope that they will be able to attend the group's next meeting. (Afternote: this will be from 1400-1630 hrs on 19 April, in person in St Andrews House, Edinburgh; invites were sent on 31 March).