



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

14<sup>th</sup> February 2014

Dear Chancellor

### **The Budget 19<sup>th</sup> March 2014**

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.

We find our member companies reporting good levels of business with increasing optimism that the recovery is firmly in place as confirmed by the reduction in unemployment and for example the highest UK car manufacture for six years last year.

We welcome you freezing Fuel Duty for the remainder of this Parliament in your Autumn Statement also the abolition of NICs for under 21s earning below £813 per week.

We do congratulate you for sticking to your austerity policies in reducing the Budget deficit by a third and reducing public expenditure. It is satisfying to note that the Office of Budget Responsibility expects the UK to be running a Budget surplus by 2018. But you were right to warn last month that the job is “not even half done”.

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

UK mortgage approvals rose to a new six year high of 70,758 in November. We do not feel there is a risk of a “housing bubble”. The market is simply catching up with years of pent up demand. We hope this filters through to the refurbishment of homes with many of our companies making construction products and paint.

On energy efficiency products such as expanded polystyrene insulation and PVC-U double glazing we do urge you to reduce the rate of VAT to 5%.

We note that at the end of November only 2% of energy efficiency improvements to properties had been delivered by “Green Deal”. It needs a complete review. The payback is unattractive and the scheme complex.

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

Your announcement in the Autumn Statement of the reduction in the tax rate for shale gas exploration companies and the ability to offset 75% of spending on exploration against future profits is most welcome. Shale gas will provide raw materials to our thriving UK chemicals and plastics industries in addition to less expensive energy. When shale gas is extracted it is important that the local community benefits from jobs in new industries in addition to the community benefits the Government has announced. We must ensure the energy and material is not simply exported when this comes on stream in the 2020s.

We continue to be concerned that, as early as next winter UK energy supply will not meet demand due to 10% of our power generation already having been closed with no replacements. Eggborough power station which generates 4% of the UK’s electricity is to close this year and our spare generating

margin will drop to only 2% in the winter of 2015-16. The Government has decided not to incentivise more gas storage and coal fired plants will continue to close.

Faced with these facts and our member companies' need for secure and affordable energy supplies to keep investments in the UK we cannot accept Ministers' reassurances that there is no risk of energy supply not equalling demand in the next decade.

The Government does need to act with more urgency to ensure that energy costs to industry are kept low and affordable and to speed up the replacement of power generation capacity, using energy-from-waste which can provide 11% of UK power needs from unrecyclables. A great deal more gas storage capacity has to be created. The UK's energy costs are three times higher than those in the USA.

### **3. Landfill Tax**

This year you will increase the standard rate of Landfill Tax by £8 per tonne to £80 per tonne from 1<sup>st</sup> April. The UK is amongst the worst in the EU for relying on landfill. Landfill capacity is running out and it is essential to drive recyclable waste away from landfilling, bringing back into use valuable resources.

We do urge you to greatly increase Landfill Tax to £200 per tonne certainly by 2020, to drive recyclable waste from landfill.

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. Finance for Businesses**

We are concerned that lending to business sank 3.9% or £4.7bn in November compared to a year ago. We do see clear evidence that funding to business, in particular SMEs, has been declining and the Funding for Lending scheme had, in the majority of cases, supported finances for mortgages. Banks demand high levels of collateral such as security on a small businessman's house. We do agree with the Commons Public Accounts Committee who last month urged the Government to provide a more coherent access to small business lending under the auspices of the British Business Bank. This Bank needs to be capitalised to lend directly to companies, not through existing banks.

### **5. Business Rates**

In your Autumn Statement you announced that you would cap the Business Rate increase to 2% in April after a succession of above inflation increases which have damaged our small businesses particularly but also high street retailers. Our companies have seen services from local authorities declining yet their business rates go up.

We do urge you to reconsider and either freeze or cut Business Rates.

### **6. Capital Allowance**

The Bank of England's business conditions summary last month pointed to only modest growth in capital spending over the next twelve months. Some uncertainty but also availability of finance (see 4.) is holding investment back.

We do urge you to extend the £250k tax free allowance for companies to upgrade equipment and expand production. This should improve manufacturing productivity which is 0.8% lower than pre-recession levels.

### **7. Skills Shortages**

We would repeat what we wrote to you in our Autumn Statement submission. 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 agree that training support and provision must be employer driven.

### **8. Pointless "green taxes"**

We have previously alerted you to DEFRA's proposed 5p charge for plastic carrier bags, knee-jerk gesturism announced by the Deputy Prime Minister which will impact on hard pressed households.

DEFRA have ignored the high 70% re-use of such bags and their minimal environmental impact. The Commons Environmental Audit Committee have savaged DEFRA for exaggerating the environmental impact and exempting paper and bio bags.

We hope the Government will withdraw this proposal and steer clear of other similar flawed ideas.

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

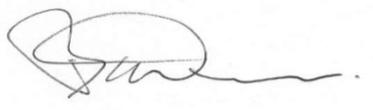
Yours sincerely



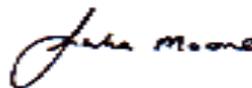
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