

Autumn Budget Submission 2017

‘Delivering for the UK’

The Mineral Products Association (MPA) is the trade association for the Aggregates, Asphalt, Cement, Concrete, Dimension Stone, Lime, Mortar, and Silica Sand industries. We are the sectoral voice for mineral products and quarrying.

Each year, the industry typically supplies £20 billion worth of materials and services to the economy and is the largest supplier to the construction industry. Industry production represents the largest materials flow in the UK economy and is also one of the largest manufacturing sectors.

The use of mineral products is essential for housebuilding, construction, maintenance and improvement of our infrastructure and for the operation of many other industries throughout the UK. The labour productivity of the mineral products industry is 60% higher than the UK average and the industry's products and services support employment, growth and productivity improvements throughout UK supply chains. **The new Government's economic and industrial strategy needs to fuel sustainable growth and it is vital that a good deal on Brexit is achieved which maintains UK competitiveness, protects our reputation and builds confidence to encourage investment.**

Make Brexit Work for Trade and Skills

- Clear the path for transitional arrangements post- Brexit to enable the fullest access to European markets, whilst providing businesses with continued access to essential labour and skills
- Ensure pragmatic Customs proposals to support Northern Ireland business post-Brexit

Develop an Industrial Strategy which Addresses Regional Disparities

- Recognise the enabling and strategic nature of industries such as mineral products, which provide and promote growth for all sectors across the UK
- Focus on budget measures to increase business investment and boost growth

Strengthen the National Infrastructure & Construction Pipeline and Accelerate Transport and Road Investment

- Speed up the delivery of infrastructure projects including Highways England investment
- Provide resources to reduce the acknowledged £12 billion local road maintenance backlog including potholes

Increase and Improve Housebuilding

- Address planning constraints on housing and its supply chain to step up and improve housebuilding

Future Proof Energy Supply

- Ensure a reliable and cost effective low carbon energy supply for UK industry

Increase Annual Investment Allowances

- Increase and extend the scope of allowances to encourage investment

Protect the Competitiveness and Productivity of UK Energy Intensive Industries

- Enhance the competitiveness of UK energy intensive industries, abolish the UK Carbon Price Support Mechanism and take control of escalating policy costs in electricity

Freeze and Improve the Aggregates Levy

- Continue to freeze the Aggregates Levy at a rate of £2.00 per tonne
- Establish a new Aggregates Levy Community and Biodiversity Fund and support the under-resourced mineral planning system using Aggregates Levy revenue
- End the commercial advantage Government is allowing importers by taxing the aggregates content of concrete product imports

Implement ‘Cutting Red Tape’ Review of Mineral Extraction

- Set up an Industry/Government strategic group to implement opportunities identified in the ‘Cutting Red Tape’ Review for mineral extraction
- Recognise that the delivery of long-term housing and infrastructure ambitions needs an effective and complementary mineral planning system

Mineral Products for schools . . . hospitals . . . housing . . . roads . . . rail . . . power stations . . . airports . . . ports . . . food . . . water . . . agriculture

Market and Economic Context

Government will be aware that real GDP per head in the second quarter of 2017 stood only 1.9% higher than nine years ago, with disappointing productivity performance. Meanwhile, short to medium term prospects are weakening, with quarterly GDP growth averaging 0.3% this year, down from 0.6% in the second half of 2016.

Latest evidence from the Mineral Products industry, whose output underpins construction, confirms that general construction activity is currently slowing down. MPA sales volumes for key mineral products in the second quarter were lower than both the same period of 2016 and the first quarter of 2017, with quarterly rates of decline for materials such as aggregates and ready mixed concrete not seen since 2012/13. ONS data indicates that construction output declined by 1.3% in the second quarter.

Current economic forecasts suggest GDP growth will remain subdued this year and next, despite the improved outlook for global growth and UK exports. Consumer spending is slowing as consumer prices rise faster than pay, whilst business surveys show at least some investment spending is being held back by Brexit-related uncertainty. This background highlights the pressing need for the Autumn Budget to focus on policy implementation which will increase business confidence to boost investment and growth throughout the UK.

Make Brexit Work for Trade and Skills

In the short term, a transitional arrangement, in the form of 'continuity' until a new deal is reached, should alleviate some of the uncertainties and support domestic economic activity, including construction. In the long term, every effort must be made to seek the fullest access to both European and non-European markets. This is essential to boost confidence in the construction industry and supply chain to make the investments required to deliver the infrastructure and housing planned by Government. It is also critical for mineral products businesses in Northern Ireland that the border with the Republic remains frictionless and neither physical nor other trade barriers are introduced post Brexit.

Like construction, businesses in Mineral Products industries are also concerned about the long term access to labour and skills. Roles such as drivers, quarry site and factory operatives and technicians/engineers are currently most at risk in terms of skills availability. Many of our businesses believe it would be challenging to replace these current EU workers and their level of skills with UK workers based on experience in recent years. EU workers are considered to be essential to deliver existing and potential future levels of industry workload and broader economic growth. The UK Government should therefore confirm residency rights at the earliest opportunity and recognise the contribution these key workers make to economic and construction output and growth. We would urge Government to think innovatively and creatively in providing UK businesses with proportionate and sufficient free movement of labour from both EU and non-EU countries to fill our skills gaps. This is as much about availability of labour as skill level and is entirely different to the free movement of people.

Develop an Industrial Strategy which Addresses Regional Disparities

The Government's ambition to develop an Industrial Strategy is welcome. But it must be the right strategy to get results and make a difference. 'Building our Industrial Strategy', the Green Paper published on 23rd January, was deficient in that it did not recognise the role of 'enabling' foundation industries such as mineral products which are critical elements of supply for the construction and many other industries and sectors.

The Mineral Products industry provides essential materials to build and maintain the housing and infrastructure stock throughout the UK, whilst playing an essential part in any growth strategy aimed at boosting the regional rebalancing of the UK economy. The sector directly underpins productivity and overall potential economic growth.

MPA data identify a stark disparity in the regional contribution to the post-recession economic recovery. To illustrate this, sales of ready-mixed concrete, a ubiquitous construction material, are a proxy for development and construction activity and provide a good indicator of economic activity. In 2016, sales volumes of ready mixed concrete in London were 50% higher than pre-recession in 2007. In every other English region and in Scotland and Wales, ready-mixed concrete sales remained between 20% and 54% lower in 2016 than in 2007. This highlights the outstanding need for further action to support growth throughout the UK by providing the infrastructure, institutions and financial and regulatory support to achieve economic, social and environmental objectives. Enabling industries operating throughout the UK such as mineral products have a key role to play.

An effective Industrial Strategy should focus less on cherry picking high profile sectors for attention and more on providing the conditions under which all businesses and sectors have the opportunity to thrive.

Strengthen the National Infrastructure & Construction Pipeline and Accelerate Transport and Road Investment

Policy support for transport investment has remained positive and was confirmed in the 5th July 2017 publication of the Government's Transport Investment Strategy 'Moving Britain Ahead'. However, implementation remains an issue. Government's Road Investment Strategy (RIS) for England is heavily back loaded to the end of the five year 2019/20 RIS period and first year of the second RIS period, 2020/21. Similarly, the welcome announcement that the planned Roads Fund would allocate potentially £1 billion pa for major local road improvements also has a proposed implementation date of 2020/21. Asphalt sales are a good indicator of actual road construction and maintenance activity and sales volumes in England declined by 1.7% in 2016: the industry is anticipating no improvements in sales volumes in Great Britain in 2017 and 2018.

In these circumstances it would be prudent to smooth the road investment profile in England by bringing forward road investment and maintenance work where possible. Local highway authorities, responsible for 98% of the road network, have a £12 billion backlog of maintenance work, including potholes, required to bring the network back to a reasonable standard and accelerated funding for such work should be implemented.

Increase and Improve Housebuilding

'Fixing our broken housing market', the White Paper published on 7th February, identified the scale of the problem: *"since the 1970s there have been on average 160,000 new houses built each year in England. The consensus is that we need from 225,000 to 275,000 new homes per year to keep up with population growth and start to tackle years of under-supply."* It identified the knock-on consequences of less work through the housing supply chain and highlighted that over 40% of local planning authorities do not have a plan to meet projected household growth. The Grenfell tragedy has also focussed attention on the inadequacy of social housing provision and the need to re-evaluate fire resilience.

Government should focus on improving regulations to ensure resilient construction and leave designers and the construction market to determine the best solutions for projects. To enable a long term improvement in housing supply, the planning and regulatory constraints identified for the housing process in the White Paper will also have to be addressed for mineral products. The use of mineral products such as concrete is key to ensuring that new housing is safe, robust and resilient.

Future Proof Energy Supply

Recent decades have been characterised by a failure to plan and implement adequate new low carbon electricity generation capacity. This has created significant supply risks for industry and notably for energy intensive industries which need low carbon energy supply to maintain competitiveness. In addition to planned nuclear developments, urgent progress is needed to assess the viability of tidal lagoons and emerging energy generation, storage technologies and carbon capture and storage.

Increase Annual Investment Allowances

Measures to encourage private investment are needed to counter the likely negative impacts in investment intentions created in particular by business concerns over the outcome of Brexit negotiations. Consideration should be given to introducing a significant and time-limited increase in Annual Investment Allowances and an extension of the scope of allowances to include buildings, which could provide significant additional incentives for business investment.

Protect the Competitiveness and Productivity of UK Energy Intensive Industries

As businesses prepare for the UK exiting the framework of the European Union, it is critical that government takes further action to protect the competitiveness of key UK energy intensive industries measures such as cement and lime manufacture. The new total carbon price announced in the Spring Budget 2017 must not place UK mineral production at a disadvantage to other nations or our products at a disadvantage to others in the same markets. Currently the UK imposes much higher energy and climate change-related policy costs on UK business than those imposed on international competitors. MPA actively supports progress towards a lower carbon economy, but it is economically damaging and environmentally irresponsible, if policies simply replace UK manufacturing with unnecessary imports, transferring our environmental obligations elsewhere and losing jobs and GVA with it.

MPA estimates that the cumulative costs of energy and climate change measures imposed on UK cement makers through their electricity bills will increase from £42 million in 2016 to £70 million in 2020.

Between 2005 and 2015 the import share of the UK cement market rose from 10% to 17%. The international competitiveness and investment diversion impacts of this should not be treated with complacency by policy makers.

As a result Government needs to:

- Ensure that the future development of the European Union Emissions Trading Scheme (EUETS), which may continue to influence the UK Government's climate change action post Brexit, is designed to enable the continuing competitiveness of the UK cement and lime industries.
- Abolish the UK Carbon Price Support mechanism, which provides no incentive for power generators to reduce carbon emissions but imposes additional costs on their industrial customers.
- Design a total carbon price that shares the cost of climate change equally across the economy. It should not inflate the cost for UK manufacturers and where necessary there should be provision for full relief or exemption for energy intensive industries to maintain a competitive level playing field.
- Government should continue to provide compensation or exemption on renewables costs in electricity prices, i.e. Contracts for Difference, Renewables Obligation, Feed in Tariffs.
- Government policies are driving up the costs of energy supply, as well as generation. The successor to the Levy Control Framework must take control of generation, distribution, balancing and supply costs. These cost should be fully transparent to industrial customers and have an effective mechanism to ensure consumers are not taking on the investment risk that should be borne higher in the supply chain.

Freeze and improve the Aggregates Levy

The rate of the Aggregates Levy should continue to be frozen at £2 per tonne while further consideration is given to the role of the tax and the use of tax revenues which totalled £377 million in 2016/17. There are critical failings in the Aggregates Levy regime which need to be addressed including:

- The Aggregates Levy is nominally an environmental tax calculated to cover the external environmental costs of extraction. However, this calculation makes the erroneous assumption that the long term restoration and aftercare of quarries, often to provide wildlife habitats and social amenities, has zero environmental benefits.
- A new Aggregates Levy Community and Biodiversity Fund should be set up using a small proportion of Aggregates Levy revenue (less than 5%). This would support community and environmental projects in quarrying areas throughout England and complement work undertaken by the industry. Critically, the fund could also be used to provide support for the operation of strategic national and local planning and regulatory activities which are currently substantially under-resourced.
- The tax should be extended to cover the aggregates content of imported mineral products such as concrete products. The current tax regime provides a financial incentive for importing such products because UK aggregates content is taxed and imported aggregates content is not taxed. The identified UK trade balance for concrete products has changed from a surplus of £55.4 million in 2001 (the year before the levy was introduced) to a deficit of £251.7 million in 2016. Ensuring fair trading conditions will be a particularly critical issue for the Northern Ireland mineral products industry post Brexit.

Implement 'Cutting Red Tape' Review of Mineral Extraction

Planning policy and implementation needs to ensure sustainable long term access to UK minerals and a steady and adequate supply for housing, infrastructure and other construction and industrial activities.

The 'Cutting Red Tape' review of mineral extraction was implemented by Government in 2015 in recognition of the cumulative burden on industry and generated significant progress within government, industry and regulators. It has identified the potential to operate a more efficient and effective system to keep the domestic minerals supply chain functioning but all of this good work appears to have stalled and substantial time and energy may be wasted as a result. It is imperative that this progress is not lost and a proposed Government/industry Strategic Forum is formed to develop more effective regulation and better implementation.

MPA assessments suggest that aggregates demand in Great Britain to 2030 will be between 3.2 billion to 3.8 billion tonnes. Taking full account of the availability of recycled materials, the majority of this demand will have to be supplied from indigenous primary minerals extraction. To ensure this level of supply by the most sustainable means, there needs to be effective strategic planning. The process has withered in recent years due to a lack of support and vision within central government and a lack of planned implementation by under-resourced local authorities.

The lack of government support and vision for the operation of the mineral planning system is perverse considering proposals in the recent Housing White Paper designed to speed up the delivery of new housing through local planning processes, ambitions which cannot be delivered without the supply of key raw materials such as aggregates and other mineral products.

Given that the industry paid £377 million in Aggregates Levy in 2016/17, there is an outstanding opportunity to recycle some of this revenue to enable an effectively functioning mineral planning system and complement the outputs of the mineral extraction 'Cutting Red Tape' review.

The mineral products and quarrying industry contribution to the UK:



360mt

GB production of aggregates and manufactured mineral products



£6.4bn

Gross value added of our industry



£144bn

Value of construction, our main customer



3.4m

Jobs supported through our supply chain



£20bn

Annual turnover



£495bn

Turnover of industries we supply



78,000

People directly employed in our industry

The Mineral Products Association is the trade association for the aggregates, asphalt, cement, concrete, dimension stone, lime, mortar and silica sand industries.

For further MPA information visit www.mineralproducts.org

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