



House of Commons
Northern Ireland Affairs
Committee

Introduction of the Aggregates Levy in Northern Ireland: one year on The Government's Response

Fourth Special Report of
Session 2003–04

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The Northern Ireland Affairs Committee

The Northern Ireland Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Northern Ireland Office (but excluding individual cases and advice given by the Crown Solicitor); and other matters within the responsibilities of the Secretary of State for Northern Ireland (but excluding the expenditure, administration and policy of the Office of the Director of Public Prosecutions, Northern Ireland and the drafting of legislation by the Office of the Legislative Counsel).

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Mr Peter Robinson, MP (*Democratic Unionist Party, East Belfast*)

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk.

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Committee staff

The current staff of the Committee are Dr John Patterson (Clerk), Hugh Farren (Attached Clerk), Dr Aileen O'Neill (Committee Specialist), Tony Catinella (Committee Assistant), Camilla Brace (Secretary).

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Fourth Special Report

The Committee published its Third Report of Session 2003–04 on 12 March 2004. The response from HM Treasury in the form of a memorandum dated 25 May 2004, and is published as the Appendix to this report.

Appendix

Conclusion 1

We are grateful to the Minister for listening to our concerns about the problems associated with the aggregates levy in Northern Ireland because of its land border with the Republic of Ireland. In these circumstances we welcome the steps recently taken by HM Treasury, together with the Department of the Environment in Northern Ireland, to secure the environmental improvements sought through the levy by the introduction of a new Code of Practice and Compliance Framework. (Paragraph 16)

The Government has listened to the concerns of the Committee and the industry about the levy's unintended impact in Northern Ireland and acknowledges the Committee's helpful support and encouragement, which has been an important spur to the development and implementation of a new scheme.

Extending the tax relief scheme in Northern Ireland allows more quarry businesses to benefit and will ensure that the aggregates levy works better, in the unique context of Northern Ireland, to deliver the environmental gains the Government is committed to achieving.

Conclusion 2

We urge the European Commission to consider urgently the UK Government's case for an extension of the levy relief scheme. While this will probably appear small by comparison with many of the Commission's other concerns the levy has proved a significant obstacle to the aggregates and construction industries in Northern Ireland, and by extension to the regeneration of the region's infrastructure, and its economic development, to which the European Commission commits substantial funding by other means. (Paragraph 17)

The introduction of the new scheme followed notification from the European Commission on 7 May 2004 that the Government's proposals for extended relief had received state aid clearance. Recognising the importance of the new scheme to the economy and environment in Northern Ireland, the European Commission gave a high priority to processing the Government's state aid application, granting approval around four months after submission of the UK's application.

Because of the preparations of Customs and the Department of the Environment in Northern Ireland (DoENI), quarry operators in Northern Ireland were able to claim the extended relief from the date of state aid approval, provided they hold certain basic

regulatory consents and enter into agreements with the DoENI committing them to making significant environmental improvements to the way their operations are run. Guidance has already been issued by Customs. Continued eligibility for relief depends on businesses meeting their agreed environmental targets, which will be regularly monitored and reviewed by DoENI.

The relief continues to cover aggregate in processed products and has been extended to cover unprocessed virgin aggregate exploited in Northern Ireland. Instead of the relief reducing annually, as had been scheduled under the previous 5-year scheme, the level of relief has been fixed at a flat rate of 80 per cent of the full rate of the levy.

The Commission added only one condition in accepting the state aid application. The environmental guidelines on state aid, which provided for this application, stipulate that companies subject to such reliefs should be expected to pay a substantial amount of the tax over a ten-year period. Because companies subject to the old relief paid no tax at all in the first year, the Commission decided that tax relief should apply for only nine years, and that the new scheme should therefore end on 31 March 2011. In practice, the Commission decision is unlikely to have a significant impact, since the UK is free to seek a renewal of the relief at the end of the scheme if the Government decides at that time that it wishes to continue with it and that there is a case for doing so.

Conclusion 3

We hope that the Commission and the UK Government together will find a way to agree and implement this proposed new scheme by 1 April 2004 so that additional burdens on the industry—which would otherwise come into effect on that day—can be avoided. (Paragraph 18)

The Government has been able to provide the extended relief with effect from 1 April 2004, in line with its commitment to do so. The Government worked constructively with the European Commission to ensure this would be possible, since introduction of the scheme before state aid approval would have been illegal, as would a failure to reduce the rebate in line with the original 5-year relief scheme in operation at that time.

Customs and DoENI have worked with the industry to agree arrangements for backdating relief to 1 April, where the requisite environmental controls are in place. The Government recognises that some additional short-term economic and administrative burdens may have been experienced by some quarrying businesses in Northern Ireland as a consequence of the temporary reduction of relief on 1 April 2004, but it considers that these costs are greatly outweighed by the longer-term benefits of the new relief scheme.