

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

12th March 2012

Dear Mr Osborne,

The Impact of Budget 2012 on the UK Woodworking Sector

I am writing on behalf of the UK woodworking industry ahead of next week's Budget. The British Woodworking Federation is the trade association for the woodworking and joinery manufacturing industry in the UK. Our membership is drawn from manufacturers, distributors and installers of timber doors, windows, conservatories, staircases, all forms of architectural joinery including shopfitting, timber frame buildings and engineered timber components, as well as suppliers to the industry.

The woodworking sector has always been and remains a fundamental part of the UK manufacturing sector. Today, the sector represents an estimated £5 billion spread across 5,500 firms in the UK and employing 100,000. These businesses span the full range of companies, from family businesses, to large corporations. Our companies operate throughout the UK and provide genuine employment opportunities in parts of the UK that are often areas of high unemployment.

A strong tradition and history should not be confused with an old-fashioned sector - our products and processes are constantly innovating to meet ever intensifying cost pressures and environmental, durability and fire safety requirements.

The Budget next week comes at a critical time for the industry and below we have set out recommendations as to how government could support growth in our sector:

Manufacturing matters

Investment is vital to support innovation and maintain productivity, however, funding remains difficult to obtain. By way of a recent example, a significant manufacturer of timber windows with a 45 year pedigree, based near Keighley in Yorkshire, was unable to raise funds to update equipment earmarked for replacement, despite showing profitable returns. The equipment subsequently failed and the loss in production contributed to the company being forced into administration at the start of 2012 at huge loss to the local economy.

It is an imperative for lenders to increase the flow and total sum of money lent to creditworthy borrowers.

- We support the sentiment behind National Loan Guarantee Scheme, but ask the government to ensure that pressure is intensified on the banks through tightening initiatives such as Project Merlin.
- We are keen to see increased competition to the banks through more flexible financing options - the new Taskforce led by Tim Breedon is a step in the right direction and we support initiatives such as Business Finance Partnership, but simplicity and better communication are paramount to the success of such initiatives.
- Maintaining low rates of corporation tax in the current climate is a great support to business, but we are concerned about the planned reduction of the Annual Investment Allowance in April, from £100,000 to just £25,000. This sends out the wrong message – we must do all we can to encourage investment decisions in these volatile times and ask you to reconsider this change.
- The rising price of fuel continues to put additional strain on businesses that have often been forced to look further afield for clients in a very competitive market. We urge you to defer again the rise scheduled for August 2012.

Construction matters

The fortunes of our sector and products are very much linked to the construction sector. The potential for construction to drive growth and employment, not just on site, but also in the supply chain, should be fully accounted for when deciding policies and priorities.

- The lack of availability of mortgage finance is one of the key factors keeping housing starts below pre-recession levels. The Mortgage Guarantee Scheme launched this week is a welcome change, but pressure must be kept on the banking sector to encourage lending, not simply to swallow the benefits. As you have recently highlighted, it is low interest rates that are keeping the economy afloat - we must not let the banks undermine this sentiment by raising mortgage rates to fuel distorted profits and an unsustainable bonus culture.
- We also call on the government to reverse its decision in the Autumn statement and extend Stamp Duty relief for first-time buyers up to £250,000 beyond March 2012 - the market remains fragile and needs more time and support to recover fully.

We support the various initiatives aimed at reducing time associated with planning permissions. Government must encourage a pro-growth National Planning Policy Framework or the unacceptable extended lead times will dampen the private sector investment that is needed to offset declining investment from the public sector.

- We believe that the placing of a 'presumption in favour of sustainable development' within the heart of the planning system has provided a great opportunity for the government to meet its housing, growth and sustainability obligations. It is vital to ensure that the National Planning Policy Framework adheres to this presumption so suitable applications are not delayed unnecessarily.

Sustainability matters

In recent times the timber market has seen significant change, with supply shifting to more sustainable sourcing of material. The industry has reacted well to environmentally led legislation, and the sector can now hold its collective head up high as the sustainable material choice in key construction applications, both from a supply and performance perspective.

- A great deal of political capital has been invested in the Green Deal, but the ultimate success will depend heavily on how the market takes to it and what incentives are on offer. The government must promote the purpose and benefits of the Green Deal to consumers if it is to deliver the stated aim of improving the thermal performance of the UK's existing housing and non-residential properties.

As it stands, energy usage is charged at 5 per cent VAT whilst the products and measures that will help reduce energy usage are charged at 20 per cent VAT.

- In order to incentivise customers to take up the Green Deal work and assist households in saving on energy costs and cutting carbon emissions, we suggest a reduction in VAT to 5 per cent for Green Deal work and equivalent energy efficiency work done outside the Green Deal. There is a strong fiscal argument that the reduction to 5 per cent should be applied to all private housing repairs and improvement work.

Employment and Training matters

We very much welcome the renewed focus on apprenticeships within the Government skills agenda. Despite hard times, we are an industry that continues to look to the future - our membership represents the most concentrated population of apprenticeships in the UK, a statistic that we are very proud of.

The government is undertaking good work in promoting manufacturing as a credible and fulfilling career to young people, but promotion focuses primarily on aerospace and car manufacture. It is important that the government gets behind the less visible in the sector, including joinery manufacturing, and that long-term cross-party support for manufacturing is secured.

To safeguard the future and skills of the industry, it is also crucial that the Government encourage youth employment.

- A reduced rate of employers' NI for 1-2 years and a freeze in the development rate of the minimum wage would provide an incentive for SMEs taking on young people, as would building on the monetary incentive of £1.5K for businesses taking on their first apprentice. We feel that this would cover employers that have previously invested in apprentices but are struggling to commit in tough times.
- We also believe that the government should offer structured support for SME management and leadership training in order to stimulate smaller businesses to gain the skills and confidence to move onto a more aggressive growth track.

We welcome government support for skills development through Employer Ownership of Skills funding, but feel that despite public commitment to supporting British manufacturing, the decision by UKCES not to support Proskills, the Sector Skills Council for the Process and Manufacturing industry, is a contradiction to this message.

Proskills has worked closely with the wood industry to develop National Occupational Standards and qualifications across the UK, but there is still considerable work to be done to ensure that the sector has the skills it needs to continue to grow and contribute to UK GDP.

- We call upon the government to overturn this decision and provide Proskills with the resources it needs develop skills for our sector.

With respect to general employment matters, responsible companies should be encouraged to take on new people, without the looming fear of tribunals and overly complicated processes to manage poor performance.

- We applaud any initiative that improves the rights of employers and reduces red tape associated with employment, such as stated efforts to reduce the number of tribunals.
- When considering changes to the National Minimum Wage we urge you to consider the impact that such changes have on all salaries within a manufacturing environment, any change should not exceed CPI.

The last three years have been tough, with many companies having to cut back and restructure as far as is possible. Despite this, our members have remained resilient and innovative in the face of change. We ask that your vision for the economy takes into account the challenges that we face and ensures this sector can thrive and emerge in strong shape to support and benefit from future economic recovery.

On behalf of the BWF Membership, I thank you for taking the time to consider our recommendations.

Best regards,

A handwritten signature in black ink, appearing to read 'I. McIlwee', with a long horizontal flourish extending to the right.

Iain McIlwee

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