MPA Autumn Statement Submission 2016

MPA introduction
The Mineral Products Association (MPA) is the trade association for the aggregates, asphalt, cement, concrete, dimension stone, lime, mortar and silica sand industries. MPA has a growing membership of 480 companies and is the sectoral voice for mineral products.

Each year the industry supplies £20 billion worth of materials and services to the Economy and is the largest supplier to the £144 billion construction industry. Industry production represents the largest materials flow in the UK economy and is also one of the largest manufacturing sectors. For more information, visit: www.mineralproducts.org.

Market context
Construction market demand for mineral products improved in 2016Q2 compared with 2016Q1 and we anticipate overall growth in 2016.

As such, there is more momentum in construction markets for the rest of 2016 and running into 2017. However, it is likely that construction and mineral products markets will flatten out in 2017 and 2018 due to delays in private investment and lower growth in real incomes as an increase in inflation feeds through from business to consumer costs. Given the unique uncertainties associated with the EU Referendum vote and more general concerns about global economic prospects, industry businesses, both internationally owned and UK SMEs, are very concerned about the medium term market outlook and the potential for a more constrained market outlook to turn negative.

Boost infrastructure investment
The uncertain outlook highlights the need for the Autumn Statement to focus on the earlier delivery of transport and energy infrastructure. There has been much positive comment about infrastructure investment in recent Budgets and Autumn Statements, but the Treasury’s Spring 2016 National Infrastructure Pipeline indicated economic infrastructure investment rising from £52.2 billion in 2016/17 to £52.7 billion in 2017/18 but then falling to £41.0 billion in 2020/21. There is clearly a significant risk that infrastructure investment will decline over the Parliament unless action is taken to speed up delivery.

Accelerate the Road Investment Strategy
Highways England is implementing the Road Investment Strategy but this programme is heavily backloaded to 2019/20 and the latest plans (from the July 2016 HE Delivery Plan 2016/17) indicates a small cash reduction in major scheme investment in 2017/18. We would propose that, whilst it may be difficult to accelerate some major schemes, there is an opportunity to bring forward smaller scale spending and notably the motorway and trunk road renewal programme.
The delivery of local authority transport and road maintenance is perennially constrained by a lack of resources and competition from other non ring-fenced areas of expenditure. We would suggest that additional funding for much-needed local investment and maintenance work, eg resurfacing and repairing potholes, could be managed through a challenge funding facility encouraging authorities with projects ready to implement to bid for additional funding.

**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 who need low carbon supply to sustain competitiveness. The positive decision to build a new reactor at Hinkley Point is welcome but needs to be matched by other positive action to deliver more generating capacity and to progress Carbon Capture and Storage.

**Increase housebuilding**

There is broad recognition of the widespread shortage of housing supply and the particular problem of a lack of affordable housing. We recognise actions taken by Government to improve the demand for and affordability of new housing, notably the Help to Buy initiatives, and measures to improve land supply but believe that there is scope for a radical increase in the delivery of affordable housing. In particular we would urge Government to consider opportunities identified by Housing Associations to significantly increase housing supply, notably the introduction of a more flexible approach to Government investment which focuses more on the delivery of housing numbers and is less constrained by the type of housing tenure to be delivered.

**Increase investment allowances**

Measures to encourage private investment are needed to strengthen investment intentions and to counter uncertainties related to the Brexit outcome. The UK needs to be seen as an attractive location for inward and domestic investment and a significant and time-limited increase in Annual Investment Allowances and extending the scope of allowances to include buildings could provide significant additional incentives for business investment.

**Stimulate Regional Economic Activity**

It has become increasingly apparent that Regional recovery from the 2008/9 recession has been skewed very strongly towards London and MPA data provides further hard evidence of this pattern. The chart below compares sales volumes of ready-mixed concrete for the year to Q2 2016 with sales volumes for 2007. The data is derived from over seven hundred plants throughout Great Britain and ready-mixed concrete, as a ubiquitous construction material used in all industry sectors, is a good proxy for construction which in turn reflects local development and economic activity. The data indicates that while sales volumes in London are over 40% higher than pre-recession, markets in all other parts of Great Britain remain significantly below pre-recession levels. This provides further evidence of the need to stimulate development and growth throughout most of the UK.

Initiatives to date appear to lack some strategic consistency and to date experience on the ground of, for example, the Local Enterprise Partnerships is very mixed. While it is appreciated that large scale projects such as the Northern Powerhouse are long term in their nature, it is nonetheless evident that in many parts of the UK development and growth since 2009 has been very limited and that significant development progress remains geographically limited. Industrial Strategy may help but this must be genuinely strategic and not involve trying to pick winners.

**Freeze and improve the Aggregates Levy**

The Aggregates Levy (AGL) is an ineffective environmental tax which adds £350 million per annum to construction industry costs. We would propose that:

- The AGL rate of £2.00 per tonne remains frozen for 2017/18. The likely flattening of construction output and the need to stimulate growth and development makes this the wrong time to increase the costs of the construction supply chain.

The MPA supports the Government’s aim of ‘Building a Better Britain’
Government extends the scope of the AGL to include the aggregates content of imported products such as precast concrete. Currently imports of aggregates products have a competitive advantage over UK-produced aggregates products which include the cost of AGL. This puts an unreasonable burden on UK businesses throughout the UK and particularly in Northern Ireland.

Government rejects current proposals to widen the scope of AGL exemptions to include all aggregates generated during Utilities construction as this would increase the scope for and likelihood of tax evasion and avoidance.

Government introduces a new Aggregates Levy Community and Biodiversity Fund. An outstanding opportunity exists to use a small proportion of Aggregates Levy revenue to support local community initiatives in quarrying areas. While the aggregates and related sectors have generally high standards of operations and constructive relationships with local communities, we think it is reasonable that local communities see some direct benefits arising locally from the specific taxation of industry businesses. This would be consistent with Government’s localism and devolution agendas and precedents have been established with the Landfill Tax Credit Scheme and proposals for community payments related to the extraction of shale gas.

Key issues for Government to address include:

- **European Union Emissions Trading Scheme.** Although the UK’s future in EUETS is unclear, the design of EUETS for post-2020 (Phase IV) is instrumental in determining the viability of UK cement and lime manufacturing.
  - The UK Government must push for installations to receive free allocation of emission allowances at the level of the ‘benchmark’ plants.

- **Carbon Price Support (CPS).** The CPS provides no environmental incentive to power generators and only adds cost to their industrial customers.
  - MPA and other energy-intensive industries call for the abolition of the CPS tax at the earliest opportunity.

- **Relief from the indirect carbon costs.** Cement and lime producers do not receive compensation for the indirect costs of EUETS and CPS.
  - The UK Government should take all opportunities to extend the compensation for indirect carbon costs to the cement and lime sectors.

- **Exemptions from renewable energy subsidies.** Compensation for UK renewable energy subsidies is not equally available to all companies competing in the same sector, and the change from compensation to exemption in April 2017 remains uncertain and disadvantages businesses in Northern Ireland.
  - The Government must quickly address the intra-sectoral disparity in renewables relief.
  - The Government should ensure that there is no gap in the renewables relief available, and that it continues to be available to eligible businesses in Northern Ireland.

- **Capacity market.** MPA estimate that capacity market costs within electricity prices will be £4/MWh by 2020, penalising industrial consumers for the lack of investment in flexible capacity by power generators.
  - The Government should provide an exemption to capacity market costs for energy intensive cement and lime production.

Energy intensive mineral products businesses in the UK, notably in the cement and lime industries, face higher energy and carbon costs than competing countries that have the capacity to supply our market. The complex energy and climate change measures imposed on the cement and lime industries reflects the lack of a strategic understanding of their value of to the UK. A progressive industrial strategy would deliver short-term stability, medium-term growth, and long-term sustainable local manufacturing, delivering emissions reduction at the lowest cost.

MPA fully supports the drive towards a lower carbon and more resource-efficient economy, but there is little merit if domestic manufacturing is replaced by imports, which merely outsources the carbon emissions to other countries (so-called carbon leakage).

MPA estimates that the cumulative costs of energy and climate change measures on UK cement producers will increase from £35 million in 2016 to £54 million in 2020 GVA. Between 2005 and 2015, the import share of the GB cement market rose from 10% to 17%.

Trade intensity for the UK lime sector is 23.1%. Based on MPA figures, UK lime exports reached 21% of total sales in 2014, but the market is unstable and recent steel plant closures leave the sector vulnerable and seeking new markets in competition with cheap non-EU producers.

**Protect the competitiveness of Energy Intensive Industries in the UK**

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**The MPA supports the Government’s aim of ‘Building a Better Britain’**
Reshape the Apprenticeship Levy

The Government’s objective of increasing the number of apprenticeships is right, but the planned Apprenticeship Levy needs further consideration so that it can work as an effective mechanism for increasing skills rather than just as a business tax. We believe Government should rethink the implementation of the Apprenticeship Levy, working with industry to design a scheme which would work better for apprentices, businesses and the economy.

Implement Red Tape review of mineral extraction

Following the July 2015 Budget and Productivity Plan the MPA has been in discussion with the Cabinet Office and BIS/BEIS in a Cutting Red Tape (CRT) review of planning and regulation relating to mineral extraction. We have been very impressed with the willingness of officials to discuss both radical and incremental measures and the engagement of key organisations such as the Environment Agency. Government has taken and continues to take action to improve the land use planning system, but housing and other development cannot be sustained unless there is a parallel improvement in the system of mineral planning and regulation. As such, it is imperative that Government continues to actively support this initiative so that real and meaningful outcomes can be delivered.

Make Brexit work on trade and skills

The Mineral Products industry currently employs significant numbers of EU citizens and some of our customer industries, notably construction, are heavily reliant on EU citizens to deliver existing levels of industry workload. Currently there is no guarantee that EU citizens now resident in the UK will have a continuing right to reside in and work in the UK following Brexit. This uncertainty needs early resolution. We would also urge the Government and the EU to think creatively and innovatively to enable the UK to balance access to the single market with proportionate and sufficient free movement of labour to help fill our skills gap.