



BRITISH  
WOODWORKING  
FEDERATION

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

4th March 2014

## **Budget 2014 and the UK Woodworking Industry**

Dear Chancellor,

As Chief Executive of the British Woodworking Federation (BWF), I am writing on behalf of the UK woodworking industry ahead of this year's Budget announcement.

The woodworking sector is a £3.8 billion industry operating at the heart of UK manufacturing. Whilst we have large groups and global players, the vast majority of the 5,070 active companies are SMEs. Private Housing remains the single most important market for BWF members, with 60% supplying into this sector.

### **State of Trade in the Woodworking Sector**

Driving investment and encouraging broader growth must be front and centre in this Budget. We are without doubt starting to emerge from the recession, but recovery may still be fragile.

We are encouraged by the recent and impressive uplift in demand, largely led by housing activity. Our latest Joinery State of Trade Survey shows a balance of 43% and 27% of respondents reporting growth (in turnover terms) over the past two quarters – this follows a number of consecutive declines. Optimism is following with a net balance of 50% anticipating growth in 2014. Margins and cashflow, however, remain tight, with costs, particularly in terms of raw materials and fuel impacting profitability – the cost of regulatory compliance (particularly driven from Europe) with the Construction Products Regulation, EU Timber Regulation and changes to the Building Regulations have also weighed heavily in the past year.

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## **Encouraging broader growth and rewarding investment**

The recent extension of tax relief for new investments in plant and machinery through the Annual Investment Allowance is clearly providing a boost and it is encouraging to see 46% and 63% respectively of our State of Trade survey respondents planning to increase investment in manufacturing equipment and product improvement over the next year. This is positive, but needs to be nurtured - a longer term approach is recommended and we urge government to extend this additional relief beyond the end of 2014.

With cashflow a concern for many joinery businesses, we simply cannot allow a situation where late payment is being used to finance upstream activity, leaving suppliers starved of cash to invest in growth. We are strong supporters of the NSCC Fair Payment Campaign and encourage government to work with NSCC in the development of a decisive action plan to penalise late payment and incentivise good practice. This element of the Industrial Strategy; Construction 2025 should be given high priority as there are immediate gains to be made.

Recent research from the Cut the VAT Coalition makes a strong fiscal case for reducing VAT on domestic RM&I work, but beyond this, again looking to the Industrial Strategy and the need to improve efficiency in the supply chain therein – we must make strides to eradicate the cash culture that exists at the heart of the construction sector.

With welcome recommendations from the National Audit Office and the subsequent review by the Public Accounts Committee into access to finance for small and medium-sized enterprises – clear targets and penalties when they are missed are essential. We recognise the efforts that this government has made here, however, they continued to be undermined by inappropriate bonuses in the banking sector - the £576m bonus recently announced by RBS could fund the wages of around 80,000 first year apprentices.

## **Tackling the skills gap**

We have deep concerns related to diverting funding through employers' tax returns for apprenticeships. The detail here is lacking and we need a clear proposition on the proportion of training costs that will be publicly funded in the future. Employers need certainty and stability if they are to make significant investment in apprenticeships. Woodworking as a sector has always been apprentice led and currently boasts the highest ratio of apprentices in the construction sector. It is vital to ensure that in the eagerness to support the large corporations we do not create a funding mechanism that is less effective for smaller companies, such as our members, with a strong tradition of developing apprentices.

Funding to help build links between schools and employers will show young people where the opportunities are and help them to understand the scope of career options available. Many young people today have an entrepreneurial drive, sectors such as woodworking provide fantastic opportunities to explore this and develop businesses built on practical skills.

We support the BCC in their call for a £100m future workforce grant which would see businesses that employ long-term unemployed young people given £1,000.

## **Delivering the UK from housing crisis**

Latest statistics from the Construction Products Association show Private Housing numbers falling from double digit growth to just 2% from 2016. Policies like Help-to-Buy have been great at getting housing moving, but maintaining this growth and providing clear guidance on how policies will be wound down is crucial and will provide the certainty needed to drive confidence and investment. We ask you to look at the opportunities that exist for publicly owned housing, an investment in our future that will help to alleviate the housing crisis and ensure that housing benefit can be better targeted.

## Reducing the squeeze on businesses

Fuel and energy costs are rising, which is putting a significant squeeze on margins – our State of Trade survey has reported significant increases in both costs in each quarter for the past two years. In view of this, growth and investment would be aided by supporting employers through a rise in income tax allowance, freeze in business rates and cut in fuel duties. Government should also ensure that any increase in the minimum wage strikes the correct balance between boosting incomes and job creation.

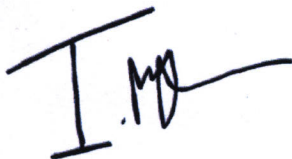
## Green Construction

We have become highly reliant as an economy on Energy Intensive Industries. In seeking solutions, sometimes the obvious can be overlooked. We must start to look at mechanisms within our Energy Policy that reward the use of renewable materials, such as timber. Material choice and effective forest management can make a huge contribution to helping us to meet our greenhouse gas emissions targets.

On behalf of the UK woodworking 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.

We would also welcome the opportunity first-hand to take you to a woodworking business to show how a traditional industry remains innovation driven and help you to understand our products' potential as a fully renewable material.

Yours faithfully,



## Iain McIlwee

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UK TIMBER INDUSTRY ASSOCIATIONS'  
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