Impact of the Concrete Levy

KPMG Future Analytics report to the Irish Concrete Federation

June 2023

Executive Summary

Concrete is a core building material that is vital to all modern Irish construction and infrastructure projects. From housing, hospitals and schools to farms, footpaths and office blocks, concrete is essential both to Ireland's future economic progress and for our country as a functioning society.

The Irish concrete sector is a highly fragmented, localised industry. There are concrete manufacturers located in every county in Ireland operating more than 350 large quarries and 220 concrete manufacturing plants including 80 block manufacturing locations. These local businesses employ 6,000 people directly. The industry produces approximately 5 million cubic metres of ready-mixed concrete per year (approximately 12 million tonnes) and 150 million concrete blocks per year, or just under 3 million blocks per week.

Census 2022 data shows Irish population recently surpassing the 5 million mark with new population growth of 1.28 million since 2000 and further projected growth of 1 million up to 2040. This positive trend will continue to generate increasing demand for new infrastructure in housing, education, health, the environment, transport and major utilities such as water and waste and energy generation. Ireland must facilitate this population growth to sustain its economic growth ambitions and the demand for concrete will rise as our population and our economy expands.

The proposed Government levy on concrete products comes at a time when costs have already risen dramatically as a result of the energy and international crisis. CSO data shows that the cost of ready mixed concrete rose by 43% over the two years to April 2023 and that concrete block prices rose by 30% over the same period.

Introducing an additional 5% levy on ready mixed concrete and blocks as proposed from September 1st , would further increase cost pressures to the entire construction sector and its customers and clients. This report highlights the negative impact the concrete levy will have specifically on three important sectors - housing, infrastructure and agriculture.

The Government's "Housing for All" strategy sets a target of delivering 33,000 homes per year on average from now until 2030. Based on SCSI analysis of concrete costs in homebuilding and KPMG FA analysis of cost inflation, the levy would increase the cost of delivering a 3-bedroom semi-detached concrete block house by €1,285. We estimate the levy will add nearly €300m to the cost of delivering this housing target at today's prices. This will make housing less affordable.

Project 2040 prioritises a wide range of major infrastructure projects that will require significant quantities of concrete, ranging from rail and road projects to hospitals and schools and renewable energy. The levy would also add to Government's own costs in delivering across all these schemes. For example, KPMG FA estimates that in renewables alone, the levy would add €5,250 to the cost of building a typical wind turbine.

Concrete is used extensively on farms for buildings and infrastructure such as silage pits, slatted tanks and farm yards. KPMG FA estimates the levy would increase the cost of delivering a typical silage pit by nearly €1,000. This increase in costs will mean poorer value for money from Government schemes to fund on-farm development through the recently opened Targeted Agricultural Modernisation Scheme (TAMS3) and will act as a strong disincentive for farmers to invest in improving their farming facilities.

Government has stated that the proposed Defective Concrete Products Levy will contribute towards the costs of problems caused by defective concrete blocks. However, ICF estimates that just 15% of income from the levy would be raised through the sale of concrete blocks, with 85% of the levy arising from sales of ready-mixed concrete, which is an entirely different product.

Government has yet to publish details on how the levy will be administered. Information so far suggests it will dramatically increase the administrative burden on concrete producers, concrete end-users, and on the Revenue Commissioners. There is also a serious risk posed for concrete producers close to the border who will be competitively disadvantaged by producers in Northern Ireland, who will sell exclusive of the levy, with clear negative knock-on effects for local employment and revenues from corporation tax and VAT.

In conclusion, we recommend that Government conducts further detailed analysis as to the full economic impact this measure will have on concrete producers, the wider construction sector and end users including the state itself and the general public, before introducing a levy on concrete products.

Concrete's uses across society

Footpaths

Roads

Houses

Apartments

Bridges

Blanchardstown Regional Drainage Scheme construction.

Schools

Wind Turbines

Power Plants

Flood Defences

Hospitals

Water Treatment Plants

Farms

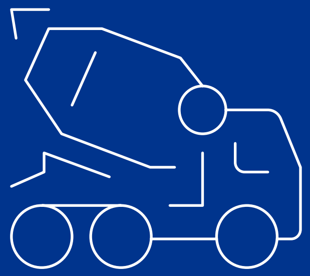
Offices

Factories

Lee Road Water Treatment Plant.

Ireland's annual concrete production

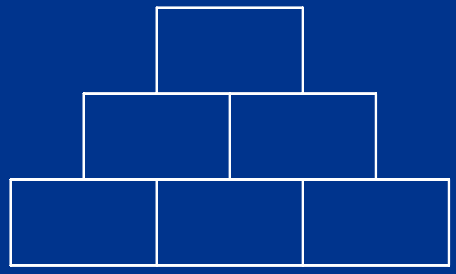
5 million



5 million cubic metres of ready-mixed concrete produced by Irish suppliers per year.

Ringaskiddy Port.

150 million



150 million concrete blocks produced by Irish suppliers per year.

Demand for concrete is growing

As the economy continues to mature, demand for concrete will continue to grow. Ireland's population grew by 387,274 between Census 2016 and Census 2022, or almost 65,000 persons per year and it will grow by an additional 1 million up to 2040.

To plan for this growth, Project 2040 lays out ten action areas to be progressed over its lifespan. Each will require a substantial commitment to new investment and infrastructure and all will rely on the ready availability of affordable concrete.

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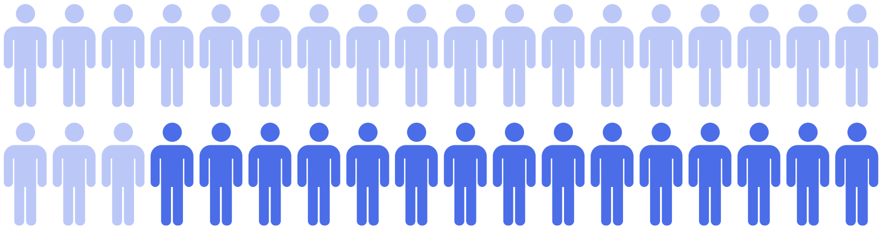
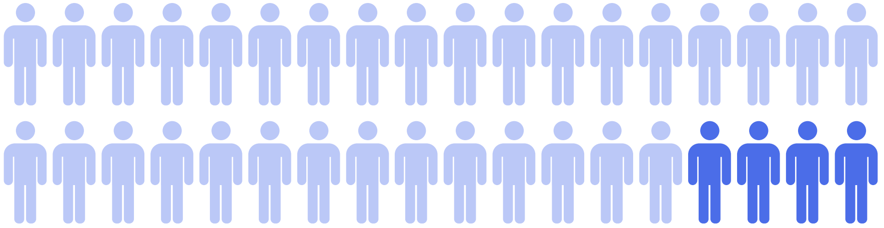
Concrete demand

387,247



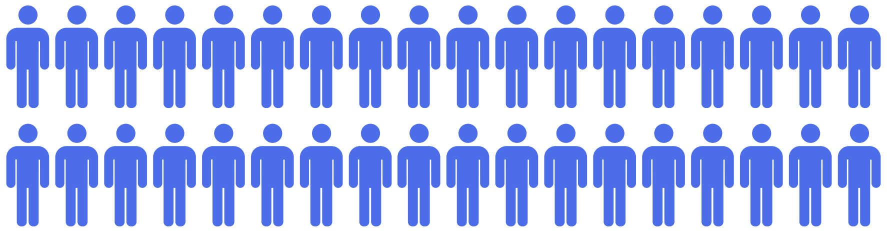
Ireland's population grew by 387,274 between Census 2016 and Census 2022

65,000



or almost 65,000 persons per year

1,000,000



and it will grow by an additional 1 million up to 2040.

Compact Growth: Housing Growth of 30-35,000 per annum to 2030.

Enhanced Regional Accessibility: Maintenance of Transport Infrastructure and Completing New Linkages including the Atlantic Corridor.

Strengthened Rural Economies and Communities: Digital Connectivity; Investment in smaller scale infrastructure; and Rural Regeneration.

Sustainable Mobility: Expansion of Public Transport including DART expansions and BusConnects; Cyclelanes, Walkways and Metrolink.

A Strong Economy, supported by Enterprise, Innovation and Skills: Developing suitable research spaces and facilitating infrastructure.

High-Quality International Connectivity: Development of Airports and the Development of Port infrastructure.

Enhanced Amenity and Heritage: Public realm improvements, social, cultural and recreational amenities.

Transition to a Low Carbon and Climate Resilient Society: Infrastructure to Facilitate Low Carbon electricity, and Climate Mitigation.

Sustainable Management of Water and other Environmental Resources: New water supply for Eastern and Midlands; ancillary waste facilities.

Access to Quality Childcare, Education and Health Services: New educational, healthcare, and childcare institutions.

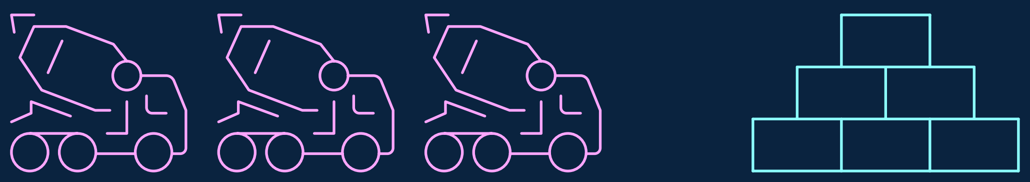
The levy on concrete will directly increase the cost of meeting these ambitions and limit the number of projects that can be funded under the programmes.

Concrete producers operate all over Ireland

350+

More than 350 active quarries

220



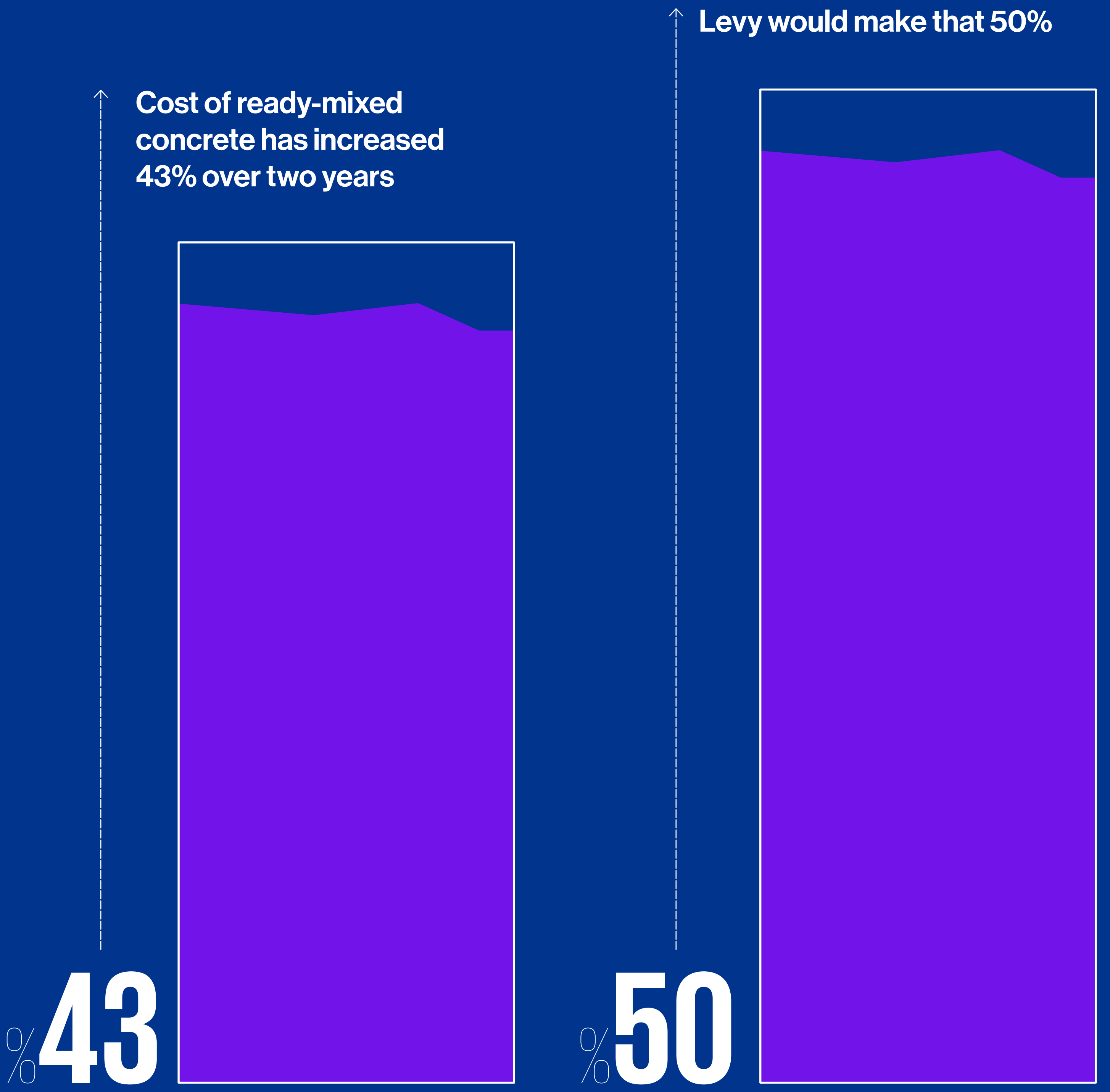
220 concrete producers including 80 block manufacturers

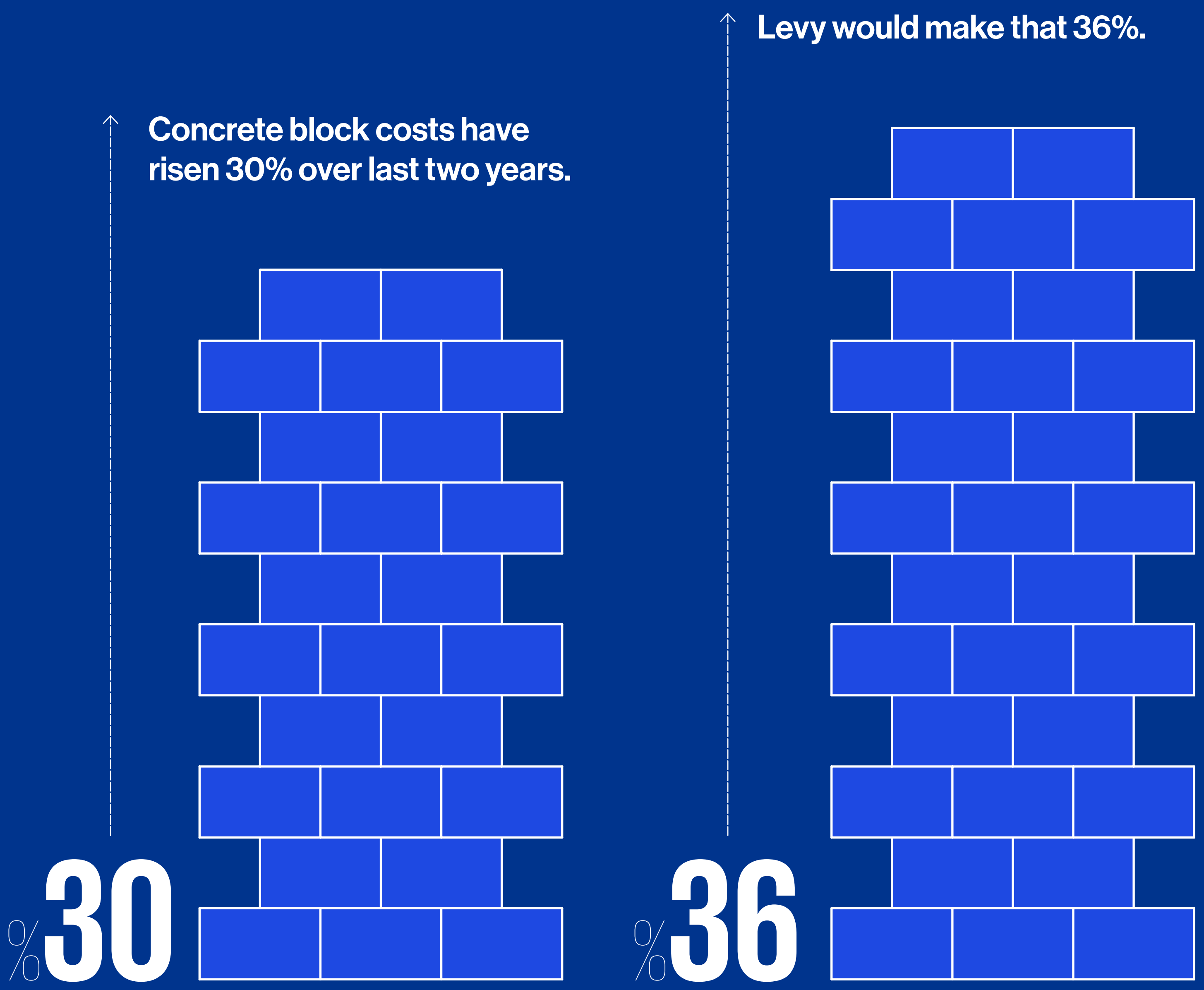
35km

Average delivery distance 35km

Producers in every county in Ireland

A levy would compound high material cost inflation





Price increases between April 2021 and April 2023. Source: CSO Wholesale Price Index

The levy's impact on housing delivery

Government has set a target of delivering 33,000 homes per year until 2030 in Housing for All. KPMG FA estimates the levy would add nearly €300 million to the cost of delivering that target.

Unprecedented inflation in the cost of construction materials over the past two years has impacted negatively on output from the construction sector. The introduction of a concrete levy would increase these costs further, increasing the cost of building homes. In October 2022, the Society of Chartered Surveyors Ireland (SCSI) stated that the concrete levy will add €1,200 to the costs of a typical three-bed, block built semi-detached house. Based on further cost inflation in 2023, it is estimated that this additional cost has risen to €1,285.

House building is capital intensive. By increasing the up-front cost of concrete products, the Concrete Levy is likely to reduce the number of homes a developer can work on at any one time. This risks making the construction sector less efficient and could reduce the pace of home building at a time of intense housing undersupply relative to need.

The increased cost of building arising from the introduction of a levy risks reducing housing output because the margin between a development project being viable or unviable is often small. It is possible that there will be instances where developments cannot proceed as a result of the additional costs imposed by the Concrete Levy that would have been viable otherwise. SCSI has stated that the proposed levy would undoubtedly challenge the viability and affordability of construction projects, including new homes.

€1,285

Additional cost to build a 3-bed semi because of levy

€297 million

Additional cost of delivering Housing for All targets to 2030 at current prices because of levy

The levy's impact on infrastructure delivery

Project 2040 is the government's long-term capital infrastructure investment strategy. It aims to help Ireland accommodate population growth of one million people by 2040, improve quality of life for the country's existing and new residents, and to transition to a low-carbon and climate-resilient society. The projects listed in the strategy range from railways and roads to hospitals and flood relief schemes: all will rely heavily on concrete products.

Introducing a levy on these products will increase the costs of these infrastructure programmes. These cost increases will ultimately be borne by the Irish taxpayer.

Rose Fitzgerald Kennedy Bridge.

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The levy's impact on infrastructure delivery

€165 billion

Total funds needed to deliver National Development Plan 2021-2030

National Children's Hospital Construction.

Use case: wind turbines

€5,250

Additional cost to deliver a typical wind turbine because of the levy.

- **750m³** concrete per turbine
- **€5,250** additional cost per turbine from the levy
- **3,250** additional turbines needed to reach 16GW generation target by 2030

Cloncreen Wind Farm.

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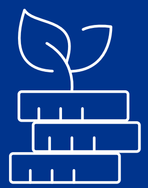
The levy's impact on infrastructure delivery

Wind turbine farm in rural north county Kerry, Republic of Ireland

The levy's impact on agriculture

€940

Additional cost from the levy for a silage pit



€370 million

TAMS 3 funding over five years

Every year, Irish farmers undertake substantial amounts of building work, from major new projects to extensions to existing buildings and effluent tanks and minor improvements around the farm. Farm infrastructure such as silage slabs and walls, slatted tanks and farmyards are constructed with high strength, ready-mixed concrete. Many farmers are required to install additional slurry and soiled water storage as part of the revised Nitrates Action Programme. Farmers are also choosing to invest in their farm infrastructure to reduce on-farm labour requirements and better utilise slurry due to the escalating cost of fertiliser.

The Targeted Agriculture Modernisation Scheme (TAMS 3) will provide grant aid to farmers to build and/or improve a specified range of farm buildings and equipment on their holding. Details of the new €370m five year scheme, including eligible items, grant aid levels and reference costs were published in 2023 by the Department of Agriculture, Food and the Marine (DAFM).

Notwithstanding the investment supports currently available, the significant increases in construction costs over the past two years allied with reducing dairy prices in 2023, are threatening farm investment. According to CSO there was a decrease of 37.5% in the planning permissions granted for buildings for agriculture from Q1 2022 to Q1 2023 which is likely a result of increased construction costs. This will be further compounded by the introduction of a concrete levy. Our analysis shows that a typical silage pit, requiring 150 cubic metres of concrete will cost an additional €940 due to the introduction of the levy and will act as a strong disincentive for farmers to invest in improving their farming facilities.

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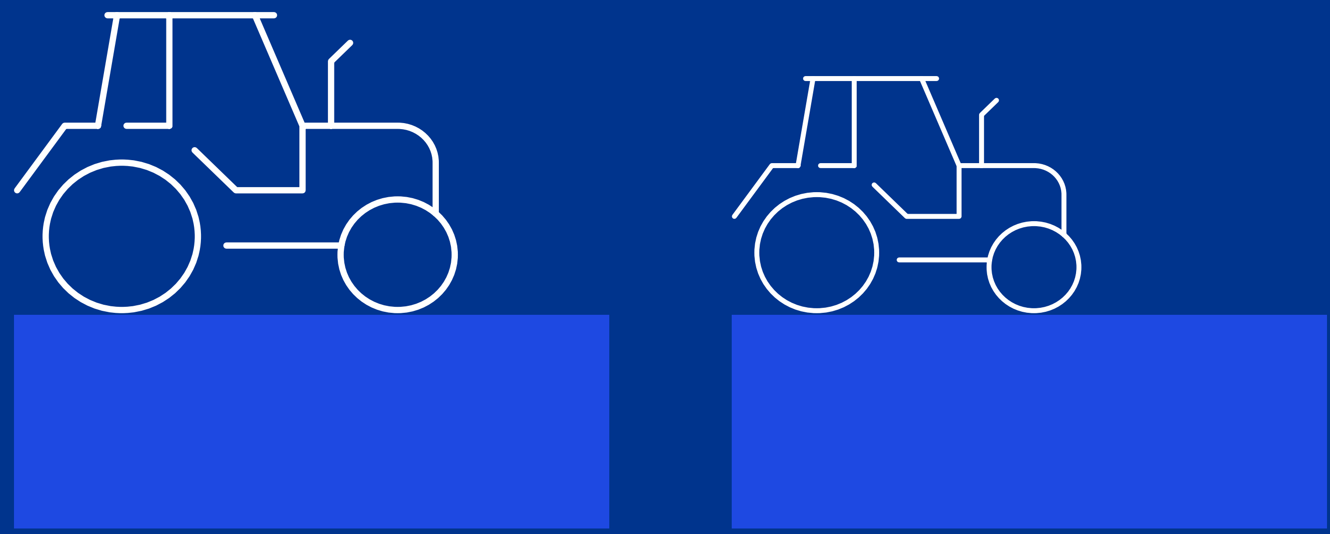
The levy's impact on agriculture

**Planning permissions granted for buildings for agriculture
Source: CSO**



Q1 2022: 259 permissions granted

Q1 2023: 162 permissions granted

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Levy impact by product

85% of the levy will apply to sales of ready-mixed concrete

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Blanchardstown Regional Drainage Scheme construction.

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Key administrative considerations

Key administrative considerations

Disadvantage versus Northern Ireland producers

The levy risks creating an uneven playing field in the border regions, which will favour concrete manufacturers based in Northern Ireland over those based in the Republic of Ireland. For many concrete product manufacturers in these regions, the vast majority of business is carried out with small builders, self-build one off-house builders, 'DIY' customers, and farmers. Average transaction values are small but multiple in nature. Southern based producers compete with companies located north of the Border for most of this business.

As things stand, responsibility for registration with the Revenue Commissioners and completion of self-assessment returns for these small transactions would lie with the purchaser, should they decide to purchase concrete products in Northern Ireland. This would present administrative and enforcement challenges.

There is a risk that the concrete levy in its proposed form would create an artificial cost advantage for Northern Irish concrete producers. This would have a negative impact on competitiveness, revenues, and employment for concrete producers based in the border counties.

Burdensome on end users

Under the proposed structure of the levy, purchasers of concrete products from Northern Ireland will have to register with the Revenue Commissioners and subsequently submit a self-assessment return outlining the total value of concrete products purchased and the levy amount. This includes private individuals who purchase ready mixed concrete and concrete blocks for their own use. This presents an immense administrative and compliance challenge upon these individuals, particularly those based in border regions.

Administrative burden on producers

As a separate process to VAT, the system requires registration with a new system created by Revenue and continued record keeping for six years. For businesses committed to good practice, this requires the dedication of additional staff time and investment to create reporting systems. Meanwhile, fines for non-compliance are small and not a meaningful deterrent for unscrupulous competitors.

Burdensome for Revenue Commissioners

Revenue will have to administer a new registration process and ensure that suppliers and end users are compliant with a new regime. The burden of enforcement will fall to Revenue and the low value of penalties will mean there is limited value for money in enforcing these infractions.

Summary of use cases and conclusion

The analysis and figures highlighted in this report demonstrate that the introduction of a levy on concrete products will have a profound economic impact, both for individual end-users and for the state as a whole.

We therefore recommend that government conduct a comprehensive study analysing the levy's impact on the concrete industry, the construction sector, and the broader economy before introducing a concrete levy.

Use case	Additional cost from levy
3-bed semi-detached house	€1,285
Wind Turbines	€5,250
Silage pit	€940

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Summary and conclusion

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