Our Reference: 0922/DM

The Rt Hon Philip Hammond MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London, SW1P 3AG

22 September 2017

Dear Chancellor,

Construction Products Association Budget Submission for Autumn 2017

The construction product manufacturing sector accounts for 10% of total UK manufacturing and employs 288,000 people across 22,000 companies. Approximately 78% of construction products used in the UK are made here, reflecting a sector that plays a central role in nearly every construction project in the country. In addition, manufacturers in many of our sub-sectors have invested heavily here to establish a competitive global advantage with advanced manufacturing and innovative products.

As we prepare for Brexit, we recognise industry's responsibility for working in partnership with government to address key issues and ensure the competitiveness of UK plc on a new global stage. As outlined further below, industry has demonstrated its readiness to support government initiatives with tools and resources. In addition, we have welcomed recent policy commitments such as the industrial strategy, which we are confident will lead businesses to invest further into productivity and capacity improvements.

Similarly, for UK construction to continue to grow and underpin the government's ambitions for the wider economy, the industry will look for its largest client to provide policy certainty and delivery of projects on the ground. The CPA has therefore suggested a range of measures here in the belief that the government has a unique role and opportunity to back this growth.

1. Housing

We are supportive of the government's ambition of delivering 1,000,000 homes (net supply of housing) over the five year parliament; an average of 200,000 homes per year. The most recent data highlights 189,650 additional dwellings were built in 2015/16. This means that house building does not need to significantly increase to meet the government's ambition.

That said, demand still outstrips supply, and attention has turned to affordability: in particular, housing is less affordable for a first-time buyer now than it was in the 1990s. The CPA therefore recommends:

- **Commitment to Help to Buy**: Help to Buy equity loans have accounted for 29% of all house building sales in England since its introduction, and one-third of sales in the most recent 12-month period. The Association suggests that a commitment from government to the Help to Buy equity loan beyond 2020/21 would offer much needed certainty for the sector's strategic planning to meet the house building targets. To prepare for the eventual withdrawal of the scheme, some tapering would be appropriate, such as restricting eligibility to first-time buyers or the imposition of an earnings cap in line with shared ownership products.

2. Infrastructure

The government's National Infrastructure Delivery Plan (NIDP) and National Infrastructure and Construction Pipeline must be commended for encouraging longer-term planning for skills, materials and plant investment in the infrastructure sector. We believe it essential that these continue with government seen to do everything it can to ensure clarity about its intentions and timely delivery on the ground. According to the CPA's latest construction forecasts, without major projects coming through in the short-term, total construction output will contract in 2017, 2018 and 2019, consequently adversely impacting on UK economic activity and productivity. The CPA recommends the following:

- **Focus on repair and maintenance in the short-term:** Big announcements of additional infrastructure spending on major projects are welcome for the long-term; however, these take time to generate activity and benefits on the ground. By focusing efforts on basic repairs and maintenance that have a quicker turnaround, government could create a sizeable stimulus for the sector.
- **Fulfil the government's "balanced scorecard" approach to procurement:** Government has acknowledged "whole life" values with its exemplary "balanced scorecard" for procuring works over £10 million. We are strong supporters of this approach and have partnered with government to create tools to make it practical and effective, helping identify the significant investment which UK construction product manufacturers make into R&D, reducing the environmental impact of their products and materials, implementing anti-slavery provisions and undertaking local hiring, training and supply chain initiatives that have a meaningful impact on their communities. Crucially, the government is now in a position to live up to its promise and implement this approach across its departments, with transparent measurement and reporting.

3. Investment and UK Competitiveness:

The vast majority of our largest construction product manufacturers are foreign-headquartered, with overseas boards making major investment decisions. It is imperative that the UK is viewed as an attractive, competitive place to do business. Policies must offer our industry a level playing field with international competitors to ensure further investment in new plant and machinery.

- **A secure, affordable low-carbon energy supply:** Industry is committed to securing a transition to a low-carbon economy and continues to invest in the latest technologies to improve energy efficiency within their factories. Many companies, however – particularly in the energy-intensive sectors – have serious concerns about their ability to compete fairly with international companies not subject to UK-specific energy and climate change policies. They are susceptible to carbon leakage and the resulting risk to UK jobs and investment. Through the industrial strategy, government should address the demand management, low-carbon generation and storage issues that currently surround the energy sector.
- **Review of the current Business Rates System:** Under the current Business Rates system manufacturers are penalised for investing in new plant and machinery, with charges levied on new investments. Even simply the threat of additional rate charges is sometimes enough to prevent investment or shift it overseas. Removing manufacturing plant and machinery from rates assessments or provisionally freezing all new valuations of plant and machinery upgrades for manufacturers would incentivise investment in UK facilities.

I hope that you will find these potential solutions to be useful and would welcome the opportunity to discuss these with you or your colleagues in further detail.

Yours Sincerely,

Dr Diana Montgomery
Chief Executive

The Building Centre | 26 Store Street | London WC1E 7BT

tel: 0207 323 3770 | www.constructionproducts.org.uk