

FINANCE COMMITTEE CALL FOR EVIDENCE

DRAFT BUDGET FOR 2013-14

SUBMISSION FROM SCOTTISH BUILDING FEDERATION

About the Scottish Building Federation

1. Founded in 1895, the Scottish Building Federation (SBF) is the lead voice of the construction industry in Scotland; an industry which contributes around £10 billion (c.10%) annually to Scotland's GDP and – directly and indirectly – provides employment for more than 200,000 Scottish workers. The overall aim of the organisation is to ensure that the important contribution of the Scottish construction industry to Scotland's economy and society is recognised and valued, and that industry standards are raised. It does this by working with industry, government and the media.

Introduction: Impact of the Economic Downturn on Construction

2. The Scottish construction industry has suffered significant job losses and insolvencies in recent years with latest figures indicating the industry has been hit by a second recession in the space of four years. The outlook for the remainder of 2012 and beyond remains extremely challenging as public budgets continue to face cuts and private sector activity continues to stagnate.

3. Following the earlier economic downturn in 2008-09, we've now seen another six months of falling output from the UK construction industry in 2012 – a reduction of more than 10% during that period. Construction sector output decreased by 5.2% in Q2 2012 compared with Q1 2012, following a decrease of 4.9% between Q4 2011 and Q1 2012. On that basis, the industry has now officially entered a double dip recession and we anticipate further reductions in output during the balance of 2012.

4. Between 2007 and 2010, 41,300 direct and indirect construction jobs have been lost in Scotland, a fall of 16.9%. Between Q4 2010 and Q1 2012, direct employment in the industry has fallen by a further 7,000 jobs, with many more likely to have been lost in related supply sectors over that period. With little sign of recovery within the industry and the rate of bankruptcies actually accelerating, we face the real prospect of many more jobs disappearing in the months ahead.

5. In the past three years, almost 600 Scottish construction businesses have gone bust, with 196 Scottish construction firms bankrupted in the 12 months to June 2012 alone, a rise of 17% on the previous 12 months, 54% on two years ago, and 161% on the 12 months to June 2009. The evidence is that many construction firms that struggled to survive the previous recession are now being forced into compulsory liquidation as this second economic downturn begins to take hold.

6. The ongoing reduction in jobs, skills and capacity within the industry risks creating major problems when the industry finally begins to recover, with the

potential for a chronic shortage of skills and labour in future years that will drive up costs and could stymie the delivery of major infrastructure projects.

7. The latest Scottish Construction Monitor, a quarterly survey of SBF members, shows confidence has subsided for the fourth consecutive survey period and now stands at MINUS 40, three points below where it was in the third quarter of 2010 when the impact of the previous recession was at its height. More than two-thirds of all respondents to the latest Monitor are now less confident about the prospects for their business in the year ahead compared to the preceding 12 months.

8. As recently highlighted by independent research, sustaining capital investment represents extremely good value for the public purse since every £1 invested in the construction sector can generate as much as £5 in benefits to the wider economy. Conversely, a failure to sustain investment in this area is likely to have a significant negative impact on the wider economy – particularly in more remote areas of Scotland, where reliance of the construction industry on public investment is particularly strong and there is a particularly acute shortage of affordable housing.

9. We welcome recent calls by the Scottish Government for additional direct capital investment to boost the construction sector and the wider economy and will continue to campaign in this direction to enable the recommencement of the numerous ‘shovel ready’ projects across Scotland currently stalled due to a lack of affordable finance.

To what extent do you consider Scottish Government spending decisions align with its overarching Purpose of increasing sustainable economic growth and how should commitment to this objective be reflected in the draft budget 2013-14?

10. In his forward to the Scottish Spending Review 2011 and Draft Budget 2012-13, the Cabinet Secretary for Finance, Employment and Sustainable Growth stated:

“Crucial to economic recovery is the size of our capital budget.”

SBF strongly endorses this view. The Scottish Spending Review 2011 also highlights a cut to Scotland’s capital budget of 36.7% in real terms between 2010/11 and 2014/15.

11. We have strongly welcomed the decision to transfer £200 million from resource spending to support capital spending over the three-year spending review period, and the subsequent announcement that an additional £382 million would be allocated to the Scottish Government’s capital budget between 2012 and 2015.

12. Notwithstanding this additional funding commitment, it is worth bearing in mind that Scotland’s public capital budget still faces a cut of 24% in cash terms between 2010/11 and 2014/15 and by 34% in cash terms between 2009/10 and 2014/15. This significant reduction in capital spending will inevitably have a major impact on the recovery of the Scottish construction industry and the Scottish

economy as a whole. It will also seriously hamper the Scottish Government's overarching Purpose of increasing sustainable economic growth.

13. However, we note that as of April 2013 new capital borrowing powers could come into force as a result of the Scotland Bill. If the UK Government continues to block requests for additional direct capital investment we would urge the Scottish Government to make full use of these powers as soon as possible in order to bolster Scotland's capital budget and stimulate economic recovery.

The Scottish Government states in its economic strategy that "The actions of the public sector are co-ordinated to maximise their economic impact." What progress has been made in harnessing the public sector to support sustainable economic growth and how should this be reflected in the draft budget 2013-14?

14. The public sector has a particularly important role to play in stimulating sustainable economic growth through its public procurement processes, with the Scottish Government highlighting that Scotland's public sector is responsible for spending more than £9 billion on the procurement of goods, works and services each year.

15. We welcome the recently announced consultation on the potential introduction of a Procurement Reform Bill but would highlight how urgently significant inefficiencies in the current system of procuring public construction contracts need to be addressed.

16. A recent survey of SBF members found that, on average, Scottish construction companies have to submit 36 pre-qualification questionnaires for every successfully procured contract and that more than three out of every four PQQs completed fails to secure a place on the tender shortlist. Meanwhile, an average of seven out of eight submissions from the tender shortlist is unsuccessful in securing the work being tendered for.

17. Our survey also found that a significant majority of construction firms with an annual turnover below £2 million have opted out of public procurement altogether over the past three years because they find the associated costs prohibitively expensive.

18. In terms of managing the procurement process efficiently, we would normally expect an appropriate tender shortlist for a public contract to comprise no more than six construction firms. However, we have collected a good deal of anecdotal evidence to suggest many public sector construction contracts have been allocated via a tender short list running well into double figures, thereby incurring significant unnecessary costs for the ten or more firms who are ultimately unsuccessful in securing the contract.

19. To address these issues in relation to major contracts, we would advocate a system whereby unsuccessful bidders are entitled to reclaim a substantial percentage of the procurement costs they incur. This would act as an incentive to public sector bodies to manage the procurement process as efficiently as possible.

20. Whilst we welcome the decision to consult on the introduction of new legislation on procurement reform, we are concerned at the lack of urgency in dealing with the issue. We would contend that the difficulties associated with current public procurement practices are well known, particularly within the construction sector, and there is now an urgent need to address these shortcomings immediately.

The Scottish Government states that the aim of its economic strategy “is not only to offer greater protection to the economy during periods of economic uncertainty, but to bring about a long-term, or structural, change in Scotland’s sustainable growth rate”.

<http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/52574.aspx> - [ftn3](#) What spending decisions support such structural change in the long term and what spending priorities should be in the draft budget 2013-14?

21. We would consider good quality infrastructure as being at the heart of any successful strategy to bring about a long-term, or structural, change in Scotland’s sustainable growth rate. A country equipped with substandard infrastructure cannot possibly hope to compete effectively in a globalised world. For this reason, we believe a focus on maximising the level of direct capital investment is crucial to delivering the Scottish Government’s overarching goal of sustainable long-term growth. Such a focus will also directly stimulate the construction sector, helping to support and generate jobs and high quality skills development and training opportunities in large numbers.

In its Scottish Spending Review 2011 and Draft Budget 2012-13 the Scottish Government states that the Finance, Employment and Sustainable Growth portfolio “contributes towards ensuring that we achieve balanced economic growth that provides the most disadvantaged in society with the opportunity to prosper. Equity, whether it be social, regional or inter-generational or a combination of these factors, is also seen as a key driver of economic growth.” What progress has been made in achieving these objectives and what spending priorities should be in the draft budget 2013-14?

22. A report commissioned by the UK Contractors Group and published in 2009 found that, due to its relatively high labour intensity, investment in construction could generate more employment opportunities than other sectors of the economy. What is more, the report also found that 60% of the GB construction workforce is located in regions where unemployment is higher than average or would be in the absence of construction.

23. This evidence suggests that a spending strategy focused on supporting growth in the construction sector would also help to contribute towards achieving balanced and more equitable economic growth.

In its response to the Finance Committee’s report on the spending review 2011 the Scottish Government stated that “The National Performance Framework represents a common vision for the whole Scottish public sector and, as such, is fully integrated with our spending plans”. How does the NPF impact on the

spending decisions of the Scottish public sector and how should this impact be reflected in the draft budget 2013-14?

24. In response to this question, we would highlight those indicators contained within the National Performance Framework of most direct relevance to the construction industry, namely:

- Increasing the number of businesses
- Improving the skill profile of the population
- Improving access to suitable housing options for those in housing need
- Increasing the number of new homes
- Reducing Scotland's carbon footprint

Bankruptcies

25. With respect to the first of these indicators, we are extremely concerned by the rate of bankruptcies recorded in the construction sector, which has increased by 161% over the past three years. This trend represents an enormous loss in skills, jobs and capacity within the Scottish construction sector, the effects of which will be felt for many years to come.

Skills / Apprenticeships

26. On the issue of skills, while we applaud the efforts of the Scottish Government to increase the number of Modern Apprenticeships made available throughout the economy, we note that the quality of apprenticeships across different industries is not directly comparable and that construction represents one of the highest quality apprenticeship frameworks currently available.

27. We are therefore concerned – although not surprised in view of the current state of the industry – that the number of apprentices registered by the Scottish Building and Apprenticeship Training Council has fallen by 52% from 2,758 in 2007 to 1,325 in 2010.

28. This decline in construction apprentice numbers comes at a time when the total number of modern apprenticeships successfully completed across all economic sectors has increased from 9,824 in 2008/09 to 16,968 in 2010/11.

29. While the construction industry continues to suffer extremely tough trading conditions at the current time, longer term prospects for the industry are very positive, suggesting a more proactive strategy is required to equip the industry with the future skills it will need and to support construction firms to help them retain and recruit apprentices. Without such action, the loss of skills, jobs and capacity currently being experienced risks stoking up major price inflation within the industry when the recovery finally begins to take hold.

Housing

30. The major drive there has been to target greater public funding towards building new homes in Scotland is to be commended and has had a positive impact

with the number of public sector homes completed rising from 3,062 in 2007 to a peak of 6,285 in 2009, then subsequently dropping to 5,257 in 2011.

31. But overall, the number of new homes completed in Scotland over that period has slumped from 25,741 in 2007 to 15,150 in 2011. Between 2007 and 2011, private sector housing has plummeted by 54% from 21,679 units to just 9,893.

32. This fall comes at a time when changing demographics and rising population are exacerbating an already chronic housing shortage and making the need for new homes even more acute.

Cutting Carbon Emissions

33. With use of the built environment responsible for up to 50% of all carbon emissions generated in Scotland, improving the energy efficiency of our building stock must be a major priority as part of the Scottish Government's strategy to tackle climate change.

34. As we have made clear in previous submissions to the Scottish Government and Scottish Parliament, we consider the level of funds currently committed towards making Scotland's homes and other buildings greener and more energy efficient to be grossly inadequate given the scale of the task.

35. A previous Scottish Government consultation on the Energy Efficiency Action Plan for Scotland estimated that the cost of improving the energy efficiency of Scotland's existing housing stock to meet the 2020 target of a 42% reduction in carbon emissions could be as high as £16 billion.

36. By comparison, the Scottish Government's 2011 Spending Review outlines a funding commitment of £200 million over a three year period towards its Fuel Poverty and Domestic Energy Efficiency programmes. Even if sustained in future budgets running up to 2012, this level of funding would only provide a 3% contribution to the total cost of meeting the target of a 42% reduction in carbon emissions from Scotland's existing housing stock by 2020.

In its response to the Finance Committee's report on the spending review 2011 the Scottish Government stated that its broader work was "focused on ensuring that our ambitions for a decisive shift to preventative spend are realised across all areas of service delivery." What progress is the Scottish Government making in realising this objective and what spending priorities should be in the draft budget 2013-14?

37. The SBF has no specific comments to make in response to this question.

The Scottish Local Authorities Economic Development Group recently stated in evidence to the Finance Committee that "Quality, sustainable employment should be the outcome of all skills and employment measures." What priorities should be in draft budget 2013-14 to realise this objective?

38. As previously mentioned in our response to question 5, we strongly welcome the Scottish Government's commitment to deliver 25,000 modern apprenticeships per year over the lifetime of this Scottish Parliament. Whilst recognising the important contribution this will make towards achieving sustainable employment in the future, we are concerned that insufficient attention is being given to the crucial contribution the construction industry has traditionally made towards providing high quality training opportunities in very large numbers.

39. The construction industry has traditionally been the cornerstone of the Modern Apprenticeship system in Scotland. Even with the huge impact of the economic downturn, in 2010-11, 29% of all modern apprentices in training (9,234 out of 32,253) were in construction and associated trades (plumbing and electricians).

40. As previously mentioned, the drive to increase the overall number of Modern Apprenticeships delivered across the economy has coincided with a decline in the number of apprentices being registered in the construction sector. The Scottish Government needs to do more to recognise the crucial contribution the construction industry and related trades make towards providing high quality apprenticeship opportunities to thousands of young Scots. Faced with extremely tough trading conditions, Scotland's construction companies must be actively supported with a targeted strategy to help them recruit and retain more apprentices.

Small businesses represent 93% of the Scottish private sector and are more likely to employ people with low or no qualifications than large businesses. What spending priorities should be in the draft budget 2013-14 to support public-private partnership to improve the employability of and create sustainable employment opportunities for individuals experiencing high levels of multiple deprivation?

41. The essential relationship between the construction sector and regional development and employment make continued public sector investment in the industry a spending priority. This will not only support the stagnating Scottish private sector in the short-term but create sustainable opportunities for the future.

42. As mentioned previously, a recent study commissioned by the UK contractors group showed construction to be one of the best ways of stimulating economic activity at a regional level. Due to its labour intensity, additional spending on construction output can generate more employment opportunities than other sectors which have received significant government support, resulting in long-term economic and social benefits.

43. Comparing regional employment data highlights the significance of construction output to many local economies – 60% of the UK's construction work force is in regions where unemployment is higher than average or would be in the absence of construction. The industry provides employment and benefits for lower skilled and younger workers who have relatively few other opportunities.

44. We see investment in the public sector and construction as one of the most effective ways of tackling regional unemployment and creating opportunities for those areas which are currently experiencing high levels of deprivation.