



Rt. Hon. George Osborne MP  
Chancellor of the Exchequer  
HM Treasury  
1 Horse Guards Road  
London, SW1A 2HQ

7<sup>th</sup> November 2013

Dear Chancellor

### **The Autumn Statement 4<sup>th</sup> December 2013**

Our seven manufacturing organisations represent the plastics, rubber, coatings and associated machinery and tool making sectors. Together we represent 310,000 employees from 6,100 companies. Our member companies are small and large and supply into all sectors of UK manufacturing.

Our companies can definitely confirm that a recovery is firmly in place with rising order books and confidence. This is confirmed by the GDP figures for manufacturing showing a rise of 0.9% for the second consecutive quarter. Companies are boosting output rather than hiring more staff, suggesting we may get productivity gains rather than strong jobs growth. But the recovery will be more sustainable if we see stronger business investment and higher exports.

The Budget deficit is still high at 6% of GDP but we welcome Government borrowing being under forecast and in May to June it was positive to see a 34,000 drop in public sector employees and a 114,000 rise in private sector employees.

We do welcome your further reductions in Corporation Tax to improve competitiveness and also cancelling the September Fuel Duty increase.

#### **1. Housing and Construction**

We have previously welcomed your Help to Buy scheme with guarantees on 95% mortgages for first time buyers. This has released pent up demand, held back by the requirement for large deposits. Construction began on 110,000 properties in the 12 months up to June, across the country, but output is still 40% below its peak.

We hope refurbishment and increased energy efficiency of homes will also get a boost with many of our companies making construction products and paint.

“Green Deal” needs to have a complete review with only 12 properties having benefitted. The pay back is unattractive and the scheme complex.

#### **2. Energy security of supply and cost**

We very much welcome your incentivisation of shale gas exploration but are concerned that nimby protest groups will delay development and response to their exaggerated claims are feeble and late. Shale Gas will not only supply us with less expensive energy but will provide raw materials vital to a thriving UK chemicals and plastics industry. We welcome the agreement to go ahead with the two nuclear reactors at Hinckley Point. But they will only be operational at the earliest in 2023 and there are other new reactors that are needed.

I am afraid we are not reassured by Ministers that there is no risk of energy supply not meeting demand in the next decade. Already 10% of our power generation has been closed and OFGEM has warned that the risk of blackouts has doubled. Even this winter the SSE company warns factories may have to shut production because the margin between supply and demand is so low. Our member companies require secure and affordable energy supplies to keep and attract investment in the UK. The UK's rising energy costs are three times higher than those in the USA and Middle East.

The Government must act with more urgency to ensure that energy costs to industry are kept low and affordable and to speed up the replacement of the power generation capacity that is being closed down and incentivise a great deal more gas storage. Government needs to restore confidence on both these key issues.

Energy from Waste can, using unrecyclables from households provide local community heat and power and could meet 11% of UK power needs. It is disturbing to read this week a DEFRA Minister stating his Department does not have the capacity to take forward "a proactive energy from waste policy development". This is a lost opportunity which we urge you to reverse.

### **3. Landfill Tax**

The UK is amongst the worst performers in the European Union for relying on the landfilling of waste. UK Landfill capacity is filling up fast with only six years left. To drive recyclable waste from landfill we do urge you to greatly increase Landfill Tax to £200 per tonne. This would drive recyclable waste from landfill bringing back into use valuable resources after recycling. Some of the increased receipts for the Treasury could be used as grants to stimulate investment in more recycling and energy from waste facilities.

### **4. Business Investment and Innovation**

While overall investment rose 0.8% in the 2<sup>nd</sup> Quarter, business investment dropped by 2.7% and was down 8.5% on a year earlier. Although the CBI predicts a 7.3% increase in 2014 business investment is being held back by availability of finance.

Only 16% of UK companies see product innovation as a priority, compared to almost 33% globally. Business and Government need to work together to ensure innovation is a mainstream activity in companies. Government with limited resources has decided to back a few 'winners' in strategic sectors but new initiatives are needed across manufacturing to show SMEs particularly the benefit of innovation.

In our industries the REACH regulation on chemical hazards has caused significant extra costs for SMEs and it has also stifled innovation. It is important the REACH review alleviates the burden on SMEs.

### **5. Finance**

September saw a rise in net lending to non-financial businesses but the EY Item Club has downgraded forecasts for net lending for the next two years and only expects it to increase by 3.7% next year. An obstacle to small business lending is the high levels of collateral such as security on an entrepreneur's house, demanded by Banks. We know the British Business Bank is looking at new and innovative ways to increase the flow of finance to smaller businesses. We look forward to seeing their recommendations.

## **6. Business Rates**

We have written to you before to complain about above RPI increases in Business Rates whereas Council Tax has been frozen for some years. It is not just retailers who are adversely affected by this tax. Our companies have to find the extra money yet see services from their local authorities declining rather than improving. We realise a revaluation is unlikely to happen soon therefore we would like to see a cut in uniform business rates in 2014-15 and a freeze thereafter.

## **7. Skills Shortages**

More than a third of small companies say shortage of skilled staff is hindering growth proposals. In our industries there is a serious shortage of Technical Managers. Within the next 8 years 2-4 million of the UK's 5.4 million working engineers will reach retirement age. British universities produce only 25,000 engineers a year. We do believe Government should consider reducing the tuition fees for certain science and engineering courses to increase the number of students studying for these degrees.

The Perkins Review found that the UK is relying on migrants to fill a fifth of the engineering vacancies in key sectors. The Review rightly says it is essential to focus on young people at an early age to show the value of a career in industry and to pick their GCSE subjects with that in mind.

We welcome the Government's support for more apprenticeships and that training support and provision must be employer driven.

## **8. Support for Export**

The Government rightly wishes to double exports by 2020 to £1 trillion and get 100,000 more companies exporting. We welcome the extra financial support that UKTI now offers to exporters but would like to see Government introducing export tax credits for small and medium sized businesses.

## **9. Pointless 'green' taxes**

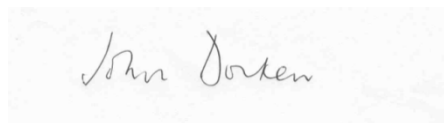
The Government should be very wary of knee-jerk 'green' gestures such as the proposed 5p charge for plastics carrier bags only given out by large retailers. DEFRA have ignored the high re-use of such bags and their minimal impact on the environment. It is extra money for hard pressed households to find and we hope the Government will reconsider this unnecessary charge and not embark on other highly questionable initiatives.

In conclusion we do hope you will consider our suggestions and we would be happy to provide further information to your officials if needed.

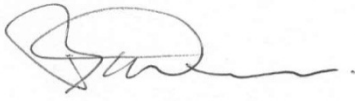
Yours sincerely



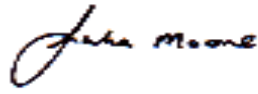
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