

21st February 2016

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

March 2016 Budget Announcements and the UK Woodworking Industry

Dear Chancellor,

As Chief Executive of the British Woodworking Federation, I am writing on behalf of the UK woodworking industry ahead of the Budget announcement on March 16th.

The UK wood products manufacturing sector is a vital part of the UK economy supplying furniture and products for the construction industry, adding over £3 billion to the UK economy every year. Carpentry and joinery also represents the third largest sector of employment in the construction industry and brings skilled jobs to both rural and urban areas.

Thanks to growth in construction and a realisation that renewable material is intrinsic to a sustainable built environment, we are optimistic about the future of the timber sector. Despite this we remain concerned that the benefits of this growth may not be fully realised in the UK and are not shared equally or in a timely fashion through the whole of the supply chain. Many of the problems faced by the steel industry are neither unique nor isolated. The closures of Leaderflush Shapland (UK's largest doorset manufacturers accounting for 400 jobs) and the Velux window manufacturing site may have grabbed the headlines of late but 21 BWF manufacturing members have had to cease trading in the past 2 years.

Bad payment practice continues to undermine the market

The issue of poor payment practice and unrealistic contractual expectations are crippling elements of the supply chain, starving business of the capital and confidence to drive investment and support growth.

Participation in fair payment charters (including fair contractual terms) should immediately be set as a pre-requisite of any companies involved in public sector contracts. Retentions are now typically around 5% of the amount certified as due to the contractor and the latest official figures show average profit within the manufacturing sector falling back to levels of around 5.5% in 2015, the lowest rate since 2012. It is simply unacceptable for large companies at the top of the supply chain, most able to manage and insure against risks and delays, to push virtually all risk out onto a fragmented supply chain, destroying jobs and ultimately leaving the market exposed to new waves of imported products.

At the same time, the safety nets for smaller businesses are simply not there and when companies find cash in short supply, the banks remain risk adverse and often expect significant personal assets to be put against loans to support investment and bridge periods when cash-flow rather than volume of work are the issue. This problem must be addressed now as the current drive to eliminate it by 2025 will be too late for many firms, their workers and families.

Supporting UK Manufacturing

Our members are natural innovators capable of adding significant value by smart use of design, materials and technology during the manufacturing process. They are working hard to create sustainable wealth and jobs in the UK. As well as being fully renewable, UK joinery manufacturing is emerging as an almost zero waste process - biomass energy and ever more sophisticated panel products are consuming virtually all production and end of life waste. We must not let the warning bells rung by the steel industry go unheeded. Import penetration remains a major risk to the trade gap and this puts UK jobs and investment under threat. We saw 12% growth in imports of timber doors from outside of the EU (Jan-Nov 2015 versus Jan-Nov 2014) and 16% growth in imports of wood windows in 2014.

Looking to embodied carbon in the steel charter is an exciting new concept and to be applauded, especially as UK manufacturers are required to meet the highest environmental and quality standards, which can leave them disadvantaged against lower cost competition. As it stands, government projects (>£10 million) must now take into account embodied carbon and whole life cost for steel. We would like to see this thinking extended across all construction inputs and are investing in new software enabling our members to simply declare environmental credentials against new and effective standards. Even before a building is occupied, between 30-50% of its lifetime carbon emissions have already been accounted for and this needs to be factored in to specification decisions.

Cost of doing business

Profit is necessary for businesses – it does not only cover paying the shareholders (who will typically work long hours and carry huge responsibilities) but also helps to generate the funds necessary to invest in the future and prepare for rainy days.

The latest *BWF Joinery State of Trade Survey* indicates increasing concern about the cost of employment and labour availability - 22% of joinery businesses identified this as their most likely constraint on output over the next year. The National Living Wage is laudable, but care should be taken to use it to drive wage inflation too rapidly. It must be remembered that intervention here impacts more than the lowest paid; it tends to concertina and create wage inflation through the business, particularly in regions where salaries and the cost of living are lower. Workers should take a greater share of the gains from economic growth but the new rates have left some joinery businesses having to make difficult decisions. In a typical example, one business (turning over c£5million) has reported facing a £20k increase in costs; this is all happening at the same time as companies are absorbing auto-enrolment costs and potentially for some the new Apprenticeship Levy

Low energy manufacturing must be incentivised, job creation and investment never penalised and the Business Rate review should establish that no company is required to pay more. When trying to drive investment, it makes no sense to include plant and machinery in rateable value. The Managing Director of one SME joinery business noted that the council tax for their 4 bedroom semi-detached house is £1,570.00 for the current year. The company's business rates for the current year are

£29,512.00; representing 34% of their rent which stands at £86,250 per annum, this is over and above employment taxes and corporation tax and it is difficult to see what value is being delivered for this. There is a growing fear amongst our members, often based in rural locations, that manufacturers in some areas will see substantial increases as the power to raise these taxes is devolved.

Nurturing the skills needed to meet demand

Changes to apprentice infrastructure are also very significant for us – in a recent survey of our members, 60% indicated that they have at least one apprentice and 60% intend to take on apprentices over the next 12 months. As the intricacies of the Apprentice Levy unfold, this success could be jeopardised. There is a vital balance that needs to be fostered between employers, providers and simple funding mechanisms. CITB is a force for good here and we support evolution over revolution and a “rebate” mechanism allowing smooth transition as the two levies align. Unfortunately, college provision is inadequate (30% of those employing apprentices finding it unsatisfactory), and if funding was even tighter through the new system then what we already have could be decimated. It would be pushing against an open door to get joinery businesses to take on more apprentices if government was to use this opportunity to support college provision, maintain funding and simplify the process. Our focus at the moment is working with FE colleges to develop Centres of Excellence across the UK – this should be a starting point for parity of esteem with academia.

The Institute of Apprentices has a hugely significant task to ensure that chasing numbers does not lead to the erosion of standards. We should be looking at clearing systems for apprentices in order to prevent wastage and also help to target interested parties with information and informed choice. Developing a meaningful and scalable interface with schools is a priority as adequate careers guidance in schools is now non-existent. This is not the fault of schools as they are being pushed towards academic subjects but there is a fundamental failure to help young people to understand the choices they have, let alone prepare them for them. Careers advice should be an intrinsic part of teacher training. It may now be the time to consider vocational routes into teaching to help bolster understanding and respect for the apprentice’s journey.

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.

Yours faithfully,



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The British Woodworking Federation (BWF) is the voice for the woodworking and joinery manufacturing industry in the UK. With 700 member companies, we are the largest body representing the manufacturers of timber products and proud members of the Trade Association Forum, Construction Products Association, Build UK, Timber Industry Accord and Fire Sector Federation.