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9th March 2022

The Rt Hon Rishi Sunak MP,
The Chancellor of the Exchequer
HJM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Dear Chancellor

Construction Plant-hire Association Spring Statement Submission - 2022

I am writing to you on behalf of the Construction Plant-hire Association (CPA). We represent over 1,700 companies who are responsible for 85% of the construction plant used in the UK. The CPA is the leading trade association for the plant-hire sector in the UK, acting as the principal point of contact for all issues relating to the use of construction plant.

Please take this as our formal submission to the 2022 Spring Statement.

The CPA has very real concerns about how our members can plan for the future and invest in new technology and equipment, while simultaneously, dealing with the removal of the red diesel rebate that comes into effect at the beginning of April. Cost pressures within the construction industry continue, alongside the impact of Covid-19 and the ongoing conflict in Ukraine providing greater uncertainty for businesses.

If we are to boost business investment in this uncertain time, we believe the efforts of the Treasury must focus attention on the following areas:

- **To boost business investment and encourage the uptake of cleaner, greener construction plant, it is vital the construction plant-hire industry can claim the Super Deduction Allowance (SDA). Under the current regulations, plant-hire members are unable to do so**
- **The SDA in its existing guise, should be extended with a view to making it permanent**
- **We would welcome a delay in the removal of the red diesel rebate given the current wider global uncertainty and continued volatility on oil prices**
- **The Treasury should instigate a fuel buy back scheme for smaller companies affected by the removal of the rebate who operate in both the agricultural and construction sectors – this will offset to an extent, the unrecoverable administrative costs caused by the loss of the rebate.**

Introduction

Over the course of the last two years during the pandemic, the plant-hire industry has played a vital role in supporting the national effort in supporting the healthcare system, working at often, breakneck speed by helping to build the ten Covid-19 temporary critical care hospitals throughout the UK. Projects that normally would take years of planning and development were being delivered in days. Our members, alongside their partners from right across construction and the NHS, worked together to tackle the biggest civil emergency since the Second World War. Yet as we look to recover and get back to business as usual, the sector is facing cost pressures that for some companies, might prove too much to bear.

Extending the Super Deduction Allowance

CPA Recommendation

To boost business investment and encourage the uptake of cleaner, greener construction plant, it is vital the construction plant-hire industry can claim the Super Deduction Allowance (SDA). Under the current regulations, plant-hire companies are unable to do so.

In the Budget last year, you rightly identified the need for UK businesses to increase investment to improve productivity and develop new technologies. The SDA was introduced in 2021, scheduled to run for two years. In the Budget speech from March 2021, you gave the example of construction plant as one of the technologies that could take advantage of the SDA.

Yet under existing legislation, plant-hire companies cannot claim the SDA. The Treasury currently believes when construction plant is being hired, it is being leased out to companies – with the owner of the plant not bringing it into productive use. This policy may have been appropriate to prevent leasing companies benefitting from the extra allowance but works against the well-established and efficient construction hire sector. This is a fundamental mistake for which our members are now paying. It also punishes companies who are losing the rebate for red diesel yet cannot claim the SDA to invest in new cleaner, greener construction plant – the exact aim and justification from the Treasury, for removing the rebate.

CPA Recommendation

The SDA in its existing guise, should be extended with a view to making it permanent

With the continued uncertainty in the wider global economy, businesses need consistency and a degree of confidence if they are to navigate what remains unchartered territory. This state is set to continue for the foreseeable future. The SDA is set to run out over the course of the next 12 months. It is vital the SDA is extended for all businesses, with no set limit on when it is due to expire. This will provide confidence, certainty and broaden the scope and range of companies who are able to claim the SDA – especially those plant-hire companies who are looking to invest in new electric or hydrogen powered plant.

Concerns on the impact of losing the red diesel rebate

Removing the red diesel rebate will impact on business investment and add to construction costs

Already we have seen the price of oil rise to record amounts not seen since 2014. When set against the continued uncertain economic recovery from the pandemic and now, the ongoing conflict within Ukraine, the removal of the rebate will further increase price pressures on our members at a time when they have limited scope to absorb costs. The Civil Engineering Contractors Association (CECA) estimate removing the rebate will cost construction £490m.

Although the government is keen to utilise construction as part of the economic recovery, adding to the plant-hire industry’s cost base undermines the efforts of our members to remain competitive while also growing their business. It will impact on their efforts to invest in new plant-hire technology given how slim profit margins already are within the sector.

Removing the red diesel rebate will do nothing to stimulate supply side development of new electric plant or improve air quality – even though that is the aim of the policy

Throughout discussions with officials at the Treasury, we have been told that this is part of the government's efforts to lower emissions and move the UK towards a low carbon economy. The industry has already made great strides in working with manufacturers in developing cleaner engines. Removing the red diesel rebate does nothing to stimulate the supply side development of new technologies and will have no impact on air quality. Given the worldwide shortage of semi-conductors, industry experts predict there will be significant delays to the delivery of new electric powered plant.

In a recent Westminster Hall Debate, when asked how removing the rebate will improve air quality, the Exchequer Secretary to the Treasury, Helen Whately MP was unable to provide any predictions on how much air quality will improve as a result of the policy. It is disappointing at this stage, less than four weeks before the rebate and right to use red diesel is removed, the Treasury is unable to show any predicted environmental benefits, yet seemingly is indifferent towards the detrimental impact it will have on the UK's construction plant-hire sector.

CPA Recommendation

We would welcome a delay in the removal of the red diesel rebate given the current wider global uncertainty and continued volatility on oil prices

With the ongoing uncertainty around oil prices, we would welcome a delay in the removal of the rebate until oil prices are more stable and companies are better able to deal with the impact of rising costs. We continue to see delays in supplies of materials and construction products. Adding to the costs of construction at this very moment in time will only make matters worse.

CPA Recommendation

The Treasury should instigate a fuel buy back scheme for smaller companies affected by the removal of the rebate who operate in both the agricultural and construction sectors – this will offset to an extent, the unrecoverable administrative costs caused by the loss of the rebate.

Removing the rebate and right to use red diesel, will disproportionately impact smaller plant-hire companies. Many of these operators hire equipment out to both the construction and agriculture sectors. Under the forthcoming changes to the status and use of red diesel, companies, if they hire equipment out to agriculture customers, are allowed to fill fuel tanks with red diesel. However, once the equipment is returned and the machinery is hired out to a construction customer, the fuel tank must be drained of the red diesel and refilled with white diesel.

This process is inefficient and time consuming. It has the potential to damage the engine, it could result in environmental damage through diesel spills in the transfer of fuel from fuel tanks to storage tanks in depots and yards. In addition, operators will have to invest in different fuel storage facilities.

The mixture of different coloured fuels in tanks will effectively compromise the quality of fuels. We urge the Treasury to instigate a buy back scheme over the next five years for this mixed fuel, specifically for smaller operators i.e., those with a turnover of £1milion and under. This will offset the added cost and disruption from switching fuels and draining tanks, as well as helping smaller operators having to deal with the move to white, while simultaneously working with customers in the agriculture sector.

We urge you to consider these proposals and work with the plant-hire sector in addressing our concerns and work with our members in helping build and secure our economic recovery.

I look forward to discussing this issue further.

Kevin Minton

Kevin Minton
CEO
Construction Plant-hire Association