Our Reference: 2401/PLC

24 January 2024

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 2024

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.

***

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.

***

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

The construction industry experienced an acute recession last 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 was the worst-affected construction sector in 2023. Overall, private housing completions and output are expected to rise only 2.0% in 2024 with recovery only in 2025. With this in mind, we would like to see:

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 recent winters 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 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. We strongly suggest Government should ringfence any increases in planning fees.

Easing the planning 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 improve the speed, cost and effectiveness of building projects across Britain.

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 remain flat 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: Infrastructure investment in major projects is critical for the medium and long-term, and we welcome the Government's announcements to invest in regional projects including road improvements and rail upgrades. In a tight budgetary environment however, by focusing efforts on near-term basic repairs and maintenance that have a quicker 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, ensure extra funding to local authorities that is ring-fenced for transport work such as bridge and road repairs. We also point out that in regards to the problems with RAAC found across the public estate, we firmly believe the potentially disastrous situation could have been avoided by proper funding for 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:

- 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.

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:

Sufficient funding for building and product safety regulatory bodies: The Government's building safety programme is driving genuine change in the culture and practices across UK construction. The CPA has welcomed the creation of a new building safety regulator and construction products regulator and has been constructively working with both to realise that change. We urge the Government to ensure these bodies are given the proper funding and capacity to help industry improve and reform. Given the large 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 regulators.

Extend the 12 months of 100% business rate relief on green plant machinery and equipment, as well as the 100% business relief on building improvements introduced in April 2023: manufacturers are making green investments and we welcome the current 12 months' relief. However, green investments should have a minimum of a three year relief to reflect business' payback period for their investments as opposed to the current 12 months. The first three-year relief could be available for a limited time early in the duration period of the scheme (between now and 2035) to spur immediate investment or bring forward investment plans.

Building on the Advanced Manufacturing Plan: We join Make UK and other manufacturing sectors in welcoming the Government's announcement of the £4.5 billion Advanced Manufacturing Plan (AMP) publication, and believe it will help deliver better coordination across manufacturing. It is critical that the UK economy benefits fully from new technological opportunities.

We would like to see the AMP used as a vehicle to plan for a longer-term vision that builds on the investment appetite of the sector and takes advantage of net zero to boost the economy. Manufacturers need a framework to guide them beyond 2030, and whilst the AMP has laid the foundations, it should be developed further so the entire manufacturing sector, and not just the flagship sectors dominated by major manufacturers, can thrive in a low carbon economy. Developing an industry plan that extends beyond 2030 is crucial, providing businesses with policy continuity for informed decision making.

Increase the capacity and flexibility of the national grid as a matter of urgency: Promptly resolve queue management issues for access to connections on a 'first ready, first served' (rather than on a 'first-come' basis). This is critical to enable willing and ready companies to obtain connections which will enable them to feed the energy they generate back into the grid. Adjusting the Demand Flexibility Scheme (DFS) to work for the manufacturing sector will enable many more participants to access it. Doing this early will avoid wasting a proportion of investment in power-generating assets in the first place. Without this, even if the right policies are in place, their implementation will not be possible in practice, jeopardising the overall energy security.

Energy market reform: this should be accelerated so that domestic electricity prices are competitive with both electricity prices internationally and gas prices to enable the switch to low-carbon energy. Proven tools should be used such as Contracts for Difference or the Capacity Market.

The existing carbon taxation, relief schemes and other incentives should be reviewed to identify incoherencies and inefficiencies: Ensure there is a complete and coherent 'carbon and energy' solution, available across business populations; e.g., not only for the Energy Intensive Industries (via the CPS compensation/ RE exemption schemes, Climate Change Agreements, and the Capacity Market) but also for the less energy intensive manufacturers. Other energy policy costs, notably the disproportionate electricity network charges, should be examined in a bid to decrease the cost of energy.

UK Carbon Border Adjustment Mechanism (UK-CBAM) rollout: while the announcement of the UK CBAM is widely welcome, the one year difference between the implementation of the UK-CBAM (in 2027) versus the EU CBAM (in 2026) will increase risks for domestic industries and could cause de-industrialisation. It is crucial, therefore, that the UK-CBAM aligns with the EU-CBAM timescales to ensure a level playing field with EU competitors and prevent potential trade diversion of high-emission industrial products into the UK market.

Government should adopt a flexible approach to the CBAM application and engage with all stakeholders in manufacturing including the supply chain, because each sector and material has specific requirements and circumstances unique to their markets. This approach would help ensure a balance between achieving environmental goals without imposing a blanket, pre-determined solution at undue cost for UK manufacturing.

We also suggest that work on product standards should start in parallel as the CBAM is insufficient to prevent carbon leakage. In addition, the UK-ETS should also be extended to other sectors (as relevant) and linked to wider ETS schemes to increase the market size.

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, 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

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