

Our Reference: I007/DM

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

7 October 2016

Dear Chancellor,

Construction Products Association Autumn Statement Submission 23 November 2016

UK manufacturing is an enabling sector, contributing £365 billion to the economy in 2015, and will be vital to maintaining stability and ensuring economic growth in the long-term. The construction product manufacturing sector accounts for 10% of total manufacturing, and employs more than the aerospace and automotive manufacturing sectors combined. Approximately 78% of construction products used in the UK are manufactured here. CPA members underpin every part of our built environment and are essential to a functional, modern society.

Construction product manufacturing and distribution has a turnover of £50 billion and employs 313,000 people across 21,000 companies. The UK construction products sector is a world leader in advanced manufacturing, from dynamic processes to innovative new products and materials. The industry welcomes the government's renewed commitment to an industrial strategy, which should instil confidence in our manufacturers to invest further in plant and technology, thereby increasing productivity and local capacity for the sector.

Following the Referendum in June, it is crucial that the UK government offers policy solutions that enable economic growth and build confidence for UK plc in the long-term. Manufacturing here over the past 20 years has decreased in size from 19% of UK GDP in 1996 to 10% in 2016. If the government is dedicated to rebalancing the economy, in addition to delivering growth in economic activity and employment across all UK nations and regions, then a renaissance in manufacturing is fundamental.

CPA members have plants and facilities in every part of the UK including a large presence in the 'Northern Powerhouse' and the 'Midlands Engine', which will be pivotal to the government's efforts of rebalancing the economy whilst additionally delivering the long-term infrastructure and construction needs for the UK as a whole.

For construction to grow over the next three years the industry needs increasing confidence in the economic outlook together with continued investment into both construction projects and UK manufacturing capacity. The CPA has suggested a range of measures below in the belief that the government has a unique opportunity to support this growth.

I. 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. However, the most recent data highlights 170,690 additional dwellings were built in 2014/15. This means that house building would need to increase by 15% from the 2014/15 outturn and maintain that higher level every year for five years to meet the government's ambition. The CPA would therefore recommend the following measures:

- **Quantitative easing for home building:** This would address the critical issues of growing the UK economy whilst simultaneously meeting an acute housing need within the constraints of public spending.
- **Lending for SME Builders:** We welcome your announcement of a £2 billion fund to accelerate construction in the housing sector. This will help to diversify the market and increase the number of homes built. However, simplicity in the application is key to guaranteeing a large take-up rate from SME builders.

At the same time, the government should look at policy measures that can sustain demand. The CPA recommends the following measures:

- **Stamp duty holiday:** To both sustain demand and help first time buyers, government could announce a stamp duty holiday on properties being purchased in the 2% band. This would increase demand while offering the buyer a potential saving that could be used to renovate and improve the energy efficiency of their property.
- **Commitment to Help to Buy:** Help to Buy equity loans have accounted for 27% of all house building sales in England in the last three years. We suggest that a renewed commitment from government to Help to Buy equity loans up to 2020/21 would lend much-needed support to the sector.

2. Infrastructure

The National Infrastructure Plan (NIP) has gone a long way to reducing business uncertainty and allowing longer-term planning on skills, materials and plant investment in the infrastructure sector. In a recent survey of CPA members, 50% of respondents reported that the NIP had a positive impact on their business with 44% (-6% balance) reporting investment as a result of its introduction. Despite mixed results for delivery of some parts of the National Infrastructure Plan, 39% of respondents on balance said that it had improved their business view in terms of preparing for future policy.

It is essential that the NIP continues and government is seen to reinforce investment in infrastructure and deliver results on the ground. Without major projects coming through in the short-term, total construction output will contract in 2017 and 2018, with an estimated £4.4 billion of construction activity lost by 2018 alone. A slowing infrastructure sector would only serve to hinder wider UK economic activity. The CPA suggests 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. Government might, for example, give extra funding to local authorities that is ring-fenced for transport improvement work. An additional £1 billion spent in such a way could be enough to help the construction industry avoid a decline in 2017.
- **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 should embed ‘whole life’ values into its procurement decisions. UK construction product manufacturers, for example, invest significant time and money 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 by most overseas companies simply importing into the UK, and this should be taken into account during the procurement process.

The Building Centre | 26 Store Street | London WC1E 7BT
tel: 0207 323 3770 | www.constructionproducts.org.uk

Chief Executive: Dr Diana Montgomery. Registered Office: 26 Store Street, London WC1E 7BT.
A company limited by guarantee. Registered in England No. 386 1752

3. Investment and UK Competitiveness:

Large numbers of 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 investment in new plant and machinery.

- **A secure, low-carbon energy supply at a competitive price (see annex 1):** 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. 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. In some cases the prospect of additional rate charges are 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.

4. Housing repair, maintenance and improvement:

- **Addressing the underperformance of the current housing stock:** Cost of living for hard working families is currently a key challenge for government. Although UK domestic energy prices are some of the lowest in the EU, household bills remain high primarily due to poor energy efficiency. Short and long-term measures must be taken to encourage households to improve the energy efficiency of their homes. This would not only benefit consumers but would alleviate our nation's wider demand for energy as well. It is therefore particularly important that government works in partnership with industry to address the underperformance of current energy efficiency policies and provide a clear, coherent, long-term plan which reflects this issue's national, strategic importance.

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,



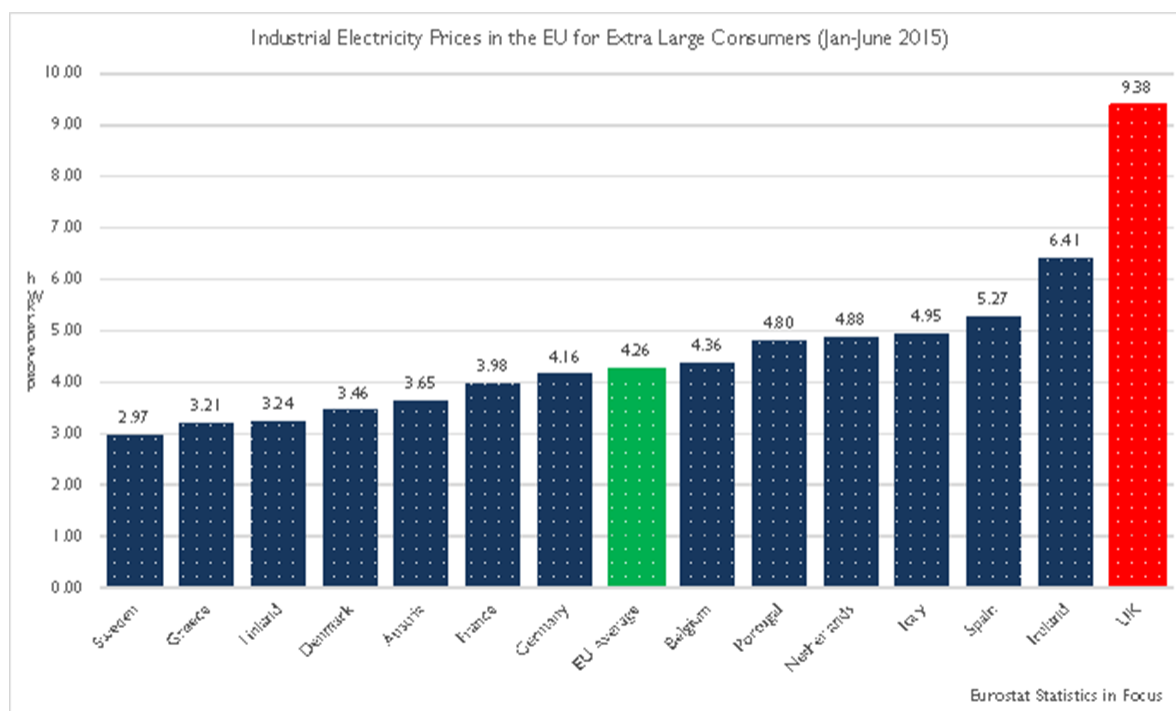
Dr Diana Montgomery
Chief Executive

The Building Centre | 26 Store Street | London WC1E 7BT
tel: 0207 323 3770 | www.constructionproducts.org.uk

Chief Executive: Dr Diana Montgomery. Registered Office: 26 Store Street, London WC1E 7BT.
A company limited by guarantee. Registered in England No. 386 1752

Annex I

UK energy costs for extra large users 120% higher than EU avg



The Building Centre | 26 Store Street | London WC1E 7BT
tel: 0207 323 3770 | www.constructionproducts.org.uk

Chief Executive: Dr Diana Montgomery. Registered Office: 26 Store Street, London WC1E 7BT.
A company limited by guarantee. Registered in England No. 386 1752