

24 February 2017

Rt Hon Philip Hammond MP
Chancellor of the Exchequer

HM Treasury
1 Horse Guards Road
London
SW1A 1HQ

Budget 2017 and the UK Timber Industries

Dear Chancellor,

I am writing on behalf of the UK timber industry ahead of the 2017 Budget.

CTI represents Producers, Manufacturers and Distributors of Timber across all the supply chain. Our membership is made up of Trade Associations, NGOs and Research Institutes. Timber contributes substantially to the UK Construction, Manufacturing and Service Industries, providing jobs across the skills spectrum and adding value of £10 billion in to the UK economy.

In your Autumn Statement there was significant emphasis on the productivity gap. Since this Statement we have seen and warmly welcomed the Housing White Paper and the emphasis that this places on the modular and off-site elements of construction. We have also welcomed that Industrial Strategy Green Paper that starts to look at how Government and Industry can work together to start closing the productivity gap. This Green Paper correctly identifies ten pillars required to drive productivity in the UK, below we highlight three critical areas.

Skills and Education

The long-term solution for the productivity gap is rebalancing the educational system to support technical education. The timber industry is embracing the new Apprenticeship Standards and taking the opportunity to look again at how we structure training, from career starter to retirement. We have concern that SMEs may find the new environment overly complex and that colleges and support mechanisms may now evolve to favour the larger employers, undermining a training culture that is strong in our sector. We also caution that the underlying assumption that Levy monies will not all be fully utilised through the voucher system is misplaced. Whilst this is likely for several years, we believe that structures will be put in place to ensure companies recoup levy monies and this has the potential to leave a shortfall in support for SMEs.

We believe that there should be a firm commitment from Treasury that any "profit" from the Apprenticeship Levy money is ring-fenced to support SME training and the situation needs to be carefully monitored.

To ensure the new technical education system succeeds, industry needs more structured inroads into the ever-complicated array of grammar, free, faith, academy and comprehensive schools. Schools must be equipped and targeted to support rather than work against technical education options. Whilst we constantly hear that Government is striving for parity of esteem, it often feels like lip service – the Treasury too falls into this trap and in your Autumn Statement, you referred to the number of young people in University as a measure of economic success – apprentices were not mentioned in at all. The UCAS system supports schools and pupils alike and acts as a strong filter for academia and easy option for young people to apply for university.

To support parity of esteem the role of UCAS needs to be extended to support technical routes or an alternative application and clearing system should be developed through the National Apprenticeship Service.

Supporting Productive Growth

The UK timber industry directly employs 150,000 workers throughout the country. As well as furniture, pallets and a vast array of other markets, timber is emerging as one of the most significant construction materials of the 21st Century – indeed, according to Government data, 7% of construction workers are carpenters and joiners. The Construction Products sector is five times the size of the automotive and twice the size of the aerospace sector in the UK. A concern with the Green Paper is that it zones in quickly on these sectors – it includes 23 separate references to automotive and 18 references to aerospace.

The current business rates system discourages investment and undermines productivity – it is no longer fit for purpose and needs rapid reform. In a recent survey by the British Woodworking Federation (who represent

some 600 plus wood product manufacturing businesses) a balance of 20% of respondents reported that business rates for their current property would increase because of the recent Revaluations, with 32% of respondents indicating that their rates would increase by over 5%. One member calculated that yearly council tax for their 4-bedroom semi-detached house is £1,570.00, the company's business rates for the year are £29,512.00, 34% of their rent which stands at £86,250 per annum.

The Industrial Strategy paper falls short of calling for a fundamental tax reform that considers Business Rates with wider taxation. The transaction that is taxation is a core part of the relationship industry has with Government and needs review. As margins tighten and profitability falls, corporation tax reform becomes less significant and employment tax, national insurance, business rates and rising IPT all take a toll. Where these can be offset by R&D Tax credits the system is often overly complicated and our army of SMEs fail to benefit due to the lack of specialist support and time available. A productive economy needs a productive taxation system that rewards positive behaviour and encourages UK Trade Gain (a combination of growing exports and winning share back from importers of finished products). It is worth adding that Trade Gain would also be supported by better support for policy policing to ensure that the UK is both an open market and a level playing field.

Energy Security

There is sensible talk within the Industrial Strategy on "delivering affordable energy and clean growth" and investment in low-carbon energy supply, but it is silent on how we can reduce industrial energy usage. The Bonfield Review starts to look at operational carbon usage in the home, but we need to look more fundamentally at the incentivising the creation and rewarding the operation of low energy businesses that can reduce the carbon embodied in our processes and products. We also need to look at how we value the natural environment and consider seriously the recommendations of the Natural Capital Committee. This is about sustainability and climate change, but it is about projecting our status and meeting our responsibility as a world leader, protecting our energy supply and preserving our natural assets.

On behalf of the UK timber industry, I thank you for taking the time to consider our recommendations and remain at the disposal of your team to discuss or provide additional data on any of the points raised.

Yours faithfully,



Iain McIlwee

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The Confederation of Timber Industries is an umbrella organisation, representing the UK's Timber supply chain from Forest to end of life recycling.