Key issues

Q. What is the outlook for the Scottish economy over the next three years and what are the major risks?

Latest official employment statistics show 10,000 Scottish construction workers having lost their jobs between May and July this year – a 5.5% fall in Scottish industry employment over that period compared to a 3% reduction for the rest of the UK. Looking at the longer term trend, the Scottish industry has shed 30,000 jobs since March 2009, suggesting that the industry’s recovery still has a long way to go before it can be described as sustainable.

The Scottish Government has some justification in claiming that the acceleration of capital spending in previous financial years has helped to sustain the Scottish construction industry through a difficult period, cushioning the industry from plummeting rates of activity in the private housebuilding and commercial construction sectors. Private sector home completions have plummeted from 21,674 in 2007 to 11,171 in 2010, while the value of private commercial construction activity has fallen by 45% from £3.13 billion in 2007 to £1.7 billion in 2010.

The latest survey of SBF members shows weakening industry confidence about the outlook for the industry over the next 12 months. Compared to the second quarter of 2011, the Scottish industry’s overall confidence rating for Q3 fell 13 points to MINUS 19.

Notwithstanding the proposals the Scottish Government has made to strengthen public capital investment over the spending review period, we remain concerned that this will be insufficient to offset such a significant fall in private sector construction activity. We believe additional measures could be taken to reinforce the capital spending programme still further, given the crucial role of capital investment in helping to secure sustainable long-term economic recovery in Scotland.

Q. Has Scottish Government adopted the most appropriate priorities in this budget for the year ahead and over the period to 2015 – particularly in the division of resources between social programmes and investment in education and infrastructure?

We remain to be convinced that the priorities set out in the Spending Review will deliver maximum benefit to the wider economy or that they reflect the leading priorities for capital investment as identified by the Scottish public.

A more detailed reaction to the capital spending priorities as set out in the Spending Review is set out below.

On the specific issue of public procurement, we strongly welcome the Scottish Government’s commitment to “take a new approach to procurement to ensure that
recipients of major public contracts deliver new training and apprenticeship opportunities.”

We can provide numerous examples under the current public procurement process where the outcome has entirely failed to deliver such opportunities and would therefore strongly agree that there is an urgent need for reform. At the same time, we would emphasise that this new approach should extend to the award of all public contracts, irrespective of their size, and not only to so-called ‘major’ contracts. While fully recognising the restrictions imposed by EU procurement rules, we believe there is significant scope to give Scottish construction firms fairer access to the public procurement market by promoting local employment and training opportunities as part of the public procurement process.

Q. Will the continued reduction in spending on social housing investment frustrate attempts to reduce fuel poverty by slowing the rate of improvement in the housing stock?

A recent opinion poll commissioned jointly by the Scottish Building Federation and Chartered Institute of Building Scotland found affordable housing to be the public’s number one priority for Government investment to support the construction industry while the Forth Replacement Crossing came near the bottom of the public’s priority list.

In this context, we believe a cumulative cut of £330 million to the affordable housing budget over the spending review period is extremely damaging.

At the same time, we welcome the commitment to create a warm homes fund, designed to “deliver energy efficiency, district heating, and other measures to the fuel poor over the next five years”. The industry has long campaigned for a major retrofit programme to improve the energy efficiency of the existing built environment as a major contributor to meeting the targets set out in the Climate Change (Scotland) Act, while also supporting jobs and the development of green skills in the construction industry. For Scotland’s 2.3 million homes alone, the Scottish Government has estimated the cost of achieving the carbon reduction targets set out in the Act at around £16 billion between now and 2020.

In view of this fact, we consider the £50 million budget currently committed to this fund to be extremely modest particularly when compared to the level of cumulative cuts inflicted on the affordable housing budget over the spending review period. That said, all efforts to improve the energy efficiency of our built environment are to be welcomed. By implementing some of the measures to revise capital spending priorities as set out above, we hope that additional resources might be found to augment this initiative and provide further opportunity for employment and green skills development in the building industry as a consequence.
Q. What are the implications of the shift of some £200m pa in revenue spend to capital – both for investment and services and for economic growth?

We note the Scottish Government’s decision to transfer £200 million each year from resource spending to support the Government’s capital investment programme. We strongly welcome the fact that this transfer has allowed funding for the Scotland’s Schools for the Future programme to be protected, with funding for this programme set to fall only marginally over the spending review period.

At the same time, we note with concern that the capital budget for health projects is set to fall by more than half by 2014-15, while the affordable housing budget faces a cut of 30% over the same period. In contrast, one of the principle beneficiaries of the transfer of funds to capital spending appears to be investment in the Forth Replacement Crossing, which will see a cumulative rise of £322 million over the spending review period.

Our preference would be to see the budget for affordable housing safeguarded (in the same way that the Scotland’s Schools for the Future programme has been protected) and the schedule for construction of the Forth Replacement Crossing revised and alternative mechanisms for funding the project more fully explored.

We note also the Scottish Government’s continuing commitment to provide direct loans to Scottish Water with a cumulative value of £440 million over the spending review period. In previous submissions, the Scottish Building Federation has consistently argued in favour of restructuring Scottish Water as a mechanism for freeing up additional funding for reinvestment in the Scottish Government’s capital investment programme.

In view of the significant cuts to capital spending imposed by the UK spending review, we would reiterate our strong view that the Scottish Government’s decision to ignore the recommendation of Crawford Beveridge’s Independent Budget Review in favour of restructuring Scottish Water should be revisited. We believe any funds saved as a consequence of empowering Scottish Water to borrow money on the open market should be reinvested towards helping to reverse the proposed cuts to investment in affordable housing and the capital budget for health projects over the Scottish spending review period.

Scottish Building Federation
26th October 2011