

# Landfill disposals tax

## What is the 'landfill disposals tax'?

- 1.1 Landfill tax was introduced in the UK in 1996. It applies to all waste disposed of by way of landfill at a licensed site unless the waste is specifically exempt. In Wales it was replaced with landfill disposals tax (LDT) from April 2018. The Welsh Government has said that LDT is designed to “*promote positive environmental behaviours through greater prevention of waste to landfill sites and to encourage the reuse, recycling and recovery of waste*”.<sup>1</sup>
- 1.2 LDT is charged per tonne of waste disposed of at a landfill site. It is payable by landfill site operators, who are expected to pass the costs onto those making the disposals. A small number of disposals are exempt from LDT while some reliefs and discounts are also available. The tax is collected by the Welsh Revenue Authority (WRA). The Welsh Government has so far set rates to match those in the rest of the UK.
- 1.3 Our forecast is driven by the amount of waste sent to landfill and the effective tax rate that will be paid. The latter largely depends on policy decisions on rates, but also on the composition of waste sent to landfill as there are three different rates – a ‘standard rate’, a ‘lower rate’ and an ‘unauthorised disposals rate’. In 2018-19 revenue from standard rate waste accounted for 97 per cent of total revenue from LDT.
- 1.4 There are 23 active landfill sites in Wales. They are run by 17 authorised landfill site operators, with nine of those supplying a business address in England. Figure 4.1 shows that the majority of sites are near the urban areas of South Wales, which is unsurprising since waste is largely a by-product of economic activity. Most of the remaining sites are in North Wales with only two in Mid-Wales and the West Coast. Five landfill sites (four in South Wales and one in Wrexham) accounted for over 80 per cent of total LDT receipts in 2018-19. A significant share of waste being sent to landfill in Wales originates in England.<sup>2</sup> This is unsurprising given the proximity of some sites to the Wales-England border. Doubtless some waste generated in Wales is also transported to sites in England. By way of illustration, those English sites within 60 miles of the border are also shown in Figure 4.1.

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<sup>1</sup> Welsh Government, *Landfill Disposals Tax (Wales) Bill 2016: Impact Assessments*.

<sup>2</sup> Data from Natural Resources Wales show that in each year from 2015-16 to 2018-19 waste from England accounted for over 20 per cent of standard rated waste sent to landfill in Wales.

Figure 1.1: Landfill sites in Wales and within 60 miles of the border with England



## Methodology

1.5 The LDT forecast uses a bottom-up model operated on our behalf by analysts in the Welsh Government. The assumptions and judgements that are fed into it are those of the Budget Responsibility Committee. The forecast methodology is straightforward – the main steps are:

- establishing an **in-year estimate** using the latest administrative data (and other relevant sources) to estimate the level of receipts in the current year in progress;
- producing a **pre-measures forecast** by using the LDT forecast model to multiply the amount of liable waste sent to landfill (the tax base) by the relevant duty rate; and
- generating a **post-measures forecast** by adding the effects of any new policy measures.

We discuss each step in turn.

### Establishing an in-year estimate

1.6 The WRA publishes LDT receipts outturn data on a quarterly basis. Each landfill site operator agrees a quarterly accounting period with the WRA that requires them to send LDT returns by the last working day of the month following the end of their accounting period. Most operators have a calendar year annual accounting period, so most returns are received at the end of April, July, October and January. A smaller number use different accounting periods, which means that monthly data releases could be disclosive. We do not draw on the WRA's unpublished monthly administrative data when preparing our in-year estimates.

- 1.7 Quarterly rather than monthly data mean there are fewer data points on which to base our in-year judgement. Forecasts produced in the autumn will typically only be able to draw on a single in-year data point, published in August.<sup>3</sup> Forecasts produced in the spring for the UK Government's Spring Statement will typically be able to draw on two or three data points.

## The pre-measures forecast

### Tax base: the volume of waste sent to landfill

- 1.8 The volume of waste sent to landfill is estimated by calibrating data from Natural Resources Wales (NRW) with tax returns sent to the WRA. The WRA requires operators to provide quarterly returns on the waste that they have received or removed from their sites. Our model sorts this data by 'European waste catalogue' code into tonnages liable to the standard and lower rates of LDT. This allows us to remove waste that is exempt from LDT. The LDT-liable tonnages are then projected forward using information on local authority waste management plans, waste infrastructure developments, and an assumption about the future path of non-local authority waste.
- 1.9 There are several alternatives to sending waste to landfill sites. Recycling and incineration depend on the capacity of existing Welsh infrastructure to handle waste in these ways. Given the much smaller tax base in Wales, changes in alternative waste treatment infrastructure can lead to proportionally larger effects on LDT receipts than an equivalent change in England would have on UK landfill tax receipts. Indeed, we have previously reduced our LDT receipts forecast to account for increased capacity at a Cardiff-based incinerator.
- 1.10 Exporting waste can be cheaper than sending it to landfill, though there are external factors that might affect the volume of exports over the medium term. For example, uncertainty surrounding the UK's post-Brexit trading relationship with the EU could influence judgements about the future volume of waste exports to Europe. For now, we have not assumed any waste-specific impediments to the UK's post-Brexit exports to the EU. Were any to materialise, more waste could be sent to landfill representing an upside risk to LDT receipts. The Chinese Government's January 2018 ban on some waste imports – notably plastics – may have affected LDT receipts to the extent that alternative destinations could not be found. This might have included some English waste that was due to be exported being diverted to Wales. If such developments have already affected receipts this would be captured implicitly in our in-year estimate rather than via an explicit forecast adjustment.
- 1.11 We do not model use of these alternatives to landfill explicitly. Instead, we assume they provide sufficient headroom to accommodate future growth in waste arisings without affecting the volume of landfilled waste. The granular level of information available to us on Welsh infrastructure means that we can factor in expected changes when we need to.

<sup>3</sup> The Welsh Government's decision to delay its draft Budget to December allowed us to take on a second quarter of LDT receipts outturn data (released on 21 November).

### The effective rate of landfill disposals tax paid

- 1.12 There are two main rates for LDT – a ‘standard’ rate and a ‘lower’ rate. The lower rate applies to waste that is ‘inert’ – i.e. less hazardous or less polluting materials such as bricks, concrete and sand. The standard rate applies to everything else that is neither exempt (see below) or unauthorised. Both rates are currently equal to those in the rest of the UK. Our forecast assumes that both rates rise in line with RPI inflation in future years (based on the UK Government’s default indexation assumption).
- 1.13 The Welsh Government has also introduced a third ‘unauthorised disposals’ rate that applies to all disposals that are made outside of authorised landfill sites, regardless of whether they would have qualified for the standard or lower rates.
- 1.14 As with UK landfill tax, LDT legislation allows for both exemptions and reliefs. Where a disposal is exempt, for example within a pet cemetery, there is no tax liability and the site operator does not need to record it on a tax return. Where a disposal is eligible for a relief, such as when it contains material removed from water by dredging, it does need to be accounted for by the site operator, but the relief can be claimed via the tax return.
- 1.15 The effective rate paid depends not just on statutory rates and exemptions, but also the composition of waste disposals. In 2019-20 the effective rate paid was £38.46 per tonne of waste sent to landfill.

### Post-measures forecast

- 1.16 The final stage in our forecast process is to add the effect of new policy measures that have been announced since our previous forecast was published. For landfill tax and LDT these are typically small, although they can still be subject to some uncertainty. For example, the UK Government’s decision to extend landfill tax to illegal sites started six months later than planned due to delays in putting the relevant health and safety procedures in place to safeguard the new compliance staff that were taken on to police it.