Mineral Products Association

The Trade Association for the Aggregates, Asphalt, Cement, Concrete, Dimension Stone, Lime, Mortar and Silica Sand Industries

Budget and CSR 2021 submission: Delivering for the UK

SUMMARY

The 2021 Comprehensive Spending Review is vital for supporting the recovery from Covid and tackling climate change as we all work to deliver net zero by 2050. It is an opportunity to improve infrastructure and housing delivery, set the groundwork for a net zero built environment and make several key decisions to help hard-to-decarbonise sectors get to zero, and in the case of cement and concrete, beyond zero into net negative emissions.

MPA represents producers of aggregates, asphalt, cement, concrete, dimension stone, lime, mortar and silica sand, who collectively produce 400 million tonnes per year, the largest material flow in the economy.

Our industry presents a good opportunity to 'Level Up' by enabling all regions and nations of the UK to realise their sustainable economic potential, with high-skill jobs in locations across the UK including less affluent areas. But we need a government that understands and supports business to grow, rather than layering on cumulative costs and policies, some of which are counter-productive and most of which could be better delivered. In addition to the more than £500m environmental taxes our industry is already paying, our members face an increase of £100 million per year cost from the red diesel rebate being removed, plus the future return to indexation of the Aggregates Levy. The tax take is growing while our members also face a constantly increasing regulatory burden. This is not how to support business and must be tackled. We need a 'can do' approach to enterprise that boosts confidence to encourage private investment in all parts of the UK.

The suggestions below set out how Government can improve delivery of its infrastructure and housing ambitions, support communities, and deliver net zero. Specific proposals include to:

1. **Restore the Aggregates Levy Community Fund**
2. **Introduce a Clean Cement Fund, modelled on the Clean Steel Fund, to support decarbonisation**
3. **Require mineral resource and supply audits for major projects well in advance of construction**
4. **Commit to five-year local roads budgets**
5. **Delay red diesel rebate removal**
6. **Support rail freight, including electrification and capacity management**
7. **Publish the National Infrastructure and Construction Pipeline annually and in greater detail**
8. **Stop subsidising waste biomass away from more efficient industrial use**
9. **Set low carbon concretes as the default in public procurement**

MPA's general policy positioning is set out in our document "Delivering for the UK: Priorities for Government, Priorities for Industry."[1] As we say in that document:

> ***"The mineral products industry aims to support and work with Government to deliver its agenda. To enable us to do so Government needs to create conditions which minimise uncertainty, build confidence, encourage investment and boost growth."***

Our members are essential to delivering the Government's ambitions but this is rarely reflected in policy.

Mineral Products: essential for schools . . . hospitals . . . homes . . . roads . . . railways . . . energy supply . . . airports . . . ports . . . food . . . water . . . agriculture

DELIVERING THE PLAN FOR GROWTH

MPA welcomed the Government's increase to the capital budget and the pledge to increase spending on **infrastructure** as announced in the March 2020 Budget and we look forward to more detailed plans in this Budget. Our members stand ready to deliver the essential materials needed for these projects, which will underpin the recovery and support jobs in the short term and the 'Levelling Up' strategy in the longer term.

To meet Government's raised ambitions, effective and timely delivery of the existing and future investment pipeline is essential. For example, a firm, bankable commitment to the later stages of HS2 would be particularly reassuring. More certainty over funding streams and better information on major projects are two ways Government could engender confidence, without necessarily increasing spending at all.

The supply chain needs to be considered an integrated part of the solution and included in the project considerations. HS2 has recently started to share information with the mineral products industry as to its very substantial material requirements. Mineral resources and wider supply chain requirements for major projects should be considered and communicated well in advance of work starting and should be standard, not exceptional.

We have repeatedly called for a laser-like focus on delivery of major projects. Increased ambition and an expanded capital budget is welcome, but it only matters if it is realised. Timely delivery of projects is important, both for their economic impact and for the businesses that supply their construction. As an example, the first Highways England Road Investment Strategy (RIS1) saw 37 out of 112 announced schemes either delayed or cancelled. The recent Welsh Government pause on roads projects is the latest example of confidence being undermined, with many years of expected demand for materials not being met. Poor project delivery creates unnecessary uncertainty for our members who invest on the basis of published plans.

The Government must publish the National Infrastructure and Construction Pipeline (NICP) annually in advance of the year being reported on. It should also seek to be realistic about what is definitely going to happen and what is a less certain ambition. With an annual publication we should see projects move through the pipeline with increasing certainty that they will happen. While it is understandable that the commitment to publish this annually has slipped during the pandemic, it is essential for the supply chain to major projects to have visibility of expected work in order to plan and invest. The more granular the data, the better in this report and it should seek to improve on this every year. Improving information around major projects to enable the supply chain to plan should be deliverable and would greatly reduce uncertainty around investment.

This is true of both new projects and repairs and maintenance of **roads**. This year's Annual Local Authority Road Maintenance survey found that local roads budgets had largely recovered from the drop in 2019/20 in 2021 and the one-time catch-up cost of road repairs was estimated at £10.24 billion[2], so we would welcome an increase in the local roads allocation, as well as supporting local authorities by giving them more long term certainty. Predictable funding for local and Major roads networks well as the Strategic network is essential and a good use of the increased capital budget. The Government has already noted the benefits of consistent local roads funding in its response to the Transport Select Committee report in 2019[3]:

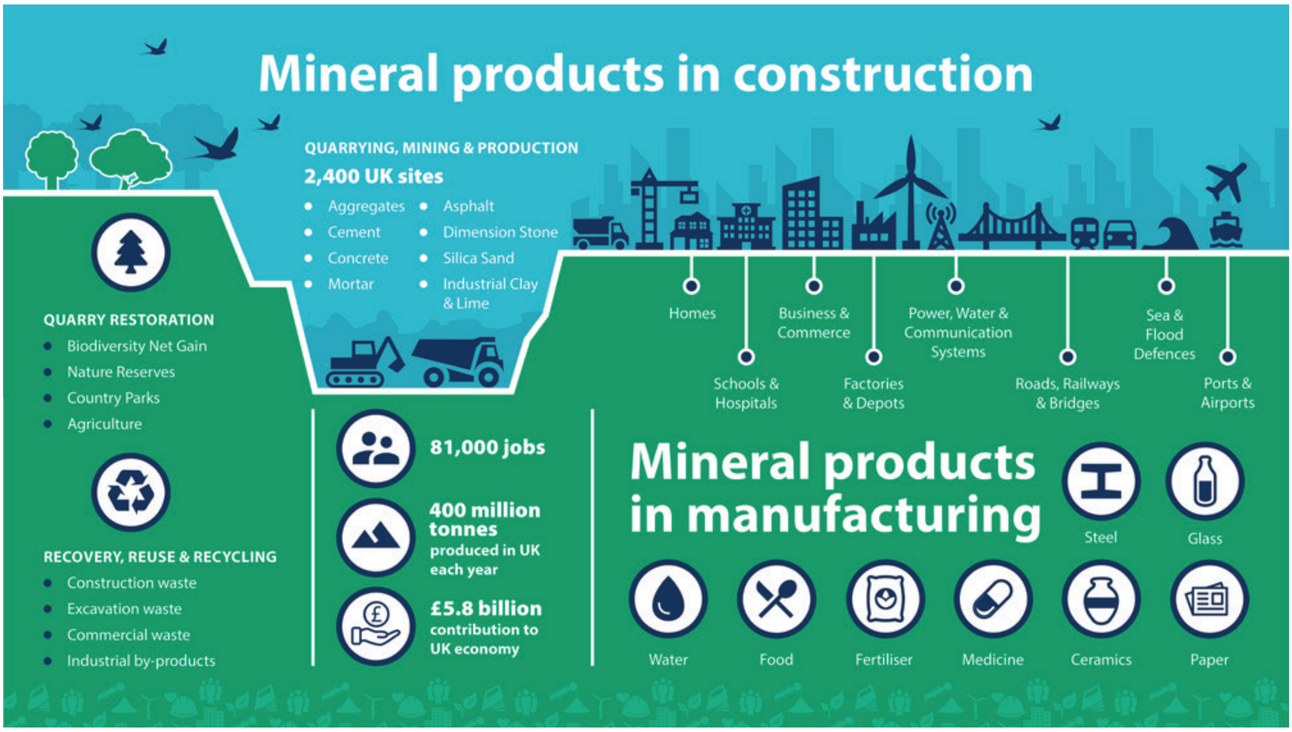
> ***"a long-term consistent funding certainty for local highways maintenance is important to ensure that highway authorities can make effective decisions and to seek efficiencies through the supply chain"***

We therefore call on the Chancellor to commit to five-year funding rounds for local road maintenance which will deliver better value for money and more certainty for the supply chain.

Rail freight traffic for aggregates grew substantially during the pandemic as increased capacity on the network was available, demonstrating the potential for carrying more of our material by rail. Supporting the growth of freight capacity, as well as electrifying key parts of the network, would help us deliver essential supplies to cities while reducing the road traffic and its associated congestion and environmental impacts.

Beyond transport infrastructure there are a wide range of projects that should be supported including **zero carbon energy** and heat networks.

Government is a significant purchaser of goods and services and should use this weight in the market to help drive demand for low-carbon goods. **Low carbon concretes** are available and highly appropriate for a growing range of applications. For schools, hospitals, public housing and a wide range of public spending, these concretes are usually suitable and represent a carbon saving compared to traditional mixes. Government should therefore set low carbon concrete as the default in public procurement, subject to engineering requirements. This has no cost implication but will save carbon and grow the market for low carbon concretes.



'LEVELLING UP'

We interpret 'Levelling Up' as enabling all regions of the UK to realise their sustainable economic potential. Our industry has a strong role to play in this delivering this vision.

The minerals industry employs people right across the UK, including in rural and remote areas where there are sometimes few other high-skill, high-productivity and high-wage jobs available. As major local employers and significant businesses, MPA members take their responsibilities to their employees, neighbours and broader communities seriously. They are well-placed to contribute to 'Levelling Up' if the right policy framework is in place to let them grow, invest and recruit.

In the March 2021 Budget the Chancellor announced a future return to indexation of the rate of the Aggregates Levy. Given the lack of evidence of any environmental impact of the Levy, which already raises around £400 million per year, we believe there should be a parallel reconsideration of the much smaller level of spending directly related to the industry. The Government recognised the industry's significant positive contribution to the environment in its response to the consultation.

MPA made two key suggestions for modest but good value-for-money expenditure in our submission to the review of the Levy. Firstly, using a small proportion of the revenue for a **Community Fund**, which would focus on local community and nature conservation projects, and second, funding the mineral planning system adequately. In the Government's response to the review, these were left open until a fiscal event. We would like to reiterate the importance of both of these suggestions ahead of the CSR.

The Community Fund would operate on a similar basis to the Landfill Tax Communities Fund, although we suggested a lower cost of around £10m or 2.6% of revenue compared to 5.8%. This would benefit local communities that host our industry whilst also enhancing the recognised contributions the industry has made over the last 50 years to nature and biodiversity.

Permitted reserves for minerals extraction are not being replenished at the same rate they are being depleted, with the mineral planning system part of the cause. Only 63% of sand and gravel reserves and 75% of crushed rock sales were replaced with new reserves over a ten year period (2009-2018)[4]. We perceive the mineral planning system to be under-resourced centrally and locally, and that a small

increase in funding would substantially improve performance. This would help maintain a steady and adequate supply of the essential materials needed to achieve Government's objectives on infrastructure and housing.

We welcome the steps Government has made on implementing the review, including the recent consultation on borrow pits and the published register of sites paying the Levy.

LEADING THE TRANSITION TO NET ZERO: DECARBONISATION

The Government has committed to reaching net zero by 2050, and in our roadmap, the UK Concrete and Cement industry set out how it will play a part in this, reaching net negative emissions[5]. The rest of our wider sector, which is much less carbon-intensive, is developing its plan to reach net zero, with non-road plant and HGVs needing to switch to zero emission power.

Cement is one of the harder sectors to decarbonise yet is a strategically important industry that is completely essential to the built environment and our quality of life. It is facing a challenge from carbon leakage, with more than a fifth of demand met by imports, a share that is growing steadily each year. A similar approach to the Clean Steel Fund for cement would help deliver the commitments in the Industrial Decarbonisation Strategy and tackle the challenge of the dispersed locations of the UK's cement plants.

Some spending commitments are urgent, to enable business to design, plan, invest and decarbonise, including the work on business models for CCUS, on-site industrial hydrogen generation and industrial hydrogen consumption. Our ambitions to go beyond net zero by removing more carbon dioxide than we emit need the right infrastructure and support framework.

Longer term, we are asking for Government to lay the groundwork now:

- Support for the development of carbon dioxide utilisation markets.
- Develop a zero carbon gas (hydrogen/biomethane) network and market at cost competitive prices
- Invest in the creation of a UK carbon dioxide transport and storage network available to all cement producers including dispersed sites, and to underwrite the main costs and risks.
- Introduce a 'Beyond Net Zero Cement Support Programme' to finance a commercial scale UK cement industry waste biomass-fuelled carbon capture demonstrator.

LEADING THE TRANSITION TO NET ZERO: SAVING PROPOSAL

The Renewable Heat Incentive (RHI) spends taxpayers' money incentivising use of waste biomass in generating electricity rather than in directly fired operations such as cement or lime kilns which will pay the market rate for it in a more efficient process. Used in cement or lime production, this material directly substitutes for fossil fuels including coal. Government is currently spending money to encourage a less efficient use that delivers lower carbon emission savings than would otherwise occur with no support needed. We therefore recommend ending the subsidy enjoyed by biomass and waste biomass for energy to encourage industrial use. This will represent a financial saving and deliver greater emissions reduction.

TAXATION AND CUMULATIVE POLICY COSTS

As the economy recovers from Covid, adjusts to post-Brexit trading conditions and seeks to 'Level Up', it is important to make sure that taxation, regulation and all other policy is efficient, effective and not overly burdensome. Industry will pay its environmental costs but these must be fair, with adequate notice and a design that reflects the industries affected. There are several tax changes that we believe add to the significant cumulative burden faced by our industry which do not achieve their stated environmental goals and should be delayed or reconsidered.

The removal of the red diesel rebate is an extra cost at a challenging and volatile time, which will have no impact on equipment purchases in the next year or for several years. Manufacturers are working on developing equipment, but this is not yet close to being in the market. We therefore believe the removal of the rebate should be paused. The rebate should also remain in place for lower carbon fuels such as HVO.

Recent consultations on waste (Extended Producer Responsibility) and plastics have indicated substantially increased costs in the future with potentially little environmental benefit through poor design – for example, we will not know if cement bags will be considered recyclable or not until a few months before the scheme starts.

MPA members have worked extremely hard supporting the recovery and have a key role to play in delivering the Government's ambitions on housing, infrastructure and net zero. Setting the right policy and spending framework now will cut costs and improve delivery.

FOOTNOTES:

[1] MPA (2020) "Delivering for the UK: Priorities for Government, Priorities for Industry" ***https://www.mineralproducts.org/MPA/media/root/Publications/2021/Delivering_for_the_UK_Priorities_for_Government_2021.pdf***

[2] Asphalt Industry Association (2021) "Annual Local Authority Road Maintenance survey 2021" ***https://www.asphaltuk.org/wp-content/uploads/ALARM-survey-2021-FINAL.pdf***

[3] Government response to the Transport Select Committee's tenth report of Session 2017-19 "Local roads funding and maintenance: filling the gap"; ***https://publications.parliament.uk/pa/cm201919/cmselect/cmtrans/138/13802.htm***

[4] MPA (2020) "Planning for the future: Reform of the Minerals Planning System" ***https://mineralproducts.org/MPA/media/root/Publications/2020/MPA_Planning_for_the_future_2020.pdf***

[5] UK Concrete (2020) "UK Concrete and Cement Roadmap to Beyond Net Zero" ***https://www.thisisukconcrete.co.uk/TIC/media/root/Resources/MPA-UKC-Roadmap-to-Beyond-Net-Zero_October-2020.pdf***

Mineral Products Industry at a Glance

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 through our supply chain

The Mineral Products Association is the trade association for the aggregates, asphalt, cement, concrete, dimension stone, lime, mortar and silica sand industries.

For further MPA information visit www.mineralproducts.org

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essential materials
sustainable solutions

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