



23rd January 2024

The Rt Hon Jeremy Hunt MP,
The Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Dear Chancellor

Construction Plant-hire Association Budget 2024 - Submission

I am writing to you on behalf of the Construction Plant-hire Association (CPA). As an association, we represent over 1,900 companies who collectively, are responsible for 85% of the construction plant hired in the UK. As a sector, the plant-hire industry is worth approximately £5bn to the UK economy, with the UK the largest plant-rental sector in Europe.

The CPA acts as the leading trade association for the plant-hire industry, working with our members, stakeholders, and the wider construction sector, as the principal point of contact for all issues relating to the use of construction plant.

This document is our formal submission to the 2024 Budget.

Introduction

Despite the challenges of recent years, the UK's plant -hire industry has continued to respond and evolve against the challenges and opportunities that they have faced. Our members continue to provide the best, most professional service possible for customers and clients. Indeed, since the Autumn Statement in November last year, the wider backdrop of continued economic uncertainty, and the cancellation of large infrastructure projects such as phase 2 of HS2, CPA members have continued to demonstrate their professionalism and resilience in delivering for the wider construction industry.

Without the plant-hire industry, the UK's construction sector cannot function. Most construction equipment is hired by contractors and sub-contractors. Very few contractors own their own plant. CPA members operate and represent, all the different types of construction equipment available. From small diggers and handheld tools, to tower cranes and large-scale construction equipment. Without their expertise, knowledge and investment in such equipment, the construction sector would be vastly inefficient and ineffective in its delivery and ability to deliver for clients – both public and private.

The plant-hire industry also invests heavily in the workforce of the future. The sector is responsible for a vast array of apprenticeships within the industry and is a leader in the recruitment of young people and those looking for a major career change. Offering long-term roles with the ability to train,

progress and build a career, the plant-hire industry is the lynchpin in efforts to make construction a more attractive industry to work in.

With economic growth remaining flat for the foreseeable future, it is encouraging that inflation is now falling and is lower than it was last year. If interest rates continue to fall and inflation reaches its Bank of England target later this year, then this economic 'soft landing', will be a welcome relief for CPA members. The challenge for policymakers, is to avoid a recession, especially as business and consumer confidence remains low. This is heightened by a recent report into the state of the construction industry, which found the number of construction companies at risk of financial difficulties, rose by a third towards the end of last yearⁱ.

The spectre of war in the Middle East and the ongoing crisis in the Red Sea, has caused worry and concern. At this stage, it is too early to assess what impact longer lead times for deliveries as ships are being diverted via longer routes, will have on new pieces of construction equipment and materials for construction manufacturers. However, if the crisis continues over a prolonged period, then we can expect some degree of delay in lead times and deliveries.

The COVID pandemic has reinforced the need for diversity in supply chains and to work with partners and suppliers. Our members have built and enhanced their resilience and ability to evolve and develop. Budget 2024 must recognise this and build on the progress of the last few years, helping the plant-hire industry to build on its successes and help it continue its evolution into the modern, vibrant sector it is.

If we are to maintain and grow the UK plant-hire sector and ensure it remains a key part of the wider construction eco-system, the forthcoming Budget should focus on the following areas:

- Commit to extending the now permanent Full Expensing Allowance, to every aspect of the construction plant-hire industry.
- Extend the 2022 cut in fuel duty for two years, given increased global uncertainty due to ongoing conflict in the Middle East and the war in Ukraine
- Temporarily reintroduce the rebate for HVO to the construction industry for at least the next two years
- Explore the feasibility of a trial scrappage scheme for NRMM (Non-Road Mobile Machinery) operators operating in Freeport zones, with a view to widening the scheme on a national basis

The plant-hire industry continues to work for its clients, adding value and building the houses, workplaces, schools, hospitals and infrastructure of a modern, dynamic economy. This Budget is a chance for the Chancellor to provide clear leadership and engagement with our members as we move forwards.

Main points of CPA Budget Submission

Commit to extending the now permanent Full Expensing Allowance, to every aspect of the construction plant-hire industry

The CPA welcomed the announcement by the Chancellor in the Autumn Statement, to make the Full Expensing (FE) allowance permanent. Business had called for this move, and it is encouraging that this has now happened. The UK needed to demonstrate it is open for business investment and this step by the Chancellor demonstrates that. But Full Expensing must be extended to the entirety of plant-hire industry. This should incorporate all companies who hire construction equipment – whether it is provided with an operator or not.

As part of the Autumn Statement, the Chancellor announced the creation of a technical working group that would explore in further detail, the move to extend FE to the rental and leasing industries.

Analysis by the Confederation of British Industryⁱⁱ estimates the cost of extending Full Expensing to the wider leasing industry to be between £170 - £280m – with the actual figure somewhere between the two. While it is welcome the CPA is part of this group, it builds on work that the CPA has already completed with the Treasury and HMRC over the course of the last year. The first meeting of the new group is scheduled for early February.

Since the Spring Statement, the CPA has worked closely with The Treasury and HMRC, to explore ways to extend the Full Expensing Allowance to the plant-hire industry. While these meetings have been constructive, at present, our members remain unable to apply for the allowance. This sends the wrong message to the plant-hire industry and undermines business investment in our sector.

Extending the Full Expensing Allowance to all aspects of the construction plant-hire sector will have minimal impact on Treasury expenditure. This includes companies providing equipment on its own or with an operator. Failure to extend the allowance unfairly penalises our members and limits their ability to invest in new greener, cleaner, technologies and equipment. It will also hinder efforts to meet the government's extended targets for the end of diesel-powered machinery, the effect being totally opposite to current stated government policy.

Around 43% of construction machines sold in the UK, are manufactured in this countryⁱⁱⁱ. Extending the FE allowance to our members has the potential to boost sales of UK manufactured construction equipment, improve levels of plant-hire business investment, and help offset the decline in the machinery and equipment sector which has seen a 21% decrease in jobs since 2011^{iv}.

Extend the 2022 cut in fuel duty for two years, given increased global uncertainty due to ongoing conflict in the Middle East and the war in Ukraine

The plant-hire industry welcomed the 2022 cut in Fuel Duty. This has helped offset to a degree, the rise in fuel prices experienced over the last 18 months. The 5ppl cut is due to expire in March, and while prices have fallen since December, the conflict in the Middle East and trade access in the Red Sea, has the potential to undermine these falls.

With business costs still unpredictable due to inflation, we call on the Treasury to maintain the cut in Fuel Duty for the next two years to offset price volatility and provide some degree of certainty in pricing and planning for construction plant fleet operators and buyers. Profit margins remain slim, the industry is still dealing with the fallout from high inflation and damaged confidence in the house building sector. Our members are trying to be as efficient as possible in their planning and business operations, but there is only so much they can in terms of reducing costs. The government has the power to offset concerns about Fuel Duty rises. This is a chance to do so.

Temporarily reintroduce the rebate for HVO to the construction industry for at least the next two years

The rebate for Hydrogenated Vegetable Oil (HVO) and all other types of biodiesels operated by construction plant users, should be temporarily reintroduced to the construction sector, helping companies offset the price rises HVO (and biodiesel) users have witnessed over the course of the last twenty months. This will provide some incentive to companies in moving away from diesel powered construction plant.

As a fuel which the Treasury classifies as a heavy-duty oil, it is widely acknowledged that such biodiesel is seen largely, as an interim fuel, acting as a stopgap between the development of diesel fuels and the move towards low carbon powered construction plant. The plant-hire industry recognises this. However, it should not act as an excuse to penalise companies who are trying to do the right thing by using such fuels as part of a strategy to lower emissions, improve air quality and limit their impact on the environment.

Losing the rebate has pushed up costs on a fuel which is already limited in supply due to the costs involved in its production and the need for identifying and developing sustainable sources. With

more and more plant-hire companies looking to move away from diesel, a temporary reintroduction of the rebate for HVO / biodiesels will help alleviate some of these costs at minimal outlay to the Treasury and encourage more firms to make the move away from diesel and utilise alternative fuels.

Explore the feasibility of a trial scrappage scheme for NRMM operating in Freeport zones, with a view to widening the scheme on a national basis

As part of the move to decarbonise the UK's NRMM construction equipment fleet, the government should look to begin the process of exploring how a scrappage scheme for NRMM, might work. Our members recognise the need for decarbonisation and the move to net zero. The recent announcement that the Department for Energy Security and Net Zero, alongside Defra and the Department for Transport, are running a consultation on the decarbonisation of the NRMM sector, is a welcome move. The CPA will be responding accordingly.

However, the Treasury will increasingly, have a key role to play in this cross-government process. The 2009 /2010 automotive scrappage scheme helped boost UK automotive manufacturing, taking older, more polluting cars off the road, with newer, cleaner ones, replacing them. Working with manufacturers and dealers involved in the scheme provided a degree of confidence for the sector.

The CPA would welcome the opportunity to work with members, manufacturers, and policymakers, to explore how feasible a scheme could be and how it would work for the NRMM sector and what benefits it would bring. Such a move would send a positive message that the government is looking at a range of innovative policy levers to help decarbonise construction equipment, working in collaboration with the industry.

As an example, the opportunity to develop a scrappage scheme could be done on a trial basis, for plant-hire operators engaged in the numerous Freeports being developed across the UK. With the Freeport initiative designed to boost business investment and open new jobs and opportunities, the plant-hire sector is ideally placed to help develop these new businesses through the use and demonstration of new construction equipment in the construction of offices, premises, and factories. This is an ideal opportunity to explore how such a scheme can work on a wider national basis, and one the government should take if it is serious in working with our members in meeting the targets set for 2050.

Conclusion

CPA members have consistently demonstrated their resilience, their commitment, and their belief in the UK as country to build, grow and maintain their businesses. They do this every day by supporting a wide range of industries and construction sectors, showing their professionalism, and dedication to their work. Our members, working with our world class equipment manufacturers, act as a critical global hub for expertise, knowledge, innovation, and development.

I hope the forthcoming Budget recognises this and builds on this progress.

I look forward to discussing this further.

Yours sincerely



Chris Cassley

Policy Manager

Construction Plant-hire Association

ⁱ Begbies Traynor Red Flag Alert – January 2024

ⁱⁱ CBI Autumn Statement Submission – September 2023

ⁱⁱⁱ ONS, Annual Business Survey, 2021 results (Release date 18 May 2023)

^{iv} ONS, Business register and employment survey