Our Reference: 1310/PLC

13 October 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 Autumn Statement 2023

Dear Chancellor,

The UK faces difficult economic headwinds, and the Government is rightly making the difficult choices to help secure a more prosperous future. Ahead of the Autumn Statement, the Construction Products Association (CPA) wishes to stress the importance of the construction and manufacturing sectors in helping to enable and support the country's long-term productivity and economic growth. Looking ahead, we have offered some possible measures with both construction and manufacturing in mind.

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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, large and small. Construction product manufacturing 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.

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1. Housing: New Build & Repair, Maintenance and Improvement

The CPA forecasts that the construction industry is expected to experience an acute recession this year driven by double-digit falls in the two largest construction sectors: private housing new build and private housing repair, maintenance, and improvement (rm&i). Private housing output is worth £41 billion per year to the UK economy and is forecast to be the worst-affected construction sector in 2023. Overall, private housing starts are forecast to fall by 25.0% in 2023. Completions and output are expected to fall by 19.0% this year and remain flat in 2024 with recovery only in 2025. With this in mind, we would like to see:

New build housing: With housing demand having fallen sharply since the Mini Budget in 2022, sharp interest rate rises and the withdrawal of Help to Buy, buying a new home has become harder than at any point in over a decade - particularly for first-time buyers. We would advocate for a new 18 month scheme to enable buyers of new build housing, based upon a government equity loan, to boost house building and jobs at this critical time for the sector.

Support for Retrofitting: Homeowners and renters alike will know the problem of the UK's leaky housing stock has been exacerbated by high energy prices, leaving both private owners and social housing occupants facing huge bills and cold homes. As the price shocks of last winter saw, inaction on home efficiency can have huge implications for the public purse as well as for those struggling with the cost of living. Policy makers will also know that the UK will not reach its 2050 Net Zero promises without refurbishment of the existing stock.

Our members say that the constant changing of direction and the lack of a consistent policy framework around energy efficiency has been frustrating and counter-productive, particularly around future homes standards and minimum efficiency standards. As businesses, many have made long term, multi-million pound investment decisions on the basis of previous "commitments" only to suffer losses when those commitments change. This has only served to undermine the Government's credibility. There needs to be certainty and a long-term plan of action on retrofit.

For example, the Prime Minister recently announced that the Government would not go ahead with planned regulations on minimum energy efficiency standards for rental properties; however, no alternative to support action to encourage energy efficiency retrofit activity was announced. If the decision is not to require landlords to act urgently, there surely needs to be a policy to reward them for doing so. Further to that point, we would encourage the Government to widen the incentives to the entire housing stock by tying home efficiency ratings to stamp duty payments. The proposal has the potential to be cost-neutral while offering an underlying incentive for those selling or buying a home to take action to improve home efficiency. It is an incentive without being an onerous requirement. The incentive would work both for owner occupiers and those intending to 'buy homes to rent'. For the latter, an incentive to improve efficiency when other improvement works are carried out is optimal timing while the eventual renters of homes would be better protected from high energy prices. We also believe Government should maintain and build on the Social Housing Decarbonisation Fund and Public Sector Decarbonisation Fund and consider introducing higher minimum energy efficiency standards in the commercial sectors as well.

Planning: Cash-strapped local authorities have seen their planning departments' capacity decline, holding up approvals on projects and delaying getting spades in the ground. These departments are in desperate need of resources and expertise. Easing this bottleneck will support a range of projects, including large infrastructure and regional SME house builders' sites. Undertaking a wider reform to the planning system is also needed to get Britain building again.

2. Infrastructure Delivery

Aside from housing, the infrastructure sector is often the twin driver of construction activity. Based on the latest CPA forecasts, infrastructure output is expected to fall, albeit by only 0.5% in 2023 and 0.1% in 2024. There remain serious questions over whether we will see a major uplift to infrastructure output in the near-term given the recent government announcements of the pausing, delaying and cancelling projects. Nevertheless, there are some actions Government can take to support growth. We would like to see:

Focus on repair and maintenance in the short-term: CPA welcomes the announcement from the Prime Minister to invest in regional infrastructure projects including road repairs and rail upgrades although infrastructure investment in major projects is also critical for the medium and long-term. By focusing efforts near-term on basic repairs and maintenance that have a quick turnaround, the UK economy and productivity could enjoy an immediate and obvious return on investment for taxpayers along with a sizeable stimulus for the sector.

Government should, for example, give extra funding to local authorities that is ring-fenced for transport improvement work such as pothole repairs. We would also like to point out that in regards to the Government's problems with RAAC found across the public estate, we firmly believe the potentially disastrous situation could have been avoided by proper funding for better and more regular maintenance.

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 to avoid pauses, reviews and constant changes in direction is the key factor that will 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 Statement, clarifying the government's commitment to specific nationally important infrastructure schemes.
- 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.

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. In addition, procuring for value should ensure that concepts around greater safety are embedded and help avoid poor performing substitutions. 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.

3. Investment, Performance 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. We would like to see:

A green Industrial Strategy: To provide construction product manufacturers with a sustained direction of travel and expectations for future opportunities, government should work with industry to produce an industrial strategy geared towards green growth. Through a strong collaboration with the private sector, government can provide manufacturers with the confidence to invest and innovate to help the country's transition to a decarbonised economy. Without the clarity and certainty that a proper industrial strategy provides, the UK risks losing crucial green investment at the international level. The US's Inflation Reduction Act and the EU's Green Deal are examples of where public funds are helping to leverage private sector investment in the green economy. The time for a UK version of such industrial policy would help drive growth, provide incentive for investment and give much needed certainty to industry.

A secure, low-carbon energy supply at a competitive price: Rising energy prices may well regain the headlines in the coming winter months. 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.

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.

Sufficient funding for building and product safety regulatory bodies: The government's building safety programme is helping to deliver real progress in building safety from industry in terms of culture and practice. The CPA has warmly welcomed the creation of a new building safety regulator and construction products regulator and hopes to work constructively with both to realise change. We urge the government to ensure these bodies are given the proper funding and capacity to help industry realise its ambitions for improvement and reform. Given the volume of construction products made and sold in the UK, the new regulator should be able to successfully enforce compliance, prosecute negligence and conduct its own product testing where necessary to investigate concerns. This will require government to commit to significant investment and resource in the new regulator.

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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, retrofitting and new housing. 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.

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

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