Landfill Tax Review call for evidence

Submission from the Aldersgate Group
February 2022

- The Aldersgate Group is an alliance of major businesses, academic institutions, professional institutes and civil society organisations driving action for a sustainable and competitive economy. Our corporate members, who come from across the economy and have a collective global turnover in excess of £550bn, believe that ambitious and stable low carbon and environmental policies make clear economic sense for the UK.[1] They have operations across the UK economy and include companies such as Associated British Ports, Ramboll, WSP, Aviva Investors, BT, CEMEX, the John Lewis Partnership, Johnson Matthey, Michelin, Siemens, SUEZ, and Willmott Dixon.

- We develop independent policy solutions based on research and the expertise and diversity of our members. Through our broad membership, we advocate for positive environmental change in a way that delivers benefits to an ever-growing spectrum of the economy.

- Our response to this consultation gives an overview of how updates to the Landfill Tax, such as introducing an ambitious escalator, can help to put the UK's waste sector on a credible pathway for achieving its net zero emissions target and which supportive fiscal policies will be needed alongside this. Rather than responding to individual questions in this consultation, we are instead providing a summary of our assessment of the Landfill Tax review and what we believe the next steps HM Treasury should take.

Response to the consultation on the Landfill Tax review

- The Aldersgate Group welcomes HM Treasury's review of the Landfill Tax with the objective to ensure it continues to support the Government's climate and environmental objectives. Particularly welcome is the aim to use the tax to move materials up the waste hierarchy, which aligns well with the goals set out in the Department for Environment, Food and Rural Affairs' recent Waste Prevention Programme.

What the Landfill Tax has achieved so far

- The Landfill Tax has been successful to date in significantly reducing the amounts of waste sent to landfill in the UK. Qualitative analysis from HM Revenues & Customs has demonstrated that the Landfill Tax has been the driver for the fall in demand for landfill –the 700% increase of the tax between 1998 and 2014 contributed to both a 65% fall in total waste to landfill by 2014, and a doubling of tax revenue. Between 2000-2010, average recycling rates across the UK increased from 10% to 40%. Recent figures from the Environment Agency have indicated a 4% increase in waste material sent to landfill in 2019, suggesting that reinvigorated action and a clear new direction is required to help the sector further divest from disposal.[2]

- The Landfill Tax Escalator was also seen as a primary driver for significant levels of investment right across the waste supply chain. As the standard rate of the escalator

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[1] Individual recommendations cannot be attributed to any single member and the Aldersgate Group takes full responsibility for the views expressed

[2] Langley, J (2020) *Waste to landfill in England jumps 4% in 2019. Let's Recycle*

increased, opportunities from alternative treatments to waste became more viable and profitable. Crucially, the visibility provided by the escalator allowed investments to take place in advance of the price rise that would have made these investments viable.[3] Analysis by Buro Happold has shown that investment and supply chain growth in **the waste and resources management sector have a strong dependency and reliance on ambitious environmental regulation. The Landfill Tax along with previous waste reduction targets and other regulatory measures led to investment in new resource efficient business models, such as in sorting, recycling and remanufacturing plant. This has led to significant net job creation in the sector.**[4] The new jobs created in other areas of the waste sector offset any losses at landfill sites, with signals of continued net positive job generation due to wider increases in environmental regulation. See figure 1 below for analysis.

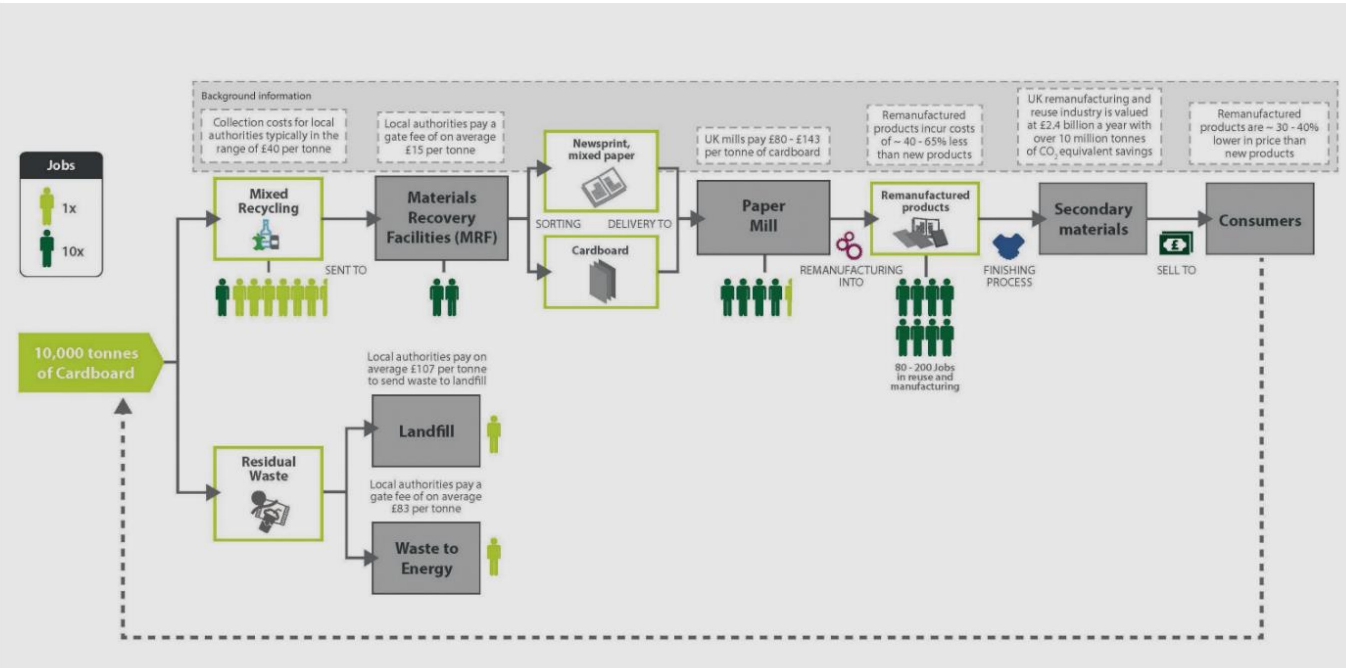

Figure 1: Job generation equivalent for material flow of 10,000 tonnes of paper and cardboard. Source – Buro Happold (2017) Help or Hindrance? Environmental regulations and competitiveness

The limitations of the current regime: growing exports of waste materials and growing incineration

- However, the tax has also incentivised greater levels of illegal waste disposal,[5] and the UK now exports a significant proportion of its waste to other countries with recovered materials worth £4.35bn exported in 2013.[6] Currently, many waste management and sorting companies are drawn to the export market as it is simpler and cheaper to ship wastes to other countries, rather than sorting wastes and reselling them on the UK market. Such practices have recently come under fire from environmental, humanitarian and civil society organisations,[7] who argue that richer

[3] HM Revenue & Customs (2014) *Qualitative research into drivers of diversion from landfill and innovation in the waste management industry*
[4] Buro Happold (2017) *Help or Hindrance? Environmental regulations and competitiveness*
[5] National Audit Office (2021) *Environmental Tax Measures*
[6] Department for Environment, Food & Rural Affairs (2015) *Resource management: a catalyst for growth and productivity*
[7] Reuters (18 October, 2019) *Trading Waste: How the West fuels a waste crisis in Asia*

nations are shifting the responsibility of responsible waste management onto poorer nations. In some cases, such as end-of-life tyres and scrap steel, sorting waste materials is not an issue, there are simply insufficient incentives to retain these materials in the UK market. Letting valuable waste materials be exported is depriving the UK economy from potential valuable economic resources and economic activity. The re-treaded truck tyre sector is a good example of a sector that offers supply chain growth benefits and job creation in the UK whilst also delivering high environmental gains by retreading tyres up to 4 times. This helps save 70% in natural resource extraction and 24% in CO_2 emissions whilst also supporting four times as many jobs in the local country.[8] **Government therefore must create a business environment more conducive to investment in waste recovery and sorting practices on the one hand, and develop incentives for the retention of these materials in the UK market**.

- Alongside exports, incineration of waste has also increased substantially in recent years – from 15% in 2010 to over 45% in 2020.[9] Unlike landfill, incineration operators pay no tax either as a waste disposal route or as a major emitter. Although energy from waste provides converts waste into energy where there is no other credible route for using that waste, the Government needs to address the perverse incentives that are created from subsidising incineration rather than shifting materials to the earlier stages of the waste hierarchy – reuse, repair, refurbishment, remanufacture and recycling.

Reviewing the Landfill Tax: the task ahead

- In reviewing the Landfill Tax, it is critical that Government consider how to tackle this gap and level the playing field across the entire waste sector. **A well designed taxation system must cover both landfill and incineration, at a price that will incentivise waste being pushed higher up the hierarchy as the cheaper option.** For residual waste that has to be disposed of, it should be incinerated or landfilled depending upon which process produces the least emissions.

- **Re-introducing an escalator on the Landfill Tax at a steady rate would provide much-needed long-term trajectory for UK businesses and give certainty to investments in domestic supply chains.** Only through substantially escalating the rate of the tax up to the late 2020s will Government be able to drive transformative behavioural change in waste management – ensuring valuable materials are recovered for use and new business models created. An escalator on the tax would present a further step towards realigning the waste and resources management sector's appreciation of material value and provide clarity and competition across businesses in the sector to stimulate growth and investment in new treatment pathways.

- We would also urge HMT to reconsider the metrics that qualifies demolition waste for a lower rate tax. Together with construction and excavation waste, demolition waste generated around three fifths of the UK's total waste in 2018,[10] yet this waste is mostly charged at a lower rate due to its inertness. **The criteria for the lower rate of the Landfill Tax should be updated to reflect the whole life cycle impacts of demolition waste**, not just the potential pollution once these materials are in landfill. Subjecting these materials to a higher rate of Landfill Tax would incentivise the adoption of resource efficiency measures earlier in the waste hierarchy, such as reuse

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[8] Aldersgate Group (2017) *Beyond the circular economy package: maintaining momentum on resource efficiency*

[9] Zero Waste Scotland (2020) *Waste incineration and the UK Emissions Trading Scheme*

[10] Department of Environment, Food & Rural Affairs (2021) *UK Statistics on Waste*

and refurbishment. The Aldersgate Group's engineering design members such as WSP, Ramboll and BH are all increasingly designing modular buildings where parts of buildings are taken out and reused somewhere else. We would like to see a regulatory framework that makes these resource efficient models as economically desirable as possible. The overall fiscal approach to buildings currently does not incentivise resource efficiency of building materials or the better operational energy efficiency of buildings, and **a systemic change is needed in how the tax system deals with buildings decarbonisation.**

- **Investing in circular infrastructure will also be essential to drive a move away from incineration and landfill**. As Green Alliance note in their report Building a Circular Economy:[11] "The Green Investment Bank, when it was government owned prior to 2017, dedicated the vast majority of funds in resources and waste to end of life treatment; despite calls from the Environmental Audit Committee for it to finance innovative technologies to support a circular economy. Private sector infrastructure funding has also concentrated on waste disposal, in the absence of policy to drive investment towards circular solutions".[12,13] A robust taxation system for landfill and incineration alongside some targeted public funding will stimulate private investment in critical infrastructure and facilities for recycling, repair, remanufacturing and reuse, and the UK Infrastructure Bank could play a key role here. Such **infrastructure will be essential to create integrated supply chains for secondary materials and support the UK in processing a higher proportion of its own waste** and retaining and reusing a larger share of materials within the economy.

- HM Treasury should work closely with other departments, particularly the Department for Environment, Food and Rural Affairs and the Department for Business, Energy and Industrial Strategy to **enable better use of waste/secondary materials and ensure robust waste tracking and reporting mechanisms are in place.** Waste legislation should facilitate the re-use and transportation of secondary materials and treat disposal as a last resort. Sufficient funding for the Environment Agency and HM Revenue & Customs will also help to ensure the escalator does not simply increase the incentives for waste crime.

- Finally, the review of the Landfill Tax must be part of a suite of other fiscal instruments to accelerate UK's progress on resource efficiency across the economy. The Aldersgate Group produced a number of recommendations in its report, Closing the Loop, based on comprehensive engagement with our business members and external stakeholders. The recommendations we would like to see introduced and / or supported by HM Treasury include the following:[14]

    - **Introducing targeted adjustments to tax and VAT rates to help resource efficient products and those made of secondary materials compete on upfront cost. Similar incentives can also help drive investment in more resource efficient business models**, with the Swedish Government having for example introduced variable tax rates to stimulate the demand for repair services and the regeneration of the existing housing stock;
    - **Developing resource efficient criteria as part of the Government's public procurement policy** to drive greater demand for resource efficient products and services and send a clear market signal to large businesses and their supply chains;

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[11] Green Alliance (2019) *Building a Circular Economy*
[12] HM Government (2011) *Update on the design of the Green Investment Bank*
[13] EAC (2014) *Growing a circular economy: ending the throwaway society*
[14] Aldersgate Group (2021) *Closing the Loop: Time to crack on with resource efficiency*

- **Supporting the development of eco-design standards and lifecycle assessments,** the aim of capturing a rapidly growing range of priority products. All ecodesign standards and labelling schemes should be introduced with mandatory status;
- **Accelerating the roll out of Extended Producer Responsibility (EPR) schemes d beyond the focus on packaging to incentivise the development of products that are easier to re-use and recycle**. To be effective, these schemes will need ambitious fee modulation mechanisms, an overarching aim to stimulate reuse and waste prevention, clear definitions, and close monitoring of performance. The design and role of Deposit Return Schemes should be clarified in the near future, with a particular focus on introducing these schemes in areas where progress may not be sufficiently made by the introduction of EPR schemes and eco-design criteria. Deposit Return Schemes should be simple and convenient to use;
- Using targeted public finance – including through the recently created UK Infrastructure Bank – to **crowd in private investment in much needed sorting, repair, reuse, recycling and remanufacturing infrastructure**.