

Our Reference: 3101/PLC

31 January 2023

The Rt Hon Jeremy Hunt MP
Chancellor of the Exchequer
HM Treasury
The Correspondence and Enquiry Unit
1 Horse Guards Road
London
SW1A 2HQ

Construction Products Association's Representation For Spring Budget 2023

Dear Chancellor,

The CPA commends the Chancellor for the actions taken by Government to stabilise the economy over the past few months. Looking ahead, we believe the construction and manufacturing industries have a vital role to play in supporting the Prime Minister's vision to build a better, more secure, more prosperous future. This reflects an understanding that both sectors enable the wider economy and are key contributors for a quick recovery from recession.

Our members are also at the heart of the Government's ambitions around a host of high-priority policies ranging from new housing and infrastructure delivery to energy efficiency and net-zero, 'levelling-up', and advanced manufacturing and green technologies that will all serve to make the UK stronger and more resilient and at home and abroad.

Looking ahead, we have offered some possible measures with both construction and manufacturing in mind. We have liaised beforehand both with our own members and industry colleagues, and have summarised our 'asks' with the hope that your office will not hesitate to contact us to discuss further background details.

Approximately 75% of all construction products used in the UK are manufactured here, reflecting an industry that underpins nearly every construction project in the country. Construction product manufacturing and distribution accounts for 10% of total UK manufacturing and a third of all UK construction turnover – a £62 billion industry of 24,000 companies employing 383,000 people, mainly across the Midlands and North.

I. Housing: New Build, Repair, Maintenance and Improvement

As evidenced by the CPA's economic forecasts, construction activity is often led by the housing sector, including private and public housebuilding, and repair, maintenance and improvement. The CPA would therefore recommend the following:

Support for Struggling First Time Buyers: Given that the demand in the housing market has fallen sharply, affordability is a now major issue for many potential homeowners. The CPA forecasts that private housing starts are to fall by 14% this year and yet government has a target of 300,000 net additional dwellings per year. It would make sense for Government to provide help for struggling first-time buyers who may otherwise struggle to become homeowners. In addition, we believe an increased commitment to affordable house building is required by Government. This comes at a time when private sector house building is forecast to fall and housing associations and local authorities are struggling with rising cost inflation and increasing issues on the repair, maintenance and improvement on their existing stock.

Support for Retrofitting: The announcements in the Autumn Statement were a welcome step towards stimulating demand for retrofit, but there are some key considerations over the coming 12 months. The industry is ready to scale up our capability to deliver on this, having developed training routes and competence standards over the last couple of years; e.g., for retrofit co-ordinators and heat pump engineers. Seeing tangible action behind the headline commitments however will give companies the confidence to invest in scaling up. We suggest:

- The Government through BEIS has supported the work of the Construction Leadership Council (CLC), which has developed a National Retrofit Policy that will help make homes greener, more energy efficient and cheaper to run. Without Government support for such a strategy the industry and others (such as the Climate Change Committee) must point out that the UK will not manage to meet its 2050 Net Zero target.
- We are pleased that the Government's ECO+ programme – funded with £1 billion between April 2023 and March 2026 - has been better designed than its predecessors. Still, if firms are to invest in capacity for production and skills for installation for continued energy efficiency activity, there needs to be certainty of what will happen after its three years of funding.
- Utilise the Energy Efficiency Taskforce to partner with the industry and deliver an education campaign for the public on what retrofit is, what options are available for different property types and where to go for expert advice.
- In the response to the Skidmore Review, set out a 10 year policy roadmap for the different segments of the housing market, for example recommitting to the 2028 regulations for the private rented sector to meet EPC C from 2028.

Linking Stamp Duty to Energy Efficiency: Our research suggests that a large share of home repairs and improvement follows within 12 months of transactions. We have long proposed that a stamp duty refund could be offered to new home owners to incentivise expenditure on improving the energy efficiency of their new homes. In the long term, Government could link the energy performance of the property to its stamp duty so owners would pay less if they buy more efficient homes and, over time, stamp duty could rise for the least energy efficient homes.

Funding for Local Planning Departments: The Government should increase funding for local authority planning departments as a matter of urgency, to help them better support SME house builders who are being pushed out of the market, and to ease the bottleneck in applications caused by the pandemic.

2. Infrastructure

Aside from housing, the infrastructure sector is often the twin driver of construction activity. Government announcements including the National Infrastructure and Construction Pipeline, the National Infrastructure Strategy and the Construction Playbook all reflect a laudable vision for investing in and accelerating the creation of world class infrastructure for Britain. As always, delivery is key. Embedding these reforms will require sustained drive from Government, changes in legislation and stronger working relationships with industry.

Embed an appreciation for the whole life value of products: To ensure that its infrastructure projects are procured not just on cost but also recognising the value of sustainability – environmentally, economically and socially – Government departments must be seen to embed ‘whole life’ values into their procurement decisions. UK construction product manufacturers feel this should be a priority, as they invest significant resources into reducing the environmental impact of their products and materials, providing third party accreditation and undertaking local hiring, training and supply chain initiatives that have a meaningful impact on their communities. Such work and expense are not undertaken here by most overseas companies that simply import into the UK, and this should be taken into account during the procurement process.

Focus on repair and maintenance in the short-term: Big announcements of additional infrastructure spending on major projects are welcome for the medium and 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 enjoy an immediate and obvious return on investment for taxpayers along with a sizeable stimulus for the sector. Government might, for example, give extra funding to local authorities that is ring-fenced for transport improvement work such as pothole repairs.

Reaffirm the National Infrastructure and Construction Pipeline: The Pipeline has helped reduce business uncertainty and allow longer-term planning on skills, materials and plant investment in the infrastructure sector. It is essential that it is seen as a trustworthy accounting of projects versus simply a wish list. Maintaining stability across the sector’s pipeline of projects is the single biggest factor to enable us to mitigate and reduce inflation. The Government can support the sector to manage this risk to taxpayer money by doing the following:

- Consider re-affirming investment decisions at the Budget, recommitting to schemes such as HS2, New Hospital Programme, Sizewell C, Northern Powerhouse Rail.
- Hold projects to account more robustly to deliver against the agreed milestones as set out in the pipeline through the business case process.
- On a project by project basis we are frequently seeing the principles of the Construction Playbook ignored in practice (for example unlimited insurance liability on contracts) this in turn costs businesses to very little added value for Government, instead directing our resources away from investment. It would be useful if contracts were audited by HMT during the Business Case approval process for consistency with the Construction Playbook.
- We have long suggested that the Pipeline should also include a view of major housing projects, which would improve visibility and allow the industry to address the effect that housebuilding has on the fierce competition for skills, materials and transport from other parts of construction.

Through setting long term policy frameworks in regulated markets and directly influencing private sector investment, for example through the planning system, the reach of Government can extend to the entire sector.

3. Investment and UK Competitiveness

The UK should be viewed as an attractive, competitive place to do business. Policies must offer our industry a level playing field with international competitors to ensure investment and meet the Government's many policy ambitions.

Reform Business Rates and Investment Allowances: We have lent our voice to calls made across industry, including the CBI and Make UK, for a fundamental reform of the Business Rates system. Currently manufacturers are penalised for investing in new plant and machinery, with charges levied on investments including green technologies such as renewable energy. In some cases the prospect of additional rate charges is enough to prevent investment or shift it overseas. Government should allow 100% tax deductible allowances for all capital expenditure (plant and machinery) as well as green investments (e.g. energy efficiency improvements or green technology). Such a measure would counteract the effects of a lack of cash flow which will continue to suppress investment for some time. It would spur much needed investment in capital expenditure, support Government and industry efforts in achieving net-zero and position the UK as leader in manufacturing.

At a more sectoral level, we also urge the Government to maintain the freeze on Aggregates Levy, ideally for more than a single year to support medium term confidence.

A secure, low-carbon energy supply at a competitive price: Rising energy prices have rapidly gained headlines in the recent months, but UK electricity prices have for years remained stubbornly amongst the highest in Europe, and these costs can amount to a third of an operation's overhead. Industry is committed to securing a transition to a low-carbon economy and has invested in the latest technologies to improve energy efficiency within their factories. Many companies, however – particularly in the energy-intensive sectors – argue that they have begun to reach the technical limits of improving their manufacturing processes and now have serious concerns about their ability to compete fairly with international companies not subject to UK-specific energy and climate change policies. Government should address the demand management, low-carbon generation and storage issues that currently surround the energy sector. In addition, the CPA supports an increase in the EII Exemption Scheme from 85% to 100%.

Secure technical skills for future green, digital jobs: The CPA echoes calls from Make UK to introduce apprenticeship incentives for areas of skill shortages, such as construction and manufacturing. Allowing greater flexibility for how and when manufacturers can spend their apprenticeship levy funds will also help boost the quality and quantity of apprenticeships, allowing manufacturers to invest in the green, digitalised jobs of the future. Committing to continue the funding of traineeships is another important requirement to attract more talent into the industry. With labour shortages across the manufacturing and construction sectors, a working skills policy is vital to achieving much needed growth and opportunity.

The Construction Products Association urges Government to partner and collaborate with industry on all these policy areas. Within the CPA's membership is vital expertise, available to Government, which will be vital to successful delivery of key infrastructure projects and a national retrofit strategy. We also invite Government to speak to the CPA to understand some of the key challenges manufacturers face on the ground, whether it's finding the right skills for the future or maintaining their international competitiveness.

Key policy missions can be achieved successfully through detailed consultation and discussion with industry before implementation. Additionally, a long-term commitment from Government to its main policy priorities will provide our members with the certainty to invest and support delivery.

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

Yours Sincerely,



Peter L Caplehorn,
Chief Executive